ROLE OF RESPONSIBILITY ACCOUNTING IN ORGANISATION STRUCTURE

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Abstract : Responsibility accounting is one of the innovative technique of accounting system. It enables an organisation to perform their activities in a more effective way. In this system the entire organisation is divided into different segments and each of these segments is allotted to a manager, these manager will be responsible for the activities performed by the centres. There plays the significance of responsibility accounting. Each responsible centre prepares the performance statements and compare these statements with the budgeted one. It helps to find out is there any deviations in their performance and provides a better way to control the activites of an organisation. Basically in responsibility accounting each manager's performance should be evaluated by how they manages the activates under their control.

***IndexTerms* -** responsibility accounting, responsible centres.

I. INTRODUCTION

Responsibility accounting is arrangements were the managers are given decision making authority and they are made responsible for their assigned activity, within a specific division of the company. Responsibility accounting simply fixes responsibility for cost control purposes. Hence the Responsibility accounting is a system of accounting in which costs and revenues are identified with persons who are responsible for their control rather than with products or functions.Under this method of accounting costs and revenues are classifed according to the responsibility centres .These centre are responsible for incurring the costs and generating the revenues. So the Responsibility accounting focuses attention on responsibility centers. The responsibility centres represent the sphere of authority decision points in an organisation. For having an effective control, large firm is generally divided into different meaningful segments, departments or divisions .The basic idea behind responsibility accounting is that each manager's performance should be judged by how he or she manages those items and only those items under his/her control.

OBJECTIVES

- To understand the basic concept of responsibility accounting
- To evaluate the major benefits obtained by an organization through implementing the responsibility accounting.
- To understand the different types of responsibility centres followed by the organisations.
- To evaluate the major difficulties faced by the organizations while adopting the responsibility accounting.

Main benefits of responsibility accounting:

(1) A system of control

It creates a sound system of control because the responsibility accounting enables the top management to delegate authority to responsibility centres while retaining overall control with itself.

(2) Decentralization of decision making:

It forces the management to consider the organizational structure to result in effective delegation of authority and placement of responsibility. It is difficult for the managers to pass back unfavourable results.

(3) Encourage budgeting:

It helps in the comparison of actual achievements with the budgeted one

(4) Proper reporting:

It minimizes the structure of reports and facilitates the apt reporting because of exclusion of those items which are beyond the scope of individual responsibility.

(5) Management by exception:

It helps in management by exception because emphasis is laid on reporting exceptional matters to top management and the top management is not at all burdened with all kinds of routine matters.

Types of responsibility centres

(i) Cost Centres:
It is also termed as expense centres. In this segment, managers are responsible for costs incurred but have no revenue responsibilities. The performance of each cost centre is evaluated by comparing the actual amount with the budgeted amount. In order to ascertain the performance of such centres, the cost has been categorized into two controllable costs and uncontrollable costs. A manager responsible for a particular cost centre will be held responsible for only controllable costs.

(ii) Revenue Centres:
It is a centre mainly for the purpose of raising revenue with no responsibility for production. The main responsibility of the managers of these revenue centres is to generate sale revenue. Such managers have nothing to do with the cost of manufacturing a product or in the area of investment of assets. But he is concerned with control of marketing expenses of the product.

(iii) Profit Centre:
The performance of these centers is measured in terms of both the expenses incured and revenue earned. Thus, a factory may constitute a separate profit centre and sell its production to other departments or the sales department. Even within the factory, the service departments (as maintenance department) may sell their services to the production department.

(iv) Contribution Centre:
The performance of these centre is mainly measured by the contribution it earns. Contribution is calculated by taking the difference between sales and variable costs. It is a centre devoted to increasing contribution. The main responsibility of the manager is to increase contribution. Higher the contribution better will be the performance of the manager of a contribution centre.

(v) Investment Centre:
In this centre a manager can control not only the costs and revenue but also investments. The manager of such a centre is made responsible for the effective utilization of the assets used in his centre. Return on investments is used as a basis of judging and evaluating performance of various people.

Return on Investment (ROI) = Net Profit of the Division/Investment of the Division x 100

Following are the major difficulties faced while introducing a system of responsibility accounting:

(i) Basically the prerequisites for a successful responsibility accounting scheme i.e., a well-defined organisation structure, proper delegation of work and responsibility, proper allocation of costs, a proper system of reporting are absent and makes it difficult to have a responsibility accounting.

(ii) It is difficult to have a further analysis of expenses than provided by traditional classification of expenses. For example, wages of workman is controllable but fringe benefits included in it have to be paid under law or as per agreement with the workers' union.

(iii) While introducing the system supervisory staff may require additional clarification especially in the responsibility reports. They must be explained properly the purpose and benefits of the new system.

CONCLUSION

Responsibility accounting plays a very crucial role in an organization structure. It increases the overall efficiency of organization by dividing the large organization into small controllable segments and each of these segments were assigned to the managers. Hence the Responsibility accounting is a system of accounting in which costs and revenues are identified with persons who are responsible for their control rather than with products or functions. The managers will ensure that the people in their division are doing the right thing to achieve the goal. The managers prepare a responsibility report to evaluate the performance of each responsibility centres. Thus it enables the managers to compare the actual performance with the planned one. This will increase the overall efficiency and profitability of an organization.

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