

Glossary

Abnormal spoilage. Spoilage that would not arise under efficient operating conditions; it is not inherent in a particular production process. (646)

Absorption costing. Method of inventory costing in which all variable manufacturing costs and all fixed manufacturing costs are included as inventoriable costs. (302)

Account analysis method. Approach to cost function estimation that classifies various cost accounts as variable, fixed, or mixed with respect to the identified level of activity. Typically, qualitative rather than quantitative analysis is used when making these cost-classification decisions. (347)

Accrual accounting rate of return (AARR) method. Capital budgeting method that divides an accrual accounting measure of average annual income of a project by an accrual accounting measure of its investment. See also *return on investment (ROI)*. (749)

Activity. An event, task, or unit of work with a specified purpose. (146)

Activity-based budgeting (ABB). Budgeting approach that focuses on the budgeted cost of the activities necessary to produce and sell products and services. (193)

Activity-based costing (ABC). Approach to costing that focuses on individual activities as the fundamental cost objects. It uses the costs of these activities as the basis for assigning costs to other cost objects such as products or services. (146)

Activity-based management (ABM). Method of management decision-making that uses activity-based costing information to improve customer satisfaction and profitability. (156)

Actual cost. Cost incurred (a historical or past cost), as distinguished from a budgeted or forecasted cost. (27)

Actual costing. A costing system that traces direct costs to a cost object by using the actual direct-cost rates times the actual quantities of the direct-cost inputs and allocates indirect costs based on the actual indirect-cost rates times the actual quantities of the cost allocation bases. (102)

Actual indirect-cost rate. Actual total indirect costs in a cost pool divided by the actual total quantity of the cost-allocation base for that cost pool. (110)

Adjusted allocation-rate approach. Restates all overhead entries in the general ledger and subsidiary ledgers using actual cost rates rather than budgeted cost rates. (118)

Allowable cost. Cost that the contract parties agree to include in the costs to be reimbursed. (559)

Appraisal costs. Costs incurred to detect which of the individual units of products do not conform to specifications. (673)

Artificial costs. See *complete reciprocated costs*. (554)

Autonomy. The degree of freedom to make decisions. (777)

Average cost. See *unit cost*. (35)

Average waiting time. The average amount of time that an order will wait in line before the machine is set up and the order is processed. (683)

Backflush costing. Costing system that omits recording some of the journal entries relating to the stages from purchase of direct material to the sale of finished goods. (719)

Balanced scorecard. A framework for implementing strategy that translates an organization's mission and strategy into a set of performance measures. (470)

Batch-level costs. The costs of activities related to a group of units of products or services rather than to each individual unit of product or service. (149)

Belief systems. Lever of control that articulates the mission, purpose, norms of behaviors, and core values of a company intended to inspire managers and other employees to do their best. (827)

Benchmarking. The continuous process of comparing the levels of performance in producing products and services and executing activities against the best levels of performance in competing companies or in companies having similar processes. (244)

Book value. The original cost minus accumulated depreciation of an asset. (410)

Bottleneck. An operation where the work to be performed approaches or exceeds the capacity available to do it. (682)

Boundary systems. Lever of control that describes standards of behavior and codes of conduct expected of all employees, especially actions that are off-limits. (826)

Breakeven point (BEP). Quantity of output sold at which total revenues equal total costs, that is where the operating income is zero. (68)

Budget. Quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan. (10)

Budgetary slack. The practice of underestimating budgeted revenues, or overestimating budgeted costs, to make budgeted targets more easily achievable. (201)

Budgeted cost. Predicted or forecasted cost (future cost) as distinguished from an actual or historical cost. (27)

Budgeted indirect-cost rate. Budgeted annual indirect costs in a cost pool divided by the budgeted annual quantity of the cost allocation base. (104)

Budgeted performance. Expected performance or a point of reference to compare actual results. (227)

Bundled product. A package of two or more products (or services) that is sold for a single price, but whose individual components may be sold as separate items at their own "stand-alone" prices. (561)

Business function costs. The sum of all costs (variable and fixed) in a particular business function of the value chain. (395)

