Glossary of Management Accounting Terms

Estd. 1951

Institute of Cost and Management Accountants of Pakistan

Vision

“To be the Preference in Value Optimization for Business”

Mission Statement

“To develop strategic leaders through imparting quality education and training in Management Accounting, to continually set and upgrade professional standards and to conduct research, bringing value-addition to the economy”

Core Values

“Integrity, Competence, Pro-activity and Innovation.”

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Foreword

I am delighted to present this ***"Glossary of Management Accounting Terms"***, compiled by the Research Department of our Institute, for the reference and benefit of members and students.

In recent times, the profession of Management Accounting has witnessed rapid changes, with new terminologies and concepts being introduced or re-defined. It is the need of the hour that our members and students should keep themselves abreast with these changes in the global accounting environment. In this perspective, the glossary being published by the Institute would help the members to remain update with the new terms and acronyms in the management accounting.

I appreciate the efforts of the Research, Quality Assurance & Ethics Committee for their initiative and the Research Department for their dedicated efforts in bringing out this useful reference guide.

Hasan A. Bilgrami, FCMA
President ICMAP

Dated: April 2009

Preface

There was a long expressed need from our members, both in practice and in employment, to prepare a reference booklet on the updated terminologies and definitions being used in the management accounting field, which could help them in keeping up-to-date on the global changes in the profession.

The Research Department deserves appreciation for realizing this need of our members, and compiling a comprehensive ***"Glossary of Management Accounting Terms"***, now in your hands. This concise dictionary contains most important and common terms and definitions, currently in use in Cost and Management accounting. The Glossary attempts to provide a convenient reference source, especially for the qualified members and students of our Institute, and generally for all other persons who wish to have better understanding of the management accounting subject.

In preparing this glossary, a number of references have been consulted from the published books and journals on Management Accounting. The terms used in this Glossary have been alphabetically arranged, which makes it easy to find the desired terms and their definitions.

All possible efforts have been made to present an authentic glossary, however, there are always chances of unintended mistakes. I would request the readers to overlook these mistakes and come out with their valuable suggestions for improving this booklet. These would be considered for the revised edition.

I hope the readers would find this research publication a useful reference guide.

Masud Muzaffar, FCMA
Chairman, Research, Quality
Assurance & Ethics Committee

Dated: April 2009

Glossary of Management Accounting Terms

A

Absorption costing	A product-costing method that assigns all manufacturing costs to a product: direct materials, direct labor, variable overhead, and fixed overhead.
Absorption-costing (full-costing) income	Income computed using a functionally-based statement. Cost of goods sold includes all variable manufacturing costs and a portion of fixed factory overhead.
Acceptable quality level (AQL)	An approach to quality control that permits or allows defects to occur provided they do not exceed a predetermined level.
Acceptance-or-rejection decision	A decision as to whether or not a particular capital investment proposal should be accepted.
Account-classification method (also called account analysis)	A cost-estimation method involving a careful examination of the ledger accounts for the purpose of classifying each cost as variable, fixed, or semi variable.
Accounting rate of return	The rate of return obtained by dividing the average accounting net income by the original investment (or by average investment).
Accumulation factor	The value of $(1 + r)^n$, in a future value calculation, where *'r'* denotes the interest rate per year and *'n'* denotes the number of years.
Accurate information	Precise and correct data.
Activity	A basic unit of work performed within an organization. It also can be defined as an aggregation of actions within an organization useful to managers for purposes of planning, controlling, and decision-making.

Activity accounting	The collection of financial or operational performance information about significant activities in an enterprise.
Activity analysis	The process of identifying, describing, and evaluating the activities an organization performs.
Activity attributes	Nonfinancial and financial information items that describe individual activities.
Activity base (or cost driver)	A measure of an organization's activity that is used as a basis for specifying cost behavior. The activity base also is used to compute a predetermined overhead rate. The current trend is to refer to the activity base as a volume based cost driver.
Activity budgeting	The process of estimating the demand for each activity's output and assessing the cost of resources required produce this output.
Activity capacity	The number of times an activity can be performed.
Activity cost pool	A grouping of overhead costs assigned to various similar activities identified in an activity-based costing system.
Activity dictionary	A list of activities described by specific attributes such as name, definition, classification as primary or secondary, and activity driver.
Activity drivers	Factors that measure the consumption of activities by products and other cost objects.
Activity elimination	The process of eliminating nonvalue added activities.
Activity flexible budget	The prediction of what activity costs will be as activity usage changes.
Activity inputs	The resources consumed by an activity in producing its output (they are the factors that enable the activity to be performed).
Activity output	The result or product of an activity.

Activity output measure	The number of times an activity is performed. It is the quantifiable measure of the output.
Activity reduction	Decreasing the time and resources required by an activity.
Activity selection	The process of choosing among sets of activities caused by competing strategies.
Activity sharing	Increasing the efficiency of necessary activities by using economics of scale.
Activity volume variance	The cost of the actual activity capacity acquired and the capacity that should be used.
Activity-based cost (ABC) system	A cost system that first traces costs to activities and then traces costs from activities to products.
Activity-based costing (ABC)	A cost assignment approach that first uses direct and driver tracing to assign costs to activities and then uses drivers to assign costs to cost objects.
Activity-based management (ABM)	A systemwide integrated approach, that focuses management's attention on activities with the objective of improving customer value and the profit achieved by providing this value. It includes driver analysis, activity analysis, and performance evaluation, and draws on activity-based costing as major source of information.
Activity-based management (ABM) accounting system	An accounting system that emphasizes the use of activities for assigning and managing costs.
Activity-based responsibility accounting	A control system defined by centering responsibility on processes and teams were activity performance is measured in terms of time, quality, and efficiency.
Actual costing	An approach that assigns actual costs of direct materials, direct labor, and overhead to products.

Actual manufacturing overhead	The actual costs incurred during an accounting period for manufacturing overhead. Includes actual indirect material, indirect labor, and other manufacturing costs.
Actual overhead rate	The rate at which overhead costs are actually incurred during an accounting period. Calculated as follows: actual manufacturing overhead ÷ actual cost driver (or activity base).
Adjusted cost of goods Sold	The cost of goods sold after all adjustments for overhead variance are made.
Administrative costs	All costs associated with the general administration of the organization that cannot be reasonably assigned to either marketing or production.
Advance pricing agreements	Agreements between the Internal Revenue Service and a taxpayer on the acceptability of a transfer price. The agreement is private and is binding on both parties for a specified period of time.
Aesthetics	A quality attribute that is concerned with the appearance of tangible products (for example, style and beauty) as well as the appearance of the facilities, equipment, personnel, and communication materials associated with services.
After-tax cash flow	The cash flow expected after all tax implications have been taken into account.
After-tax net income	An organization's net income after its income-tax expense is subtracted.
Aggregate (or total) productivity	Total output divided by total input.
Allocation	Assignment of indirect costs to cost objects.
Annuity	A series of future cash flows.
Applied overhead	Over head assigned to production using predetermined rates.

Appraisal costs	Costs incurred to determine whether products and services are conforming to requirements.
Attention-directing function	The function of managerial accounting information in pointing out to managers issues that need their attention.
Automated material handling system (AMHS)	Computer controlled equipment that automatically moves materials, parts, and products from one production stage to another.
Average cost per unit	The total cost of producing a particular quantity of product divided by the number of units produced.
Avoidable expenses	Expenses that will no longer be incurred if a Particular action is taken.

B

Balanced Scorecard	A responsibility accounting system objectives and measures for four different perspectives: the financial perspective, the customer perspective, the process perspective, and the learning and growth (infrastructure) perspective.
Bar code technology	The use of symbolic codes, which are scanned automatically and read into a computer, to record the use of labor and material, track work in process and finished goods, and record other production-related information.
Base budgeting	he initial budge for each of an organization's department is set in accordance with a base package under an approach called base budgeting.
Base package	An initial budge that includes the minimal resource needed for a subunit to exist at an absolute minimal level.
Base period	A prior period used to set the benchmark for measuring productivity changes.

Batch-level activities	Activities that are performed each time a batch is produced.
Batch manufacturing	High-volume production of several product lines that differ in some important ways but are nearly identical in others.
Before-tax income	An organization's income before its income-tax expense is subtracted.
Benchmarking	An approach that uses best practices as the standard for evaluating activity performance.
Best-fitting line	The line that fits a set of data points the best in the sense that the sum of the squared deviations of the data points from the line is the smallest.
Best practices	The most effective methods of accomplishing various task in a particular industry, often discovered through benchmarking.
Bill of activities (for a product or service)	A complete listing of the activities required for that product or service to be produced.
Bill of materials	A list of all materials needed to manufacture a product or product component.
Binding constraints	Constraints whose resources are fully utilized.
Break-even point	The point where total sales revenue equals total costs; the point of zero profits.
Budget	Plans of action expressed in financial terms.
Budget administration	The procedures used to prepare a budge, secure its approval, and disseminate it to the peoples who need to know its contents.
Budget committee	A committee responsible for setting budgetary policies and goals, reviewing and approving the budget, and resolving any differences that man arise in the budgetary process.
Budget director	The individual responsible for coordinating and directing the overall budgeting process.

