Glossary

Absorption costing A costing method that includes all manufacturing costs – direct materials, direct labour and both variable and fixed manufacturing overhead – in the cost of a unit of product. Absorption costing is also referred to as the full cost method (pp. 63, 189).

Account analysis A method for analysing cost behaviour in which each account under consideration is classified as either variable or fixed based on the analyst's prior knowledge of how the cost in the account behaves (p. 159).

Action analysis report A report showing what costs have been assigned to a cost object, such as a product or customer, and how difficult it would be to adjust the cost if there is a change in activity (p. 289).

Activity An event that causes the consumption of overhead resources in an organization (p. 265).

Activity base A measure of whatever causes the incurrence of a variable cost. For example, the total cost of X-ray film in a hospital will increase as the number of X rays taken increases. Therefore, the number of X rays is an activity base for explaining the total cost of X-ray film (p. 147).

Activity-based costing (ABC) A costing method based on activities that is designed to provide managers with cost information for strategic and other decisions that potentially affect capacity and therefore fixed costs (p. 263).

Activity-based management (ABM) A management approach that focuses on managing activities as a way of eliminating waste and reducing delays and defects (pp. 277, 770).

Activity cost pool A 'bucket' in which costs are accumulated that relate to a single activity in the activity-based costing system (p. 270).

Activity measure An allocation base in an activity-based costing system; ideally, a measure of the amount of activity that drives the costs in an activity cost pool (p. 270).

Adjusted R^2 A measure of goodness of fit in least-squares regression analysis. It is the percentage of the variation in the dependent variable that is explained by variation in the independent variable (p. 166).

Administrative costs All executive, organizational, and clerical costs associated with the general management of an organization rather than with manufacturing, marketing or selling (p. 24).

Allocation base A measure of activity such as direct labour-hours or machine-hours that is used to assign costs to cost objects (p. 68).

Annuity A series or stream of identical cash flows (p. 395).

Appraisal costs Costs that are incurred to identify defective products before the products are shipped to customers (p. 756).

Attribute costing Costing the product attributes that appeal to customers (p. 687);

Avoidable cost Any cost that can be eliminated (in whole or in part) by choosing one alternative over another in a decision-making situation. In managerial accounting, this term is synonymous with relevant cost and differential cost (p. 312).

Balanced scorecard An integrated set of performance measures that is derived from and supports the organization's strategy (p. 695).

Batch-level activities Activities that are performed each time a batch of goods is handled or processed, regardless of how many units are in a batch. The amount of resource consumed depends on the number of batches run rather than on the number of units in the batch (p. 269).

Benchmarking Making comparisons against best practice in other organizations (pp. 704, 762).
Bill of materials A listing of the quantity of each type of material required to manufacture a unit of product (pp. 65, 498).
Bottleneck A machine or process that limits total output because it is operating at capacity (p. 328).
Break-even point The level of sales at which profit is zero. The break-even point can also be defined as the point where total sales equals total expenses or as the point where total contribution margin equals total fixed expenses (p. 222).
Budget A detailed plan for the acquisition and use of financial and other resources over a specified time period (pp. 3, 450).
Budget committee A group of key management persons who are responsible for overall policy matters relating to the budget programme and for coordinating the preparation of the budget (p. 456).
Budget variance A measure of the difference between the actual fixed overhead costs incurred during the period and budgeted fixed overhead costs as contained in the flexible budget (p. 558).
Business process A series of steps that are followed in order to carry out some task in a business (pp. 11, 767).

Capital budgeting The process of planning significant outlays on projects that have long-term implications such as the purchase of new equipment or the introduction of a new product (p. 362).
Cash budget A detailed plan showing how cash resources will be acquired and used over some specific time period (p. 458).
Committed fixed costs Those fixed costs that are difficult to adjust and that relate to the investment in facilities, equipment, and the basic organizational structure of a firm (p. 151).
Common costs A common cost is a cost that is common to a number of costing objects but cannot be traced to them individually. For example, the wage cost of the pilot of a 747 airliner is a common cost of all of the passengers on the aircraft. Without the pilot, there would be no flight and no passengers. But no part of the pilot's wage is caused by any one passenger taking the flight (p. 37).
Common fixed cost A fixed cost that supports more than one business segment, but is not traceable in whole or in part to any one of the business segments (p. 600).
Compound interest The process of paying interest on interest in an investment (p. 393).
Constraint A limitation under which a company must operate, such as limited machine time available or limited raw materials available that restricts the company's ability to satisfy demand (pp. 9, 327, 789).
Contingency theory An approach that argues that there is no one best organizational structure or management accounting technique but emphasizes the fit with factors such as task, product, and levels of environmental uncertainty (p. 439).
Continuous or perpetual budget A 12-month budget that rolls forward one month as the current month is completed (p. 453).
Contribution approach An income statement format that is geared to cost behaviour in that costs are separated into variable and fixed categories rather than being separated according to the functions of production, sales, and administration (p. 167).
Contribution margin The amount remaining from sales revenues after all variable expenses have been deducted (p. 167).
Contribution margin method A method of computing the break-even point in which the fixed expenses are divided by the contribution margin per unit (p. 229).

