

# 1 responsibility accounting chapter 12 i characteristics

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Responsibility Accounting\*\*

### Definition

Responsibility accounting is a system of accounting that identifies, measures, and reports the performance of individual managers or organizational units based on their specific responsibilities.

### Characteristics

- **Decentralization of Authority:** Responsibility accounting is implemented in organizations with decentralized decision-making structures.
- **Assignment of Responsibilities:** Responsibilities are clearly assigned to managers and organizational units, along with the authority to make decisions related to those responsibilities.
- **Measurement of Performance:** Performance is measured against established targets or standards that are relevant to the assigned responsibilities.
- **Feedback and Control:** Regular feedback is provided to managers regarding their performance, and appropriate control mechanisms are in place to ensure accountability.
- **Incentive for Performance:** The system often incorporates incentives for managers to achieve or exceed performance targets.

### Types of Responsibility Centres

Responsibility accounting systems typically establish different types of responsibility centres based on the nature of the activities for which managers are accountable:

- **Cost Centre:** A unit responsible for controlling costs, such as a production department.
- **Revenue Centre:** A unit responsible for generating revenue, such as a sales department.
- **Profit Centre:** A unit responsible for both costs and revenue, such as a business division.
- **Investment Centre:** A unit responsible for both profits and the management of assets, such as a company subsidiary.

### **Accountability and Responsibility**

Accountability refers to the obligation to answer for the results of actions, while responsibility involves the authority and obligation to perform those actions. Responsibility accounting emphasizes both aspects by assigning responsibility and holding managers accountable for their performance.

### **Key Responsibility of Accounting**

The key responsibility of accounting is to provide accurate and timely financial information that supports decision-making, accountability, and control within an organization.

### **Essence of Responsibility Accounting**

The essence of responsibility accounting lies in empowering managers to make informed decisions within their areas of responsibility, while also holding them accountable for the results of those decisions.

### **CIMA Definition of Responsibility Accounting**

According to the Chartered Institute of Management Accountants (CIMA), responsibility accounting is "a system of accounting that assigns responsibility for specific tasks to individuals or units within an organization and measures the extent to which they have fulfilled their responsibilities."

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