

Lean Accounting

2nd Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Overview of Lean Accounting	1
Learning Objectives.....	1
Introduction.....	1
The Definition of Lean.....	1
Issues that Interfere with a Lean Department.....	2
Lean Tools.....	3
Value Stream Mapping.....	3
Flowcharts.....	4
Accounting Run Charts.....	5
Check Sheets.....	6
Traffic Analysis.....	6
Root Cause Analysis.....	7
The Lean Culture.....	7
A Note of Caution.....	8
The Failure of Lean Initiatives.....	8
The Structure of this Book.....	10
Summary.....	11
Review Questions.....	12
Review Answers.....	13
Chapter 2 – Lean Customer Billing	14
Learning Objectives.....	14
Introduction.....	14
Improvement Concepts.....	14
Billing Processing.....	15
Billing Processing.....	15
Analysis of Billing Processing.....	15
Lean Billing Processing.....	16
Evaluated Receipts System.....	16
Payment in Advance.....	16
Systems Integration.....	16
Buffer Staff.....	17
Invoice Layout Improvement.....	17
Complex Invoice Separation.....	18
Invoice Proofreading.....	18
On-line Invoice Entry.....	19
Invoice Creation at Delivery Point.....	19
Invoice Creation at Shipping Dock.....	20
General: Pricing Simplification.....	20
Practices to Avoid.....	20
Analysis of Lean Billing Processing.....	20
Additional Improvement Concepts.....	21
Billing Measurements.....	22
Summary.....	22
Review Questions.....	24
Review Answers.....	25
Chapter 3 – Lean Cash Receipts	26
Learning Objectives.....	26
Introduction.....	26
Improvement Concepts.....	26
Check Receipts Processing, Basic Process.....	27
Check Receipts Process.....	27

Table of Contents

Analysis of Check Receipts Process.....	27
Lean Check Receipts Processing (with Lockbox).....	28
Bank Lockbox	28
Automatic Cash Application.....	28
Analysis of Lean Check Receipts Process (with Lockbox).....	29
Lean Check Receipts Processing (without Lockbox).....	30
Apply from Check Copies.....	30
Remote Deposit Capture.....	31
Conduct Daily Bank Reconciliation	31
Analysis of Lean Check Receipts Process (No Lockbox)	31
Cash Receipts Processing.....	33
Cash Receipts Process	33
Analysis of Cash Receipts Process	33
Lean Cash Receipts Processing.....	34
Credit Card Receipts Processing.....	34
Credit Card Receipts Process	34
Analysis of Credit Card Receipts Process.....	35
Lean Credit Card Receipts Processing	35
Enter Information in On-line Form Immediately	35
On-line Payment Apps	35
Analysis of Lean Credit Card Receipts Process	36
Cash Receipts Measurements.....	37
Summary.....	37
Review Questions	38
Review Answers.....	39
Chapter 4 – Lean Accounts Payable	40
Learning Objectives.....	40
Introduction	40
Improvement Concepts	40
Supplier Invoice Processing.....	41
Supplier Invoice Processing	41
Analysis of Supplier Invoice Processing.....	42
Lean Supplier Invoice Processing – Complete Replacement.....	42
Evaluated Receipts Processing	42
Pay from Receipt.....	43
Analysis of Lean Supplier Invoice Processing.....	43
Lean Supplier Invoice Processing – Incremental Improvement.....	45
Procurement Cards.....	46
Supplier Entry of Invoices.....	46
Direct Invoice Delivery.....	46
Invoice Numbering Convention.....	46
Incoming Invoice Scans.....	46
Request Aggregated Invoice	47
Approval Minimization	47
Expense Report Auditing.....	47
Expense Report Outsourcing.....	47
Form W-9 Requirement.....	47
General: Centralize Accounts Payable.....	48
General: Supplier Reduction.....	48
General: Vendor Master File Examination.....	48
General: Supplier Naming Convention.....	48
Practices to Avoid	48
Analysis of Lean Supplier Invoice Processing	49
Check Payment Processing.....	50
Check Payment Processing.....	50

