

ABC see activity-based costing

ABM see activity-based management

abnormal loss a decline in units in excess of normal expectations during a production process

absorption costing a cost accumulation and reporting method that treats the costs of all manufacturing components (direct material, direct labor, variable overhead, and fixed overhead) as inventoriable or product costs; it is the traditional approach to product costing; it must be used for external financial statements and tax returns

accepted quality level (AQL) the maximum limit for the number of defects or errors in a process

accounting rate of return (ARR) the rate of earnings obtained on the average capital investment over the life of a capital project; computed as average annual profits divided by average investment; not based on cash flow

accretion an increase in units or volume caused by the addition of material or by factors inherent in the production process

activity a repetitive action performed in fulfillment of business functions

activity analysis the process of detailing the various repetitive actions that are performed in making a product or providing a service, classifying them as value-added and non-value-added, and devising ways of minimizing or eliminating non-value-added activities

activity-based budgeting (ABB) a planning approach applying activity drivers to estimate the levels and costs of activities necessary to provide the budgeted quantity and quality of production

activity-based costing (ABC) a process using multiple cost drivers to predict and allocate costs to products and services; an accounting system collecting financial and operational data on the basis of the underlying nature and extent of business activities; an accounting information and costing system that identifies the various activities performed in an organization, collects costs on the basis of the underlying nature and extent of those activities, and assigns costs to products and services based on consumption of those activities by the products and services

activity-based management (ABM) a discipline that focuses on the activities incurred during the production/performance process as the way to improve the value received by a customer and the resulting profit achieved by providing this value

activity center a segment of the production or service process for which management wants to separately report the costs of the activities performed

activity driver a measure of the demands on activities and, thus, the resources consumed by products and services; often indicates an activity's output

actual cost system a valuation method that uses actual direct material, direct labor, and overhead charges in determining the cost of Work in Process Inventory

ad hoc discount a price concession made under competitive pressure (real or imagined) that does not relate to quantity purchased

administrative department an organizational unit that performs management activities benefiting the entire organization; includes top management personnel and organization headquarters

algebraic method a process of service department cost allocation that considers all interrelationships of the departments and reflects these relationships in simultaneous equations

algorithm a logical step-by-step problem-solving technique (generally requiring the use of a computer) that continuously searches for an improved solution from the one previously computed until the best answer is determined

allocate assign based on the use of a cost driver, a cost predictor, or an arbitrary method

allocation the systematic assignment of an amount to a recipient set of categories

annuity a series of equal cash flows (either positive or negative) per period

annuity due a series of equal cash flows being received or paid at the beginning of a period

applied overhead the amount of overhead that has been assigned to Work in Process Inventory as a result of productive activity; credits for this amount are to an overhead account

appraisal cost a quality control cost incurred for monitoring or inspection; compensates for mistakes not eliminated through prevention activities

appropriation a budgeted maximum allowable expenditure

approximated net realizable value at split-off allocation a method of allocating joint cost to joint products using a simulated net realizable value at the split-off point; approximated value is computed as final sales price minus incremental separate costs

asset turnover a ratio measuring asset productivity and showing the number of sales dollars generated by each dollar of assets

attribute-based costing (ABC II) an extension of activity-based costing using cost-benefit analysis (based on increased customer utility) to choose the product attribute enhancements that the company wants to integrate into a product

authority the right (usually by virtue of position or rank) to use resources to accomplish a task or achieve an objective

autonomation the use of equipment that has been programmed to sense certain conditions

backflush costing a streamlined cost accounting method that speeds up, simplifies, and reduces accounting effort in an environment that minimizes inventory balances, requires few allocations, uses standard costs, and has minimal variances from standard

- balanced scorecard (BSC)** an approach to performance measurement that weighs performance measures from four perspectives: financial performance, an internal business perspective, a customer perspective, and an innovation and learning perspective
- bar code** a group of lines and spaces arranged in a special machine-readable pattern by which a scanner measures the intensity of the light reflections of the white spaces between the lines and converts the signal back into the original data
- batch-level cost** a cost that is caused by a group of things being made, handled, or processed at a single time
- benchmarking** the process of investigating how others do something better so that the investigating company can imitate, and possibly improve upon, their techniques
- benefits-provided ranking** a listing of service departments in an order that begins with the one providing the most service to all other corporate areas; the ranking ends with the service department providing service primarily to revenue-producing areas
- bill of materials** a document that contains information about the product materials components and their specifications (including quality and quantities needed)
- bottleneck** any object or facility whose processing speed is sufficiently slow to cause the other processing mechanisms in its network to experience idle time
- break-even chart** a graph that depicts the relationships among revenues, variable costs, fixed costs, and profits (or losses)
- break-even point (BEP)** the level of activity, in units or dollars, at which total revenues equal total costs
- budget** a financial plan for the future based on a single level of activity; the quantitative expression of a company's commitment to planned activities and resource acquisition and use
- budgeted cost** a planned expenditure
- budgeting** the process of formalizing plans and committing them to written, financial terms
- budget manual** a detailed set of documents that provides information and guidelines about the budgetary process
- budget slack** an intentional underestimation of revenues and/or overestimation of expenses in a budgeting process for the purpose of including deviations that are likely to occur so that results will occur within budget limits
- budget variance** the difference between total actual overhead and budgeted overhead based on standard hours allowed for the production achieved during the period; computed as part of two-variance overhead analysis; also referred to as the controllable variance
- build mission** a mission of increasing market share, even at the expense of short-term profits and cash flow; typically pursued by a business unit that has a small market share in a high-growth industry; appropriate for products that are in the early stages of the product life cycle
- business intelligence (BI) system** a formal process for gathering and analyzing information and producing intelligence to meet decision making needs; requires information about internal processes as well as knowledge, technologies, and competitors
- business process reengineering (BPR)** the process of combining information technology to create new and more effective business processes to lower costs, eliminate unnecessary work, upgrade customer service, and increase speed to market
- business-value-added activity** an activity that is necessary for the operation of the business but for which a customer would not want to pay
- by-product** an incidental output of a joint process; it is salable, but the sales value of by-products is not substantial enough for management to justify undertaking the joint process; it is viewed as having a higher sales value than scrap
- cafeteria plan** a "menu" of fringe benefit options that include cash or nontaxable benefits
- capacity** a measure of production volume or some other activity base
- capital asset** an asset used to generate revenues or cost savings by providing production, distribution, or service capabilities for more than one year
- capital budget** management's plan for investments in long-term property, plant, and equipment
- capital budgeting** a process of evaluating an entity's proposed long-range projects or courses of future activity for the purpose of allocating limited resources to desirable projects
- capital rationing** a condition that exists when there is an upper-dollar constraint on the amount of capital available to commit to capital asset acquisition
- carrying cost** the total variable cost of carrying one unit of inventory in stock for one year; includes the opportunity cost of the capital invested in inventory
- CASB** see Cost Accounting Standards Board
- cash flow** the receipt or disbursement of cash; when related to capital budgeting, cash flows arise from the purchase, operation, and disposition of a capital asset
- centralization** a management style that exists when top management makes most decisions and controls most activities of the organizational units from the company's central headquarters
- Certified Management Accountant (CMA)** a professional designation in the area of management accounting that recognizes the successful completion of an examination, acceptable work experience, and continuing education requirements
- charge-back system** a system using transfer prices; see transfer price
- coefficient of correlation** a measure of dispersion that indicates the degree of relative association existing between two variables
- coefficient of determination** a measure of dispersion that indicates the "goodness of fit" of the actual observations to the least squares regression line; indicates what proportion of the total variation in y is explained by the regression model
- coefficient of variation** a measure of risk used when the standard deviations for multiple projects are approximately the same but the expected values are significantly different
- committed cost** a cost related either to the long-term investment in plant and equipment of a business or to the organizational personnel whom top management deem permanent; a cost that cannot be changed without long-run detriment to the organization