- Byproducts.** Products from a joint production process that have low total sales values compared with the total sales value of the main product or of joint products. (578)
- Capital budgeting.** The making of long-run planning decisions for investments in projects. (739)
- Carrying costs.** Costs that arise while holding inventory of goods for sale. (704)
- Cash budget.** Schedule of expected cash receipts and disbursements. (207)
- Cause-and-effect diagram.** Diagram that identifies potential causes of defects. Four categories of potential causes of failure are human factors, methods and design factors, machine-related factors, and materials and components factors. Also called a *fishbone diagram*. (676)
- Chief financial officer (CFO).** Executive responsible for overseeing the financial operations of an organization. Also called *finance director*. (13)
- Choice criterion.** Objective that can be quantified in a decision model. (84)
- Coefficient of determination (r^2).** Measures the percentage of variation in a dependent variable explained by one or more independent variables. (367)
- Collusive pricing.** Companies in an industry conspire in their pricing and production decisions to achieve a price above the competitive price and so restrain trade. (452)
- Common cost.** Cost of operating a facility, activity, or like cost object that is shared by two or more users. (557)
- Complete reciprocated costs.** The support department's own costs plus any interdepartmental cost allocations. Also called the *artificial costs* of the support department. (554)
- Composite unit.** Hypothetical unit with weights based on the mix of individual units. (521)
- Conference method.** Approach to cost function estimation on the basis of analysis and opinions about costs and their drivers gathered from various departments of a company (purchasing, process engineering, manufacturing, employee relations, and so on). (346)
- Conformance quality.** Refers to the performance of a product or service relative to its design and product specifications. (672)
- Constant.** The component of total cost that, within the relevant range, does not vary with changes in the level of the activity. Also called *intercept*. (343)
- Constant gross-margin percentage NRV method.** Method that allocates joint costs to joint products in such a way that the overall gross-margin percentage is identical for the individual products. (584)
- Constraint.** A mathematical inequality or equality that must be satisfied by the variables in a mathematical model. (416)
- Continuous budget.** See *rolling budget*. (188)
- Contribution income statement.** Income statement that groups costs into variable costs and fixed costs to highlight the contribution margin. (65)
- Contribution margin.** Total revenues minus total variable costs. (64)
- Contribution margin per unit.** Selling price minus the variable cost per unit. (65)
- Contribution margin percentage.** Contribution margin per unit divided by selling price. Also called *contribution margin ratio*. (65)
- Contribution margin ratio.** See *contribution margin percentage*. (65)
- Control.** Taking actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning that will help future decision making. (10)
- Control chart.** Graph of a series of successive observations of a particular step, procedure, or operation taken at regular intervals of time. Each observation is plotted relative to specified ranges that represent the limits within which observations are expected to fall. (675)
- Controllability.** Degree of influence that a specific manager has over costs, revenues, or related items for which he or she is responsible. (200)
- Controllable cost.** Any cost that is primarily subject to the influence of a given responsibility center manager for a given period. (200)
- Controller.** The financial executive primarily responsible for management accounting and financial accounting. Also called *chief accounting officer*. (13)
- Conversion costs.** All manufacturing costs other than direct material costs. (43)
- Cost.** Resource sacrificed or forgone to achieve a specific objective. (27)
- Cost accounting.** Measures, analyzes, and reports financial and nonfinancial information relating to the costs of acquiring or using resources in an organization. It provides information for both management accounting and financial accounting. (4)
- Cost Accounting Standards Board (CASB).** Government agency that has the exclusive authority to make, put into effect, amend, and rescind cost accounting standards and interpretations thereof designed to achieve uniformity and consistency in regard to measurement, assignment, and allocation of costs to government contracts within the United States. (559)
- Cost accumulation.** Collection of cost data in some organized way by means of an accounting system. (28)
- Cost allocation.** Assignment of indirect costs to a particular cost object. (29)
- Cost-allocation base.** A factor that links in a systematic way an indirect cost or group of indirect costs to a cost object. (100)
- Cost-application base.** Cost-allocation base when the cost object is a job, product, or customer. (100)
- Cost assignment.** General term that encompasses both (1) tracing accumulated costs that have a direct relationship to a cost object and (2) allocating accumulated costs that have an indirect relationship to a cost object. (29)
- Cost-benefit approach.** Approach to decision-making and resource allocation based on a comparison of the expected benefits from attaining company goals and the expected costs. (12)
- Cost center.** Responsibility center where the manager is accountable for costs only. (199)
- Cost driver.** A variable, such as the level of activity or volume, that causally affects costs over a given time span. (32)

Cost estimation. The attempt to measure a past relationship based on data from past costs and the related level of an activity. (344)

Cost function. Mathematical description of how a cost changes with changes in the level of an activity relating to that cost. (341)

Cost hierarchy. Categorization of indirect costs into different cost pools on the basis of the different types of cost drivers, or cost-allocation bases, or different degrees of difficulty in determining cause-and-effect (or benefits received) relationships. (149)

Cost incurrence. Describes when a resource is consumed (or benefit forgone) to meet a specific objective. (442)

Cost leadership. Organization's ability to achieve lower costs relative to competitors through productivity and efficiency improvements, elimination of waste, and tight cost control. (468)

Cost management. The approaches and activities of managers to use resources to increase value to customers and to achieve organizational goals. (4)

Cost object. Anything for which a measurement of costs is desired. (27)

Cost of capital. See *required rate of return (RRR)*. (742)

Cost of goods manufactured. Cost of goods brought to completion, whether they were started before or during the current accounting period. (41)

Cost pool. A grouping of individual cost items. (100)

Cost predictions. Forecasts about future costs. (344)

Cost tracing. Describes the assignment of direct costs to a particular cost object. (28)

Costs of quality (COQ). Costs incurred to prevent, or the costs arising as a result of, the production of a low-quality product. (672)

Cost-volume-profit (CVP) analysis. Examines the behavior of total revenues, total costs, and operating income as changes occur in the units sold, the selling price, the variable cost per unit, or the fixed costs of a product. (63)

Cumulative average-time learning model. Learning curve model in which the cumulative average time per unit declines by a constant percentage each time the cumulative quantity of units produced doubles. (359)

Current cost. Asset measure based on the cost of purchasing an asset today identical to the one currently held, or the cost of purchasing an asset that provides services like the one currently held if an identical asset cannot be purchased. (815)

Customer-cost hierarchy. Hierarchy that categorizes costs related to customers into different cost pools on the basis of different types of cost drivers, or cost-allocation bases, or different degrees of difficulty in determining cause-and-effect or benefits-received relationships. (511)

Customer life-cycle costs. Focuses on the total costs incurred by a customer to acquire, use, maintain, and dispose of a product or service. (449)

Customer-profitability analysis. The reporting and analysis of revenues earned from customers and the costs incurred to earn those revenues. (510)

Customer-response time. Duration from the time a customer places an order for a product or service to the time the product or service is delivered to the customer. (681)

Customer service. Providing after-sale support to customers. (6)

Decentralization. The freedom for managers at lower levels of the organization to make decisions. (777)

Decision model. Formal method for making a choice, often involving both quantitative and qualitative analyses. (391)

Decision table. Summary of the alternative actions, events, outcomes, and probabilities of events in a decision model. (85)

Degree of operating leverage. Contribution margin divided by operating income at any given level of sales. (76)

Denominator level. The denominator in the budgeted fixed overhead rate computation. (266)

Denominator-level variance. See *production-volume variance*. (272)

Dependent variable. The cost to be predicted. (348)

Design of products and processes. The detailed planning and engineering of products and processes. (6)

Design quality. Refers to how closely the characteristics of a product or service meet the needs and wants of customers. (672)

Designed-in costs. See *locked-in costs*. (442)

Diagnostic control systems. Lever of control that monitors critical performance variables that help managers track progress toward achieving a company's strategic goals. Managers are held accountable for meeting these goals. (826)

Differential cost. Difference in total cost between two alternatives. (399)

Differential revenue. Difference in total revenue between two alternatives. (399)

Direct costing. See *variable costing*. (302)

