

## ON A MODEL OF RESPONSIBILITY ACCOUNTING FOR VIETNAMESE COMPANIES

by MEcon. TRẦN VĂN TÙNG

**A**fter many stages of development, corporate accounting system, especially the management accounting, has succeeded in supplying information needed for financial management. For both external and internal reasons, the management accounting is still new to Vietnam and not widely applied by local companies. With much keener competition between companies today, all companies have to consider how to manage their business better and cut their costs more effectively. This situation reaffirms the role of the management accounting in companies.

In this article, the management control system will be outlined along with the role and the need to organize the accounting system in order to control the management and evaluate management responsibility in companies – known as the responsibility accounting system. Some measures to build the responsibility accounting model for local companies are also introduced.

### 1. Management control system

A management control system is a logical combination of methods of gathering and using information with a view to making decisions on planning and management, influencing behavior of employees and evaluating their performance.

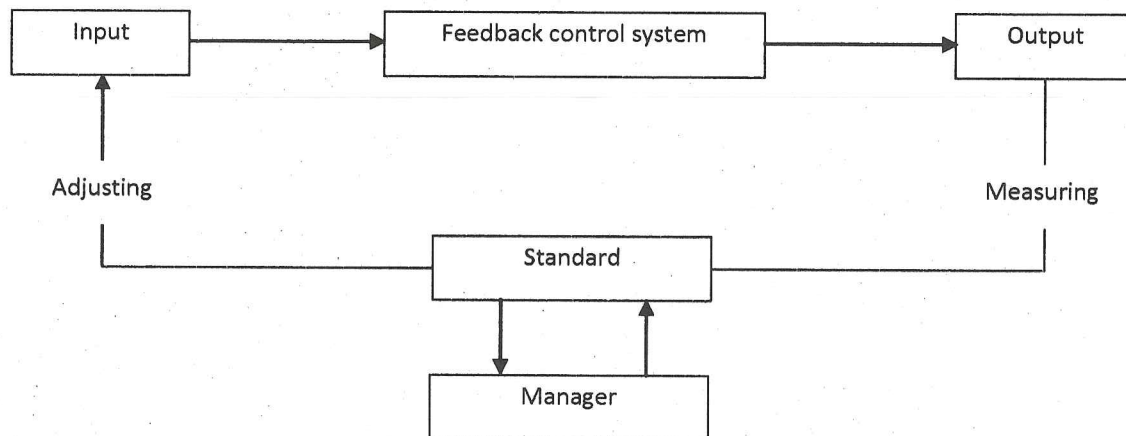
Goals of the management control system are as follows:

- Communicating clearly organizational goals.
- Making sure that all managers and employees know specific actions they should fulfill to achieve the goals.
- Reporting result of actions to all corporate departments, and
- Making sure that the management control system adjusts quickly to changes in the business environment.

One of the effective management control system is the feedback control system. It is designed to supply feedback in order to help the organizations achieve their goals. The feedback usually follows events because this system is based on errors. This means that discovery of differences between actual results and planned goals leads to adjusting actions and measures.

Common control systems in companies are usually based on the feedback control system, such as inventory control and budgetary control, because the feedback arises from internal divisions of the management and is used for helping managers and employees make necessary decisions.

Figure 1: Feedback control system



In the model of this system, output information will be sent to managers who are responsible for comparing these results with existing budgets and standards to help them work out necessary adjustments.

To build a management control system with a view to achieving organizational goals, designers should realize shortcomings, identify responsibility centers, weigh up costs and benefits, and offer dynamics to achieve goals and managerial efforts. According to Carter McNamara, to achieve the organizational goals, the management control system must be appropriate to the organizational structure. Organization of some companies is based on functions, such as production, sale or service. Others are based on sections responsible for generating profits from each product or area. The responsibility accounting can help managers identify responsibility and evaluate achievements of individual divisions and employees.

Thus what is the responsibility accounting?

