Lean accounting essay sample

Q1: Do the traditional accounting practices that the Topeka plant adopted in 1979 to support its mass production process have value in a lean environment? Explain the specific reasons that support your answer. In general, we do not think that traditional accounting practices that Topeka plant adopted in 1979 to support its mass production would fit into the lean accounting environment. The differences between the two accounting methods make the traditional accounting hard to work for the lean environment. We would analyze from the following perspectives:

Goal

The goal of traditional accounting practices is to achieve the lowest possible cost per unit by maximizing employee and equipment productivity. However, the goal of the plant's lean accounting approach is to deliver customer-driven value.

Production process

Under traditional accounting approach, the plant's heat, treating, assembly and pack, cutting and splicing, injection molding, and extrusion molding resources were maintained in physically separated and autonomously managed. Units of production were scheduled based on a forecast of expected customer demand and then processed in large expected customer demand and then processed in large batches to minimize changeover costs. On the other hand, under lean accounting practices, resources are organized in a manner that mirrors the linked set of activities that deliver products to customers. Units of production are pulled through manufacturing cells in a one-piece flow in response to actual customer orders.

Inventory

As for traditional accounting approach, the entire work-in-process inventory was stored as needed in between workstations. However, under lean accounting approach, since it improves and reduces the inventory level, cycle counts are becoming more accurate, and there is much less time needed to perform these counts.

Financials

The traditional accounting practice was inaccurately characterizing the financial impact of operational improvements. The absorption costing income statement treats all kinds of variable cost and fixed overhead as product costs and all selling and administrative expenses as period costs, which penalized managers' inventory-reduction efforts with a major hit to the bottom line. What's more, a lean company has special financial benefits calculation methods, such as the value stream cost analysis, which shows where and how productively costs are incurred, highlights areas of waste, shows actual costs rather than standard costs, identifies bottlenecks and highlights opportunities to manage capacity more effectively. Also, new format of the income statement focuses on simplicity by attaching actual costs to each component of the value stream, isolating the impact of inventory fluctuations on profits, and separating organization-sustaining costs and corporate allocations from value stream profitability.

The modified financial reports may also include nonfinancial information. These aspects mentioned above cannot be showed on the traditional absorption costing income statement, especially the cost related to value streams. In conclusion, under traditional accounting system, the standard costing system and activity based costing methods are quite different from the lean accounting methods. Furthermore, concepts such as value stream are not present under the traditional approach that the company adopted in 1979. Therefore, we doubt that whether traditional accounting that the company adopted in 1979 would fit into the lean accounting environment. 2. How can the accounting function better serve our senior management team's strategic planning, control, and decision-making efforts within its current lean environment? Specially, address issues related to capacity planning, aligning employee Incentives wit lean goals, and product mix decision-making.

A. Capacity Planning

* Lean manufacturing requires an inventory system different from mass production which can lead to inventory build-up, unsatisfactory order-to deliver cycle time, excessive work and waste. * Lean manufacturing always leads to substantial inventory reductions. When inventories are low and under good control, the valuation of inventory becomes much less complex. Lean Accounting contains a number of methods for valuing inventory that are simple, accurate and often visual. Several of these methods do not require any computer-based inventory tracking at all. * Implement a Pull System where customer demand dictates the production level. Visual controls are used to trigger upstream links in the value stream to initiate additional productions. Automatically signals replenish the parts of upstream links without the need to prepare paperwork such as a material requisition. * Assign the days-of-inventory (DOI) metric to staff members responsible for buying materials for each value stream. Buyer should focus on improving the

pull and flow of inventory and on reducing inventory levels. A reduction in days of inventory is much easier to see rather than a one-tenth of a point improvement in a site inventor turn under traditional measurement systems.

Using DOI metric at the value stream level, buyers begin to see how their actions on reducing inventory result in actual improvement of inventory level. * Establish a task time. Task time is the average production time allowing for each unit of demand and is calculated by taking the total operating time available during a period and dividing it by the number of units demanded by the customer during that period. Task time ensures that the pace of production remains in sync with customer demand. The time needed to complete work on each station has to be less than the task time in order for the product to be completed within the allotted time. * The company uses Kanban system, a scheduling system, to decide what to produce, when to produce it, and how many to produce. Kanban is an effective tool to support the running of the production system as a whole. Toyota and other companies experience proved that Kanban is an excellent way for promoting improvements and reducing the number of Kanban in circulation highlighted problem areas.

B. Aligning Employee Incentives with Lean Goals

* Assign employees according to value stream. In the Watlow Electric Manufacturing Co. (WEM) case, they assigned 90% employees to value stream team, leaving small groups worked across value stream teams to improve function. * Set and adjust goals& measurements as the company continuously improves and make sure all employees are informed& understand the goals and related incentives. In WEM case, they developed

metric workbooks, supported value stream financial statements and centered a one-page summary called box score that helped value stream teams monitor team's operational, capacity and financial metrics. * Reduce employees' anxiety. Some employees will feel anxiety when they are informed the transferring to the lean system, especially that the company will fire employees and cut-down the overhead. Training will help employees to get a better job or be more comfortable with change. Train employees on decision making under value stream management, providing them with some decision-making templates and reinforcing to them that pricing should be market-based rather than cost-plus based.

The company should establish employees' happiness of high involvement in the company's operation and be proud of the decision and control right give them. * Cross train employees. Employees need be cross-trained to perform all the steps within a cell. * Keep all key employees in the review implementation meeting to make them informed and on board all the time. * Create a payment system depending on employees' skills and contributions. * Consult with human resources department, accounting department and legal counsel in establishing incentives, such as financial incentives. A company will change goals and objectives several times before getting proper ones. The employees who work hard and target to the fixed goals will be frustrated and discouraged when targets change and hard-working employees deserve better payment.

C. Product mix decision making

* Decisions are made from the projected impact on the operational metric, capacity metric and financial metric of the value steam rather than just focus

on the supposed profit single product. * Use target costing to make product mix decisions. Target costing is based on the premise that the pricing and continuous improvement processes begin by understanding customer needs. So it is essential to first focus on the process of clarifying customer needs and values followed by translating these insights into target costs that can drive the continuous improvement process. * Product in high-mix often goes with low-volume (HMLV). * Production Flow Analysis (PFA) and Simplification Toolkit could help achieve HMLV.

* Kanban system could decide what to produce, when to produce it, and how many to produce. * Moreover, companies employing lean accounting methods recognize that standard costs and other methods for fully absorbed product or service costing lead to poor decisions and motivate anti-lean behavior. These companies also find that there is no need to calculate a product cost because all the uses of product costs within traditional companies can be addressed in lean accounting using simpler and better methods. Decision-making, inventory valuation, performance measurements and other uses of fully absorbed product costs are all achieved by lean accounting methods.