Contribution margin ratio (CM ratio) The contribution margin as a percentage of total sales (p. 228).
Control Those steps taken by management that attempt to increase the likelihood that the objectives set down at the planning stage are attained and to ensure that all parts of the organization function is a manner consistent with organizational policies (pp. 4, 450).
Controlling Ensuring that the plan is actually carried out and is appropriately modified as circumstances change (p. 2).
Conversion cost Direct labour cost plus manufacturing overhead cost (pp. 23, 117).
Corner point A potential solution in a linear programming problem (p. 786).
Cost behaviour The way in which a cost reacts or responds to changes in the level of business activity (p. 34).
Cost centre A business segment whose manager has control over cost but has no control over revenue or the use of investment funds (p. 594).
Cost driver A factor, such as machine-hours, beds occupied, computer time, or flight-hours, that causes overhead costs (p. 71).
Cost leadership Aiming to be the lowest cost producer in an industry (p. 689).
Cost object Anything for which cost data are desired. Examples of possible cost objects are products, product lines, customers, jobs and organizational subunits such as departments or divisions of a company (p. 37).
Cost of capital The overall cost to an organization of obtaining investment funds, including the cost of both debt sources and equity sources (p. 367).
Cost of goods manufactured The manufacturing costs associated with the goods that were finished during the period (p. 29).
Cost reconciliation The part of a production report that shows what costs a department has to account for during a period and how those costs are accounted for. (p. 121)
Cost structure The relative proportion of fixed, variable, and mixed costs found within an organization (p. 146).
Costs of not carrying sufficient stock Those costs that result from not having enough stock to meet customers' needs; such costs include lost sales, customer ill will, and costs of expediting orders for items not in stock (p. 728).
Cost-plus pricing A pricing method in which a predetermined markup is applied to a cost base to determine the target selling price (p. 642).
Cost–volume–profit (CVP) graph The relations between revenues, costs, and level of activity in an organization presented in graphic form (p. 230).
Curvilinear costs A relationship between cost and activity that is a curve rather than a straight line (p. 150).
Customer-level activities Activities that are carried out to support customers but that are not related to any specific product (p. 269).

Decentralization The delegation of decision-making authority throughout an organization by providing managers at various operating levels with the authority to make key decisions relating to their area of responsibility (p. 7).
Decentralized organization An organization in which decision making is not confined to a few top executives but rather is spread throughout the organization (p. 592).
Defender a company which concentrates on reducing costs and/or improving quality in existing markets/products (p. 689).
Degree of operating leverage A measure, at a given level of sales, of how a percentage change in sales volume will affect profits. The degree of operating leverage is computed by dividing contribution margin by profit (p. 235).
Delivery cycle time The amount of time required from receipt of an order from a customer to shipment of the completed goods (p. 701).

Denominator activity The activity figure used to compute the predetermined overhead rate (p. 555).
Dependent variable A variable that reacts or responds to some causal factor; total cost is the dependent variable, as represented by the letter Y, in the equation $Y = a + bX$ (p. 161).
Differential cost Any cost that differs between alternatives in a decision-making situation. In managerial accounting, this term is synonymous with avoidable cost and relevant cost (pp. 38, 313).
Differential revenue The difference in revenue between any two alternatives (p. 38).
Direct cost A cost that can easily and conveniently be traced to the particular cost object under consideration (p. 37).
Direct costing Another term for variable costing. See *Variable costing* (p. 189).
Direct labour Those factory labour costs that can easily be traced to individual units of product. Also called touch labour (p. 22).
Direct labour budget A detailed plan showing labour requirements over some specific time period (p. 464).
Direct materials Those materials that become an integral part of a finished product and can conveniently be traced into it (p. 22).
Direct materials budget A detailed plan showing the amount of raw materials that must be purchased during a period to meet both production and stock needs (p. 463).
Directing and motivating Mobilizing people to carry out plans and run routine operations (p. 2).
Discount rate The rate of return that is used to find the present value of a future cash flow (p. 394).
Discounting The process of finding the percentage value of a future cash flow (p. 394).
Discretionary fixed costs Those fixed costs that arise from annual decisions by management to spend in certain fixed cost areas, such as advertising and research (p. 152).
Diversification A strategy for reducing risk by having a number of products (p. 439).
Double-loop learning Constantly questions both standards and policies rather than just keeps on track (p. 704).