- common body of knowledge (CBK)** the minimum set of knowledge needed by a person to function effectively in a particular field
- compensation committee** a company committee comprised mainly of members of the board of directors; is responsible for establishing compensation packages for top management and setting general compensation policies and guidelines
- compensation strategy** a foundation for the compensation plan that addresses the role compensation should play in the organization
- compound interest** a method of determining interest in which interest that was earned in prior periods is added to the original investment so that, in each successive period, interest is earned on both principal and interest
- compounding period** the time between each interest computation
- computer-aided design (CAD)** a system using computer graphics for product designs
- computer-aided manufacturing (CAM)** the use of computers to control production processes through numerically controlled (NC) machines, robots, and automated assembly systems
- computer integrated manufacturing (CIM)** the integration of two or more flexible manufacturing systems through the use of a host computer and an information networking system
- concurrent engineering** see simultaneous engineering
- confrontation strategy** an organizational strategy in which company management decides to confront, rather than avoid, competition; an organizational strategy in which company management still attempts to differentiate company products through new features or to develop a price leadership position by dropping prices, even though management recognizes that competitors will rapidly bring out similar products and match price changes; an organizational strategy in which company management identifies and exploits current opportunities for competitive advantage in recognition of the fact that those opportunities will soon be eliminated
- constraint** a restriction inhibiting the achievement of an objective
- contingent pay** compensation that is dependent on the achievement of some performance objective
- continuous budgeting** a process in which there is a rolling twelve-month budget; a new budget month (twelve months into the future) is added as each current month expires
- continuous improvement** an ongoing process of enhancing employee task performance, level of product quality, and level of company service through eliminating non-value-added activities to reduce lead time, making products (performing services) with zero defects, reducing product costs on an ongoing basis, and simplifying products and processes
- continuous loss** any reduction in units that occurs uniformly throughout a production process
- contract manufacturer** an external party that has been granted an outsourcing contract to produce a part or component for an entity
- contract vendor** an external party that has been granted an outsourcing contract to provide a service activity for an entity
- contribution margin** the difference between selling price and variable cost per unit or in total for the level of activity; it indicates the amount of each revenue dollar remaining after variable costs have been covered and going toward the coverage of fixed costs and the generation of profits
- contribution margin ratio** the proportion of each revenue dollar remaining after variable costs have been covered; computed as contribution margin divided by sales
- control chart** a graphical presentation of the results of a specified activity; it indicates the upper and lower control limits and those results that are out of control
- controllable cost** a cost over which a manager has the ability to authorize incurrence or directly influence magnitude
- controllable variance** the budget variance of the two variance approach to analyzing overhead variances
- controller** the chief accountant (in a corporation) who is responsible for maintaining and reporting on both the cost and financial sets of accounts but does not handle or negotiate changes in actual resources
- controlling** the process of exerting managerial influence on operations so that they conform to previously prepared plans
- conversion** the process of transformation or change
- conversion cost** the total of direct labor and overhead cost; the cost necessary to transform direct material into a finished good or service
- core competency** a higher proficiency relative to competitors in a critical function or activity; a root of competitiveness and competitive advantage; anything that is not a core competency is a viable candidate for outsourcing
- correlation analysis** an analytical technique that uses statistical measures of dispersion to reveal the strength of the relationship between variables
- cost** the cash or cash equivalent value necessary to attain an objective such as acquiring goods and services, complying with a contract, performing a function, or producing and distributing a product
- cost accounting** a discipline that focuses on techniques or methods for determining the cost of a project, process, or thing through direct measurement, arbitrary assignment, or systematic and rational allocation
- Cost Accounting Standards Board (CASB)** a body established by Congress in 1970 to promulgate cost accounting standards for defense contractors and federal agencies; disbanded in 1980 and reestablished in 1988; it previously issued pronouncements still carry the weight of law for those organizations within its jurisdiction
- cost accumulation** the approach to product costing that determines which manufacturing costs are recorded as part of product cost
- cost allocation** the assignment, using some reasonable basis, of any indirect cost to one or more cost objects
- cost avoidance** the practice of finding acceptable alternatives to high-cost items and/or not spending money for unnecessary goods or services
- cost-benefit analysis** the analytical process of comparing the relative costs and benefits that result from a specific course of action (such as providing information or investing in a project)
- cost center** a responsibility center in which the manager has the authority to incur costs and is evaluated on the basis of how well costs are controlled

- cost consciousness** a company-wide attitude about the topics of cost understanding, cost containment, cost avoidance, and cost reduction
- cost containment** the practice of minimizing, to the extent possible, period-by-period increases in per-unit variable and total fixed costs
- cost control system** a logical structure of formal and/or informal activities designed to analyze and evaluate how well expenditures are managed during a period
- cost driver** a factor that has a direct cause-effect relationship to a cost; an activity creating a cost
- cost driver analysis** the process of investigating, quantifying, and explaining the relationships of cost drivers and their related costs
- cost leadership strategy** a plan to achieve the position in a competitive environment of being the low cost producer of a product or provider of a service; it provides one method of avoiding competition
- cost management system (CMS)** a set of formal methods developed for planning and controlling an organization's cost-generating activities relative to its goals and objectives
- cost object** anything to which costs attach or are related
- cost of capital (COC)** the weighted average cost of the various sources of funds (debt and stock) that comprise a firm's financial structure
- cost of goods manufactured (CGM)** the total cost of the goods completed and transferred to Finished Goods Inventory during the period
- cost of production report** a process costing document that details all operating and cost information, shows the computation of cost per equivalent unit, and indicates cost assignment to goods produced during the period
- cost-plus contract** a contract in which the customer agrees to reimburse the producer for the cost of the job plus a specified profit margin over cost
- cost pool** a collection of monetary amounts incurred either for the same purpose, at the same organizational level, or as a result of the occurrence of the same cost driver
- cost presentation** the approach to product costing that determines how costs are shown on external financial statements or internal management reports
- cost reduction** the practice of lowering current costs, especially those that may be in excess of what is necessary
- cost structure** the relative composition of an organization's fixed and variable costs
- cost table** a database providing information about the impact on product costs of using different input resources, manufacturing processes, and design specifications
- cost-volume-profit (CVP) analysis** a procedure that examines changes in costs and volume levels and the resulting effects on net income (profits)
- critical success factors (CSF)** any item (such as quality, customer service, efficiency, cost control, or responsiveness to change) so important that, without it, the organization would cease to exist
- CVP** see cost-volume-profit analysis
- cycle time** the time between the placement of an order to the time the goods arrive for usage or are produced by the company; it is equal to value-added time plus non-value-added time
- data** bits of knowledge or facts that have not been summarized or categorized in a manner useful to a decision maker
- data mining** a form of analysis in which statistical techniques are used to uncover answers to important questions about business operations
- decentralization** a management style that exists when top management grants subordinate managers a significant degree of autonomy and independence in operating and making decisions for their organizational units
- decision making** the process of choosing among the alternative solutions available to a course of action or a problem situation
- decision variable** an unknown item for which a linear programming problem is being solved
- defective unit** a unit that has been rejected at a control inspection point for failure to meet appropriate standards of quality or designated product specifications; can be economically reworked and sold through normal distribution channels
- deferred compensation** pay related to current performance that will be received at a later time, typically after retirement
- degree of operating leverage** a factor that indicates how a percentage change in sales, from the existing or current level, will affect company profits; it is calculated as contribution margin divided by net income; it is equal to $(1 \div \text{margin of safety percentage})$
- dependent variable** an unknown variable that is to be predicted using one or more independent variables
- design for manufacturability (DFM)** a process that is part of the project management of a new product; concerned with finding optimal solutions to minimizing product failures and other adversities in the delivery of a new product to customers
- differential cost** a cost that differs in amount among the alternatives being considered
- differentiation strategy** a technique for avoiding competition by distinguishing a product or service from that of competitors through adding sufficient value (including quality and/or features) that customers are willing to pay a higher price than that charged by competitors
- direct cost** a cost that is distinctly traceable to a particular cost object
- direct costing** see variable costing
- direct labor** the time spent by individuals who work specifically on manufacturing a product or performing a service; the cost of such time
- direct material** a readily identifiable part of a product; the cost of such a part
- direct method** a service department cost allocation approach that assigns service department costs directly to revenue-producing areas with only one set of intermediate cost pools or allocations
- discounting** the process of reducing future cash flows to present value amounts
- discount rate** the rate of return used to discount future cash flows to their present value amounts; it should equal or exceed an organization's weighted average cost of capital
- discrete loss** a reduction in units that occurs at a specific point in a production process

