Throughput Accounting: TOC's Management Accounting System

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The system approach advocated by throughput analysis uses a whole new set of terms, rather than the cost of goods sold and gross margin concepts that are most commonly applied to units produced. The following concepts are of particular importance: Throughput. This is sales minus totally variable expenses, which usually translates into sales minus the cost of direct materials, and perhaps commissions. Because so few costs are truly variable, throughput as a percentage of sales should be quite high. Operating expenses. This is all expenses, not including the totally variable expenses used in the Throughput Accounting (a method for measuring performance and guiding management decisions). Dr. Eliyahu Goldratt conceived the Theory of Constraints (TOC), and introduced it to a wide audience through his bestselling 1984 novel, “The Goal.” Thus, TOC seeks to provide precise and sustained focus on improving the current constraint until it no longer limits throughput, at which point the focus moves to the next constraint. The underlying power of TOC flows from its ability to generate a tremendously strong focus towards a single goal (profit) and to removing the principal impediment (the constraint) to achieving more of that goal. The Thinking Processes are optimized for complex systems with many interdependencies (e.g. manufacturing lines).