Subject: Management & Cost Accounting
Topic: Responsibility Accounting

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Meaning

- The management accounting construct that deals with both planned and actual accounting information about the inputs and outputs of a responsibility centre is called responsibility accounting.
- It involves a continuous flow of information that corresponds to the continuous flow of inputs into and outputs from an organisations responsibility centres.

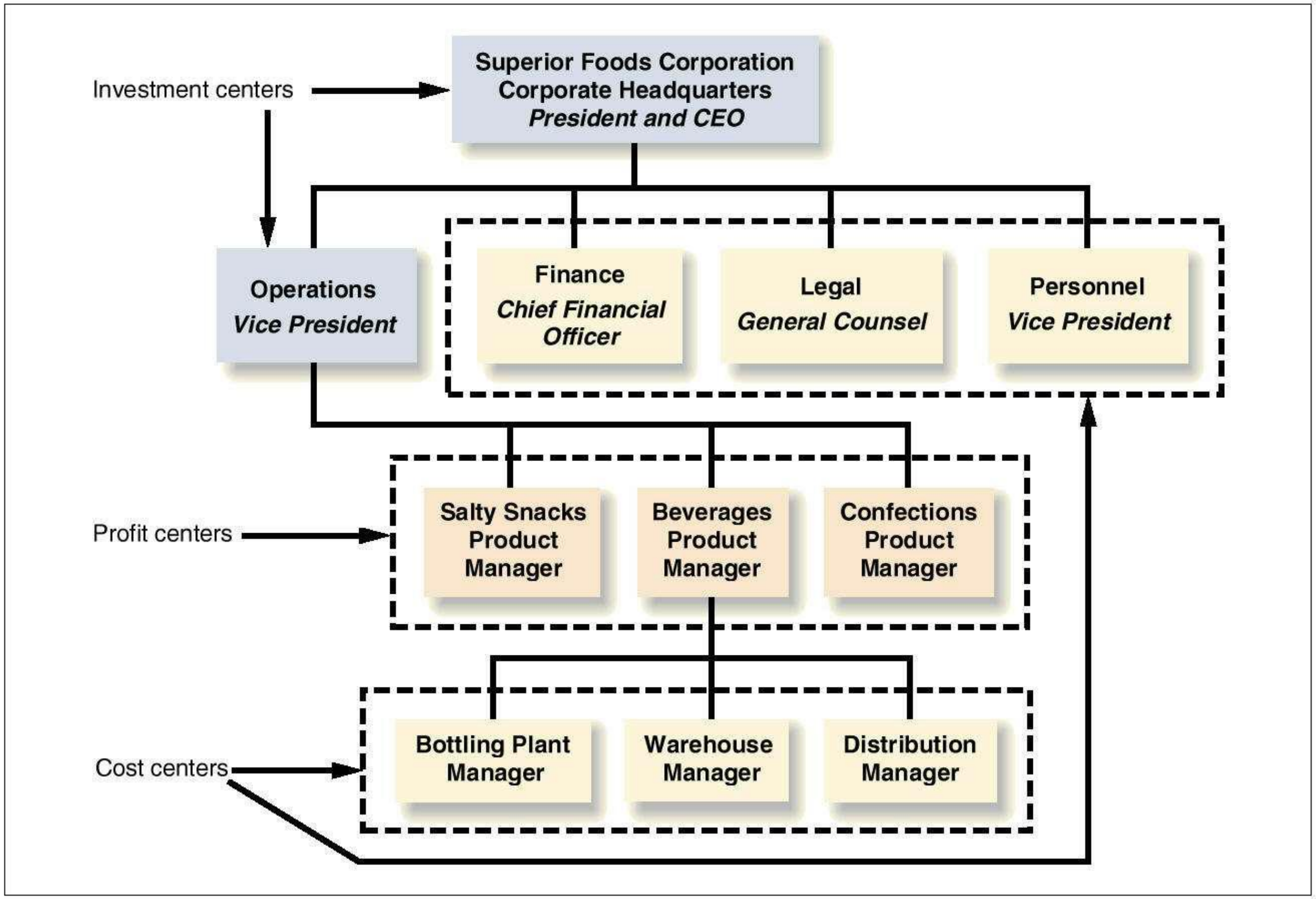
Responsibility centres

- Each organisational unit is headed by a manager who is responsible for the work done by the unit, therefore , each unit is called a responsibility centre.

There are 4 types of responsibility centres:

- 1. Revenue centres
- 2. Expense centres
- 3. Profit centres
- 4. Investments centres

Organization Structure



Revenue centres

- If a responsibility centre manager is held responsible for the outputs of the centre as measured in monetary terms but is not responsible for the costs of the goods or services that the centre sells, then the responsibility centre is a revenue centre

E.g. The Reservations Department of an airline.

Expense centres

- If the control system measures the expenses incurred by a responsibility centre but does not measure its outputs in terms of revenues, then the responsibility centre is called an expense centre
- E.g. The Paint Department in an automobile plant.

Profit centres

- Profit is the difference between revenue and expense.
- If performance of the responsibility centre is measured in terms of profit then it is a profit centre.
- A profit centre resembles a business in miniature.
- It is a good training ground for general management
- responsibility.
- This concept has made possible the decentralization of profit responsibility in large companies.
- E.g. Company-owned restaurant in a fast-food chain.

Investment centres

- An investment centre is a responsibility centre in which the manager is held responsible for the use of assets as well as for profit.
- The manager is expected to earn a satisfactory return on the assets employed in the responsibility centre.

  E.g. A division of a large corporation.

Techniques for measurement

- Variance analysis
- Volume of profit
- Return on investment or residual income
- Transfer Prices
- Balanced score card systems (nonmonetary measure)

Variance Analysis

- The deviation between standard costs, profit or sales and actual costs, profits or sales respectively will be known as variances. It can favourable and unfavourable. It may be categorized as controllable and uncontrollable.

Return on investment/Capital Employed

- Return on capital employed establishes the relationship between profits and capital employed The term ‘capital employed’ refers to the investment made in the investment centre. However net capital employed comprises the total assets used less its current liabilities.

  ROI can be computed as follows:

  ROI/Capital Employed = Net Profit/Capital Employed*100

Transfer pricing policy

- A transfer price is a price used to measure the price of goods or services furnished by a profit centre to other responsibility centers within a company. There are various methods in use, based on a) cost or b)market price

Intra company Transfer Price

- Cost price
- Normal Mark-up
- Incremental cost
- Market Price
- Standard Price
- Negotiated Price
- Dual Or Two way Price

Balanced Scorecard

- The balanced scorecard is a strategic technique an measuring processes used to help align specific business activities with an organisation's strategy and vision.

Process of balanced scorecard

- Translating the vision into operational goals.
- Communicating the vision and linking them to individuals performance
- Business Planning
- Feedback and adjustments in strategy accordingly.

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Advantages of Responsibility Accounting

- Assigning of Responsibility
- Improves Performance
- Helpful in Cost Planning
- Delegation and control
- Helpful in decision Making

Conclusion

- There is no single measure whether financial or non-financial sufficient to evaluate the performance.
- It is desirable to use multiple measures, both financial as well non-financial to measure the performance of a business unit.

Thank You