Ease of adjustment codes Costs are coded as Green, Yellow or Red – depending on how easily the cost could be adjusted to changes in activity. 'Green' costs adjust automatically to changes in activity without any action by managers. 'Yellow' costs could be adjusted in response to changes in activity, but such adjustments require management action; the adjustment is not automatic. 'Red' costs could be adjusted to changes in activity only with a great deal of difficulty and the adjustment would require management action (p. 283).
Economic lot size The number of units produced in a lot, or production run, that will result in minimizing setup costs and the costs of carrying stock (p. 732).
Economic order quantity (EOQ) The order size for materials that will result in minimizing the costs of ordering and carrying stock (p. 728).
Economic value added (EVA) A concept similar to residual profit (p. 614).
Electronic data interchange (EDI) The electronic transmission of data on customer orders and transactions inside and between companies (p. 742).
Ending finished goods stock budget A budget showing the cost expected to appear on the balance sheet for unsold units at the end of a period (p. 467).
Engineering approach A detailed analysis of cost behaviour based on an industrial engineer's evaluation of the inputs that are required to carry out a particular activity and of the prices of those inputs (p. 159).

Enterprise resource planning (ERP) The installation of integrated real time management information systems (p. 728).
Equation method A method of computing the break-even point that relies on the equation Sales = Variable expenses + Fixed expenses + Profits (p. 228).
Equivalent units The product of the number of partially completed units and their percentage of completion with respect to a particular cost. Equivalent units are the number of complete whole units one could obtain from the materials and effort contained in partially completed units (p. 119).
Equivalent units of production (weighted-average method) The units transferred to the next department (or to finished goods) during the period plus the equivalent units in the department's ending work in process stock (p. 116).
Executional drivers Cost factors such as work force involvement, quality management capacity utilisation, plant lay-out efficiency, product configuration effectiveness, and exploitation of linkages (p. 689).
Expected value The average or mean outcome when faced with a range of possibilities (p. 428).
External failure costs Costs that are incurred when a product or service that is defective is delivered to a customer (p. 757).

'Families' of components If the family is non-strategic, it may be produced in-house if existing capacity is competitive. If the family is strategic then it will either be produced in-house or through a partnership with a supplier (p. 797).
Feasible region An area that shows all the possible combinations of two products (p. 784).
Feedback Accounting and other reports that help managers monitor performance and focus on problems and/or opportunities that might otherwise go unnoticed (p. 3).
FIFO method A method of accounting for cost flows in a process costing system in which equivalent units and unit costs relate only to work done during the current period (p. 116).
Financial accounting The phase of accounting concerned with providing information to stockholders, creditors and others outside the organization (p. 2).
Finished goods Units of product that have been completed but have not yet been sold to customers (pp. 25–6, 735).
First-stage allocation The process by which overhead costs are assigned to activity cost pools in an activity-based costing system (p. 271).
Fixed cost A cost that remains constant, in total, regardless of changes in the level of activity within the relevant range. If a fixed cost is expressed on a per unit basis, it varies inversely with the level of activity (p. 36).
Fixed manufacturing overhead cost deferred in stock The portion of the fixed manufacturing overhead cost of a period that goes into stock under the absorption costing method as a result of production exceeding sales (p. 191).
Fixed manufacturing overhead cost released from stock The portion of the fixed manufacturing overhead cost of a *prior* period that becomes an expense of the current period under the absorption costing method as a result of sales exceeding production (p. 189).
Flexible budget A budget that is designed to cover a range of activity and that can be used to develop budgeted costs at any point within that range to compare to actual costs incurred (p. 543).
Formal versus informal Change by conscious design as opposed to tacit adjustment (p. 822).
Full cost See Absorption costing (pp. 63, 189).
Fuzzy mathematics A technique for analysing decisions when precise estimates are absent (p. 437).

High–low method A method of separating a mixed cost into its fixed and variable elements by analysing the change in cost between the high and low levels of activity (p. 160).

