

LECTURE 2

RESPONSIBILITY CENTERS

Your time is your own

Plan



1. Definition and classification of responsibility centers
2. Requirements for RC
3. Typology of activity centers
4. Projecting of the structure of responsibility centers.
5. The problems of choosing of the basic factors for the determination of the cost of their places of origin
6. Advantages of the management by the centers of responsibility
7. Benefits of controlling technology
8. Characteristic (role) of specialist for controlling in the firm

1. Definition and classification of responsibility centers

Controlling system provides an **accumulation** and analysis of **information** on **the centers of responsibility (RC)**.

Responsibility center - a sphere of activity in which is a personal responsibility of the manager for the performances, which he controls



1. Definition and classification of responsibility centers

There are *four major types* of responsibility centers
(Exhibit 1):

- 1) Cost center.
 - a) Discretionary cost center.
 - b) Engineered cost centers.
- 2) Revenue centre.
- 3) Profit centre.
- 4) Investment centre.

1. Definition and classification of responsibility centers

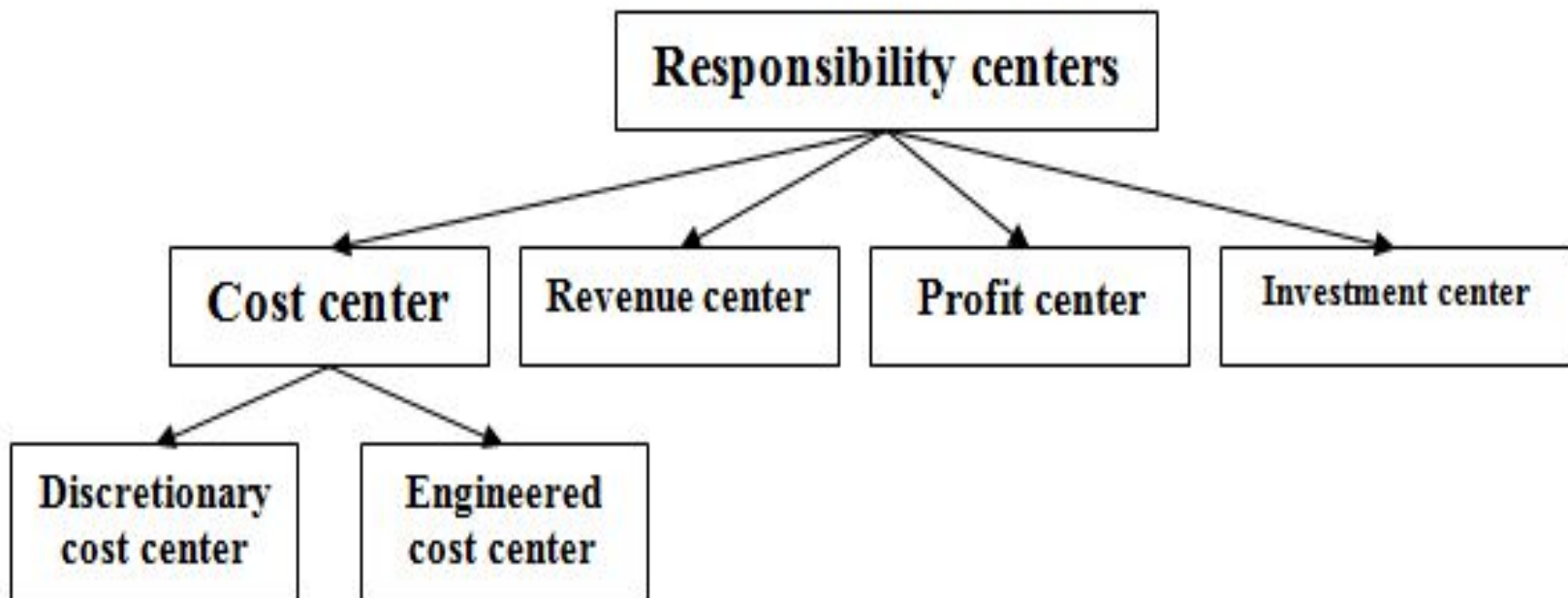


Exhibit 1. Structure of responsibility centers

1. Definition and classification of responsibility centers

Cost Center - a segment of responsibility, in which are **accumulated** and analyzed **costs**. The head of the cost center is responsible for the **quantity and quality** of goods produced or services provided.

Cost centers are divided into:

- ❖ Standard (technological, standardized) costs center.
- ❖ Discretionary (not standardized) costs center.

1. Definition and classification of responsibility centers

Technological costs for the center (Engineered Cost Center) may be an **association between cost and performances**. An example would be the main and auxiliary shops of an enterprise.

