MMS - IV (Uni. P.) 05-05-2014

QP Code : VX-19913

Time: 3 Hours Management Control System **Total Marks: 60**

Instructions

1) Question No. 1 is compulsory carrying 20 Marks.
2) Attempt Any Four Questions carrying 10 marks each from Question No. 2 to Question No. 7
3) Figures in the bracket to the right indicates Marks

Q1 Attempt Both (A) and (B)

(A) TP Ltd has three divisions U, V and W. Their capacities and other details are as under **(10)**

Particulars		**U**	**V**	**W**
Capacity	Nos.	12,000	12,000	12,000
Cost of Production:				
Material Cost per unit	Rs.	10	12	10
Processing Cost per unit	Rs.	20	15	10
Annual Fixed Cost	Rs.	1,20,000	1,56,000	1,80,000
Investments:				
Fixed Assets	Rs.	10,00,000	12,00,000	15,00,000
Current Assets	Rs.	8,00,000	10,00,000	12,00,000
Targeted ROI	%	10	12	16

(i) At what price per unit, product should be transferred from U to V & from V to W?
(ii) What minimum price W should charge to an external customer?
(iii) If due to competition W can sell the product at a maximum price of Rs. 160, should the company continue to manufacture this product?

(B) What is financial goal setting? Explain the techniques of Financial Forecasting. **(10)**

Q2 Attempt Any Two from (A), (B) and (C)

(A) Suzy Ltd's Extract of Profit & Loss A/c and Balance Sheet for the Year 2012-2013 is as under: **(05)**

Profit & Loss A/c (Rs. In Lakhs)		**Balance Sheet (Rs. In Lakhs)**	
Sales	750.00	Equity	400.00
Variable Cost	525.00	Debt	100.00
Fixed Cost	50.00	Total	500.00
Depreciation	35.00	Fixed Assets	350.00
Interest	15.00	Net Working Capital	150.00
Profit After Tax	75.00	Total	500.00

Calculate (i) Return on Equity & (ii) Return on Capital Employed

(B) Suzy Ltd would like to expand its operation. In addition to information given in (A) above, Suzy Ltd for expansion would purchase Fixed Assets worth Rs. 100 lakhs and invest in working capital Rs. 100 lakhs. Fixed Assets will be financed by equity and working capital by 15% Debt. The sales will increase by 40%. Variable cost to Selling Price ratio will reduce by 5%. Fixed cost other than depreciation will increase by 5%. Depreciation is on straight line method. **(05)**
Calculate post expansion (i) Return on Equity & (ii) Return on Capital Employed

(C) Accountant of Shiva Ltd uses Return On Investment (ROI) method for performance evaluation of its two divisions X & Y. However, finance controller is of the opinion that Economic Value Added (EVA) Method is a better measure. Based on following data of Shiva Ltd *comment whether controller is right (Show Calculations).* **(05)**

(Figures in Rs. Lakhs)	**X**	**Y**
Profit After Tax	160	240
Current Assets	200	500
Fixed Assets	800	1,000

Company charges to divisions 10% for Current Assets and 13% for Fixed Assets while computing EVA.

Q3 Attempt Any Two from (A), (B) and (C)

(A) Asia Ltd has two production departments 'E' and 'F' and two service departments 'J' and 'K', Department 'E' produces product 'X' and Department 'F' produces 'Y'. Following are the details of cost incurred during January 2014. **(05)**

	E	F
Direct Material	21,000	9,000
Direct Labour	12,000	9,000

	E	F	J	K
Supplies	750	600	450	300
Supervisor's Salary	1950	2550	4500	6000

The output of Product X is 3000 units & that of product Y is 1500 units. Supplies of Service departments are charged to production departments as a percentage of direct materials while supervisor's salary is charged as a percentage of direct labour. *Calculate total costs taking Product X and Y as separate cost centre.*

(B) From the following project details *calculate the sensitivity* of the (i) Project Cost, (ii) Annual Cash Flow & (iii) Cost of Capital. Which variable is most sensitive? **(05)**
Project Cost Rs. 16,00,000; Annual Cash Flow Rs. 5,00,000; life of project – 5 years; Cost of Capital 15%. The Annuity Factor @ 15% for 5 years is 3.352 and at 17% for 5 years is 3.200.

[TURN OVER

(C) AB Infra Ltd wishes to replace its construction equipment by the latest German Model. The construction equipment department of the company has estimated the cost of new equipment at Rs. 32,62,500. Meanwhile the old equipments were sold for Rs. 31,50,000. The book value of the old equipment was Rs. 27,00,000 at the time of its sale. The general price index rose by 11% during the year. Ascertain the profit on sale of equipment under following methods: **(05)**

(i) Historical Cost (ii) Current Purchasing Power (iii) Current Cost

Q4 Attempt Any Two from (A), (B) and (C)

(A) H Ltd has following total operating results for the year ended December 2013 **(05)**

Sales Revenue	Rs.	28,00,000
Variable Cost	Rs.	18,60,000
Fixed Cost	Rs.	5,00,000

The following additional information covering the performance of each of the firm's three operating departments has been provided as under:

Departments		**A**	**B**	**C**
Sales Revenue	Rs.	12,00,000	10,00,000	6,00,000
Variable Costs	Rs.	8,40,000	6,00,000	4,20,000
Fixed Costs	Rs.	1,60,000	1,40,000	1,00,000

Rank the three departments on the basis of their performance measure of relative profitability.

(B) The budgeted data of a division of M Ltd is given below: **(05)**

Receivables	Rs.	3,00,000
Inventories	Rs.	2,00,000
Fixed Assets	Rs.	5,00,000
Fixed Costs	Rs.	2,25,000
Variable Cost per unit	Rs.	5
Targeted Rate of Return on Average Assets	%	27.5
Expected Sales Volume	Units	2,00,000

(i) What average unit sales price is needed to obtain the target rate of return on average available asset?

(ii) What would be the percentage of net-income on sales?

(C) Profit Centers M and P are two decentralized profit centers of Chocolate Ltd. Profit centre M manufactures the candy and profit centre P packages and distributes the candy at a sale price of Rs. 15 per unit. Profit centre M transfers 60% (24000 units) of its output to Profit centre P, the remaining are sold to outside customers. The following are the expected revenue & cost information for the year 2014-2015. **(05)**

	M	**P**
Sales	40,000 units	All units received from M
Variable Costs	Rs. 2 per unit	Rs. 5 per unit
Fixed Costs	Rs. 80,000	Rs. 40,000
Outside Market Price	Rs. 7 per unit	Rs. 15 per unit

Prepare profit centre gross profit using following transfer pricing method

(i) Market Price and

(ii) Dual prices based on Market Price for profit centre M and at Cost Plus 20% for profit centre P.

Q5 Attempt Any Two from (A), (B) and (C)

(A) Write a brief note on Linear Programming Technique for determining divisional goals in a Multidivisional Company. **(05)**

(B) Explain different types of responsibility centers **(05)**

(C) State the limitations of Financial Reporting under Historical Cost Convention. **(05)**

Q6 Attempt Any Two from (A), (B) and (C)

(A) Explain Management Control Systems in service organization **(05)**

(B) Explain the scope and objectives of Management Audit **(05)**

(C) Explain the factors to be considered while budgeting for R & D Expenses **(05)**

Q7 Write Short Note on Any Two of the following

(A) Management by Objectives **(05)**

(B) Strategic Business Units **(05)**

(C) Price-Earning Ratio **(05)**
