RESPONSIBILITY ACCOUNTING:-AN INNOVATIVE TECHNIQUE OF ACCOUNTING SYSTEM

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ABSTRACT
Due to the inherent limitations of Financial Accounting there is a great need to explore more in the accounting field so that the industries and the corporate world can be benefited in terms of decision making and reporting. Responsibility accounting now a days plays a special role in the decision making as there is complete flow of authority and responsibility in the shape of responsibility centres. There is also a major advantage of participation at all levels which will definitely leads an organisation to cut down its cost and maximise its profit. The smooth flow of an organisation is advantegeous because the target of effective allocation of budgets can easily be achieved. Responsibility account is also considered as a control device because this is a system which should be such that deviations from the plans can easily be reported at the earliest so as to take corrective action for the future plan. The deviations can be known only when performance is reported and comparison can be done with the actual performance. Thus, responsibility accounting system focused on the performance reports which is also known as 'responsibility reports' for each responsibility unit.The authority which flows from top to bottom, reporting flows from bottom to top.

Keywords: Responsibility accounting; cost centre; profit centre; investment centre; transfer pricing; decentralization

INTRODUCTION

The notion "Responsibility accounting" refers to the accounting process that reports how well managers have fulfilled their responsibility. It is a system that measures the plans (by budgets) and actions (by actual results) of each responsibility centre. Also known as activity or profitability accounting, it is an information system that personalises control reports by accumulating and reporting cost and revenue information according to defined responsibility centres within a company.
Responsibility accounting is a system of dividing an organization into similar units, each of which is to be assigned particular responsibilities. These units may be in the form of divisions, segments, departments, branches, product lines and so on. Each department is comprised of individuals who are responsible for particular tasks or managerial functions. The managers of various departments should ensure that the people in their department are doing well to achieve the goal. Responsibility accounting refers to the various concepts and tools used by managerial

accountants to measure the performance of people and departments in order to ensure that the achievement of the goals set by the top management. Responsibility accounting as defined by (CIMA) is a system of accounting that segregates revenue and costs into areas of personal responsibility in order to assess the performance attained by persons to whom authority has been assigned. Responsibility accounting can also be referred to as activity accounting. It issued to measures evaluate and monitor decentralization process. Responsibility accounting aims to provide accounting reports. This enables every manager to be aware of all the items, which are within his area of authority. Hence, as a system of accounting it distinguished between controllable and uncontrollable cost. With Responsibility accounting, it is possible to identify or recognize decision centre within an organization for the purpose of tracing costs to the individual managers who are charged with the responsibility of making decisions about costs and revenue in an organization Responsibility accounting is a reporting system that compiles revenue, cost, and profit information at the level of those individual managers most directly responsible for them. The intent is to provide this information to those people most able to act upon it, as well as to judge their performance. Responsibility accounting is most commonly used in an organization that distributes responsibility down through the corporate hierarchy.

REVIEW OF LITERATURE

According to Morse and Zimmerman (1997) and Meigs, Meigs, Bettner and Whittington (1996), the operation of a responsibility accounting system involves three basic steps. First, budgets are prepared for each segment or unit within the organization. Second, the accounting system measures the performance of each segment. Third, timely performance reports are prepared, which compare the actual performance ofeach segment to the amount budgeted. Frequent performance reports help segment managers to keep their segments' performance "on target". They also assist top management in evaluating the performance ofeach segment manager.

There are different types of responsibility centre. Meigs et al (1996) identified these as cost centre, profit centre, and investment centre. A cost centre is a responsibility centre where the manager *only* has control over expenses and limited amount of assets without the decision rights to price those assets for sale or to acquire new ones. A profit centre is a responsibility centre where the manager has control over expenses and revenue, which are the factors that lead to profits. An investment centre is a responsibility centre where the manager has control over expenses and revenue, as well as the decision rights to expand or contract the size ofoperations. This analysis ofthe responsibility centres revealed that the cost centre is the lowest level ofthe responsibility centres while investment centre is the highest level ofthe responsibility centres.

Ogonnu (2000) stated that organizing a business in this manner enables managers and employees to specialize in specific types of business activity. He further explained that this type of organization helps to establish clear lines of managerial responsibility. An information system designed to measure the performance of that segment ofa business for which a given manager is responsible is often referred to as responsibility accounting system.

