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Accepted Value Costing Explained

What is Accepted Value Costing?

Accepted Value Costing℠ (AVC) is a lightweight, empirical proportional cost allocation approach for practical decision making on Lean-Agile cadences. Theoretically speaking, it is a Lean-Agile extension of two-phased activity-based costing. It is much less wasteful than project-based costing, and it is far more effective than cumbersome and misleading timesheet-based labor accounting approaches.

AVC has been applied in the field since 2014. It adapts activity-based costing to the Lean-Agile paradigm of fixedCost + fixedTime + variableScope. It was developed for Lean-Agile methods within the knowledge work domain.

In a nutshell, AVC focuses on actual indirect labor expense allocation in a way that is fully normalized across teams and scalable across portfolios. It proportionally allocates indirect labor expense using empirical data derived from actual accepted value. It promotes the use of a decision-making model so that cost-to-value comparisons can be made consistently, objectively, and on relatively short feedback cycles.

Who developed Accepted Value Costing?

AVC was developed by David Hughes, a management consultant for Lean-Agile transformations. He lives near Philadelphia, Pennsylvania U. S. A.

Does AVC support models and graphs for decision making?

Yes. The following are samples of the decision model reports and graphs. AVC also supports roadmapping and pie charts. Decision intelligence visualization tools are in development and will be announced with the Beta release.

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Epic Allocation

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Epic	Accepted Value	AVC Allocation
Production Support for Services Q, R, and S	$180,804.39	0.3942
AWS Elastic Container Services for Platform A	$70,312.82	0.1533
Core Services for Platform A	$70,312.82	0.1533
OAuth for Platforms A, B, X, and Z	$30,134.07	0.0657
Technical Debt for Platform Q	$23,437.61	0.0511
API Service for Morningstar External Quotidian Balances	$13,392.92	0.0292
Amazon Web Services Glue Configuration	$10,044.69	0.0219
Scenarios for Process X-ABC	$10,044.69	0.0219
API Service X-AAA	$6,696.46	0.0146
API Service X-OOO	$6,696.46	0.0146
Parent-less	$6,696.46	0.0146
Regional Segmentation for R	$6,696.46	0.0146
Technical Debt for Platform A	$6,696.46	0.0146
Amazon Relational Database Services for Platform Q	$3,348.23	0.0073
Balance Per Date Range	$3,348.23	0.0073
Bank Interface and Funds Processing	$3,348.23	0.0073
Pass-thru Processing - Direct	$3,348.23	0.0073
Production Support for Services A, B, and G through P	$3,348.23	0.0073

Model

Value ranking is a function of accepted work and its direct relationship to the product- or service-oriented simple, be rational, and be consistent. Do not conflate urgency with value; this perhaps is the single most

Cost ranking is a function of the high cost floor. It is recommended that you use the floor recommended b

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Adjust the high cost floor

Sort by cost/value rank

Conclusions

PBI_Parent	Cost Rank	Value Rank	Link
Amazon Relational Database Services for Platform Q	Low	Low	Update Value Rank
Amazon Web Services Glue Configuration	Low	Low	Update Value Rank
API Service for Morningstar External Quotidian Balances	Low	High	Update Value Rank
API Service X-AAA	Low	High	Update Value Rank
API Service X-OOO	Low	High	Update Value Rank
AWS Elastic Container Services for Platform A	High	Undef	Update Value Rank
Balance Per Date Range	Low	Undef	Update Value Rank
Bank Interface and Funds Processing	Low	High	Update Value Rank
Core Services for Platform A	High	High	Update Value Rank
OAuth for Platforms A, B, X, and Z	Low	High	Update Value Rank
Parent-less	Low	Undef	Update Value Rank
Pass-thru Processing - Direct	Low	Low	Update Value Rank
Production Support for Services A, B, and G through P	Low	Low	Update Value Rank
Production Support for Services Q, R, and S	High	Low	Update Value Rank
Regional Segmentation for R	Low	Low	Update Value Rank
Scenarios for Process X-ABC	Low	Low	Update Value Rank
Technical Debt for Platform A	Low	Low	Update Value Rank
Technical Debt for Platform Q	Low	Low	Update Value Rank

Figure 1. AVC Epic Allocation and Cost-to-Value Modeling

Decision Model Conclusions

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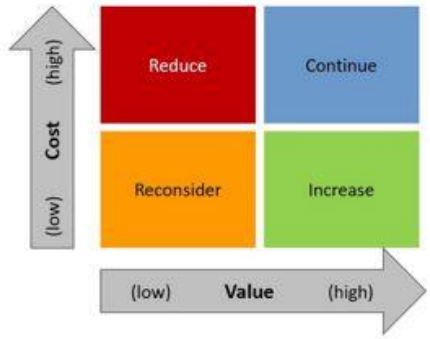
Return to Model



