

Accounting Exam #1 Study Guide

Chapter 1 Terms:

Budget – A detailed plan for the future that is usually expressed in formal quantitative terms

Business Process – A series of steps that are followed in order to carry out some task in a business

Constraint – Anything that prevents you from getting more of what you want

Controlling – The process of gathering feedback to ensure that a plan is being properly executed or modified as circumstances change

Corporate Social Responsibility – A concept whereby organizations consider the needs of all stakeholders when making decisions

Decision Making – Selecting a course of action from competing alternatives

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

Financial Accounting – The phase of accounting that is concerned with reporting historical financial information to external parties, such as stockholders, creditors, and regulators

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

Managerial Accounting – The phase of accounting that is concerned with providing information to managers for the use within the organization

Performance Report – A report that compares budgeted data to actual data to highlight instances of excellent and unsatisfactory performance

Planning – The process of establishing goals and specifying how to achieve them

Segment – A part or activity of an organization about which managers would like cost, revenue, or profit data

Strategy – A company's "game plan" for attracting customers by distinguishing itself from competitors

Theory of Constraints – A management approach that emphasizes the importance of managing constraints

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.

Corporate Governance – The system by which a company is directed and controlled

Detective Control – A control that detects undesirable events that have already occurred

Internal Control – A process designed to provide reasonable assurance that objectives are being achieved

Preventive Control – A control that deters undesirable effects from occurring

Sarbanes-Oxley Act of 2002 – A law intended to protect the interests of those who invest in publicly traded companies by improving the reliability and accuracy of corporate financial reports and disclosure

Chapter 2 Terms:

Account Analysis – A method for analyzing cost behavior in which an account is classified as either variable or fixed based on the analyst's prior knowledge of how the cost in the account behaves

Activity Base – A measure of whatever causes the incurrence of a variable cost. For example, the total cost of X-ray film in a hospital will increase as the number of X-rays taken increases. Therefore the number of X-rays in the activity base that explains the total cost of x-ray film

Administrative Costs – All executive, organizational, and clerical costs associated with the general management of an organization rather than with manufacturing or selling

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

Common Cost – A cost that is incurred to support a number of cost objects but cannot be traced to them individually. For example, the wage cost of the pilot of a 747 airliner is a common cost of all of the passengers on the aircraft. Without the pilot, there would be no flight and no passengers. But no part of the pilot's wage is caused by any one passenger taking the flight

Contribution Approach – An income statement format that organizes cost by their behavior. Costs are separated into variable and fixed categories rather than being separated into product and period costs for external reporting purposes

Contribution Margin – The amount remaining from sales revenue after all variable expenses have been deducted

Conversion Cost – Direct labor cost plus manufacturing overhead cost

Cost Behavior – The way in which a cost reacts to changes in the level of activity

Cost Object – Anything for which cost data are desired. Examples of cost objects are products, customers, jobs, and parts of the organization such as departments or divisions

Cost Structure – The relative proportion of fixed, variable, and mixed costs in an organization

Dependent Variable – A variable that responds to some casual factor, total cost is the dependent variable as represented by Y in $Y=a+bx$

Differential Cost – A difference in cost between two alternatives. Also known as incremental cost

Differential Revenue – The difference in revenue between two alternatives

Direct Cost – A cost that can be easily and conveniently traced to a specific cost object

Direct Labor – Factory labor costs that can be easily traced to individual units of product. Also called touch labor

Direct Materials – Materials that become an integral part of a finished product and whose costs can be conveniently traced to it

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

Engineering Approach – A detailed analysis of cost behavior based on an industrial engineer's evaluation of the inputs that are required to carry out a particular activity and of the prices of those inputs

Fixed Cost – A cost that remains constant regardless of changes in the level of activity *within the relevant range*

High-low method – A method of separating mixed costs into its fixed and variable elements

Incremental Cost – An increase in cost between two alternatives, also known as differential cost

Independent Variable – A variable that acts as a causal factor. Activity is the independent variable and expressed by the letter X in $Y=a+bx$

Indirect Cost – A cost that cannot be easily and conveniently traced to a specified cost object

Indirect Labor – The labor cost of janitors, supervisors, materials handlers, and other factory workers that cannot be conveniently traced to a particular object

Indirect Materials – Small items of material such as glue and nails that may be an integral part of a finished product, but whose cost cannot be easily and conveniently traced to it

Inventoriable Cost – Synonym for product cost

Least-squares regression method – A method of separating mixed cost into its fixed and variable elements by fitting a regression line that minimizes the sum of the squared errors