Though the issue “Responsibility Accounting” as a control device has got huge attention in last few decades, there is no doubt that most of the studies related to this issue were done in the context of the developed countries in the world. Very few studies were done related to the developing countries and especially in context of Bangladesh. In essence, there is no other study particularly relating to the types of responsibility accounting system. The application of responsibility accounting model and also types of responsibility accounting system was found at first in the prior studies of Bangladesh. Some of the prior studies relating to responsibility accounting are specified below. Antle, R. and Demski, J.S.(1988) examined controllability: the notion a manager should be evaluated based on that which she or he controls. Authors embed the managerial evaluation problem in a principal-agent setting and asked whether the optimal agency solution bears any logical relation to a casual definition of controllability. It did not. More to the point, the agency framework compelled them to look at information content. This information content perspective, upon reflection, agreed with their intuition, with their anecdotal impressions of practice, and with the dictates of the principal-agent model. Moreover, there was a well-defined relation between information content and a notion of control. Thus, the information content perspective might be thought of as offering a precise definition of controllability. Shih, Michael S. H.(1997) investigated how firms designed performance evaluation systems for plant managers. These managers could be evaluated primarily on cost control or profit. This suggested the following hypotheses: tendency to evaluate a plant manager primarily on profit rather than cost (1) decreases with the importance of marketing in stimulating sales, (2) increases with the importance of product quality in stimulating sales, (3) increases with the importance of customer service in stimulating sales; and (4) decreases with the extent to which the manager is evaluated on specific measures of product quality and customer service. Using a probit model, these hypotheses were tested with data collected from large Canadian manufacturing firms. The results were strongly supportive of the hypotheses. Arya et al.(1998) illustrated some subtleties related to responsibility accounting by studying two settings in which there were interactions among multiple control problems. In the first setting, two agents were involved first in team production (e.g., coming up with ideas) and then in related individual production (e.g., implementing the ideas). They provided conditions under which the agents were not held responsible for the team performance measure, despite each agent conditionally controlling it. In the second setting, they provided conditions under which an agent was held responsible for a variable he did not conditionally control. In the study (Indjejikian et al. ,1999) a two-period sequentially optimal agency model was used to study the impact of the ratchet effect on the firm‟s choice of responsibility assignment and incentives for motivating managers. Results revealed that the ratchet effect can be mitigated by using more aggregate performance measures and greater consolidation of responsibility. Moreover, consolidation responsibility for two activities for a single manager seems to be more efficient than a responsibility accounting structure.

OBJECTIVES OF THE STUDY

1.To find out the benefits that can be fetched from Responsibility Accounting.
2.To study the various techniques of Responsibility Accounting.
3.To Study the factors that makes the Responsibility Accounting system and efficient system of Accounting.

ANALYSIS RESPONSIBILITY CENTRES

1. Cost Centre: A cost centre is defined as a location, function, department or section in respect of which costs may be ascertained and related to cost units for control purpose only. Cost centre form the basis for building up cost records for cost measurement, budgeting and control. Managers of functional departments might be treated as cost centers and made responsible for their costs e.g., maintenance division is measured by variance analysis.

2. Profit Centre: A profit centre is any sub-unit of any organization which is responsible for revenue, cost and profit. It is a unit to which both revenue and cost are assigned, such that the profitability of the sub unit can be measured. The following conditions must exist before the adoption of profit centers:

(a) There must be a unit of the organization to which both revenue and costs can be separately attributed

(b) The revenue might come from external sources through sales of goods or services or from internal work done for other profit centers for which transfer price can be charged.

(c) There should be sufficient decentralization of authority within the company to permit profit centre managers to make decisions about selling prices (including transfer prices) and output levels at those prices.

3. Investment Centre: It is a unit of an organization where a divisional manager is allowed to exercise some discretion about the amount of investment undertaken by the division. In assessing the result of the centre, the profit earned must be related to the amount of capital invested. Performance here is measured by return on capital employed (ROLE) otherwise referred to as return on investment (ROI) The following conditions must exist before a centre is adopted as an investment centre. (a) The centre must make use of assets which can be separately attributed to it. (b) The centre must make use of assets which the centre manager has control over in terms of new investment decision asset replacement decision. etc. (c) All the conditions listed under profit centre above.

