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Applying responsibility accounting in Vietnamese firms

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***Abstract*---**Responsibility accounting is a tool to control operations and costs of an organization. Responsibility Accounting is the development of an accounting system designed to control directly related costs incurred by individuals in an organization who are in charge of control. Responsibility Accounting increasingly plays an important role and position in economic management in enterprises in countries around the world, especially in developed economies. In Vietnam, the application of the contents of management accounting in general and Responsibility Accounting in particular is still a very new issue and has not attracted much attention from businesses.

***Keywords*---**management accounting, financial tools, corporate governance, responsibility accounting.

Introduction

Responsibility Accounting is one of the basic contents in corporate governance accounting, is one of the important and effective economic - financial management tools in economic organizations, both in the public and private sector. Paying attention to the implementation of Responsibility Accounting content will help businesses maximize their existing resources and develop sustainably. As one of the useful financial tools for controlling and operating the

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business performance, through Responsibility Accounting, managers can assess the quality, measure the performance of each department and motivate managers to operate the division appropriately according to the set goals. Therefore, researching and organizing Responsibility Accounting is an urgent requirement for Vietnamese businesses today.

Overview of responsibility accounting

According to Institute of Cost and Works Accountants of India, Responsibility accounting is "a system of management accounting under which accountability is established according to the responsibility delegated to various levels of management and a management information and reporting system instituted to give adequate feedback in terms of the delegated responsibility. Under this system divisions or units of an organization under a specified authority in a person are developed as responsibility centers and evaluated individually for their performance."

Responsibility accounting is a fundamental element of management accounting and is a process of gathering and reporting controllable information, used to examine operational processes and evaluate performance of duties in each part of an organization. The Responsibility Accounting is an information system that uses financial and non-financial information in the management system of an organization. Responsibility accounting can only be performed in an organization with a managerial structure that must have a clear decentralization. Responsibility accounting is seen as a system for collecting, processing and communicating financial and non-financial information that can be controlled based on the scope of responsibility of each manager to achieve the general goals of the organization.

Table 1: Advantages of Responsibility Accounting

No.	**Advantages**
1	It urges the management to acknowledge the company structure and checks who is accountable for what and fix the problems
2	It enhances attention and awareness of the managers as they have to explain the variations for which they are responsible
3	It helps to compare the achievements between the pre-planned goals and actual results
4	It creates a sense of efficiency within individual employees as their work and achievements will be reviewed
5	It guides the management to plan and structure the future expenditure and revenue of a company
6	Being a cost control tool, it creates 'cost consciousness' among workers
7	Individual and company goals are established and communicated in the best way
8	It improves and controls the company's operating activities for an effective and efficient outcome
9	Simplifies the report structure and guides to prompt reporting

Source: byjus.com

Responsibility Accounting is one of the basic contents of corporate governance accounting and is one of the economic and financial management tools that play an important role in operating, controlling and evaluating efficiency of production and business activities of the firms. Responsibility accounting is a tool to control operations and costs of an organization. Responsibility Accounting is the development of an accounting system designed to control directly related costs incurred by individuals in an organization who are in charge of control. This control system is designed for all management levels in the organization.

The nature of Responsibility Accounting is that each unit in the management apparatus has the right to control, direct and take responsibility for separate operations under its management decentralization. Responsibility Accounting is only done in enterprises with clearly decentralizedly organizational structure and management apparatus. Depending on the characteristics of the organizational structure, the level of management decentralization and the goals of the enterprise administrator, it is divided into respective centers of responsibility. Each responsibility center in an organization in general and in a business in particular has complete control over its operations, such as management of costs, revenue and investments. Responsibility centers create linkages in the management system.

According to Hoang Thi Huong (2016), there are normally 4 responsibility centers, including: cost center, revenue center, profit center, and investment center. These centers are formed on the characteristics of the managerial structure and the goals of the managers. In fact, choosing the right center for a part of the organization is not easy. The basis for determining what a department in an organization is a center must be based on the resources, responsibilities and powers assigned by that manager. Therefore, the clear differentiation of centers of responsibility within an organization is only relative and depends on the top management's viewpoint.

