Prologue：

Budget: A detailed plan for the future that is usually expressed in formal quantitative terms. (p. 3)

Business process: A series of steps that are followed in order to carry out some task in a business. (p. 16)

Controlling: The process of gathering feedback to ensure that a plan is being properly executed or modified as circumstances change. (p. 3)

Preventive control: A control that deters undesirable events from occurring. (p. 13)

Detective control: A control that detects undesirable events that have already occurred. (p. 13)

Corporate social responsibility: A concept whereby organizations consider the needs of all stakeholders when making decisions. (p. 15)

Decision making: Selecting a course of action from competing alternatives. (p. 3)

Enterprise risk management: A process used by a company to identify its risks and develop responses to them that enable it to be reasonably assured of meeting its goals. (p. 12)

Financial accounting: The phase of accounting that is concerned with reporting historical financial information to external parties, such as stockholders, creditors, and regulators. (p. 2)

Managerial accounting: The phase of accounting that is concerned with providing information to managers for use within the organization. (p. 2)

Lean Production: A management approach that organizes resources such as people and machines around the flow of business processes and that only produces units in response to customer orders. (p. 16)

Performance report: A report that compares budgeted data to actual data to highlight instances of excellent and unsatisfactory performance. (p. 4)

Planning: The process of establishing goals and specifying how to achieve them. (p. 3)

Segment: Any part or activity of an organization about which managers seek cost, revenue, or

profit data. (p. 3)

Strategy: A company’s “game plan” for attracting customers by distinguishing itself from competitors. (p. 10)

Value chain: The major business functions that add value to a company’s products and services, such as research and development, product design, manufacturing, marketing, distribution, and customer service. (p. 16)

Cha 1

Activity base: A measure of whatever causes the incurrence of a variable cost. For example, the total cost of surgical gloves in a hospital will increase as the number of surgeries increases. Therefore, the number of surgeries is the activity base that explains the total cost of surgical gloves. (p. 31)

Cost object: Anything for which cost data are desired. Examples of cost objects are products, customers, geographic regions, and parts of the organization such as departments or divisions. (p. 25)

Administrative costs: All executive, organizational, and clerical costs associated with the general management of an organization rather than with manufacturing or selling. (p. 28)

Selling costs: All costs that are incurred to secure customer orders and get the finished product or service into the hands of the customer. (p. 28)

Incremental cost: An increase in cost between two alternatives. Also see Differential cost. (p. 37)

Differential cost: A future cost that differs between any two alternatives. (p. 37)

Differential revenue: Future revenue that differs between any two alternatives. (p. 37)

Direct cost: A cost that can be easily and conveniently traced to a specified cost object. (p. 26)

Direct labor: Factory labor costs that can be easily traced to individual units of product. Also called touch labor. (p. 27)

Direct materials: Materials that become an integral part of a finished product and whose costs can be conveniently traced to it. (p. 27)

Prime cost: Direct materials cost plus direct labor cost. (p. 27)

Manufacturing overhead: All manufacturing costs except direct materials and direct labor. (p. 27)

Conversion cost: Direct labor cost plus manufacturing overhead cost. (p. 28)

Indirect cost: A cost that cannot be easily and conveniently traced to a specified cost object. (p. 26)

Indirect labor: The labor costs of janitors, supervisors, materials handlers, and other factory workers that cannot be conveniently traced to particular products. (p. 27)

Indirect materials: Small items of material such as glue and nails that may be an integral part of a finished product, but whose costs cannot be easily or conveniently traced to it. (p. 27) Inventoriable costs Synonym for product costs. (p. 29)

Cost behavior: The way in which a cost reacts to changes in the level of activity. (p. 30)

Cost structure: The relative proportion of fixed, variable, and mixed costs in an organization. (p. 30)

Variable cost: A cost that varies, in total, in direct proportion to changes in the level of activity. A variable cost is constant per unit. (p. 30)

Fixed cost: A cost that remains constant, in total, regardless of changes in the level of activity

within the relevant range. If a fixed cost is expressed on a per unit basis, it varies inversely

with the level of activity. (p. 32)

Committed fixed costs: Investments in facilities, equipment, and basic organizational structure that can’t be significantly reduced even for short periods of time without making fundamental changes. (p. 32)

Discretionary fixed costs: Those fixed costs that arise from annual decisions by management to spend on certain fixed cost items, such as advertising and research. (p. 33)

Mixed cost: A cost that contains both variable and fixed cost elements. (p. 34)

Relevant range: The range of activity within which assumptions about variable and fixed cost behavior are valid. (p. 33)

Common cost: A cost that is incurred to support a number of cost objects but that cannot be traced to them individually.