The responsibility is part of the management accounting. It supplies information relating to managerial functions. Its specific roles are as follows:

(1) The responsibility accounting provides information needed for implementation of organizational and managerial functions of the company. The responsibility accounting identifies responsibility centers, thereby allowing managers to systemize tasks of each center and establish criterion for evaluation. The responsibility accounting helps managers evaluate and adjust segments to their

tasks.

(2) The responsibility accounting provides information needed for implementation of financial control and management control functions. Through the responsibility accounting, the manager can analyze and evaluate spent expenses, and sales and profit realized by segments. Feedback responsibility reports allows managers to grasp implementation of the plan by segments, and identify shortcomings, thereby making necessary adjustments to target strategies with a view to optimizing the business performance. This could be seen as an important source of information that helps the manager improve efficiency of use of capital, increase the sales and cut the cost reasonably, and finally maximize the profit.

(3) The responsibility accounting encourages the manager to strive for organizational goals. Strategic goals of the company are linked with responsibility centers. By controlling the financial and managerial aspects, the responsibility accounting can orient all activities towards common goals of the company. At the same time, directors of responsibility centers are encouraged to fulfill their tasks in a manner that aims at basic goals of the whole company.

To the responsibility accounting, responsibility centers are mainly divided according to their financial functions. There are cost center, revenue center, profit center and investment center. When authority is delegated to lower levels, the accounting determines what responsibility center a level belongs and sends reports to. Each level may be



part of the whole cost center, revenue center, profit center or investment center.

- Cost center: It is the responsibility center where the manager only have control over and get responsible for costs arising from the center. This is usually the center that produces goods and services directly or supports corporate activities indirectly. This center has no right to incomes, profits and investment. It can be divided into standard cost centers and discretionary expense centers based on nature of costs and output.

- Revenue center: In this responsibility center, the manager is only responsible for revenues to be generated, and not for costs, profits and investments. The revenue center has a right to make decisions on sale of goods in a preset frame of prices to ensure the sales target.

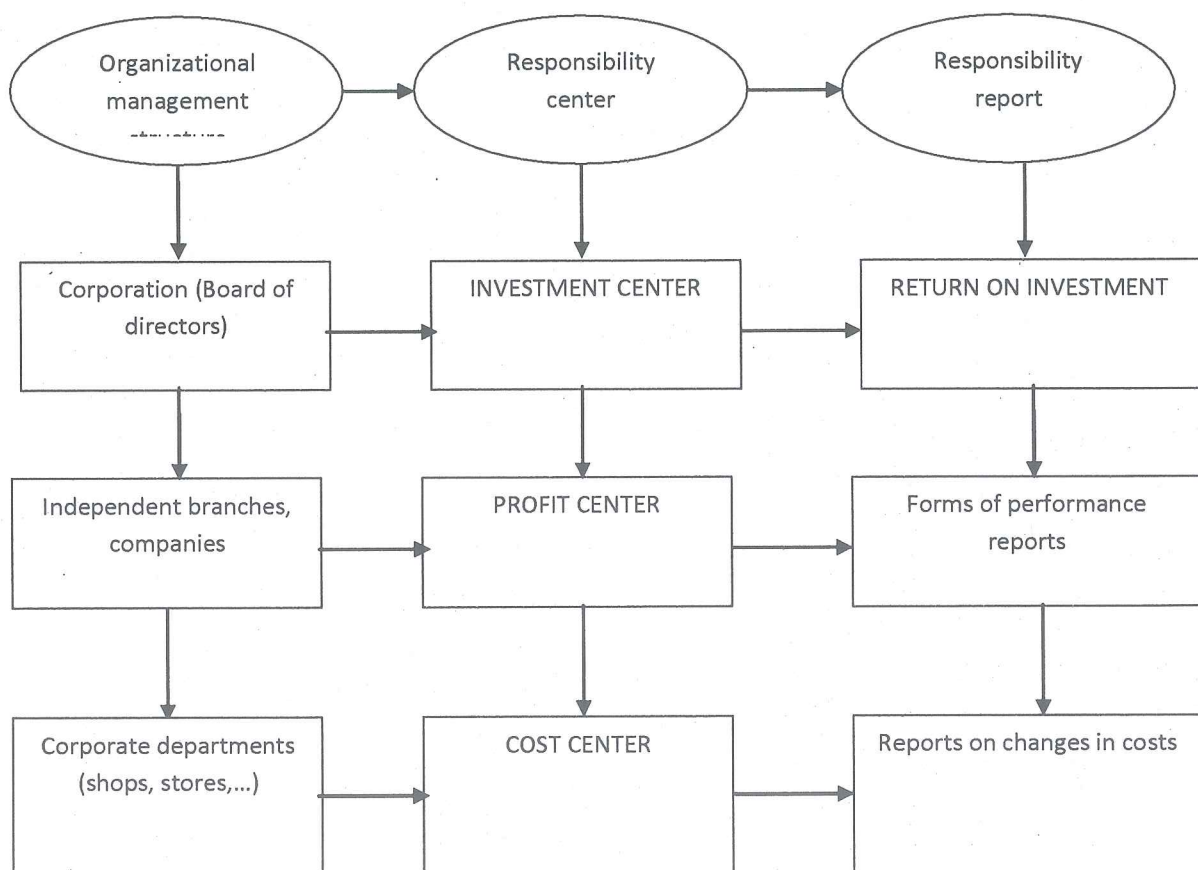
- Profit center: Director of the profit center is responsible for its performance and has nothing