Ideal standards Standards that allow for no machine breakdowns or other work interruptions and that require peak efficiency at all times (p. 496).
Imitation Managers may adopt innovations because they want to be seen to be following best practice (p. 823).
Incremental analysis An analytical approach that focuses only on those items of revenue, cost, and volume that will change as a result of a decision (p. 225).
Incremental cost An increase in cost between two alternatives. Also see Differential cost (p. 38).
Incrementalism The practice of concentrating decisions on marginal adjustments to departmental budgets (p. 565).
Independent variable A variable that acts as a causal factor; activity is the independent variable, as represented by the letter X, in the equation $Y = a + bX$ (p. 161).
Indirect cost A cost that cannot easily and conveniently be traced to the particular cost object under consideration (p. 37).
Indirect labour The labour costs of caretakers, supervisors, materials handlers, and other factory workers that cannot conveniently be traced directly to particular products (p. 23).
Indirect materials Small items of material such as glue and nails. These items may become an integral part of a finished product but are traceable to the product only at great cost or inconvenience (p. 23).
Intermediate market A market in which a transferred product or service is sold in its present form to outside customers (p. 659).
Internal failure costs Costs that are incurred as a result of identifying defective products before they are shipped to customers (p. 757).
Internal rate of return The discount rate at which the net present value of an investment project is zero; thus, the internal rate of return represents the interest yield promised by a project over its useful life. This term is synonymous with time-adjusted rate of return (p. 368).
Investment centre A business segment whose manager has control over cost and over revenue and that also has control over the use of investment funds (p. 595).
ISO 9000 standards Quality control requirements issued by the International Standards Organization that relate to products sold in European countries (p. 764).
Iso-contribution line Traces all the combinations of two products that could produce a particular total contribution (p. 785).

Job cost sheet A form prepared for each job that records the materials, labour and overhead costs charged to the job (p. 66).
Job–order costing system A costing system used in situations where many different products, jobs, or services are produced each period (p. 64).
Joint product costs Costs that are incurred up to the split-off point in producing joint products (p. 329).
Joint products Two or more items that are produced from a common input (p. 329).
Just-in-time (JIT) A production and stock control system in which materials are purchased and units are produced only as needed to meet actual customer demand (pp. 10, 734).

Kaizen budgeting Rather than base budgets on historical standards, kaizen budgeting plans for incremental improvements in efficiency and reductions in costs (p. 793).

Kaizen costing Continuous cost reductions obtained during the manufacturing cycle (p. 793).

Labour efficiency variance A measure of the difference between the actual hours taken to complete a task and the standard hours allowed, multiplied by the standard hourly labour rate (p. 508).
Labour rate variance A measure of the difference between the actual hourly labour rate and the standard rate, multiplied by the number of hours worked during the period (p. 508).
Lead time The interval between the time that an order is placed and the time that the order is finally received from the supplier (p. 733).
Lean enterprises Do not have a chance to create sustainable competitive advantage but can only repeatedly seek to create temporary advantages (p. 695).
Least-squares regression method A method of separating a mixed cost into its fixed and variable elements by fitting a regression line that minimizes the sum of the squared errors (p. 164).
Life cycle costing Analyses costs incurred throughout the life of a product from development through to full production (p. 688).
Limiting factor A different term for a constrained resource that limits the choice of product mix (p. 784).
Line A position in an organization that is directly related to the achievement of the organization's basic objectives (p. 8).

Make or buy decision A decision as to whether an item should be produced internally or purchased from an outside supplier (p. 324).
Management accounting The phase of accounting concerned with providing information to managers for use in planning and controlling operations and in decision making (p. 2).
Management by exception A system of management in which standards are set for various operating activities, with actual results then compared to these standards. Any differences that are deemed significant are brought to the attention of management as 'exceptions' (p. 495).
Management control A broad concept that incorporates traditional management accounting practices such as budgeting as well as more recent developments in performance management (p. 810).
Manufacturing cycle efficiency (MCE) Process (value-added) time as a percentage of throughput time (p. 703).
Manufacturing overhead All costs associated with manufacturing except direct materials and direct labour (p. 22).
Manufacturing overhead budget A detailed plan showing the production costs, other than direct materials and direct labour, that will be incurred over a specified time period (p. 467).
Margin Net operating profit divided by sales (p. 610).
Margin of safety The excess of budgeted (or actual) sales over the break-even volume of sales (p. 232).
Marginal costing Another term for variable costing. See *Variable costing* (p. 195).
Market price The price being charged for an item on the open (intermediate) market (p. 659).
Marketing or **selling costs** All costs necessary to secure customer orders and get the finished product or service into the hands of the customer (p. 24).
Marketing mix Price is one element in product competitiveness together with product, promotion and place (p. 687).
Markup The difference between the selling price of a product or service and its cost. The markup is usually expressed as a percentage of cost (p. 642).

Master budget A summary of a company's plans in which specific targets are set for sales, production, distribution, and financing activities and that generally culminates in a cash budget, budgeted profit and loss account, and budgeted balance sheet (p. 450).

Material loading charge A markup applied to the cost of materials that is designed to cover the costs of ordering, handling, and carrying materials in stock and to provide for some profit (p. 652).

Material requirements planning (MRP) An operations management tool that uses a computer to help manage materials and stocks (p. 463).