- Cost center: This is the responsible center for the input costs of businesses. The goal of a cost responsibility center is to minimize costs. The center's inputs are indicators that reflect production factors such as raw materials, wages, the use of machinery and equipment... and can be measured in many different ways. The output determination of the cost center will be based on the indicators reflecting the results of production and business, but the quantity, product quality, production cost and product price...

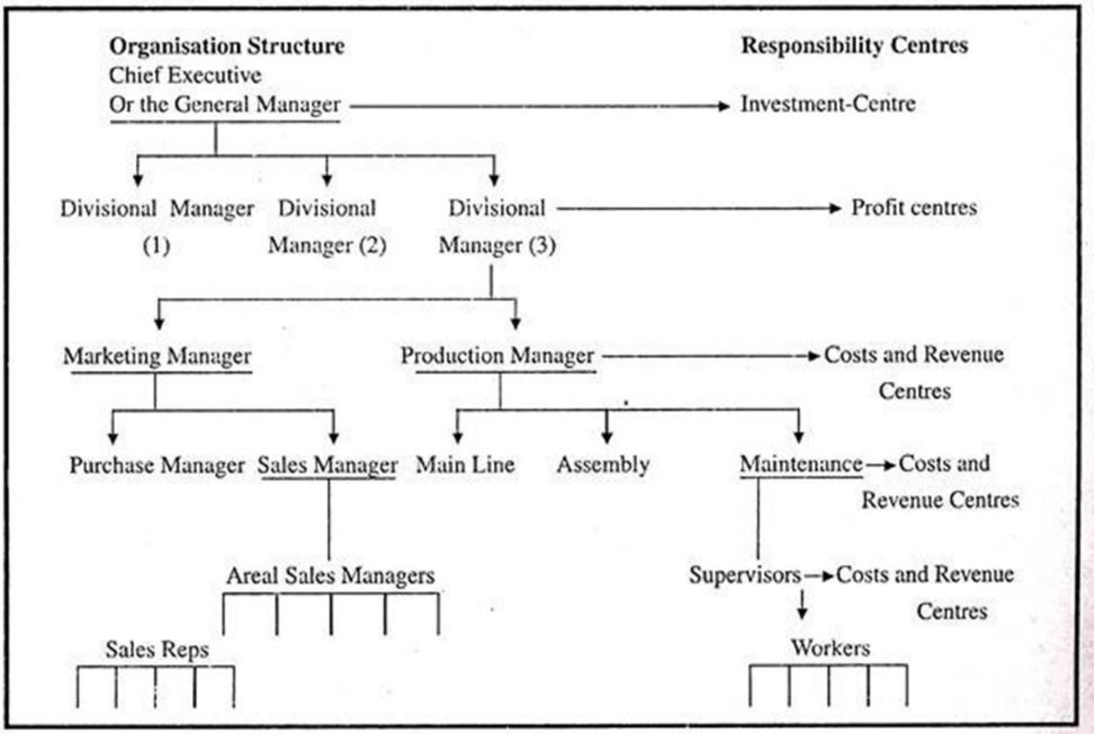

Chart 1: The relationship between organization structure and responsibility centers
Source: yourarticlelibrary.com

- Revenue center: This center usually appears in the units that generate revenue for businesses such as shops, supermarkets, sales offices... In fact, very few center for pure revenue exist. Management levels often have to plan and control some of the actual costs that arise in the revenue center.
- Profit Center: A responsibility center in which the manager of this center will be responsible for both costs and revenue as well as the difference between input and output is profit. Usually, the responsibility center is usually associated with an intermediate level of management, but this center administrator can decide on all issues from business strategy to operational practice of enterprises. The goal of this center is to maximize profits. Therefore, the profit center is not only responsible for the revenue but also for the costs.
- Investment center: A center where managers are responsible for revenue, cost and the determination of working capital as well as investment decisions. Investment center often represents the highest level of management. The leader of the investment center is responsible for planning, organizing and controlling all activities of production and business, including investment in enterprises.