- discretionary cost** a cost that is periodically reviewed by a decision maker in a process of determining whether it continues to be in accord with ongoing policies; a cost that arises from a management decision to fund an activity at a specified cost amount for a specified period of time, generally one year; a cost that can be reduced to zero in the short run if necessity so dictates
- dispersion** the degree of variability or difference; it is measured as the vertical distance of an actual point from the estimated regression line in least squares regression analysis
- distribution cost** a cost incurred to warehouse, transport, or deliver a product or service
- dividend growth method** a method of computing the cost of common stock equity that indicates the rate of return that common shareholders expect to earn in the form of dividends on a company's common stock
- dollar days (of inventory)** a measurement of the value of inventory for the time that inventory is held
- downsizing** any management action that reduces employment upon restructuring operations in response to competitive pressures
- dual pricing arrangement** a transfer pricing system that allows a selling division to record the transfer of goods or services at one price (e.g., a market or negotiated market price) and a buying division to record the transfer at another price (e.g., a cost-based amount)
- dumping** selling products abroad at lower prices than those charged in the home country or in other national markets
- Du Pont model** a model that indicates the return on investment as it is affected by profit margin and asset turnover
- e-commerce (electronic commerce)** any business activity that uses the Internet and World Wide Web to engage in financial transactions
- economic integration** the creation of multi-country markets by developing transnational rules that reduce the fiscal and physical barriers to trade as well as encourage greater economic cooperation among countries
- economic order quantity (EOQ)** an estimate of the number of units per order that will be the least costly and provide the optimal balance between the costs of ordering and the costs of carrying inventory
- economic production run (EPR)** an estimate of the number of units to produce at one time that minimizes the total costs of setting up production runs and carrying inventory
- economically reworked** when the incremental revenue from the sale of reworked defective units is greater than the incremental cost of the rework
- economic value added (EVA)** a measure of the extent to which income exceeds the dollar cost of capital; calculated as income minus (invested capital times the cost of capital percentage)
- effectiveness** a measure of how well an organization's goals and objectives are achieved; compares actual output results to desired results; determination of the successful accomplishment of an objective
- efficiency** a measure of the degree to which tasks were performed to produce the best yield at the lowest cost from the resources available; the degree to which a satisfactory relationship of outputs to inputs occurs
- electronic data interchange (EDI)** the computer-to-computer transfer of information in virtual real time using standardized formats developed by the American National Standards Institute
- Employee Stock Ownership Plan (ESOP)** a profit-sharing compensation program in which investments are made in the securities of the employer
- employee time sheet** a source document that indicates, for each employee, what jobs were worked on during the day and for what amount of time
- empowerment** the process of giving workers the training and authority they need to manage their own jobs
- engineered cost** a cost that has been found to bear an observable and known relationship to a quantifiable activity base
- engineering change order (ECO)** a business mandate that changes the way in which a product is manufactured or a service is performed by modifying the design, parts, process, or even quality of the product or service
- enterprise resource planning (ERP) system** a packaged software program that allows a company to (1) automate and integrate the majority of its business processes, (2) share common data and practices across the entire enterprise, and (3) produce and access information in a real-time environment
- environmental constraint** any limitation on strategy options caused by external cultural, fiscal, legal/regulatory, or political situations; a limiting factor that is not under the direct control of an organization's management; tend to be fairly long-run in nature
- equivalent units of production (EUP)** an approximation of the number of whole units of output that could have been produced during a period from the actual effort expended during that period; used in process costing systems to assign costs to production
- ethical standard** a standard representing beliefs about moral and immoral behaviors
- European Union (EU)** an economic alliance originally created in 1957 as the European Economic Community by France, Germany, Italy, Belgium, the Netherlands, and Luxembourg and later joined by the United Kingdom, Ireland, Denmark, Spain, Portugal, and Greece; prior to the Maastricht Treaty of 1993 was called the European Community; has eliminated virtually all barriers to the flow of capital, labor, goods, and services among member nations
- expatriate** a parent company or third-country national assigned to a foreign subsidiary or a foreign national assigned to the parent company
- expected capacity** a short-run concept that represents the anticipated level of capacity to be used by a firm in the upcoming period, based on projected product demand
- expected standard** a standard set at a level that reflects what is actually expected to occur in the future period; it anticipates future waste and inefficiencies and allows for them; is of limited value for control and performance evaluation purposes
- expired cost** an expense or a loss
- failure cost** a quality control cost associated with goods or services that have been found not to conform or perform

- to the required standards as well as all related costs (such as that of the complaint department); it may be internal or external
- feasible region** the graphical space contained within and on all of the constraint lines in the graphical solution to a linear programming problem
- feasible solution** a solution to a linear programming problem that does not violate any problem constraints
- FIFO method (of process costing)** the method of cost assignment that computes an average cost per equivalent unit of production for the current period; keeps beginning inventory units and costs separate from current period production and costs
- financial accounting** a discipline in which historical, monetary transactions are analyzed and recorded for use in the preparation of the financial statements (balance sheet, income statement, statement of owners'/stockholders' equity, and statement of cash flows); it focuses primarily on the needs of external users (stockholders, creditors, and regulatory agencies)
- financial budget** a plan that aggregates monetary details from the operating budgets; includes the cash and capital budgets of a company as well as the pro forma financial statements
- financial incentive** a monetary reward provided for performance above targeted objectives
- financing decision** a judgment made regarding the method of raising funds that will be used to make acquisitions; it is based on an entity's ability to issue and service debt and equity securities
- Fisher rate** the rate of return that equates the present values of the cash flows of all projects being considered; it is the rate of indifference
- fixed cost** a cost that remains constant in total within a specified range of activity
- fixed overhead spending variance** the difference between the total actual fixed overhead and budgeted fixed overhead; it is computed as part of the four-variance overhead analysis
- fixed overhead volume variance** see volume variance
- flexible budget** a presentation of multiple budgets that show costs according to their behavior at different levels of activity
- flexible manufacturing system (FMS)** a production system in which a single factory manufactures numerous variations of products through the use of computer-controlled robots
- focused factory arrangement** an arrangement in which a vendor (which may be an external party or an internal corporate division) agrees to provide a limited number of products according to specifications or to perform a limited number of unique services to a company that is typically operating on a just-in-time system
- Foreign Corrupt Practices Act (FCPA)** a law passed by Congress in 1977 that makes it illegal for a U.S. company to engage in various "questionable" foreign payments and makes it mandatory for a U.S. company to maintain accurate accounting records and a reasonable system of internal control
- full costing** see absorption costing
- functional classification** a separation of costs into groups based on the similar reason for their incurrence; it includes cost of goods sold and detailed selling and administrative expenses
- future value** the amount to which one or more sums of money invested at a specified interest rate will grow over a specified number of time periods
- General Agreement on Tariffs and Trade (GATT)** a treaty among many nations setting standards for tariffs and trade for signees
- global economy** an economy characterized by the international trade of goods and services, the international movement of labor, and the international flows of capital and information
- globalization** a changeover in market focus from competition among local or national suppliers to competition among international suppliers
- goal** a desired abstract achievement
- goal congruence** a circumstance in which the personal and organizational goals of decision makers throughout a firm are consistent and mutually supportive
- golden parachute** a benefits package that is triggered by the termination of a manager's employment
- grade** (of product or service) the addition or removal of product or service characteristics to satisfy additional needs, especially price
- grapevine** the informal relationships and channels of communication that exist in an organization
- growth rate** an estimate of the increase expected in dividends (or in market value) per share of stock
- harvest mission** a mission that attempts to maximize short-term profits and cash flow, even at the expense of market share; it is typically pursued by a business unit that has a large market share in a low-growth industry; it is appropriate for products in the final stages of the product life cycle
- high-low method** a technique used to determine the fixed and variable portions of a mixed cost; it uses only the highest and lowest levels of activity within the relevant range
- historical cost** a cost incurred in the past; the recorded purchase price of an asset; a sunk cost
- hold mission** a mission that attempts to protect the business unit's market share and competitive position; typically pursued by a business unit with a large market share in a high-growth industry
- hurdle rate** a preestablished rate of return against which other rates of return are measured; it is usually the cost of capital rate when used in evaluating capital projects
- hybrid costing system** a costing system combining characteristics of both job order and process costing systems
- ideal capacity** see theoretical capacity
- ideal standard** a standard that provides for no inefficiencies of any type; impossible to attain on a continuous basis
- idle time** the amount of time spent in storing inventory or waiting at a production operation for processing
- imposed budget** a budget developed by top management with little or no input from operating personnel; operat-