Budgetary slack	The process of padding the budget by overestimating costs and underestimating revenues.
Budgeted balance sheet	Shows the expected end-of-period balances for the company's assets, liabilities, and owner's equity.
Budgeted financial statements (or pro forma financial statements)	A set of planned financial statements showing what an organization's overall financial condition is expected to be at the end of the budget period if planned operations are carried out.
Budgeted income statement	Shows the expected revenue and expenses for a budget period, assuming that planned operations are carried out.
Budgeted schedule of cost of goods manufactured and sold	Detail the direct material, direct labor, and manufacturing over head costs to be incurred and shows the cost of the goods to be sold during a budge period.
Budgeted statement of cash flow	A budge schedule providing information about the expected sources and uses of cash for operating activities, investing activities, and financing activities during a particular period of time.
Budgeting system	The set of procedures used to develop a budget.
Budget manual	A set of written instructions that specifies who will provide budgetary data, when and in what form the data will be provided, how the master budget will be prepared and approved, and who should receive the various schedules constituting the budget.
Budget period	The time period covered by a budget.
By-product	A joint product with very little value relative to the other joint products.

C

Capital budget	A long-term budget that shows planned acquisition and disposal of capital assets, such as land, building, and equipment.
Capital budgeting	The process of making capital investment decisions,
Capital-intensive	A production process accomplished largely by machinery.
Capital investment Decisions	The process of planning, setting goals and priorities, arranging financing, and identifying criteria for making long-term investments.
Capital-rationing decision	A decision in which management chooses which of several investment proposals to accept to make the best use of limited investment funds.
Capital turnover	Sales revenue divided by invested capital.
Carrying costs	The costs of holding inventory.
Cash budget	A detailed plan that outlines all sources and uses of cash.
Cash disbursements budget	A schedule detailing expected cash payments during a budget period.
Cash equivalents	Short-term, highly liquid investments that are treated as equivalent to cash in the preparation of a statement of cash flows.
Cash provided by (or used by) operations	The difference between the cash receipts and cash disbursements that are related to operating activities.
Cash receipts budget	A schedule detailing the expected cash collections during the budget period.
Casual factors	Activities or variables that invoke service costs. Generally, it is desirable to use causal factors as the basis for allocating service costs.

Centralized decision Making	A system in which decisions are made at the top level of an organization and local managers are given the charge to implement them.
Certified Internal Auditor (CIA)	A person who has passed a comprehensive examination designed to ensure technical competence and has two year's experience.
Certified Management Accountant (CMA)	A person who has passed a rigorous qualifying examination, has met an experience requirement, and participates in continuing education.
Certified Public Accountant (CPA)	A person who is permitted (by Law) to serve as an external auditor and who must pass a national examination and be licensed by state in which he or she practices.
Coefficient of correlation	The square root of the coefficient of determination, which is used to express not only the degree of correlation between two variables but also the direction of the relationship.
Coefficient of determination	The percentage of total variability in a dependent variable (e.g., cost) that is explained by an independent variable (e. g activity level). It assumes a value between 0 and 1.
Committed cost	A cost that results from an organization's ownership or use of facilities and its basic organization structure.
Committed fixed expenses	Expenses incurred for the acquisition of long-term activity capacity, usually as the result of strategic planning.
Committed resources	Resources that are purchased in advance of usage. These resources may or may not have unused (excess) capacity.
Common costs	The costs of resources used in the output of two or more services or products.
Common fixed expenses	Fixed expenses that cannot be directly traced to individual segments and that are unaffected by the elimination of any one segment.

Common-size financial statements	Financial statements prepared in terms of percentages of a base amount.
Comparable uncontrolled price method	The transfer price most preferred by the Internal Revenue Service under Section 482. The comparable uncontrolled price is essentially equal to the market price.
Comparative financial statements	Financial statements showing the results of two or more successive years.
Competitive benchmarking	An approach that uses best practices as the standard for evaluating activity performance.
Competitive bidding	A situation where two or more companies submit bids (prices) for a product, service, or project to a potential buyer.
Compound interest	The interest earned on prior periods' interest.
Compounding of interest	Paying interest on interest.
Computer-aided design (CAD) system	Computer software used by engineers in the design of a product.
Computer-integrated manufacturing (CIM) system	The most advanced form of automated manufacturing, in which virtually all parts of the production process are accomplished by computer-controlled machines and automated material-handling equipment.
Computer-numerically-controlled (CNC) machines	Stand-alone machines controlled by a computer via a numerical, machine-readable code.
Constraint set	The collection of all constraints that pertain to a particular optimization problem.
Constraints	Mathematical expressions that express resource limitations.
Consumption ratio	The proportion of an overhead activity consumed by a product.
Continuous budget	A moving twelve-month budget with a future month added as the current month expires.

Continuous improvement	The process of searching for ways of increasing the overall efficiency and productivity of activities by reducing waste, increasing quality, and reducing costs.
Continuous improvement	The constant efforts to eliminate waste, reduce response time, simplify the design of both products and processes, and improve quality and customer service.
Continuous replenishment	A system where a manufacturer assumes the inventory management function for the retailer.
Continuous improvement	An income statement on which fixed and variable expenses are separated.
Contribution margin	Sales revenue minus total variable cost or price minus unit variable cost.
Contribution margin per unit	The difference between the unit sales price and the unit variable expense. The amount that each unit contributes to covering fixed expenses and profit.
Contribution margin ratio	Contribution margin divided by sales revenue. It is the proportion of each sales dollar available to cover fixed costs and provide for profit.
Control	The process of setting standards, receiving feedback on actual performance, and taking corrective action whenever actual performance deviates significantly from planed performance.
Control activities	Activities performed by an organization to prevent or detect poor quality (because poor quality may exist).
Control costs	Cost incurred from performing control activities.
Control factor unit	A measure of work or activity used in work measurement.
Control limits	The maximum allowable deviation from a standard.
Controllable costs	Costs that managers have the power to influence.

Controllability	The extent to which managers are able to control or influence a cost or cost variance.
Controller (or comptroller)	The chief accounting officer supervises all accounting departments.
Controlling	The managerial activity of monitoring a plan's implementation and taking corrective action as needed.
Conversion cost	The sum of direct labor cost and overhead cost.
Core objectives and measures	Those objectives and measures common to most organizations.
Cost	The cash or cash equivalent value sacrificed
Cost Accounting Standards	Cost- accounting procedures specified by the Cost Accounting Standards Board, an agency of the federal government, USA.
Cost Accounting Standards Board (CASB)	A federal agency in USA chartered by Congress in 1970 to develop cost-accounting standards for large government contractors.
Cost accounting system	Part of the basic accounting system that accumulates cost for use in both managerial and financial accounting.
Cost allocation	The process of assigning costs in a cost pool to the appropriate cost objects. Also see cost distribution.
Cost assignment	The process of associating the costs, once measured, with the units produced.
Cost behavior	The way in which a cost changes in relation to changes in activity usage.
Cost center	A division of a company that is evaluated on the basis of cost.
Cost distribution (sometimes called cost allocation)	The first step in assigning manufacturing overhead costs. Overhead costs are assigned to all departmental overhead centers.

Cost driver	A characteristic of an activity or event that results in the incurrence of costs by that activity or event.
Cost estimation	The process of determining how a particular cost behaves.
Cost formula	A linear function, Y = F + VX, where Y = Total mixed cost, F = Fixed cost, V + Variable cost per unit of activity, and X = Activity level.
Cost management system (CMS)	A management planning and controlling system that measures the cost of significant activities, identifies non-value-added cost, and identifies activities that will improve organizational performance.
Cost measurement	The act of determining the dollar amounts of direct materials, direct labor, and overhead used in production.
Cost object	Any item, such as products, departments, projects, activities, and so on, for which costs are measured and assigned.
Cost of capital	The cost of investment funds, usually viewed as a weighted average of the costs of funds from all sources.
Cost of goods manufactured	The total cost of goods completed during the current period.
Cost of goods sold	The cost of direct materials, direct labor, and overhead attached to the units sold.
Cost of goods sold budget	The estimated costs for the units sold.
Cost-plus method	A transfer price acceptable to the Internal Revenue Service under Section 482. The cost-plus method is simply a cost-based transfer price.
Cost pool	A collection of costs to be assigned to a set of cost objects.
Cost prediction	Forecast of cost at a particular level of activity.

Cost reconciliation	The final section of the production report that compares the costs to account for with the costs accounted for to ensure that they are equal.
Cost of quality	Costs incurred because poor quality may exist or because poor quality does exist.
Cost structure	The relative proportions of an organization's fixed and variable costs.
Cost variance	The difference between actual and standard cost.
Cost-volume-profit (CVP) analysis	A study of the relation-ships between sales volume, expenses, revenue, and profit.
Cost-volume-profit graph	A graph that depicts the relationships among costs, volume, and profits. It consists of a total revenue line and a total cost line.
Cost-volume-profit (CVP) analysis	A study of the relation-ships between sales volume, expenses, revenue, and profit.
Currency appreciation	When one country's currency becomes stronger and can purchase more units of another country's currency.
Currency depreciation	When one country's currency becomes weaker and can purchase fewer units of another country's currency.
Currency risk management	A company's management of its transaction, economic, and translation exposure due to exchange rate fluctuations.
Currency attainable standards	Standards that reflect an efficient operating state; they are rigorous but achievable.
Curvilinear cost	A cost with a curved line for its graph.
Customer-acceptance measures	The extent to which a firm's customers perceive its product to be of high quality.
Customer perspective	A balanced scorecard viewpoint that defines the customer and market segments in which the business will compete.
Customer profitability analysis	Using the concepts of activity-based costing to determine the activities, costs, and profit associated with serving particular customers.

