

Lean Approach to Income Statement

Figure 2

Lean Statements				
	Period 1		Period 2	
Sales	\$4,395,000	100.0%	\$4,800,000	100.0%
Costs				
Procurement	418,000	9.5%	571,000	11.9%
Conversion	2,934,000	66.8%	3,218,000	67.0%
Distribution	155,000	3.5%	165,000	3.4%
Support	350,000	8.0%	314,000	6.5%
<i>Total Costs</i>	3,857,000	87.8%	4,268,000	88.9%
Margin	538,000	12.2%	532,000	11.1%
Change in Inventory	317,000	7.2%	43,000	0.9%
Earnings Before Tax	\$ 855,000	19.5%	\$ 575,000	12.0%

A lean-style income statement shows “real” numbers.
It is clear, understandable, & actionable.

Value Stream P&L Example

<i>Caspian Company</i>		<i>PA</i>		<i>March-05</i>	
<i>Motors</i>		<i>Current</i>			
<u><i>Profit & Loss Report</i></u>					
	Mar-05	Per Unit	Percentage of		
			Sales	Units	
<i>Sales</i>	\$326,240	\$173.90	1,876		
<i>Additional Revenue</i>	\$0				
<i>Material Costs</i>	\$111,431	\$59.40	34.16%		
<i>Conversion Costs</i>	\$57,628	\$30.72	17.66%		
<i>Outside Process Costs</i>	\$32,433	\$17.29	9.94%		
<i>Other Costs</i>	\$16,040	\$8.55	4.92%		
<i>Tooling Costs</i>	\$4,843	\$2.58	1.48%		
<i>Value Stream Profit</i>	<u>\$103,865</u>	<u>\$55</u>	<u>31.84%</u>		
<i>ROS</i>	31.84%		31.84%		
<i>Hurdle Rate</i>	42.00%				
<i>Cash Flow</i>					
<i>Inventory</i>	\$221,163	8.9		days	
<i>Accounts Receivable</i>	\$587,232	36.0		days	
<i>Accounts Payable</i>	(\$208,190)	-28.0		days	

Example of "Plain English" P&L

MONTH						October-04	YEAR-TO-DATE					
PLAN		ACTUAL		PRIOR			PLAN		ACTUAL		PRIOR	
4,750		3,485		4,442		TOTAL ORDERS	19,000		18,700		17,688	
5,310	100.0%	4,992	100.0%	5,254	100.0%	TOT NET SALES	19,710	100.0%	19,489	100.0%	18,886	100.0%
						COSTS						
705	13.3%	614	12.3%	635	12.1%	PROCUREMENT	2,591	13.1%	2,345	12.0%	2,359	12.5%
1,352	25.5%	1,404	28.1%	1,391	26.5%	Payroll	5,296	26.9%	5,405	27.7%	5,286	28.0%
710	13.4%	733	14.7%	558	10.6%	Benefits	2,771	14.1%	2,841	14.6%	2,598	13.8%
55	1.0%	86	1.7%	40	0.8%	Agency	212	1.1%	455	2.3%	237	1.3%
537	10.1%	535	10.7%	657	12.5%	Shop & Maint. Supplies	2,103	10.7%	2,264	11.6%	2,132	11.3%
196	3.7%	198	4.0%	180	3.4%	Utilities	784	4.0%	821	4.2%	721	3.8%
215	4.0%	206	4.1%	219	4.2%	Depreciation	860	4.4%	828	4.2%	876	4.6%
113	2.1%	(13)	-0.3%	73	1.4%	Other	336	1.7%	84	0.4%	80	0.4%
3,178	59.8%	3,149	63.1%	3,118	59.3%	CONVERSION	12,362	62.7%	12,698	65.2%	11,930	63.2%
80	1.5%	64	1.3%	70	1.3%	Shipping	300	1.5%	305	1.6%	285	1.5%
72	1.4%	73	1.5%	69	1.3%	Selling	288	1.5%	281	1.4%	327	1.7%
152	2.9%	137	2.7%	139	2.6%	SALES & DISTRIBUTION	588	3.0%	586	3.0%	612	3.2%
31	0.6%	26	0.5%	29	0.6%	Division Accounting	124	0.6%	114	0.6%	119	0.6%
76	1.4%	74	1.5%	70	1.3%	Information Technology	304	1.5%	297	1.5%	309	1.6%
127	2.4%	161	3.2%	154	2.9%	Division Administration	522	2.6%	587	3.0%	551	2.9%
86	1.6%	108	2.2%	85	1.6%	Group & Corp. Alloc.	345	1.8%	386	2.0%	314	1.7%
320	6.0%	369	7.4%	338	6.4%	SUPPORT	1,295	6.6%	1,384	7.1%	1,293	6.8%
						TOTAL COSTS						
4,355	82.0%	4,269	85.5%	4,230	80.5%		16,836	85.4%	17,013	87.3%	16,194	85.7%
955	18.0%	723	14.5%	1,024	19.5%	MARGIN	2,874	14.6%	2,476	12.7%	2,692	14.3%
87	1.6%	19	0.4%	180	3.4%	CHANGE IN INVENTORY	(87)	-0.4%	(275)	-1.4%	26	0.1%
868	16.3%	704	14.1%	844	16.1%	DIVISION NET EARNINGS	2,961	15.0%	2,751	14.1%	2,666	14.1%