

STUDY REGARDING THE ORGANIZATION OF MANAGEMENT ACCOUNTING IN THE CONTEXT OF RESPONSIBILITY CENTERS

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Abstract

The organization on responsibility centers has lately become a generalized practice inside small and medium economic enterprises. Thus it made necessary the adaptation of management accounting to the new requirements. Introducing effective management by organizing the activity in responsibility centers represents a directing method which has as a main objective the optimization of using the organization's resources by motivating and stimulating the creativity of all employees, though their involvement in accomplishing the established mission and objectives.

Creating a functional management accounting system represents a useful tool for the management of each economic entity, which aims at driving it towards performance, by promoting efficiency and effectiveness. In order to optimize the activity of economic entities, the economic literature and practice debates more and more on the idea of sectioning them into responsibility centers, as more efficient control instruments.

Key words: management accounting, responsibility centers, transfer prices, statistical results, survey

Journal of Economic Literature (JEL) codes: Business Administration and Business Economics; Marketing; Accounting

1. Introduction

Knowing the costs and expenses is a permanent requirement when the objective is economic performance especially in the context of the present economy, when economic resources are more and more scarce and, implicitly, more and more expensive. In a market economy the control of internal operating conditions represents the most important variable available to management in order to reach the desired efficiency in resource consumption.

Dividing an economic entity into responsibility centers allows the development of management control as responsibility centers, which are considered to be the foundation of management control, are situated between the management of the entity, which deals with the strategy, and the operational personnel, which carries out current tasks. The management control based on structuring the entity on responsibility centers allows for the measurement of their contribution to the entity's general performance. One idea is promoted more and more in the specialty literature according to which management accounting would be included in the area of management control, view explained by the fact that there are both elements of classical analytical accounting (the calculation and control of costs) and budget management, in management accounting.

The organization model, which allowed in the best way the development of management control, structures the enterprise on three levels, the three pillars being (Ionașcu I., Filip A.T., Stere M., 2007):

- at the top of the hierarchy there are the managers in charge of the strategy;
- at the base, the entities regroup operational staff that reiteratively fulfill current tasks.

The two external levels are linked by an intermediary area i.e. the responsibility centers, considered to be the basic fundament of management control. Classical instruments of management control are extremely numerous, starting from costs, standards, budgets and reports, transfer prices and ending with responsibility centers.

The responsibility center (Caraiani C., Dumitrana M., 2005) represents an organizational segment which can be defined through an aggregate of tasks to be done, and executive, clearly identified management procedures. The difference between a responsibility center and an execution center is the fact that performers apply standard procedures and do not have a maneuver space at their disposal, while, in a responsibility center the responsible decision makers engage themselves in obtaining certain results having a certain decisional autonomy.

Organizing an entity based on responsibility centers is that traditional approach which implies respecting certain principles, like:

- the principle of responsibility or delegation, which implies that the delegation of responsibilities comes from a superior and therefore delegation implies control, and responsibility implies justification;
- the principle of each structure's performance controllability;
- the principle of exhaustiveness, which implies that each post of the balance sheet and of the profit and loss account has to be affected by a responsibility center, in this way reducing the risk of decreasing estimated performances.

Organizing an entity based on responsibility centers implies defining certain rules linked to the transfer of goods and services between responsibility centers. The bigger, more diverse the entity, the larger the tendency to define the most profit or investment centers, which will be themselves responsible for the profitableness of their own field of activity. The existence of a large number of responsibility centers raises problems regarding following their results starting from the idea that each profit center has its own profitableness objective.

Cutting up the entity on responsibility centers has to correspond both to a sharing of responsibilities, and to the industrial logic of the entity in cause, based on the **performance control** of those centers. The performance of the centers depends on the **internal transfer price**, which thus can be defined as being the price at which transactions are made between centers inside the same economic aggregate that is inside the entity.

2.The accounting of responsibility centers, a premise for identifying the elements of a functional accounting system

Administrative accounting, also known as management accounting or functional accounting, (Needles E. Belverd Jr., Anderson R. Henry, Caldwell C. James, 2001) is an information reporting system which:

- classifies financial data according to the responsibility areas of an organization and;
- reports upon the managers' activities, more specifically, only the income and expense categories that a certain manager controls.

Such a managerial accounting system, which focuses on responsibility centers and supplies financial reports of personal nature, is also known as profitability accounting. Both in practice and in the literature it has been proven that profit responsibility decentralization offers advantages such as (Caraiani C., Dumitrana M., 2005):

- allowing managers to choose the perfect balance between incomes and expenses without having to justify their decision;
- responsibility delegation leads to the increase of managers' motivation and contributes to the extension of performance measurement means;
- it grants the measurement of each section's/division's contribution to the whole entity's performance.

