A STUDY ON RESPONSIBILITY ACCOUNTING PRACTICES IN COMPANIES BASED IN BENGALURU

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ABSTRACT:

One of efficient management tool at present in the process of decision making in management, operation and control of the administrator's, business operation, strengthen development of companies is Responsibility accounting. Responsibility accounting system is designed to report and accumulate costs by individual levels of responsibility. Each supervisory area is charged only with the cost for responsibility centers: cost centers, revenue centers, investment centers and profit centers. This research aims to identifying the Responsibility Accounting Practices in companies based in Bengaluru. To achieve this objective research questions were raised, hypotheses were formulated and review of relevant literature was made. In this paper survey method followed to collect the data and data collected were analysed using percentages and hypotheses were tested using't' test. From the study it was observed that Responsibility accounting system is not significantly effective in manufacturing and construction companies. We therefore recommended that adequate effort should be made by organizational managers to eliminate the challenges facing the effectiveness of Responsibility accounting system in companies. This can be achieved by increasing the market capitalization of the company, providing sufficient and qualified manpower for the various responsibility centers and ensuring accurate data collection on cost, revenue, profit and investment of the company.

Keywords: Responsibility accounting, Performance, Administrator, Responsibility center.

INTRODUCTION:

At the outset, it is necessary to remember that responsibility accounting is not another branch of accounting like financial accounting or cost accounting. In fact, it is only a controlling device by which costs are traced to individual managers. In this sense, responsibility accounting is a supplementary cost control device.

Till recently, most of the cost accounting systems were designed to ascertain and control product costs. The cost accounting system was thus directed towards the expenditure and worked well in showing what the expenditure was and where money was spent. However, the system did not pinpoint the individual who spent the money. As such, the system failed to fix individual responsibility for the money spent.(*Abu,2017*). Responsibility accounting seeks to overcome this limitation by shifting the emphasis from product costing to divisional performance measurement. (*Zimmerman, J.L, 2016*). Among the control techniques "responsibility accounting" has assumed considerable significance. While the other control devices are applicable to the organization as a whole, responsibility accounting represents a method of measuring the performance of various divisions of an organization (*Fowzia Rehana, 2016*).

So studying the implementation process of responsibility accounting and its effect on cost control serves many purposes: a) this system contribute in the control operations and the performance evaluation, b) Under this system, full information is collected about costs and revenues. This data is helpful in planning the future costs and revenues, fixing the standards and preparing of budgets. It is also enables management to take important decisions. (*Ghala, Abobakr Mohammad, 2015*).

This study has tried to trace Responsibility accounting's origin and evolution. During the 1950s and 1960s, companies' economic activities were significantly diversified (Zimnicki, 2016). Gradually, the need for decentralization and responsibility accounting increased. Although Responsibility accounting's was initiated in the 1920s, it gained much popularity during the 1950s. (Diemer, 1924 and Weger, 1926). The basic feature of

Responsibility accounting is that every manager is made responsible for the activities which are under his control and his actions are measured by the revenue results achieved by him. (*Kellogg, M. N. 2012*). Responsibility accounting stands for a system through which managers are made explainable for a specific set of functions or objectives and through which their authentic performance can be weighed and evaluated. Holding one manager responsible for all the controllable cost is burdensome; thus, responsibility centers are needed. An entire organization can be viewed from four responsibility centers: cost, revenue, profit, and investment. (*Freeman, L Neal, 2014*). Further, Responsibility accounting is a management control system based on the principles of delegating authority and assigning responsibility (*Mojgan, Safa,2012*). The authority and responsibility are delegated to the manager of responsibility centers.
But, there is a scholarly debate on responsibility accounting, which revolves around the controllability principle. The controllability principle emphasises that managers should be made responsible only for those activities or outcomes which they can control or influence. But, the application of the controllability principle still remains problematic in practise since it is not clear which managers should be made responsible for (*Larmande & Ponssard, 2017*). Further, the dimensions developed to conceptualise responsibility accounting are based on responsibility centres. For instance, cost centre for cost performance, revenues centre for revenue performance or profit centre for profit performance. The conceptualisation of cost or revenue performance is insufficient and seems not adequately captured in the accounting and control literature. (*Choudhury, N. 2018*). Therefore, further investigation is required in the area of responsibility accounting.

