MMS IV 07-05-2016

Management Control System.

QP Code : 26933

Time: 3 hours **CBSGS** **Marks: 60**

Instructions:

1. **Question No. 1 is compulsory**
2. Attempt ***Any Four*** Questions from **Question Nos. 2 to Question No. 7**
3. Figures to the right in the bracket indicates marks

Q1 (A) Organic Foods Ltd is producer of Basmati Rice. It has two intermediate divisions and one final division, namely Farming, Cleaning and Processing respectively. There capacities and other details are given below **(10)**

	Farming	**Cleaning**	**Processing**
Production (Kgs)	15,000	12,000	8,400
Costs (Rs.)			
Material Cost per unit	10.00	8.00	6.00
Labour Cost per unit	8.00	8.00	5.00
Power Cost per unit	4.00	3.00	5.00
Labeling Cost per unit			1.00
Annual Fixed Cost	2,00,000	2,00,000	1,00,000
Investments (Rs.)			
Fixed Assets	9,00,000	8,00,000	5,00,000
Current Assets	5,00,000	2,00,000	3,20,000
Target RoI (%) on,			
Fixed Assets	10	12	10
Current Assets	8	8	6

8400

(a) Calculate Transfer price per unit of the product from Farming to Cleaning and from Cleaning to Processing.

(b) What would be the transfer cost per unit for the product received by cleaning division from farming division and processing division from cleaning division?

(c) What minimum Price processing division should charge to an external customer?

(d) If due to competition processing division can sell the basmati rice at a price not more than Rs. 165 per kg, should Organic Foods Ltd. continue to produce the basmati rice?

(B) Balance Sheet of Mastani Ltd as on 31st March 2016 is as under **(10)**

Liabilities	**Rs.**	**Assets**	**Rs.**
Shares of Rs. 10 each	2,00,000	Fixed Assets	7,50,000
Reserves	1,00,000	Stock	50,000
10% Debt	5,00,000	Trade Debtors	1,00,000
Trade Creditors	1,50,000	Cash	50,000
	9,50,000		9,50,000

Sales for the year were Rs. 20,00,000; Variable Cost were Rs. 14,00,000 and Fixed Cost were Rs. 2,00,000. Corporate tax rate applicable to Mastani Ltd. is 30%. 14

You are required to prepare EPS Control Chart of Mastani Ltd, showing relevant calculations and explain the significance of EPS Control Chart.

Q2 Answer **Any One**, *Either (A) or (B)*

(A) Following is the Balance Sheet of DBCL Ltd. **(10)**

Particulars	2015 (Rs.)	2016 (Rs.)
Assets		
Plant & Machinery at Cost	90,00,000	90,00,000
Accumulated Depreciation	85,50,000	85,95,000
Net Block of Plant & Machinery	4,50,000	4,05,000
Building	6,00,000	6,00,000
Stock	1,80,000	2,25,000
Debtors	1,20,000	1,50,000
Cash	90,000	1,20,000
	14,40,000	**15,00,000**
Liabilities		
Equity Share Capital	12,00,000	12,00,000
Reserves	90,000	1,20,000
Creditors	1,50,000	1,80,000 1,80,000
	14,40,000	**15,00,000**

Plant & Building were purchased in 2005, the general price index then was 75 (base year) and in 2015 and 2016 it was 150 & 175 respectively. No dividend is paid in 2016.

Prepare Income Statement and Balance Sheet of DBCL Ltd. at Current Value.

OR

(B) The operating results of a manufacturing company for the year 2015-2016 is as given below: **(10)**

Particulars	Rs. Lakhs	Rs. Lakhs
Sales (80,000 Units)		1,200
Less: Trade Discount		84
Net Sales		1,116
Less: Cost of Sales		
Materials	360	
Labour	315	
Factory Overheads	158	
Administrative Overheads	90	
Selling & Distribution Overheads	80	1,003
Profit		113

The following changes are anticipated for the year 2016-2017

(a) Sales volume are anticipated to increase by 25%

(b) Material prices are likely to increase by 10%

(c) Labour charges are likely to increase by 8%

(d) Factory overheads are likely to remain limited to Rs. 178 lakhs

(e) Administrative Overheads are estimated to increase by 12%

(f) Selling & Distribution Overheads which are linked to sales volume is likely to decrease by 4%

(g) Profit target for 2016-2017 is Rs. 150 Lakhs

You are required to calculate the Selling Price per unit for the year 2016-17 and present the operating results.

Q3 Answer **Any One**, *Either (A) or (B)*

(A) An initial investment outlay for capital investment project consists of Rs. 75 lakhs in Plant and Machinery and Rs. 25 lakhs in Working Capital. The Sales Volume, Selling Price and Variable Cost in the first year of operations would be 1,60,000 units, Rs. 150 per unit and 50% of Selling Price respectively. The sales volume and the selling price will decrease by 20% year on year thereafter with no change in variable cost percentage. The fixed cost each year would be Rs. 15 lakhs, excluding depreciation. Straight Line Depreciation would be adopted over the project life of 3 years. The plant will have no salvage value at the end. The applicable tax rate is 30% and the weighted average cost of capital is 17%. You are required to, **(10)**

(a) Indicate the financial viability of the project by computing the Net Present Value

(b) Determine the sensitivity of the project cost.