Direct costs of a cost object. Costs related to the particular cost object that can be traced to that object in an economically feasible (cost-effective) way. (28)

Direct manufacturing labor costs. Include the compensation of all manufacturing labor that can be traced to the cost object (work in process and then finished goods) in an economically feasible way. (37)

Direct material costs. Acquisition costs of all materials that eventually become part of the cost object (work in process and then finished goods), and that can be traced to the cost object in an economically feasible way. (37)

Direct materials inventory. Direct materials in stock and awaiting use in the manufacturing process. (37)

Direct materials mix variance. The difference between (1) budgeted cost for actual mix of the actual total quantity of direct materials used and (2) budgeted cost of budgeted mix of the actual total quantity of direct materials used. (527)

Direct materials yield variance. The difference between (1) budgeted cost of direct materials based on the actual total quantity of direct materials used and (2) flexible-budget cost of direct materials based on the budgeted total quantity of direct materials allowed for the actual output produced. (527)

Direct method. Cost allocation method that allocates each support department's costs to operating departments only. (550)

Discount rate. See *required rate of return (RRR)*. (742)

- Discounted cash flow (DCF) methods.** Capital budgeting methods that measure all expected future cash inflows and outflows of a project as if they occurred at the present point in time. (741)
- Discounted payback method.** Capital budgeting method that calculates the amount of time required for the discounted expected future cash flows to recoup the net initial investment in a project. (748)
- Discretionary costs.** Arise from periodic (usually annual) decisions regarding the maximum amount to be incurred and have no measurable cause-and-effect relationship between output and resources used. (486)
- Distribution.** Delivering products or services to customers. (6)
- Downsizing.** An integrated approach of configuring processes, products, and people to match costs to the activities that need to be performed to operate effectively and efficiently in the present and future. Also called *rightsizing*. (487)
- Downward demand spiral.** Pricing context where prices are raised to spread capacity costs over a smaller number of output units. Continuing reduction in the demand for products that occurs when the prices of competitors' products are not met and, as demand drops further, higher and higher unit costs result in more and more reluctance to meet competitors' prices. (317)
- Dual pricing.** Approach to transfer pricing using two separate transfer-pricing methods to price each transfer from one subunit to another. (789)
- Dual-rate method.** Allocation method that classifies costs in each cost pool into two pools (a variable-cost pool and a fixed-cost pool) with each pool using a different cost-allocation base. (544)
- Dumping.** Under U.S. laws, it occurs when a non-U.S. company sells a product in the United States at a price below the market value in the country where it is produced, and this lower price materially injures or threatens to materially injure an industry in the United States. (452)
- Dysfunctional decision making.** See *suboptimal decision making*. (778)
- Economic order quantity (EOQ).** Decision model that calculates the optimal quantity of inventory to order under a set of assumptions. (704)
- Economic value added (EVA®).** After-tax operating income minus the (after-tax) weighted-average cost of capital multiplied by total assets minus current liabilities. (812)
- Effectiveness.** The degree to which a predetermined objective or target is met. (243)
- Efficiency.** The relative amount of inputs used to achieve a given output level. (243)
- Efficiency variance.** The difference between actual input quantity used and budgeted input quantity allowed for actual output, multiplied by budgeted price. Also called *usage variance*. (236)
- Effort.** Exertion toward achieving a goal. (776)
- Engineered costs.** Costs that result from a cause-and-effect relationship between the cost driver, output, and the (direct or indirect) resources used to produce that output. (486)
- Equivalent units.** Derived amount of output units that (a) takes the quantity of each input (factor of production) in units completed and in incomplete units of work in process and (b) converts the quantity of input into the amount of completed output units that could be produced with that quantity of input. (611)
- Event.** A possible relevant occurrence in a decision model. (84)
- Expected monetary value.** See *expected value*. (85)
- Expected value.** Weighted average of the outcomes of a decision with the probability of each outcome serving as the weight. Also called *expected monetary value*. (85)
- Experience curve.** Function that measures the decline in cost per unit in various business functions of the value chain, such as manufacturing, marketing, distribution, and so on, as the amount of these activities increases. (358)
- External failure costs.** Costs incurred on defective products after they are shipped to customers. (673)
- Facility-sustaining costs.** The costs of activities that cannot be traced to individual products or services but support the organization as a whole. (149)
- Factory overhead costs.** See *indirect manufacturing costs*. (37)
- Favorable variance.** Variance that has the effect of increasing operating income relative to the budgeted amount. Denoted F. (229)
- Finance director.** See *chief financial officer (CFO)*. (13)
- Financial accounting.** Measures and records business transactions and provides financial statements that are based on generally accepted accounting principles. It focuses on reporting to external parties such as investors and banks. (3)
- Financial budget.** Part of the master budget that focuses on how operations and planned capital outlays affect cash. It is made up of the capital expenditures budget, the cash budget, the budgeted balance sheet, and the budgeted statement of cash flows. (189)
- Financial planning models.** Mathematical representations of the relationships among operating activities, financial activities, and other factors that affect the master budget. (197)
- Finished goods inventory.** Goods completed but not yet sold. (37)
- First-in, first-out (FIFO) process-costing method.** Method of process costing that assigns the cost of the previous accounting period's equivalent units in beginning work-in-process inventory to the first units completed and transferred out of the process, and assigns the cost of equivalent units worked on during the current period first to complete beginning inventory, next to start and complete new units, and finally to units in ending work-in-process inventory. (617)
- Fixed cost.** Cost that remains unchanged in total for a given time period, despite wide changes in the related level of total activity or volume. (30)
- Fixed overhead flexible-budget variance.** The difference between actual fixed overhead costs and fixed overhead costs in the flexible budget. (271)
- Fixed overhead spending variance.** Same as the fixed overhead flexible-budget variance. The difference between actual fixed overhead costs and fixed overhead costs in the flexible budget. (271)

Flexible budget. Budget developed using budgeted revenues and budgeted costs based on the actual output in the budget period. (230)

Flexible-budget variance. The difference between an actual result and the corresponding flexible-budget amount based on the actual output level in the budget period. (231)