Period costs: Costs that are taken directly to the income statement as expenses in the period in which they are incurred or accrued. (p. 29)

Product costs: All costs that are involved in acquiring or making a product. In the case of manufactured goods, these costs consist of direct materials, direct labor, and manufacturing overhead. Also see Inventoriable costs. (p. 29)

Opportunity cost: The potential benefit that is given up when one alternative is selected over another. (p. 38)

Sunk cost: A cost that has already been incurred and that cannot be changed by any decision made now or in the future. (p. 38)

Contribution approach: An income statement format that organizes costs by their behavior. Costs are separated into variable and fixed categories rather than being separated into product and period costs for external reporting purposes. (p. 40)

Contribution margin: The amount remaining from sales revenues after all variable expenses have been deducted. (p. 40)

Finished goods: Units of product that have been completed but not yet sold to customers.

Raw materials: Any materials that go into the final product. (p. 27)

Work in process: Units of product that are only partially complete and will require further work before they are ready for sale to the customer. (p. 29)

Cha 2

Absorption costing: A costing method that includes all manufacturing costs—direct materials, direct labor, and both variable and fixed manufacturing overhead—in unit product costs. (p. 68)

Allocation base: A measure of activity such as direct labor-hours or machine-hours that is used to assign costs to cost objects. (p. 72)

Bill of materials: A document that shows the quantity of each type of direct material required to make a product. (p. 70)

Cost driver: A factor, such as machine-hours, beds occupied, computer time, or flight-hours, that causes overhead costs. (p. 77)

Job cost sheet: A form that records the direct materials, direct labor, and manufacturing overhead cost charged to a job. (p. 70)

Job-order costing: A costing system used in situations where many different products, jobs, or services are produced each period. (p. 68)

Materials requisition form: A document that specifies the type and quantity of materials to be drawn from the storeroom and that identifies the job that will be charged for the cost of those materials. (p. 70)

Multiple predetermined overhead rates: A costing system with multiple overhead cost pools and a different predetermined overhead rate for each cost pool, rather than a single redetermined overhead rate for the entire company. Each production department may be treated as a separate overhead cost pool. (p. 77)

Normal cost system: A costing system in which overhead costs are applied to a job by multiplying a predetermined overhead rate by the actual amount of the allocation base incurred by the job. (p. 74)

Overhead application: The process of assigning overhead cost to specific jobs. (p. 73)

Plantwide overhead rate: A single predetermined overhead rate that is used throughout a plant. (p. 77)

Predetermined overhead rate: A rate used to charge manufacturing overhead cost to jobs that is established in advance for each period. It is computed by dividing the estimated total manufacturing overhead cost for the period by the estimated total amount of the allocation base for the period. (p. 73)

Time ticket: A document that is used to record the amount of time an employee spends on various activities. (p. 71)

Cha 5

Break-even point: The level of sales at which profit is zero. (p. 199)

Contribution margin ratio (CM ratio): A ratio computed by dividing contribution margin by sales. (p. 204)

Cost-volume-profit (CVP) graph: A graphical representation of the relationships between an organization’s revenues, costs, and profits on the one hand and its sales volume on the other hand. (201)

Degree of operating leverage: A measure, at a given level of sales, of how a percentage change in sales will affect profits. The degree of operating leverage is computed by dividing contribution margin by net operating income. (p. 216)

Incremental analysis: An analytical approach that focuses only on those costs and revenues that change as a result of a decision. (p. 207)

Margin of safety: The excess of budgeted or actual dollar sales over the break-even dollar sales. (p. 213)

Operating leverage: A measure of how sensitive net operating income is to a given percentage change in dollar sales. (p. 215)

Sales mix: The relative proportions in which a company’s products are sold. Sales mix is computed by expressing the sales of each product as a percentage of total sales. (p. 218)

Target profit analysis: Estimating what sales volume is needed to achieve a specific target profit.

