

AA-161

April-2019

5th Year MBA. Integrated, Sem.-X

Management Control Systems

Time : 2:30 Hours]

[Max. Marks : 70

1. Answer the following questions : (any TWO) 14
- (1) Why is management control important to a business ? Identify the important factors in a manufacturing industry and explain how they can be used to develop a good management control system.
 - (2) What are the strategic options available to a business to reposition its business units ? Explain giving example.
 - (3) What is meant by goal congruence ? What role does the management control system play in ensuring goal congruence ? Also discuss role of formal and informal factors in influencing goal congruence.

2. (a) When different departments of one company can be considered as responsibility centers ? Explain types of responsibility centers taking example of various departments of a company. 6
- (b) A company has 10 cars in operation in its transport department. The budget for the transport department based on 25,000 kilometres of run for a month is ₹ 1, 75,000 out of which a sum of ₹ 50,000 is fixed. During the last month, total kilometres run by all the 10 cars were 22,400 and the costs incurred were ₹ 1, 66,300. The cost of hiring a car would have been ₹ 8 per km. Evaluate the performance of the transport department on the basis of (i) Cost Centre and (ii) Profit Centre. 8

OR

Explain various methods of transfer pricing with their relative merits and demerits.

3. Delta Ltd. which has a system of assessment of Divisional performance on the basis of EVA has two Divisions Alfa and Beta. Alfa has annual capacity to manufacture 15 lakh units of a special component which it sells to outside customers; but has idle capacity. The budgeted EVA of Beta is ₹ 3 crore while that of Alfa is ₹ 2.5 crore. Other relevant details extracted from the budget of Alfa for the year are :

Sale (to outside customers): 12 lakh units at ₹ 450 per unit

Variable cost per unit: ₹ 400

Divisional fixed cost: ₹ 2 crore

Capital employed: ₹ 18.75 crore

Cost of capital: 12%

Beta has just received a special order for which it requires components similar to the ones made by Alfa. Fully aware of Alfa's unutilized capacity, Beta has asked Alfa to quote for manufacture and supply of 3 lakh units of the component with a slight modification during final processing. Alfa and Beta agree that this will involve an extra variable cost of ₹ 12.50 per unit.

Calculate the transfer price which Alfa should quote to Beta to achieve its budgeted EVA. 14

4. (a) Calculate all possible sales variances from the following : 8

A company manufactures valves in its plant. For the most recent year, the company budgeted sales of 50,000 units of its sole product with selling price of ₹ 100, assuming that the company would have 20% market share of total market of 2,50,000 units. The company could actually sell 45,000 units and total sales amounted to ₹ 42,75,000. Actual sales in the total market was 2,00,000 units.

- (b) Explain various types of budget. 6

OR

- (a) Prime Ltd. is currently operating at 75% of its capacity. In the past year, the level of operation was 55%. Presently, the production is 75,000 units. The company is planning for 90% capacity utilisation during next year. The cost details are as follows :

| [₹ in lakhs] | | |
|--------------------------|-----|-----|
| Particulars | | |
| Capacity utilisation | 55% | 75% |
| Direct materials | 110 | 150 |
| Direct labour | 55 | 75 |
| Factory overheads | 31 | 35 |
| Selling overheads | 32 | 40 |
| Administrative overheads | 16 | 16 |

Profit is estimated at 20% on sales.

Prepare a flexible budget for the next year at 90% level of capacity and ascertain the profit and sales. 8

- (b) Give detail classification of various types of variances. 6

5. Write notes on : (Any **TWO**) 14

- (a) Management control in financial service organization and healthcare organization
 (b) Different types of exposures faced by Multinational organizations and their implication on designing management control
 (c) Balanced Score Card as a tool of performance measurement.