Chapter 04: Section 01

Responsibility accounting

Section 01: Divisionalisation, Responsibility Accounting and Compensation

1. terms

1. **Decentralisation:** The delegation of decision-making authority to lower levels in an organization.
2. **Divisional Autonomy:** The degree of decision-making freedom granted to managers of specific divisions

2. Internal Drivers for divisionalisation

1. Operational Scale and Management Capacity
2. Product and Market Diversification
3. Geographical Expansion and Local Responsiveness
4. Technological Advancement

3. Market Responsiveness and Customer Focus
Requirements for divisionalisation

1. Customer segmentation
2. Market differentiation alignment
3. Regional market adaptation
4. Complex B2B Relationship Management

3. Managerial Development and Entrepreneurial Motivation for divisionalisation

1. Developing General Management Competencies
2. Fostering Entrepreneurial Motivation
3. Identifying High-Potential Leaders
4. Building Succession Pipelines

4. Strategic focus and resource allocation optimisation for divisionalisation

1. Defining Clear Divisional Missions
2. Executing Performance-Based Capital Allocation
3. Developing Market-Specific Competitive Strategies
4. Evaluating Divisional Innovation Initiatives

6. terms

1. **Responsibility Accounting:** A system that segregates revenues and costs into areas of personal responsibility.

The manager of a factory in Galle is evaluated on controllable production costs of Rs. 50 million against a budget of Rs. 48 million. The performance report excludes corporate marketing costs of Rs. 5 million, as these fall outside the manager’s control.

- **Revenue Centres:** Units focused solely on generating sales (e.g., a regional sales office).
- **Cost Centres:** Units responsible for managing expenditures (e.g., a manufacturing department or HR department).
- **Profit Centres:** Units accountable for both revenues and costs (e.g., a specific product line or a hotel in a chain).
- **Investment Centres:** Units that also control capital investment (e.g., a fully autonomous subsidiary or a major business division).

7. Responsibility Accounting System Fundamentals

1. Controllable principle
2. Aligning Authority and Responsibility
3. Define responsibility boundaries

7. Measuring Beyond Financial Metrics

Revenue Centre Balanced Scorecard			
Performance Perspective	**Metric**	**Target**	**Actual Performance**
Financial	Revenue Growth	10%	12%
Customer	Customer Retention Rate	95%	96%
Market	Market Share	20%	21%
Internal Process	Sales Conversion Rate	5%	5.5%

Table 1.2.2: Revenue Centre Balanced Scorecard

8. Differentiating Engineered and Discretionary Cost Centre

Engineered cost centres exhibit clear, measurable relationships between inputs and outputs, such as a manufacturing department where material inputs directly correlate with finished goods production. Discretionary cost centres lack this direct relationship.

Comparison of Cost Centre Types		
Characteristic	**Engineered Cost Centre**	**Discretionary Cost Centre**
Input-Output Relationship	Clear/measurable	Subjective/unclear
Primary Evaluation Method	Variance analysis	Objective achievement
Example Departments	Manufacturing/production	HR/R&D
Key Performance Indicators	Cost per unit/efficiency ratios	Budget adherence/service quality

Table 1.2.3: Comparison of Cost Centre Types