

Importance of Responsibility accounting in an organizational framework

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ABSTRACT: *Today's organization hugely depends on its flow of organizational framework in order to maintain, monitor and manage their respective domains. The 3Ms (maintain, monitor and manage) are covered through the concept of Responsibility accounting. Responsibility accounting being a decision making and performance analyzing system plays a vital role in communicating the correct information to the right person. It helps in setting proper standards required in order to run an organization. The right flow can generate revenues and take an organization towards success and one with flaws is absolutely a disaster in itself. Therefore, this research reveals the importance of responsibilities and effectiveness of responsibility accounting in an organizational framework through different methods.*

KEY WORD: *Responsibility Accounting, Responsibility Centres, Cost, Organizational framework*

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I. INTRODUCTION AND LITERATURE REVIEW

Responsibility accounting as a name suggests indicates that responsibility is fixed and then the accounting is done. So, it is a system of accounting in which specific responsibility centres are established and the manager in charge is held responsible for the costs incurred in his responsibility centre. It focuses on the delegation and fixation of the responsibility at various levels so as to keep a check over the costs. This identification of the costs, reporting of the costs and controlling the cost are the three basic activities under responsibility accounting being a decision making and performance analyzing system plays a very important role in communication the corrected information from one person to the other in any organization. Responsibility accounting covers overall aspects of any organization from production, marketing, administrative to financial affairs under one roof through its planning and controlling techniques. Being an integrated system, its features such as decentralization and compartmentalization ease organizational management, helps in monitoring and operating each key working area. Responsibility accounting covers overall aspects of any organization from production, marketing, administrative to financial affairs under one roof through its planning and controlling techniques.

The process of decentralization has plays a vital role in creating a effective and responsible organizational framework which helps in setting proper standards for running an organization. It also focuses on analysis of problems related to the performance evaluation and compensation within the different sub units of organizations. This all is done using managerial evaluation through cause-effect relationship of controllability. (Benton G.J. 1963) Responsibility accounting is used by large organization as an effective controlling tool to control systems within the organizational structure and also used in performance evaluation of various organizational parameters to stand in the market. It comprises of standard costing and budgeting which further works as a deciding factor on the size of organization. (Patel A.T. 2013)

Financial accounting is the process where all the financial information of all the sub units within the organization or decision making centres is collected, summarized and reported for profitable accounting. All the contributing elements of organization play a vital role or act as deciding factor for effective control of the overall system. (Fakir A.A, Islam M.Z, Miah M.S. 2015) Responsibility accounting is all about administrative accounting dealing with cost and revenue performances. This further helps in analyzing the performance of various responsibility centers through the evaluation of managers on the basis of their key responsibilities or key working areas. This is analyzed through a cross sectional survey on various public universities which states that it follows hierarchical patterns. (Owino P, Munene J.C, Ntaji J.M 2016)

1.2 Research Objectives

The objective is to:

- study responsibility accounting and its accountable features
- understand the role of organization structure within responsibility accounting

- analyse how both the organizational framework and key working centres work together for an organization

1.3 Research Methodology and Data Analysis

The research is descriptive in nature. Only secondary sources of data are used for purpose from various websites and research papers.

1.3.1 to study responsibility accounting and its accountable features.

Various responsibility centres are established on the basis of cost, revenue, profit or investment. A manager is given the responsibility to manage and report the activities in his respective responsibility centre. The primary objective is to identify the controllable items and to report them in a systematic manner. Appropriate delegation of authority and responsibility is required for effective control of costs under responsibility accounting.

The reports prepared by the respective managers are treated as the performance evaluation reports by the top managements. It was seen that individual managers are responsible for the accounting system made in India, since it is fully based on decision that are made within. According to Horngren “revenue and costs are recorded automatically at the lowest level of the organization who primary shoulders day to day decision responsibility for the item”.