For the Center of discretionary expenses is difficult or **impossible to establish** the relationship between cost and performances (functional and staff departments of the enterprise, for example, and chief designer, technologist, service market research and advertising, human resources).

1. Definition and classification of responsibility centers

Revenue center is responsible for the receipt of proceeds from the sales target. Goals in terms of sales often are detailed on goods, distribution channels, geographic areas. The task of the sales manager, "**make the numbers**" in sales.

Profit center - a center of responsibility that is delegated the responsibility for **making a profit** in the departments of the company, product lines or products or geographic region.

1. Definition and classification of responsibility centers

Investment center- a center of responsibility, which head simultaneously controls spending, **income** and **investment** in assets Center.



1. Definition and classification of responsibility centers

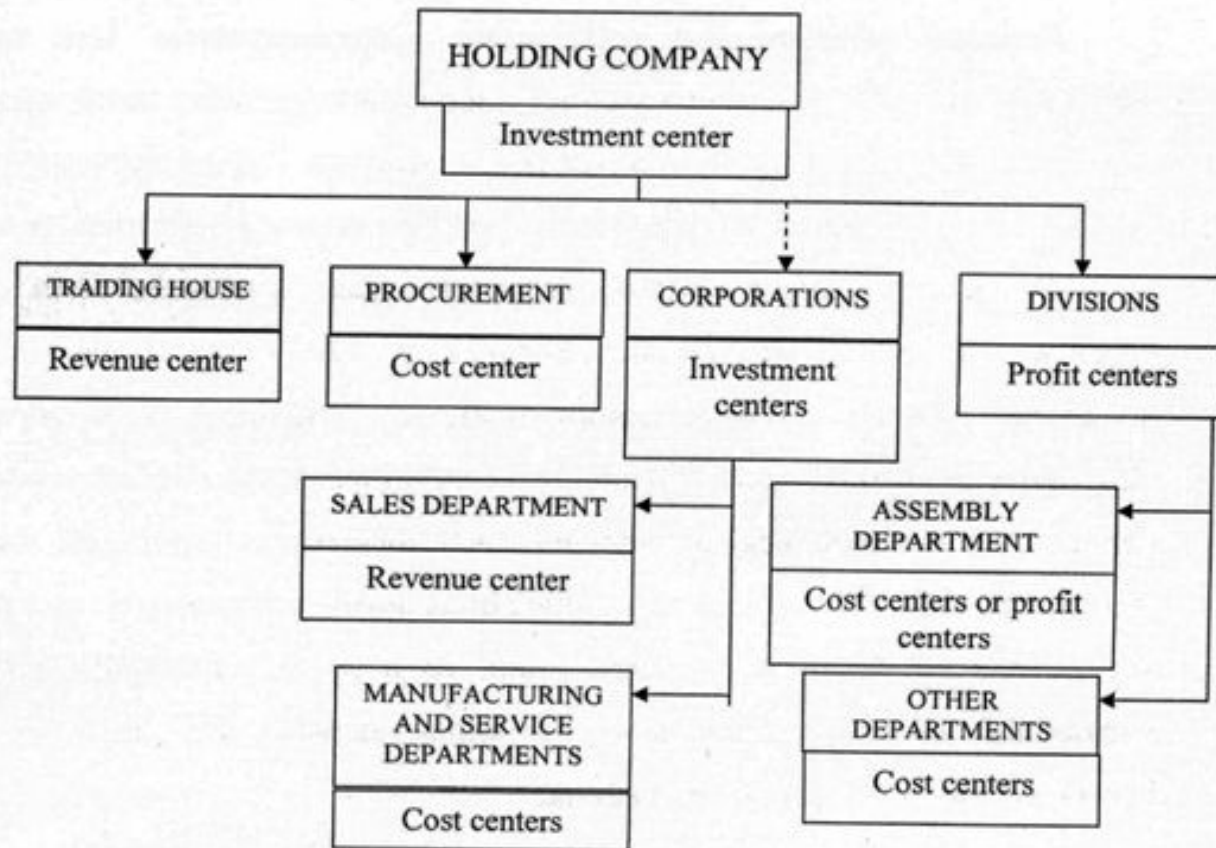
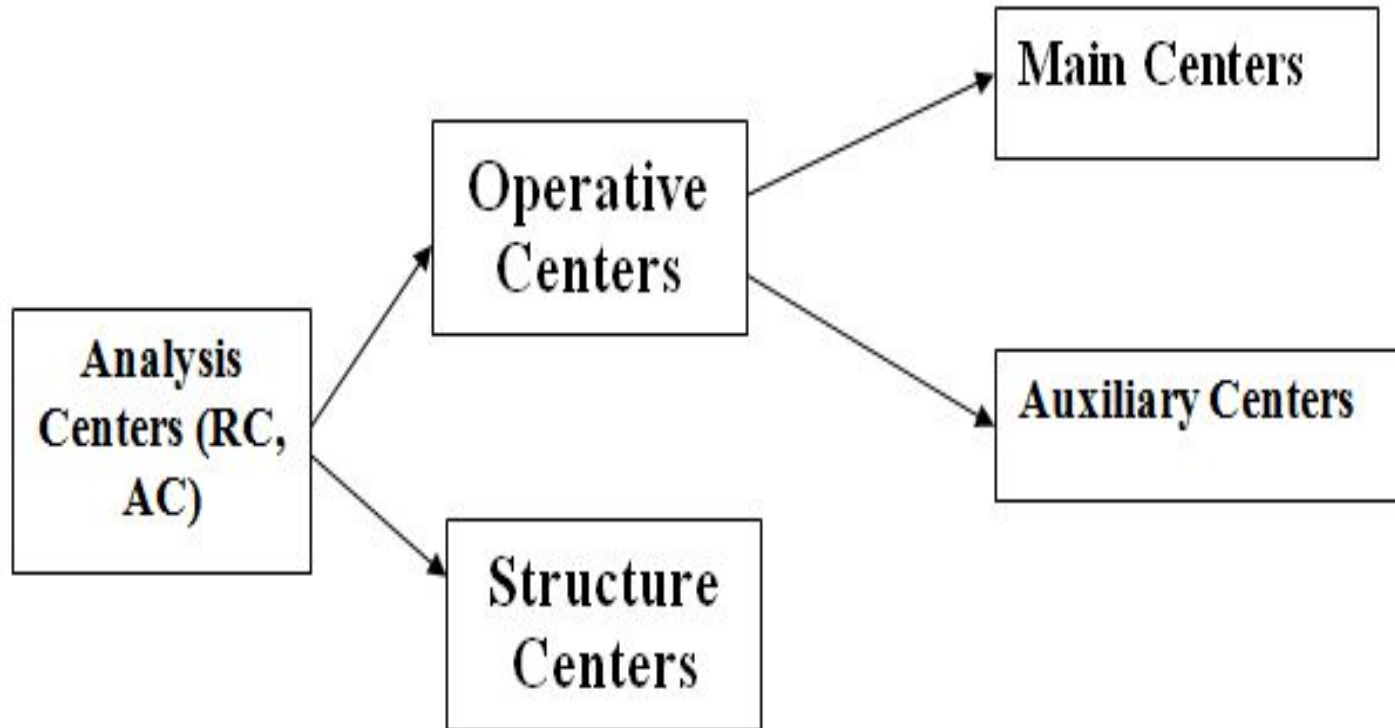