Full costs of the product. The sum of all variable and fixed costs in all business functions of the value chain (R&D, design, production, marketing, distribution, and customer service). (395)

Goal congruence. Exists when individuals and groups work toward achieving the organization's goals. Managers working in their own best interest take actions that align with the overall goals of top management. (776)

Gross margin percentage. Gross margin divided by revenues. (82)

Growth component. Change in operating income attributable solely to the change in the quantity of output sold between one period and the next. (479)

High-low method. Method used to estimate a cost function that uses only the highest and lowest observed values of the cost driver within the relevant range and their respective costs. (350)

Homogeneous cost pool. Cost pool in which all the costs have the same or a similar cause-and-effect or benefits-received relationship with the cost-allocation base. (509)

Hurdle rate. See *required rate of return (RRR)*. (742)

Hybrid-costing system. Costing system that blends characteristics from both job-costing systems and process-costing systems. (626)

Idle time. Wages paid for unproductive time caused by lack of orders, machine breakdowns, material shortages, poor scheduling, and the like. (45)

Imputed costs. Costs recognized in particular situations but not incorporated in financial accounting records. (810)

Incongruent decision making. See *suboptimal decision making*. (778)

Incremental cost. Additional total cost incurred for an activity. (399)

Incremental cost-allocation method. Method that ranks the individual users of a cost object in the order of users most responsible for the common cost and then uses this ranking to allocate cost among those users. (557)

Incremental revenue. Additional total revenue from an activity. (399)

Incremental revenue-allocation method. Method that ranks individual products in a bundle according to criteria determined by management (for example, sales), and then uses this ranking to allocate bundled revenues to the individual products. (562)

Incremental unit-time learning model. Learning curve model in which the incremental time needed to produce the last unit declines by a constant percentage each time the cumulative quantity of units produced doubles. (360)

Independent variable. Level of activity or cost driver used to predict the dependent variable (costs) in a cost estimation or prediction model. (348)

Indirect costs of a cost object. Costs related to the particular cost object that cannot be traced to that object in an economically feasible (cost-effective) way. (28)

Indirect manufacturing costs. All manufacturing costs that are related to the cost object (work in process and then finished goods) but that cannot be traced to that cost object in an economically feasible way. Also called *manufacturing overhead costs* and *factory overhead costs*. (37)

Industrial engineering method. Approach to cost function estimation that analyzes the relationship between inputs and outputs in physical terms. Also called *work measurement method*. (346)

Inflation. The decline in the general purchasing power of the monetary unit, such as dollars. (762)

Input-price variance. See *price variance*. (236)

Insourcing. Process of producing goods or providing services within the organization rather than purchasing those same goods or services from outside vendors. (397)

Inspection point. Stage of the production process at which products are examined to determine whether they are acceptable or unacceptable units. (647)

Interactive control systems. Formal information systems that managers use to focus organization attention and learning on key strategic issues. (827)

Intercept. See *constant*. (343)

Intermediate product. Product transferred from one subunit to another subunit of an organization. This product may either be further worked on by the receiving subunit or sold to an external customer. (780)

Internal failure costs. Costs incurred on defective products before they are shipped to customers. (673)

Internal rate-of-return (IRR) method. Capital budgeting discounted cash flow (DCF) method that calculates the discount rate at which the present value of expected cash inflows from a project equals the present value of its expected cash outflows. (743)

Inventoriable costs. All costs of a product that are considered as assets in the balance sheet when they are incurred and that become cost of goods sold only when the product is sold. (37)

Inventory management. Planning, coordinating, and controlling activities related to the flow of inventory into, through, and out of an organization. (703)

Investment. Resources or assets used to generate income. (808)

Investment center. Responsibility center where the manager is accountable for investments, revenues, and costs. (199)

Job. A unit or multiple units of a distinct product or service. (100)

Job-cost record. Source document that records and accumulates all the costs assigned to a specific job, starting when work begins. Also called *job-cost sheet*. (104)

Job-cost sheet. See *job-cost record*. (104)

Job-costing system. Costing system in which the cost object is a unit or multiple units of a distinct product or service called a job. (100)