Customer profitability profile	A graphical portrayal of a company's customer profitability analysis.
Customer value	Realization less sacrifice, were realization is what the customer receives and sacrifice is what is given up.
Cycle time	The length of time required to produce one unit of a product.

D

Decentralization	The granting of decision-making freedom to lower operating levels.
Decentralization decision making	A system in which decisions are made and implemented by lower-level managers.
Decision making	The process of choosing among competing alternatives.
Decision model	A specific set of procedures that, when followed, produces a decision.
Decision package	A description of service levels, with associated costs that a decision unit can or would like to offer.
Decision variable	The variable in a linear program about which a decision is made.
Defective product	A product or service that does not conform to specification.
Degree of operating leverage (DOL)	A measure of the sensitivity of profit changes to changes in sales volume. It measures the percentage change in profits resulting from a percentage change in sales.
Delivery cycle time	The average time between the receipt of a customer order and delivery of the goods.
Demand curve	A graph of the relationship between sales price and the quantity of unit sold.
Department overhead center	Any department to which overhead cost are assigned via overhead cost distribution.

Department overhead rate	An overhead rate calculated for a single production department.
Department production report	The key document in a process-costing system. This report summarizes the physical flow of units, equivalent units of production, cost per equivalent unit and analysis of total departmental costs.
Dependent variable	A variable whose value depends on the value of another variable. For example. Y in the cost formula Y = F + VX depends on the value of X.
Department tax shield	The reduction in a firm's income-tax expense due to the depreciation expense associated with a depreciable asset.
Differential cost	The difference in a cost items fewer than two decision alternatives.
Direct costs	Costs that can be easily and accurately traced to a cost object.
Direct exchange (or nocash) transaction	A significant investing or financing transaction-involving accounts other than cash such as a transaction where land is obtained in exchange for the issuance of capital stock.
Direct fixed expenses	Fixed costs that are directly traceable to a given segment and, consequently, disappear if the segment is eliminated.
Direct labor	Labor that is traceable to the goods or services being produced.
Direct labor budget	A budget showing the total direct labor hours needed and the associated cost for the number of units in the production budget.
Direct-labor cost	The cost of salaries, wages, and fringe benefits for personnel who work directly on the manufactured products.
Direct-labor efficiency variance	The difference between actual and standard hours of direct labor multiplied by the standard hourly labor rate.

Direct-labor rate variance	The difference between actual and standard hourly labor rate multiplied by the actual hours of direct labor used
Direct material	Materials those are traceable to the goods or services being produced.
Direct materials budget	A budget that outlines the expected usage of materials production and purchases of the direct materials required.
Direct-material price variance (or purchase price variance)	The difference between actual and standard price multiplied by the actual quantity of material purchased.
Direct-material quantity variance	The difference between actual and standard quantity of materials allowed, given actual output multiplied by the standard price.
Direct method	A method that allocates service costs directly to producing departments. This method ignores any interactions that may exist among support departments.
Directing operational activities	Running an organization on a day-to-day basis.
Direct tracing	The process of identifying costs that is specifically or physically associated with a cost object.
Discount factor	The factor used to convert a future cash flow to its present value.
Discount rate	The rate of return used to compute the present value of future cash flows.
Discounted cash flows	Future cash flows expressed in present-value terms.
Discounting	The act of finding the present value of future cash flows.
Discounting models	Capital investment models that explicitly consider the time value of money in identifying criteria for accepting or rejecting proposed projects.

Discretionary cost	A cost that results from a discretionary management decision to spend a particular amount of money.
Discretionary fixed Expenses	Expenses incurred for the acquisition of short-term capacity or services, usually as the result of yearly planning.
Distribution cost	The cost of storing and transporting finished goods for sale.
Double-loop feedback	Information about both the effectiveness of strategy implementation and the validity of assumptions underlying the strategy.
Driver analysis	The effort expended to identify those factors that are the root causes of activity costs.
Driver tracing	The use of drivers to assign costs to cost objects.
Drivers	Factors that cause changes in resource usage, activity usage, costs, and revenues.
Drum-Buffer-Rope (DBR) System	The TOC inventory management system that relies on the drum beat of the major constrained resources, time buffers, and ropes to determine inventory levels.
Dumping	Predatory pricing in the international market.
Dual cost allocation	An approach to serve department cost allocation in which variable costs are allocated in proportion to short-term usage and fixed costs are allocated in proportion to long-term usage.
Durability	The length of time a product functions.
Dysfunctional behavior	Individual behavior that conflicts with the goals of the organization.

E

E-budgeting	An electronic and enterprise-wide budgeting process in which employees throughout the organization can submit and retrieve budget information electronically via the internet.
Ecoefficiency	A view of environmental management maintaining that organizations can produce more useful goods and services while simultaneously reducing negative environmental impacts, resource consumption, and costs.
Economic order quantity (EOQ)	The amount that should be ordered (or produced) to minimize the total ordering (or setup) and carrying costs. The amount that should be ordered (or produced) to minimize the total ordering (or setup) and carrying costs.
Economic risk	The possibility that a firm's present value of future cash flows can be affected by exchange fluctuations.
Economic value added (EVA)	A performance measure that is calculated by taking the after-tax operating profit minus the total annual cost of capital.
Electronic data Interchange (EDI)	An inventory management method that allows suppliers access to a buyer's on-line database.
Employee empowerment	The authorization of operational personnel to plan, controls, and makes decisions without explicit authorization from middle and higher-level management.
Empowerment	The concept of encouraging and authorizing workers to take the initiative to improve operations, reduce costs, and improve product quality and customer services.
Ending finished goods inventory budget	A budget that describes planned ending inventory of finished goods in units and dollars.
Engineered cost	A cost that results from a definitive physical relationship with the activity measure.

Engineering method	A cost-estimation method in which a detailed study is made of the process that results in cost incurrence.
Environmental costs	Costs that are incurred because poor environmental quality exists or may exist.
Environmental detection costs	Cost incurred to detect poor environmental performance.
Environmental external failure costs	Costs incurred after contaminants are introduced into the environment.
Environmental internal failure costs	Costs incurred after contaminants are produced but before they are introduced into the environment.
Environmental prevention costs	Costs incurred to prevent damage to the environment.
Equivalent units of output	Complete units that could have been produced given the total amount of manufacturing effort expended during the period.
Estimated manu-facturing overhead	The amount of manufacturing-overhead cost expected for a specified period of time. Used as the numerator in computing the predetermined overhead rate.
Ethical behavior	Choosing actions that are "right," "proper," and "just," Our behavior can be right or wrong, it can be proper or improper, and the decisions we make can be fair or unfair.
Exchange gain	A gain on the exchange of one currency for another due to depreciation in the home currency.
Exchange loss	A loss on the exchange of one currency for another due to depreciation in the home currency.
Exchange rates	The rates at which foreign currency can be exchanged for the domestic currency.
Expected activity capacity	Expected activity output for the coming year.

Expected value	The sum of the possible values for a random variable, each weighted by its probability.
Expenses	Expired costs.
Experience curve	A graph (or other mathematical representation) that shows how a broad set of costs decline as cumulative production output increases.
External constraints	Limiting factors imposed on the firm from external sources (such as market demand).
External failure Cost	Costs incurred because products fail to conform to requirements after being sold to outside parties.
External measures	Measures that relate to customer and shareholder objectives.
External linkages	The relationship of a firm's activities within its segment of the value chain with those activities of its suppliers and customers.

F

Facility-level activities	Activities that sustain a facility's general manufacturing process.
Failure activities	Activities performed by an organization or its customers in response to poor quality (poor quality does exist).
Failure cost	The costs incurred by an organization because failure activities are performed.
Favorable (F) variances	Variances produced whenever the actual amounts are less than the budgeted or standard allowances.
Feasible region	The possible values for decision variable that are not ruled-out by constraints.
Feasible set of solutions	The collection of all feasible solutions.

Feasible solutions	A product mix that satisfies all constraints.
Features (quality of design)	Characteristics of a product that differentiate functionally similar products.
Feedback	Information that can be used to evaluate or correct the steps being taken to implement a plan.
FIFO costing method	A process costing method that separates units in beginning inventory from those produced during the current period. Unit costs include only current period costs and production..
Financial accounting	The use of accounting information for reporting to parties outside the organization
Financial accounting information system	An accounting information subsystem that is primarily concerned with producing outputs for external users and uses well-specified economic events as inputs and processes that meet certain rules and conventions.
Financial budgets	The portions of the master budget that include the cash budget, the budgeted balance sheet, the budgeted statement of cash flows, and the capital budget.
Financial leverage	The concept that a relatively small increase in income can provide a proportionately much larger increase in return to the common stockholders.
Financial measures	Measures expressed in dollar terms.
Financial perspective	A balanced scorecard viewpoint that describes the financial consequences of actions taken in the other three perspectives.
Financial planning model	A set of mathematical relationships that expresses the interactions among the various operational, financial, and environmental events that determine the overall results of an organization’s activities.

