

Lean Kaizen Business Consulting

Bid Adieu to Standard Cost Accounting, Welcome Lean Accounting

*Become a least cost producer with
world class Quality & Delivery*



Key to the future Survival

*Be ready to revise any system, scrap any method,
abandon any theory, if the success of the job requires
it.*

- Henry Ford



Lean Kaizen Business Consulting
"Implementation is the Key"

Standard Cost Accounting Vs Lean Accounting:



1. Product Costing in Standard Cost Accounting is not suitable for Lean Companies?

2. Inventory Accumulation in Standard Cost Accounting is not suitable for Lean Companies?

3. Full Utilization of Resources and Capacity in Standard Cost Accounting is not Suitable for Lean Companies?

4. Lack of Cost Visibility in Standard Cost Accounting is not suitable for Lean Companies?

5. Heavy Transactions in Standard Cost Accounting is not suitable for Lean Companies?

6. 'Financial Statements are ***not Understood by the Operations Team***' in Standard Cost Accounting.

7. 'Standard costing provokes firefighting because no one is able to identify the root cause of the problems ?

Why Standard Cost Accounting System to be done away ?

5. This is management by results and not management by process.

4. Traditional management by objective (MOB) rewards personal targets of the employee rather than the team. This practice breeds competition rather than cooperation among employees. This produces heroes and firefighters, and companies start thinking that when these people are on duty on the plant floor, the production output will be better.

Why Standard Cost Accounting to be done away with?

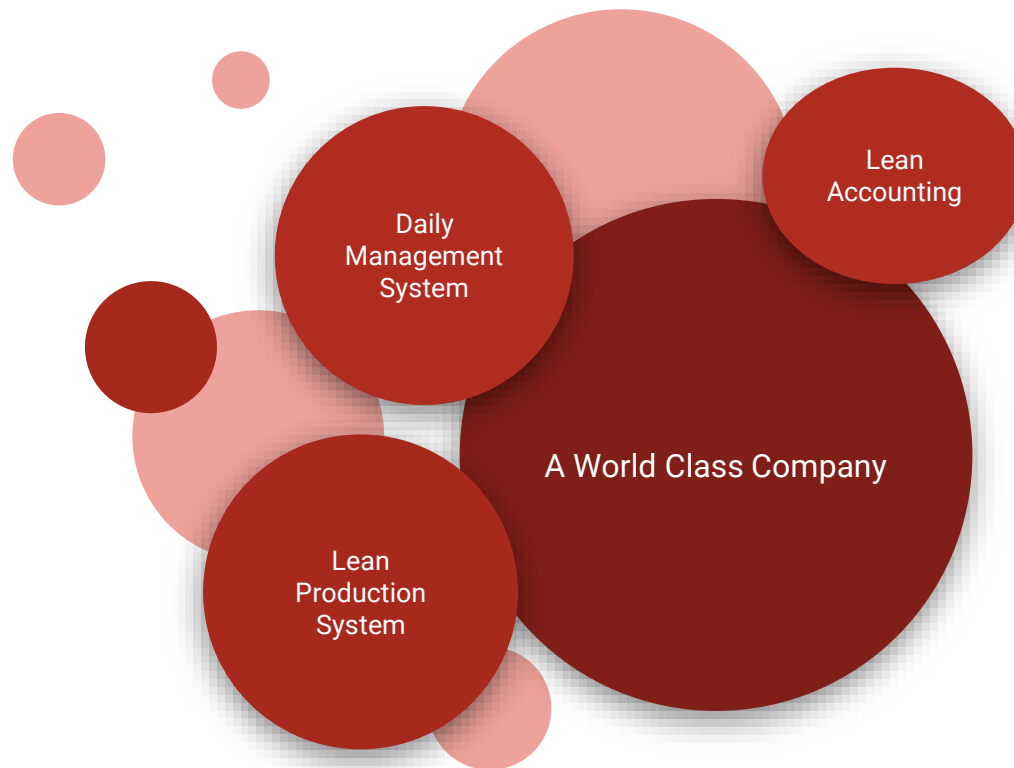
3. Standard costing system tends to reward people and departments that get the work done without regard for quality, quantity and product mix.

1. Standard cost accounting is not suitable for the businesses of the future where a variety of products has to be manufactured in small quantities and regular supplies are to be given to the customers at the lower prices.

2. More transactions happen during the lean journey due to more orders, more tracking, more labor reporting and increased job order costing. The ERP system only 'preserves' and 'automates' this waste, whereas SOPs in traditional companies standardize these wastes.

Lean Accounting Company

Figure illustrates that a company must embrace the lean production system, daily management system and lean accounting to become a world- class company. All three systems must be implemented as per one roadmap to achieve phenomenal results. There will be a gradual acceptance of change as the benefits starts becoming visible in customer satisfaction, operational measures and financial measures of the company.



Why Lean Accounting System should be brought in?

5. To summarize, in lean accounting, reports are simple to understand, logical and give real-time status. Actual costs incurred are used and no allocation is done. The most important parameter is average cost of value stream and costing of individual job becomes irrelevant. Lean accounting can be implemented in all companies, big or small.

4. The standard accounting measures proved to be disastrous for lean companies because they still chastened the managers for machine and manpower utilization and overhead absorption when managers were busy reducing throughput time and increasing on time in full and error free (OTIFEF) supply of products to customers.



3. Lean accounting is also known as value stream costing. It gives clear-cut, up-to-date meaningful financial information and establishes a clear link between money and operations.

1. Lean Accounting is a process to run the business by making not only the finance team, but also each employee fully aware and customer focused (not only on the needs of ultimate customer but also to follow the concept of 'next process is my customer')

2. The lean teams take a vow that no one will accept defect in process material, no one will produce defective material and no one will transfer defective material to the next process.

Lean Accounting is the language of Money.

The concept of monetary value is ingrained in all employees by lean accounting so that they can compute monetary value of every activity they undertake. When this happens, it becomes the turning point for the company. Lean accounting assigns monetary value to each activity in the company such as the following:

Cost of breakdown per minute

Cost of small stoppages per minute

Cost of changeover total and per minute

Cost of running the machine slow per minute

Cost of yield loss per unit

Cost of machinery stoppages per minute due to waiting for decisions

Consumable costs per unit

Fixed cost per unit

Variable costs per unit

Cost of quality/cost of poor quality

Features of Lean Accounting

1. Strategy, Not a Short-Term Improvement Project?
2. Changes Basic Composition of the Company
3. Focuses on Monetary Value and Spending
4. Capacity Utilization
5. Inventory Reduction
6. Focus Away from Standard Costs
7. Real-Time Data Analysis Instead of Tedious Data Collection
8. Performance Measurement System
9. Better and Faster Decision-Making
10. Role of Accountants

Lean Accounting ensures improved operation and financial results-