PBI_Parent	Cost Rank	Value Rank	Conclusion
API Service for Morningstar External Quotidian Balances	Low	High	Increase
API Service X-AAA	Low	High	Increase
API Service X-OOO	Low	High	Increase
Bank Interface and Funds Processing	Low	High	Increase
OAuth for Platforms A, B, X, and Z	Low	High	Increase
Amazon Relational Database Services for Platform Q	Low	Low	Reconsider
Amazon Web Services Glue Configuration	Low	Low	Reconsider
Pass-thru Processing - Direct	Low	Low	Reconsider
Production Support for Services A, B, and G through P	Low	Low	Reconsider
Regional Segmentation for R	Low	Low	Reconsider
Scenarios for Process X-ABC	Low	Low	Reconsider
Technical Debt for Platform A	Low	Low	Reconsider
Technical Debt for Platform Q	Low	Low	Reconsider
Balance Per Date Range	Low	Undef	Inconclusive
Parent-less	Low	Undef	Inconclusive
Core Services for Platform A	High	High	Continue
Production Support for Services Q, R, and S	High	Low	Reduce
AWS Elastic Container Services for Platform A	High	Undef	Inconclusive

Figure 2. AVC Decision Model Conclusions

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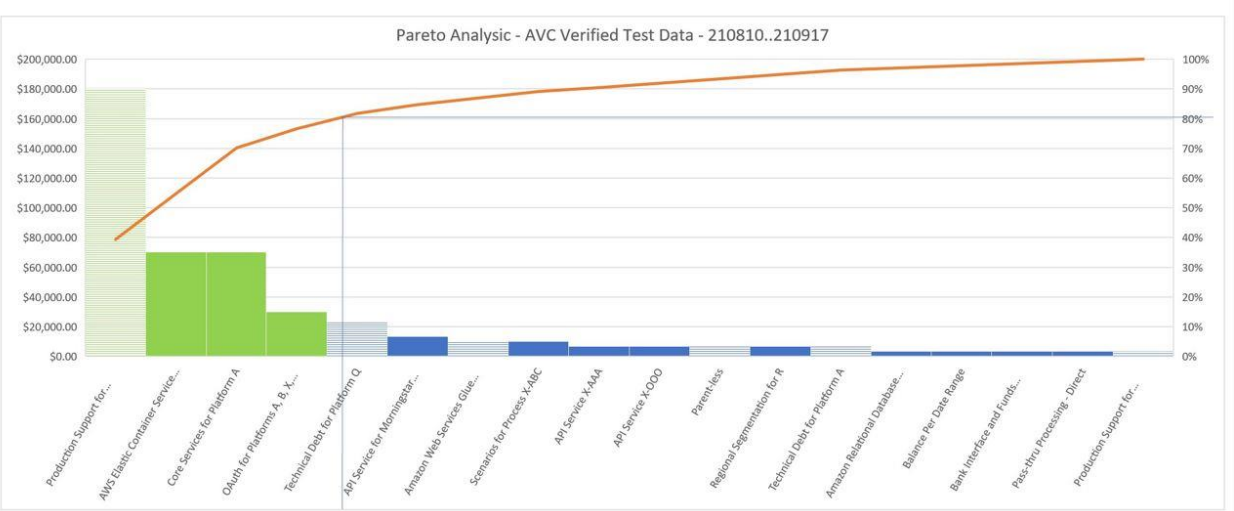

Figure 3. AVC Pareto Analysis With Epic Categories

Are training materials and templates available?

Yes. Slide decks, work templates, drills and other artifacts are available, on request. Your journey starts with an email to AcceptedValueCosting@Gmail.com.

Why was Accepted Value Costing developed?

The building blocks for aligning financial and management accounting with the Lean-Agile philosophy have been discussed almost as long as Lean-Agile methods have been used but, for a variety of reasons mostly rooted in fear of change, they have not been combined in practical, easy-to-use tools and techniques. Those who have figured out an approach mostly report on the revolutionary change with which they were successful. These reported successes ultimately involved senior executive power driving changes to organizational funding and decision-making in a top-down fashion.

An evolutionary approach is needed, one that is simple and easy to use in a wide range of Lean-Agile situations. AVC is rooted in the theory and practice of management accounting, Lean product and process development, and the Agile philosophy. AVC defines a set of tools and techniques that can be introduced as an experiment and evolved over time to suit each unique situation.

AVC is a permission giver. It flows around obstacles to its adoption because it is lightweight, easy to automate, naturally scalable, and fully aligned to Lean-Agile good practice patterns of behavior. AVC easily coexists with the traditional project-based costing structures and timesheet tracking systems it is intended to supersede.

Why Should I Be Interested In Accepted Value Costing?

Traditional management accounting structures are complex, deeply entrenched based on long years of hard experience, and effective in satisfying executive management. Ironically, they are very costly. They are slow to respond to change, too.

Project-based costing continues as the management accounting approach of choice. In addition to the costly overhead, project-based costing contributes to delivery unevenness leading to waste mostly in the form of multitasking. It contributes to a mindset of anti-patterns at the team level resulting in overburdening of the people involved.