- Joint costs.** Costs of a production process that yields multiple products simultaneously. (577)
- Joint products.** Two or more products that have high total sales values compared with the total sales values of other products yielded by a joint production process. (578)
- Just-in-time (JIT) production.** Demand-pull manufacturing system in which each component in a production line is produced as soon as, and only when, needed by the next step in the production line. Also called *lean production*. (715)
- Just-in-time (JIT) purchasing.** The purchase of materials (or goods) so that they are delivered just as needed for production (or sales). (711)
- Kaizen budgeting.** Budgetary approach that explicitly incorporates continuous improvement anticipated during the budget period into the budget numbers. (203)
- Labor-time sheet.** Source document that contains information about the amount of labor time used for a specific job in a specific department. (106)
- Lean accounting.** Costing method that supports creating value for the customer by costing the entire value stream, not individual products or departments, thereby eliminating waste in the accounting process. (727)
- Lean production.** See *just-in-time (JIT) production*. (715)
- Learning.** Involves managers examining past performance and systematically exploring alternative ways to make better-informed decisions and plans in the future. (10)
- Learning curve.** Function that measures how labor-hours per unit decline as units of production increase because workers are learning and becoming better at their jobs. (358)
- Life-cycle budgeting.** Budget that estimates the revenues and business function costs of the value chain attributable to each product from initial R&D to final customer service and support. (448)
- Life-cycle costing.** System that tracks and accumulates business function costs of the value chain attributable to each product from initial R&D to final customer service and support. (448)
- Line management.** Managers (for example, in production, marketing, or distribution) who are directly responsible for attaining the goals of the organization. (13)
- Linear cost function.** Cost function in which the graph of total costs versus the level of a single activity related to that cost is a straight line within the relevant range. (342)
- Linear programming (LP).** Optimization technique used to maximize an objective function (for example, contribution margin of a mix of products), when there are multiple constraints. (417)
- Locked-in costs.** Costs that have not yet been incurred but, based on decisions that have already been made, will be incurred in the future. Also called *designed-in costs*. (442)
- Main product.** Product from a joint production process that has a high total sales value compared with the total sales values of all other products of the joint production process. (578)
- Make-or-buy decisions.** Decisions about whether a producer of goods or services will insource (produce goods or services within the firm) or outsource (purchase them from outside vendors). (397)
- Management accounting.** Measures, analyzes, and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization. It focuses on internal reporting. (4)
- Management by exception.** Practice of focusing management attention on areas not operating as expected and giving less attention to areas operating as expected. (227)
- Management control system.** Means of gathering and using information to aid and coordinate the planning and control decisions throughout an organization and to guide the behavior of its managers and employees. (775)
- Manufacturing cells.** Grouping of all the different types of equipment used to make a given product. (715)
- Manufacturing cycle efficiency (MCE).** Value-added manufacturing time divided by manufacturing cycle time. (681)
- Manufacturing cycle time.** See *manufacturing lead time*. (681)
- Manufacturing lead time.** Duration between the time an order is received by manufacturing to the time a finished good is produced. Also called *manufacturing cycle time*. (681)
- Manufacturing overhead allocated.** Amount of manufacturing overhead costs allocated to individual jobs, products, or services based on the budgeted rate multiplied by the actual quantity used of the cost-allocation base. Also called *manufacturing overhead applied*. (113)
- Manufacturing overhead applied.** See *manufacturing overhead allocated*. (113)
- Manufacturing overhead costs.** See *indirect manufacturing costs*. (37)
- Manufacturing-sector companies.** Companies that purchase materials and components and convert them into various finished goods. (36)
- Margin of safety.** Amount by which budgeted (or actual) revenues exceed breakeven revenues. (74)
- Marketing.** Promoting and selling products or services to customers or prospective customers. (6)
- Market-share variance.** The difference in budgeted contribution margin for actual market size in units caused solely by actual market share being different from budgeted market share. (249)
- Market-size variance.** The difference in budgeted contribution margin at the budgeted market share caused solely by actual market size in units being different from budgeted market size in units. (249)
- Master budget.** Expression of management's operating and financial plans for a specified period (usually a fiscal year) including a set of budgeted financial statements. Also called *pro forma statements*. (185)
- Master-budget capacity utilization.** The expected level of capacity utilization for the current budget period (typically one year). (315)
- Materials requirements planning (MRP).** Push-through system that manufactures finished goods for inventory on the basis of demand forecasts. (714)
- Materials-requisition record.** Source document that contains information about the cost of direct materials used on a specific job and in a specific department. (105)
- Matrix method.** See *reciprocal method*. (554)

Merchandising-sector companies. Companies that purchase and then sell tangible products without changing their basic form. (36)

Mixed cost. A cost that has both fixed and variable elements. Also called a *semivariable cost*. (343)

Moral hazard. Describes situations in which an employee prefers to exert less effort (or to report distorted information) compared with the effort (or accurate information) desired by the owner because the employee's effort (or validity of the reported information) cannot be accurately monitored and enforced. (822)

Motivation. The desire to attain a selected goal (the goal-congruence aspect) combined with the resulting pursuit of that goal (the effort aspect). (776)

Multicollinearity. Exists when two or more independent variables in a multiple regression model are highly correlated with each other. (374)

Multiple regression. Regression model that estimates the relationship between the dependent variable and two or more independent variables. (352)

Net income. Operating income plus nonoperating revenues (such as interest revenue) minus nonoperating costs (such as interest cost) minus income taxes. (70)

Net present value (NPV) method. Capital budgeting discounted cash flow (DCF) method that calculates the expected monetary gain or loss from a project by discounting all expected future cash inflows and outflows to the present point in time, using the required rate of return. (742)

Net realizable value (NRV) method. Method that allocates joint costs to joint products on the basis of final sales value minus separable costs of total production of the joint products during the accounting period. (583)

Nominal rate of return. Made up of three elements: (a) a risk-free element when there is no expected inflation, (b) a business-risk element, and (c) an inflation element. (762)

Nonlinear cost function. Cost function in which the graph of total costs based on the level of a single activity is not a straight line within the relevant range. (357)

Nonvalue-added cost. A cost that, if eliminated, would not reduce the actual or perceived value or utility (usefulness) customers obtain from using the product or service. (442)

Normal capacity utilization. The level of capacity utilization that satisfies average customer demand over a period (say, two to three years) that includes seasonal, cyclical, and trend factors. (315)

Normal costing. A costing system that traces direct costs to a cost object by using the actual direct-cost rates times the actual quantities of the direct-cost inputs and that allocates indirect costs based on the budgeted indirect-cost rates times the actual quantities of the cost-allocation bases. (104)

Normal spoilage. Spoilage inherent in a particular production process that arises even under efficient operating conditions. (646)

Objective function. Expresses the objective to be maximized (for example, operating income) or minimized (for example, operating costs) in a decision model (for example, a linear programming model). (416)

On-time performance. Delivering a product or service by the time it is scheduled to be delivered. (682)

One-time-only special order. Orders that have no long-run implications. (394)

Operating budget. Budgeted income statement and its supporting budget schedules. (189)

Operating department. Department that directly adds value to a product or service. Also called a *production department* in manufacturing companies. (543)

Operating income. Total revenues from operations minus cost of goods sold and operating costs (excluding interest expense and income taxes). (42)

Operating-income volume variance. The difference between static-budget operating income and the operating income based on budgeted profit per unit and actual units of output. (281)

Operating leverage. Effects that fixed costs have on changes in operating income as changes occur in units sold and hence in contribution margin. (76)

Operation. A standardized method or technique that is performed repetitively, often on different materials, resulting in different finished goods. (626)

Operation-costing system. Hybrid-costing system applied to batches of similar, but not identical, products. Each batch of products is often a variation of a single design, and it proceeds through a sequence of operations, but each batch does not necessarily move through the same operations as other batches. Within each operation, all product units use identical amounts of the operation's resources. (626)

Opportunity cost. The contribution to operating income that is forgone or rejected by not using a limited resource in its next-best alternative use. (402)

Opportunity cost of capital. See *required rate of return (RRR)*. (742)