The responsibility accounting system has the following guidelines:-

- Costs and Revenues should be traced directly to the units responsible for them.
The responsibility is considered to be pre-requisite with the clear out guidelines, otherwise there would be a situation may arise where the managers would just pass on the responsibility to another’s. So, confusion can create a lot of mess ultimately leading to non- proper functioning of an organization in terms of management.
For Example, suppose if we say that the department which is responsible for production has to work overtime in order to supply goods to make them receive by the customer. The sole reason is because of time lag that was caused in production activity. So, there the cost of overtime should actually be charged on the purchase department rather than shifting to the production department.
- Costs should be traced to the department which has the power to accept and pay for them. This can only be explained through an example:
Two production departments can get the transportation cost jointly. But the problem is that one department has the right to make decision the incurred cost so here the burden to share transportation cost plays a unfair role. The transfer pricing should be resolved in such a way that the other departments is reasonably treated as an external customer in the long run.
- Variances from budget and comparisons between budget and actual results must be grounded firmly in a discernibly uniform and clearly comparable system of budgeting and reporting. There should be a clear distinguished between the deviations of standards and should also be responsible for adhering the standards. There should be uniformity and clarity while preparing and presenting budgetary data and actual data. This is done for comparing the deviations that take place.
Responsible accounting plays a very important role in communication the corrected information from one person to the other in any organization.

1.3.1.1 Flow of organizational accounting

- Establishment of the responsibility centres and affixing its responsibility to the appropriate managerial personnel.
- Then setting the targets or budget for each responsibility centre.
- Preparation of reports showing the relationship between actual and desired inputs and outputs showing the concerned variances.
- Submission of the reports of all responsibility centres to the top management.
- Analyses of the reports are done by the top management and decision regarding corrective measures to be taken.
- Communication of the corrective measures to the concerned managers of the responsibility centres.

1.3.1.2 WHAT IS RESPONSIBILITY CENTER?

A responsibility centre is a sub- unit of the organization which is headed by a manger who is responsible for the activities carried out in that responsibility centre. Both costs (inputs) and the revenues (outputs) are measured for each responsibility centre, if feasible. In order to evaluate their performance and control costs.

Some of the characteristics of Responsibility Centres:-

- Each responsibility centre has its own set of objectives.
- They are established on the hierarchical basis according to the organizational chart.

- A company is a collection of responsibility centres which are headed by the individual managers or executives.
- Major focus is laid down on the measurement of inputs and outputs.
- Measuring the efficiency and effectiveness of each responsibility centre is essential.

Any organization usually includes a specified cost under budget limitation and control when it is accountable to the higher authorities this is called the situation of the responsible centre. The meaning and the concept is based on the profit the companies centre makes and can have a direct control over the cost.

So, the responsibility cost does not include all the apportioned cost and policy cost. It mainly focuses on control of costs rather on placing its importance an ascertainment cost. Every manger is given a specified area is held responsible for monitoring and keeping a proper analysis on controllable cost in that particular area of span. So therefore controllability plays an important role in responsibility accounting.

The responsibility centre should be always efficient when the amount of input per output/ amount of output per input is more or less than the standard or which is compared to the yard stick. When the goals of an enterprise are met, then it indicates that the responsibility centre is effective. For instance, Mr. A has a scooter with top condition but his maintenance is about Rs. 100 where as Mr. B has a scooter that is workable with a maintenance of Rs. 50. From this example, it indicates that Mr. A is less efficient but more effective but Mr. B is considered to be more efficient but it does less effective. This whole example shows the management priorities are important in a responsible accounting.

Second Example: - Suppose there are two units x and y producing a different product but same quality and quantities. The company X incurs a cost which about Rs. 1,00,000 where as Y incurs a cost Rs. 2,00,000. It has also been seen that the company X makes a profit of Rs. 10,000 and 'B' makes a profit of Rs. 20,000, so this situation shows that X is more effective than 'B'.

Through these examples it shows that management should always try in achieving both effectiveness and efficiency, sometimes it has also been seen a barometer is used for measuring both effectiveness and efficiency in a responsible centre "by computing return on investment"

1.3.1.3 Four pillars of responsibility accounting

- **Revenue Centre**
- **Cost Centre**
- **Investment centre**
- **Profit Centre**

Revenue Centre

Revenue Centres are basically marketing/sales unit that do not have any authority to fix the selling prices of the products and are not charged for the cost of the goods they market. They measure the actual sales or orders booked and compare if against the pre- specified budget or quotas.

