MMS - IV (University Paper) 29-11.201
Management Control System. (Supplementary Exam)

VI-Feb-11Con-I

Con. 5914–11. (FURTHER REVISED COURSE) EN–3466

(OLD & REVISED COURSE)

(3 Hours) [Total Marks : 60

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

Q.1 a) "Transfer pricing is not an accounting tool". Comment with illustrations.
b) Market price is an ideal transfer price even in the Limited markets. Comment.

Q.2 Write short notes: (any two)
a) Strategy formulation and task control
b) Matrix structure and controls
c) Free cash flow

Q.3 Briefly describe Not for Profit Organizations. How do these organizations price their product? What criteria are used to measure their performance?

Q.4 Explain briefly the various stages of Management Control System with their salient features.

Q.5 a) Explain possible reasons for failure of Balanced Score Card.
b) Discuss challenges faced in controlling R&D activities and possible management initiatives.

Q.6 Explain different organizational goals. Briefly discuss Shareholder value maximization.

Q.7 Explain the difference between three forms of internal audit: Financial, Operational and Management.

Q.8 Describe the factors which impact service organizations.

Q.9 Explain special characteristics of professional organizations which would have a bearing on their control systems.

Q.10 Divisions M, P and C of Ananya Ltd. are respectively engaged in activities of Marketing, Manufacturing ; Both. Control is through return on investment. Fixed assets are depreciated on Straight line basis (10 years). Performance is:

Figures in Rs. Lacs

	M	P	C
Profit before depreciation and operating exps	400	400	400
Current Assets	200	200	200
Fixed Assets	NIL	1000	500

Operating expenses for divisions M, P and C are respectively 200 lacs, 100 lacs and 150 lacs.

a) Compare ROI for each division.

b) Analyse and comment on relationship, if any between ROI achieved and divisional activities.

Q.11 Omega Company has-divisions- M and N. Products required by division N are currently being outsourced at Rs. 20 per unit. Division M also makes this product and can sell either to division N or to outside markets. Current capacity of division M is 50,000 units. Division N sells its products at Rs. 40 per unit in the market. Income statement for both the divisions and the company is as under.

Figures in Rs. Lacs

	Div M	Div N	Omega Co.
Sales			
50,000 units @ Rs. 20/unit	10		10
20,000 units @ Rs. 40/unit		8	8
Total	10	8	18
Expenses			
Variable			
50,000 units @ Rs. 10/unit	5		5
20,000 units @ Rs. 30/unit		6	6
Fixed Expenses	3	1	4
Total Expenses	(8)	(7)	(15)
Gross Income	2	1	3

Division M is in position to create an additional capacity of 20,000 units at no extra fixed expenses. However, it can only continue to sell 50,000 units in the market.

a) What should be done by the company as a whole? Justify with figures.

b) What would be the approach of managers of Div M and N towards the possible capacity increase? What should it be? Why?

c) If you recommend inter unit sale, what could be the recommended price? Why?

Q.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 product costs Rs. 180 and is sold at Rs. 200per unit. The unit cost of Rs. 180 is made up as follows: Material cost Rs. 100, Labour Rs. 30, Factory overheads Rs. 30 (40% fixed), Administrative overheads Rs. 20 (50% fixed).

Estimate Profits at all three levels of capacity utilization.

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
Earnings 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 innovations are encouraged. Top managers were constantly on the production shop floor- checking workflow, employee morale, inventory, etc. In spite of tremendous growth, facilitated by creation of additional manufacturing facilities, SE retained small town company flavor.

In 1984, Jaydev Hazare (JH)- IIT/IIM educated joined SE with a 10 years previous experience. He quickly rose to the position of COO in 1990 at a young age and 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 material and finance departments – equivalent to inventories in one of company's plant. JH knew that business involved about 20000 spare parts and also that in some instances, engines which were otherwise 90% complete, awaited balance from suppliers.

- Comment on company's performance (1989-94) on the basis of sales margin, equity turnover, production area used per engine produced and any other information in the above table.
- How do you think in such a large company (headed by experienced and management qualified manager) such a problem affecting management control occurred?