An entity's hierarchy or the organizational structure represents the ranking system of responsibility levels within the entity; thus, coordinating the entity's efforts implies delegating a certain responsibility to each manager who becomes directly responsible for the planning and controlling activity and becomes in charge of administrating the responsibility center.

Responsibility accounting (Horngren T. Charles, Datar M. Srikant, Foster George, 2006) is a

system for quantifying the plans (through budgets) and actions (through actual results) of each responsibility center whose manager is responsible for a pre-established set of activities. This responsibility accounting, as a functional accounting system, classifies all information regarding the reported expenses and incomes according to the responsibility areas allocated to managers and the managers' functions.

Starting from an entity's functional organization through its segmentation on responsibility centers, the entity is also seen from the technical point of view, resulting „accounting parts”, which, included in the administrative accounting area, become calculation objects with the scope of measuring performance and underlining optimization means. The functional accounting system is the network within an entity created based on information supplied by the established responsibility centers, and the created network represents the framework for the whole entity's budget elaboration.

3.The results and conclusions of the study regarding the statistics on organizing management accounting in the context of responsibility centers

Taking into account the theoretical aspects exposed in the paper, as well as the specialty work in the field, we wanted to conduct a study in order to analyze the way in which this organization of management accounting is viewed from the economic entities' point of view. We will try to answer the following questions by means of the present analysis:

-Do you believe that management accounting and cost calculation are useful for you in substantiating the economic decisions?

-Do you believe that dividing the entity's activity into responsibility centers ensures an increase of the general economic efficiency?

-Is the system of responsibility centers implemented in your entity?

-In case a management accounting system based on responsibility centers is not implemented in your company, would you be willing to implement such a system, even experimentally?

-If you would organize the activity based on profit centers, the transfer prices used to convey products would be: the complete cost, a negotiated price or another value?

We want the answers to these questions to help us understand the way in which the organization of management accounting is perceived by the decisional factors of the economic entities in the context of responsibility centers. While elaborating the study we followed the survey steps, as they are described in the literature (Buiga, 2001). The following aspects were taken into account in the realization of the statistical observation: choosing and defining variables that must be studied, elaborating and testing the questionnaire, choosing the data collection technique and establishing the time and place of the observation.

The data included in the analysis were collected from 226 economic entities, we received answers from 293 economic entities, but we eliminated from the study 67 questionnaires. The data introduction was made with the help of the SPSS 16.0 software, thus creating a database, and as we received the completed questionnaires, we proceeded to introducing them in the database. The final report consists of presenting the conclusions which were deduced from the research.

According to OMFP no. 1826/2003 for the approval of The Specifications regarding some measures referring to the organization and direction of management accounting, management accounting is organized by the administrator of the legal entity, either by using specific accounts, either by developing the accounts from the financial accounting, either through its own technical-operative evidence. As we opt for organizing management accounting using specific accounts, we wanted to analyze the preferences of the economic entities. The answers regarding the problem under analysis are presented in the table below:

The way of organizing management accounting is:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	With the help of the accounts system of the 9 th class.	91	40.3	40.3	40.3
	Through the development of accounts from financial accounting	72	31.8	31.8	72.1
	With the help of own operative technique	63	27.9	27.9	100.0
	Total	226	100.0	100.0	

It can be observed that 40.3% of the entities which were analyzed, meaning 91 entities use accounts of the 9th class Management accounts, to organize management accounting, and 31.8% of the entities develop the accounts of financial accounting to obtain information specific to management accounting. There is a relatively big number of entities – 27.9% – that resort to other methods for obtaining the information needed in order to substantiate economic decisions. We believe that using a system of developed accounts specific to management accounting, allows the acquiring of information which cannot be done by the simple development account specific to financial accounting. For example, through the development accounts specific to financial accounting one cannot obtain information regarding the value of administrative expenses relating to unsold production, at the value of the complete cost, more useful according to the opinion of managers than the production cost, at the deviation system, even in the conditions of using price differences accounts.

In what concerns the organization of management accounting through the operational techniques characteristic to the economic entity, these can give the desired results only if an integrated system of resource planning (ERP System), which allows economic entities to respond in the most flexible, adaptable and efficient way to the requirements of the market, is implemented. In order to see if the economic entities consider management accounting and cost calculation as being useful, further from the duty of organizing it according to the normative act previously presented, we raised the following question for which we obtained the answers herein:

Do you consider management accounting and cost calculation useful for substantiating economic decisions?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	16	7.1	7.1	7.1
	Yes	206	91.2	91.2	98.3
	I don't know	4	1.7	1.7	100.0
	Total	226	100.0	100.0	

It can be observed that, the overwhelming majority of the respondents – 91.2% – consider that management accounting and the calculation of costs are useful for substantiating economic decisions and a negligible number of respondents have answered negatively or do not know. From the first two questions of the survey we concluded that management accounting is organized in economic entities and, moreover, it is also considered useful. We did not aim at obtaining information regarding the qualitative side, meaning the way in which management

accounting is organized and conducted and the way in which it responds to the informational requirements of the entity.