to do with investments. This means that the profit center can offer decisions on costs and revenue, such as goods to be made, way to make such goods, their prices, and distribution channels. Organizational structure may allow it to exist as an independent body or control cost and revenues centers.

- Investment center: This center holds the highest authority. Its rights and responsibility covers not only profit, revenue and cost centers, but also working capital and assets used for corporate activities. The investment center is the highest level of management and is usually controlled by owners or representatives of investors in the company.

The investment center is a segment of the organisation where an individual manager is held responsible for the segment's performance. Relation between the responsibility accounting system and the organizational control structure are described in the following figure.

**Figure 2: Relation between the responsibility accounting system and the organizational control structure**



In Vietnam, concept of management control has been introduced to a number of companies but it is not applied fully and systematically. No responsibility centers exists and most divisions or departments in companies operate without scientific and systematical principles. In addition, the control and measurement of performance are mostly based on accounting and financial regulations. Reports on past developments and business performance mainly are for external users while information needed for decisions on management, rewards for well-performed tasks, and punishment for poorly performing employees are not well prepared and exact.

## 2. Some measures to develop the responsibility accounting in Vietnam

Both theory and practice show that the responsibility accounting system in local companies is a real need of managers. To make it a real instrument for management control needed for improvements in corporate management, in my opinion, design and development of the responsibility accounting system must follow the following stages.

*a. Conditions for development of the responsibility accounting system must be ensured. These conditions are:*

- Legal infrastructure: A legal framework, or at least a guideline on the responsibility accounting, must be in place, especially in state-owned companies.

The reform in the public sector has been carried out in which many strong measures have been taken to deal with prolonged losses, such as dissolving the company or dismissing its directors after three successive years of loss. However, nobody could determine who were responsible for unsolved consequences with the result that the burden on the national budget got heavier. To identify exactly responsibility for losses and reform corporate organization and operating mechanism, it's necessary to develop a strict and transparent responsibility accounting with a view to determining responsibility, goals and actions of each individual and the whole company.

- Right management model: The management model of an organization may affect its use of information. Organizations and managers may adopt different models but in general they could

be divided into two common models:

- + Delegation model: Managers are divided into high, middle and low levels along with suitable rights and duties.

- + Democratic model: At the top layer, managers enjoy equal rights.

