What is Responsibility Accounting?

Worksheet

Responsibility accounting tracks costs, revenues, profits and investments by the manager accountable for them, using four center types: cost, revenue, profit and investment centers.

Questions

1. Which responsibility center holds a manager accountable for both profit and invested capital?
A) Cost center
B) Revenue center
C) Profit center
D) Investment center

2. A factory maintenance department that only controls costs is best classified as a…
A) Revenue center
B) Cost center
C) Profit center
D) Investment center

3. What metric is commonly used to evaluate an investment center?
A) Sales variance
B) Cost variance
C) Return on Investment (ROI)
D) Gross margin only

4. The main purpose of responsibility accounting is to…
A) Reduce total company costs automatically
B) Assign financial results to the accountable manager
C) Replace budgeting
D) Calculate taxes

5. A factory maintenance dept (cost center) had a budgeted cost of 80,000 and actual cost of86,000. Find the variance.

6. A regional sales office (revenue center) budgeted 500,000 in sales and achieved540,000. Find the variance.

7. A subsidiary (investment center) earned net income of 200,000 on invested capital of1,000,000. Find ROI.

8. Define: What is a cost center?

9. Define: What is a profit center?

10. Define: What distinguishes an investment center from a profit center?

Answer Key

1. D) Investment center — Investment centers add capital efficiency (ROI) to the profit responsibility.

2. B) Cost center — It has no control over revenue or investment decisions, only costs.

3. C) Return on Investment (ROI) — ROI relates profit to the capital invested, matching the investment center's accountability.

4. B) Assign financial results to the accountable manager — It's a performance-evaluation and accountability tool, not an automatic cost-cutter.

5. Variance = Actual − Budget = 86,000 −80,000 = $6,000 unfavorable (cost center overspent)

6. Variance = Actual − Budget = 540,000 −500,000 = $40,000 favorable

7. ROI = Net Income / Invested Capital × 100 = 200,000 / 1,000,000 × 100 = 20%

8. A responsibility center whose manager is evaluated only on costs controlled, not revenue (e.g., an HR department).

9. A responsibility center whose manager controls both revenues and costs and is evaluated on profit.

10. An investment center manager is also accountable for the capital invested, evaluated via ROI or residual income.