B Com – III Sem- VI

Responsibility Accounting

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.

For instance, if Mr X, the manager of a unit, plans the budget of his department, he is responsible for keeping the budget under control. Mr X will have all the required information about the cost of his department. In case, if the expenditure is more than the allocated budget than Mr X will try to find the error and take necessary action and measures to correct it. Mr X will be personally accountable for the performance of his unit.

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.
- 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..

Responsibility Centre

Meaning of Responsibility Centre

A responsibility center is an operational unit or entity within an organization, that is responsible for all the activities and tasks structured for that unit. These centers have their own goal, staffs, objectives, policies and procedures, and financial reports. And are used to balance responsibilities related to expenses incurred, revenue generated, and funds invested to an individual.

In a multinational or large corporation, the organization tasks are divided into a subtask, and each task is given to various small division or groups. In this context, all groups in that organization are responsibility centers.

Types of Responsibility Centre:

- **Cost Centre-** A Cost Centre is a department or a unit which supervises, allocates, segregates, and eliminates all sorts of the cost related to a company. The cost center prime work is to check the cost of an organization and to limit the unwanted expenditure the company may acquire. The cost can be the determination of both person and location. In multinational companies, the cost center is authorized to decrease and manage the cost.
- **Revenue Centre-** This center is accountable for initiating and monitoring revenue. The management does not have any control over the cost or investment but can monitor a few of the expenses in the marketing section. The production of the revenue center is calculated by analyzing the budgeted revenue with actual revenue and actual marketing expenses with budgeted marketing expenses.

- **Profit Centre-**It is a division or department of a company which operates for the calculation of profit. In an organization, different profit centers are managed by the managers, who identifies profits on the basis of costs and incomes. Profit Centre is accountable for all the actions associated with the sales of goods and production.
- **Investment Centre-** This center is responsible for both investments and revenue. The investment manager can control expenses, income, the fund invested in assets, etc. He also has the authority to form a credit policy, which has an immediate impact on debt collection.