Ordering costs. Costs of preparing, issuing, and paying purchase orders, plus receiving and inspecting the items included in the orders. (704)

Organization structure. Arrangement of lines of responsibility within the organization. (199)

Outcomes. Predicted economic results of the various possible combinations of actions and events in a decision model. (85)

Output unit-level costs. The costs of activities performed on each individual unit of a product or service. (149)

Outsourcing. Process of purchasing goods and services from outside vendors rather than producing the same goods or providing the same services within the organization. (397)

Overabsorbed indirect costs. See *overallocated indirect costs*. (118)

Overallocated indirect costs. Allocated amount of indirect costs in an accounting period is greater than the actual (incurred) amount in that period. Also called *overapplied indirect costs* and *overabsorbed indirect costs*. (118)

Overapplied indirect costs. See *overallocated indirect costs*. (118)

Overtime premium. Wage rate paid to workers (for both direct labor and indirect labor) in excess of their straight-time wage rates. (44)

Pareto diagram. Chart that indicates how frequently each type of defect occurs, ordered from the most frequent to the least frequent. (676)

- Partial productivity.** Measures the quantity of output produced divided by the quantity of an individual input used. (493)
- Payback method.** Capital budgeting method that measures the time it will take to recoup, in the form of expected future cash flows, the net initial investment in a project. (746)
- Peak-load pricing.** Practice of charging a higher price for the same product or service when the demand for it approaches the physical limit of the capacity to produce that product or service. (450)
- Perfectly competitive market.** Exists when there is a homogeneous product with buying prices equal to selling prices and no individual buyers or sellers can affect those prices by their own actions. (784)
- Period costs.** All costs in the income statement other than cost of goods sold. (38)
- Physical-measure method.** Method that allocates joint costs to joint products on the basis of the relative weight, volume, or other physical measure at the splitoff point of total production of these products during the accounting period. (582)
- Planning.** Selecting organization goals, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to attain them to the entire organization. (10)
- Practical capacity.** The level of capacity that reduces theoretical capacity by unavoidable operating interruptions such as scheduled maintenance time, shutdowns for holidays, and so on. (315)
- Predatory pricing.** Company deliberately prices below its costs in an effort to drive out competitors and restrict supply and then raises prices rather than enlarge demand. (451)
- Prevention costs.** Costs incurred to preclude the production of products that do not conform to specifications. (673)
- Previous-department costs.** See *transferred-in costs*. (621)
- Price discount.** Reduction in selling price below list selling price to encourage increases in customer purchases. (511)
- Price discrimination.** Practice of charging different customers different prices for the same product or service. (450)
- Price-recovery component.** Change in operating income attributable solely to changes in prices of inputs and outputs between one period and the next. (479)
- Price variance.** The difference between actual price and budgeted price multiplied by actual quantity of input. Also called *input-price variance* or *rate variance*. (236)
- Prime costs.** All direct manufacturing costs. (43)
- Pro forma statements.** Budgeted financial statements. (185)
- Probability.** Likelihood or chance that an event will occur. (84)
- Probability distribution.** Describes the likelihood (or the probability) that each of the mutually exclusive and collectively exhaustive set of events will occur. (84)
- Process-costing system.** Costing system in which the cost object is masses of identical or similar units of a product or service. (101)
- Product.** Any output that has a positive total sales value (or an output that enables an organization to avoid incurring costs). (578)
- Product cost.** Sum of the costs assigned to a product for a specific purpose. (45)
- Product-cost cross-subsidization.** Costing outcome where one undercosted (overcosted) product results in at least one other product being overcosted (undercosted). (140)
- Product differentiation.** Organization's ability to offer products or services perceived by its customers to be superior and unique relative to the products or services of its competitors. (468)
- Product life cycle.** Spans the time from initial R&D on a product to when customer service and support is no longer offered for that product. (447)
- Product-mix decisions.** Decisions about which products to sell and in what quantities. (405)
- Product overcosting.** A product consumes a low level of resources but is reported to have a high cost per unit. (140)
- Product-sustaining costs.** The costs of activities undertaken to support individual products regardless of the number of units or batches in which the units are produced. (149)
- Product undercosting.** A product consumes a high level of resources but is reported to have a low cost per unit. (140)
- Production.** Acquiring, coordinating, and assembling resources to produce a product or deliver a service. (6)
- Production-denominator level.** The denominator in the budgeted manufacturing fixed overhead rate computation. (266)
- Production department.** See *operating department*. (543)
- Production-volume variance.** The difference between budgeted fixed overhead and fixed overhead allocated on the basis of actual output produced. Also called *denominator-level variance*. (272)
- Productivity.** Measures the relationship between actual inputs used (both quantities and costs) and actual outputs produced; the lower the inputs for a given quantity of outputs or the higher the outputs for a given quantity of inputs, the higher the productivity. (492)
- Productivity component.** Change in costs attributable to a change in the quantity of inputs used in the current period relative to the quantity of inputs that would have been used in the prior period to produce the quantity of current period output. (479)
- Profit center.** Responsibility center where the manager is accountable for revenues and costs. (199)
- Proration.** The spreading of underallocated manufacturing overhead or overallocated manufacturing overhead among ending work in process, finished goods, and cost of goods sold. (119)
- Purchase-order lead time.** The time between placing an order and its delivery. (704)
- Purchasing costs.** Cost of goods acquired from suppliers including incoming freight or transportation costs. (703)
- PV graph.** Shows how changes in the quantity of units sold affect operating income. (70)
- Qualitative factors.** Outcomes that are difficult to measure accurately in numerical terms. (394)
- Quality.** The total features and characteristics of a product made or a service performed according to specifications to satisfy customers at the time of purchase and during use. (671)
- Quantitative factors.** Outcomes that are measured in numerical terms. (394)
- Rate variance.** See *price variance*. (236)

Real rate of return. The rate of return demanded to cover investment risk (with no inflation). It has a risk-free element and a business-risk element. (762)

Reciprocal method. Cost allocation method that fully recognizes the mutual services provided among all support departments. Also called *matrix method*. (553)