Materials price variance A measure of the difference between the actual unit price paid for an item and the standard price, multiplied by the quantity purchased. (p. 504)

Materials quantity variance A measure of the difference between the actual quantity of materials used in production and the standard quantity allowed, multiplied by the standard price per unit of materials (p. 506).

Materials requisition form A detailed source document that specifies the type and quantity of materials that are to be drawn from the storeroom and identifies the job to which the costs of materials are to be charged (p. 65).

Maximin/maximax criteria A way by which decisionmakers may choose options when it is not possible to attach precise probabilities to outcomes (p. 433).

Merchandise purchases budget A budget used by a merchandising company that shows the amount of goods that must be purchased from suppliers during the period (p. 462).

Mixed cost A cost that contains both variable and fixed cost elements (p. 156).

Multiple predetermined overhead rates A costing system in which there are multiple overhead cost pools with a different predetermined rate for each cost pool, rather than a single predetermined overhead rate for the entire company. Frequently, each production department is treated as a separate overhead cost pool (p. 56).

Multiple regression An analytical method required in those situations where variations in a dependent variable are caused by more than one factor (p. 166).

Negotiated transfer price A transfer price agreed on between buying and selling divisions (p. 654).

Net operating profit Profit before interest and profit taxes have been deducted (p. 608).

Net present value The difference between the present value of the cash inflows and the present value of the cash outflows associated with an investment project (p. 363).

Non-value-added activity An activity that consumes resources or takes time but that does not add value for which customers are willing to pay (p. 768).

Normal cost system A costing system in which overhead costs are applied to jobs by multiplying a predetermined overhead rate by the actual amount of the allocation base incurred by the job (p. 69).

Objective function Shows a number of possible outputs that maximize total contribution (p. 785).

Operating assets Cash, debtors, inventory, plant and equipment, and all other assets held for productive use in an organization (p. 608).

Operating leverage A measure of how sensitive profit is to a given percentage change in sales. It is computed by dividing the contribution margin by profit (p. 235).

Operation costing A hybrid costing system used when products are manufactured in batches and when the products have some common characteristics and some individual characteristics. This system handles materials the same as in job–order costing and labour and overhead the same as in process costing (p. 124).
Opportunity cost The potential benefit that is given up when one alternative is selected over another (p. 39).
Optimal combination of product The best that can be achieved given the constraints and the nature of the objective function (p. 785).
Optimizing Trying to get the best result subject to given constraints (p. 728).
Organization chart A visual diagram of a firm's organizational structure that depicts formal lines of reporting, communication, and responsibility between managers (p. 7).
Organizational learning In this business model, management accounting may be used as part of an interactive communication process both within the organization and between the organization and its customers and suppliers (p. 686).
Organizational routines Cyclical, taken-for-granted activities that are often supported by management accounting systems (p. 823).
Organization-sustaining activities Activities that are carried out regardless of which customers are served, which products are produced, how many batches are run, or how many units are made (p. 269).
Out-of-pocket costs Actual cash outlays for salaries, advertising, repairs and similar costs (p. 368).
Overapplied overhead A credit balance in the Manufacturing Overhead account that arises when the amount of overhead cost applied to Work in Process is greater than the amount of overhead cost actually incurred during a period (p. 83).
Overhead application The process of charging manufacturing overhead cost to job cost sheets and to the Work in Process account (p. 69).

Participative budget See Self-imposed budget (p. 454).
Path dependency Change that is not necessarily driven by making the best possible choice because the choice is constrained by previous decisions. The layout of a keyboard is an example of path dependency because although it is not necessarily the best possible format it is difficult to change because it is so widely accepted (p. 821).
Payback period The length of time that it takes for a project to recover its initial cost out of the cash receipts that it generates (p. 381).
Performance report A detailed report comparing budgeted data to actual data (p. 3).
Period costs Those costs that are taken directly to the profit and loss account as expenses in the period in which they are incurred or accrued; such costs consist of selling (marketing) and administrative expenses (p. 24).
Plan-do-check-act (PDCA) cycle A systematic approach to continuous improvement that applies the scientific method to problem solving (p. 762).
Planning Developing objectives and preparing budgets to achieve these objectives (pp. 2, 450).
Planning and control cycle The flow of management activities through planning, directing and motivating, and controlling, and then back to planning again (p. 4).
Plantwide overhead rate A single predetermined overhead rate that is used throughout a plant (p. 86).
Postaudit The follow-up after a project has been approved and implemented to determine whether expected results are actually realized (p. 387).

Practical standards Standards that allow for normal machine downtime and other work interruptions and that can be attained through reasonable, though highly efficient, efforts by the average worker (p. 496).