ing personnel are then informed of the budget objectives and constraints

incremental analysis a process of evaluating changes that focuses only on the factors that differ from one course of action or decision to another

incremental cost the cost of producing or selling an additional contemplated quantity of output

incremental revenue the revenue resulting from an additional contemplated sale

incremental separate cost the cost that is incurred for each joint product between the split-off point and the point of sale

independent project an investment project that has no specific bearing on any other investment project

independent variable a variable that, when changed, will cause consistent, observable changes in another variable; a variable used as the basis of predicting the value of a dependent variable

indirect cost a cost that cannot be traced explicitly to a particular cost object; a common cost

information bits of knowledge or fact that have been carefully chosen from a body of data and arranged in a meaningful way

input-output coefficient a number (prefaced as a multiplier to an unknown variable) that indicates the rate at which each decision variable uses up (or depletes) the scarce resource

inspection time the time taken to perform quality control activities

Institute of Management Accountants (IMA) an organization composed of individuals interested in the field of management accounting; it coordinates the Certified Management Accountant program through its affiliate organization (the Institute of Certified Management Accountants)

integer programming a mathematical programming technique in which all solutions for variables must be restricted to whole numbers

intellectual capital the intangible assets of skill, knowledge, and information that exist in an organization; it encompasses human, structural, and relationship capital

internal control any measure used by management to protect assets, promote the accuracy of records, ensure adherence to company policies, or promote operational efficiency; the totality of all internal controls represents the internal control system

internal rate of return (IRR) the expected or actual rate of return from a project based on, respectively, the assumed or actual cash flows; the discount rate at which the net present value of the cash flows equals zero

Internet business model a model that involves (1) few physical assets, (2) little management hierarchy, and (3) a direct pipeline to customers

interpolation the process of finding a term between two other terms in a series

intranet a mechanism for sharing information and delivering data from corporate databases to the local-area network (LAN) desktops

inventoriable cost see product cost

investment center a responsibility center in which the manager is responsible for generating revenues and planning and controlling expenses and has the authority to acquire,

dispose of, and use plant assets to earn the highest rate of return feasible on those assets within the confines and to the support of the organization's goals

investment decision a judgment about which assets will be acquired by an entity to achieve its stated objectives

ISO 9000 a comprehensive series of international quality standards that define the various design, material procurement, production, quality-control, and delivery requirements and procedures necessary to produce quality products and services

ISO 14000 a series of international standards that are designed to support a company's environmental protection and pollution prevention goals in balance with socioeconomic needs

JIT see just-in-time

job a single unit or group of units identifiable as being produced to distinct customer specifications

job cost record see job order cost sheet

job order cost sheet a source document that provides virtually all the financial information about a particular job; the set of all job order cost sheets for uncompleted jobs composes the Work in Process Inventory subsidiary ledger

job order costing system a system of product costing used by an entity that provides limited quantities of products or services unique to a customer's needs; focus of record-keeping is on individual jobs

joint cost the total of all costs (direct material, direct labor, and overhead) incurred in a joint process up to the split-off point

joint process a manufacturing process that simultaneously produces more than one product line

joint product one of the primary outputs of a joint process; each joint product individually has substantial revenue-generating ability

judgmental method (of risk adjustment) an informal method of adjusting for risk that allows the decision maker to use logic and reason to decide whether a project provides an acceptable rate of return

just-in-time (JIT) a philosophy about when to do something; the when is "as needed" and the something is a production, purchasing, or delivery activity

just-in-time manufacturing system a production system that attempts to acquire components and produce inventory only as needed, to minimize product defects, and to reduce lead/setup times for acquisition and production

just-in-time training a system that maps the skill sets employees need and delivers the training they need just as they need it

kaizen the Japanese word for continuous improvement

kaizen costing a costing technique to reflect continuous efforts to reduce product costs, improve product quality, and/or improve the production process after manufacturing activities have begun

kanban the Japanese word for card; it was the original name for a JIT system because of the use of cards that indicated a work center's need for additional components during a manufacturing process