Reengineering. The fundamental rethinking and redesign of business processes to achieve improvements in critical measures of performance, such as cost, quality, service, speed, and customer satisfaction. (469)

Refined costing system. Costing system that reduces the use of broad averages for assigning the cost of resources to cost objects (jobs, products, services) and provides better measurement of the costs of indirect resources used by different cost objects—no matter how differently various cost objects use indirect resources. (145)

Regression analysis. Statistical method that measures the average amount of change in the dependent variable associated with a unit change in one or more independent variables. (352)

Relevant costs. Expected future costs that differ among alternative courses of action being considered. (393)

Relevant range. Band of normal activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question. (33)

Relevant revenues. Expected future revenues that differ among alternative courses of action being considered. (393)

Reorder point. The quantity level of inventory on hand that triggers a new purchase order. (707)

Required rate of return (RRR). The minimum acceptable annual rate of return on an investment. Also called the *discount rate*, *hurdle rate*, *cost of capital*, or *opportunity cost of capital*. (742)

Research and development. Generating and experimenting with ideas related to new products, services, or processes. (6)

Residual income (RI). Accounting measure of income minus a dollar amount for required return on an accounting measure of investment. (810)

Residual term. The vertical difference or distance between actual cost and estimated cost for each observation in a regression model. (352)

Responsibility accounting. System that measures the plans, budgets, actions, and actual results of each responsibility center. (199)

Responsibility center. Part, segment, or subunit of an organization whose manager is accountable for a specified set of activities. (199)

Return on investment (ROI). An accounting measure of income divided by an accounting measure of investment. See also *accrual accounting rate of return method*. (809)

Revenue allocation. The allocation of revenues that are related to a particular revenue object but cannot be traced to it in an economically feasible (cost-effective) way. (561)

Revenue center. Responsibility center where the manager is accountable for revenues only. (199)

Revenue driver. A variable, such as volume, that causally affects revenues. (68)

Revenue object. Anything for which a separate measurement of revenue is desired. (561)

Revenues. Inflows of assets (usually cash or accounts receivable) received for products or services provided to customers. (38)

Rework. Units of production that do not meet the specifications required by customers for finished units that are subsequently repaired and sold as good finished units. (645)

Rightsizing. See *downsizing*. (487)

Rolling budget. Budget or plan that is always available for a specified future period by adding a period (month, quarter, or year) to the period that just ended. Also called *continuous budget*. (188)

Safety stock. Inventory held at all times regardless of the quantity of inventory ordered using the EOQ model. (707)

Sales mix. Quantities of various products or services that constitute total unit sales. (77)

Sales-mix variance. The difference between (1) budgeted contribution margin for the actual sales mix, and (2) budgeted contribution margin for the budgeted sales mix. (521)

Sales-quantity variance. The difference between (1) budgeted contribution margin based on actual units sold of all products at the budgeted mix and (2) contribution margin in the static budget (which is based on the budgeted units of all products to be sold at the budgeted mix). (521)

Sales value at splitoff method. Method that allocates joint costs to joint products on the basis of the relative total sales value at the splitoff point of the total production of these products during the accounting period. (580)

Sales-volume variance. The difference between a flexible-budget amount and the corresponding static-budget amount. (231)

Scrap. Residual material left over when making a product. (645)

Selling-price variance. The difference between the actual selling price and the budgeted selling price multiplied by the actual units sold. (233)

Semivariable cost. See *mixed cost*. (343)

Sensitivity analysis. A what-if technique that managers use to calculate how an outcome will change if the original predicted data are not achieved or if an underlying assumption changes. (73)

Separable costs. All costs (manufacturing, marketing, distribution, and so on) incurred beyond the splitoff point that are assignable to each of the specific products identified at the splitoff point. (577)

Sequential allocation method. See *step-down method*. (552)

Sequential tracking. Approach in a product-costing system in which recording of the journal entries occurs in the same order as actual purchases and progress in production. (718)

Service department. See *support department*. (543)

Service-sector companies. Companies that provide services or intangible products to their customers. (36)

Service-sustaining costs. The costs of activities undertaken to support individual services. (149)

Shrinkage costs. Costs that result from theft by outsiders, embezzlement by employees, misclassifications, and clerical errors. (704)

Simple regression. Regression model that estimates the relationship between the dependent variable and one independent variable. (352)