Suitability:

- When the working of the organization involves setting up of multiple sales offices.
- When the main function of the unit is generation of the revenues

Cost Centres

They are also known as expense centres. Cost centre refers to any location, place, group of machines or persons related to which cost can be ascertained and can be utilized for the purpose of the cost control.

Suitability

- When the working of the unit involves production of a single products.
- When the output cannot be measured in absolute financial terms. Where the major focus is on the inputs and efficiency can only be tested against the costs incurred.

Investment Centres

It is a responsibility centre in which the manager is held responsible not only for revenues and expenses but for the investment made in assets and the income on the related investment. The relationship between efficient use f assets and the amount of profit generated is the basis for setting up of the investment centre. The manager in charge can take all decisions for the investment centre. The performance can be measured by ROI (Return on Investment) and residual income.

Suitability

- Where the manger can be given full autonomy to cast decision in his responsibility area.
- When the size of the unit is responsible and capable of being expanded by making investments.

Profit Centres

Profit centres are also called business centres of Strategic Business Unit (SBU). It's a subunit of an organization to which both revenues and cost can be assigned in order to measure the profitability. When a responsibility centres financial performance is measured in absolute terms of profit then it is called profit centre.

Suitability

- Where the unit has the access to the market that is both suppliers and customers.
- Where the divisional managers are allowed considerable autonomy with regards to his unit.

Advantages:

- It motivates managers to perform well in the departments over which they have direct control.
- The speed of operating decisions may increase
- Uses divisional manager's specialized market knowledge
- Frees top management's time and energy for the other tasks
- Helps in training future managers

Disadvantages

- Confuses division's results with manager's performance
- Overemphasizes on short-term results.
- Lose control of top management
- Difficult to identify suitable profit centres
- Hard to arrange for goal congruence

It can be seen that responsibility accounting is really needed to carry out proper management in an organization. It helps in analyzing and taking responsibilities for bringing up best results possible for development. It helps in identify the better objectives of the responsibility centres. It also an effective way through which one can identify or gather up revenues and cost in respective areas. In order to achieve responsible accounting steps has to be followed:

- Each area provided should be properly managed in order to bring up better performance in the department.
- The targets had to be set up by the managers of responsibility centre so that he or she can be in a position to provide better information regarding the department.
- The performance are properly recorded and communicated among the executives so that it becomes easy to analyze and set up target goals to achieve them.
- Timely action must be done in order to take corrective measures, so that the department doesn't the future at means.

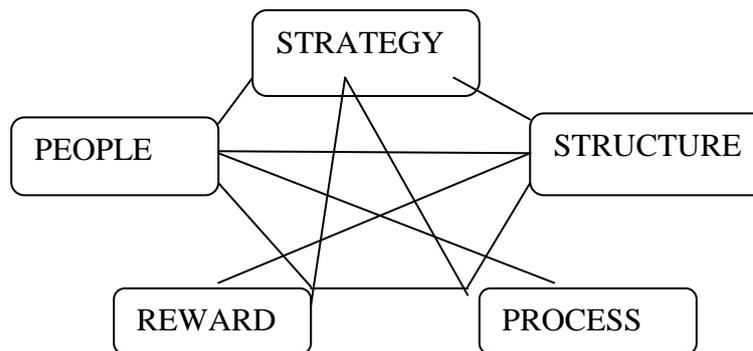
Therefore, responsibility accounting act as a controlling device and further helps in bringing better performance in overall businesses.

1.3.2 To understand the role of organization structure within responsibility accounting, with the help of TCS as case study. (Source: TCS)

Tata Consultancy Services Limited (TCS) is engaged in providing information technology (IT) services, digital and business solutions. The Company's segments include banking, finance and insurance services (BFSI); manufacturing; retail and consumer packaged goods (CPG); telecom, media and entertainment, and others, such as energy, resources and utilities, hi-tech, life science and healthcare, s-Governance, travel, transportation and hospitality, and other products. Its services portfolio consists of IT and assurance services, business intelligence and performance management, business process services, cloud services, connected marketing solutions, consulting, engineering and industrial services, enterprise solutions, IT infrastructure services, mobility products and services and platform solutions. Its software offerings include Digital Software and Solutions, TCS BaNCS and TCS Master Craft, among others. It serves industries, including insurance, healthcare, retail, telecom and others.