Table of Contents

Analysis of Check Payment Processing	51
Supplier Payment Processing, Lean Approach	51
Recurring Payment Automation	51
Manual Check Reduction	52
Signature Stamp or Plate	52
ACH Payments	52
Practices to Avoid	52
Analysis of Lean Supplier Payments Processing	53
Additional Improvement Concepts	54
Accounts Payable Measurements.....	54
Summary.....	55
Review Questions	56
Review Answers.....	57
Chapter 5 – Lean Payroll	58
Learning Objectives.....	58
Introduction	58
Improvement Concepts	58
Payroll Data Collection	59
Timecard Data Collection	59
Analysis of Payroll Data Collection	60
Lean Payroll Data Collection.....	60
Convert Hourly to Salaried Pay.....	60
Data Collection Minimization	61
Computerized Time Clocks.....	61
Web-Based Timekeeping	62
Smart Phone Time Tracking.....	63
Copy Forward Hours Worked	63
Automated Time Tracking Reminders.....	63
Analysis of Lean Payroll Data Collection.....	64
Commission Processing	65
Commission Processing	66
Commission Processing Analysis	66
Lean Commission Processing	66
Commission Plan Simplification.....	66
Standard Commissions Report.....	67
Incentive Compensation Management Software	67
Analysis of Lean Commission Processing.....	68
Payroll Processing.....	69
Payroll Processing	69
Payroll Processing Analysis.....	69
Lean Payroll Processing	70
Payroll Cycle Duration.....	70
Off-Cycle Payroll Elimination	70
Outsource Payroll Processing	71
Payroll Data Entry by Employees	71
Payroll Data Entry by Managers	71
General: Prohibition of Employee Advances.....	71
General: Prohibition of Reimbursements through Payroll	72
General: Reduction of Pay Deductions	72
General: Combine Payroll Systems	72
Employee Payment Processing	73
Employee Payment Processing	73
Analysis of Employee Payment Processing	74
Lean Employee Payment Processing	74
Direct Deposit	74

Table of Contents

Pay Cards	75
General: On-line Access to W-2 Forms.....	75
Analysis of Lean Employee Payments.....	75
Additional Improvement Concepts	76
Payroll Measurements.....	77
Summary.....	77
Review Questions	78
Review Answers.....	79
Chapter 6 – Lean Financial Statements	80
Learning Objectives.....	80
Introduction	80
Improvement Concepts	80
How Financial Statements are Usually Produced.....	81
The Production of Financial Statements	81
Analysis of Financial Statement Production	82
Lean Financial Statements	83
Financial Statement Avoidance	83
Task Interdependency Analysis	84
Correct Errors Early.....	85
Reconcile Accounts Early.....	85
Adjust Reserves Early	86
Alter Overhead Allocations Early	86
Review the Shipping Log Early.....	86
Review Billable Hours Early.....	86
Accrue Early.....	87
Accelerate Depreciation Calculations	87
Examine Commissions Early	88
Standardize the Accounting System	88
Centralize the Accounting System	89
Centralize Travel Bookings.....	90
Process Centering.....	90
Mitigate Information Dependencies.....	91
Standardize the Report Layout	91
Reduce the Financial Statements	92
Collect Report Information Early	93
Electronic Delivery	93
Defer Activities	93
Automation Solutions	94
Ongoing Process Improvements.....	95
Analysis of Lean Financial Statements	96
Financial Statement Measurements.....	97
Summary.....	98
Review Questions	99
Review Answers.....	100
Chapter 7 – Lean Credit Management.....	101
Learning Objectives.....	101
Introduction	101
Improvement Concepts	101
The Credit Management Environment	101
Traditional Credit Process	102
Analysis of Credit Management.....	102
Lean Credit Management	102
Credit Granting Consistency.....	103
Terms of Sale Consistency.....	104

Table of Contents

Complete Information Gathering.....	104
Ongoing Information Gathering.....	104
Behavioral Trigger Analysis.....	105
Skew Credit Terms.....	105
Contact New Customers.....	106
Shift Risk to Credit Insurance.....	106
Analysis of Lean Credit Management.....	106
Additional Improvement Concepts.....	107
Credit Measurements.....	107
Summary.....	107
Review Questions.....	109
Review Answers.....	110
Chapter 8 – Lean Collections.....	111
Learning Objectives.....	111
Introduction.....	111
Improvement Concepts.....	111
The Collections Environment.....	111
Traditional Collections Process.....	112
Analysis of Collections.....	112
Lean Collections.....	112
Payment on Receipt by Customers.....	112
Payment in Advance.....	113
Payment by ACH Debit.....	113
Focus on Large Dollar Invoices.....	113
Accelerate Small Write-offs.....	114
Increase Collection Staff Efficiency.....	114
Notify Sales Staff.....	115
Contact New Customers.....	116
Problem Resolution Working Group.....	116
Prevent Deductions.....	117
Accelerated Escalation.....	117
Practices to Avoid.....	117
Analysis of Lean Collections.....	118
Additional Improvement Concepts.....	118
Collection Measurements.....	118
Summary.....	119
Review Questions.....	120
Review Answers.....	121
Chapter 9 – Lean Inventory Accounting.....	122
Learning Objectives.....	122
Introduction.....	122
Improvement Concepts.....	122
The Inventory Accounting Environment.....	123
Traditional Inventory Accounting.....	123
Analysis of Inventory Accounting.....	123
Lean Inventory Accounting.....	124
Perpetual Inventory System.....	124
Cycle Counting.....	124
Transaction Backlog Elimination.....	125
Bar Coded Inventory Transactions.....	125
Backflushing.....	126
Ending Inventory Estimation.....	126
Minimal Overhead Allocation.....	126
Lower of Cost or Market Limitation.....	127

