The Burning Role of Responsibility Accounting in Better Built of Management

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Abstract

The creation of services allows the operation of a system of accounting responsibility. Responsibility accounting is an accounting system that separates revenues and costs in terms of personal responsibility to monitor and evaluate the performance of the organization. Responsibility accounting collects and reports planned and actual accounting information about the inputs and outputs of responsibility centers. It is based on physical information pertaining to inputs and outputs. The resources utilized in an organization are physical in nature like quantities of materials consumed into a common denominator and expressed in monetary terms called costs for the purpose of managerial control. In similar way outputs are based on costs and revenue data. The importance of appropriate responsibility accounting system is needed to keep better management in the organization. This paper evaluates how the responsibility accounting system leads to strengthen management ability of the organization.

Key Words: Responsibility Accounting, Cost Centre, Profit Centre

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Introduction

Responsibility accounting is a system of accounting that recognizes various responsibility centers throughout the organization and reflects the plans and actions of these centers by assigning particular revenue and costs to the one having the pertinent responsibility. It is a system that generates information on the basis of managerial responsibility, allowing that information to be used directly in motivating and controlling each manager's actions. The responsibility accounting includes four major types of responsibility centers that are cost center, revenue center, profit center, investment center through which it can make the comparisons. A production department within the factory, such as Assembly or Finishing is an example of cost center. The supervisor of a production department does not set price or make marketing decisions, but he or she control manufacturing costs. Therefore the production department supervisor is evaluated on the basis of how well costs are controlled. The marketing department manager sets price and projected sales. Therefore the marketing department may be evaluated as a revenue center. Direct costs of the marketing department and overall sales are the responsibility of the sales manager. In some companies plant managers are given the responsibility to price and market products they manufacture. These plant managers control both costs and revenues, putting them in control of a profit center. Operating income would be an important performance measure for profit center managers. Finally, divisions are often cited s examples of investment centers. In addition to having control over cost and pricing decisions, divisional managers have the power to make investment decisions, such as plant closings and opening, and decisions to keep or drop a product line. As a result, both operating income and some type of return on investment are important performance measures for investment center managers.

How the Responsibility Accounting Built Better Management Performance?

The main role of responsibility accounting lies on the responsibility centers means it includes evaluating the performance of managers in cost centers, profit centers, and investment centers. So first we should understand about different responsibility centers.

Cost Centers: cost center relate to costs only, and not to revenues or assets and liabilities of the organization. Cost center is the smallest organizational sub-unit for which separate cost allocation is attempted. It can be a location, person or item of equipment. When the manager held responsible only for costs incurred in a responsibility center is called a cost center. It is the inputs and not outputs that are measured in terms of money. In a cost center records only costs incurred by the center/unit/division, but the revenues earned (output) are excluded from its purview. It means that a cost center is a segment whose financial performance is measured in terms of cost without taking into consideration it's attainments in terms of output. The performance of the managers is evaluated by comparing the costs incurred with the budgeted costs.

Profit centers: When the managers held responsible for both costs (inputs) and revenues (output) it is called a profit center. In a profit center both inputs and outputs are measured in terms of money. The relevant profit to facilitate the evaluation of performance of a profit center is the pre-tax profit. The profit of all the departments so calculated will not necessarily be equivalent to the profit of the entire organization.