Variable expense ratio: A ratio computed by dividing variable expenses by sales. (p. 204)

Cha6

Common fixed cost: A fixed cost that supports more than one business segment, but is not traceable in whole or in part to any one of the business segments. (p. 268)

Traceable fixed cost: A fixed cost that is incurred because of the existence of a particular business segment and that would be eliminated if the segment were eliminated. (p. 268)

Segment: Any part or activity of an organization about which managers seek cost, revenue, or profit data. (p. 258)

Segment margin: A segment’s contribution margin less its traceable fixed costs. It represents the margin available after a segment has covered all of its own traceable costs. (p. 269)

Variable costing: A costing method that includes only variable manufacturing costs—direct materials, direct labor, and variable manufacturing overhead—in unit product costs

Cha 7

Activity: An event that causes the consumption of overhead resources in an organization. (p. 314)

Activity cost pool: A “bucket” in which costs are accumulated that relate to a single activity measure in an activity-based costing system. (p. 314)

Activity measure: An allocation base in an activity-based costing system; ideally, a measure of the amount of activity that drives the costs in an activity cost pool. (p. 314)

Activity-based costing (ABC): A costing method based on activities that is designed to provide managers with cost information for strategic and other decisions that potentially affect capacity and therefore fixed as well as variable costs. (p. 311)

Activity-based management (ABM): A management approach that focuses on managing activities as a way of eliminating waste and reducing delays and defects. (p. 333)

Batch-level activities: Activities that are performed each time a batch of goods is handled or processed, regardless of how many units are in the batch. The amount of resource consumed depends on the number of batches run rather than on the number of units in the batch. (p. 314)

Customer-level activities: Activities that are carried out to support customers, but that are not related to any specific product. (p. 314)

Product-level activities: Activities that relate to specific products that must be carried out regardless of how many units are produced and sold or batches run. (p. 314)

Unit-level activities: Activities that are performed each time a unit is produced. (p. 314)

Benchmarking: A systematic approach to identifying the activities with the greatest potential for improvement. (p. 334)

Duration driver: A measure of the amount of time required to perform an activity. (p. 314)

Transaction driver: A simple count of the number of times an activity occurs. (p. 314)

First-stage allocation: The process by which overhead costs are assigned to activity cost pools in an activity-based costing system. (p. 320)

Second-stage allocation: The process by which activity rates are used to apply costs to products and customers in activity-based costing. (p. 323)

Organization-sustaining activities: Activities that are carried out regardless of which customers are served, which products are produced, how many batches are run, or how many units are made. (p. 314)

Cha 8

Responsibility accounting: A system of accountability in which managers are held responsible for those items of revenue and cost—and only those items—over which they can exert significant control. The managers are held responsible for differences between budgeted and actual results. (p. 363)

Master budget: A number of separate but interdependent budgets that formally lay out the company’s sales, production, and financial goals and that culminates in a cash budget, budgeted income statement, and budgeted balance sheet. (p. 365)

Sales budget: A detailed schedule showing expected sales expressed in both dollars and units. (p. 366)

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

Production budget: A detailed plan showing the number of units that must be produced during a period in order to satisfy both sales and inventory needs. (p. 373)

Merchandise purchases budget: A detailed plan used by a merchandising company that shows the amount of goods that must be purchased from suppliers during the period. (p. 374)

Ending finished goods inventory budget: A budget showing the dollar amount of unsold finished goods inventory that will appear on the ending balance sheet. (p. 378)

Cash budget: A detailed plan showing how cash resources will be acquired and used over a specific time period. (p. 366)

Direct labor budget: A detailed plan that shows the direct labor-hours required to fulfill the production budget. (p. 376)

Direct materials budget: A detailed plan showing the amount of raw materials that must be purchased to fulfill the production budget and to provide for adequate inventories. (p. 374)

Manufacturing overhead budget: A detailed plan showing the production costs, other than direct materials and direct labor, that will be incurred over a specified time period. (p. 377)

