Table of Contents

Dan Greening - Agile Capitalization 3
Premise 3
Summary 3
Action / Learning 3
Presentation 3
Notes 4

Dan Greening - Agile Capitalization

Premise

In many companies, agile software development is misunderstood and misreported, increasing taxes, volatility in profit and loss (P&L) and costly manual time-tracking. Agile and Scrum teams inherently create production cost data that are more verifiable, better documented, and more closely aligned with known customer value than most waterfall implementations. Better reporting can mean significant tax savings and greater investor interest.

Explore the theory, benefits, regulations, and real-world examples of capitalizing software developed using agile practices. You will learn from members of the team that pioneered defensible agile capitalization practices in a $10B publicly traded company.

Leave with the understanding and resources to lead an agile capitalization effort at your company. Save weeks of research and investigation by attending this powerful briefing.

Learning Outcomes: Improve the company’s P&L Reduce or eliminate need to track actual hours Free up working capital for innovation and growth in software development Reduce future tax burden Improve verifiability for internal and external auditors Increase clarity for shareholders on investments and operational expenses

Summary

- Content rating (0-no new ideas, 5 - a new ideas/approach, 9-new ideas): 5
- Style rating (0-average presentstion, 5 - my level, 9-I learned something about presenting): 4

Action / Learning

- tell bud about non regression Maintenance bugs and about capitalization papers

Presentation

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Agile_Capitalization_Agile_2015-handout.pdf

Notes

Gaap

Capitalization guidance written for waterfall Gaap not specific to waterfall Therefore need to understand gaap

Agreement Get finance on your side Engineering Project managers - as they usually tracking this

Must automate to keep things simple

Why capitalize? Want to encourage people to build long lasting value But this often costs a lot of money upfront, earn money over time Shareholders care about long term profit

Sales people are “coin operated” - make sale , give money , make another sale

Why companies capitalize Reduce future tax liability - tax law is asymmetric for losses and gains Stabilize p&l statements Hire more developers - depending on corporate policy Stabilize employment for asset developers

Gaap principles 12 of them, but talk about 5 Conservatism - not over nor understate Objectivity - arrive at same conclusions given the data Matching - expense related to revenue must be recorded in same accounting period as the revenue it helped to earn Consistency - when method changes, financial statements must clearly explain it Materiality - use these principles except where expensive / difficult

Tax liability is much lower if you deprecate

What can be capitalize Something you own Used in business or income production Finite useful life beyond one year

Software Internal software - more cost saving stuff External software - software sale year after year

Life of software investment Analysis - do we do it? - mostly expensed Prototype, feasibility testing - not capitalizable (things where we don't know is doable) Capitalization Depreciation Maintenance Impairment - investment didn't last as long as we thought it would (ie is now expense)

Citrix approach documented InfoQ - why agilists should be interested capitalization

Capitalization - who / what

Whose work Developer Qa Sm Product manager Project manager UX / graphical design

No Training Admin management

Capital assets - new value that didn't exist before New prod features Plus just about all dev was etc

Maybe not localization (but creating a new asset if moving to new Spanish market) Includes fixing a non-regression bug Operability improvements such as fault tolerance, throughput, capacity etc

Operational expenses Non reusable customization Technology feasibility spikes Fixing regression bugs OS minor version bug Training costs Administration activities Routine security reviews

Tracking labor Dedicated teams Tracking hours - default approach (forces teams to break this down but not needed - productivity impact) and actually inaccurate Story points

Use - Story points Materially correlated with actual effort Scrum teams improve correlation Naturally captures data Auditors can validate easily It's objective

How implement Collaborate with finance and accounting Determine cost basis for teams Allocate team labor proportionally Create mock sprints and reports

Track the details Stories, point,, sprints, team members If you have to track as field as capitalizable Start export story data into a spreadsheet

Convert your company

Identify executives that benefit (higher headcount, more stable p&l, …) Get boss to agree - you will spend time exploring See if cfo is willing to explore idea

Assemble existing process and data Current classification data Capitalization history - corrections in the past, objectivity - when do we guess

Propose new approach Start with gaap - not fasb How will give capitalization differ Incorporate classification in ready criteria Write up clearly give to cfo

4 part user story Who, what, why valuable to stakeholder plus Why value able to us

Identify stakeholders, reps Plan how to notify shareholders Run two processes in parallel for 1 quarter Want to coach Cto / vp engineering

Finance, Conference

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