



Cost Accounting Terminology

Activity-based costing – A cost accounting system that focuses on the activities performed in manufacturing a specific product.

Absorption costing – A costing approach in which all manufacturing costs are charged to the product.

Contribution margin ratio – The percentage of each dollar of sales that is available to apply to fixed costs and contribute to net income; calculated as contribution margin per unit divided by unit selling price.

Cost accounting – An area of accounting that involves measuring, recording, and reporting service or product costs.

Cost accounting system – Manufacturing cost accounts that are fully integrated into the general ledger of a company.

Cost behavior analysis – The study of how specific costs respond to changes in the level of business activity.

Conversion costs – The sum of labor costs and overhead costs.

Cost driver – Any factor or activity that has a direct cause-effect relationship with the resources consumed.

Cost object - Any segment or element for which cost information is desired. A product, service, project, activity, department, division, or customer, etc.

Cost Of Goods Sold - the cost of products or services sold.

Cost reconciliation schedule – A schedule that shows that the total costs accounted for equal the total costs to be accounted for.

Equivalent units of production – A measure of the work done during the period, expressed in fully completed units.

Finished Goods - the inventory of fully completed goods or services.

Fixed costs – Costs that remain the same in total regardless of changes in the activity level.

Indirect costs - These can't be directly traced to the product; instead, these costs are allocated, based on some level of activity. For example, overhead costs are considered indirect costs.

Job cost sheet – A form used to record the costs chargeable to a specific job and to determine the total and unit costs of the completed job.

Job order cost system – A cost accounting system in which costs are assigned to each job or batch.

Manufacturing costs - All costs related to the production of goods are called manufacturing costs; they are also referred to as product costs. A manufacturer

purchases materials, employs workers who use the materials to assemble the goods, provides a building where the materials are stored and goods are assembled, and sells the goods. We classify the costs associated with these activities into three categories: direct materials-direct labor, and manufacturing overhead.

Materials requisition slip – A document authorizing the issuance of raw materials from the storeroom to production.

Mixed costs – Costs that contain both a variable and a fixed cost element and change in total but not proportionately with changes in the activity level.

Overhead costs - The ongoing expenses of operating a business. They are all costs on the income statement except for direct labor, direct materials, and direct expenses. Overhead costs include accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel, and utilities costs.

Overapplied overhead – A situation in which overhead assigned to work in process is greater than the overhead incurred.

Period costs - Cost that are expensed in the period in which incurred.

Physical units – Actual units to be accounted for during a period, irrespective of any work performed.

Predetermined overhead rate – A rate based on the relationship between estimated annual overhead costs and expected annual operating activity, expressed in terms of a common activity base.

Prime costs - The sum of direct labor costs and direct material costs.

Process cost system – A system of accounting used when a large quantity of similar products are manufactured.

Product costs - Costs associated with producing a product that are capitalized in the inventory, i.e., become assets until the products are sold. Direct manufacturing costs such as direct materials and direct labor, as well as indirect manufacturing costs usually referred to as factory overhead.

Production cost report – An internal report for management that shows both production quantity and cost data for a production department.

Raw materials - are materials or substances used in the production of goods or services.

Relevant range – The range of the activity index over which the company expects to operate during the year.

Sunk costs - costs that are irrevocable, or unavoidable and therefore not relevant. The amount paid down on a recently acquired machine is a sunk costs and is not relevant to the decision to replace the machine.

Time ticket – A document that indicates the employee, the hours worked, the account and job or process to be charged, and the total labor cost.

Total units (costs) accounted for – The sum of the units (costs) transferred out during the period plus the units (costs) in process at the end of the period.

Total units (costs) to be accounted for – The sum of the units (costs) started (or transferred) into production during the period plus the units (costs) in process at the beginning of the period.

Underapplied overhead – A situation in which overhead assigned to work in process is less than the overhead incurred.

Unit production costs – Costs expressed in terms of equivalent units of production.

Variable costs – Costs that vary in total directly and proportionately with changes in the activity level.

Weighted-average method – Method used to compute equivalent units of production which considers the degree of completion (weighting) of the units completed and transferred out and the ending work in process.

Work-In-Process - the inventory of partially completed goods or services.