Financial productivity measure	A productivity measure in which inputs and outputs are expressed in dollars.
Financial activities	Transactions involving a company's debt or equity capital.
Finished goods	Completed products awaiting sale.
Firewall	A computer or information router placed between a company's internal network and the internet to control and monitor all information between the outside world and the company's local network.
Fitness of use	The suitability of a product for carrying out its advertised functions.
Fixed activity rate	Fixed activity cost divided by the total capacity of the activity driver.
Fixed cost	Costs that, in total, are constant within the relevant range as the activity output varies.
Fixed overhead spending variance	The difference between actual fixed overhead and applied fixed overhead.
Fixed overhead volume variance	The difference between budgeted fixed overhead and applied fixed overhead; it is a measure of capacity utilization.
Flexible budget	A budget that can specify costs for a range of activity.
Flexible budget variance	The sum of price variances and efficiency variances in a performance report comparing actual costs to expected costs predicted by a flexible budget.
Flexible manufacturing system (FMS)	A series of manufacturing machines, controlled and integrated by a computer, which is designed to perform a series of manufacturing operations automatically.
Flexible resource	Resources that are purchased as used and needed. There is no unused or excess capacity for these resources.

FMS cell	A group of machines and personnel within a flexible manufacturing system (FMS).
Foreign trade zone	Areas that are physically on U.S soil but considered to be outside. U.S. soil but considered to be outside U.S. commerce. Goods imported into a foreign trade zone are duty free until they leave the zone.
Forward contract	An agreement that requires the buyer to exchange a specified amount of a currency at a specified rate (the forward rate) on a specified future date.
Full (or absorption) cost	A product's variable cost plus an allocated portion of fixed overhead.
Full environmental costing	The assignment of all environmental costs, both private and societal, to products.
Full private costing	The assignment of only private costs to individual products.
Functional-based costing (FBC)	An approach for assigning costs of shared resources to products and other cost objects using only production or unit-level drivers.
Functional-based management (FBM)	A managerial approach that attempts to control cost by focusing on the efficiency of organizational subunits.
Functional-based management (FBM) accounting system	An accounting information system that emphasizes the use of functional organizational units to assign and manage costs.
Functional-based responsibility accounting system	A control system defined by centering responsibility on organizational units and individuals with traditional budgets and standard costing used to evaluate and monitor performance.
Future value	The value that will accumulate by the end of an investment's life if the investment earns a specified compounded return.

G

Gainsharing	Providing cash incentives for a company's entire workforce that are keyed to quality and productivity gains.
Gain-sharing plan	An incentive system that specified a formula by which the cost savings from productivity gains achieved by a company are shared with the workers who helped accomplish the improvements.
Goal congruence	The alignment of a manager's personal goals with those of the organization.
Goodness of fit	The degree of association between Y and X (cost and activity). It is measured by how much of the total variability in Y is explained by X.
Grade	The extent of a product's capability in performing its intended purpose, viewed in relation to other products with the same functional use.

H

Half-year convention	The assumption that a newly acquired asset is in service for one-half year of its first taxable year regardless of the date the service actually began.
Hedging	A way of insuring against gains and losses on foreign currency exchange.
Heterogeneity	When there is a greater chance of variation in the performance of services than in the production of products.
Hidden quality costs	Opportunity costs resulting from poor quality.

High-low method	A method for fitting a line to a set of data points using the high and low points in the data set. For a cost formula, the high and low points represent the high and low activity levels. It is used to break out the fixed and variable components of a mixed cost.
Homogeneous cost pool	A collection of overhead costs associated with activities that have the same process and the same level and can use the same activity driver to assign costs to products.
Horizontal analysis	An analysis of the year-to-year change in each financial statement item.
Hurdle rate	The minimum desired rate of return used in a discounted-cash-flow analysis.
Hybrid product-costing system	A system that incorporates features from two or more alternative product-costing systems, such as job-order and process costing

I

Ideal standards	Standard that reflects perfect operating Conditions.
Idle time	Unproductive time spent by employees due to factors beyond their control, such as power outages and machine breakdowns.
Impact analysis	A life-cycle assessment step where the environmental impacts of different product (or process) designs are compared and evaluated.
Imperfect competition	A market in which a single producer or group of producers can affect the market price.
Improvement analysis	A life-cycle assessment step where efforts are made to reduce the environmental impacts revealed by the inventory and impact steps.
Incentives	The positive or negative measures taken by an organization to induce a manager to exert effort toward achieving the organization's goals.

Incentive compensation	A one-time cash payment to an investment center manager as a reward for meeting a predetermined criterion on a specified performance measure.
Incremental (or baseline) budgeting	The practice of taking the prior year's budget and adjusting it upward or downward to determine next year's budget.
Incremental package	A budget dealing the additional resources needed to add various activities to a base package.
Independent project	Projects that, if accepted or rejected, will not affect the cash flows of another project.
Independent variable	A variable whose value does not depend on the value of another variable. For example, in the cost formula Y = F + VX, the variable X is an independent variable.
Indirect costs	Costs that cannot be traced to a cost object.
Indirect labor	All costs of compensating employees who do not work directly on the firm's product but who are necessary for production to occur.
Indirect-labor budget	A schedule showing the amount and cost of indirect labor to be used during a budget period.
Indirect material	Material that either are required for the production process to occur but do not become an integral part of the finished product, or are consumed in production but are insignificant in cost.
Indirect method (or reconciliation method)	A method of preparing the operating activities section of a statement of cash flows, in which the analyst begins with net income. Then adjustments are made to convert from as accrual-basis income statement to a cash-basis income statement.

Industrial value chain	The linked set of value- creating activities from basic raw materials to end-use customers.
Information overload	The provision of so much information that, due to human limitations in processing information, managers cannot effectively use it.
Innovation process	A process that anticipates the emerging and potential needs of customers and creates new products and services to satisfy those needs.
In-process quality controls	Procedure designed to assess product quality before production is completed.
Inspection time	The time spends on quality inspections of raw material, partially completed products, or finished goods.
Input trade-off efficiency	The least-cost, technically efficient mix of inputs.
Inseparability	The fact that producers of services and buyers of services must usually be in direct contact for an exchange to take place.
Intangibility	When buyers of services cannot see, feel, hear, or taste a service before it is bought.
Internal auditor	An accountant who reviews the accounting procedures, records and reports in both the controller's and treasurer's areas of responsibility.
Internal control system	The set of procedures designed to ensure that an organization's employees act in a legal, ethical, and responsible manner.
Intercept parameter	The fixed cost, representing the point where the cost formula intercepts the vertical axis. In the cost formula Y = F + VX, F is the intercept parameter.
Internal business process perspective	A balanced scorecard viewpoint that describes the internal processes needed to provide value for customers and owners.
Internal constraints	Limiting factors found within the firm (such as machine time availability).

Internal failure costs	Costs incurred because products and services fail to conform to requirements where lack of conformity is discovered prior to external sale.
Internal linkages	Relationships among activities within a firm's value chain.
Internal measures	Measures that relate to the processes and capabilities that create value for customers and shareholders.
Internal rate of return	The rate of return that equates the present value of a project's cash inflows with the present value of its cash outflows (i.e., it sets the NPV equal to zero). Also, the rate of return being earned on funds that remain internally invested in a project.
Internal value chain	The set of activities required, to design, develop, produce, market, distribute, and service a product (the product can be a service).
Inventory	The money an organization spends in turning raw materials into throughput.
Inventoriable cost	Cost incurred to purchase or manufacture goods. Cost associated with goods for sale until the time period during which the products are sold, at which time the costs become expenses.
Inventorially goods	Goods that can be stored before sale, such as durable goods, mining products, and some agricultural products.
Inventory analysis	A life-cycle assessment step where the quantities and types of materials, energy and environmental releases are described.
Inventory budgets	Schedules that detail the amount and cost of finished-goods, work-in-process, and inventories expected at the end of a budget period.
Investing activities	Transactions involving the extension or collection of loans, acquisition or disposal of investments, and purchase or sale of productive, long-lived assets.

Investment center	A division of a company that is evaluated on the basis of return on investment.
Investment opportunity rate	The rate of return an organization can earn on its best alternative investments that are of equivalent risk.
Imperfect competition	A market in which a single producer or group of producers can affect the market price.
ISO 9000 standards	International quality-control standards issued by the International Standards Organization.

