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Improved Accounting Helps Nonprofit Manufacturers

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Improved accounting helps nonprofit manufacturers

Prosperous manufacturing companies have accounting systems that can provide managers with product costs and allocation information for improved decision-making.

Product cost information is influential, because it provides insight regarding product margins and business profitability. Managers with effective-cost accounting systems can make informed decisions about manufacturing operations and product mix.

In the case of a nonprofit manufacturing firm, product margins highlight the extent of the firm's self-sustainability and capacity for



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improvement through operations, processes, and product development.

We designed a costing system to accurately cost products and improve resource allocation at Idaho Correctional Industries.

ICI was established in 1974 as a self-sustaining gov-



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ernment organization "teaching and strengthening work and life skills to minimum- and medium-security offenders to prepare them for a successful transition into society." ICI makes products from road signs and license plates to furniture and Idaho memorabilia.

Offenders use technology and manufacturing processes to produce these custom products. The program focuses on developing offenders through different job assignments as skills are mastered.

Remarkably, ICI manages to generate a profit without state-government funding support.

The current cost infrastructure consists mainly of materials and overhead. The altruistically driven program produces extremely low labor costs relative to local businesses that manufacture comparable products.

Selling prices remain at market value to avoid un-

dercutting local businesses. Profits are re-invested into updating technology, machine replacement, new products, and offender-skills program innovation.

While ICI is able to calculate its overall profit, its accounting system does not provide the product-margin information needed for optimal decision-making. This level of accounting is vital for ICI to recognize which products yield the highest margins so it can maximize profits and resource allocation.

We were able to develop an activity-based costing system that traced material and labor costs to each product. Overheads were

applied to products through overhead rates based on cost drivers, such as labor hours, machine hours, cycle time and delivery miles.

The programs, training and skill-learning opportunities that ICI develops and provides to its offenders are an essential service to prepare them for successful job placement upon transition back to society. Our costing system provides ICI with an improved understanding of profitable products so that profits are maximized, therefore, the contribution to society can continue to be enhanced.

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