

Responsibility accounting

[Business](#), [Accounting](#)



A responsibility accounting system is an important tool in making decentralization work effectively by providing information to top management about the performance of organizational subunits. As companies became more decentralized, responsibility accounting systems evolved from the increased need to communicate operating results through the managerial hierarchy. Responsibility accounting implies subordinate managers' acceptance of communicated authority from top management. Responsibility accounting is consistent with standard costing and activity-based costing because each is implemented for a common purpose—that of control.

Responsibility accounting focuses attention on organizational subunit performance and the effectiveness and efficiency of that unit's manager. Standard costing traces variances to the person (or machine) having responsibility for a particular variance (such as tracing the material purchase price variance to the purchasing agent). Activity-based costing traces as many costs as possible to the activities causing the costs to be incurred rather than using highly aggregated allocation techniques.

Thus each technique reflects cause-and-effect relationships. A responsibility accounting system produces responsibility reports that assist each successively higher level of management in evaluating the performances of its subordinate managers and their respective organizational units. Much of the information communicated in these reports is of a monetary nature, although some nonmonetary data may be included. The reports about unit performance should be tailored to fit the planning, controlling, and decision-making needs of subordinate managers.

Top managers review these reports to evaluate the performance of each unit and each unit manager. The number of responsibility reports issued for a decentralized unit depends on the degree of influence that unit's manager has on day-to-day operations and costs. If a manager strongly influences all operations and costs of a unit, one report will suffice for both the manager and the unit because responsibility reports should reflect only the revenues and/or costs under the control of the manager.

Normally, though, some costs of an organizational unit are not controlled (or are only partially or indirectly controlled) by the unit manager. In such instances, the responsibility accounting report takes one of two forms. First, a single report can be issued showing all costs incurred in the unit, separately classified as either controllable or noncontrollable by the manager. Alternatively, separate reports can be prepared for the organizational unit and the unit manager. The unit's report would include all costs; the manager's would include only costs under his or her control.

Responsibility accounting systems help to establish control procedures at the point of cost incidence rather than allocating such costs in a potentially arbitrary manner to all units, managers, and/or products. Managers implement control procedures for three reasons. First, managers attempt to cause actual operating results to conform to planned results; this conformity is known as effectiveness. Second, managers attempt to cause the standard output to be achieved with minimum possible input costs; this conformity is known as efficiency.

Third, managers need to ensure reasonable plant and equipment utilization, which is primarily affected by product or service demand. At higher volumes

of activity or utilization, fixed capacity costs can be spread over more units, resulting in a lower unit cost. Reasonable utilization must be tied to demand and thus does not mean producing simply for the sake of lowering fixed cost per unit if sales demand cannot support production. A responsibility accounting system helps organizational unit managers to conduct the five basic control functions shown in Exhibit 18-4.

A budget is prepared and used to officially communicate output expectations (e. g. , sales and production) and delegate authority to spend. Ideally, subunit managers negotiate budgets and standards for their units with top management for the coming year. The responsibility accounting system should be designed so that actual data are captured in conformity with budgetary accounts. Thus, during the year, the system can be used to record and summarize data for each organizational unit.

Operating reports comparing actual account balances with budgeted or standard amounts are prepared periodically and issued to unit and top managers for their review. However, because of day-to-day contact with operations, unit managers should have been aware of any significant variances before they were reported, identified the variance causes, and attempted to correct the causes of the problems. Top management, on the other hand, may not know about operational variances until responsibility reports are received.

By the time top management receives the reports, the problems causing the variances should have been corrected, or subordinate managers should have explanations as to why the problems were not or could not have been resolved. Responsibility reports for subordinate managers and their

immediate supervisors normally compare actual results with flexible budget figures. These comparisons are more useful for control purposes because both operating results and flexible budget figures are based on achieved levels of activity. In contrast, top management may receive responsibility reports comparing actual performance to the master budget.

Such a budget-to-actual comparison yields an overall performance evaluation, because the master budget reflects management's expectations about volume, mix, costs, and prices. This type of comparison is especially useful when accompanied by a supporting detailed variance analysis identifying the effect of sales volume differences on segment performance. Regardless of the type of comparison provided, responsibility reports reflect the upward flow of information from operational units to company top management and illustrate the broadening scope of responsibility.