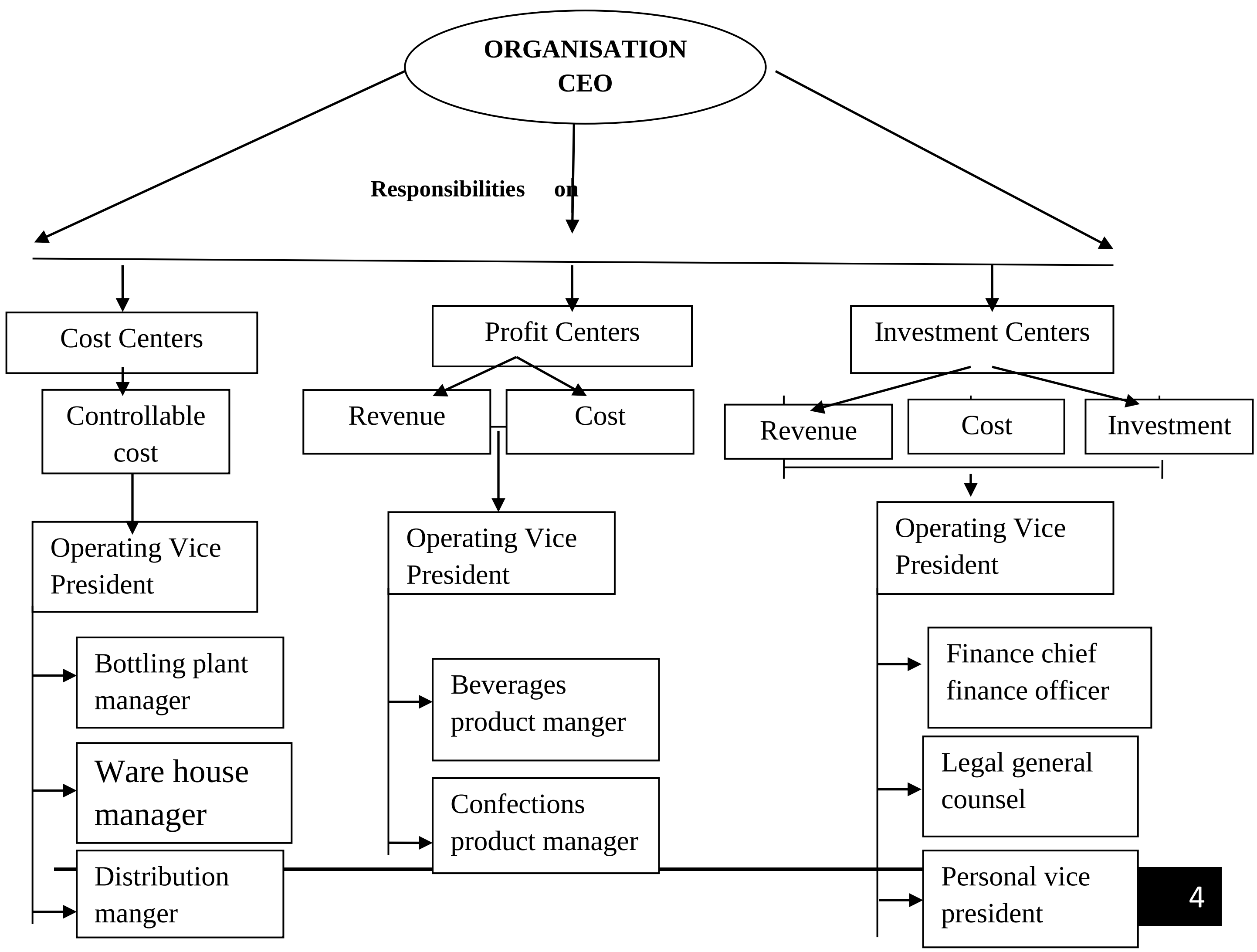
Investment centers: Where a divisional manager of a company is allowed some discretion about the amount of investment undertaken by the division, assessment of results by profit alone (as for a profit centre) is clearly inadequate. The profit earned must be related to the amount of capital invested. Such divisions are sometimes called investment centers for this reason. Performance is measured by Return on Capital Employed, often referred to as Return on Investment and other subsidiary ratios, or by Residual Income (RI).

After knowing about all responsibility centers question arises as how the responsibility accounting helps in building up of the better management:

- In the organization if they are maintaining responsibility accounting they will compare the actual work done by the managers with the work expected by the organization, if there is any affirmative outcome obtained, means the responsibility fulfilled by the manager is more than the organization expected the manager will be encouraged through positive consideration of the organization, that means organization will provide some benefits like any accommodation facility and other kind of fringe benefits or creating provision to appraise of existing facilities.
- Evaluating the performance of managers by comparing with the facilities providing to them by the organization, in the responsibility accounting evaluate the performance of the managers to know that whether the performance is more than, or less than or equivalent facilities which are providing to them by the organization.

