

Workbook: Lean Accounting
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I. Determine value proposition and key services provided by accounting function.

For the organization:

A. Identify the core competencies:

1. Which of our product or service varieties are the most distinctive?
2. Which of our product or service varieties are the most profitable?
3. Which of our customers are the most satisfied?
4. Which customers or distribution channels are the most profitable?
5. Which of the activities in our value chain are the most different and effective?

B. Do a SWOT Analysis

1. What are our key strengths?
2. What are our weaknesses?
3. What are our opportunities?
4. What are our threats from outside?

C. Identify what you do that customers value most

For the Accounting/Finance function:

D. Identify the core competencies and needs

1. Which of the Accounting function's outputs or services are the most effective?

2. Which of their internal customers are the most satisfied?

3. Which of their internal customers are the least satisfied?

4. What information is missing or needed more frequently?

E. Based on what the company's customers value most, what could the Accounting function do to help meet those needs? (see Part C on previous page)

F. Identify what you would most value from the Accounting function:

II. Identify the Value Streams.

What are the major value streams in your organization? (Value streams are the major flows of value-added activities required to transform inputs or information into a product or service for customer use.)

1. _____
2. _____
3. _____
4. _____

For each value stream, brainstorm potential goals, lean improvements, and potential performance measures to meet lean goals. (See “Lean Accounting: What’s it all About?” article, Figure 2.)

Value Stream	Value Stream goals	Lean improvements	Performance measures
1.			Examples: <ul style="list-style-type: none"> • On-time delivery • Cost per unit • Output per person
2.			<ul style="list-style-type: none"> • Value-added ratio • Sales revenue per person • Customer satisfaction • % sales from new products
3.			<ul style="list-style-type: none"> • Cost of quality: conformance vs. nonconformance • Cycle efficiency
4.			

Value Stream Map. For each value stream, finalize the value stream goals, performance measures, targets for each measure, and frequency of measure.

Value Stream	Goals	Measures	Target	Frequency
1.	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
2.	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
3.	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
4.	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>

III. Make the Value Stream Flow

Do a “strategic audit” of the accounting function to eliminate unnecessary transactions and reports (to free up time for value-added activities)

- Relentlessly ask the question: Is the transaction/report still needed? (Does it add value to our business?)
- Ask “Why?” five times.
- Some examples of ways to eliminate unnecessary transactions and reports:
 - Eliminate process inconsistencies (is it done the same at each location?)
 - Record material receipts by scanning bar codes
 - Use blanket P.O.s and authorize payments when materials received
 - Reduce number of labor categories (fewer errors and quicker)
 - Consider paying salary rather than tracking labor hours
 - Reduce/eliminate inventory counts

1. What are 2-3 potential ways to eliminate unnecessary transactions and reports?

2. What are 2-3 value-added strategic activities that accounting needs to do more of? (Refer to part F on p. 2 and the Value stream map on p. 4)

IV. Implement a Pull System.

- Strive to develop a system where demand dictates when services are provided
- Start with desired end result and work backwards on how to make it happen

For the changes identified on pp. 5-6, answer the following questions:

- What steps must be taken to achieve the end result?
- Who will be responsible for the change?
- What resources will be needed? (e.g., people, system, operations, etc.)

Eliminating unnecessary transactions and reports

Increasing value-added strategic activities

Create a Value Stream Cost Analysis for one of your value streams

- See “Lean Accounting: What’s it all About?” article, Table 1
- It is OK to use fictitious numbers for now

Value Stream: _____

		Departments or Functional Areas					
	Total						
Employees:							
Cost (\$)							
Productive (%)							
Nonproductive (%)							
Other (%)							
Available Capacity (%)							
Total %	100%	100%	100%	100%	100%	100%	100%

Machines:							
Cost (\$)							
Productive (%)							
Nonproductive (%)							
Other (%)							
Available Capacity (%)							
Total %	100%	100%	100%	100%	100%	100%	100%
Total Cost (\$)							
Total Volume (units)							
Average Conversion Cost (\$/units)							

Create a Value Stream Income Statement for your organization

- See “Lean Accounting: What’s it all About?” article, Table 2
- It is OK to use fictitious numbers for now

	V.S. #1	V.S. #2	V.S. #4	V.S. #4	Sustaining Costs	Total Company
Sales revenue						
Costs:						
Total Costs						
Value stream profit (before inventory change)						
Decrease/Increase in inventory						
Value stream profit						
Shipping/Distribution costs						
Corporate allocation costs						
Other:						
Other:						
Net operating income						
Return on Sales						

Lebanon Gasket Company Case solution

Table 1: LGC Lean income statement

	Injection	Extrusion	Sustaining	Total
	1st Qtr	1st Qtr	1st Qtr	1st Qtr
Sales	\$1,026,763	\$2,995,991		\$4,022,754
Costs:				
Material purchases (Table 3)	237,594	691,189		928,783
Personnel costs**	347,750	398,450	430,625	1,176,825
Equipment-related costs (Table 3)	139,098	357,682		496,780
Occupancy costs***	120,022	234,826	166,987	521,835
Other costs (selling supplies, travel, etc.)	8,407	14,799		23,206
Total costs	852,871	1,696,946	597,612	3,147,429
Value stream profit before inventory change	173,892	1,299,045	(597,612)	875,325
Decrease (increase) in inventory*	79,645	101,791		181,436
Value stream profit	253,537	1,400,836	(597,612)	1,056,761
Other costs			(708,944)	(708,944)
Corporate allocation			84,874	\$84,874
Net operating income	\$253,537	\$1,400,836	(\$1,221,682)	\$432,691
Return on sales	24.7%	46.8%		10.8%

*Decrease (increase) in inventory:			
RM, Beg	\$156,920	\$372,690	
RM, End	\$142,450	\$368,759	
Difference	\$14,470	\$3,931	
WIP, Beg	\$79,850	\$156,980	
WIP, End	\$56,750	\$102,578	
Difference	\$23,100	\$54,402	
FG, Beg	\$120,568	\$230,890	
FG, End	\$78,493	\$187,432	
Difference	\$42,075	\$43,458	
Total difference	\$79,645	\$101,791	

**Personnel costs (from Table 3)			
Plant manager	\$0	\$0	\$40,625
Executive Assistant	\$0	\$0	\$10,725
Sales Rep	\$23,400	\$23,400	\$0
Clerks	\$0	\$0	\$53,625
Accountant	\$16,900	\$16,900	\$0
Engineer	\$21,125	\$21,125	\$0
All Managers	\$26,000	\$26,000	\$130,000
All supervisors (incl. Purch. Agents)	\$43,875	\$43,875	\$29,250
Technicians	\$35,100	\$35,100	\$0
Forklift Operators	\$20,800	\$20,800	\$166,400
Machine operator	\$160,550	\$211,250	\$0
Total personnel costs	\$347,750	\$398,450	\$430,625

***Occupancy costs (based on sq. ft)				
Costs (Table 2; excluding Corp. allocation)				\$521,835
Sq. feet available (Table 3)				250,000
Rate per sq. foot				\$2.09
Sq. feet used	57,500	112,500	80,000	250,000
x Rate	\$2.09	\$2.09	\$2.09	\$2.09
Occupancy costs	\$120,022	\$234,826	\$166,987	\$521,835