J

Job-cost record	A document that records the costs of direct material, direct labor, and manufacturing overhead for a particular production job or batch. The job-cost record is a subsidiary ledger account for the Work-in-Process Inventory account in the general ledger.
Job-order cost sheet	A subsidiary account to the work-in-process account on which the total costs of materials, labor, and overhead for a single job are accumulated.
Job-order costing system	A costing system in which costs are collected and assigned to units of production for each individual job.
Joint cost	The cost incurred in a joint production process before the joint products become identifiable as separate products.
Joint production process	A production process that results in two or more joint products.
Joint products	Products that are inseparable prior to a split-off point. All manufacturing costs up to the split-off point are joint costs.
Joint venture	A type of partnership in which investors co-own the enterprise.

Just-in- time (JIT) inventory and production management system	A comprehensive inventory and manufacturing control system in which no materials are purchased and no products are manufactured until they are needed.
Just-In-Time (JIT) manufacturing	A demand-pull system whose objective is to eliminate waste by producing a product only when it is needed and only in the quantities demanded by customers.
Just-In-Time (JIT) purchasing	A purchasing method that requires suppliers to deliver parts and materials just in time to be used in production.

K

Kaizen costing	Efforts to reduce the costs of existing products and processes.
Kaizen standard	An interim standard that reflects the planned improvement for a coming period.
Kanban system	An information system that controls production on a demand-pull basis through the use of cards or markers.
Keep-or-drop decisions	Relevant costing analyses that focus on keeping or dropping a segment of business.

L

Labor efficiency variance (LEV)	The difference between the actual direct labor hours used and the standard direct labor hours allowed multiplied by standard hourly wage rate.
Labor-intensive	A production process accomplished largely by manual labor.
Labor rate variance (LRV)	The difference between the actual hourly rate paid and the standard hourly rate multiplied by the actual hours worked.
Lag measures	Outcome measures or measures of results from past efforts

Lead measures (performance drivers)	Factors that drive future performance.
Lead time	For purchasing, the time to receive an order after it is placed. For manufacturing, the time to produce a product from start to finish.
Learning curve	A graphical expression of the decline in the average labor time required per unit as cumulative output increase.
Learning and growth (infrastructure) perspective	A balanced scorecard viewpoint that defines the capabilities that an organization needs to create long-term growth and improvement.
Least square regression method	A cost –estimation method in which the cost line is fit to the data by statistical analysis. The method minimizes the sum of the squared deviations between the cost line and data points
Life cycle costs	All costs those are associated with the product for its entire life cycle.
Life cycle assessment	An approach that identifies the environmental consequences of a product through its entire life cycle and then searches for opportunities to obtain environmental improvements.
Life cycle cost assessment	A method that assigns costs and benefits to environmental consequences and improvements.
Life cycle cost management	The management of value-chain activities so that a long-term competitive advantage is created.
Linear programming	A method that searches among possible solutions until it finds the optimal solution.
Line positions	Positions that have direct responsibility for the basic objectives of an organization.
Long run	A period of time in which all costs are variable.
Loose constraints	Constraints whose limited resources are not fully used a product mix.

M

Make-or-buy decisions	Relevant costing analyses that focus on whether a component should be made internally or purchased externally.
Management accounting information system	An information system that produces outputs using inputs and processes needed to satisfy specific management objectives.
Management by exception	A managerial technique in which only significant deviation from expected performance are investigated
Management by objectives (MBO)	The process of designating the objectives of each submit in an organization and planning for the achievement of these objectives. Managers at all levels participate in setting goals, which they then will strive to achieve.
Managerial accounting	The process of identifying measuring analyzing, interpreting and communicating information in pursuit of an organization's goals.
Manufacturing	The process of converting raw material into finished products.
Manufacturing cells	Machines grouped in families, usually in a semicircle, so that they can be used to perform a variety of operations in sequence. Each cell is set up to produce a particular product or product family.
Manufacturing costs	Costs incurred in a manufacturing process, which consist of direct material, direct labor, and manufacturing overhead.
Manufacturing cycle efficiency (MCE)	The ratio of process time to the sum of processing time, inspection time waiting time, and move time.
Manufacturing cycle Time	The total amount of production time (or throughput time) required per unit.
Manufacturing overhead	All manufacturing costs other than direct material, and direct-labor costs.

Manufacturing overhead Budget	Shows the cost of overhead expected to be incurred in the production process during the budget period.
Manufacturing overhead Variance	The difference between actual overhead cost and the amount specified in the flexible budget.
Maquiladora	Manufacturing plants located in Mexico that process imported materials and re-export them to the United States.
Margin	The ratio of net operating income to sales.
Margin of safety	The units sold or expected to be sold or sales revenue earned or expected to be earned above the break-even volume.
Marginal cost	The extra cost incurred in producing one additional unit of output.
Marginal cost curve	A graph of the relationship between the change in total cost and the quantity produced and sold.
Marginal revenue curve	A graph of the relationship between the change in total revenue and the quantity sold.
Marketing (selling) costs	The costs necessary to market and distribute a product or service.
Markup	The percentage applied to a base cost; it includes desired profit and any costs not included in the base cost.
Master budget	The collection of all area and activity budget representing a firm's comprehensive plan of action.
Mass customization	A manufacturing environment in which many standardized components are combined to produce custom-made products to customer order.
Material price variance (MPV)	The difference between the actual price paid per unit of materials and the standard price allowed per unit multiplied by the actual quantity of materials purchased.

Material-requirements planning (MRP)	An operations-management tool that assists managers in scheduling production in each stage of a complex manufacturing process.
Material requisition form	A source document that records the type, quality, and unit price of the direct materials issued to each job.
Material usage variance (MUV)	The difference between the direct materials actually used and the direct materials allowed for the actual output multiplied by the standard price.
Merchandise cost	The cost of acquiring goods for resale. Includes purchasing and transportation costs.
Merchandising	The business of acquiring finished goods for resale, either in a wholesale or a retail operation.
Method of least squares	A statistical method to find a line that best fits a set of data. It is used to break out the fixed and variable components of a mixed cost.
Maximum transfer price	The transfer price that will make the buying divisions no worse off if an output is sold internally. The transfer price that will make the buying divisions no worse off if an output is sold internally.
Mixed cost	Costs that have both a fixed and a variable component.
Modified accelerated cost recovery system (MACRS)	An allowable method for computing depreciation for tax purposes.
Monetary incentives	The use of economic rewards to motivate managers.
Move time	The time spent moving raw materials, subassemblies, or finished products from one production operation to another.
Multinational corporation (MNC)	A corporation for which a significant amount of business is done in more than one country.

Multiple-period quality trend report	A graph that plots quality costs (as a percentage of sales) against time.
Multiple regression	The use of least squares analysis to determine the parameters in a liner equation involving two or more explanatory variables.
Multistage cost allocation	The three-step process in which costs are assigned to products or services: (1) cost distribution (or allocation), (2) service department cost allocation, and (3) cost application.
Mutually exclusive projects	Projects that, if accepted, preclude the acceptance of competing projects.
Myopic behavior	Managerial actions that improve budgetary performance in the short run at the expense of the long-run welfare of the organization.

N

Net Income	Operating income less income taxes.
Net present value	The difference between the present value of a project's cash inflows and the present value of its cash outflows.
Net realizable value	A joint product's final sales value less any separable costs incurred after the split-off point.
Net-realizable-value method	A method in which joint cost are allocated to the joint products in proportion to the net realizable value of each joint product.
Nominal interest rate	The real interest rate plus an additional premium to compensate investors for inflation.
Non-discounting models	Capital investment models that identify criteria for accepting or rejecting projects without considering the time value of money.
Non-financial measures	Measures expensed in non-monetary units.

Non-inventorial (period) costs	Costs that are expensed in the period in which they are incurred.
Non-monetary incentives	The use of psychological and social rewards to motivate managers.
Non-production costs	Costs associated with the functions of selling and administration.
Non-unit-level activity drivers	Factors that measure the consumption of non-unit-level activities by products and other cost objects.
Non-unit-level drivers	Factors, other than the number of units produced, that measure the demands that cost objects place on activities.
Non-value-added activities	All activities other than those are absolutely essential to remain in business.
Non-value-added costs	Costs that are caused either by non-value-added activities or by the inefficient performance of valued-added activities.
Normal cost of goods sold	The cost of goods sold before adjustment for any overhead variance.
Normal costing	An approach that assigns the actual costs of direct materials and direct labor to products but uses a predetermined rate to assign overhead costs.
Normal equation	The equation used to solve for the parameters of a regression equation.
Normalized overhead rate	An overhead rate calculated over a relatively long time period.

O

Objective function	The function to be optimized, usually a profit function; thus, optimization usually means maximizing profits.
Objective measures	Measures that can be readily quantified and verified.

Observable quality costs	Quality costs that are available from an organization's accounting records.
Off-line quality control	Activities during the product design and engineering phases that will improve the manufacturability of the product, reduce production cost, and ensure high quality.
Oligopolistic market (or oligopoly)	A market with a small number of sellers competing among themselves.
Operating activities	All activities that are not investing or financing activities. Generally speaking, operating activities include all cash transactions that are involved in the determination of net income.
Operating assets	Assets used to generate operating income, consisting usually of cash, inventories, receivables, and property, plant, and equipment.
Operating budgets	Budgets associated with the income-producing activities of an organization.
Operating expenses	The money an organization spends in turning inventories into throughput.
Operating Income	Revenues minus expenses from the firm's normal operations. Income taxes are excluded.
Operating Leverage	The use of fixed costs to extract higher percentage changes in profits as sales activity changes. Leverage is achieved by increasing fixed costs while lowering variable costs.
Operating leverage factor	A measure of operating leverage at a particular sales volume. Computed by dividing an organization's total contribution margin by its net income.
Operation costing	A hybrid costing method that assigns materials cost to a product using a job-order approach and assigns conversion costs using a process approach.
Operational productivity measure	A measure that is expressed in physical terms.

