MMS - IV (Uni-Exam) 04-05-2009
Management Control System.

Con. 2258-09. **BB-9180**

(3 Hours) [Total Marks : 60

N.B. : 1) Attempt any **six** questions out of Q.Nos. 1 to 9. each carrying **6 Marks.**
2) Attempt any **two** questions out of Q.Nos. 10 to 12 each carrying **7 Marks.**
3) Q.13 is compulsory carrying **10 Marks.**

Q.1. Explain briefly the various stages of management control process citing salient features of each.

Q.2. What is Responsibility Centre? List and explain different types of responsibility centres with sketches.

Q.3. Every SBU is a profit center but every profit center is not a SBU? What are the conditions that should be fulfilled for an organization unit to be converted into a Profit Center? What are the different ways to measure the performance of Profit Centers? Discuss their relative merit and demerits.

Q.4. a) "Transfer Pricing is not an Accounting Tool". Comment with illustrations.
b) Market price is ideal transfer price even in Limited Markets. Comment.

Q.5. XYZ Ltd. has two divisions : A and B. Return on Investments for both divisions is 15%. Details are given below :-

Particulars	Division A(Rs.)	Division B(Rs.)
Divisional Sales	40,00,000	96,00,000
Divisional Investment	20,00,000	32,00,000
Profit	3,00,000	4,80,000

Analyse and comment on divisional performance of each with respect to Operational Excellence and Marketing Effectiveness.

Q.6. Enumerate the differences among following types of Audits:

a) Financial Audit (Statutory)
b) Cost Audit
c) Efficiency Audit
d) Management Audit.

Q.7. Organizations with Business Divisions (Profit Centre) format have observed that Divisional Controllers experience divided loyalty in carrying out their functions, causing a possible dysfunction. How could such a situation be resolved? Define role of Controller which suits your suggestion.

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Q.8. What do you understand by Goal Congruence? What are the informal factors that influence goal congruence?

Q.9. Write short notes on **any two** of the following :-

i) Zero Based Budgeting
ii) Free Cash Flow
iii) MCS in the Matrix Organization.

Q.10. Pritam Engineering manufactures variety of metal products at many factories. Currently, it is experiencing crisis. Management has, therefore, decided to install detailed expense control system including **responsibility** budgets for overhead expense items at each factory. From historical data, Controller developed a standard for each **overhead** expense item (relating expense to volume of activity). Summarised expenses for November,2005 given to concerned Production Supervisor for comments is tabulated. All figures are in Rs. 000.

Item	Standard at normal volume(1)	Budgeted at actual volume(2)	Actual
Management Supervision	720	720	582
Indirect labour	12706	11322	12552
Idle time	420	361	711
Materials, Tools	3600	3096	3114
Maintenance, Scrap	14840	13909	17329
Allocated expenses	21040	21040	21218
Total per ton (Rs.)	2133.04	2103.39	2413.30

a) Explain with justification which of the two standards (1) or (2) is more meaningful for expense control.
b) Can the supervisor be held responsible for all overhead expenses included? Why or why not?

Q.11. Anand & Company comprises of five divisions A,B,C, D and E and the present performance metric is return on assets. However, the controller has suggested management to switch over to economic value added (EVA) as the criterion rather than return on assets. Compute and tabulate both return on assets and EVA on the basis of following information (Rs. Lacs) and comment on divisional performance.

Division	Profit	Fixed Assets	Current Assets
A	300	800	160
B	220	400	1600
C	100	600	1000
D	110	400	800
E	180	200	800

Controller feels corporate finance rates on current assets and fixed assets should be 5% and 10% respectively is adequate.