Unevenness. Overburdening. Waste. These flow disruptors are well known among Lean practitioners as *mura, muri, and muda*. The central tenet of AVC is that project-based costing and its related timesheet tracking contribute to these anti-patterns. AVC defines an evolutionary path away from project-based costing towards two-phased activity-based costing using activity cost pools. AVC exploits the fact that Lean-Agile teams define and continuously improve value stream mapping as a matter of course. For this reason, they naturally do what non-Agile practitioners tend to think of as the biggest barrier to adopting activity-based costing, namely, process-based value stream mapping defining activity cost drivers and activity cost pools.

AVC promotes better Lean-Agile decision making by supporting a reliable and fast feedback loop based on an epic hierarchy. Each *epic* is an *activity cost pool* representing either a new product development feature or an operations-oriented, on-going work grouping. The epic level is the right level for agile decision-making because it is balanced perfectly between high-level portfolio aggregation for executive reporting and low-level tactical planning at the team level.

AVC recommends Roman Pichler's **product vision board** as part of the AVC process for defining and continuously refining an epic hierarchy.

How was Accepted Value Costing first used?

David pioneered the concept in 2014 on a multi-team Agile program at an American multi-national managed healthcare and insurance company. The original need was for a flexible Lean-Agile funding layer to encapsulate a traditional project-based costing scheme. This layer worked by proportionally allocating indirect labor costs across accepted features using story points within the Scrum Framework. The result was a more nimble and reliable funding model based on business value. The traditional project-based costing scheme was retained for traditional reporting and for traditional budget change control because these management accounting processes were deeply ingrained.

Then, AVC was applied at the portfolio level at the leading American commercial mortgage real estate services company through 2017 on that firm's largest and riskiest new product program to-date. It proved its value as a dynamic decision-making and funding approach over a full calendar year involving four major product planning and release cycles, with many teams using a mix of Kanban and Scrum methods.

When Was Accepted Value Costing Announced?

AVC concepts first were presented at AgilePhilly and at Lean-Kanban North America in April 2018. AVC first was presented in workshop form at the Agile and Beyond 2018 conference in May 2018.

How Does AVC Improve On Other Approaches?

AVC naturally focuses thinking about money in terms of valuable outcomes instead of tracking expense for planned outputs. It avoids bottom-up estimating cycles and large top-down budgeting cycles in favor of small-batch systems thinking built on Lean-Agile feedback loops. Its decision model directly supports risk vs. reward tradeoffs early and often, based on accepted value.

AVC is a lightweight, cost-effective approach for identifying low-value/high-cost epics and eliminating them from the value stream at the earliest possible moment. AVC shifts decision making away from heavyweight cost accounting skewed toward forecasting and project baseline variance tracking. Instead of saying: Did we spend according to our project forecast? AVC allows us to say: *Did we actually apportion our labor expense in line with current perceptions of value?* AVC does this by assessing *empirical evidence* of accepted value on short cycles.

AVC avoids the pointless exercise of trying to force-fit indirect labor allocation for knowledge work into CapEx and OpEx structures. Instead, it directly applies the Lean-Agile techniques naturally used by teams **to allocate indirect labor proportionally as a function of actual value accepted**.

What are the key terms for AVC?

The following table defines the AVC terms.

ABC	Activity based costing. Emerged in the 1990s.
Accounting information	Meaningful organizational data intended to enable decision making.
Activity	See *cost pool*.
Activity-based costing system	Abbreviated ABC. A system that first accumulates overhead (indirect) costs for each activity identified within a costing area, and then assigns (allocates) the costs of activities to products, services, or other cost objectives.
Activity-based flexible budget	A budget that is responsive to cost changes per activity and its related cost drivers.
Accepted Value Costing	Abbreviated AVC. A Lean-Agile extension of ABC in which epics in an epic hierarchy are treated as activity cost pools.
Annual budgeting	The ultimate heavyweight phase gate.
Cost driver	Any output entailing the use of costly resources; a factor that affects costs; any output measure that causes costs.
Cost objective	Anything for which a separate measurement of costs is desired. Also known as a cost object. Examples include departments, products, activities, and territories.
Cost pool	Two-stage ABC group of individual costs allocated to cost objectives using a single cost driver.
Financial accounting	Accounting information management for external parties.
Management	To plan and control. Driven by a track and comply paradigm.
Management accounting	Accounting information management to enable managers to achieve organizational objectives.
Non-value-added costs	Waste costs that can be eliminated without affecting the customer's perception of value of a product or service.
Process-based map	Flow of activities, resources, and their interrelationships. Part of ABC analysis.
Traditional costing system	A cost accounting and control system that does not accumulate and allocate costs of activities or processes.
Two-stage ABC system	Simplest indirect cost handling scheme using cost pools. Stage 1: Accumulation then allocation of resource costs to activity cost pools. Stage 2: Allocation of activity costs pools to products or services.