Operations process	A process that produces and delivers existing products and services to customers.
Opportunity cost	The benefit sacrificed or foregone when one alternative is chosen over another.
Opportunity cost approach	A transfer pricing system that identifies the minimum price that a selling division would be willing to accept and the maximum price that a buying division would be willing to pay.
Optimal solution	The feasible solution that produces the best value for the objective function (the largest value if seeking to maximize the objective function; the minimum otherwise).
Ordering costs	The costs of placing and receiving an order.
Organizational culture	The mindset of employees, including their shared beliefs, values, and goals.
Outlier	A data point that falls far away from the other point in a scatter diagram and is not representative of the data.
Out-of-pocket costs	Cost incurred that require the expenditure of cash or other assets.
Outsourcing	The payment by a company for a business function that was formerly done in house.
Over applied overhead	The amount by which applied overhead exceeds actual overhead.
Overhead	All production costs other than direct materials and direct labor.
Overhead application (or absorption)	The third step in assigning manufacturing-overhead costs. All costs associated with each production department are assigned to the product units on which a department has worked.
Overhead budget	A budget that reveals the planned expenditures for all indirect manufacturing items.

Overhead cost performance report	A report showing the actual and flexible-budget cost levels for each overhead item, together with variable-overhead spending and efficiency variances and fixed-overhead budget variances.
Overhead variance	The difference between actual overhead and applied overhead.
Overtime premium	The extra compensation paid to an employee who works beyond the normal period of time.

P

Padding the budget	The process of building budgetary slack into a budget by overestimating expenses and under estimating revenue.
Parallel processing	A processing pattern in which two or more sequential processes are required to produce a finished good.
Partial (or component) productivity	Total output (in dollars) divided by the cost of a particular input.
Partial productivity measurement	A ratio that measures productive efficiency for one input.
Participative budgeting	An approach to budgeting that allows managers who will be held accountable for budgetary performance to participate in the budget's development.
Payback period	The time required for a project to return its investment.
Pay for performance	A one-time cash payment to an investment center manager as a reward for meeting a predetermined criterion on a specified performance measure.
Penetration pricing	Setting a low initial price for a new product in order to penetrate the market deeply and gain a large and broad market share.

Percentage of Completion	The extent to which a physical unit of production has been finished with respect to direct material or conversion activity.
Perfect competition	A market in which the price does not depend on the quantity sold by any one producer.
Perfection (or ideal) standard	The cost expected under perfect or ideal operating conditions.
Performance	The measure of how consistent and well a product functions.
Performance reports	Reports that compare the actual data with planned data.
Period costs	Costs that are expensed during the time period in which they are incurred.
Perish-ability	When services cannot be stored for future use by a consumer.
Perquisites	A type of fringe benefit over and above salary, which is received by managers.
Physical flow schedule	A schedule that reconciles units to account for with units accounted for. The physical units are not adjusted for percent of completion.
Physical unit	An actual item of production, fully or partially completed.
Physical-units method	A method in which joint costs are allocated to the joint products in proportion to their physical quantities.
Planning	Setting objectives and identifying methods to achieve those objectives.
Plantwide overhead rate	An overhead rate calculated by averaging manufacturing-overhead costs for the entire production facility.
Pool rate	The overhead costs for a homogeneous cost pool divided by the practical capacity of the activity driver associated with the pool.

Postaudit	A follow-up analysis of an investment decision, comparing actual benefits and costs with expected benefits and costs.
Post-purchase costs	The costs of using, maintaining, and disposing of the product.
Post-sales service process	A process that provides critical and responsive service to customers after the product or service has been delivered.
Practical activity capacity	The activity output produced when the activity is performed efficiently.
Practical capacity	The efficient level of activity performance.
Practical (or attainable) Slandered	The cost expected under normal operating conditions.
Predatory pricing	The practice of setting prices below cost for the purpose of injuring competitors and eliminating competition.
Predetermined overhead rate	An overhead rate computed using estimated data.
Present value	The current value of a future cash flow. It represents the amount that must be invested now if the future cash flow is to be received assuming compounding at a given rate of interest.
Prevention costs	Costs incurred to prevent defects in products or services being produced.
Price discrimination	The charging of different prices to different customers for essentially the same product.
Price elasticity	The impact of price changes on the sales volume.
Price gouging	A subjective term referring to the practice of setting an "excessively" high price.
Price-recovery component	The difference between the total profit change and the profit-linked productivity change.
Price standards	The price that should be paid per unit of input.

Price takers	Firms whose products or services are determined totally by the market.
Price (rate) variance	The difference between standard price and actual price multiplied by the actual quantity of inputs used.
Primary activity	Activity that is consumed by products or customers.
Prime cost	The sum of direct materials cost and direct labor cost.
Private costs	Environmental costs that an organization has to pay.
Process	A set of linked activities.
Process improvement	Incremental and constant increases in the efficiency of an existing process.
Process innovation (business reengineering)	The performance of a process in a radically new way with the objective of achieving dramatic improvements in response time, quality, and efficiency.
Process value analysis	An approach that focuses on processes and activities and emphasizes systemwide performance instead of individual performance.
Process value chain	The innovation, operations, and post-sales service processes.
Process-costing system	A costing system that accumulates production costs by process or by department for a given period of time.
Processes	A series of activities (operations) that are linked to perform a specific objective.
Process (or functional) layout	A method of organizing the elements of a production process, in which similar processes and functions are grouped together.
Process time	The amount of time during which a product is actually undergoing conversion activity.

Producing departments	Units within an organization responsible for producing the products or services that are sold to customers.
Product cost	A cost assignment method that satisfies a well specified managerial objective.
Product-costing system	The process of accumulating the costs of a production process and assigning them to the products that constitute the organization's output.
Product diversity	The situation present when products consume overhead in different proportions.
Product life cycle	The time a product exists – from conception to abandonment.
Product life-cycle costing	The accumulation of costs that occur over the entire life cycle of a product.
Product stewardship	The practice of designing, manufacturing, maintaining, and recycling products to minimize adverse environmental impacts.
Product-sustaining-level activity	An activity that is needed to support an entire product line, but is not always performed every time a new unit or batch of products is produced.
Production budget	A budget that shows how many units must be produced to meet sales needs and satisfy ending inventory requirements.
Production budget	A schedule showing the number of units of services or goods that are to be produce during a budget period.
Production costs	Those costs associated with the manufacture of goods or the provision of services.
Production drivers	Drivers that are highly correlated with production output (volume).
Production Kanban	A card or marker that specifies the quantity that the kanban system should produce.

Production report	A document that summarizes the manufacturing activity that takes place in a process department for a given period of time.
Productivity	The efficient production of output, using the least quality of inputs possible.
Productivity measurement	The assessment of productivity changes.
Product-level (sustaining) activities	Activities that are performed to enable the production of each different type of product.
Profile measurement	A series or vector of separate and distinct partial operational measures.
Profit center	A division of a company that is evaluated on the basis of operating income or profit.
Profit plan (or master budget)	A comprehensive set of budgets that cover all phases of an organization's operations during a specified period of time.
Profitability index (or excess present value index)	The present value of a project's future cash flows (exclusive of the initial investment), divided by the initial investment.
Profit-linked productivity Measur1ement	An assessment of the amount of profit change–from the base period to the current period–attributable to productivity changes.
Profit-volume graph	A graphical portrayal of the relationship between profits and sales activity.
Project costing	The process of assigning costs to projects, cases, contracts, programs, or mission in no-manufacturing organizations.
Proration	The process of allocating underapplied or over-applied overhead to work-in-process. Inventory, finished goods inventory, and cost of goods sold.

Pseudo-participation	A budgetary system in which top management solicits inputs from lower-level managers and then ignores those inputs. Thus, in reality, budgets are dictated from above.
Pull method	A method of coordinating stages in a production process. Goods are produced in each stage of manufacturing only as they are needed in the next stage.

Q

Quality of conformance	Conforming to the design requirements of the product.
Quality product or Service	A product that meets or exceeds customer expectations.
Quality standards	The quantity of input allowed per unit of output.
Qualitative Characteristics	Factors in a decision analysis that cannot be expressed easily in numerical terms.
Quality of design	The extent to which a product is designed to perform well in its intended use.
Quick assets	Cash marketable securities, accounts receivable and current notes receivable. Excludes inventories and prepaid expenses, which are current assets but not quick assets.

R

Raw material	Material entered into a manufacturing process.
Real interest rate	The underlying interest rate in the economy, which includes compensation to an investor for the time value of money and risk of an investment.
Realized external failure costs	Environmental costs caused by environmental degradation and paid for by the responsible organization.

