Glimpses on Responsibility Accounting and Reporting

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Abstract: Now a day’s cost accounting is getting a remarkable importance in uncertain managerial changes. Cost accounting is required to serve three major objectives i.e., cost determination for product or services, valuation of inventory and cost control. The first two objectives are well served by costing systems of most companies. Because of their orientation to product costing, costing systems most of the time fail to meet the objective of cost control. For product costing, costs are accumulated by cost functions, or product, or service. This way of accumulating costs is naturally plausible to trace costs to persons who incur them. It would be easy for a company to control costs effectively when it evolves a system of placing responsibilities for the incurrence of costs on those who have authority to influence them. Such a system which identifies costs with responsible persons is called responsibility accounting. In fact, the concept of responsibility accounting can be extended to the control of revenues as well. This research paper discuss about the principles underlying responsibility accounting, the conditions and benefits of effective responsibility accounting and the mechanism of responsibility reporting.

Keywords: Cost Accounting, Determination, Costing, Incurrence, Mechanism, Reporting.

INTRODUCTION:

A number of factors have contributed to the development and growing use of responsibility accounting by enterprises of all sizes and characteristics. The rapid pace of technological and marketing innovations, diversification and merger strategies, high gestation period, increasing competition and a host of other variable complicated business operations in the past. The complexity of business operations accentuated the need for decentralization - dividing organization into units with independent authority and responsibility. However, decentralization could be effective if there existed a sound system of control-a system which could pinpoint responsible individuals’ accountability for performing duties. Further, management realized the obvious role of planning and control functions that time were not efficient. Management was thus forced for searching better means of managing complex business operations. Management required the accounting system-important information.

Requirements of Effective Responsibility Accounting

Responsibility accounting can be used by all kinds of businesses small or large, private or public, manufacturing or non-manufacturing. However, it can succeed only when an enterprise is prepared for it. It needs an attitudinal change and a well-knit organization. If the philosophy underlying responsibility accounting is not acceptable to executive and operating managers, responsibility accounting is bound to be ineffective. Responsibility accounting provides a means of control; it cannot control. Control is a personalized affair; people control, not the reports. A positive attitude, therefore, is necessary for the success of a control system such as responsibility accounting. The following are discussed some of the important requirements of an effective responsibility accounting system:

1. A sound organization structure with strictly defined authority and responsibility should exist.
2. The organization should be divided into units. i.e. responsibility centres should be created.
3. Accurate and acceptable budgets with full participation of concerned managers should be developed.
4. Responsibility accounting should have top management support.
5. It should be supported and understood by managers.
6. A healthy organizational environment and progressive management attitude should exist.

Organization and Responsibility:

Responsibility accounting must be tailor-made to the firm’s organization structure. It must be founded on the authority-responsibility relationships existing among managers and their subordinates. Responsibility is the obligation of an individual to perform assigned and implied duties. Obligation is the critical notion underlying the concept of responsibility. Responsibility is a personal affair. It is meaningful only when applied to a person; a factory, equipment, or a product cannot be held responsible. Can responsibility be delegated? It can’t. A manager many delegate authority to his subordinate to accomplish a job and the subordinate may delegate authority further down the line, yet none can delegate responsibility. Responsibility, being an obligation to perform, is owed to one’s superior, and no subordinate reduces
his responsibility by delegating to another the
authority to perform a duty.

**RESPONSIBILITY CENTRES:**

A small firm may possibly be managed by an
individual or a small group of people. But the
activities of a large firm are difficult to be
supervised by an individual or a few individuals.
For effective control of its activities, a large firm is
divided into meaningful segments (units)-
divisions, departments and so on. Each unit has
certain activities to perform; its manager is
assigned specific authority and responsibility to
carry out those activities and is held responsible for
his actions and decisions affecting those activities.
The units of an enterprise for the purpose of control
are called responsibility centers or decision centres.
A responsibility centre is a unit of an organization
under the supervision of a manager who has the
responsibility for the activities of that responsibility
centre. The responsibility centre manager may have
a big unit, such as the production department, or a
small unit, such as the cash section of the
accounting department, or a machine in the
production department. Two important criteria
should be separable and identifiable for operating
purposes and (b) it should be possible to measure
the performance of the unit.