Global studies on Responsibility Accounting

There are many studies on Responsibility Accounting and its application in different areas of activity such as schools, non-business units and the banking sector. According to Atkinson et al. (2001), Responsibility Accounting is an accounting system that collects, synthesizes and reports accounting information related to the responsibilities of each individual manager in an organization through cost and revenue reports by each unit of the responsibility center or of the organization. Hermanson (1987) also argued that that Responsibility Accounting is an accounting system that collects, synthesizes and reports accounting according to the individual responsibility of managers.

Lin and Yu (2002) analysed that Responsibility Accounting plays an active role in improving business management activities as well as the profitability of companies. Casey et al. (2008) presented research results on the impact of changing organizational processes on Responsibility Accounting and the level of information confidentiality of managers.

By analyzing the factors affecting the Responsibility Accounting system, this research found that the most effective factor is the responsibility center, followed by the performance measurement technique, the reward system, performance measurement standards and responsibility assignment. Higgins (1952) said that Responsibility accounting is an accounting system organized in enterprises to gather and report costs at all levels of responsibility in enterprises. The idea for Responsibility accounting is the performance of each manager, which should be judged by how well or badly they manage the assigned tasks under their influence (Demski and Sappington, 1989).

The research of Lapsley (1994) showed that Responsibility Accounting is a shield for activities related to external control environment such as government regulations and laws. Managers have the power to make decisions and plan activities in each unit, but professional knowledge and capacity of each individual has its limits compared to the endless and increasing knowledge (Zimmerman, 2010). Responsibility Accounting can not only provide information on performance in each management level but also emphasize the influence of human factors in performance assessment (Pajrok, 2014).

The application of Responsibility Accounting in practice depends on the expertise, thinking and judgment of managers and employees. Therefore, the level of awareness of management accounting and Responsibility Accounting is a component of the Responsibility accounting system (Belkaoui, 1981). According to Lin and Yu (2002), Responsibility Accounting has an impact on cost saving and using it properly. Operational efficiency is considered a measure of success of applying Responsibility Accounting in practice. The reward regime is built for each different responsibility center with associated responsibility objectives that is the driving force to maximize the utilization of human resources in the unit (Lin and Yu, 2002). According to Simons (1987), responsibility accounting focuses on allocation cost and income, the effect of expenditure or even asset use efficiency on revenue and profitability. Responsibility accounting also emphasizes the allocation of areas of personal responsibility to assess the performance of delegated managers. According to Ghala (2005), enterprises are divided into four main categories: revenue center, cost center, profit center and investment center. No close linkage between the centers will limit the application of Responsibility Accounting.

However, according to Zimmerman (2010), when dividing the organizational structure into the center of responsibility, administrators will face problems with ownership and agency. Specifically, it is difficult for senior managers to control subordinate managers because subordinates tend to maximize their own benefits more than the business interests.

In Vietnam, the research of Nguyen Huu Phu (2014) argued that responsibility accounting is an information system that classifies data based on the responsibility units and reports their performance in terms of revenue, expenditure and financial, non-financial resources all those managers of each unit can control. Responsibility accounting considers decentralization of management such as specializing financial policies to increase autonomy and self-responsibility of each level of management (Nguyen Ngoc Quang, 2012). Among the factors affecting the applicability of responsibility accounting, the qualifications of staffs in accounting work are also relatively important (Ho My Hanh, 2014). They are responsible for achieving goals and will be rewarded. Businesses use the way of salary increase, bonus, promotion, and profit sharing to encourage employees to work better. In summary, the human factor has a great influence on the responsibility accounting system (Nguyen Thi Minh Tam, 2010). Decentralizing management based on responsibility centers will help create ideas for company leaders to set the best model, divide management responsibilities, plan, analyze, report, and separate by group of activities to promote resources and facilitate management according to the responsibility center model (Dam Phuong Lan, 2014).