It is one of the **Indian Multinational Information Technology (IT) service and consulting company headquartered in Mumbai, India.**

Fig: 1.3.2.1 Star Model of Organization and Design Framework



Design Elements

▪ **Strategy**

Every company’s main objective is to always fulfill all kind of goals and objectives that has been set in every fiscal year, and also to achieve different values and vision in order to withstand different marketing conditions. So, TCs follow a cost leader strategy. The main focus of TCs is to have an advantage by reducing the cost of per employee and also to establish economies of scales.

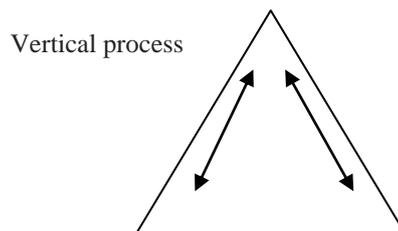
▪ **Structure**

In any company different activities are divided, according to which powers and authorities are given to every employee. So, TCs follows a mechanic structure model wherein only the higher authorities has a power to control impose on employees and take care of the whole company processes. In order to attain a minimum cost, rules are being imposed on hierarchy the authority is given to them to get things done with the limited amount of time. Also TCs consist of a department that follows specializations, wherein the decision making system is centralized.

▪ **Process**

TCS basically follow a vertical process system. In a firm every work is authorized between different departments that carry on the following functions. Majorly, it collects and prioritize based on budgeting and allocating capital for training development and the research processing.

A Formal channels of communications is follow through out and roles and responsibilities are given to employees based on their specialization. So, Coordination is maintained with the help of chain of command.



▪ **People**

In this model people signifies the human policy where in selection, rotation, training and recruiting processes takes place. Strategy has been implemented to bring in the appropriate combination that leads in producing and generating different kinds of skills and talents that is really important to implement this strategy. The employees act as one of the biggest feature for having an competitive advantage. So, therefore there has been a continuous sharing of knowledge and investment which converts itself into action and later on periods.

▪ **Rewards**

This reward system has been there in every firm in order to motivate and provide incentives to every employee so that they can achieve greater goals leading greater success in the company. Some of the rewards are as follows for example salaries, bonus, and promotions and so on.

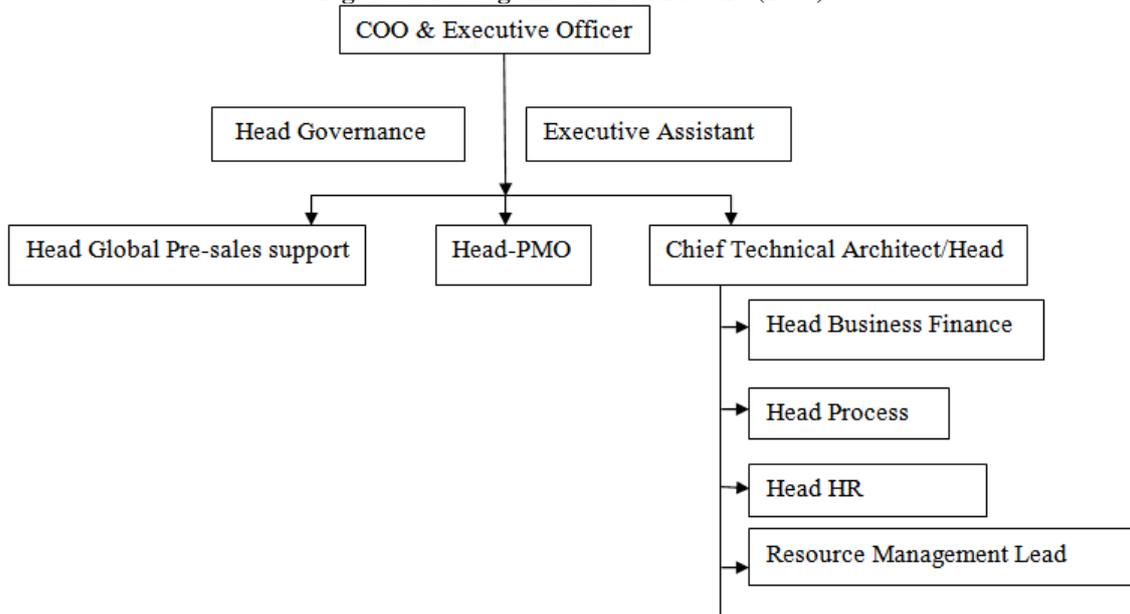
Now, in TCs rewards are given based on individual performances rather than group performance.