REVIEW OF LITERATURE

Tanmay Biswas (2017): today's business is too much competitive than ever before and constantly upgrading with new technologies along with changing business environment and market flexibility. Business failure is a common factor, if proper functioning and co-ordination not possible among the organizational subunits or responsibility centers, where the individual managers are directly held responsible for their actions. Attaining organizational goals largely depend upon proper functioning across the organization which can be easily controlled by delegating authorities and responsibilities based on the size and structure of organizations. Responsibility accounting helps not only in evaluating performance but also in taking managerial decisions like cost control and profit planning. Ethical dilemmas can be removed from business operations at all level if responsibility accounting is properly practiced.

Owino, et al. (2016): found in the study that the several initiatives to implement responsibility accounting systems in public universities did not function effectively as desired. The authors concluded the absence of coordination between the centers of responsibility limits the application of the responsibility accounting system. In addition to the above, these centers were competing against each other for resources and attention. Third, the tendency toward decentralization (delegation of authority) in these institutions were weak, where there was significant influence by top management in the process of decision making and performance evaluation in centers .
Frow N, Marginson D, Ogden S. (2014): found that, in retail sectors budgets are not linked to the administrative organization accurately. Further, the retail sectors do not grant the responsible people sufficient authorities, consistent with the responsibilities assigned to them and there is no sufficient ability to measure the targets of designated centres.
Nyakuwanika et al. (2012), conducted a study relating to an analysis of effective responsibility accounting system strategies in the Ministry of Health and Child Welfare (MOHCW) in Mashonaland West province of Zimbabwe, where sample of 70 employees from fourteen stations using systematic and purposive sampling methods. This study observed planning and control were not integrated among the departments and performance reports were not distributed among the sectional managers on a regular basis for their perusal. In addition to the above, this study observed that the organizational structure does not clearly define the formal relationship which exists between the different executives.

RESEARCH GAP

There are number of studies relating to different aspects of Responsibility accounting systems in developed countries. But less number of studies was found relating to implementation process of responsibility accounting in developing economies. Therefore, an effort is made in the present study to examine the Responsibility accounting practices in companies in Bengaluru, India.

STATEMENT OF THE PROBLEM

The importance of using the latest and the best methods in administrative accounting has become need of the hour to maintain the continuity of the business progress and the Responsibility accounting is considered as one of the important administrative accounting methods that focus on the control of costs.

But practitioners are facing several difficulties to implement this system, because of inefficient administration and complex nature of the business. Further, the conceptualisation of cost or revenue performance is insufficient and seems not adequately captured in the accounting and control literature.

So the problem of the study is to identify and examine the implementation process of responsibility accounting in Bengaluru based companies by answering the following sub-questions:

1. Do the companies have clearly defined organization structure?
2. Do the companies distribute the cost and revenue to the centers of responsibility?
3. Do the companies compare planned performance with actual performance of centers of responsibility?
4. Do the companies analyse the deviations of centers of responsibility?
5. Do the companies have reporting system?
6. Do the companies have incentive system?

HYPOTHESES OF THE STUDY

Based on the theoretical frame and the previous studies, the following hypotheses were formed:

HO1: There is no significant difference among the study groups with regard to clear description of organizational structure.

HO2: There is no significant difference among the study groups with regard to distribution of cost and revenue to the centers of responsibility.

HO3: There is no significant difference among the study groups with regard to Comparison between planned performance and actual performance of centers of responsibility

HO4: There is no significant difference among the study groups with regard to analysis of deviations of the centers of responsibility.

HO5: There is no significant difference among the study groups with regard to reporting system.

HO6: There is no significant difference among the study groups with regard to incentive system.

SIGNIFICANCE OF THE STUDY

The results of the present study will be of great value to the companies to understand the significance of responsibility accounting system in their businesses, how it enhances decision making, how it eases the compliance and nourishes overall development of the business in a positive way. Further, the results of the investigation would throw new light on the components of responsibility accounting. The outcome of the study would also help the companies to formulate suitable programs and use appropriate methods to enhance the responsibility accounting practices and thereby reduce the product cost.

