WHAT IS LEAN ACCOUNTING?

Somayeh Hosseini Aghdaei
Department of social and economic science, payamenure zavare,
bo box19395_3697tehran,iranIsfahan Ardestan Iran
Zohre.hoseyni@yahoo.com

Abstract. The term 'Lean' became common during the 1980s and 1990s, due to the book 'Lean Thinking'. In September 2005, at the Lean Accounting Summit in Detroit, co-sponsored by AME, the definition of Lean Accounting and the description of Principles, Practices and Tools of Lean Accounting were documented. In fact, lean manufacturing, is a complete business system including an advanced manufacturing techniques that fully combines the just-in-time (JIT), total quality management (TQM), total preventive maintenance (TPM), Value Engineering (VE), and Target Costing. Lean Accounting seeks to reduce the steps in the implementation process, to eliminate standard prices to actual prices, and to stop the expense allocations. Also, the lean control operation focuses on performance measurement system and emphasizes the social and behavioral controls.

Keywords: Lean Accounting, Just-In-Time (JIT), Total Quality Management (TQM), Total Preventive Maintenance (TPM)

1 Introduction

Since 1990, the 'lean thinking basis' was introduced. The main start point is value, which states that the organization Resources should focus on activities that lead to making value for all beneficiary people and also omit the losing additional value group and include parallel activities in the organization. . (Kim Loader 2010)

Value determination dimensions take place in the value flow. Value flow is a set of all necessary activities for a certain product that include all production and services processes, i.e. from the sketch to the advent of the products and services to the market.(Emiliani, Bob2007)

The term 'lean production' was developed by Toyota Company. The executive managers of Toyota state that they inspired this famous system through a visit of Motor Ford Company and then developed that and they owe this to endeavors of managers like Taichi and Ohno and his consultant Shijo Shinko. In the late 1980 the Americans and the Europeans acknowledged this system. (Emiliani, Bob (March 23, 2007))

Lean accounting is looking forward decreasing the stages in implementation process and omitting the standard prices for achieving real prices and inhibiting expense allotments, whereas lean control operations are still considering measurement of system performance and emphasize on social and behavioral controls.

There are two main forces for lean accounting. First is implementing lean methods for accounting, control and processing in companies. Here the goal is to increase the speed of the process and to omit the waste, unusable capacity, errors and defects.

Second is that lean accounting should basically change the process of accounting, control and measurement so that it causes lean change and improves information and provides information that is suitable for decision making, and this information rely on the customer keeping principle (Maskell, & Baggaley, 2004)

2 The reasons of need to lean accounting:

1. Providing intelligible, correct and timely information for making lean changes in the whole organization and also for making changes in decision making that lead to an increase in attention to the customer keeping principle, development and profitability and cash flow
2. Utilizing lean tool for omitting waste resulted from accounting processes so that the financial control is preserved
3. Completing correspondence with accepted principles and correspondence with in-organizational reporting needs and out-organizational reporting regulations
4. Protecting lean culture via encouragement for investment by people and providing executable information and reinforcing constant improvement in any level of the organization. (Cuneyt. Eroglu, Christian. Hofer (May 2011),

Like most lean methods, lean accounting is in fact provided and developed for supporting production companies and most of the implementation of lean accounting is seen in production companies. But nowadays lean methods have entered the other industries like financial services, sanitary, remedy and caretaking centers, government and Training, so lean accounting should also exist in these industries but there is no reported case about utilizing lean accounting out of the production section. (Fiume & Cunningham (March 25, 2003))

3 Operation principles and lean accounting tools:

1. Simple use of enterprise
2. Accounting processes that protect lean changes and include the following:
a) Visible Performance Evaluation
b) Constant improvement
3. Timely and distinct relationship of information that include visible management
4. Planning and budgeting resulted from a long viewpoint
a) Hushin policy order
b) Sale of Operations and Financial planning **(** Kennedy , Widener (2008))

4 Aspects of lean accounting:

- Performance Measurement. This encourages lean action in cellular level of the company value flow. Lean accounting needs new types of Measurement methods that protect and improve lean thinking. These methods are perceptible and focus on value flows that are designed for constant improvement.
- Omitting most of the control and accounting transactions by eliminating the need for them. Accounting transactions, production unit controls, backlog history, workforce watch, etc are required in traditional companies, because the processes are out of control. These processes should be preserved in detail so that the operation and financial information can be reportable. In lean companies we can control these processes and omit the need for expense accounting, Inventory control, etc and finally control the lean performance and first grade systems.
- Evaluation of the credit of financial impact due to the improvement of lean production: financial impact appears when deciding how to use capacity (and cash money flow resulted from less stuff supply). Lean accounting enjoys lean evaluation tool for perception of financial impact of lean changes.

- Expense value flow evaluation, a substitute of standard value flow evaluation. Expense value flow evaluation has the traits of association and correctness for value conduction. This stage omits almost all the superfluous transactions and transactions related to traditional expenses.(Kennedy , Widener (2008))

5 Conclusion

Accounting methods, control, measurement and lean management are in fact reflecting lean thinking and lean method. Lean Accounting due to precise provision, conceivability and existence of pursuable information about expenses and profitability lead to better decision making (Kennedy , Sally K. Widener (2008))

Lean Accounting provides parsimony in time and expense by targeting much spoliation that exist in control systems and traditional accounting. Despite defects in Lean Accounting, lean movement has strong theoretical basis and has led to having marvelous production in several organizations. Nevertheless some dismounts and implementations have failed. Fail in lean processes in the organization can cause many problems like losing protection from the upper level managers, resistance to change and inability to focus on short time results. Also hindrances like these cause inability and failing the other innovations of valuable strategy. Finally, Lean accounting leads to improvement and development of the organization via lean production, lean control, behavioral control, social control, organizational structure and accounting operations.

References

Maskell, B., Baggaley, B., 2004. Practical Lean Accounting. Productivity Press. NY.NY

Womack, J.P., 1995. Foreword. In: Liker, J.K.(Ed), Becoming Lean: Inside of U.S. Manufacturers. Productivity Press, xiii-xvi.

Cuneyt. Eroglua Journal of Operations Management, Volume 29, Issue 4 pp. 356-369

Brian h.Maskell and Frances A. Kennedy, (2007) " Why Do We Need Lean Accounting and How Does It work?" Journal of Corporate Accounting & Finance, March/ April (2007):59-73.

Emiliani, Bob (March 23, 200 7). "Better Thinking Better Results". CLBM; 2 edition, Wethersfield, CT, USA.

Kim Loader (March 2010) "a Journal of Purchasing and Supply Management, Volume 16, Issue 1, pp. 41-50

Frances A. Kennedy , Sally K. Widener (2008)," A control framework: Insights from evidence on lean accounting" Management Accounting Research 19 ,pp. 301–323