Reciprocal method	A method that simultaneously allocates service costs to all user departments. It gives full consideration to interactions among support departments.
Reciprocal service	The mutual provision of service by two service departments to each other.
Recorder point	The point in time at which a new order (or setup) should be initiated.
Reengineering	The complete redesign of a process, with an emphasis on finding creative new ways to accomplish an objective.
Regression line	A line fit to a set of data points using least square regression.
Relevant cost	Future costs that change across alternatives.
Relevant range	The range over which an assumed cost relationship is valid for the normal operation of a firm.
Reliability	The probability that the product or service will perform its intended function for a specified length of time.
Relative sales value Method	A method in which joint costs are allocated to the joint products in proportion to their total sales values at the split-off point.
Relevant information	Data that is pertinent to a decision.
Repetitive production	The manufacture of large number of identical or very similar products in a continuous flow.
Required rate of return	The minimum rate of return that a project must earn in order to be acceptable. Usually corresponds to the cost of capital.
Resale price method	A transfer price acceptable to the Internal Revenue Service under Section 482. The resale price method computes a transfer price equal to the sales price received by the reseller less an appropriate markup.
Research and development (R&D) cost	Costs incurred to develop and test new products or services.

Residual income	Profit minus an imputed interest charge, which is equal to the invested capital times an imputed interest rate.
Resource drivers	Factors that measure the consumption of resources by activities.
Responsibility Accounting	A system that measures the results of each responsibility center according to the information managers need to operate their center.
Responsibility center	A segment of the business whose manager is accountable for specified sets of activities.
Return on investment (ROI)	The ratio of operating income to average operating assets.
Return-on-investment Pricing	A cost-plus pricing method in which the markup is determined by the amount necessary for the company to earn a target rate of return on investment.
Revenue center	A segment of the business that is evaluated on the basis of sales.
Rolling budget (also revolving or continuous budget)	A budget that is continually updated by adding another incremental time period and dropping the most recently completed period.
Ropes	Actions taken to tie the rate at which raw material is released into the plant (at the first operation) to the production rate of the constrained resource.

S

Safety margin	Difference between budget sales revenue and break-even sales revenue.
Safety stock	Extra inventory carried to serve as insurance against fluctuations in demand.
Sales Budget	A budget that describes expected sales in units and dollars for the coming period.

Sales forecasting	The process of predicting sales of services or goods. The initial step in preparing a master budget.
Sales margin	Income divided by sales revenue.
Sales mix	The relative combination of products (or services) being sold by an organization.
Sales-price variance	The difference between actual and expected unit sales price multiplied by the actual quantity of units sold.
Sales-volume variance	The difference between actual sales volume and budgeted sales volume multiplied by the budgeted unit contribution margin.
Scatter diagram	A set of plotted cost observations at various activity levels.
Scattergraph	A plot of (X,Y) data points. For cost analysis, X is activity usage and Y is the associated cost at that activity level.
Scatter-plot method	A method to fit a line to a set of data using two points that are selected by judgment. It is used to break out the fixed and variable components of a mixed cost.
Schedule of cost of goods manufactured	A detailed listing of the manufacturing costs incurred during an accounting period and showing the change in change in work-in process inventory.
Schedule of cost of goods sold	A detailed schedule showing the cost of goods sold and the change in finished-goods inventory during an accounting period.
Secondary activity	Activity that is consumed by primary activities and / or other secondary activities.
Segment	A subunit of a company of sufficient importance to warrant the production of performance reports.

Segment margin	The contribution a segment makes to cover common fixed costs and provide for profit after direct fixed costs and variable costs are deducted from the segment's sales revenue.
Segment reporting	The preparation of financial performance reports for each segment of importance within a firm.
Sell or process further	Relevant costing analysis that focuses on whether a product should be processed beyond the split-off point.
Selling and administrative expenses budget	A budget that outlines planned expenditures for non-manufacturing activities.
Selling costs	Costs of obtaining and filling sales orders, such as advertising costs, compensation of sales personnel, and product promotion costs.
Semivariable (or mixed) Cost	A cost with both a fixed and a variable component.
Sensitivity analysis	The "what if" process of altering certain key variables to assess the effect on the original outcome.
Sensitivity analysis	A technique for determining what would happen in a decision analysis if a key prediction or assumption proves to be wrong.
Separable processing cost	Cost incurred on a joint product after the split-off point of a joint production process.
Sequential (or step) method	A method that allocates service costs to user departments in a sequential manner. It gives partial consideration to interactions among support departments.
Sequential processing	A processing pattern in which units pass from one process to another in a set order.
Service	A task or activity performed for a customer or an activity performed by a customer using an organization's products or facilities.

Serviceability	The case of maintaining and /or repairing a product.
Service departments	Subunits in an organization that are not involved directly in producing the organization's output of goods or services.
Service department cost allocation	The second step in assigning manufacturing overhead costs. All costs associated with a service department are assigned to the departments that use the services it produces.
Service industry firm	A firm engaged in production of a service that is consumed as it is produced, such as air transportation service or medical service.
Setup costs	The costs of preparing equipment and facilities so that they can be used for production.
Shareholder value Analysis	Calculation of the residual income associated with a major product line, with the objective of determining how the product line affects a firm's value to its shareholder.
Short run	A period of time in which at least one cost is fixed.
Simple regression	A regression analysis based on a single independent variable.
Simplex method	An algorithm that identifies the optimal solution for a linear programming problem.
Single-loop feedback	Information about the effectiveness of strategy implementation.
Skimming pricing	Setting a high initial price for a new product in order to reap short-run profits. Over time, the price is reduced gradually.
Slope parameter	The variable cost per unit of activity usage, represented by V in the cost formula Y = F + VX.
Source document	A document that is used as the basis for an accounting entry. Examples include material requisition forms and direct-labor time tickets.

Special-order decisions	Relevant costing analyses that focus on whether a specially priced order should be accepted or rejected.
Split-off point	The point at which products become distinguishable after passing through a common process.
Spot rate	The exchange rate of one currency for another for immediate delivery.
Staff positions	Positions that is supportive in nature and have only indirect responsibility for an organization's basic objectives.
Standard cost	A predetermined cost for the production of goods and services that serves as a benchmark against which to compare the actual cost.
Standard cost per unit	The per-unit cost that should be achieved given materials, labor, and overhead standards.
Standard cost sheet	A listing of the standard costs and standard quantities of direct materials, direct labor, and overhead that should apply to a single product.
Standard-costing system	A cost-control and product-costing system in which cost variances are computed and production cost are entered into work-in-process inventory at their standard amount.
Standard direct-labor quantity	The number of labor hours normally needed to manufacture one unit of product.
Standard direct-labor rate	Total hourly cost of compensation, including fringe benefits.
Standard direct-material price	The total delivered cost, after subtracting any purchase discounts taken.
Standard direct-material Quantity	The total amount of material normally required to produce a finished product, including allowances for normal waste and inefficiency.
Standard hours allowed	The direct labor hours that should have been used to produce the actual output (Unit labor standard X Actual output).

Standard quantity of materials allowed	The quantity of materials that should have been used to produce the actual output (Unit materials standard X Actual output).
Statement of cash flows	A major financial statement that shows the change in an organization's total cash and cash equivalents and explains that change in terms of the organization's operating, investing, and financing activities during a period.
Static budget	A budget for a particular level of activity.
Statistical control chart	A plot of cost variance across time, with a comparison to a statistically determined critical value.
Step cost	A cost function in which cost is defined for ranges of activity usage rather than point values. The function has the property of displaying constant cost over a range of activity usage and then changing to a different cost level as a new range of activity usage is undertaken.
Step-down method	A method of service department cost allocation in which service department costs are allocated first to service departments and then to production departments.
Step-fixed cost	A cost that remains fixed over wide ranges of activity, but jumps to a different for activity levels outside that range.
Step-variable cost	A cost that is nearly variable, but increases in small steps instead of continuously.
Stockout costs	The costs of insufficient inventory.
Storage time	The time during which raw materials or finished products are stored in stock.
Storyboarding	A procedure used to develop a detailed process flowchart, which visually represents activities and the relationships among the activities.
Strategic-based responsibility accounting system (Balanced Scorecard)	A responsibility accounting system objectives and measures for four different perspectives; the financial perspective, the customer perspective, the process perspective, and the learning and growth (infrastructure) perspective.