1.3.2.2. Structure

TCS follow a structure of mechanistic nature. This structure consists of the following factors:

- Degree of work specializations is high
- Departmentalization is rigid
- Managerial hierarchy has many layers
- Span of control is narrow
- Decision making is centralized
- Chain of command is low
- Organizational structure is very low

Fig: 1.3.2.2. Organizational structure (TCS)



Centralization and decentralization refers to the extent to which an authority and responsibility is passed it to lower levels. If authority is to take decision is retained at top levels, then organization is a said to be centralized whereas if decision making authority is widely distributed, then organization is said to be decentralized.

Therefore, the organizational structure above clearly showcases that the organizations’ has many bifurcations of hierarchy and the decision making is fully centralized. From the above information TCS follow a set of rules and regulations that is important for attaining goals and objectives nut in the recent times due to covid-19 everything has to be change. As a result in the recent report it emphasis only one-fourth of the total workforce are required to come to office since, most of companies are moving towards the home policy due to result of corona virus pandemic.TCS are considered to be one of the largest software exporters that employee 4.5 lakh people. Due to this lockdown situation it has lead to lack of employment opportunities. Since the gross domestic product has fallen down. The company has brought up a new strategy where 25% of the employees can work in office premises while the others can work from home. So, work from home process is slowly being adapted in order to achieve different strategies imposed by TCS Company.

1.3.2.3 To study how both the organizational structure and key working centres work together for an organization (Source: TCS)

The financial statements of Tata Consultancy Services Limited and its subsidiaries (TCS) are prepared in accordance with the Indian Accounting Standards, prescribes under section 133 of the companies act 2013, read with the companies rules, as amended from time to time. So, significant accounting policies are used in the preparation of these financial statements and are disclosed in the notes to consolidated financial statements.

Fig 1.3.2.3.1 Table that provides an overview of the consolidated financial results of the company:

	INR Crores				
	FY 2020	% OF REVENUE	% OF GROWTH	FY 2019	% OF REVENUE
REVENUE	156,949	100.0	7.2	146,463	100.0
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AUTHORISATION (EBITDA) BEFORE OTHER INCOME	42,109	26.8		39,506	27.0
PROFIT BEFORE TAX (PBT)	42,248	26.9		41,563	28.4
PROFIT AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	32,340	20.6		31,472	21.5
EARNINGS PER SHARE (IN RUPEE)	86.19			83.05	

Source: TCS

Fig 1.3.2.3.2 Average Currency Exchange Rates during FY 2020 for the three major currencies

CURRENCY	WEIGHTAGE (%)	FY 2020 (INR)	FY 2019 (INR)	% CHANGE YoY
USD	52.0	71.23	70.07	1.7
GBP	14.0	90.15	91.60	(1.6)
EUR	10.7	78.94	80.82	(2.3)

Source: TCS

Therefore, movements in currency exchange rates through the year resulted in a positive impact of 0.1% on the reported revenue. The constant currency revenue growth for the year, which is the reported revenue growth stripped of the currency impact, was 7.1%

GROWTH ATTRIBUTABLE TO	FY 2020 (%)	FY 2019 (%)
BUSINESS GROWTH	7.1	11.4
IMPACT OF EXCHANGE RATE	0.1	7.6
TOTAL GROWTH	7.2	19.0

