Benjamin Fenster
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Notes – Chapter 12

Responsibility Accounting

I. Definition and Concept
   a. Tools, concepts, techniques for performance evaluation
   b. Measure the performance of people and of organizational subunits.
   c. The purpose is to ensure goal congruence.
   d. Hierarchy
      i. Corporate Entity
      ii. Strategic Business Units
         1. SBUs
         2. A business for which a separate strategy must be defined
         3. Planning and control handled separately for each
      iii. Divisions
      iv. Functions
      v. Departments
      vi. Working Groups
      vii. Individuals
   e. Goal congruence means that goals defined at the corporate level are supported by goals down the line

II. Responsibility Centers
   a. Break into subunits
   b. Managers of those units should be achieving specific financial goals
   c. Responsibility & control.
   d. Types
      i. Cost Center. (Has responsibility related to costs)
      ii. Revenue Center (Responsibility for revenue only)
      iii. Profit Center (Both Revenue and Cost)
      iv. Investment Center (Profit & Capital Base)
   e. Example
      i. Corporate President; Investment Center
      ii. Broadband SBU: Investment Center
      iii. VP, Broadband Services: Profit
      iv. Manager, System Design: Profit
      v. CAD Supervisor: Cost

III. Evaluation Tools
   a. Cost
      i. Flexible Budgets, Standard Costs etc
      ii. Performance reports, analysis of variances
      iii. One Issue: Joint costs
         1. Those shared among departments, divisions, etc
         2. Consider ABC
         3. Take cost pools (common costs, joint costs0
         4. Apportion those to business segments
      iv. Revenue
         1. Forecasts, sales variance analysis
         2. Responsibility for revenue only, not cost
         3. Variances
            a. Sales Price Variance = Actual Volume (Actual – Expected Price)
            b. Sales Volume Variance = Budgeted UnitCM(Actual – Expected Volume)
            c. Total is CM variance
      v. Profit

1. Segmented Income Statements
2. Service revenue less variable expenses = CM
3. Less Controllable FC = Profit Margin (controllable)
    a. That number is the key performance measure
    b. Tells how well the segment is doing in terms of costs it can control
4. Less: Costs controlled by others = Profit margin traceable to the segment [Accounts for costs that can be traced to the segment specifically, but which its managers cannot control.]
5. Less: Common fixed expenses [Accounts for costs that cannot be traced to any particular segment]
6. Tax, Net Income, et cetera (the rest of the income statement) are normal.