**COST CENTRES:**

A responsibility centre is called a cost centre
when the manager is held accountable only for
costs incurred. Output of cost centers are not
measured in monetary terms. A number of centers
in an organization produce services which can not
be given a monetary value. For instance, it is not
possible to measure the money value of the
services of the legal department, or the accounting
department. Even the production departments,
whose output can easily be measured, may be
organized as cost centers. Even the production
department manager is required to produce a
budgeted quantity at the minimum cost, there is no
necessity to measure the monetary value if his
department’s outputs. Thus, costs are the primary
planning and control data in cost centres; a
manager is not responsible for profit (revenue) and
investments in assets. The performance of the
responsibility centre managers is evaluated by
comparing the costs incurred with the budgeted
costs. Management focuses its attention on cost
variances for control purposes.

Since the consequences of a cost centre’s
decisions are measured by costs alone, without
giving any consideration to its accomplishments
(outputs), it is not possible to measure its
effectiveness. Effectiveness is related to outputs,
and in cost centre, outputs are not measured in
monetary terms. A measure of efficiency can,
however, be developed in a cost centre since actual
costs can be related to standard or budgeted costs.
The lowest cost consumption of resources, the most
efficient the manager of the cost centre.

The term cost centre is sometimes used as an
accounting unit for accumulating cost for the
purpose of charging them to products or to some
other cost objective. Cost centre, as used here,
refers to accumulation and reporting of costs by a
person who heads that centre.

**MANAGERIAL SUPPORT:**

Top management support is needed for the
success of responsibility accounting. They should
be convinced that it is a useful control device for
their firm. And should devote time and efforts to
make it operative . They should establish a sound
organization structure for creating responsibility
centers. Top management involvement also
involves a performance orientation based on
realistic goals and objectives established for all
functions of the enterprise and a serious
commitment to accomplish them.

Initially, when the responsibility
accounting system is introduced, it may be seen yet
another management attempt to police the
performance of operating managers and their
subordinates. It may be resisted. It is the
responsibility of top management to educate
managers and their subordinates and build their
confidence in the system. The performance reports
should be objectively made, and the system should
provide positive incentive to motivate individuals
to accomplish the assigned responsibilities.
Responsibility centre managers should be involved
in the development of responsibility accounting
from the very beginning. They should be motivated
to develop their own goals and plans.

**COST CONTROL THROUGH RESPONSIBILITY ACCOUNTING**

The essence of responsibility accounting, as
discussed above, is the collection of costs
according to responsibility centre’s in order that
variances from standard costs and budgets can be
identified with persons, and based on the causes of
variances, corrective actions may be initiated.
Reports are prepared to inform a responsibility
centre manager how well he has performed in
terms of costs. The purpose is not to indicate
failure or to find fault. To be effective, control must
be conceived as a means of locating those activities
and people in the organization in need of help so
that assistance can be rendered and the scarce
resources of the firm more effectively utilized.

**CONCLUDING REMARKS:**

Responsibility accounting is a system of
accumulating and reporting both actual and
budgeted costs and revenues by individuals
responsible for them. It requires creation of
responsibility centre’s, identification of
responsibility for each centre, specification of
controllable and non controllable activities,
establishment of an accounting system for accumulating information and reporting of performance. A positive attitude is necessary for the successful implementation of the responsibility accounting system.

Responsibility reporting is an integral part of the responsibility accounting. It requires grouping of responsibilities and assigning costs to various levels and focusing on cost controllability. It should fit the company’s organizational structure. Performance reports should be prepared for each level of management tracing all controllable costs.

Responsibility accenting can benefit management in a number of ways. It focuses on plans and budgets and helps in clarifying organizational and individual goals; it emphasizes management by exception; it helps in close control of costs; it facilitates objective performance evaluation and decentralized decision making; it fosters cost-consciousness in managers. It should be, however, noted that responsibility accounting is a management tool; it is not a substitute for good management. The system may not succeed if it is not supported by managers for whom it is meant.

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