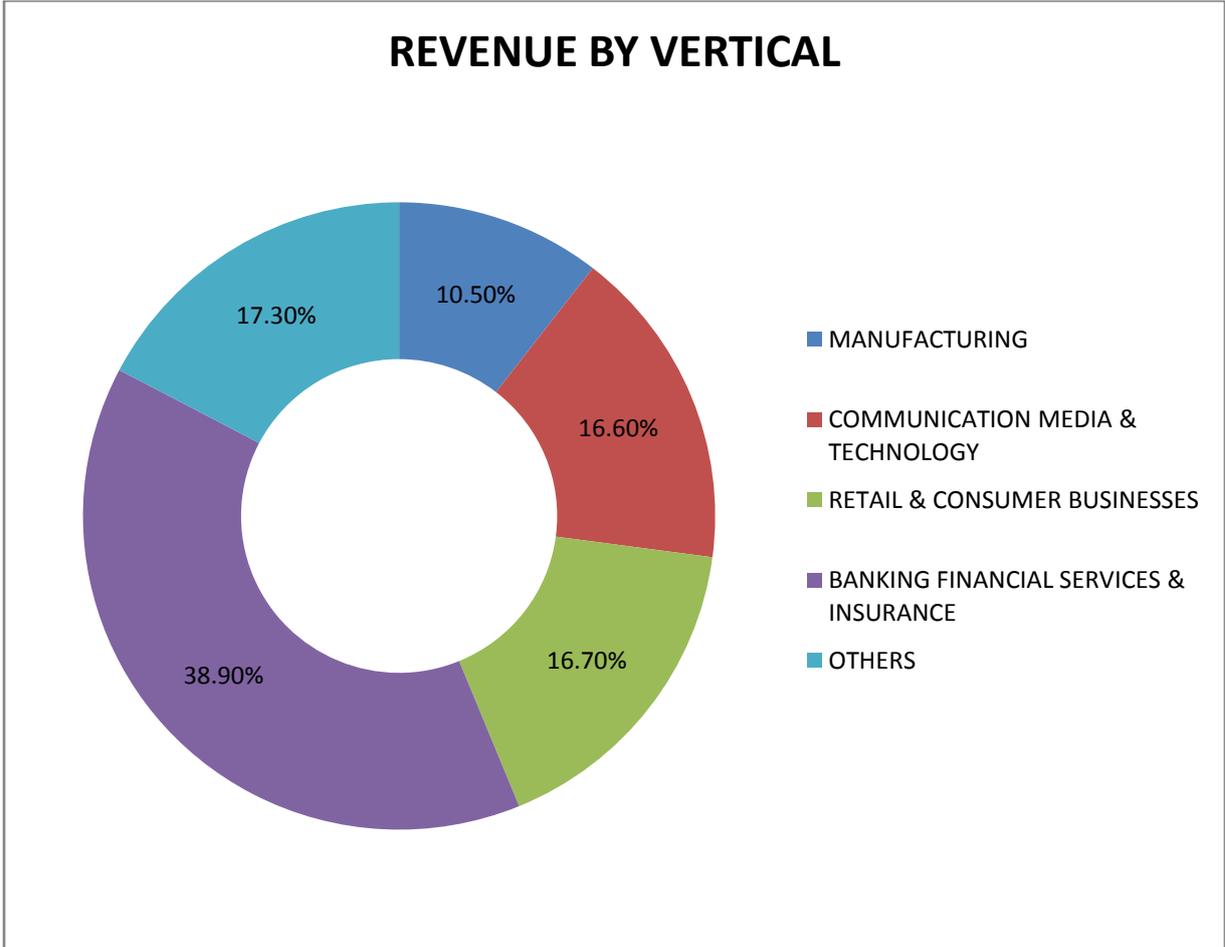
Source: TCS

On the basis of annual report analysis, TCS' revenue grew 7.2% in FY 2020, compared to 19.0% in the prior year. Much of the year on year deceleration is on account of the lesser currency benefit received in FY 2020 (7.6% currency benefit in FY 2019 vs. 0.1% benefit in FY 2020).