OR

(B) The performance evaluation report of production divisions of Sunder Ltd for the quarter ended 31st March 2016 is as under **(10)**

Particulars	**Divisions (Rs. Lacs)**			**Total**
	X	**Y**	**Z**	
Sales	6.00	8.00	10.00	24.00
Less: Controllable Variable Cost	2.00	4.00	6.00	12.00
Controllable Contribution Margin	4.00	4.00	4.00	12.00
Less: Direct Fixed Cost	1.00	2.00	1.00	4.00
Controllable Segment Margin	3.00	2.00	3.00	8.00
Less: Attributable Segment Cost	1.40	2.40	0.80	4.60
Segment Profit Contribution	1.60	(0.40)	2.20	3.40
Less: Firm wide cost				1.40
Net Income				2.00

The management is of the opinion that the three divisions show significant differences in sales value, contribution margin, fixed costs and attributable costs and therefore is not much useful for management control decisions. Management feels that a better alternative would be a performance evaluation taking territory as a profit center.

The territory-wise sales of three divisions and cost data of territories are as under (Rs. In Lacs)

	Southern	**Northern**
Sales of Division X	2.40	3.60
Sales of Division Y	4.00	4.00
Sales of Division Z	6.00	4.00
Direct Fixed Cost	1.00	2.00
Attributable Cost	1.40	2.40

The remaining cost may be classified as common firm-wide costs due to reclassification of the basis of from divisions to territory.

You are required to assist the management in preparation of performance evaluation report on the basis of territory and comment.

Q4 Answer **Any One**, *Either (A) or (B)*

(A) Following figures are extracted from the Income Statement and Balance Sheet of SRK Fan Ltd for the year ended 31st March 2016. **(10)**

Particulars	Rs. In Lacs
Fixed Assets	585.00
Current Assets	195.00
Investments in Risk Free 10% GoI Bonds	100.00
Sales	750.00
10% Preference Share Capital	160.00
Equity Shares of Rs. 10 each	300.00
16% Secured Debentures	125.00

The opening balance of reserves & surplus as on 1st April 2016 was Rs. 21.00 lacs. The cost of goods sold is 60% of sales. The income tax rate applicable to SRK Fan Ltd is 30%. The Return on market is 14% and beta of SRK Fan Ltd is 1.5. You are required to calculate,

(1) Return on Investments of SRK Fan Ltd., and
(2) EVA of SRK Fan Ltd.

OR

(B) MU Ltd employs a budgetary control system and measures performance on segmented basis of its products X and Y. The budgeted and actual sales for the month of April 2016 are as follows: **(10)**

Products	Sales Volume (Units)		Sales Revenue (Rs.)	
	Budgeted	Actual	Budgeted	Actual
X	10,000	12,000	1,00,000	1,20,000
Y	20,000	20,000	1,00,000	1,20,000

The standard variable cost per unit is Rs. 4 and Rs. 2 for products X and Y respectively. MU Ltd's budgeted controllable fixed costs for the month is Rs. 10,000 for each product. However, the actual fixed costs were Rs. 11,000 and Rs. 13,000 respectively. The attributable segment costs were as under

Products	X	Y
Budgeted (Rs.)	20,000	30,000
Actual (Rs.)	22,000	32,000

These costs represent all manufacturing costs and no opening and closing inventories. Actual variable manufacturing costs during the month were Rs. 42,000 and Rs. 48,000 respectively for Product X and Product Y. The budgeted common firm-wide costs were assumed to be Rs. 24,000 which were apportioned on the basis of segment sales volume. However, actual common firm-wide costs were Rs. 32,000.

You are required to prepare Performance Evaluation Report taking budgeted at actual sales volume and actual sales volume. Comment on the variances.

Q5 Answer **Any Two** from (A), (B) & (C)

- **(A)** Explain the boundaries of management control goals **(05)**
- **(B)** Explain the techniques of financial forecasting **(05)**
- **(C)** What is Management by Objectives? Discuss its benefits & weaknesses. **(05)**

Q6 Answer **Any Two** from (A), (B) & (C)

- **(A)** Explain the stages of implementing performance measurement system **(05)**
- **(B)** "Profit Centers can be created as and when top management feels like". Do you agree? Explain with examples. **(05)**
- **(C)** Briefly describe the special characteristics of non-profit organization **(05)**

Q7 Write Short Notes on **Any Two** of the following

- **(A)** Scope and objectives of Management Audit **(05)**
- **(B)** Free Cash Flow **(05)**
- **(C)** Advantages of Responsibility Accounting **(05)**