Solutions for promoting responsibility accounting in Vietnam

Responsibility Accounting is one of the effective management tools in supporting the process of controlling and evaluating the effectiveness of each unit and the whole enterprise. If successfully built, the Responsibility Accounting system will bring many great benefits to businesses. It not only helps managers to control the operations of units, but also provides information useful for them in planning business strategies of the business. Therefore, Responsibility Accounting is increasingly showing an important role and position in economic management activities of enterprises around the world, especially for countries with developed economies. In Vietnam, the application of Responsibility Accounting is still a relatively new issue and is increasingly attracting the attention of businesses, especially large-scale enterprises. In the context of international economic integration and increasingly fierce competition, enterprises need to build management methods to improve operational efficiency, contributing to sustainable growth.

For the State agencies

- Continuing to improve the legal framework on accounting, including the introduction of basic regulations on Responsibility Accounting. In fact, some experts warned that enterprises can take advantage of responsibility accounting to carry out price transfer activities in the business, causing budget revenue loss.
- Annually updating knowledge of responsibility accounting for accountants and widely propagating to managers about the position and role of Responsibility Accounting. Usually organizing many seminars, training courses, exchanging practical experiences of organizing the Responsibility Accounting system at home and abroad.

For the enterprises

- Actively building a Responsibility Accounting model that is consistent with the characteristics of each business. The building of the responsibility accounting system in each enterprise is different, depending on the size, management requirements and management capacity of the leaders. The Responsibility Accounting management model is usually only suitable for companies, corporations with large scale, fast growth. Business leaders believe in decentralization to subordinate leaders, control systems and efficient operation management that ensures the performance of the whole enterprise professionally. In other words, a useful responsibility accounting system must satisfy the theory of conformity. It means that there is an best-organized structure for the operating environment, with the organization's overall strategy as well as values and encouragement of top management.
- Restructuring production and management, strengthening decentralization to improve responsibility and management powers. Enterprises need to build a system of clear division of duties. Building a system of specific reports, tables and evaluation indicators... to each unit and team. Delegation of responsibility must be specific and clear for all units. Building useful report system for departments.
- Enterprises determines by themselves the center of cost responsibility, revenue responsibility, profit responsibility and investment responsibility that are suitable for them. The nature of Responsibility Accounting is that each unit in the management apparatus has the right to control, direct and take responsibility for separate activities under its management decentralization. Responsibility centers create linkages in the management system. Therefore, Responsibility Accounting is only performed in enterprises with clearly decentralized organizational structure and management apparatus.
- Building a set of assessment criteria for the responsibility centers. Corresponding to the responsibility centers, senior managers evaluate the performance of the responsibility centers based on the criteria of costs, revenue, profit or the norms and estimates. In order to ensure the correct, reasonable and accurate assessment, enterprises should have a system of standard internal criteria on costs, revenue and profit suitable for each responsibility center. Indicators are often compared between reality with plan (estimate). The comparison method is often used in evaluating the

effectiveness of the responsibility centers to study the level of volatility and completion of the criteria on costs, revenue, profit.

- Setting up the system of accounting reports in enterprises. Through this system, managers have useful and appropriate information in evaluating the effectiveness and responsibility of each center. Depending on the information needs of the managers as well as the functions and duties of each responsibility center, the system of Responsibility Accounting reports is appropriately designed to ensure that information can be timely, flexibly provided for managers. The cost center, for example, is responsible for controlling costs versus estimation and making reports on production costs, product prices based on requirements of managers. Meanwhile, the revenue center is responsible for making a report on sales and analyzing revenue and sales results of each item, each place, each market...
- Focusing on training accountants, especially in the application of responsibility accounting in firms.

For the training institutions

- Bringing the content of management accounting in general and responsibility accounting in particular into compulsory training programs for students in accounting and economic majors.
- Training teams of lecturers who have experiences and are professional in theory and reality in management accounting. Inviting excellent experts from enterprises to exchange and share experiences for students.
- Regularly updating contents of the responsibility accounting system in the direction of approaching international practices and standards.

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