ideas into action

Lean Accounting

Lean management is a business growth strategy: by improving flow and reducing waste we improve capacity and value stream performance. The philosophy is “why would you perform any activity that the customer is not willing to pay for ?”.

For more information on “lean”, see our “What is Lean?” Factsheet.

In lean we define the processes through which we meet our customer requirements as Value Streams. Each value stream should have a manager and that manager has profit and loss responsibility for the Value Stream.

Lean Accounting provides a system for Value Stream management – performance metrics and strategic decision making. Lean accounting also helps turn waste into capacity – available to sell.

Lean accounting has seven aims:

1. Performance measures that motivate lean – cell and value stream measures;
2. Value Stream costing, replacing Standard Costing = Value Stream Profit and Loss Account
3. Support relevant, accurate and timely decision making using contribution costing
4. Elimination of unnecessary accounting transactions
5. Highlighting impact of lean improvements – eliminate waste, improve capacity, improve flow
6. Drive the growth of the business through increasing customer value using Target Costing
7. Motivate lean behaviour in the planning process

Company Profile

We are process improvement specialists with over 20 year’s experience, providing training and consultancy in lean service, process analysis and improvement, and lean finance.

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There are a number of differences between lean accounting and “traditional cost accounting”. These include:

1. The revenue reported is the actual value of production delivered to customers in the period (e.g. that week). The value of any stock produced is ignored – we don’t want to encourage the production of inventory !
2. Material cost is the actual cost of materials delivered to the Value Stream or production process in the period (week) - whether or not it is used in production. Again we seek to actively discourage stock-holding and bulk buying; encouraging, instead, “just in time” deliveries. Sometimes buying in bulk is unavoidable (e.g. steel stock). In this format such activity is highly visible and, therefore, explainable.
3. Labour costs in the period are those actually incurred including overtime and temporary staff costs. Labour is considered as a fixed cost in the short term;
4. Costs directly attributable to the value stream or process are assigned to the value stream or process;
5. In general terms, we do not make accruals or other adjustments. We are interested in showing costs as they arise to stimulate improvement activity. Value Stream Management Accounting is not about being fair (spreading costs evenly across periods) it is about encouraging operational behaviour that smoothes out fluctuations and, thus, stabilises and improves flow. Only in very special circumstances will we vary from this rule.
6. We only assign costs that can be actually managed in the Value Stream (process) we do not allocate or apportion costs – since they cannot be managed by the operational manager. We do not apportion indirect overheads to the process.

We have a number of published articles on lean accounting in the “Articles and Downloads” section of our website. We also offer training courses and consultancy. Contact us to find out more.