InternationalJour. of Manage.Studies.,Statistics & App.Economics
(IJMSAE), ISSN 2250-0367, Vol.2, No. I (June 2012), pp. 235-254

INCENTIVE COSTS AND RESPONSIBILITY ACCOUNTING: AN ASSESSMENT OF IMPACTS ON DEPARTMENTAL PROFITABILITY

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Abstract

The study examined the extent to which incentive costs can affect the performances of the departmental manager (normally referred to as responsibility accounting). The study measured the magnitude and investigated the direction of influence of incentives costs on the departmental profits of companies in Nigeria. The descriptive survey research method adopted resulted in the study of eleven Nigerian quoted Companies Stratified based on their industrial Classification. Incentive Costs of the eleven Companies from 2001 to 2010 (ten years) were correlated with the profits generated by the marketing departments of these companies for the same number of years. The result shows a substantially significant relationship between incentive costs and departmental profits measuring up to 0.88. Incentive costs equally contributed up to 77% of the profit generated by these companies for the period under study. Incentive/Profitability Index (IPI) was developed in this study to provide a convenient, objective and scientific yardstick for measuring the level of profitability based on the quantum of incentive costs. Incentive/Profitability Index (IPI) in this study showed a 1:1.32 position indicating a N1.32 profit for every naira spent on workers' incentive. The study equally presented incentive costs as a necessary predictor of Company's profitability level @ $t_{c0.05} = 5.56 > t_{t0.05} = 2.262$ with 9df. The study recommended proper and sound recruitment, training, promotion and trading policies for the purpose of achieving the revealed benefits derivable from incentive scheme. The study equally recommended economy of incentive costs to drive home the expected benefits. Sufficient and adequate enabling environments must be created to enable workers achieve the expected targets.

Keywords : Incentive Costs, Responsibility Accounting, Impacts, Departmental Profitability, Cost Centre, Revenue Centre, Performance evaluation.

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