As national and international accounting norms specify that general administration expenses and sales expenses are not included in the production cost we wanted to identify which is more important for the respondents, the production cost or the complete cost? The answers to the questions that treat this problem are the following and we can conclude that 60.6% of the respondents believe that the complete cost of the products is more important than the production cost and only 32.7% are of the contrary opinion.

Do you believe that the complete cost of products is more important than the production cost?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	74	32.7	32.7	32.7
Yes	137	60.6	60.6	93.3
I don't know	15	6.7	6.7	100.0
Total	226	100.0	100.0	

Responsibility centers have the role of increasing the economic efficiency in an economic entity, to make a better use of the existent limited resources. Because organizing entities by dividing them into responsibility centers is relatively new to our country, we researched the way in which this is regarded among the examined entities.

Do you believe that dividing the activity of the entity into responsibility centers ensures an increase of the overall economic efficiency?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	32	14.2	14.2	14.2
Yes	170	75.2	75.2	89.4
I don't know	24	10.6	10.6	100.0
Total	226	100.0	100.0	

The representatives of 170 economic entities, meaning over 75% of the total analyzed entities, believe that dividing the activity in responsibility centers is a factor of increasing the economic efficiency, fact that implies awarding a larger importance, also from a theoretical point of view, to organizing management accounting in responsibility centers. However, the system of responsibility centers is implemented only in 39% of the analyzed entities, as it can be observed below.

Is the system of responsibility centers implemented in your entity?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	138	61.1	61.1	61.1
Yes	88	38.9	38.9	100.0
Total	226	100.0	100.0	

Nevertheless, the following correlation exists: if the system of responsibility centers is implemented in that entity, then it is generally considered that these responsibility centers represent a factor for increasing economic efficiency. More exactly, 85% of the entities in which the system of responsibility centers is implemented in one form or another, believe that they are contributing to increasing the overall economic efficiency, and 50% of the representative of the entities in which responsibility centers are not implemented believe that these would be a factor of increasing economic efficiency.

Do you believe that dividing the entity’s activity into responsibility centers ensures an increase of the overall economic efficiency? * Is the system of responsibility centers implemented in your entity? Cross tabulation

			Is the system of responsibility centers implemented in your entity?		
			No	Yes	Total
Do you believe that dividing the entity’s activity into responsibility centers ensures an increase of the overall economic efficiency?	No	Count	29	3	32
		% within	90.6%	9.4%	100.0%
	Yes	Count	85	85	170
		% within	50.0%	50.0%	100.0%
	I don’t know	Count	24	0	24
		% within	100.0%	.0%	100.0%
	Total	Count	138	88	226
		% within	61.1%	38.9%	100.0%

In what concerns the availability of implementing the system of responsibility centers in entities that do not have their activity organized in this manner, we observed that the majority of entities would agree at least to experiment the system. This is because over 75% of the entities believe that dividing the activity into responsibility centers is useful. Out of the 138 entities that have not implemented the system of responsibility centers, 92 would be ready to do it, which represents a percentage of 69.2% of the valid responses (5 entities have not answered this question).

In case a management accounting system based on responsibility centers is not implemented in your company, would you be willing to implement such a system, even experimentally?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	41	29.7	30.8	30.8
	Yes	92	66.7	69.2	100.0
	Total	133	96.4	100.0	
Missing	System	5	3.6		
Total		138	100.0		

In the circumstances of dividing the activity into responsibility centers, a very important element is represented by the transfer prices that link the centers. These represent the articulations of the system that determine its flexibility and adaptability to the market conditions. As the complete cost is considered by the respondents to be one of the most important indicators, fact that was

emphasized, the majority of respondents, meaning 66.5% of the valid answers, believe that they would use it as a transfer price, while the negotiated price is preferred by 26.3% of the respondents.

If you would organize the activity based on responsibility centers, the transfer prices used to convey products from one center to another would be:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Complete cost	149	65.9	66.5	66.5
	A negotiated price	59	26.1	26.3	92.8
	Another value	16	7.1	7.2	100.0
	Total	224	99.1	100.0	
Missing	System	2	0.9		
Total		226	100.0		

By approaching management accounting as an interface between current strategy and management, we demonstrate its functions regarding the costs and results analysis, the costs level control and the usage of information obtained for elaborating improvement strategies and orientating the management's actions in the decisional process through the information supplied.

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