Strategic cost analysis	A broad-based managerial-accounting analysis that supports strategic management decision.
Strategic cost Management	The use of cost data to develop and identify superior strategies that will produce a competitive advantage.
Strategic decision Making	Choosing among alternative strategies with the goal of selecting a strategy or strategies that provide a company with a reasonable assurance for long-term growth and survival.
Strategic plan	The long-term plan for future activities and operations, usually involving at least five years.
Strategy	The process of choosing a business's market and customer segments, identifying its critical internal business processes, and selecting the individual and organizational capabilities needed to meet internal, customer, and financial objectives.
Subjective measures	Measures that are non-quantifiable and whose values are judgmental in nature.
Summary cash budget	A combination of the cash receipts and cash disbursements budgets.
Sunk cost	A cost for which the outlay has already been made and that cannot be affected by a future decision.
Supplies	Those materials necessary for production that do not become part of the finished product or which are not used in providing a service.
Support departments	Units within an organization that provide essential support services for producing departments.
Sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

T

Tactical decision making	Choosing among alternatives with an immediate or limited end in view.
Taguchi loss function	A function that assumes any variation from the target value of a quality characteristic causes hidden quality costs.
Tangible products	Goods that are produced by converting raw materials through the use of labor and capital inputs such as plant, land, and machinery.
Target cost	The difference between the sales prices needed to achieve a projected market share and the desired per-unit profit.
Target costing	A method of determining the cost of a product or service based on the price (target price) that customers are willing to pay.
Target net profit (or income)	The profit level set as management's objectives.
Tariff	The tax on imports levied by the federal government.
Task analysis	Setting standards by analyzing the production process.
Technical efficiency	The point at which, for any mix of inputs that will produce a given output, no more of any one input is used than is absolutely necessary.
Testable strategy	A set of linked objectives aimed at an overall goal that can be restated into a sequence of cause-and-effect hypotheses.
Theoretical activity Capacity	The activity output possible if the activity is performed with perfect efficiency.
Theory of constraints	A management approach that focuses on identifying and relaxing the constraints that limit an organization's ability to reach a higher level of goal attainment.

Throughput	The rate at which an organization generates money through sales.
Throughput costing	A product-costing system that assigns only the unit-level spending for direct costs as the cost of products or services.
Throughput time	The average amount of time required to convert raw materials into finished goods ready to be shipped to customers.
Time buffer	The inventory needed to keep the constrained resource busy for a specified time interval.
Time and material Pricing	A cost-plus pricing approach that includes components for labor cost and material cost, plus markups on either or both of these cost components.
Time record	A document that records the amount of time an employee spends on each production job.
Time ticket	A source document by which direct labor costs are assigned to individual jobs.
Timely information	Data that is available in time for use in a decision analysis.
Total budget variance	The difference between the actual cost of an input and its planned cost.
Total contribution Margin	Total sales revenue less total variable expenses.
Total cost curve	Graphs the relationship between total cost and total quantity produced and sold.
Total preventive Maintenance	A program of preventive maintenance that has zero machine failures as its standard.
Total product	The complete range of tangible and intangible benefits that a customer receives from a purchased product.
Total productive Efficiency	The point at which technical and price efficiency are achieved.

Total productivity Measurement	An assessment of productive efficiency for all input combined.
Total quality control (TQC)	A product-quality program in which the objective is complete elimination of product defects.
Total quality Management	An approach to quality in which manufacturers strive to create an environment that will enable workers to manufacture perfect (zero-defect) products.
Total revenue curve	Graphs the relationship between total sales revenue and quantity sold.
Trace-ability	The ability to assign a cost directly to a cost object in an economically feasible way using a causal relationship.
Tracing	Assigning costs to a cost object using an observable measure of the cost object's resource consumption.
Transaction-based costing system	A product-costing system in which multiple cost drives are identified, and costs of activities are assigned to products on the basis of the number of transactions they generate for the various cost drivers.
Transaction risk	The possibility that future cash transactions will be affected by changing exchange rates.
Transfer price	The price charged for goods transferred from one division to another.
Transfer pricing problem	The problem of finding a transfer pricing system that simultaneously satisfies the three objectives of accurate performance evaluation, goal congruence, and autonomy.
Transferred-in-costs	Costs transferred from a prior process to a subsequent process.
Translation (or accounting) risk	The degree to which a firm's financial statements are exposed to exchange rate fluctuation.

Treasurer	The person responsible for the finance function. Specifically, the treasurer raises capital and manages cash and investments.
Trend analysis	A comparison across time of three or more observations of a particular financial item, such as net income.
Turnover	The ratio of sales to average operating assets.
Two-dimensional ABC Model	A combination of the cost assignment view of the role of activity-based costing with its process analysis and evolution role. Two-dimensional ABC is one way of depicting activity-based management.
Two-stage cost Allocation	A two-step procedure for assigning overhead costs to products or services produced. In the first stage, all production costs are assigned to the production departments. In the second stage, the costs that have been assigned to each production department are applied to the products or services produced in those departments.

U

Unavoidable expenses	Expenses that will continue to be incurred even if a subunit or activity is eliminated.
Underapplied overhead	The amount by which actual overhead exceeds applied overhead.
Unfavorable (U) variances	Variances produced whenever the actual input amounts are greater than the budgeted or standard allowances.
Unit contribution margin	Sales price minus the unit variable cost.
Unit cost	Total costs assigned to a product divided by units of product.

Unit-level activities	Activities that are performed each time a unit is produced.
Unit-level activity Drivers	Factors that measure the consumption of unit-level activities by products and other cost objects.
Unit-level drivers	Drivers that are highly correlated with production output (volume).
Unrealized external failure (societal) cost	Environmental costs caused by an organization but paid for by society.
Unused capacity variance	The difference between acquired capacity (practical capacity) and actual capacity.
Usage (efficiency) variance	The difference between standard quantities and actual quantities multiplied by standard price.

V

Value-added activities	Activities those are necessary for a business to achieve corporate objectives and remain in business.
Value-added costs	Cost caused by value-added activities.
Value-added standard	The optimal output level for an activity.
Value analysis	A cost-reduction and process improvement technique that utilizes information collected about a product's design and production processes and then examines various attributes of the design and processes to identify candidates for improvement efforts.
Value chain	An organization's set of linked, value-creating activities, ranging from securing basic raw material and energy to the ultimate delivery of products and services.

Value engineering (or value analysis)	A cost-reduction and process improvement technique that utilizes information collected about a product's design and production processes and then examines various attributes of the design and processes to identify candidates for improvement efforts.
Variable activity rate	Total variable activity cost divided by the amount of activity driver used.
Variable budget	A budget that can specify costs for a range of activity.
Variable cost	Costs that, in total, vary in direct proportion to changes in a cost diver.
Variable cost ratio	Variable costs divided by sales revenues. It is the proportion of each sales dollar needed to cover variable costs.
Variable costing	A product-costing method that assigns only variable manufacturing costs to production; direct materials, direct labor, and variable overhead. Fixed overhead is treated as a period cost.
Variable overhead efficiency variance	The difference between the actual direct labor hours used and the standard hours allowed multiplied by the standard variable overhead rate.
Variable overhead spending variance	The difference between the actual variable overhead and the budgeted variable overhead based on actual hours used to produce the actual output.
Velocity	The number of units that can be produced in a given period of time (e.g. output per hour).
Velocity	The number of units produced in a given time period.
Vendor Kanbans	Cards or markers that signal to a supplier the quantity of materials that need to be delivered and the time of delivery.

Vertical analysis	An analysis of the relationship among various financial items on a particular financial statement. Generally presented in terms of common-size financial statement.
Visual-fit method	A method of cost estimation in which a cost line is drawn through a scatter diagram according to the visual perception of the analyst.
Volume-based cost driver (or activity base)	A cost driver that is closely associated with production volume, such as direct-labor hours or machine hours.
Volume-based (or throughput-based) costing system	A product costing system in which costs are assigned to products on the basis of a single activity base related to volume (e.g., direct-labor hours or machine hours).

W

Waiting time	The time during which partially completed products wait for the next phase of production.
Weighted average costing method	A process-costing method that combines beginning inventory costs with current-period costs to compute unit costs. Costs and output from the current period and the previous period are averaged to compute unit costs.
Weighed-average unit contribution margin	Average of a firm's several products unit contribution margins, weighted by the relative sales proportion of each product.
What-if analysis	The "what if" process of altering certain key variables to assess the effect on the original outcome.
Whole-life cost	The life cycle cost of a product plus costs that consumer incur, including operation, support, maintenance, and disposal.
Withdrawal Kanaban	A marker or card that specifies the quantity that a subsequent process should withdraw from a preceding process.

Work in process	All partially completed units found in production at a given point in time.
Work-in-process file	A file that is the collection of all job cost sheets.
Working capital	Current asserts minus current liabilities.
Work measurement	The systematic analysis of a task for the purpose of determining the inputs needed to perform the task.

Z

Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.
Zero based budgeting	An alternative approach to budgeting in which the prior year's budgeted level is not taken for granted. Instead, the existing operations are analyzed, and continuance of the activity or operation must be justified on the basis of its need or usefulness to the organization.

ICMAP

Introduction

The Institute of Cost and Management Accountants of Pakistan (ICMAP) was established in 1951 and was granted statutory status under the Cost and Management Accountants Act, 1966 for regulating the profession of Cost and Management Accounting. Mr. Muhammad Shoaib, former Finance Minister of Pakistan, founded the Institute and was also its first President. In 1951, the Institute was established and incorporated under the name of 'Pakistan Institute of Industrial Accountants', but later in December 1976, the name of the Institute was changed to "Institute of Cost and Management Accountants of Pakistan" by an Act of Parliament.

ICMAP is the only recognized institution in Pakistan to award professional certification of Management Accounting. Presently, around 3,300 members of ICMAP are holding senior positions in trade, commerce, industry, government in Pakistan and abroad.

ICMAP

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Institute of Cost and Management Accountants of Pakistan

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