MMS - IV

02-05-2011

Management Control Systems.

Con. 2627-11. MS-9758

(OLD & REVISED COURSE)

(3 Hours) [Total Marks : 60

N.B. : (1) Attempt any **six** questions out of Question Nos. **1** to **9** **each** carrying **6 Marks.**
(2) Attempt any **two** questions of Question Nos. **10** to **12** **each** carrying **7 Marks.**
(3) Question No. **13** is **compulsory** carrying **10 Marks.**

1. Define Management Control System. Which level of Managers are involved in it ? How does MCS differ from Simpler Control processes ?

2. Briefly describe Responsibility center, Engineered Expense Center, Discretionary Expense Center, Revenue Center, Profit Center. How is the performance of the Head of these center evaluated ?

3. Every SBU is a profit center but every profit center may not be SBU. Explain. Under what conditions Production, Marketing and Service Department are converted into Profit Center.

4. When are Market based Transfer prices most appropriate ? How do we deal with the condition of Limited Market, Situation of excess/shortage of capacity ?

5. What do you understand by Investment Center ? Explain two different methods by which the performance of these centers are measured ? Also discuss their relative merits and demerits ?

6. Briefly describe Functional, Divisional and Matrix Organization. Which is the most appropriate from the point of Control ? Where are the other two suitable ?

7. What do you understand by a Not for Profit Organization ? How do these organization price their products ? What criteria are used to measure their performance ?

8. What are Organization Structure and Management Control Implications of Corporate Level Strategies ?

9. Write short notes on any **two** of the following :—
   (a) Approach to Marketing by Professional Service Organization.
   (b) Balance Score Card
   (c) Interactive Controls.

10. A company is currently working at 50% of its capacity. It sells 20,000 units now. Price per unit of Rs. 100. The cost per units is Rs. 90. Breakup of this is as follows :—

Material Cost	Rs. 40
Manufacturing Cost	Rs. 30 (30% fixed)
Selling Cost	Rs. 10 (40% fixed)
Administration Cost	Rs. 10 (50% fixed)
	Rs. 90

When company works at 80% of its capacity selling price would fall by 5% and material cost would go up by 5%. At full capacity the selling price would fall by 8% and Material cost would increase by 8%.
Calculate Profit at each level. Should company work at its full capacity ?

11. The Budget Vs Actual comparison for Division ABC of Company X at the end of half year is as follows :—

(All figures are in Rs. Lacs)

	Budget	**Actual**
Sales	400	370
Material and other variable costs	240	218
Employee and other fixed costs	60	60
Sales promotion	20	14
Operating Profit	80	78
Net Working Capital	200	206
Fixed Assets	80	74

For this division, which areas of performance would you like to investigate and what would be the corrective action, if any, you would like to put in place ?

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12. Company A has three divisions A, Band C. Their capacities and other details are given below :—

	A	B	C
Capacity in Number of Units	10,000	10,000	10,000
Cost of Production in Rs. :			
- Material Cost per unit	Rs. 10	Rs. 10	Rs. 10
- Processing Cost per unit	Rs.20	Rs. 10	Rs. 10
Annual Fixed Cost	Rs. 2,00,000	Rs. 2,00,000	Rs. 1,00,000
Investments :			
- Fixed Asset	Rs. 10,00,000	Rs. 10,00,000	Rs. 10,00,000
- Current Asset	Rs. 10,00,000	Rs. 10,00,000	Rs. 10,00,000
Targeted ROI	10%	15%	20%

At what price per unit, the product should be transferred from A to B and from B to C. Also what minimum Price C should charge to an external customer ? If due to competition it can sell the Product at a price of Rs. 200. Should company continue to manufacture this ?

13. A company two divisions Division A and Division B. The financial details of **Division A** for two years are given below :—

	2010	*2011*
Sales	500	400
Variable Cost	300	240
	200	**160**
Fixed Cost	50	40
PBIT	150	120
Interest	30	11
PBT	120	109
Tax@40%	48	44
PAT	**72**	**65**

BALANCE SHEET

	2010	*2011*
Fixed Asset	400	350
Net Current Asset	200	150
Total Assets	**600**	**500**

Division B :

	2010	*2011*
Sales	600	800
Variable Cost	360	480
	240	**320**
Fixed Cost	80	120
PBIT	**160**	**200**
Interest	30	40
PBT	**130**	**160**
Tax	52	64
PAT	**78**	**96**

BALANCE SHEET

	2010	*2011*
Fixed Asset	400	500
Net Current Asset	200	300
	600	**800**

Management evaluates the performance of the Divisional Manager on the basis of Return on Total Assets. Managerial Compensation is linked to ROTA. Based on this criteria the Divisional Manager A was given higher incentive compensation as he has improved the ROTA of his Division. Manager of Division B felt it was unfair to judge him on this criteria. He has identified a new investment opportunity and improved the sales. He felt he should be judged on the basis of Economic Value Added which directly contributes to the wealth of the shareholders. His division has grown by 25% on sales and assets where as Division A has contracted during this period both in sales and size of Assets. Cost of Equity is 10%. Economic Value Added can be calculated as [PAT – Cost of Equity in % x Equity share Capital].

Calculate Return on Total Asset for both Division A and B for Year 2010 and 2011. Also calculate EVA of both divisions for Year 2010 and 2011.

Discuss the views raised by Manager of Division B. Does judging Divisional Managers on ROI could lead to dysfunctional behavior on their part ?

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