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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 lf other variable complicated business operations in the past . The complexity of business operations accentuated a 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 business-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.

RESPOSIBILITY 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 quanity at the minimum cost, there is no necessity to measure the monetary value lf 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 lf 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 lf 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 organizations 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. If focuses on plans and budgets and helps in clarifying organizational and individual goals' it emphasizes management by exception; it help 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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