Responsibility Accounting

Management Accounting

B. Com (P) Sem VI

What is Responsibility Accounting

- Responsibility accounting is a kind of management accounting that is accountable for all the management, budgeting, and internal accounting of a company. The primary objective of this accounting is to support all the Planning, costing, and responsibility centres of a company.
- The accounting generally includes the preparation of a monthly and annual budget for an individual responsibility centre. It also accounts for the cost and revenue of a company, where reports are accumulated monthly or annually and reported to the concerned manager for the feedback. Responsibility accounting mainly focuses on responsibilities centres.

Advantages of Responsibility Accounting

- It urges the management to acknowledge the company structure and checks who is accountable for what and fix the problems.
- It enhances attention and awareness of the managers as they have to explain the variations for which they are responsible.
- It helps to compare the achievements between the pre-planned goals and actual results.
- It creates a sense of efficiency within individual employees as their work and achievements will be reviewed.

Advantages of Responsibility Accounting

- It guides the management to plan and structure the future expenditure and revenue of a company.
- Being a cost control tool, it creates 'cost consciousness' among workers.
- Individual and company goals are established and communicated in the best way.
- It improves and controls the company's operating activities for an effective and efficient outcome.
- Simplifies the report structure and guides to prompt reporting.

Types of Responsibility Centres

1. Cost Centre

- A cost or expense centre is a segment of an organisation in which the managers are held re-sponsible for the cost incurred in that segment but not for revenues. Responsibility in a cost centre is restricted to cost. For planning purposes, the budget estimates are cost estimates; for control purposes, performance evaluation is guided by a cost variance equal to the difference between the actual and budgeted costs for a given period. Cost centre managers have control over some or all of the costs in their segment of business, but not over revenues. Cost centres are widely used forms of responsibil-ity centres.

2. Revenue Centre

- A revenue centre is a segment of the organisation which is primarily responsible for generating sales revenue. A revenue centre manager does not possess control over cost, investment in assets, but usually has control over some of the expense of the marketing department. The performance of a revenue centre is evaluated by comparing the actual revenue with budgeted revenue, and actual marketing expenses with budgeted marketing expenses. The Marketing Manager of a product line, or an individual sales representative are examples of revenue centres.

3. Profit Centre

- A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. In a profit centre, the manager has the responsibility and the authority to make decisions that affect both costs and revenues (and thus profits) for the department or division. The main purpose of a profit centre is to earn profit. Profit centre managers aim at both the production and marketing of a product.

4. Investment Centre

- An investment centre is responsible for both profits and investments. The investment centre manager has control over revenues, expenses and the amounts invested in the centre’s assets. He also formulates the credit policy which has a direct influence on debt collection, and the inventory policy which determines the investment in inventory.