- key variable** a critical factor that management believes will be a direct cause of the achievement or nonachievement of the organizational goals and objectives
- labor efficiency variance** the number of hours actually worked minus the standard hours allowed for the production achieved multiplied by the standard rate to establish a value for efficiency (favorable) or inefficiency (unfavorable) of the work force
- labor mix variance** (actual mix \times actual hours \times standard rate) minus (standard mix \times actual hours \times standard rate); it presents the financial effect associated with changing the proportionate amount of higher or lower paid workers in production
- labor rate variance** the actual rate (or actual weighted average rate) paid to labor for the period minus the standard rate multiplied by all hours actually worked during the period; it is actual labor cost minus (actual hours \times standard rate)
- labor yield variance** (standard mix \times actual hours \times standard rate) minus (standard mix \times standard hours \times standard rate); it shows the monetary impact of using more or fewer total hours than the standard allowed
- lead time** see cycle time
- learning curve** a model that helps predict how labor time will decrease as people become more experienced at performing a task and eliminate the inefficiencies associated with unfamiliarity
- least squares regression analysis** a statistical technique that investigates the association between dependent and independent variables; it determines the line of “best fit” for a set of observations by minimizing the sum of the squares of the vertical deviations between actual points and the regression line; it can be used to determine the fixed and variable portions of a mixed cost
- life cycle costing** the accumulation of costs for activities that occur over the entire life cycle of a product from inception to abandonment by the manufacturer and consumer
- limited liability company** an organizational form that is a hybrid of the corporate and partnership organizational forms and used to limit the personal liability of the owners; it is typically used by small professional (such as accounting) firms
- limited liability partnership** an organizational form that is a hybrid of the corporate and partnership organizational forms and used to limit the personal liability of the owners; it is typically used by large professional (such as accounting) firms
- line employee** an employee who is directly responsible for achieving the organization’s goals and objectives
- linear programming** a method of mathematical programming used to solve a problem that involves an objective function and multiple limiting factors or constraints
- long-term variable cost** a cost that was traditionally viewed as a fixed cost
- loss** an expired cost that was unintentionally incurred; a cost that does not relate to the generation of revenues
- make-or-buy decision** a decision that compares the cost of internally manufacturing a component of a final product (or providing a service function) with the cost of purchasing it from outside suppliers (outsourcing) or from another division of the company at a specified transfer price
- management accounting** a discipline that includes almost all manipulations of financial information for use by managers in performing their organizational functions and in assuring the proper use and handling of an entity’s resources; it includes the discipline of cost accounting
- Management Accounting Guidelines (MAGs)** pronouncements of the Society of Management Accountants of Canada that advocate appropriate practices for specific management accounting situations
- management control system (MCS)** an information system that helps managers gather information about actual organizational occurrences, make comparisons against plans, effect changes when they are necessary, and communicate among appropriate parties; it should serve to guide organizations in designing and implementing strategies so that organizational goals and objectives are achieved
- management information system (MIS)** a structure of interrelated elements that collects, organizes, and communicates data to managers so they may plan, control, evaluate performance, and make decisions; the emphasis of the MIS is on internal demands for information rather than external demands; some or all of the MIS may be computerized for ease of access to information, reliability of input and processing, and ability to simulate outcomes of alternative situations
- management style** the preference of a manager in how he/she interacts with other stakeholders in the organization; it influences the way the firm engages in transactions and is manifested in managerial decisions, interpersonal and interorganizational relationships, and resource allocations
- manufacturer** a company engaged in a high degree of conversion that results in a tangible output
- manufacturing cell** a linear or U-shaped production grouping of workers or machines
- manufacturing cycle efficiency (MCE)** a ratio resulting from dividing the actual production time by total lead time; reflects the proportion of lead time that is value-added
- manufacturing resource planning (MRP II)** a fully integrated materials requirement planning system that involves top management and provides a basis for both strategic and tactical planning
- maquiladora** a business (typically U.S.-owned on the Mexican side of the United States-Mexico border) that exists under a special trade agreement in which foreign companies import materials into Mexico duty-free for assembly, then export the goods back out of Mexico, and only pay duty on the value added to inventory in the process
- margin of safety** the excess of the budgeted or actual sales of a company over its breakeven point; it can be calculated in units or dollars or as a percentage; it is equal to $(1 \div \text{degree of operating leverage})$
- mass customization** personalized production generally accomplished through the use of flexible manufacturing systems; it reflects an organization’s increase in product variety from the same basic component elements
- master budget** the comprehensive set of all budgetary schedules and the pro forma financial statements of an organization

- material price variance** total actual cost of material purchased minus (actual quantity of material \times standard price); it is the amount of money spent below (favorable) or in excess (unfavorable) of the standard price for the quantity of materials purchased; it can be calculated based on the actual quantity of material purchased or the actual quantity used
- material quantity variance** (actual quantity \times standard price) minus (standard quantity allowed \times standard price); the standard cost saved (favorable) or expended (unfavorable) due to the difference between the actual quantity of material used and the standard quantity of material allowed for the goods produced during the period
- material requisition form** a source document that indicates the types and quantities of material to be placed into production or used in performing a service; it causes materials and its cost to be released from the Raw Material Inventory warehouse and sent to Work in Process Inventory
- material mix variance** (actual mix \times actual quantity \times standard price) minus (standard mix \times actual quantity \times standard price); it computes the monetary effect of substituting a nonstandard mix of material
- materials requirements planning (MRP)** a computer-based information system that simulates the ordering and scheduling of demand-dependent inventories; a simulation of the parts fabrication and subassembly activities that are required, in an appropriate time sequence, to meet a production master schedule
- material yield variance** (standard mix \times actual quantity \times standard price) minus (standard mix \times standard quantity \times standard price); it computes the difference between the actual total quantity of input and the standard total quantity allowed based on output and uses standard mix and standard prices to determine variance
- mathematical programming** a variety of techniques used to allocate limited resources among activities to achieve a specific objective
- matrix structure** an organizational structure in which functional departments and project teams exist simultaneously so that the resulting lines of authority resemble a grid
- merit pay** a pay increment earned by achieving a specific level of performance
- method of least squares** see least squares regression analysis
- method of neglect** a method of treating spoiled units in the equivalent units schedule as if those units did not occur; it is used for continuous normal spoilage
- mission statement** a written expression of organizational purpose that describes how the organization uniquely meets its targeted customers' needs with its products or services
- mix** any possible combination of material or labor inputs
- mixed cost** a cost that has both a variable and a fixed component; it varies with changes in activity, but not proportionately
- modified FIFO method (of process costing)** the method of cost assignment that uses FIFO to compute a cost per equivalent unit but, in transferring units from a department, the costs of the beginning inventory units and the units started and completed are combined and averaged
- MRP** see materials requirements planning
- MRP II** see manufacturing resource planning
- multiple regression** a statistical technique that uses two or more independent variables to predict a dependent variable
- multiprocess handling** the ability of a worker to monitor and operate several (or all) machines in a manufacturing cell or perform all steps of a specific task
- mutually exclusive projects** a set of proposed capital projects from which one is chosen, causing all the others to be rejected
- mutually inclusive projects** a set of proposed capital projects that are all related and that must all be chosen if the primary project is chosen
- negotiated transfer price** an intracompany charge for goods or services set through a process of negotiation between the selling and purchasing unit managers
- net cost of normal spoilage** the cost of spoiled work less the estimated disposal value of that work
- net present value (NPV)** the difference between the present values of all cash inflows and outflows for an investment project
- net present value method** a process that uses the discounted cash flows of a project to determine whether the rate of return on that project is equal to, higher than, or lower than the desired rate of return
- net realizable value approach** a method of accounting for by-products or scrap that requires that the net realizable value of these products be treated as a reduction in the cost of the primary products; primary product cost may be reduced by decreasing either (1) cost of goods sold when the joint products are sold or (2) the joint process cost allocated to the joint products
- net realizable value at split-off allocation** a method of allocating joint cost to joint products that uses, as the proration base, sales value at split-off minus all costs necessary to prepare and dispose of the products; it requires that all joint products be salable at the split-off point
- network organization** a flexible organization structure that establishes a working relationship among multiple entities, usually to pursue a single function
- noncontrollable variance** the fixed overhead volume variance; it is computed as part of the two-variance approach to overhead analysis
- non-negativity constraint** a restriction in a linear programming problem stating that negative values for physical quantities cannot exist in a solution
- non-value-added (NVA) activity** an activity that increases the time spent on a product or service but that does not increase its worth or value to the customer
- normal capacity** the long-run (5–10 years) average production or service volume of a firm; it takes into consideration cyclical and seasonal fluctuations
- normal cost system** a valuation method that uses actual costs of direct material and direct labor in conjunction with a predetermined overhead rate or rates in determining the cost of Work in Process Inventory
- normal loss** an expected decline in units during the production process
- normal spoilage** spoilage that has been planned or foreseen; is a product cost
- North American Free Trade Agreement (NAFTA)** an agreement among Canada, Mexico, and the United States

establishing the North American Free Trade Zone, with a resulting reduction in trade barriers