Participative budget: See Self-imposed budget. (p. 364)

Self-imposed budget: A method of preparing budgets in which managers prepare their own budgets. These budgets are then reviewed by higher-level managers, and any issues are resolved by mutual agreement. (p. 364)

Perpetual budget: See Continuous budget. (p. 364)

Continuous budget: A 12-month budget that rolls forward one month as the current month is

completed. (p. 364)

Cha 9

Activity variance: The difference between a revenue or cost item in the flexible budget and the same item in the static planning budget. An activity variance is due solely to the difference between the actual level of activity used in the flexible budget and the level of activity assumed in the planning budget. (p. 420)

Revenue variance: The difference between the actual revenue for the period and how much the revenue should have been, given the actual level of activity. A favorable (unfavorable) revenue variance occurs because the revenue is higher (lower) than expected, given the actual level of activity for the period. (p. 421)

Spending variance: The difference between the actual amount of the cost and how much the cost should have been, given the actual level of activity. A favorable (unfavorable) spending variance occurs because the cost is lower (higher) than expected, given the actual level of activity for the period. (p. 422)

Planning budget: A budget created at the beginning of the budgeting period that is valid only for the planned level of activity. (p. 415)

Flexible budget: A report showing estimates of what revenues and costs should have been, given the actual level of activity for the period. (p. 415)

Management by exception: A management system in which actual results are compared to a budget. Significant deviations from the budget are flagged as exceptions and investigated further.

Cha 10

Price variance: A variance that is computed by taking the difference between the actual price and the standard price and multiplying the result by the actual quantity of the input. (p. 454)

Quantity variance: A variance that is computed by taking the difference between the actual quantity of the input used and the amount of the input that should have been used for the actual level of output and multiplying the result by the standard price of the input. (p. 454)

Labor efficiency variance: The difference between the actual labor-hours taken to complete a task and the standard hours allowed for the actual output, multiplied by the standard hourly labor rate. (p. 460)

Labor rate variance: The difference between the actual hourly labor rate and the standard rate, multiplied by the number of hours worked during the period. (p. 459)

Materials price variance: The difference between a direct material’s actual price per unit and its standard price per unit, multiplied by the quantity purchased. (p. 457)

Materials quantity variance: The difference between the actual quantity of materials used in production and the standard quantity allowed for the actual output, multiplied by the standard price per unit of materials. (p. 458)

Variable overhead efficiency variance: The difference between the actual level of activity (direct labor-hours, machine-hours, or some other base) and the standard activity allowed, multiplied by the variable part of the predetermined overhead rate. (p. 462)

Variable overhead rate variance: The difference between the actual variable overhead cost

incurred during a period and the standard cost that should have been incurred based on the

actual activity of the period. (p. 462)

Standard cost card: A detailed listing of the standard amounts of inputs and their costs that are required to produce one unit of a specific product. (p. 452)

Standard cost per unit: The standard quantity allowed of an input per unit of a specific product, multiplied by the standard price of the input. (p. 452)

Standard hours allowed: The time that should have been taken to complete the period’s output. It is computed by multiplying the actual number of units produced by the standard hours per unit. (p. 455)

Standard hours per unit: The amount of direct labor time that should be required to complete a single unit of product, including allowances for breaks, machine downtime, cleanup, rejects, and other normal inefficiencies. (p. 451)

Standard price per unit: The price that should be paid for each unit of direct materials. It should reflect the final, delivered cost of those materials. (p. 451)

Standard quantity allowed: The amount of direct materials that should have been used to complete the period’s actual output. It is computed by multiplying the actual number of units produced by the standard quantity per unit. (p. 455)

Standard quantity per unit: The amount of direct materials that should be used for each unit of finished product, including an allowance for normal inefficiencies, such as scrap and spoilage. (p. 451)

Standard rate per hour: The labor rate that should be incurred per hour of labor time, including employment taxes and fringe benefits. (p. 452)

Cha 11

Decentralized organization: An organization in which decision-making authority is not confined to a few top executives but rather is spread throughout the organization. (p. 507)

Cost center: A business segment whose manager has control over cost but has no control over revenue or investments in operating assets. (p. 508)