Linear Cost Behavior – Cost behavior is said to be linear whenever a straight line is a reasonable approximation for the relation between cost and activity

Manufacturing Overhead – All manufacturing costs except direct materials and direct labor

Mixed Costs – A cost that contains both variable and fixed cost elements

Opportunity Cost – The potential benefit that is given up when one alternative is selected over another

Period Costs – Costs that are taken directly to the income statement as expenses in the period in which they are incurred or accrued

Appraisal Costs – Costs that are incurred to identify defective products before the products are shipped to customers

External Failure Costs – Costs that are incurred when a product or service that is defective is delivered to a customer

Internal Failure Costs – Costs that are incurred as a result of identifying defective products before they are shipped to customers

ISO 9000 Standards – Quality control requirements issued by the International Organization for Standardization that relate to products sold in European Countries

Prevention Costs – Costs that are incurred to keep defects from occurring

Quality Circles – Small groups of employees that meet on a regular basis to discuss ways of improving quality

Prime Cost – Direct Materials plus Direct Labor Cost

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.

Raw Materials – Any materials that go into the final product

Relevant Range – The range of activity within which assumptions about variable and fixed cost behavior are valid

Selling Costs – All costs that are incurred to secure customer orders and get the finished product or service into the hands of the customer

Sunk Cost – A cost that has already been incurred and that cannot be changed by any decision made now or in the future

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

Quality Cost – Costs that are incurred to prevent defective products from falling into the hands of customers or that are incurred as a result of defective units

Quality Cost Report – A report that details prevention costs, appraisal costs, and the costs of internal and external failures

Quality of Conformance – The degree to which a product or service meets or exceeds its design specifications and is free of defects or other problems that mar its appearance or degrade its performance

Statistical Process Control – A charting technique used to monitor the quality of work being done in a workstation for the purpose of immediately correcting any problem

Chapter 2 Questions:

2-3: Explain the difference between a product cost and a period cost

2-4: Distinguish between (a) a variable cost, (b) a fixed cost, and (c) a mixed cost

2-5: What effect does an increase in volume have on? Unit Fixed Costs? Unit Variable Costs? Total Fixed Costs? Total variable costs?

2- 8: Managers often assume a strictly linear relationship between cost and volume. How can this practice be defended in light of the fact that many costs are curvilinear?

2-12: Give the general formula for mixed cost. Which term represents the variable cost? The fixed cost?

2-13: What is the difference between a contribution format income statement and a traditional format income statement?

Exercise 2B2:

Chapter 3 Terms:

Absorption Cost – A costing method that includes all manufacturing costs – direct materials, direct labor, and both variable and fixed manufacturing overhead – in the cost of a product

Allocation Base – A measure of activity such as direct labor-hours or machine-hours that is used to assign costs to cost objects

Bill of Materials – A document that shows the quantity of each type of direct material required to make a product

Cost Driver – A factor, such as machine-hours, beds occupied, computer time, or flight-hours, that causes overhead costs

Cost of Goods Manufactured – The manufacturing costs associated with the goods that were finished during the period

Finished Goods – Units of product that have been completed but not yet sold to customers

Job Cost Sheet – A form that records the materials, labor, and manufacturing overhead costs charged to a job

Job-Order Costing – A costing system used in situations where many different products, jobs, or services are produced each period

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

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 predetermined overhead rate for the entire company. Each production department may be treated as a separate overhead cost pool

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

Overapplied Overhead – A credit balance in the manufacturing overhead account that occurs when the amount of overhead cost applied to WIP exceeds the amount of overhead cost actually incurred during a period

Overhead Application – The process of charging manufacturing overhead cost to job cost sheets and to the WIP account

Plantwide Overhead Rate – A single predetermined overhead rate that is used throughout the plant

Predetermined Overhead Rate – A rate used to charge manufacturing overhead costs 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

Raw Materials – Any material that goes into the final product

Schedule of Cost of Goods Manufactured – A schedule that contains three elements of product costs – direct material, direct labor, and manufacturing overhead. Summarizes the portions of those costs that remain in ending WIP inventory and that are transferred out of WIP into finished goods

Schedule of Cost of Goods Sold – A schedule that contains three elements of product costs – direct materials, direct labor, and manufacturing overhead. Summarizes the portions of those costs that remain in ending finished goods inventory and that are transferred out of finished goods in COGS

Time Ticket – A document that is used to record the amount of time an employee spends on various activities

Underapplied Overhead – A debit balance in the manufacturing overhead account that occurs when the amount of overhead cost actually incurred exceeds the amount of overhead cost applied to WIP during a period

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