METHODOLOGY AND SOURCES OF DATA

The research study is empirical in nature, where quantitative research is used for data gathering and analysis. The study is conducted through a survey method. To carry out the study, the structured questionnaire is used to get insight about the issues explored in the present study**.**

For the purpose of study, primary data is collected from six hundred responsibility center managers/assistant managers having minimum five years of work experience and working in Bengaluru based companies. The secondary data is collected from Journals, books and website etc**.**

SAMPLING DESIGN AND TECHNIQUE

The study is based on data collected from Bengaluru based companies. The method of sampling used is purposive sampling method. The respondents for the study are selected based on the following criteria:

1. The respondents should be the head of responsibility center.
2. The respondents should be working in the companies.
3. The respondents should have minimum of five years of work experience.

Six hundred respondents, who satisfied the above criteria and voluntarily came forward to fill the questionnaire, were selected for the study.

STATISTICAL TOOL USED FOR ANASLYSIS

- Mean
- Standard Deviation
- t- test

LIMITATION OF THE STUDY

1. In this study, the researcher has focused on significance of responsibility accounting system in selected outlets and other areas are not given importance.
2. The respondent of research has chosen from the selection retail outlets of Bengaluru city which makes the research useful only for retail outlets business.
3. The research is limited to small sample due to time constraints of the researcher.

Research Findings:

Research Question -1: Do the companies have clearly defined organization structure?

Table-1: Organization Structure

S.NO	Statements	Manufacturing companies (350 Respondents)		Construction Companies (250 Respondents)			
		Mean (%)	SD (%)	Mean (%)	SD (%)	t-value	p-value
1	There is a clear description of the responsibility center in the organization structure	48	51	50	52	45.855*	0.000
2	There is a competent manager for each responsibility center	46	67	48	68	12.083*	0.000
3	Manager is given appropriate authority to perform his duties	46	61	48	62	30.480*	0.000
4	The managers of the center are given enough time to complete their task.	45	65	46	66	25.475*	0.000
5	The employees of the center of responsibility have the needed expertise to do their work in the center.	33	62	36	64	17.050*	0.000
6	The employees' accountability suits their responsibilities.	30	51	32	52	45.855*	0.000
	Employee participation in Budget preparation	37	67	13	68	17.050*	0.000
	Employee suggestions are taken into account in the formulation of the budget.	38	61	12	62	30.480*	0.000
7	The operations inside the center of responsibility are characterized by homogeneity	43	51	44	52	12.083*	0.000

8	There is a coordination and clarity in the relation between the centers of responsibility.	40	65	42	66	23.754*	0.000

Source: Primary Data ***Significant at 5% level** **n= 600**

It was observed that only 33% of the respondents from manufacturing companies and 36% of employees from construction are of the opinion that the employees of the center of responsibility have the needed expertise to do their work in the center. Further, 37% of the respondents from manufacturing companies and 13% of employees from construction participated in budget preparation. As pointed out by Kellogg, M. N. (2012), participation of employees in budgeting is good for employee development. But majority of employees in construction companies did not participate in budget preparation. Again, 38% of the respondents from manufacturing companies and 12% of employees from construction companies said that employee suggestions are taken into account in the formulation of the budget.The statistical test reveals that there is significant difference among the study groups with regard to clear description of organizational structure.

Research Question-2: Do the companies distribute the cost and revenue to the centers of responsibility?

Table-2: Distribution of Cost and Revenues to the Centers of Responsibility

S.NO	**Statements**	**Manufacturing companies (350 Respondents)**		**Construction Companies (250 Respondents)**		**t-value**	**p-value**
		Mean (%)	**SD (%)**	**Mean (%)**	**SD (%)**		
1	All the revenues regarding the center of responsibility are identified and recorded.	36	64	38	66	8.070*	0.000
2	All the costs regarding the center of responsibility are identified and recorded.	38	62	40	64	14.850 *	0.000
3	There is clarity in the system of comparing the revenues with the costs of the center of responsibility .	34	67	38	67	6.781*	0.000
4	There is a clear policy regarding the indirect costs' distribution to the centers of responsibility.	32	54	36	56	7.812*	0.000
5	There is a clear and identified system of the costs distribution and the revenues in the company.	36	64	42	64	5.941*	0.000

Source: Primary Data ***Significant at 5% level** **n= 600**

The result indicates that 32% of the respondents from manufacturing companies and 36% of employees from construction companies expressed that there is a clear policy regarding the indirect costs' distribution to the centers of responsibility. The data subjected for statistical test revealed that there is significant difference among the study groups with regard to distribution of cost and revenue to the centers of responsibility.