Predetermined overhead rate A rate used to charge overhead cost to jobs in production; the rate is established in advance for each period by use of estimates of total manufacturing overhead cost and of the total allocation base for the period (p. 68).

Preference decision A decision as to which of several competing acceptable investment proposals is best (p. 363).

Present value The value now of an amount that will be received in some future period (p. 392).

Prevention costs Costs that are incurred to keep defects from occurring (p. 755).

Price elasticity of demand A measure of the degree to which the volume of unit sales for a product or service is affected by a change in price (p. 642).

Prime cost Direct materials cost plus direct labour cost (p. 23).

Process costing A costing method used in situations where essentially homogeneous products are produced on a continuous basis (p. 109).

Process costing system A costing system used in those manufacturing situations where a single, homogeneous product (such as cement or flour) is produced for long periods of time (p. 63).

Process re-engineering An approach to improvement that involves completely redesigning business processes in order to eliminate unnecessary steps, reduce errors, and reduce costs (p. 767).

Processing department Any location in an organization where work is performed on a product and where materials, labour, or overhead costs are added to the product (p. 110).

Product costs All costs that are involved in the purchase or manufacture of goods. In the case of manufactured goods, these costs consist of direct materials, direct labour, and manufacturing overhead. Also see **Stock-related** costs (p. 24).

Product differentiation Aims to maintain a price premium based on superior product quality (p. 689).

Production budget A detailed plan showing the number of units that must be produced during a period in order to meet both sales and stock needs (p. 462).

Production report A report that summarizes all activity in a department's Work in Process account during a period and that contains three parts: a quantity schedule and a computation of equivalent units, a computation of total and unit costs, and a cost reconciliation (p. 110).

Product-level activities Activities that relate to specific products that must be carried out regardless of how many units are produced and sold or batches run (p. 269).

Professional norms These may be a source of stability or change but they may help to spread management practices throughout whole industries and even national economies (p. 823).

Profit centre A business segment whose manager has control over cost and revenue but has no control over the use of investment funds (p. 594).

Profitability index The ratio of the present value of a project's cash inflows to the investment required (p. 380).

Prospector A company that is continually searching for market opportunities (p. 689).

Quality circles Small groups of employees that meet on a regular basis to discuss ways of improving quality (p. 755).

Quality cost Costs that are incurred to prevent defective products from falling into the hands of customers or that are incurred as a result of defective units (p. 754).

Quality cost report A report that details prevention costs, appraisal costs, and the costs of internal and external failures (p. 758).
Quality of conformance The degree to which a product or service meets or exceeds its design specifications and is free of defects or other problems that mar its appearance or degrade its performance (p. 754).
Quantity schedule The part of a production report that shows the flow of units through a department during a period and a computation of equivalent units (p. 119).

Range of acceptable transfer prices The range of transfer prices within which the profits of both the selling division and the purchasing division would increase as a result of a transfer (p. 655).
Raw materials Materials that are used to make a product (pp. 22, 734).
Real options A way of placing a value on flexibility or the value of keeping one's options open (p. 435).
Realm of action Where the analytical focus is on individual agency (p. 822).
Realm of institutions Where the analytical focus is on institutional influences of imitation (p. 822).
Regression line A line fitted to an array of plotted points. The slope of the line, denoted by the letter b in the linear equation $Y = a + bX$, represents the average variable cost per unit of activity. The point where the line intersects the cost axis, denoted by the letter a in the above equation, represents the average total fixed cost (p. 162).
Regressive versus progressive Ceremonial change as opposed to instrumental change (p. 822).
Relaxing (or elevating) the constraint Increasing the capacity of a bottleneck (p. 788).
Relevant cost A cost that differs between alternatives in a particular decision. In managerial accounting, this term is synonymous with avoidable cost and differential cost (p. 312).
Relevant range The range of activity within which assumptions about variable and fixed cost behaviour are valid (pp. 36, 150).
Reorder point The point in time when an order must be placed to replenish depleted stocks is determined by multiplying the lead time by the average daily or weekly usage (p. 733).
Required rate of return The minimum rate of return that an investment project must yield to be acceptable (p. 371).
Residual income The net operating profit that an investment centre earns above the required return on its operating assets (p. 614).
Responsibility accounting A system of accountability in which managers are held responsible for those items of revenue and cost – and only those items – over which the manager can exert significant control. The managers are held responsible for differences between budgeted and actual results (p. 452).
Responsibility centre Any business segment whose manager has control over cost, revenue, or the use of investment funds (p. 595).
Return on investment (ROI) Net operating profit divided by average operating assets. It also equals margin multiplied by turnover (p. 608).
Revolutionary versus evolutionary Fundamental disruptive change as opposed to gradual change (p. 822).
Risk Formally, this is a situation when it is possible to attach some probability to outcomes (p. 428).

