regoUniversity 2018

Capitalization Calculation | Best Practices

Your Guides: Rob Greca and Doug Greer

Introductions

- Take 5 Minutes

- Turn to a Person Near You

- Introduce Yourself

- Business Cards

Agenda

- Capitalization vs Operating Costs
- OOTB CA PPM Capabilities
- Best Practices
- Alternatives
- Agile Use Case

Introduction

- Most organizations that use CA PPM have some requirements for tracking capital vs. operating work.

- How Many of You Use CA PPM to Help With Capitalization?

- We have seen so many ways for calculating capitalization, and we want to share some of the most common methods and discuss innovative ways (in light of agile processes) that are being implemented in some of our customers.

Capital vs Operating Expenses

- Capital Expenses (CAPX) represent an investment in the business
  - Cannot be fully deducted in the period when they are incurred
  - They are amortized or depreciated over the life of the asset
  - Ex: Buying machinery
- Operating Expenses (OPEX) represent expenses incurred during the course of regular business operations
  - Fully deducted in the period they are incurred
  - Ex: Rent, utilities, leasing equipment

NOTE: Guidance for Project Managers Usually Provided by the Finance Team

Key Considerations for Capitalized Labor

- Material Threshold:
  - Not all software development should be capitalized. Each company will establish thresholds that investments must exceed in order to qualify. This is a function of the size of a company. Smaller companies might capitalize $100,000 of development, larger companies might wait until costs exceed $500,000.

- Consistent Application:
  - Once a threshold or policy is established, the company should apply that policy consistantly over time.

- Capitalize only the "Application Development Stage":
  - There are three main stages of internal software development: preliminary work, development, post-implementation. According to SOP 98-1, only the development stage can be capitalized.

CA PPM OOTB

- Cost type field is leverage at the project and the task

- Set at the project for all tasks

- The task cost type will override the project if different

- OOTB reporting shows breakout of costs

- Cost type field also supported in forecasting in Cost/Budget Plans

CA PPM OOTB

Project:

Task:

CA PPM OOTB – Capitalization by Investment

Financial Capitalization

Investment	Currency	Start Date	Finish Date	Planned	Capital Planned	Capital Actual	Capital Planned Remaining	Capital % Spent	Operating Planned	Operating Actual	Operating Planned Remaining	Operating % Spent
4G Upgrade Readiness	USD	11/1/17	2/14/18	162,240.00	0.00	0.00	0.00	0.00	162,240.00	0.00	162,240.00	0.00
Altus Online Order Application	USD	3/1/17	2/28/19	221,984.00	110,992.00	0.00	110,992.00	0.00	110,992.00	0.00	110,992.00	0.00
Automated Security Enhancements	USD	11/1/17	2/16/18	418,720.00	209,360.00	0.00	209,360.00	0.00	209,360.00	0.00	209,360.00	0.00
BrightStor Storage Resource Manager for MS Exchange	USD	5/1/17	4/30/19	84,540.00	42,270.00	0.00	42,270.00	0.00	42,270.00	0.00	42,270.00	0.00
BYOD Management	USD	1/1/18	7/4/18	1,029,060.00	686,040.00	0.00	686,040.00	0.00	343,020.00	0.00	343,020.00	0.00
Call Contact Center Application	USD	7/1/17	6/30/19	131,544.00	0.00	0.00	0.00	0.00	131,544.00	0.00	131,544.00	0.00
Change Mgt for Internal Portal	USD	12/4/17	3/21/18	726,400.00	363,200.00	0.00	363,200.00	0.00	363,200.00	0.00	363,200.00	0.00
Client Services Datamart	USD	10/1/17	1/24/18	182,240.00	91,120.00	0.00	91,120.00	0.00	91,120.00	0.00	91,120.00	0.00
Compliance Audit - Security	USD	12/1/17	4/30/18	400,000.00	0.00	0.00	0.00	0.00	400,000.00	0.00	400,000.00	0.00
Credit Card Security Improvements	USD	11/1/17	2/23/18	1,354,000.00	677,000.00	0.00	677,000.00	0.00	677,000.00	0.00	677,000.00	0.00
CSS OnLine Retirement Application	USD	6/1/17	5/31/19	169,456.00	84,728.00	0.00	84,728.00	0.00	84,728.00	0.00	84,728.00	0.00
Data Warehouse Performance Tuning	USD	10/1/17	2/13/18	380,160.00	190,080.00	0.00	190,080.00	0.00	190,080.00	0.00	190,080.00	0.00
eBusiness Mobile Network	USD	6/3/17	5/21/18	1,177,920.00	785,280.00	0.00	785,280.00	0.00	392,640.00	0.00	392,640.00	0.00
eCommerce Portal	USD	8/1/17	3/11/18	771,495.66	385,747.83	0.00	385,747.83	0.00	385,747.83	0.00	385,747.83	0.00
Email	USD	3/1/17	2/28/19	225,504.00	0.00	0.00	0.00	0.00	225,504.00	0.00	225,504.00	0.00
Email SAN Storage Implementation	USD	11/1/17	2/23/18	284,800.00	142,400.00	0.00	142,400.00	0.00	142,400.00	0.00	142,400.00	0.00
Employee Benefits Admin Application	USD	4/1/17	3/30/19	590,784.00	295,392.00	0.00	295,392.00	0.00	295,392.00	0.00	295,392.00	0.00
Employee Benefits Enrollment Application	USD	8/1/17	7/31/19	91,872.00	0.00	0.00	0.00	0.00	91,872.00	0.00	91,872.00	0.00
eTrust SiteMinder Apache Web Plug-In	USD	7/1/17	6/30/19	20,000.00	0.00	0.00	0.00	0.00	20,000.00	0.00	20,000.00	0.00