Table of Contents

Obsolete Inventory Tracking.....	127
Charge Inventory to Expense	128
Just-in-Time Deliveries.....	128
Drop Shipping	129
On-Site Inventory Ownership by Suppliers.....	129
Reduce Product Options	129
Analysis of Lean Inventory Accounting	130
Additional Improvement Concepts	130
Inventory Measurements	131
Summary.....	131
Review Questions	132
Review Answers.....	133
Chapter 10 – Lean Cost Accounting	134
Learning Objectives.....	134
Introduction	134
Improvement Concepts	134
The Cost Accounting Environment.....	135
Traditional Cost Accounting – Variance Analysis	135
Traditional Cost Accounting – Job Costing.....	135
Traditional Cost Accounting – Inventory Valuation	135
Traditional Cost Accounting – Margin Reports	136
Analysis of Cost Accounting	136
Lean Cost Accounting	136
Cost Derivation with Backflushing.....	137
Terminate Labor Tracking	137
Terminate Materials Usage Tracking	138
Terminate Variance Reporting.....	138
Minimize Overhead Allocation	139
Pull System.....	139
Terminate Work Orders.....	139
Cell-Level Measurement Systems	140
Constraint Analysis	140
Target Costing	141
Analysis of Lean Cost Accounting	143
Additional Improvement Concepts	143
Cost Accounting Measurements	143
Summary.....	144
Review Questions	145
Review Answers.....	146
Chapter 11 – Lean Fixed Asset Accounting	147
Learning Objectives.....	147
Introduction	147
Improvement Concepts	147
The Fixed Asset Accounting Environment.....	147
Traditional Fixed Asset Accounting.....	148
Analysis of Fixed Asset Accounting	148
Lean Fixed Asset Accounting	148
High Capitalization Limit.....	149
Minimal Base Unit Aggregation.....	149
Minimum Number of Asset Classes	149
Minimum Limit on Salvage Values	150
Interest Capitalization Avoidance.....	151
Common Depreciation Method	151
Annual Fixed Asset Audit	151

Table of Contents

Fixed Assets Manual	151
Formal Documentation	152
Analysis of Lean Fixed Asset Accounting	152
Fixed Asset Measurements	153
Summary.....	153
Review Questions	154
Review Answers.....	155
Chapter 12 – The Lean General Ledger Environment	156
Learning Objectives.....	156
Introduction	156
Improvement Concepts	156
The General Ledger Environment.....	156
Number of Accounts.....	157
Mapping.....	157
Journal Entries	157
Account Contents.....	158
Analysis of the General Ledger Environment.....	158
The Lean General Ledger Environment	158
Account Reduction	158
Meaningful Account Codes.....	160
Standardized Chart of Accounts	161
Journal Entry Restriction	162
Journal Entry Checklist.....	162
Journal Entry Templates.....	162
Recurring Journal Entries	162
Account Content Review	163
Practices to Avoid	163
Analysis of the Lean General Ledger Environment	163
General Ledger Measurements	164
Summary.....	164
Review Questions	165
Review Answers.....	166
Chapter 13 – Lean Budgeting.....	167
Learning Objectives.....	167
Introduction	167
Improvement Concepts	167
The Budgeting Environment	167
Control Basis.....	168
Behavioral Impacts.....	168
Bureaucratic Support.....	169
Information Sharing.....	169
Inaccuracy	169
Analysis of the Budgeting Environment.....	170
A More Lean Approach to Budgeting	170
Error Checking	170
Summarization Comparison	170
Verification Rules	172
Capacity Verification.....	172
Step Cost Verification.....	173
Cash Flow Verification.....	173
Budget Simplification.....	173
Budget Procedure	174
Budget Pre-loading	174
Analysis of the More Lean Approach to Budgeting.....	175

Table of Contents

The Ultimate Lean Budget	175
Operating without a Budget	175
Forecasting without a Budget	176
Capital Budgeting without a Budget	177
Goal Setting without a Budget	177
Compensation without a Budget	178
Analysis of the Ultimate Lean Budget	179
Summary	180
Review Questions	181
Review Answers	182
Chapter 14 – Lean Filing	183
Learning Objectives	183
Introduction	183
Improvement Concepts	183
The Traditional Filing Environment	183
The Filing Environment	183
Analysis of the Filing Environment	184
The Lean Filing Environment	184
Report Purge	184
Copy Elimination	184
Document Destruction Policy	185
Off-Site Storage	185
Filing Cabinet Locations	185
Filing Carts	185
Longer Archiving Intervals	186
Storage Improvements	186
Document Imaging	187
Practices to Avoid	187
Analysis of the Lean Filing Environment	187
Summary	188
Review Questions	189
Review Answers	190
Chapter 15 – Lean Controls and Procedures	191
Learning Objectives	191
Introduction	191
The Genesis of Accounting Controls	191
The Proper Balance of Control Systems	192
The Nature of Risk	193
Common Fraud Risk Factors	194
Control Principles	195
The Failings of Internal Controls	196
Special Case - Acquisitions	197
Special Case – Employee Turnover	197
Special Case – Rapid Growth	198
Terminating Controls	198
The Nature of a Procedure	199
The Need for Procedures	200
The Number of Procedures to Develop	201
Summary	201
Review Questions	202
Review Answers	203
Glossary	205
Index	211