

## CLIENT SUCCESS STORY:

# Beyond Compliance: Unlocking Operational Insight Through Audit

Client: CFO and Management Team in Northeast Ohio

Industry: Manufacturing

## BACKGROUND:

During the annual financial statement audit of a fast-growing manufacturing company, Meaden & Moore identified an opportunity to deliver value well beyond standard compliance. The company had significantly expanded its operations, adding several new production lines that introduced greater complexity into its inventory costing and overhead allocation processes.

As part of our audit procedures—including detailed inventory testing and in-depth discussions with management—our team flagged inconsistencies in product-level margins. These red flags suggested that the company's longstanding overhead absorption methodology no longer aligned with its evolving operations, potentially leading to distorted profit analysis and suboptimal business decisions.

Recognizing the implications for both financial accuracy and operational performance, the company engaged Meaden & Moore to conduct a special project: to evaluate and redesign their overhead absorption and costing model.

## AT A GLANCE

### Challenges:

- Outdated overhead absorption rates misaligned with actual operations
- Inaccurate product margin reporting
- Limited transparency into true cost drivers

### Benefits:

- Comprehensive review of financial and operational workflows
- Redesign of overhead allocation methodology
- Implementation of updated costing model for more accurate decision-making

## OBJECTIVE

To modernize the company's overhead allocation model to reflect current operations—enabling accurate margin analysis, improved pricing strategy, and optimized production planning.

## THE CHALLENGE:

The company's historical costing approach, once appropriate, was no longer fit for its expanded manufacturing environment. As a result:

1. Overhead was being applied using outdated assumptions, misrepresenting product costs.
2. Management lacked confidence in margin reporting, making it difficult to distinguish high- from low-performing product lines.
3. Strategic decisions—like pricing adjustments or production prioritization—were being made without reliable cost visibility.

These challenges not only distorted financial reporting but also hindered operational efficiency and market responsiveness.

## OUR APPROACH:

### 1. Financial and Operational Analysis

- Reviewed the general ledger, historical costing data, and existing overhead allocations.
- Identified outdated cost pools and misaligned cost drivers.

### 2. Shop Floor Walkthrough

- Met with production teams on-site to observe workflows, resource usage, and capacity challenges.
- Combined qualitative operational insights with quantitative data to inform costing updates.

### 3. Costing Model Redesign

- Re-established cost pools to better match the company's current operational structure.
- Developed and implemented revised overhead absorption rates reflecting actual cost behavior.
- Applied the updated model across inventory and margin reporting systems.

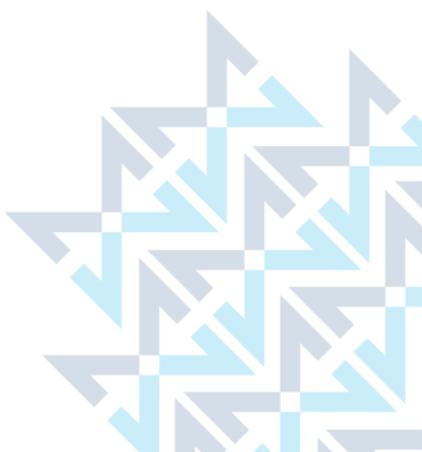
## THE OUTCOME:

The new costing structure provided the leadership team with:

- Accurate visibility into true product costs.
- A clearer picture of profit contributors vs. loss leaders.
- Informed pricing strategies and smarter production planning.
- A better understanding of cost overruns and efficiency gaps.
- Greater alignment between financial statements and operational reality.

## RESULTS

- Enhanced accuracy of financial reporting and compliance with accounting standards.
- Strengthened decision-making through improved cost transparency.
- Greater confidence among stakeholders, including leadership, investors, and auditors.
- Positioned the company for sustained growth and operational efficiency.



## KEY TAKEAWAYS

This engagement highlights how Meaden & Moore's audit process can serve as a catalyst for deeper business insight. By combining financial expertise with a hands-on understanding of operations, we worked alongside the client to refine their costing approach—supporting more informed decisions, improved margin visibility, and greater confidence in their financial data.

## EXPERT INSIGHT: WHY UNDERSTANDING THE SHOP FLOOR MATTERS

When we visit the shop floor and engage directly with management, we're not just checking boxes—we're uncovering the true drivers behind cost behavior.

In this case, helping a fast-growing manufacturer realign its cost structure gave leadership clearer insight into their margins and pricing. It's rewarding to see how operational awareness and financial accuracy work together to support smarter, more confident decisions.



John J. Nicklas, CPA

Vice President, Assurance Services Group

 [jnicklas@meadenmoore.com](mailto:jnicklas@meadenmoore.com)

*“At Meaden & Moore, client service means truly understanding our clients’ operations and challenges—not just delivering numbers. We strive to provide clear, actionable insights that help clients make confident decisions and drive their businesses forward. Our goal is to be a trusted partner who adds value at every step, combining technical expertise with practical business knowledge.”*

— John J. Nicklas, VP