Research Question-3: Do the companies compare planned performance with actual performance of centers of responsibility?

Table-3: Comparison between planned performance and actual performance

S.NO	Statements	Manufacturing companies (350 Respondents)		Construction Companies (250 Respondents)		t-value	p-value
		Mean (%)	SD (%)	Mean (%)	SD (%)		
	The estimated budgets are prepared for each center separately.	41	64	43	66	8.589*	0.000
	The actual performance of each responsibility center is measured accurately and efficiently	34	54	36	58	15.379*	0.000
	The actual performance is compared with planned performance to determine the deviations	32	67	34	69	7.851*	0.000
	Standard cost is considered as the basis to measure the actual performance	38	69	36	67	5.941*	0.000
	The company trains the employees of the centers and encourage them to achieve the centers' objectives.	36	61	37	65	7.812*	0.000

Source: Primary Data ***Significant at 5% level** **n= 600**

Results depict that 34% of the respondents from manufacturing companies and 36% of employees from construction companies expressed that actual performance of each responsibility center is measured accurately and efficiently. Further, 32% of the respondents from manufacturing companies and 34% of employees from construction companies opinioned that the actual performance is compared with planned performance to determine the deviations.

The statistical test reveals that there is a significant difference among the study groups with regard to Comparison between planned performance and actual performance of centers of responsibility

Research -4: Do the companies analyse the deviations of centers of responsibility?

Table-4: Analysis of Deviations

S.NO	Statements	Manufacturing companies (350 Respondents)		Construction Companies (250 Respondents)		t-value	p-value
		Mean (%)	SD (%)	Mean (%)	SD (%)		
1	Deviations are analysed for each individual center.	31	51	34	54	44.057*	0.000

2	Person responsible for the occurrence of deviations in each center is determined and held responsible	30	61	42	68	30.480*	0.000
3	Deviations are corrected when they occur in responsibility centers and propose appropriate means to remedy them	29	45	38	46	0.621*	0.535
4	Preventive measures are taken to avoid future occurrence of deviations	29	46	38	46	0.621*	0.060

Source: Primary Data ***Significant at 5% level** **n= 600**

The results establish that only 29% of the respondents from manufacturing companies and 38% of employees from construction companies expressed that Deviations are corrected when they occur in responsibility centers and propose appropriate means to remedy them and also Preventive measures are taken to avoid future occurrence of deviations. The statistical test reveals that there is a significant association among the study groups with regard to analysis of deviations of the centers of responsibility.

Research Question-5: Do the companies have reporting system?

Table-5: Reporting System

S.NO	Statements	Manufacturing companies (350 Respondents)		Construction Companies (250 Respondents)		t-value	p-value
		Mean (%)	SD (%)	Mean (%)	SD (%)		
1	Reports of the center of the responsibility are prepared.	41	21	52	32	6.990*	0.000
2	The deviations mentioned in the report are analyzed and studied.	30	21	41	34	6.780*	0.000
3	Reports are considered for measuring the performance of responsibility centers	30	21	41	34	6.780*	0.000
4	Reports consider non-financial aspects in responsibility centers	40	19	51	29	8.140*	0.000
5	Reports consider financial aspects in responsibility centers	37	22	48	32	5.481*	0.000
6	Data contained in the report are linked to people responsible for their occurrence	36	21	41	31	4.270*	0.000
7	Causes of deviations are determined	38	19	46	29	7.250*	0.000

Source: Primary Data ***Significant at 5% level** **n= 600**

From the results, it is evident that 30% of the respondents from manufacturing companies and 41% of employees from construction companies expressed that the deviations mentioned in the report are analyzed and studied and also the reports are considered for measuring the performance of responsibility centers. The data subjected for statistical test establishes that there is there is significant difference among the study groups with regard to reporting system.

