

**K.T.S.P.Mandal's**

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# **Department of Commerce**

**M.COM-I**

**SEM-I**

**Subject**

**Costing Techniques and  
Responsibility Accounting**

**Chapter 4**

**Responsibility Accounting & Reporting**

## **Chapter 4th**

# **RESPONSIBILITY ACCOUNTING & REPORTING**

### **MEANING**

1. It's a responsibility set up for cost control purposes.
2. It is an approach to cost control.
3. It is accounting system designed to control cost by relating executive responsible.
4. It is focus on personalisation of cost by putting questions as to wear the cost was incurred and who was responsible for it.
5. Business divided into various units for responsibility then we called as responsibility centres.
6. Identifies cost with responsible persons is called responsibility accounting.
7. Responsibility accounting refers to the accounting process that reports how will managers have fulfill their responsibilities.

### **OBJECTIVES**

- 1.To determine contribution
- 2.To provide a basis for evaluating quality
3. To motivate the divisional manager to operate his decision.

### **BENEFITS**

1. It help to defining objectives
2. It helps to set plans and budget
3. It helps to improve quality of decision making
4. It provide a system of closer control
5. It measures the performance of an individuals
6. It provides decentralization of decision making

### **LIMITATIONS**

1. It is not easy to draw clear cut lines of responsibility.
2. System may not be accepted willingly by staff.
3. Ignores personal reaction of people.
4. Due to ignorance selfishness individual interest may conflict.

### **PRINCIPLES**

1. Determination of responsibilities centres
2. Target is fixed for every responsibility centres.
3. Actual performance compared with budgeted figures.
4. Uncontrollable cost should not be taken.
5. Analysed and fixed responsibilities centres.

6. Corrective action is taken by top management.
7. Report to responsible individuals.
8. To get desirable result of responsibility accounting.
9. Should not be place blame on managers.
10. Required information can be made available to management.

## **CONTROLABLE AND NONCONTROLLABLE COST**

### **CONTROLLABLE COST**

Control able cost is cost that can be influenced or regulated by the manager or head responsible for it. For example material cost labour cost overhead expenses that is direct materials direct labours etc.

### **NON OR UNCONTROLLABLE COST**

Uncontrollable cost are those that are not under the control of a specified manager. These cannot be influenced by decision or action of the managers. For example rent of factory or fixed cost

## **CENTRES OF CONTROL**

### **1. Cost or expense centres**

Call centre is define as location person or atom of equipment or group of these for which cause maybe a certain and used for the purpose of cost control. That is personal cost centre, impersonal cost centre, operation cost centre, process cost centre.

### **2. Revenue centre**

Revenue centre is a segment of the organisation which is primarily responsible for generating sales revenue full stop a revenue centre manager does not possess control over cost investment in assets but usually has control over some of the expenses of marketing or sales department.

### **3. Investment centres**

Some person of capital of the business is invested in the fixed asset of the business and as such reasonable return is expected from such investment. The investment centre approach is an extension of the profit centre approach.

### **4. Profit centres**

The profit centre is a division of an inorganisation in which finance performance is measured on basis of profit it means revenue less expenses. (revenue - Expenses)

## **PERFORMANCE MEASUREMENT**

Performance measurement is the process of collecting analysing and reporting information regarding the performance of an individual group organisation system or component.

Performance measurement estimate the parameters under which programs investments and

acquisition are reaching the targeted results.

## **REPORTING TO DIFFERENT LEVELS OF MANAGEMENT**

Information is data evaluated for a specific purpose. The reports are required not only by top management but they are equal essential to the middle and lower levels management.

### **Objectives**

1. To help to management
2. To secure understanding
3. To meet requirements of information by management.
4. To help to top management in planning and organising
5. To help coordinating executives
6. To help to management to control business operations.
7. To disclose causes of variances.

### **Purposes**

1. To determine degree of performance
2. To formulate measures to improve performance.

### **Characteristics of responsibility accounting**

1. Should fit the organisation chart
2. Should be prompt and timely
3. Should be issued with regularly
4. Should be give comparative figures.
5. Should be analytical
6. Should be high light department efficiencies.

### **Assumptions of responsibility accounting**

1. Managers should be held responsible
2. Should be actively participation of managers.
3. Attainable goals
4. Control report should contain significant information related to each area of responsibility.
5. Responsibilities centre managers should try to accomplish the budget and objectives.

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### **Reference:-**

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