113 2nd half-12 (h) JP

MMS - IV sem
27/11/2012
Management control system

Con. 9316-12. **TG–7824**

(3 Hours) [Total Marks : 60

Note:

1. Q.1 is compulsory, carrying 10 marks.
2. Attempt any five questions out of remaining nine,each carrying 10 marks.

Q.1 Selected historical data of Shivangi Engines (SE), a company manufacturing diesel engines and catering to Trucks and Agricultural markets is tabulated below:

Years	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
Divindend 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 are (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 operation 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, waited 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

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

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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	21	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 revision for the second quarter budget? Why/ why not. Justify.

Q.2. Discuss & Illustrate difference & similarities between :-

a. Strategy Formulation & Task Control
b. Management Control & Task Control

Q.3. What is Balance Score Card? What are the reasons for failure of Balance Score Card.?

Q.4. a) Describe differences in process of budgeting of Engineered & Discretionary expenses centers.
b) Discuss special challenges faced in controlling R & D activities & possible management initiatives.

Q.5. "Goal Congruence throws its impact upon management control systems". Comment upon this statement, explaining the meaning, significance of & the factors influencing goal congruence.

Q.6. PQR manufactures variety of metal products at many factories. Currently, it is experiencing crises. Management has, therefore decided to install detailed expense control system including responsibility budgets for overhead expense item (relating expense to volume of activity). Summarized expenses for November, 2005 given to concerned Production supervisor for comments is tabulated. All figured are in Rs. 000

Item	Standard at normal Volume (1)	Budget 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/why not?

Q.7. XYZ Company's Controller uses Economic Value Added (EVA) method to meadure divisional profit performance of its three divisions – X, Y and Z. Company charges to divisions 5% for Current Assets and 10% for fixed assets while computing EVA. Information on performance is given below:-

	Division X		Division Y		Division Z	
	B*	A**	B*	A**	B*	A*
Profit	180	160	110	120	100	100
Current Assets	200	180	400	380	600	700
Fixed Assets	800	800	800	900	1000	1100

*Budgeted ** Actual

On the basis of information given (in Rs. Crores).

1) Tabulate budgeted and actual return on assets for each of three divisions
2) Tabulate budgeted and actual economic value added for each division.
3) Comment on the two methods based on tabulations.

Q. 8. a) Explain Special characteristics of professional organizations which would have bearing upon their management control systems.

b) Narrate the factors which influence service organizations.

Q.9. 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.

Q.10. When are Market based Transfer prices most appropriate? How do we deal with the condition of Limited Market, Situation of excess / shortage of capacity?