Research Question-6: Do the companies have incentive system?

Table-6: Incentive System

S.NO	Statements	Manufacturing companies (350 Respondents)		Construction Companies (250 Respondents)			
		Mean (%)	SD (%)	Mean (%)	SD (%)	t-value	p-value
1	Company gives financial incentives based upon the individual's achievement of pre-planned objectives	59	25	48	34	7.580*	0.000
2	Incentives are not affected by personal relationships	58	19	47	41	8.251*	0.000
3	Employees are satisfied with system of incentives	32	23	31	44	3.250*	0.000
4	There is a periodical reconsideration of the system of incentives in the company	57	15	46	36	7.251*	0.000

Source: Primary Data ***Significant at 5% level** **n= 600**

It is very apparent from the findings that only 32% of the respondents from manufacturing companies and 31% of employees from construction companies said that employees are satisfied with system of incentives**.** The statistical examination reveals that there is significant difference among the study groups with regard to incentive system.

Discussions

The study observed that despite respondents being invited to participate in budgeting and decision making, their suggestions were not incorporated in the master budget. It was also noted that employees were not given the opportunity to respond to performance evaluation feedback and this could be the cause of an ineffective responsibility accounting system. It was also observed that performance reports were not being produced and distributed to sectional managers on a regular basis and that these sectional mangers didn't know how they were performing, which in a way was a cause for an ineffective responsibility accounting system.

The study also observed that the current responsibility accounting system in use was not motivational since sectional managers did not own it and this could be the cause for an ineffective responsibility accounting system. In addition to the above, this study observed that the organizational structure does not clearly define the formal relationship which exists between the different executives. It was noted that responsibility accounting centers lacked coordination and instead of cooperation these centers were competing against each other both for resources and attention. In addition it was also noted that the position of the administrator and that of the accountant were not clearly defined since the administrator behaved as if owned the accountant.

The study observed that the officers were lacking management knowledge and experience which in a way could be contributing towards an ineffective responsibility accounting system. The study again observed that a centralized decision making system was being used by the companies and that responsibility centre managers were viewing the goals of the company as unrealistic or arbitrarily set and this could be the cause of an ineffective responsibility accounting system. It was also noted that when introducing a new system no models of change management were being adopted and used to manage the change process and this could be the cause of an ineffective responsibility accounting system.

Further, the absence of coordination between the centers of responsibility, limits the application of the responsibility accounting system and most of companies do not depend on the standard costs in their budgets and there is no employee friendly system of incentives.

Though the application of responsibility accounting leads to an increase in the sales, revenues, company's share market and also simplifies the administration work and the managers became more satisfied with their work, companies could not clearly identify the center of responsibility and prepare planned budgets that linked the planned performance with the actual one.

The success of a budget program depends on the degree to which top management accepts the budget program as a vital part of the company's activities and the way in which top management uses budget data. If a budget program is to be successful, it must have the complete acceptance and support of the persons who occupy key management positions. But, there is inadequate support from the top management with regard to practice of responsibility accounting system.

Being held responsible for financial performance does not mean that the manager is penalized, if actual results do not measure up to the budget goals. However, the manager should take the initiative to correct any unfavourable discrepancies, should understand the source of significant favourable or unfavourable discrepancies and should be prepared to explain the reasons for discrepancies to higher management.

Implications of the study:

In responsibility accounting, although, the principle of controllability in responsibility accounting seems to be quite important and not many researches have been conducted in this area, controllability factors may have depended on several factors. Some researchers have used diverse management theories to determine when controllability should apply in responsibility accounting. Therefore, there should be clearer definitions of controllability based in further researches into varied industries and setting the necessary parameters that require the application.

The results are confined to the manufacturing companies and construction companies and should not be generalized to the other sectors. Since the survey conducted on companies operating in Bengaluru, the findings may not be generalized to the whole country.

For future research, a countrywide and more comprehensive survey could be conducted with the participation of more companies from distinct industries. Moreover, case studies can be conducted to make in-depth analysis about responsibility accounting practices.

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