regoUniversity 2018

Open Mic

- What type of guidelines do you have for which projects/tasks are CAPEX or OPEX? Do your PMs set new tasks, or is it done by Finance?

- If you use Agile how do you handle CAPX/OPEX?

- Do you capitalize ALL hours, or do you have to adjust employee hours down to a weekly or monthly amount?

- How does capitalized labor get to finance? Feed? Excel?

Best Practices

- Setting Capitalization Flags on Tasks
  - Set CAPEX/OPEX within the template
  - Do not have PMs set the Cost Type – try to automate this vs. having finance set it on new tasks

- Automation
  - Automated Capitalization feed to finance through a direct interface, a portlet for them to extract, or a process that sends an excel file via excel
  - Eliminate all manual intervention

- Simple
  - Try to keep capitalization as simple as possible – the simpler the better. Adjusting hours, multiple rates, finance having to update cost type – all complicate

Alternatives to Traditional Capitalization

- Moved to Simplified Capitalization by Role %
  - We set a % capitalization by role and drive capital hours using capitalized roles on capitalized projects with the % of their time
  - This option works for agile and waterfall projects

- Option 2: Use Task Level Fields for Capitalization
  - We create an object in Clarity for phases and whether they are capitalizable
  - We have PMs update the phase on every task – required field.
  - We create a mapping of the phase to MSP (has to be a text field that is exactly entered in MSP)
  - Still have an issue with Agile – they do not have tasks that represent just one phase – a user story time has requirements, design, dev, test, etc.

Considerations For Agile

- Agile projects do not have a breakdown of work by phase – just user story. This means we have to use % capitalization at some level

- How do you Capitalize for Agile?

- Common methods for capitalizing Agile projects are:
  - Have time entered separately based on CAPEX vs. OPEX
  - Capitalize using role % or % of all agile work

Questions?

regoUniversity 2018

Let Rego be your guide.

Thank You For Attending regoUniversity

Instructions for PMI credits

- Access your account at pmi.org
- Click on **Certifications**
- Click on **Maintain My Certification**
- Click on **Visit CCR's** button under the **Report PDU's**
- Click on **Report PDU's**
- Click on **Course or Training**
- Class Name = **regoUniversity**
- Course Number = **Session Number**
- Date Started = **Today's Date**
- Date Completed = **Today's Date**
- Hours Completed = **1 PDU per hour of class time**
- Training classes = **Technical**
- Click on **I agree** and **Submit**

Let us know how we can improve!
Don't forget to fill out the class survey.

Phone
888.813.0444

Email
info@regouniversity.com

Website
www.regouniversity.com