Safety stock The difference between average usage of materials and maximum usage of materials that can reasonably be expected during the lead time (p. 734).

Sales budget A detailed schedule showing the expected sales for coming periods; these sales are typically expressed in both pounds and units (p. 458).

Sales mix The relative proportions in which a company's products are sold. Sales mix is computed by expressing the sales of each product as a percentage of total sales (p. 239).

Satisficing Behaviour that takes a 'good enough' rather than optimizing approach to decision making (p. 821).

Scattergraph method A method of separating a mixed cost into its fixed and variable elements. Under this method, a regression line is fitted to an array of plotted points by drawing a line with a straight-edge (p. 162).

Schedule of cost of goods manufactured A schedule showing the direct materials, direct labour and manufacturing overhead costs incurred for a period and assigned to Work in Process and completed goods (p. 29).

Screening decision A decision as to whether a proposed investment meets some preset standard of acceptance (p. 362).

Second-stage allocation The process by which activity rates are used to apply costs to products and customers in activity-based costing (p. 277).

Segment Any part of an organization that can be evaluated independently of other parts and about which the manager seeks financial data. Examples include a product line, a sales territory, a division, or a department (pp. 6, 594).

Segment margin The amount computed by deducting the traceable fixed costs of a segment from the segment's contribution margin. It represents the margin available after a segment has covered all of its own costs (p. 602).

Self-imposed budget A method of preparing budgets in which managers prepare their own budgets. These budgets are then reviewed by the manager's supervisor, and any issues are resolved by mutual agreement (p. 454).

Sell or process further decision A decision as to whether a joint product should be sold at the split-off point or processed further and sold at a later time in a different form (p. 331).

Selling and administrative expense budget A detailed schedule of planned expenses that will be incurred in areas other than manufacturing during a budget period (p. 467).

Sensitivity analysis Involves calculating the effect of other possibilities, such as a rise in the market price of a product (p. 786).

Setup costs Cost involved in getting facilities ready to change over from making one product to another (p. 732).

Shadow prices Defined as the increase in value that would be created by having one additional unit of a limiting resource (p. 787).

Simple rate of return The rate of return computed by dividing a project's annual accounting profit by the initial investment required (p. 385).

Simplex method A mathematical technique that solves linear programming problems (p. 784).

Special order A one-time order that is not considered part of the company's normal on-going business (p. 326).

Split-off point That point in the manufacturing process where some or all of the joint products can be recognized as individual products (p. 329).

Staff A position in an organization that is only indirectly related to the achievement of the organization's basic objectives. Such positions are supportive in nature in that they provide service or assistance to line positions or to other staff positions (p. 8).

Standard cost card A detailed listing of the standard amounts of materials, labour, and overhead that should go into a unit of product, multiplied by the standard price or rate that has been set for each cost element (p. 496).

Standard cost per unit The standard cost of a unit of product as shown on the standard cost card; it is computed by multiplying the standard quantity or hours by the standard price or rate for each cost element (p. 500).
Standard deviation A measure of risk that numerically captures the spread of outcomes around the mean or average (p. 429).
Standard hours allowed The time that should have been taken to complete the period's output as computed by multiplying the actual number of units produced by the standard hours per unit (p. 501).
Standard hours per unit The amount of labour time that should be required to complete a single unit of product, including allowances for breaks, machine downtime, cleanup, rejects, and other normal inefficiencies (p. 498).
Standard price per unit The price that should be paid for a single unit of materials, including allowances for quality, quantity purchased, shipping, receiving, and other such costs, net of any discounts allowed (p. 497).
Standard quantity allowed The amount of materials that should have been used to complete the period's output as computed by multiplying the actual number of units produced by the standard quantity per unit (p. 501).
Standard quantity per unit The amount of materials that should be required to complete a single unit of product, including allowances for normal waste, spoilage, rejects, and similar inefficiencies (p. 498).
Standard rate per hour The labour rate that should be incurred per hour of labour time, including employment taxes, fringe benefits, and other such labour costs (p. 498).
Static budget A budget designed for only one level of activity (p. 543).
Statistical process control A charting technique used to monitor the quality of work being done in a workstation for the purpose of immediately correcting any problems (p. 755).
Step-variable cost A cost (such as the cost of a maintenance worker) that is obtainable only in large chunks and that increases and decreases only in response to fairly wide changes in the activity level (p. 149).
Stock carrying costs Those costs that result from having stock in stock, such as rental of storage space, handling costs, property taxes, insurance, and interest on funds. These costs also should include costs of excess work in process stock such as inefficient production, excess lead times, high defect rates, and risks of obsolescence (p. 728).
Stock ordering costs Those costs associated with the acquisition of stock, such as clerical costs and transportation costs (p. 728).
Stock-related costs (also known as inventoriable costs) Synonym for product costs (p. 32).
Strategic choice Choosing not only which industries and products to compete in but also how a company plans to compete (p. 686).
Strategic management accounting The use of management accounting information to help managers choose where and how to compete (p. 9).
Structural drivers Factors such as scale, scope, experience, technology, and complexity (p. 689).
Suboptimization An overall level of profitability that is less than a segment or a company is capable of earning (p. 654).
Sunk cost Any cost that has already been incurred and that cannot be changed by any decision made now or in the future (pp. 40, 313).
Supply chain management An extension of the make-or-buy decision which takes a strategic perspective (p. 796).

