Glossary

Absorption costing the costing of products and services to include both direct and indirect costs of production
Activity-based costing a costing system used in both service and manufacturing industries, and in both the private and public sectors, which identifies overhead costs as closely as possible with the drivers of cost, i.e. the different activities that take place in the organisation
Adverse variance an unfavourable difference between a budget figure and an actual figure (in terms of sales, an actual figure that is lower than budget; in terms of costs an actual figure that is higher than budget)
Agency theory in the organisational context, this theory proposes a relationship between a principal (the provider of funds) and the agent (the person who manages those funds)

Batch costing the accumulation of costs relating to a batch of identical products
Break-even chart a graph showing lines for costs and revenues, from which the break-even point can be estimated
Break-even point the point at which neither a profit nor a loss is made, i.e. where total costs equal total revenues
Budget a statement, prepared in advance, usually for a specific period (e.g. for one year) of a business's planned activities and financial outcomes
Budgetary slack an adverse effect observable in some businesses where managers deliberately set themselves easily achievable targets
Bureaucracy (in the sense used by Max Weber) a systematic approach to management involving a series of rules and procedures

Capital budgeting the process of decision-making in respect of selecting investment projects, and the amount of capital expenditure to be committed
Capital rationing where a shortage of capital available for investment requires prioritisation of investment projects
Cartel a price-fixing arrangement where a few major suppliers in a market agree between themselves to keep prices high
Contribution the amount which remains after deducting variable costs from sales revenue
Cost accounting the process of identifying and summarising the costs associated with an organisation's operations
Cost and management accounting accounting oriented towards the provision of information resources that managers can use to run the business
Cost centres functions or areas into which costs can be organised
Cost driver in activity-based costing, the various activities that take place in the organisation to which costs are attached
Cost object any product, activity or service that requires costing
Cost of capital the interest rate which is applicable to a particular business
Cost pools in activity-based costing, the accumulation of costs associated with particular activities in the organisation
Cost unit an item of production or a group of products or a service for which it is useful to have product cost information

Demand curve an economic model of the relationship between price and quantity demanded
Depreciation a measurement of the amount of non-current assets value which has been used up during the accounting period (the term usually relates to tangible non-current assets)
Direct costs those costs directly associated with the manufacturing process
Direct expenses direct costs other than direct materials and direct labour costs

Expenses the amounts incurred by the business in purchasing or manufacturing goods sold, and other expenditure on items like rent and telephone charges.

Favourable variance an advantageous difference between a budget figure and an actual figure (in terms of sales, an actual figure that is higher than budget; in terms of costs an actual figure that is lower than budget)

Financial reporting the regular reporting of financial information to interested parties external to the organisation

Finished goods inventory items which have been through a complete manufacturing process and which are now ready for sale

Fixed overhead costs those costs that do not tend to vary directly with increases and decreases in activity in a business

Goal congruence ensures that all divisions within an organisation work together to maximise returns for the organisation as a whole

Hawthorne effect describes the phenomenon, commonly noted in psychological research, where people's behaviour changes when they are under observation as part of a research project

Human relations school in organisation theory, those who emphasise the role of people in organisations, contrasted with the 'mechanical school' of theorists who treat the organisation as a machine

Incremental budgeting budget setting by taking a previous period's budget total and adding a standard percentage increase

Indirect costs those costs which are not directly identifiable with a unit of production

Intellectual capital the resources available to an organisation in the form of, for example, the technical know-how of employees and established relationships with other organisations

Inventory items bought by a business to sell on to somebody else, or to process or transform in some way to make saleable goods

Investment centre a method of divisional organisation where managers are able to control costs, pricing strategy and investment strategy

Job costing an accumulation of costs relating to one identifiable job or task

Joint-stock corporation the precursor to the modern limited liability company

Limiting factors constraints on the level of business activity

Loss leader a product or service which is used to attract customer attention to a range of goods or to a particular supplier

Management accountants specialists in the provision of financial information for use within the business

Management accounting accounting carried out within a business for its own internal uses, to assist management in controlling the business and in making business decisions

Marginal cost the cost of one additional unit

Marginal costing an approach to costing which excludes fixed costs

Margin of safety the excess of planned or actual sales above the breakeven point.

Mechanical school in organisation theory, those who treat the organisation as a machine. This contrasts with the 'human relations school' of theory

Monopoly a market condition where only one supplier supplies the market with a particular good or service

Net present value the aggregate of a set of cash inflows and outflows forecast to take place at future dates, discounted to present values

New Public Management (NPM) the adoption into the public sector of accounting and management techniques that originated in the private sector

Oligopoly a market condition where there are few suppliers (about three to five) of a particular good or service. Typically, the market shares between the suppliers are fairly evenly spread

Opportunity cost in decision-making, the potential benefit that is given up when a particular course of action is taken in preference to an alternative

Overhead absorption a method of allocating an appropriate portion of production overheads to cost units

Overhead absorption rate a rate used to estimate the amount of production overhead incurred in manufacturing

Perfect competition a hypothetical economic condition where no player in a market has the power to change prices

Period costs costs incurred during the accounting period

Present value the discounted value at the present time (i.e. now) of a cash flow expected to arise in the future

Price setter an influential supplier in a market with the power to influence the level of prices for a product or service

Price-skimming occurs where high prices are charged in the early stages of the life of a new product

Price taker a supplier in a market with little or no influence over the level of prices charged for a product or service

Prime cost the total of all direct costs associated with manufacture

Product costing the accumulation of costs relating to the production of a large number of identical units

Product costs those costs relating to the production of goods or services for sale by a business

Profit centre a method of divisional organisation where managers are able to determine pricing strategy and control costs, but do not determine investment strategy.

Raw materials materials which are bought in by a business and then put through a manufacturing process

Relevant range in decision-making, the range of activity within which certain assumptions about cost behaviour remain valid

Responsibility accounting accounting within the business which identifies the person or department responsible for particular outcomes

Return on Investment (ROI) a commonly used method of assessing divisional performance; it expresses divisional net profit as a percentage of the investment in divisional net assets

Revenue the amount of goods and/or services sold in an accounting period by a business, expressed in terms of monetary amounts

Rolling budget a budget which is updated on a regular basis as each period of time (usually one month) elapses

Scientific management a theory of management propounded by Frederick Taylor, sometimes nowadays referred to as 'Taylorism'

Semi-variable cost a cost which varies to some extent with the level of business activity; it has both fixed and variable elements

Stakeholders all those individuals and entities that have a interest in the activities of an organisation: the term includes, for example, shareholders, providers of finance, employees, the general public.

Standard costing a system of costing which attributes consistent costs to elements of production

Strategic management accounting the role played by management accountants and management accounting in strategic decision-making, involving, for example, analysis of markets and the business strategy of competitor organisations

Sunk cost a cost which is irrelevant to a decision, because it has already been incurred

Theory X and Theory Y two models of human behaviour proposed by McGregor. Theory X proposes that people actively dislike working and therefore must be controlled and directed in order to make them work. Theory Y proposes that people are self-motivated, will accept responsibility, and do not need to be threatened or punished to make them work

Transfer pricing the method of pricing sales of goods or services between divisions in an organisation

Utility in an economic context, a measurement of consumption of goods and services. Agency theory assumes that all individuals want to maximise their utility, that is, their ability to consume

Variable cost a cost which varies in proportion to the level of business activity

Zero-based budgeting (ZBB) a budget process that ignores any previous budgets and requires that budgetary allocations must be justified in full by managers