

What is Responsibility Accounting?

Responsibility accounting is a system of accounting where specific persons are made responsible for the accounting of specific area and cost control. If that cost increases then the person will be held responsible and answerable. In this type accounting system, responsibility is assigned on the basis of a person's knowledge and skills and the proper authority is given to that person so that he can make a decision and show his performance.

According to **Anthony and Reece**, "Responsibility accounting is that type of management accounting that collects and reports both planned actual accounting information in terms of responsibility centres". The emphasis in this definition is on setting the objectives of responsibility centres and then recording the actual performance so that the persons in-charge of various activities are able to assess their performance."

According to Institute of Cost and Works Accountants of India. Responsibility accounting is "a system of management accounting under which accountability is established according to the responsibility delegated to various levels of management and a management information and reporting system instituted to give adequate feedback in terms of the delegated responsibility. Under this system divisions or units of an organisation under a specified authority in a person are developed as responsibility centres and evaluated individually for their performance."

Below are the steps or formula of Responsibility Accounting.

1. Define responsibility or cost center.
2. Target should be fixed for each responsibility center.
3. Track the actual performance of each responsibility center.
4. Compare actual performance with a Target performance.
5. The variance between actual performance and target performance are analyzed.
6. After analysis of variance responsibility of each center should be fixed.
7. Corrective action is taken by the management and the same should be communicated to the individual Persons of responsibility center.

Types of responsibility center.

1. **Cost Center**
2. **Revenue Center**
3. **Profit Center**
4. **Investment Center**

Type #1 – Cost Center

These are the center in which individual persons are responsible only for cost control, they are not responsible for any other functions. In this center, it is essential to differentiate the controllable costs and uncontrollable costs. A person responsible for a particular cost center will be held responsible only for controllable cost. Performance of each center is evaluated by comparing the actual cost VS targeted cost.

Type #2 – Revenue Center

Revenue center takes care of revenue with no other responsibility. Mainly sales teams of the company are responsible for these centers.

Type #3 – Profit Center

These are the center whose performance is measured in terms of cost and revenue. Generally, the Factory of the company is treated as a profit center where consumption of raw material is a cost and finished product sell to its other department is revenue.

Type #4 – Investment Center

A manager responsible for these centers is responsible for utilizing the assets of the company in the best manner so that the company can earn a good return on capital employed.

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.