Both models have their own problems with supply of information. In the delegation model, the question is how to avoid personal prejudices and deliberate waste of time. In the democratic model, problems are quantity of information and personal implications in the information supplied. This means that it's necessary to determine what information must be stored to ensure the democracy and whether information is hidden for personal interests and stability of personal positions.

- Better awareness of importance of the responsibility accounting: The responsibility accounting is part of the management accounting, therefore its is affected by managers' viewpoints on this system and way of applying this system to the company. That is why expertise and philosophy of the managers have decisive roles in initiating and applying this system to segments under their control.

The responsibility accounting system also requires certain knowledge from employees, especially accountants, because they can make flows of information smooth, timely and exact by their daily information gathering and handling processes.

- Computerizing the responsibility accounting: Information supplied by the management accounting system, and responsibility accounting one in particular, could be compared with financial – accounting numerical data. The two systems can exist side by side and support each other. To organize well the responsibility accounting system, the company should computerize the accounting department and equip it with modern software in order to handle quickly information supplied by the accounting system and compared it easily with financial data.

*b. Organizational measures to build the responsibility accounting system:*

- Identifying the appropriate model of responsibility accounting:

Based on features of the organizational structure, the company select an appropriate model of



responsibility accounting. In my opinion, because Vietnam is new to the responsibility accounting, the company should adopt the model based on organizational functions, the easiest one, and then move to activity-based model and finally, the strategy-based model.

After selecting the appropriate model of responsibility accounting, the company applies contents of the traditional responsibility accounting in order to control and evaluate managers' responsibility in terms of both financial and non-financial criteria, and estimate responsibility of managerial levels to related interest groups and society.

- Appropriate delegation of authority:

To put the responsibility accounting system into operation and help corporate departments operate smoothly in a concerted effort to achieve corporate goals, the company should delegate responsibility and rights actively. The delegation must aim at linking interests with responsibility of managers. In addition, when implementing decisions at any levels, accountants must supply information to managers to help them check and evaluate performance of their segments or divisions. The common model of delegation of managerial responsibility usually comprises:

- + Board of directors (senior managers)
- + Director (senior manager)
- + Vice director (middle manager)
- + Head of departments (divisional managers)

- Identifying responsibility centers and their reports according to managerial delegation:

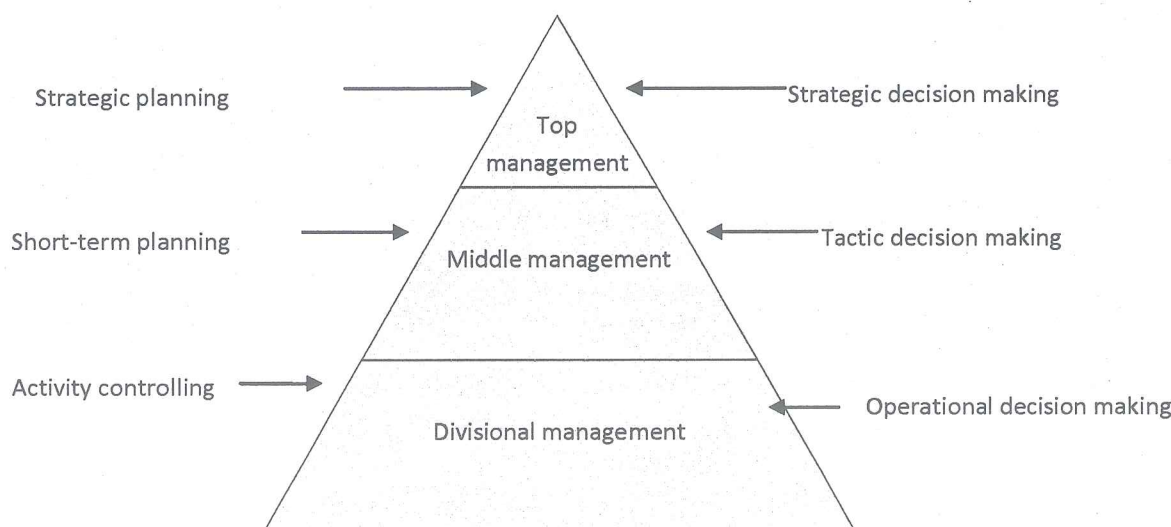
Based on organization of functional departments and delegation of authority, the company can establish responsibility centers linked with departments as shown in the Figure 2, thereby identifying kind of reports based on criteria for evaluating efficiency and performance of these centers.

