MMS - IV

04-05-2013.

Management Control System

301 : Con. No.-JP

Con. 7410–13.

(FURTHER REVISED COURSE)

NV–1666

(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 question of Q. Nos 10 to 12 each carrying **7 Marks**
3) Q.13 is Compulsory carrying **10 Marks**

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

Q.2 What do you understand by Goal Congruence? What are the informal factor that affect goal congruence?

Q.3 Briefly describe Discretionary Expense Center, Engineered Expense Center, Profit center and Investment Center. Howe is Budget prepared in a Discretionary Expense Center? How is performance of Manager of Discretionary Expense Center evaluated?

Q.4 What are the objectives of Transfer Pricing? What is ideal transfer price in the situations of :-

a) Limited Market
b) Shortage of Capacity in the industry

When do you use Cost Based Transfer Prices?

Q.5 What are the different methods of evaluate the performance of an investment Center? Discuss the merit and demerits of each? Which method would you recommend?

Q.6 a) What are the special characteristics of Professional Service organization? How is marketing done in them? How do we evaluate the performance of a professional?

b) What is a Non Profit Organisation? How is the performance of this organization evaluated?

Q.7 What do you understand by balance Score Card? Why is it considered superior to other methods of Performance Appraisal? Prepare Balance Score Card for any Organisation you are familiar with.

Q.8 What are the different types of Strategic missions at SBU Level? How do these missions affect Strategic Planning process and Budgeting at SBU level?

Q.9 Write shorts on any two ;

1. Zero Based budgeting
2. Free Cash Flow
3. Matrix Organisation

Q.10. XYZ Ltd has two divisions: A and B return on Investments for both divisions is 15%. Details are given below:-

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

[TURN OVER

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

Q.11. 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 expense 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 (20	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	3114
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. 12 Anand and Company comprises of five divisions A ,B, C, D and E and the present performance metric is return on assets. However, the controller had 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 in 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.13 Suresh Ltd had two divisions. Div A manufactures an intermediate product for which no external market exists. Div B incorporates the intermediate product into final product (in the ration of one unit to one unit) and sells in the market. Estimated number of units which Div .B can sell at various prices is tabulated:-

Selling Price (Rs.)	Expected Sales (Units)	
50	2000	
80	3000	
50	6000	
Costing	**Division A**	**Division B**
Variable Cost (Unit) Rs.	11	7
Fixed cost per annum Rs	60,000	90,000

Transfer price to Division B for intermediate product is Rs. 35 per unit

a) Define Profit in this case and prepare a statement for both Divisions and Overall Company.
b) State the selling price which maximizes profits for Division B and company as whole. Comment on why the latter price is unlikely to be selected by Div. B.

OR

Q.13 Two Divisions A and B of Satyam Enterprises 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 justified 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 of 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 sakes at yearly cost savings of Rs. 14.5 Lacs, should Division A purchase from outside?

Justify your answers with figures.

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