Investment center: A business segment whose manager has control over cost, revenue, and investments in operating assets. (p. 508)

Profit center: A business segment whose manager has control over cost and revenue but has no control over investments in operating assets. (p. 508)

Responsibility center: Any business segment whose manager has control over costs, revenues, or investments in operating assets. (p. 508)

Balanced scorecard: An integrated set of performance measures that are derived from and support the organization’s strategy. (p. 519)

Delivery cycle time: The elapsed time from when a customer order is received until the finished goods are shipped. (p. 516)

Throughput time: The elapsed time from when production is started until finished goods are shipped. (p. 516)

Manufacturing cycle efficiency (MCE): Process (value-added) time as a percentage of throughput time. (p. 517)

Margin: Net operating income divided by sales. (p. 510)

Turnover: Sales divided by average operating assets. (p. 510)

Return on investment (ROI): Net operating income divided by average operating assets. It also equals margin multiplied by turnover. (p. 509)

Net operating income: Income before interest and income taxes have been deducted. (p. 509)

Operating assets: Cash, accounts receivable, inventory, plant and equipment, and all other assets held for operating purposes. (p. 509)

Residual income: The net operating income that an investment center earns above the minimum required return on its operating assets. (p. 513)

Economic Value Added (EVA): A concept similar to residual income in which a variety of adjustments may be made to GAAP financial statements for performance evaluation purposes. (p. 513)

Cha 12

Avoidable cost: A cost that can be eliminated by choosing one alternative over another in a decision. This term is synonymous with differential cost and relevant cost. (p. 561)

Relevant benefit: A benefit that should be considered when making decisions. (p. 561)

Relevant cost: A cost that should be considered when making decisions. (p. 561)

Bottleneck: A machine or some other part of a process that limits the total output of the entire system. (p. 577)

Constraint: A limitation under which a company must operate, such as limited available machine time or raw materials, that restricts the company’s ability to satisfy demand. (p. 576)

Relaxing (or elevating) the constraint: An action that increases the amount of a constrained resource. Equivalently, an action that increases the capacity of the bottleneck. (p. 580)

Joint products: Two or more products that are produced from a common input. (p. 581)

Split-off point: That point in the manufacturing process where some or all of the joint products can be recognized as individual products. (p. 582)

Joint costs: Costs that are incurred up to the split-off point in a process that produces joint products. (p. 582)

Make or buy decision: A decision concerning whether an item should be produced internally or purchased from an outside supplier. (p. 572)

Sell or process further decision: A decision as to whether a joint product should be sold at the split-off point or sold after further processing. (p. 582)

Special order: A one-time order that is not considered part of the company’s normal ongoing business. (p. 575)

Vertical integration: The involvement by a company in more than one of the activities in the entire value chain from development through production, distribution, sales, and after-sales service. (p. 572)

Cha 13

Out-of-pocket costs: Actual cash outlays for salaries, advertising, repairs, and similar costs.

Capital budgeting: The process of planning significant investments in projects that have long-term implications such as the purchase of new equipment or the introduction of a new product.

Cost of capital: The average rate of return a company must pay to its long-term creditors and shareholders for the use of their funds. (p. 640)

Working capital: Current assets less current liabilities. (p. 633)

Time value of money: The concept that a dollar today is worth more than a dollar a year from now. (p. 634)

Preference decision: A decision in which the acceptable alternatives must be ranked. (p. 633)

Screening decision: A decision as to whether a proposed investment project is acceptable.

Internal rate of return: The discount rate at which the net present value of an investment project is zero; the rate of return of a project over its useful life. (p. 644)

Net present value: The difference between the present value of an investment project’s cash inflows and the present value of its cash outflows. (p 638)

Payback period: The length of time that it takes for a project to fully recover its initial cost out of the net cash inflows that it generates. (p. 635)

Postaudit: The follow-up after a project has been approved and implemented to determine whether expected results were actually realized. (p. 653)

Project profitability index: The ratio of the net present value of a project’s cash flows to the investment required. (p. 650)

Simple rate of return: The rate of return computed by dividing a project’s annual incremental net operating income by the initial investment required. (p. 651)