c. *Technical measures to apply effectively the responsibility accounting:*

- Shaping systems of accounts according to control capacity of responsibility centers: A responsibility accounting system will double accounts of a responsibility center. This means that accountants use the existing accounts, and add responsibility codes to them to create a list of responsibility accounts. When writing down entries, the accounting system will enter debit or credit on corresponding accounts in the financial statement, such as fixed asset, raw materials, and salary, etc. However, it also makes the entry on accounts of the center where the entry comes from. Thus, the managers need only follow responsibility account codes to gather information about certain responsibility center.

To build the system of responsibility codes requires careful study of organization of the company and functions of each departments and individual. After the system of responsibility codes is established, it will be applied to the list of accounts to constitute a system of responsibility ac-

**Figure 3: Managerial levels and decision to make**





count codes needed for supplying information and making responsibility reports.

- Building the system of documents for the responsibility accounting:

Basically, the company still use the system of accounting documents set by the Ministry of Finance, and it should design departmental codes, contract codes, cost codes, and control codes appropriate to realities in the company when applying the responsibility accounting system.

- Building a effective system of cost limits:

When working out the budget for the whole organization and each department, the standard cost includes expenses planned for each product and service. The common target the budget and standard cost aim at is to support the planning and controlling by isolating variable costs. They may be part of the system for evaluating performance and standard cost arising from the budgeting and help with pricing and decision making.

- Budgeting for responsibility centers:

First of all, the company should build a process of budgeting for responsibility centers. The process may comprise seven stages:

+ *Stage 1:* Connecting details of budgetary policy and guidelines.

+ *Stage 2:* Identifying factors affecting the output.

+ *Stage 3:* Preparing planned sales revenue.

+ *Stage 4:* Initial preparation for budgeting plans (for finished goods, production, and costs, etc.)

+ *Stage 5:* Discussing the budgeting plans with senior management.

+ *Stage 6:* Combining budgeting plans together to form a complete budgeting system.

+ *Stage 7:* Evaluating the complete budgeting plan.

By studying definitions and basic functions of responsibility centers and systems of budgeting plans, the company can establish relations between responsibility centers and corresponding budgeting plans.

- Building a system of reports needed for evaluating management responsibility:

A system of responsibility accounting reports with necessary forms and criteria should be appropriate and allow comparison with original



budgeting plan of each responsibility center. The reports should meet the following requirements:

+ Reports should be designed to support managers in their task while the bulk of information in the company is very large.

+ Forms of reports should provide convenience, and contain clear and exact information.

+ Number of reports is based on purposes and need for information by managers.

In short, the responsibility accounting system is necessary and a real need of managers. To build a responsibility accounting system that serve the managerial requirements, a legal infrastructure for implementation of this system must be in place, and then, awareness of the importance of this system must be enhanced, and various measures should be taken to encourage companies to apply the system to their businesses ■

## Reference:

- Ass. Prof., Dr. Phạm Văn Dược (2006), *Kế toán quản trị* (Management accounting) Thống kê Publishers.

- Anthony A. Atkinson, Rajiv D. Banker & Roberts. Kaplan (1998), *Management Accounting*, McGraw – Hill, USA.

- Carter McNamara, Authenticity Consulting, LLC. (Copyright 1997-2007), *Performance Management - Basic Concepts*, Adapted from Field Guide to Consulting and Organizational Development

- James R. Martin (1994), *Responsibility Accounting*, Adapted from Management and Accounting Web.