Glossary of key terms

attributable cost The cost per unit that could be avoided, on the average, if a product or function were discontinued entirely without changing the supporting organisational structure.

competitive pricing Setting a price by reference to the prices of competing products.

decision tree A pictorial method of showing a sequence of interrelated decisions and their expected outcomes. Decision trees can incorporate both the probabilities of, and values of, expected outcomes, and are used in decision-making.

differential cost The difference in total cost between alternatives, calculated to assist decision-making.

discounted cash flow (DCF) The discounting of the projected net cash flows of a capital project to ascertain its present value, using a yield or internal rate of return (IRR), net present value (NPV) or discounted payback.

expected value The financial forecast of the outcome of a course of action multiplied by the probability of achieving that outcome. The probability is expressed as a value ranging from zero to 1.

key factor (or **limiting factor**) Anything which limits the activity of an entity. An entity seeks to optimise the benefit it obtains from the limiting factor. Examples are a shortage of supply of a resource or a restriction on sales demand at a particular price.

linear programming The use of a series of linear equations to construct a mathematical model. The objective is to obtain an optimal solution to a complex operational problem, which may involve the production of a number of products in an environment in which there are many constraints.

notional cost A cost used in product evaluation, decision-making and performance measurement to represent the cost of using resources which have no conventional 'actual cost'. Notional interest, for example, may be charged for the use of internally generated funds.

price elasticity A measure of the responsiveness of the demand for a product or service to a change in the price of that product or service. Products with an inelastic demand show relatively little changes in demand to relatively large changes in price (for example, the necessities of life) – demand is therefore not significantly price sensitive. Products with an elastic demand show relatively large changes in demand to relatively small changes in price.

risk analysis The evaluation and quantification of all currently known uncertainty, in order to predict likely outcomes and identify strategies for reducing risk to an acceptable level and controlling residual risk.