MMS - IV (Uni. Exam) 03-05-2010.
Management Control Systems.

Con. 2539–10. **(FURTHER REVISED COURSE)** **BO–9616**

(3 Hours) **[Total Marks : 60**

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

1. Briefly describe overall framework of Management Control. How does it relate to Strategic Planning and Operations Control?

2. Briefly describe Engineered expenses Centers and Discretionary Expenses Centers. How is Budget prepared in each and how is performance evaluated in each?

3. Write short notes on:

   1. Zero Based Budgeting
   2. Free Cash Flow

4. What is a Strategic Business Unit? What are conditions required for creating and SBU? How is performance of SBU measured? What are the advantages and disadvantages of Creating SBUs?

5. What are the objectives of a transfer pricing? What are the different methods to arrives at transfer price? Discuss the appropriateness of each method? Explain with example.

6. How is an investment center different from a profit center? What are different methods of judging their performance? Which is a better method?

7. What do you understand by Balance Score Card? Explain with an example.

8. How does a service organization differ from a manufacturing organizations? How is a professional service organization differ from normal service organization? How is pricing and marketing done by professional service organization.

9. How does corporate level strategies differ from Business Unit level strategies? How is budgeting done at SBU under different strategic mission?

[TURN OVER

10. Vimal enterprises'sProfit and Loss A/c for the year 2009- 10 is given below

	Rs in Lacs
Sales	500
Variable Cost	350
Contribution	150
Fixed Cost	40
Deprecation	30
PBIT	80
Interest	15
PBT	65
T@ 40%	26
PAT	39

Company's Balance sheet is given below Rs in lacs

Equity	300	Fixed Asset	300
15% Debt	100	Net Working Capital	100
	400		**400**

Calculate (a) Return on Equity and return on Capital Employed

Vimal would like to expand its operation. It would purchase Fixed Asset worth Rs 100 lacs and invest in working capital of Rs 100 lacs. Fixed Assets are 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. Calculate

(i) ROE and ROCE post expansion Also calculate Total Asset turnover

11. Two Division A and B of Shubham Enterprsies operate as Profit Centers. Division A normally purchases annually 10,000 nos. of required components from Division B; which has recently informed Division A that it will increase selling price per unit to Rs. 1,100. Division A decided to purchase the components from open market available at Rs. 1000 per unit. Naturally, Division B is not happy and justifies its decision to increase price due to inflation and added that overall company profitability will reduce and the decision will lead to excess capacity in Division B, whose variable and fixed costs per unit are respectively Rs 950 and Rs 1,100.

a) Assuming that no alternate use exists for excess capacity in Division B, will company as whole benefit it Division A buys from the market.
b) If the market price reduces by Rs. 80 per unit. What would be the effect on the company (assuming Division B still has excess capacity) if A buys from the market.
c) If excess capacity of Division B could be used for alternative sales at yearly cost savings of Rs 14.5 Lacs, should Division A purchase from outside?

Justify your answers with Figures.

12. A factory is currently working at 50% capacity and produces 10,000 units. At 60% capacity utilization raw material cost increases by 2% and selling price falls by 2%. At 80% capacity utilization, raw material costs increase by 5% and selling prices fall by 5%. At 50% working the product cost Rs. 180 and is sold at Rs. 200 per unit. The Unit Cost of Rs. 180 is made up as follows: Material – Rs. 100; Labour – Rs 30 ; Factory overhead – Rs 30 (40% fixed); Administrative overhead- Rs 20 (50% fixed)

    a) Estimate profits at all three levels of capacity utilization.

13. **Either**

A TV delearship, Veena Television (VT) is organized into four profit centres- Colour TV sales (CTV); Black and White (BW) TV Sales (BTV). Spare Parts (SP); and Servicing (SG) – each headed by a manager. BTV, in addition to BW TV sales, also sells old TVs exchanged (under scheme) by customers while purchasing new CTVs. In one particular Instance , a new TV was sold for Rs 14 150 (financed by cash Rs. 2000, bank loan Rs 7350 and Rs 4800- exchange price for old TV agreed by CTV Manager. Cost of new TV was Rs. 11420. Shivangi Manager of BTV examined the old TV (valued at Rs 3500 by TV Trade magazines) and felt that she could get Rs. 5000 for that TV after repairing cabinet, resettling and servicing for which she would use services of (SP) and (SG). Prices chargeable to BTV by (SP) and (SG) are at market rates- Rs 235 for parts (by SP) and Rs 470 for Services (by SG). Market prices are arrived at after marking up cost by 3-5 times (SG) and 1-4 times (SP) BTV pays a service commission of Rs 250 per TV sold. Overhead fixed allocations per sale are : CTV – Rs 835; BTV – Rs 665 ; SP – Rs. 32; SG – RS. 114.

a) Treating each as an independent Profit Center, arrive at Sales Revenue, total cost and profit of each profit center.
b) Can each of these profit center survive if they were independent business entities.
c) Also calculate Gross Profit and Net Profit of each.

OR

13. For Effective strategy implementation, Soniya Ltd (SL) has been organized on product decentralization basis and each division is headed by GM(General Manager). GM is responsible for manufacturing, purchasing finance and Marketing activities for his divisional product group. Performance measurement is return on Investment (ROI) of division. Annual budgets are split up into four quarters and at the beginning of each quarter, performance of previous quarter is reviewed and budget for following quarter may be revised in consultation with GM. Data for div P is as under. Figures in Rs. Crores

	Budget		Actual
	Quarter 1	Quarter 2	Quarter 1
Account receivable	8	7.5	8.50
Cash	4	4	2.0
Inventory	18	16.5	21.50
Fixed assets	20	2.	20
Factory costs	21	19	17
Marketing costs	7	6	3
Freight	1	0.90	0.80
Administrative expenses	3	2.6	3.2
Sales	40	36	34

(a) Review the first quarter performance on the basis of computation of various parameters

(b) Would you suggest any revisions for the second quarter budget? Why / why not. Justify.