- objective** a desired quantifiable achievement for a period of time
- objective function** the linear mathematical equation that states the purpose of a linear programming problem
- open purchase ordering** a process by which a single purchase order that expires at a set or determinable future date is prepared to authorize a supplier to provide a large quantity of one or more specified items on an as-requested basis by the customer
- open-book management** a philosophy about increasing a firm's performance by involving all workers and by ensuring that all workers have access to operational and financial information necessary to achieve performance improvements
- operating budget** a budget expressed in both units and dollars
- operating leverage** the proportionate relationship between a company's variable and fixed costs
- operational plan** a formulation of the details of implementing and maintaining an organization's strategic plan; it is typically formalized in the master budget
- operations flow document** a document listing all operations necessary to produce one unit of product (or perform a specific service) and the corresponding time allowed for each operation
- opportunity cost** a potential benefit that is foregone because one course of action is chosen over another
- opportunity cost of capital** the highest rate of return that could be earned by using capital for the most attractive alternative project(s) available
- optimal mix of capital** the combination of capital sources at which the lowest weighted average cost of capital is achieved
- optimal solution** the solution to a linear programming problem that provides the best answer to the objective function
- ordering cost** the variable cost associated with preparing, receiving, and paying for an order
- order point** the level of inventory that triggers the placement of an order for additional units; it is determined based on usage, lead time, and safety stock
- ordinary annuity** a series of equal cash flows being received or paid at the end of a period
- organizational culture** the set of basic assumptions about the organization and its goals and ways of doing business; a system of shared values about what is important and beliefs about how things get accomplished; it provides a framework that organizes and directs employee behavior at work; it describes an organization's norms in internal and external, as well as formal and informal, transactions
- organizational-level cost** a cost incurred to support the ongoing facility or operations
- organizational structure** the manner in which authority and responsibility for decision making is distributed in an entity
- organization chart** a depiction of the functions, divisions, and positions of the people/jobs in a company and how they are related; it also indicates the lines of authority and responsibility
- organizational form** an entity's legal nature (for example, sole proprietorship, partnership, corporation)
- outlier** an abnormal or nonrepresentative point within a data set
- out-of-pocket cost** a cost that is a current or near-current cash expenditure
- outsourcing** the use, by one company, of an external provider of a service or manufacturer of a component
- outsourcing decision** see make-or-buy decision
- overapplied overhead** a credit balance in the Overhead account at the end of a period; when the applied overhead amount is greater than the actual overhead that was incurred
- overhead** any factory or production cost that is indirect to the product or service; it does not include direct material or direct labor; any production cost that cannot be directly traced to the product
- overhead application rate** see predetermined overhead rate
- overhead efficiency variance** the difference between total budgeted overhead at actual hours and total budgeted overhead at standard hours allowed for the production achieved; it is computed as part of a three-variance analysis; it is the same as variable overhead efficiency variance
- overhead spending variance** the difference between total actual overhead and total budgeted overhead at actual hours; it is computed as part of three-variance analysis; it is equal to the sum of the variable and fixed overhead spending variances
- Pareto analysis** a method of ranking the causes of variation in a process according to the impact on an objective
- Pareto inventory analysis** an analysis that separates inventory into three groups based on annual cost-to-volume usage
- Pareto principle** a rule which states that the greatest effects in human endeavors are traceable to a small number of causes (the *vital few*), while the majority of causes (the *trivial many*) collectively yield only a small impact; this relationship is often referred to as the 20:80 rule
- participatory budget** a budget that has been developed through a process of joint decision making by top management and operating personnel
- payback period** the time it takes an investor to recoup an original investment through cash flows from a project
- perfection standard** see ideal standard
- performance evaluation** the process of determining the degree of success in accomplishing a task; it equates to both effectiveness and efficiency
- performance management system** a system reflecting the entire package of decisions regarding performance measurement and evaluation
- period cost** a cost other than one associated with making or acquiring inventory
- periodic compensation** a pay plan based on the time spent on the task rather than the work accomplished
- perk** a fringe benefit provided by the employer
- phantom profit** a temporary absorption costing profit caused by producing more inventory than is sold
- physical measurement allocation** a method of allocating a joint cost to products that uses a common physical characteristic as the proration base

- piece rate** a pay plan in which workers are paid a flat rate for each unit of work accomplished
- planning** the process of creating the goals and objectives for an organization and developing a strategy for achieving them in a systematic manner
- postinvestment audit** the process of gathering information on the actual results of a capital project and comparing them to the expected results
- practical capacity** the physical production or service volume that a firm could achieve during normal working hours with consideration given to ongoing, expected operating interruptions
- practical standard** a standard that can be reached or slightly exceeded with reasonable effort by workers; it allows for normal, unavoidable time problems or delays and for worker breaks; it is often believed to be most effective in inducing the best performance from workers, since such a standard represents an attainable challenge
- predetermined overhead rate** an estimated constant charge per unit of activity used to assign overhead cost to production or services of the period; it is calculated by dividing total budgeted annual overhead at a selected level of volume or activity by that selected measure of volume or activity; it is also the standard overhead application rate
- predictor** an activity measure that, when changed, is accompanied by consistent, observable changes in another item
- preference decision** the second decision made in capital project evaluation in which projects are ranked according to their impact on the achievement of company objectives
- present value (PV)** the amount that one or more future cash flows is worth currently, given a specified rate of interest
- present value index** see profitability index
- prevention cost** a cost incurred to improve quality by preventing defects from occurring
- price fixing** a practice by which firms conspire to set a products price at a specified level
- prime cost** the total cost of direct material and direct labor for a product
- probability distribution** a range of possible values for which each value has an assigned likelihood of occurrence
- process benchmarking** benchmarking that focuses on practices and how the best-in-class companies achieved their results
- process complexity** an assessment about the number of processes through which a product flows
- process costing system** a method of accumulating and assigning costs to units of production in companies producing large quantities of homogeneous products; it accumulates costs by cost component in each production department and assigns costs to units using equivalent units of production
- processing time** the actual time consumed performing the functions necessary to manufacture a product
- process map** a flowchart or diagram indicating every step that goes into making a product or providing a service
- process productivity** the total units produced during a period using value-added processing time
- process quality yield** the proportion of good units that resulted from the activities expended
- procurement card** a card given to selected employees as a means of securing greater control over spending and eliminating the paper-based purchase authorization process
- product complexity** an assessment about the number of components in a product
- product contribution margin** the difference between selling price and variable cost of goods sold
- product cost** a cost associated with making or acquiring inventory
- productive capacity** the number of total units that could be produced during a period based on available equipment time
- productive processing time** the proportion of total time that is value-added time; also known as manufacturing cycle efficiency
- product- (or process-) level cost** a cost that is caused by the development, production, or acquisition of specific products or services
- product life cycle** a model depicting the stages through which a product class (not necessarily each product) passes
- product line margin** see segment margin
- product variety** the number of different types of products produced (or services rendered) by a firm
- profit center** a responsibility center in which managers are responsible for generating revenues and planning and controlling all expenses
- profit margin** the ratio of income to sales
- profit sharing** an incentive payment to employees that is contingent on organizational or individual performance
- profit-volume graph** a visual representation of the amount of profit or loss associated with each level of sales
- profitability index (PI)** a ratio that compares the present value of net cash flows to the present value of the net investment
- program budgeting** an approach to budgeting that relates resource inputs to service outputs
- project** the purchase, installation, and operation of a capital asset
- pseudo microprofit center** a center for which a surrogate of market value must be used to measure output revenue
- pull system** a production system dictated by product sales and demand; a system in which parts are delivered or produced only as they are needed by the work center for which they are intended; it requires only minimal storage facilities
- purchasing cost** the quoted price of inventory minus any discounts allowed plus shipping charges
- push system** the traditional production system in which work centers may produce inventory that is not currently needed because of lead time or economic production/order requirements; it requires that excess inventory be stored until needed
- quality** all the characteristics of a product or service that make it able to meet the stated or implied needs of the buyer; it relates to both performance and value; the pride of workmanship; it is conformance to requirements
- quality assurance** the process of determining that product or service quality conforms to designated specifications usually through an inspection process
- quality audit** a review of product design activities (although not for individual products), manufacturing processes and