Exhibit 3. –Responsibility centers structure in the holding company

2. Requirements for the responsibility centers

1. The presence of the **responsible** for the activities of the center
2. The presence of **indicator** for the assessment of and basis for allocating costs or results
3. Sufficiently **detailed** accounting analysis
4. Taking into account the **social and psychological factors** in relation to the highly motivated managers of the respective centers
5. It is advisable to refer to the cost centers **only direct costs** are directly related to its work, and the distribution of economic costs are not taken into account.
6. It is advisable to have any kind of **enterprise costs** have such a center for which these costs are direct.

3. Typology of Analysis centers



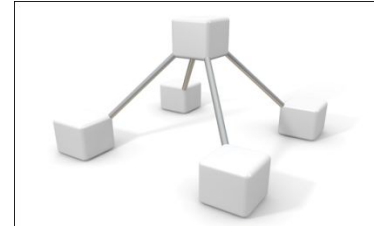
4. Designing the structure of the RC

Stages of **the design structure** of the RC:

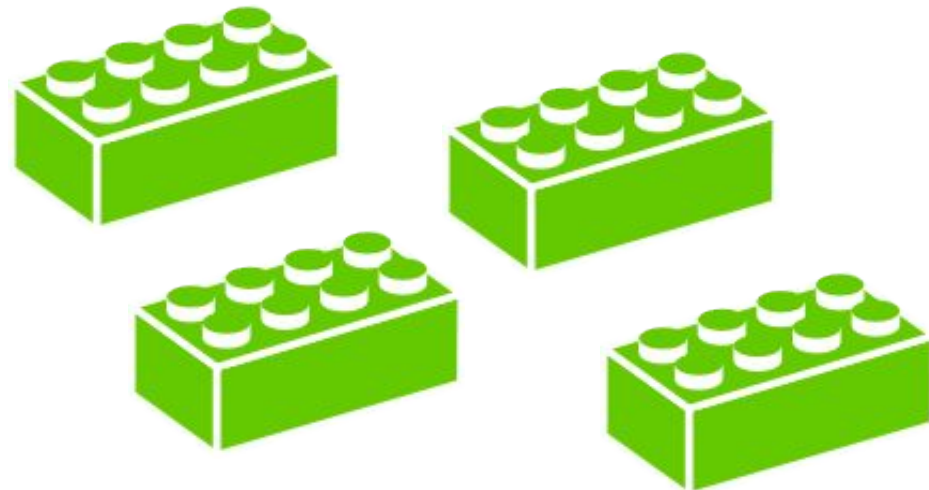
1. Formation of the **list of business units**, the types of business activities and the traded goods, works and services:
 - ❖ Analysis of the **legal status** of the structural units (subsidiaries of the holding company, subsidiaries without legal personality, workshops primary or secondary production, etc.);
 - ❖ Checking **nature** of technology, production, sales, regional or other **relationships**.

4. Designing the structure of the RC

2. Determining the **type of organizational structure** (divisional, linear-functional structure or any other).



3. **Distribution** of businesses **by business units**, specific departments with their own sources of incomes.



4. Designing the structure of the RC

4. **Delineation** of **zones of competence** and responsibility, the definition of **controlled** and uncontrolled **parameters**.

Pay attention! The main purpose of monitoring the centers of responsibility to identify and resolve problems in a timely manner, not to find and punish the guilty.



5. Problems of choosing of the basic factors for the determination of the cost of their places of origin

An important principle in the structuring of RC - the desire to provide a quantitative relationship between the level of costs and performances.

For its role in the production process arc isolated:

- 1) **The main cost centers** – represent the basic structural units of production.

5. Problems of choosing of the basic factors for the determination of the cost of their places of origin

2) **Service cost centers** - the relevant units of auxiliary production (for example, mechanical repair, transport department). They produce a product (service) for the main and **general cost center**. Costs of **service cost centers** are transferred to cost centers - the recipients of their products (services) using the method of apportionment of indirect costs.



5. Problems of choosing of the basic factors for the determination of the cost of their places of origin

3) **General factory cost centers** within the scope of enterprise management (planning, financial, economic departments, accounting, etc.). Their costs are allocated to the **main and auxiliary** cost centers.

5. Problems of choosing of the basic factors for the determination of the cost of their places of origin

Complex is the choice of the basic factors for the **general cost centers**. The possible basic factors for them are given in example:

<u>Cost centers</u>	<u>Base factor</u>
Sales, purchasing	Number of processed orders
Department calculations	Number of calculations
Electronic data processing department	Number of files.

5. Problems of choosing of the basic factors for the determination of the cost of their places of origin

For distribution of costs of **general cost centers** on the main cost centers are used:

