

Throughput Accounting for CPAs, CxOs, CFAs, MBAs, Entrepreneurs and Engineers

Visible Work

'In the construct of Cost Accounting - and the use of its data at the operational level - the link between decisions, actions and results is delayed, non linear and without causality. This is totally the opposite of Throughput Accounting where cost allocation is forbidden and where focus on the Constraint allows for sharp decision-making that has immediate impact on the financial health of operations.'

Steve Tendon & Daniel Doiron from the book 'Tame Your Work Flow'

This **Throughput Accounting** course focuses on work that we see in the physical world where we deal with tangible assets and products that we can build, track, store and inspect visually. Your current decision-making process will always be optimal if you aim directly at the constraint of your systems – which dictate throughput – and leveraging the teachings of Throughput Accounting in your daily life. Hitting the constraint by happenstance or consistently is the difference between witnessing dismal results or never being a day late and a penny short in your projects.

Throughput Accounting is the Financial Application and – **first and foremost** - the decision-making arm of the Theory of Constraints from Dr Eli Goldratt.

Throughput Accounting belongs under the very inclusive umbrella of Management Accounting whose body of knowledge is necessary - but not sufficient - to reach optimal decisions.

Is this for you?

- As a CxO, do you have a multi-million dollars budget and not a penny to spare and in dire need to improve operational or financial performance? (Often times, the way we make decisions taking into account the constraints has a bigger impact on the bottom line than all the money in the world invested in improvement initiatives!)
- As a CFO, are you always torn when you have to say 'no' to so many stakeholders? Well, there is relief in knowing how the 5 Focusing

Steps work as you would normally only start spending money on step 4) Elevate the constraint. The other steps come at no cost except the one of changing mental models and cognitive biases! (This knowledge can be shared with the entire executive team. Indeed, understanding Throughput Accounting and how to 1) Identify, 2) exploit and 3) subordinate to the constraint in your systems come at no cost outlays, often time preventing you from even spending capital that could have better used elsewhere while allowing you to get stellar results!)

- As a CEO and HR Executive, are you dreaming of the day when all employees will think alike and make the right decisions all the time? (Throughput Accounting is a system approach that leads to decentralized and autonomous decision making. Understanding causality and Inherent Simplicity when making decisions at the product, team, project or division level is a great advantage and allows you to compete on the time axis)
- As an entrepreneur, are you into merger/acquisition/sale of companies? Are you having succession thoughts and contemplating selling your business at a better price? (Understanding the geometry of the capacity curve and its leverage on operational performance is a tool that is too often times neglected)
- As a CIO, are you spending money on Continuous Improvement initiatives and seeing your fixed costs explode with little to show for? (Improving the system away from the constraint will create additional and permanent layers of costs that will never go away.)
- As a VP Finance and all others involved, we all know that budgeting is a recurring nightmare? Well, it is ranked as the number one issue for many in Finance and Accounting. And the reason is linked to capacity. All accounting systems treat all parts of the system as having equal importance. Throughput Accounting focuses on the one part of the system – the constraint – which is the limiting factor to operational and financial performance. You hence have the choice: manage the entire system or focus on the constraint which is the only part of the system that matters.

What will you learn?

History of Financial/Cost/Management and Throughput Accounting:

History in the context of these numerous accounting systems is quite revealing and shows the source of our cognitive biases and flawed mental models regarding costing and decision making! As early as **1916**, the pioneers of Financial and Cost Accounting warned that the data was unfit for internal consumption and decision making. In **1993**, Charles T Horngren – authority in the field of management accounting - stressed that contribution margin analysis was useless if a scarce factor (read constraint) was present in a system. **To this day**, after thousands of pages containing the body of knowledge of GAAP, FASB and IFRS guidelines, not a single hint has been provided to the fact that these principles or tools be used for internal managerial purposes.

How do the great thinkers (Ford, Ohno and Goldratt) treat inventory?

As a liability or an asset? Inventory is an asset in all traditional accounting models. Ford, Toyota and the Theory of Constraints think otherwise and view inventory as a liability. The 5 Focusing Steps are foundational to Throughput Accounting and will occupy a lot of space on this course. They consist of 1) Identifying, 2) Exploiting, 3) Subordinating, and 4) Elevating the constraint with of course the fifth step being not to let inertia become the constraint by not revisiting the first four steps regularly as the constraint may have moved. Why subordinating to the constraint is the most difficult challenge.

Flawed mental models and cognitive biases: In a comparison of 20 topics between Cost Accounting and Throughput Accounting, you will appreciate the differences and be in a better position to rewire your brain synapses. GAAP & Financial Accounting principles will be compared to Throughput Accounting principles to better show the aims and goals of both systems. A product mix and capacity example will illustrate how thinking anew – at no cost – can lead to exponential returns in no time. Capacity will be a main topic of this section as the biggest cognitive biases of modern management is to focus on productive capacity when protective and excess capacity (shun in traditional cost accounting and Lean) are necessary to optimize flow thru the constraint. The components of Throughput Accounting will be addressed: Throughput, Totally Variable Costs, Inventory and Operating Expenses.

Reporting and reconciliation between traditional accounting models and Throughput Accounting: Throughput Accounting requires no

changes in the way you work. No capital expenditures. Only changes in the way you think. But in order to bridge and reconcile your traditional Income Statement every month to a Throughput Accounting basis, you need the mechanics, the metrics and the analogies with EBITDA and Gross Profit.

Throughput Accounting: Culture, Complexity, Decision Making and

Focus: Culture is a reflection of a company's system. And accounting systems are the most far reaching of all. See how Throughput Accounting brings a lot to culture: unanimity-based decision making, alignment; Unity of Purpose; decentralized decision making. **Complexity** in the details or complexity in causality measured between the time a decision is made and its impact on performance? **Decision Making** and Inherent Simplicity go hand in hand with mastery of the 12 decision making principles of Throughput Accounting. **Focus** on cost cutting can never go below zero, but there are no limits to growth. Throughput Accounting has an expansionary outlook on economic activity.

Strategic Intent: Topics include the entire mastery in applying the 5 Focusing Steps of the Theory of Constraints. It shows that the first 3 steps can propel your operational results in a quadratic manner without spending a penny: Identifying, Exploiting and Subordinating to the Constraint can be done at no cash outlays! Topics such as Budgeting, Cash Flow management, strategic positioning of the constraint, production vs productivity and merger and acquisition are covered.

Pre requisites

A good understanding of financial and cost accounting is required.

What you get

- Practical, ready to use knowledge that will make an impact on the way you work and achieve results immediately.
- Course Material.
- 7 PDUs

Policies

- This course has a duration of 7 hours
- Attendee substitutions are allowed anytime until the start of the course
- If the designated instructor is unable to give the course, an equally competent and capable trainer will act as replacement to teach the course
- The organizer reserves the right to cancel courses or to change venue within a reasonable distance
- Refunds are provided as follows: 30 days or more, 100%; 15 days or more, 50%

Visit www.agileagonist.com for more classes