

## Throughput Accounting

Most people equate the term “Cost Accounting” with “Management Accounting”. Yet, there is no requirement that a Management Accounting system be based upon Standard Absorption Cost Accounting.

Throughput Accounting (TA) is a breakthrough application of constraint management to the field of managerial accounting.

By focusing on the three components of Throughput Accounting, Throughput (T), Investment (I) and Operating Expense (OE), local decisions can be made which will generate positive global results.

Rather than getting lost in allocations and arbitrary “costing” and “profitability” of particular product lines based on absorption costing and overhead drivers, TA focuses decisions on common sense, real measurements that people can understand and which will always generate good business decisions.

Areas where TA typically gives different (and more valid) answers than standard absorption costing are:

- Product cost
- Pricing
- Make / buy decisions
- Channel profitability
- Incentive plans
- Investment decisions

Of course, accounting for tax purposes must still be done in accordance with Generally Accepted Accounting Principles (GAAP). TGI ensures that a company understands the relatively simple conversions required to reconcile managerial accounting systems with financial accounting systems.

You know standard costing is not the answer . . . Investigate the constraint management answer that has proven to change pricing and marketing strategies overnight, and significantly improve company bottom lines.