

RESPONSIBILITY CENTRE PROBLEMS

Problem 1

Match items on the left with the appropriate description on the right:

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| a) Suboptimization | 1) Decisions in this type of company are made by division managers. |
| b) Dual Pricing | 2) Manager is primarily responsible for generating revenues, controlling costs, and managing assets. |
| c) Centralized | 3) An organization unit that is headed by a manager who is responsible for its activities and results. |
| d) Goal Congruence | 4) The process where one unit manager makes a decision that is not in the best interest of the entire company. |
| e) Profit Centre | 5) A transfer price where the price charged to the buying division differs from that paid to the selling division. |
| f) Decentralized | 6) Organizational and personal goals are consistent. |
| g) Expense Centre | 7) Manager is responsible for revenue generation and operational cost control. |
| h) Investment Centre | 8) Manager is primarily responsible for revenue generation. |
| i) Responsibility Centre | 9) Manager is primarily responsible for the costs incurred by his/her unit. |
| j) Revenue Centre | 10) Decisions in this company are generally made by top management. |

Problem 2

The Advertising department of ACME Athletics is run as an Expense centre. The fiscal year for the company ends on July 31 and management is evaluated on its ability to operate within budget. For the last several years, the Advertising department has run out of office supplies by June, and the manager has made a vigorous attempt to control the volume of mail leaving the office.

During these year end periods (last few months of the fiscal year), office equipment is not repaired, copy supplies run short, the signing of advertising and printing contracts is postponed, and all travel is eliminated. Sales personnel and manufacturers' representatives often complain of poor service during these periods. Several employees have observed that this condition has been encountered earlier each year. Some have been stockpiling supplies so that they can function during this period.

REQUIRED:

What are the probable causes of these problems?

How can they be corrected?