# RESPONSIBILITY CENTRES AND CONTROLLABILITY


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***Objectives***

After Studying the lesson, you should be able to understand:

1. The meaning and concept of Responsibility Accounting.
2. Meaning and concept of responsibility centres
3. Different types of responsibility centre

***RESPONSIBILITY CENTRES***

A central concept in management control and performance steering in organizations is the "centre of responsibility". In this lesson, we present the concept of a responsibility centre and its relevance for the management of organizations

***Define the responsibility centre***

According to R.N. Authority, 'A responsibility centre is an organization unit headed by a responsible person. An organization unit is specified by the organization structure of the firm.' According to William C. Fergara, areas of responsibility may be regarded as responsibility centres. “(Responsibility Accounting- A Basic Concept of Control). In the book Reading in Cost Accounting, Budgeting and Control edited by W.E. Thomas). Area of responsibility are also specified or demarcated by organization structure of the firm.

A responsibility centre is a component of the organization that is more or less autonomous and placed under the direction of a manager. Anthony’s model (1965) (3) distinguishes three types which are still found today:

There are generally four types of centres:

- Profit centre: Judged on the result (allocation of income and expenses)

- The cost centre: No profit requirement, but cost control.

- ***A cost centre***

A cost centre is an organizational area in which a manager is held solely responsible for costs. In these types of responsibility centres, there is a direct link between the costs incurred and the product or services produced. This link must be recognized by managers and properly structured as part of the accountability accounting.

The unit concerned must carry out a mission at the lowest cost with the best possible quality,

within a limited time.

*Performance measurement can be performed using several units of measurement:*

• cost: production cost, economic lot, stock level

• Time: reaction time to an order

• Quality: defect rate, scrap rate, breakage rate, abnormality rate, failure rate

- *Revenue Centre.*

The objective of this centre is to maximise turnover by developing sales of

goods, products and services depending on the nature of the entity’s business.

- The C.A centre: judged on the level of CA

- Profit centre.

This centre should generate maximum margin by maximising the products and minimizing of costs. This type of centre is rare, since it requires both resource management and revenue management.

Performance criteria are diverse and varied: net result, margin rate relative to figure

Business, return on investment. The vision is short and medium term.

- The investment centre: Judged on the return on investments

A responsibility centre is made up of a group of entities' stakeholders grouped around a responsible person with the means to achieve the objective assigned to him.

- *Investment Centre.*

It must generate the best return on investment and capital invested (equity and financial debts).

Its mission is to ensure the optimization of investments and their financing.

It is at the top of the hierarchical pyramid for long-term strategic decision making term.

Performance criteria include asset returns, rate of return, value current net flows, profitability ratios, debt ratio, financial leverage.

*According to R.N. Anthony, an investment centre is a responsibility centre, "in which the supervisor is responsible not only for profit but also for the assets he uses." The financial measure in an investment centre is profit related to assets employed.*