- Single-rate method.** Allocation method that allocates costs in each cost pool to cost objects using the same rate per unit of a single allocation base. (544)
- Slope coefficient.** Coefficient term in a cost estimation model that indicates the amount by which total cost changes when a one-unit change occurs in the level of activity within the relevant range. (342)
- Source document.** An original record that supports journal entries in an accounting system. (104)
- Specification analysis.** Testing of the assumptions of regression analysis. (369)
- Splitoff point.** The juncture in a joint-production process when two or more products become separately identifiable. (577)
- Spoilage.** Units of production that do not meet the specifications required by customers for good units and that are discarded or sold at reduced prices. (645)
- Staff management.** Staff (such as management accountants and human resources managers) who provide advice and assistance to line management. (13)
- Stand-alone cost-allocation method.** Method that uses information pertaining to each user of a cost object as a separate entity to determine the cost-allocation weights. (557)
- Stand-alone revenue-allocation method.** Method that uses product-specific information on the products in the bundle as weights for allocating the bundled revenues to the individual products. (561)
- Standard.** A carefully determined price, cost, or quantity that is used as a benchmark for judging performance. It is usually expressed on a per unit basis. (234)
- Standard cost.** A carefully determined cost of a unit of output. (235)
- Standard costing.** Costing system that traces direct costs to output produced by multiplying the standard prices or rates by the standard quantities of inputs allowed for actual outputs produced and allocates overhead costs on the basis of the standard overhead-cost rates times the standard quantities of the allocation bases allowed for the actual outputs produced. (264)
- Standard error of the estimated coefficient.** Regression statistic that indicates how much the estimated value of the coefficient is likely to be affected by random factors. (368)
- Standard error of the regression.** Statistic that measures the variance of residuals in a regression analysis. (368)
- Standard input.** A carefully determined quantity of input required for one unit of output. (235)
- Standard price.** A carefully determined price that a company expects to pay for a unit of input. (235)
- Static budget.** Budget based on the level of output planned at the start of the budget period. (229)
- Static-budget variance.** Difference between an actual result and the corresponding budgeted amount in the static budget. (229)
- Step cost function.** A cost function in which the cost remains the same over various ranges of the level of activity, but the cost increases by discrete amounts (that is, increases in steps) as the level of activity changes from one range to the next. (357)
- Step-down method.** Cost allocation method that partially recognizes the mutual services provided among all support departments. Also called *sequential allocation method*. (552)
- Stockout costs.** Costs that result when a company runs out of a particular item for which there is customer demand. The company must act to meet that demand or suffer the costs of not meeting it. (704)
- Strategic cost management.** Describes cost management that specifically focuses on strategic issues. (5)
- Strategy.** Specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives. (5)
- Strategy map.** A diagram that describes how an organization creates value by connecting strategic objectives in explicit cause-and-effect relationships with each other in the financial, customer, internal business process, and learning and growth perspectives. (471)
- Suboptimal decision making.** Decisions in which the benefit to one subunit is more than offset by the costs or loss of benefits to the organization as a whole. Also called *incongruent decision making* or *dysfunctional decision making*. (778)
- Sunk costs.** Past costs that are unavoidable because they cannot be changed no matter what action is taken. (393)
- Super-variable costing.** See *throughput costing*. (312)
- Supply chain.** Describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers, regardless of whether those activities occur in the same organization or in other organizations. (7)
- Support department.** Department that provides the services that assist other internal departments (operating departments and other support departments) in the company. Also called a *service department*. (543)
- Target cost per unit.** Estimated long-run cost per unit of a product or service that enables the company to achieve its target operating income per unit when selling at the target price. Target cost per unit is derived by subtracting the target operating income per unit from the target price. (440)
- Target operating income per unit.** Operating income that a company aims to earn per unit of a product or service sold. (440)
- Target price.** Estimated price for a product or service that potential customers will pay. (439)
- Target rate of return on investment.** The target annual operating income that an organization aims to achieve divided by invested capital. (446)
- Theoretical capacity.** The level of capacity based on producing at full efficiency all the time. (314)
- Theory of constraints (TOC).** Describes methods to maximize operating income when faced with some bottleneck and some nonbottleneck operations. (686)
- Throughput costing.** Method of inventory costing in which only variable direct material costs are included as inventoriable costs. Also called *super-variable costing*. (312)
- Throughput margin.** Revenues minus the direct material costs of the goods sold. (686)

Time driver. Any factor in which a change in the factor causes a change in the speed of an activity. (682)

Time value of money. Takes into account that a dollar (or any other monetary unit) received today is worth more than a dollar received at any future time. (741)

Total factor productivity (TFP). The ratio of the quantity of output produced to the costs of all inputs used, based on current period prices. (494)

Total-overhead variance. The sum of the flexible-budget variance and the production-volume variance. (278)

Transfer price. Price one subunit (department or division) charges for a product or service supplied to another subunit of the same organization. (780)

Transferred-in costs. Costs incurred in previous departments that are carried forward as the product's costs when it moves to a subsequent process in the production cycle. Also called *previous department costs*. (621)

Trigger point. Refers to a stage in the cycle from purchase of direct materials to sale of finished goods at which journal entries are made in the accounting system. (719)

Uncertainty. The possibility that an actual amount will deviate from an expected amount. (75)

Underabsorbed indirect costs. See *underallocated indirect costs*. (118)

Underallocated indirect costs. Allocated amount of indirect costs in an accounting period is less than the actual (incurred) amount in that period. Also called *underapplied indirect costs* or *underabsorbed indirect costs*. (118)

Underapplied indirect costs. See *underallocated indirect costs*. (118)

Unfavorable variance. Variance that has the effect of decreasing operating income relative to the budgeted amount. Denoted U. (230)

Unit cost. Cost computed by dividing total cost by the number of units. Also called *average cost*. (35)

Unused capacity. The amount of productive capacity available over and above the productive capacity employed to meet consumer demand in the current period. (486)

Usage variance. See *efficiency variance*. (236)

Value-added cost. A cost that, if eliminated, would reduce the actual or perceived value or utility (usefulness) customers obtain from using the product or service. (442)

Value chain. The sequence of business functions in which customer usefulness is added to products or services of a company. (6)

Value engineering. Systematic evaluation of all aspects of the value chain, with the objective of reducing costs and achieving a quality level that satisfies customers. (441)

Value streams. All valued-added activities needed to design, manufacture, and deliver a given product or product line to customers. (726)

Variable cost. Cost that changes in total in proportion to changes in the related level of total activity or volume. (30)

Variable costing. Method of inventory costing in which only all variable manufacturing costs are included as inventoriable costs. Also called *direct costing*. (301)

Variable overhead efficiency variance. The difference between the actual quantity of variable overhead cost-allocation base used and budgeted quantity of variable overhead cost-allocation base that should have been used to produce actual output, multiplied by budgeted variable overhead cost per unit of cost-allocation base. (267)

Variable overhead flexible-budget variance. The difference between actual variable overhead costs incurred and flexible-budget variable overhead amounts. (267)

Variable overhead spending variance. The difference between actual variable overhead cost per unit and budgeted variable overhead cost per unit of the cost-allocation base, multiplied by actual quantity of variable overhead cost-allocation base used for actual output. (269)

Variance. The difference between actual result and expected performance. (227)

Weighted-average process-costing method. Method of process costing that assigns the equivalent-unit cost of the work done to date (regardless of the accounting period in which it was done) to equivalent units completed and transferred out of the process and to equivalent units in ending work-in-process inventory. (614)

Whale curve. A typically backward-bending curve that represents the results from customer profitability analysis by first ranking customers from best to worst and then plotting their cumulative profitability level. (516)

Work-in-process inventory. Goods partially worked on but not yet completed. Also called *work in progress*. (37)

Work in progress. See *work-in-process inventory*. (37)

Work-measurement method. See *industrial engineering method*. (346)