- Under responsibility accounting accountability is documented according to the responsibility delegated to various levels of Management, so responsibility accounting leads to keep control on each segment of the organization.
- It also creates provision to management information and reporting structure set up to give sufficient feed back in terms of the commended responsibility, so this helps to know about various threats of the personnel which deform the complete fulfillment of responsibility.
- It helps to trace costs and revenues in present condition by that it helps to identify deviations and leads to take some cost controlling and revenue appreciating measures to for future means it helps the manager to take better decision towards achieving of organizational goal within predetermined time.
- Responsibility accounting mainly concentrate towards improves the performance of employees through the way of adopting decentralization, so it reduces the work burden of employees

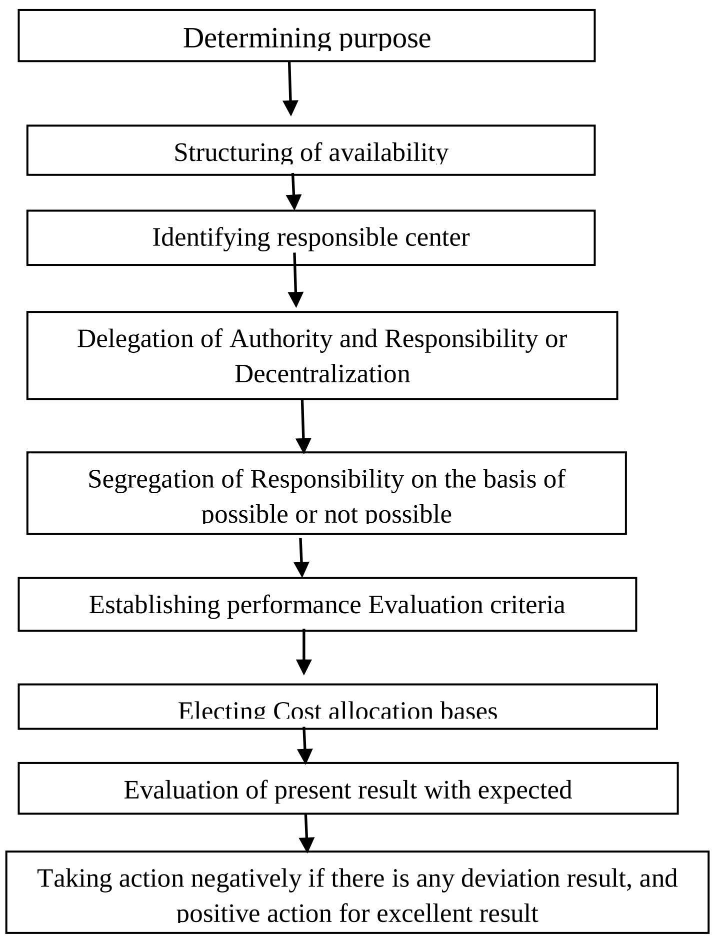
Figure 1: Improvement of Task Performance through Decentralizing of Available Responsibility



Source: Authors developed

Process of Performance Evaluation under Responsibility Accounting

Responsibility accounting is a concept that views the organization in parts or sub-systems rather than in total or a single system. In every organization the final goal is to achieve organization's objective, but that does not approach at once. Overall achievement is the aggregation of the achievements individual sector. Means achievement of final objective of the organization is not possible only by single person or single department, it only possible when all the personnel or departments strive towards achievement of objective. So there is need of distributing total responsibility among available personnel or departments.



Conclusion

Responsibility accounting encourages managers to focus on the relationship among sales, expenses, and investment through that it Focus on cost efficiency and Operating asset efficiency of the management, over and above in promoting of managers in the organization there is a need of distributing available authority and responsibility. By the above information we know that responsibility accounting makes the decentralization of responsibility which is needed to improve the performance of management stability.

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