PROCESS OF IMPLEMENTATION OF RESPONSIBILITY ACCOUNTING SYSTEM
Responsibility accounting encompasses the following steps:

1. Identifying the Responsibility Centres: The basis of responsibility accounting system is the designation of each sub-unit in the organization as a particular type of responsibility center. A responsibility center is a sub-unit in an organization whose manger is held accountable for specific financial results of sub-unit's activities. The important criteria for creating a responsibility center is that the unit of the organization should be separable and identifiable for operating purposes and its performance measurement should be possible. An organization can be broadly subdivided into four main responsibility centres as cost center, revenue center, profit center and investment center.

2. Delegation of Authority and Responsibility or Decentralization: To increase managerial and operational efficiency, the manager of each subunit should be assigned specific authority and responsibility for the activity of that division. No one can be held accountable without having any prior responsibility and responsibility always accompanies corresponding authority. Responsibility canters are the decision centers also, and the decision requires the power or authority.

- Performance Management
- Business Opportunities
- Performance Review

3. Controllable of the Object: The manger of a cost center can be held accountable only for the costs, which are controllable by him. Therefore, it is an essential part of responsibility accounting to identify the controllable and non-controllable costs. The same thing applies in the case of revenues, profits and investment.

4. Establishing Performance Evaluation Criteria*:* Main purpose o responsibility accounting is to measure the divisional or subunit performance. Performance evaluation is a yardstick measurement of whether the results are obtained as ought to be or not. Most often the following criteria are applied for divisional performance evaluation.

*Standard Costing * Budgetary control *Profitability ratios * Valuation measures

5. Electing Cost Allocation Bases: Divisional profitability heavily depends on the bases of allocation of joint overheads and corporate overheads. Switching from one method to another of cost allocation over the products or divisions, product wise profitability change to a great deal. Remember that for decision-making purpose, such allocated overheads should be carefully treated and well understood.

NEED OF RESPONSIBILITY ACCOUNTING These are the following reasons to implement responsibility accounting system:

1. Decentralization: By dividing the total organization in smaller subunits, the organization becomes more manageable.

2. Performance Evaluation**:** Responsibility accounting establishes a sound and fair system of performance evaluation of each manager and personnel. The performance of each responsibility center is measured and presented periodically on performance report.

3. Motivation: Responsibility accounting emphasizes on the individual achievement-based performance evaluation. Therefore, the job becomes more challenging for the employees and motivates them to use their full potentiality in achieving the results.

 Business Opportunities

 Online Bank

 Online Banking

 Revenues

4. Transfer Pricing: Responsibility accounting divides the organization in different autonomous responsibility centres or subunits. In such circumstances, product or service of one division or unit can be transferred to another division or unit within the same organization charging a transfer price. This creates an inter-competitive environment to make each subunit of the organization more profitable and efficient.

5. Drop or Continue Decision**:** If the organization is divided into subunits, it becomes possible to measure division wise or product wise profitability of the organization. If saving in costs exceeds the foregone revenues, the center can be discontinued.

LIMITATIONS OF RESPONSIBILITY ACCOUNTING

The main idea underlying the responsibility accounting concept is that separating a company into responsibility centres provides an adequate way to manage a large diversified organization. However, responsibility accounting causes some problems as indicated below.

Responsibility accounting suffers from the following-limitations**3**:

1. The prerequisites for a successful responsibility accounting system are:

(a) A sound organisational structure where divisions can be identified clearly as responsibility centre.

(b) Proper delegation of work and responsibility.

(c) A proper system of reporting. If these conditions are absent it is difficult to have a responsibility accounting system.

2. The traditional way of classification of expenses needs to be subjected to a further analysis which becomes difficult.

3. In introducing the system certain managers may require additional classification particularly if the responsibility reports are different from routine reports.

CONCLUSION

Responsibility accounting is one of the best tools of cost management which is used in large organization in case of decentralization or divisionalisation to reduce the difficulty of managing the organization. Responsibility canters are identifiable segments within a company for which individual managers have accepted authority and accountability. Responsibility canters define exactly what assets and activities each manager is responsible for Managers prepare a responsibility report to evaluate the performance of each responsibility center. This report compares the responsibility centre's budgeted performance with its actual performance, measuring and interpreting individual variances. Responsibility reports should include only controllable costs so that managers are not held accountable for activities they have no control over. Using a flexible budget is helpful for preparing a responsibility report.

 Responsibility Accounting is used for large Scale Companies which have various departments and each department have expert departmental responsible manager.Transfer pricing is the pricing of internal transfers between profit centres.Responsibility Centre is a division of the organization, where an individual manager is held responsible for its division‟s performance.

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