Target costing The process of determining the maximum allowable cost for a new product and then developing a prototype that can be profitably manufactured and distributed for that maximum target cost figure (p. 649).

Theory of constraints (TOC) A management approach that emphasizes the importance of managing constraints (pp. 10, 788).
Throughput accounting (TA) Ranking products by calculating the throughput accounting ratio (p. 791).
Throughput accounting ratio Return per factory hour divided by cost per factory hour (p. 791).
Throughput time The time required to make a completed unit of product starting with raw materials (also known as cycle time) (pp. 702, 738).
Time and material pricing A pricing method, often used in service firms, in which two pricing rates are established – one based on direct labour time and the other based on direct materials used (p. 651).
Time ticket A detailed source document that is used to record an employee's hour-by-hour activities during a day (p. 66).
Time-adjusted rate of return This term is synonymous with internal rate of return (p. 368).
Total cost of ownership Recognizes that price may only be a part of total cost of obtaining a component or service and includes other costs such as delivery, support, defects, stockholding, delays, inspection, and handling (p. 798).
Total quality management (TQM) An approach to continuous improvement that focuses on customers and using teams of front-line workers to systematically identify and solve problems (pp. 10, 762).
Traceable fixed cost A fixed cost that is incurred because of the existence of a particular business segment (p. 600).
Transfer price The price charged when one division or segment provides goods or services to another division or segment of an organization (p. 654).
Transferred-in cost The cost attached to products that have been received from a prior processing department (p. 113).
Turnover The amount of sales generated in an investment centre for each pound invested in operating assets. It is computed by dividing sales by the average operating assets figure (p. 610).

Uncertainty Situations where it is not possible to attach probabilities to outcomes (p. 428).
Underapplied overhead A debit balance in the Manufacturing Overhead account that arises when the amount of overhead cost actually incurred is greater than the amount of overhead cost applied to Work in Process during a period (p. 83).
Unit-level activities Activities that arise as a result of the total volume of goods and services that are produced, and that are performed each time a unit is produced (p. 269).

Value chain The major business functions that add value to a company's products and services. These functions consist of research and development, product design, manufacturing, marketing, distribution, and customer service (pp. 605, 689).
Value engineering/value analysis A technique for guiding product design through the analysis of the ratio of functionality to cost (p. 793).
Variable cost A cost that varies, in total, in direct proportion to changes in the level of activity. A variable cost is constant per unit (p. 34).
Variable costing A costing method that includes only variable manufacturing costs – direct materials, direct labour, and variable manufacturing overhead – in the cost of a unit of product. Also see *Marginal costing* or *Direct costing* (p. 189).
Variable overhead efficiency variance The difference between the actual activity (direct labour-hours, machine-hours, or some other base) of a period and the standard activity allowed, multiplied by the variable part of the predetermined overhead rate (p. 511).

Variable overhead spending variance The difference between the actual variable overhead cost incurred during a period and the standard cost that should have been incurred based on the actual activity of the period (p. 510).
Variance The difference between standard prices and quantities on the one hand and actual prices and quantities on the other hand (p. 501).
Vertical integration The involvement by a company in more than one of the steps from production of basic raw materials to the manufacture and distribution of a finished product (pp. 324, 793).
Volume variance The variance that arises whenever the standard hours allowed for the output of a period are different from the denominator activity level that was used to compute the predetermined overhead rate (p. 560).

Weighted-average method A method of process costing that blends together units and costs from both the current and prior periods (p. 116).
Work in process Units of product that are only partially complete and will require further work before they are ready for sale to a customer (p. 735).
Working capital The excess of current assets over current liabilities (p. 365).

Yield A term synonymous with internal rate of return and time-adjusted rate of return (p. 368).

Zero-based budget A method of budgeting in which managers are required to justify all costs as if the programmes involved were being proposed for the first time (p. 474).