Q.12. Division B of ABC Ltd. contracted to buy from Division A 20,000 units of a component which goes into the final product made by Division B. The transfer price for this internal transaction was set at Rs. 120 per unit by mutual agreement. This comprises of (per unit) Direct and Variable labour cost of Rs. 20; Material cost of Rs. 60; Fixed overheads of Rs. 20 (lumpsum of Rs. 4 Lacs) and Rs. 20 per unit as Return on Investment of Rs. 20 Lacs that Division A would require for this additional activity. During the year, actual off take of Division B from Division A was 19,600 units. Division A was able to reduce material consumption by 5% but its budgeted investment overshot by 10%.

a) As Financial Controller of Division A, compare Actual v/s. Budgeted Performance.
b) Its Implications for Management Control?

Q.13. Selected historical data of Shivangi Engines(SE), a company manufacturing diesel engines and catering to Trucks and Agricultural markets is tabulated below:

Year	1980	1989	1993	1994
Sales (Rs. Cr.)	136	392	637	802
Net Profit (Rs. Cr.)	6	18	26	24
Earning per share* (Rs.)	N.A.	2.87	3.87	3.31
Dividend per share*(Rs.)	-	0.71	0.95	0.98
Return on equity (%)	-	14.7	13.9	10.8
Number of plants	2	8	13	14
Total production area (sq.ft. – 00)	1496	2224	2833	3340
Market share	61.1%	43.5%	37.9%	40.1%
Engines produced (000)	10	44.5	57.5	63

* Face value Rs. 10/-.

SE began operations 55 years ago near Pune. Initially for a number of years, it was closely directed by Top Management, strong individual performance and knowledge of details were emphasized; technical Innovation was encouraged. Top Managers were constantly on the production shop floor – checking work flow, Inventory, Employee morale etc. Inspite of tremendous growth, facilitated by creation of additional manufacturing facilities, SE retained small town company flavour.

In 1984, Jaydev Hazare(JH) – IIT / IIM educated-joined SE with a 10 years previous experience. He quickly rose to the position of Chief Operating Officer in 1990 at a young age and was given formal authority over all operational matters. Financial Controller did not report to JH. Two of top managers actively associated earlier became Chairman and Vice-Chairman and others had retired.

Towards end 1994, JH anticipated sharp recession but continued inflation. He, therefore, viewed company's inventory level (approaching 90 days stock) with concern. Also, there was a major discrepancy between Inventory records of materials and finance departments – equivalent to Inventory in one of Company's plant. JH knew that business involved about 20,000 spare parts and also that in some instances, engines which were otherwise 90% complete, awaited balance items from suppliers.

a) Comment on company's performance (1989-1994) on the basis of Sales Margins, equity turnover, production area used per engine produced and any other information in the above table.

b) How do you think in such a large company (headed by experienced and management qualified manager) such a problem affecting management control occurred?

OR

Q.13. A closely held small sized company Shayna Ltd. is involved in selling its own brand of coffee in Central and Northern India. Fierce competition is experienced from large players like Nestle as well as regional and niche players. Major Company shareholders are Managing Director – who directly looks after sales and Marketing; and Company Secretary – who is responsible for purchase of raw materials (in the form of coffee beans) from sources located throughout the world. All manufacturing activities including packing are carried out at three factory locations each headed by a V.P. Each factory is a profit centre. Performance is measured on the basis of gross profit made by each factory. For the entire company, manufacturing expenses are about 30% of sales. Purchasing is very **crucial** and involves understanding of world market trends, making commitments for purchase contracts for over 50 varieties. Raw material is bought in advance in lots for delivery to factory at various dates according to sales forecast. Whenever actual requirement is different than the forecast level, difference in raw material supply is made by purchasing department by sale / purchase of raw material in the market. Purchasing maintains a record of quantity and price for each lot of raw material and charges factory, according to the cost of lot delivered. Raw material expenses constitute 51% of sales. Purchasing departmental expense (3% of sales) is directly charged to head office.

How should manufacturing, marketing and purchasing be recognized as **responsibility** centres to induce goal congruence within the organization and what should be the **performance metric** for each responsibility centre?

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