

Glossary of key terms

bill of materials (BOM) A detailed specification, for each product produced, of the sub-assemblies, components and materials required, distinguishing between those items which are purchased externally and those which are manufactured in-house.

budget A quantified statement, for a defined period of time, which may include planned revenues, expenses, assets, liabilities and cash flows.

control The ability to direct the financial and operating policies of an entity with a view to gaining economic benefits from its activities (FRS 8).

flexed budget The budgeted cost ascribed to the level of activity achieved in a budget centre in a control period. It comprises variable costs in direct proportion to volume achieved and fixed costs as a proportion of the annual budget.

forecast A prediction of future events and their quantification for planning purposes.

investment centre A profit centre with additional responsibilities for capital investment and possibly for financing, and whose performance is measured by its return on investment – the manager is responsible for investments, revenues and costs.

management control The process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives.

planning The establishment of objectives, and the formulation, evaluation and selection of the policies, strategies, tactics and action required to achieve them. Planning comprises long-term/strategic planning, and short-term operational planning, the latter being usually for a period of up to one year.

profit centre A part of the business that is accountable for both costs and revenues – the manager is responsible for revenues and costs.

residual income (RI) Profit before tax less an imputed interest charge for invested capital, which may be used to assess the performance of a division or a branch of a business.

responsibility accounting A system in which a budget holder is given responsibility for all revenues and costs that can be traced to clearly defined areas of their responsibility.

responsibility centre A department or organisational function whose performance is the direct responsibility of a specific manager.

revenue centre A centre devoted to raising revenue with no responsibility for costs, for example, a sales centre – the manager is responsible for revenues only (revenue centres are often used in not-for-profit organisations).

strategic plan A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of those goals.

variance The difference between a planned, budgeted or standard cost and the actual cost incurred. The same comparisons may be made for revenues.

variance analysis The evaluation of performance by means of variances, whose timely reporting should maximise the opportunity for managerial action. These variances will be either favourable variances (F) or adverse variances (A).