- controls, quality documentation and records, and management philosophy
- quality control** the implementation of all practices and policies designed to eliminate poor quality and variability in the production or service process; it places the primary responsibility for quality at the source of the product or service
- raider** a firm or individual that specializes in taking over other firms
- real microprofit center** a center whose output has a market value
- realized value approach** a method of accounting for byproducts or scrap that does not recognize any value for these products until they are sold; the value recognized upon sale can be treated as other revenue or other income
- red-line system** an inventory ordering system in which a red line is painted on the inventory container at a point deemed to be the reorder point
- regression line** any line that goes through the means (or averages) of the set of observations for an independent variable and its dependent variables; mathematically, there is a line of "best fit," which is the least squares regression line
- reinvestment assumption** an assumption made about the rates of return that will be earned by intermediate cash flows from a capital project; NPV and PI assume reinvestment at the discount rate; IRR assumes reinvestment at the IRR
- relevant cost** a cost that is logically associated with a specific problem or decision
- relevant costing** a process that compares, to the extent possible and practical, the incremental revenues and incremental costs of alternative decisions
- relevant range** the specified range of activity over which a variable cost per unit remains constant or a fixed cost remains fixed in total; it is generally assumed to be the normal operating range of the organization
- replacement cost** an amount that a firm would pay to replace an asset or buy a new one that performs the same functions as an asset currently held
- residual income** the profit earned by a responsibility center that exceeds an amount "charged" for funds committed to that center
- responsibility** the obligation to accomplish a task or achieve an objective
- responsibility accounting system** an accounting information system for successively higher-level managers about the performance of segments or subunits under the control of each specific manager
- responsibility center** a cost object under the control of a manager
- responsibility report** a report that reflects the revenues and/or costs under the control of a particular unit manager
- results benchmarking** benchmarking in which an end product or service is examined; the focus is on product/service specifications and performance results
- return of capital** the recovery of the original investment (or principal) in a project
- return on capital income**; it is equal to the rate of return multiplied by the amount of the investment
- return on investment** a ratio that relates income generated by an investment center to the resources (or asset base) used to produce that income
- revenue center** a responsibility center for which a manager is accountable only for the generation of revenues and has no control over setting selling prices, or budgeting or incurring costs
- risk** uncertainty; it reflects the possibility of differences between the expected and actual future returns from an investment
- risk-adjusted discount rate method** a formal method of adjusting for risk in which the decision maker increases the rate used for discounting the future cash flows to compensate for increased risk
- Robinson-Patman Act** a law that prohibits companies from pricing the same products at different amounts when those amounts do not reflect related cost differences
- rolling budget** see continuous budgeting
- routing document** see operations flow document
- safety stock** a buffer level of inventory kept on hand by a company in the event of fluctuating usage or unusual delays in lead time
- sales mix** the relative combination of quantities of sales of the various products that make up the total sales of a company
- sales value at split-off allocation** a method of assigning joint cost to joint products that uses the relative sales values of the products at the split-off point as the proration basis; use of this method requires that all joint products are salable at the split-off point
- scarce resource** a resource that is essential to production activity, but is available only in some limited quantity
- scattergraph** a graph that plots all known activity observations and the associated costs; it is used to separate mixed costs into their variable and fixed components and to examine patterns reflected by the plotted observations
- scrap** an incidental output of a joint process; it is salable but the sales value from scrap is not enough for management to justify undertaking the joint process; it is viewed as having a lower sales value than a by-product; leftover material that has a minimal but distinguishable disposal value
- screening decision** the first decision made in evaluating capital projects; it indicates whether a project is desirable based on some previously established minimum criterion or criteria (see also preference decision)
- segment margin** the excess of revenues over direct variable expenses and avoidable fixed expenses for a particular segment
- sensitivity analysis** a process of determining the amount of change that must occur in a variable before a different decision would be made
- service company** an individual or firm engaged in a high or moderate degree of conversion that results in service output
- service department** an organizational unit that provides one or more specific functional tasks for other internal units
- service time** the actual time consumed performing the functions necessary to provide a service

- setup cost** the direct or indirect cost of getting equipment ready for each new production run
- shirking** the process of an individual free-riding on a group effort because the individual's share of the group reward is insufficient to compensate for his or her separate effort
- shrinkage** a decrease in units arising from an inherent characteristic of the production process; it includes decreases caused by evaporation, leakage, and oxidation
- simple interest** a method of determining interest in which interest is earned only on the original investment (or principal) amount
- simple regression** a statistical technique that uses only one independent variable to predict a dependent variable
- simplex method** an iterative (sequential) algorithm used to solve multivariable, multiconstraint linear programming problems
- simultaneous engineering** an integrated approach in which all primary functions and personnel contributing to a product's origination and production are involved continuously from the beginning of a product's life
- six-sigma method** a high-performance, data-driven approach to analyzing and solving the root causes of business problems
- slack variable** a variable used in a linear programming problem that represents the unused amount of a resource at any level of operation; it is associated with less-than-or-equal-to constraints
- Society of Management Accountants of Canada** the professional body representing an influential and diverse group of Certified Management Accountants; this body produces numerous publications that address business management issues
- special order decision** a situation in which management must determine a sales price to charge for manufacturing or service jobs outside the company's normal production/service market
- split-off point** the point at which the outputs of a joint process are first identifiable or can be separated as individual products
- spoiled unit** a unit that is rejected at a control inspection point for failure to meet appropriate standards of quality or designated product specifications; it cannot be economically reworked to be brought up to standard
- staff employee** an employee responsible for providing advice, guidance, and service to line personnel
- standard** a model or budget against which actual results are compared and evaluated; a benchmark or norm used for planning and control purposes
- standard cost** a budgeted or estimated cost to manufacture a single unit of product or perform a single service
- standard cost card** a document that summarizes the direct material, direct labor, and overhead standard quantities and prices needed to complete one unit of product
- standard cost system** a valuation method that uses predetermined norms for direct material, direct labor, and overhead to assign costs to the various inventory accounts and Cost of Goods Sold
- standard deviation** the measure of variability of data around the average (or mean) value of the data
- standard error of the estimate** a measure of dispersion that reflects the average difference between actual observations and expected results provided by a regression line
- standard overhead application rate** a predetermined overhead rate used in a standard cost system; it can be a separate variable or fixed rate or a combined overhead rate
- standard quantity allowed** the quantity of input (in hours or some other cost driver measurement) required at standard for the output actually achieved for the period
- Statement on Management Accounting (SMA)** a pronouncement developed and issued by the Management Accounting Practices Committee of the Institute of Management Accountants; application of these statements is through voluntary, not legal, compliance
- statistical process control (SPC)** the use of control techniques that are based on the theory that a process has natural variations in it over time, but uncommon variations are typically the points at which the process produces "errors," which can be defective goods or poor service
- steady-state phase** the point at which the learning curve becomes flat and only minimal improvements in performance are achieved
- step cost** a cost that increases in distinct amounts because of increased activity
- step method** a process of service department cost allocation that assigns service department costs to cost objects after considering the interrelationships of the service departments and revenue-producing departments
- stock appreciation right** a right to receive cash, stock, or a combination of cash and stock based on the difference between a specified dollar amount per share of stock and the quoted market price per share at some future date
- stock option** a right allowing the holder to purchase shares of common stock during some future time frame and at a specified price
- stockout** the condition of not having inventory available upon need or request
- strategic alliance** an agreement between two or more firms with complementary core competencies to jointly contribute to the supply chain
- strategic planning** the process of developing a statement of long-range (5–10 years) goals for the organization and defining the strategies and policies that will help the organization achieve those goals
- strategic resource management** organizational planning for the deployment of resources to create value for customers and shareholders; key variables in the process include the management of information and the management of change in response to threats and opportunities
- strategic staffing** an approach to personnel management that requires a department to analyze its staffing needs by considering its long-term objectives and those of the overall company and determining a specific combination of permanent and temporary employees with the best skills to meet those needs
- strategy** the link between an organization's goals and objectives and the activities actually conducted by the organization
- strict FIFO method (of process costing)** the method of cost assignment that uses FIFO to compute a cost per equivalent

