MCM-505
ACCOUNTING THEORY & PRACTICES
UNIT-16 BEHAVIOURAL ASPECTS OF PERFORMANCE EVALUATION
(M. COM. SECOND SEMESTER)

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CONCEPT OF PERFORMANCE AND PERFORMANCE EVALUATION

- A management accountant is involved in four key areas namely planning, control, decision-making and performance evaluation. While the first three areas have been discussed in previous units, the present unit gives an overview of tools and techniques used in performance evaluation. One of the most difficult tasks facing the management accountant is the evaluation of performance, more often of his own organization, but sometimes that of another organization. The term '*performance*' can be understood as 'to do, what is to be done'. Consequently, performance evaluation would mean judging whether something has been done as it was expected to be done. In the context of industrial management, performance evaluation thus means to find out whether or not an organization has fulfilled its objectives. This implies that performance evaluation as an exercise has three elements namely, expected performance, actual performance and a mechanism through which a comparative analysis is made of expectations and actual.

IMPORTANCE OF PERFORMANCE EVALUATION

- Performance evaluation is the basis of a management control system. Periodic comparisons of the actual costs, revenues and investments with the budgeted costs, revenues and investments can help management in talking decisions about future allocations. Performance evaluation should be done in respect of all responsibility centres (i.e., cost centres, profit centres and investment centres) to ascertain their level of performance. The best way to encourage managers to achieve the desired level of performance is to measure their performance in comparison to budgeted results. Performance evaluation of employees is used in taking decision about their salaries, promotions and training required for future assignments.
- **Cost Centre**
- **Types of Cost Centres**
- *Personal and impersonal cost centres*
- *Operation and process cost centres*
- *Product and service cost centres*
- **Profit Centre**
- **Investment Centre**

TECHNIQUES OF PERFORMANCE EVALUATION

- Responsibility Accounting
- Budgetary Control and Reporting
- Balanced Scorecard
- Variance Analysis
- Contribution Margin
- Return on Capital Employed or Return on Investment
- Residual Income
- Value Added
- Bench Marking
- Non-Financial Quality Performance Measures

SUMMARY

- Performance evaluation is the basis of a management control system. Periodic comparisons of the actual costs, revenues and investments with the budgeted costs, revenues and investments can help management in talking decisions about future allocations. Performance evaluation should be done in respect of all responsibility centres (i.e., cost centres, profit centres and investment centres) to ascertain their level of performance. There are various techniques for the evaluation of cost centres, profit centres and investment centres. Under responsibility accounting, the evaluation of manager's performance is based only on matters directly under the manager's control. Responsibility accounting fixes responsibility for cost control purposes. Budget reports to top management should explain the difference between the profit in the profit plan stating the factors involved in quantitative and financial terms show the flow of funds and projections in this regard and provide feedback about the achievement of goals and objective of the firm. Balanced Scorecard addresses all areas of performance in an objective and unbiased fashion and gives top management a very fast and comprehensive view of the organization. Analysis of variances is very helpful in controlling the performance and achieving the profits that have been planned. The deviation of total actual cost from total standard cost is known as total cost variance.

References

- SILM developed by Uttarakhand Open University for MCM-505 (Accounting Theory and Practices), Year 2017,