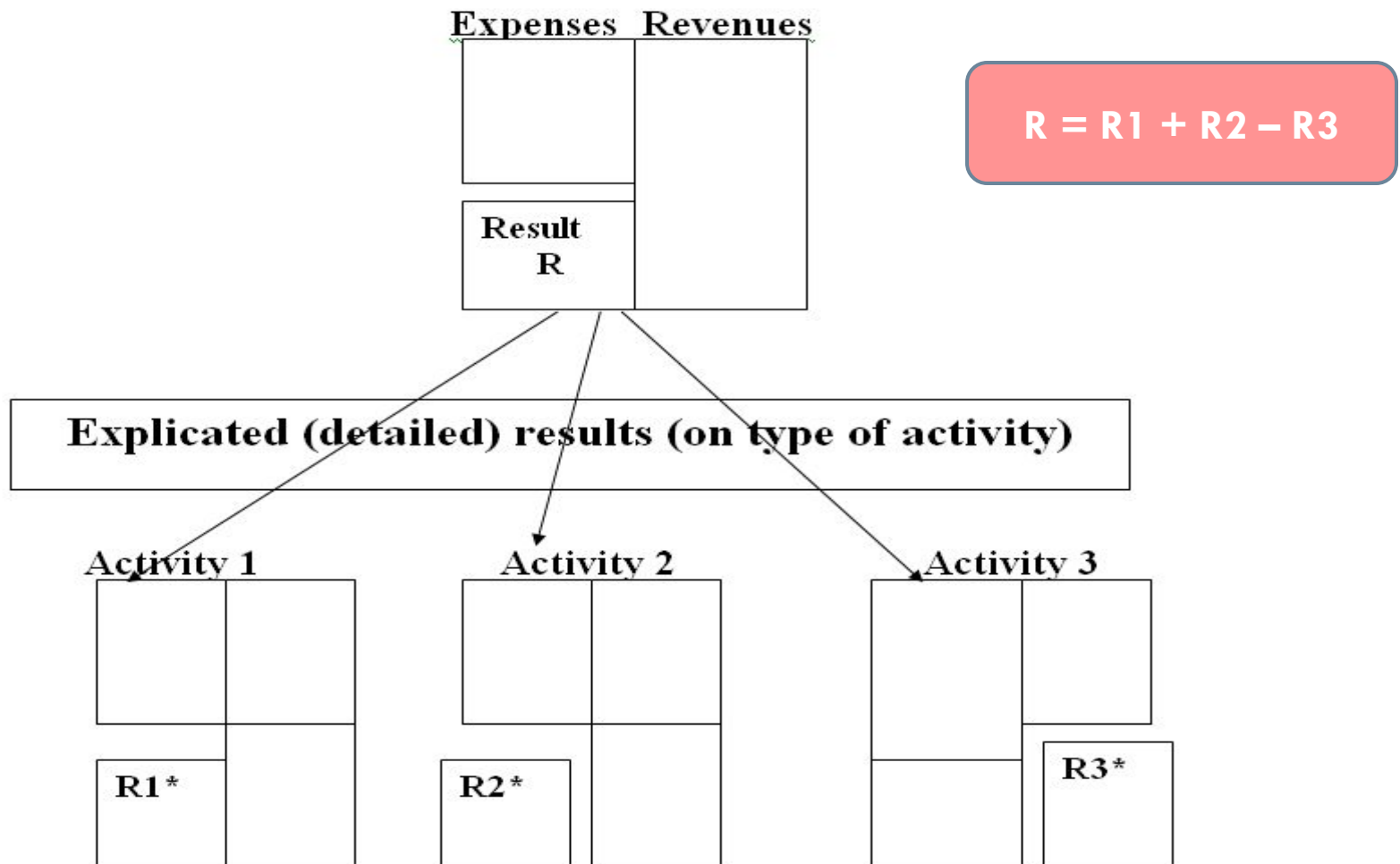
- ❖ direct material costs;
- ❖ direct labor costs;
- ❖ total direct costs;
- ❖ machine time;
- ❖ full manufacturing costs (direct material costs, direct labor costs, indirect material costs, indirect labor costs).

6. Advantages of the management by the centers of responsibility

Controlling system provides an **accumulation** and analysis of **information** on the **centers of responsibility**.

6. Advantages of the management by the centers of responsibility

COUNT OF GENERAL RESULT



6. Advantages of the management by the centers of responsibility

Advantages:

- ❖ Provides a process for effective **delegation** of decision-making;
- ❖ Supports the concept of management by objectives and **encourages** managers to achieve the objectives of the firm;
- ❖ Can effectively apply the **concept** of management **by exception**.

7.Purposes of controlling technology.

Controlling technology allows:



- to link business strategy with operational management: to **formulate quantitative targets** for structural business units and **monitor** their realization;
- to **coordinate** the work of **all departments** together;
- Play different situations of business functioning on a "**what**..... **if**.....?" and assess the impact of changes to business processes and business environment on **state of affairs** in firm;
- to **reduce** the budget cycle;

7.Purposes of controlling technology.

- to **increase** the accuracy of data (information);
- to identify the **causes of deviations**, to predict their consequences and quickly make the **regulatory actions** (events);
- to increase the **efficiency of management** by providing leadership to respond to environmental changes more frequently up to a daily assessment and operational forecasts realisation of plans;
- to ensure the optimization of financial flows, to manage the **formation of the cost of production in the current time.**

8. Characteristic (role) of specialist for controlling in the firm

Controlling **integrates knowledge** from **all disciplines** of the business activities of the organization. With this in mind, the controller in the enterprise is:

- an **analyst**, a man of numbers, manager a **wide profile**, **able to assess** the consequences of different types of the activity of the company on its financial performances, balance sheet and income statement;

8. Role of specialist for controlling in the firm

- an **organizer**, able to coordinate a diverse activities to achieve the desired result;
- a **strategy**, that has methods of situation analysis and development of predictions for the various **alternatives** for the development of the enterprise;
- a **diplomat**, who **formulates** ideas and recommendations, and **"sells"** them to top management for the **realization and motivation**.

THANK YOU
FOR YOUR ATTENTION