- unit and, in transferring units from a department, keeps the cost of the beginning units separate from the cost of the units started and completed during the current period
- suboptimization** a situation in which an individual manager pursues goals and objectives that are in his/her own and his/her segment's particular interests rather than in the company's best interests
- substitute good** an item that can replace another item to satisfy the same wants or needs
- sunk cost** a cost incurred in the past and not relevant to any future courses of action; the historical or past cost associated with the acquisition of an asset or a resource
- supply-chain management** the cooperative strategic planning, controlling, and problem solving by a company and its vendors and customers to conduct efficient and effective transfers of goods and services within the supply chain
- surplus variable** a variable used in a linear programming problem that represents overachievement of a minimum requirement; it is associated with greater-than-or-equal-to constraints
- synchronous management** the use of all techniques that help an organization achieve its goals
- tactical planning** the process of determining the specific means or objectives by which the strategic plans of the organization will be achieved; it is short-range in nature (usually 1–18 months)
- takeover** the acquisition of managerial control of the corporation by an outside or inside investor; control is achieved by acquiring enough stock and stockholder votes to control the board of directors and management
- target costing** a method of determining what the cost of a product should be based on the product's estimated selling price less the desired profit
- tax benefit (of depreciation)** the amount of depreciation deductible for tax purposes multiplied by the tax rate; the reduction in taxes caused by the deductibility of depreciation
- tax deferral** postponing taxation of an amount until a future date
- tax exemption** a tax treatment where income is never subject to income taxation
- tax-deferred income** current compensation that is taxed at a future date
- tax-exempt income** current compensation that is never taxed
- tax shield (of depreciation)** the amount of depreciation deductible for tax purposes; the amount of revenue shielded from taxes because of the depreciation deduction
- theoretical capacity** the estimated maximum production or service volume that a firm could achieve during a period
- theory of constraints (TOC)** a method of analyzing the bottlenecks (constraints) that keep a system from achieving higher performance; it states that production cannot take place at a rate faster than the slowest machine or person in the process
- third-party logistics** outsourcing of the moving and warehousing of finished goods between manufacturer and merchant and sometimes back to the manufacturer
- throughput** the total completed and sold output of a plant during a period
- timeline** a representation of the amounts and timing of all cash inflows and outflows; it is used in analyzing cash flow from a capital project
- total contribution margin** see contribution margin
- total cost to account for** the sum of the costs in beginning inventory and the costs of the current period
- total expected value (for a project)** the sum of the individual cash flows in a probability distribution multiplied by their related probabilities
- total overhead variance** the difference between total actual overhead and total applied overhead; it is the amount of underapplied or overapplied overhead
- total quality management (TQM)** a structural system for creating organization-wide participation in planning and implementing a continuous improvement process that exceeds the expectations of the customer/client; the application of quality principles to all company endeavors; it is also known as total quality control
- total units to account for** the sum of the beginning inventory units and units started during the current period
- total variance** the difference between total actual cost incurred and total standard cost for the output produced during the period
- transfer price** an internal charge established for the exchange of goods or services between organizational units of the same company
- transfer time** the time consumed by moving products or components from one place to another
- treasurer** an individual in a corporation who handles the actual resources of the organization but who does not have access to the accounting records
- two-bin system** an inventory ordering system in which two containers (or stacks) of raw materials or parts are available for use; when one container is depleted, the removal of materials from the second container begins and a purchase order is placed to refill the first container
- underapplied overhead** a debit balance in the Overhead account at the end of a period; when the applied overhead amount is less than the actual overhead that was incurred
- unexpired cost** an asset
- unit-level cost** a cost caused by the production or acquisition of a single unit of product or the delivery of a single unit of service
- units started and completed** the difference between the number of units completed for the period and the units in beginning inventory; it can also be computed as the number of units started during the period minus the units in ending inventory
- usage** the quantity of inventory used or sold each time interval
- value** the characteristic of meeting the highest number of customer needs at the lowest possible price
- value-added (VA) activity** an activity that increases the worth of the product or service to the customer

- value chain** the set of processes that converts inputs into products and services for the firm's customers; it includes the processes of suppliers as well as internal processes
- value chart** a visual representation indicating the value-added and non-value-added activities and time spent in those activities from the beginning to the end of a process
- value engineering** a disciplined search for various feasible combinations of resources and methods that will increase product functionality and reduce costs
- values statement** an organization's statement that reflects its culture by identifying fundamental beliefs about what is important to the organization
- variable cost** a cost that varies in total in direct proportion to changes in activity; it is constant on a per unit basis
- variable costing** a cost accumulation and reporting method that includes only variable production costs (direct material, direct labor, and variable overhead) as inventoriable or product costs; it treats fixed overhead as a period cost; is not acceptable for external reporting and tax returns
- variable cost ratio** the proportion of each revenue dollar represented by variable costs; computed as variable costs divided by sales or as $(1 - \text{contribution margin ratio})$
- variable overhead efficiency variance** the difference between budgeted variable overhead based on actual input activity and variable overhead applied to production
- variable overhead spending variance** the difference between total actual variable overhead and the budgeted amount of variable overhead based on actual input activity
- variance** a difference between an actual and a standard or budgeted cost; it is favorable if actual is less than standard and is unfavorable if actual is greater than standard
- variance analysis** the process of categorizing the nature (favorable or unfavorable) of the differences between standard and actual costs and determining the reasons for those differences
- vendor-managed inventory** a streamlined system of inventory acquisition and management by which a supplier can be empowered to monitor EDI inventory levels and provide its customer company a proposed e-order and subsequent shipment after electronic acceptance
- vertex** a corner produced by the intersection of lines on a graph
- vision** a conceptualization of a future state for the organization that is better than the current state
- vision statement** a written expression about the organization's future upon which all company personnel can base their decisions and behavior so that everyone is working toward the same long-run results
- volume variance** a fixed overhead variance that represents the difference between budgeted fixed overhead and fixed overhead applied to production of the period; is also referred to as the noncontrollable variance
- waste** a residual output of a production process that has no sales value and must be disposed of
- weighted average cost of capital** a composite of the cost of the various sources of funds that comprise a firm's capital structure; the minimum rate of return that must be earned on new investments so as not to dilute shareholder value
- weighted average method (of process costing)** the method of cost assignment that computes an average cost per equivalent unit of production for all units completed during the current period; it combines beginning inventory units and costs with current production and costs, respectively, to compute the average
- working capital** total current assets minus total current liabilities
- World Trade Organization (WTO)** the arbiter of global trade that was created in 1995 under the General Agreement on Tariffs and Trade; each signatory country has one vote in trade disputes
- yield** the quantity of output that results from a specified input
- yield ratio** the expected or actual relationship between input and output
- zero-base budgeting** a comprehensive budgeting process that systematically considers the priorities and alternatives for current and proposed activities in relation to organization objectives; it requires the rejustification of ongoing activities