Fig: 1.3.2.3.3 Revenue by Verticals (Source: TCS)

	COMMUNICATION MEDIA AND TECHNOLOGY	RETAIL & CONSUMER BUSINESS	BANKING FINANCIAL SERVICES & INSURANCE	OTHERS
	10.5%	16.6%	16.7%	38.9%
				17.3%

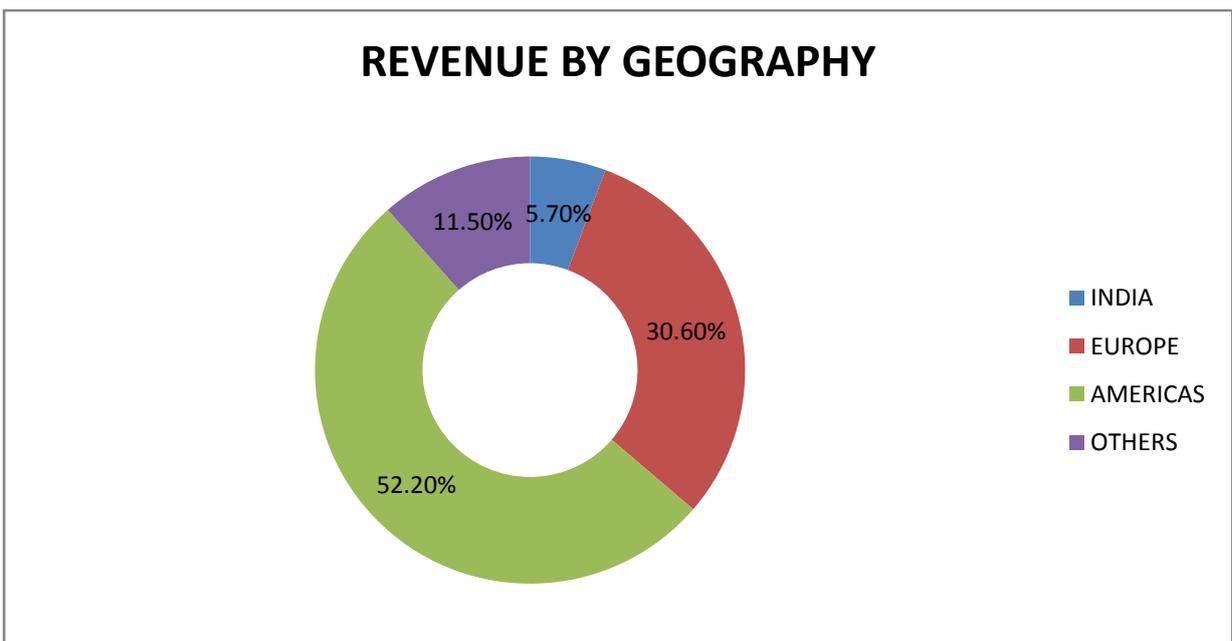
Source: TCS



Source: TCS

Fig: 1.3.2.3.4 Revenue by Geography (Source: TCS)

INDIA	EUOPE	AMERICAS	OTHERS
5.7%	30.6%	52.2%	11.5%



Source: TCS

In 2019 the global economic growth was 3.3% but due to the current global pandemic (Covid-19) the growth rate falls sharply to -3% in 2020, much worse than during the 2008-09 financial crisis. So, the rolling lockdowns and social distancing restrictions on account of pandemic are expected to significantly impact economic activity in all major markets, cause demand compression. In the immediate aftermath, enterprises are expected to downscale current investments, defer planned initiatives, cut costs and conserve cash. While this could inject volatility into TCS revenue growth, the company expects to gain market share from ensuring vendor consolidations

1.4 Findings and Interpretation

Decentralization or we can say compartmentalization of organizational structure whether based on activity, functional or strategic varies from organizations to organizations depending upon their size and nature of work. Therefore, the use of responsibility accounting in the system basically helps in finding out relation or interference between activities and performance so that it can further be utilized in evaluating divisional performances.

Responsibility accounting itself is an effective method of cost controlling for an organization through coordination of different segments of operational and information control centres where notion of control and content enforces controllability with adopting responsibility as well as accountability.

Attaining organizational goals largely depends upon its structure and proper functioning of these structures within the system and this can ease by deploying authorities and responsibilities based on size and nature of the organization. Responsibility accounting is a tool which ensures effective controllability, responsibility and accountability which further helps in evaluation of organizational performance. It acts as a major cost management tool for the business world. Being an integrated system, its features such as decentralization and compartmentalization ease organizational management, helps in monitoring and operating each key working area.

Responsibility accounting covers overall aspects of any organization from production, marketing, administrative to financial affairs under one roof through its planning and controlling techniques.

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