

AK-111

April-2025

Int. M.B.A., Sem.-X

Management Control System

Time : 2:30 Hours]

[Max. Marks : 70

1. Attempt any **two** from the following : 14
- (a) How does management control leads to goal congruence in organization's goals ?
- (b) 'Whole organisation is a responsibility centre and all profit centres are actually acting as competitors of each other.' Elaborate.
- (c) What do you mean by Transfer pricing ? Explain the different transfer pricing methods along with their positive and negative impacts.
2. Attempt the following questions : 14
- (a) Division A of a manufacturing company has set a target sales of 4,00,000 units of a product at a price to fetch a return of 25% on the asset employed. The following data are available :

Fixed Cost	₹ 8,00,000
Variable cost	₹ 1%
Assets employed	
Fixed assets	₹ 8,00,000
Current assets	₹ 16,00,000

The market can, however absorb only 2,80,000 units consequently, Division B is advised to buy 1,20,000 units. Division A is willing to supply this quantity to Division B at ₹ 4.50/unit. Division B however wants it at ₹ 2.25/unit. If A refuses to supply B its requirements of 1,20,000 units at ₹ 2.25/unit and restricts its activity to 2,80,000 units of market sale it could reduce the investment in stocks to the tune of ₹ 2,00,000 and the fixed assets by ₹ 2,80,000. Besides its selling expenses will go down by ₹ 1,00,000.

You are required to prepare statements and advise whether A should agree to supply B's requirement of 1,20,000 units at ₹ 2.25/unit.

(b) Growmore Ltd's performance in the year 2003-04 is :

Net sales	₹ 12 lakhs
Net profit	₹ 1 lakh
Net Assets	₹ 6 lakhs

The company will increase investment by 1% in the beginning of 2004-05. Assuming that the marginal ratio and the ROI percent remain at last year's level, how much the company should increase its sales ?

OR

2. A large company is organised into several manufacturing divisions. The policy of the company is to allow the divisional managers to choose their sources of supply and when buying from or selling to sister divisions, to negotiate the prices just as they will for outside purchases or sales.

Division X buys all of its requirements of its raw material R from Division Y. The full manufacturing cost of R for division Y is ₹ 88/kg at normal volume. Till recently division Y was willing to supply R to division X at a transfer price of ₹ 80/kg. The incremental cost of R for Division Y is ₹ 76/kg. Since Division Y is now operating at its full capacity, it is unable to meet the outside customer's demand for R at its market price of ₹ 100/kg. Division Y therefore threatened to cutoff supplies to Div. X unless the latter agrees to pay the Market price for R. Division X is resisting the pressure because its budget based on the consumption of ₹ 1,00,000 kg/month at a price of ₹ 80/kg is expected to yield a profit of ₹ 25,00,000/month and so a price increase to ₹ 100/kg will bring the Div. X close to break-even point.

Division X has even found an outside source for a substitute material at a price of ₹ 95/kg. Else, Division X is prepared to pay Division Y @ the manufacturing cost of ₹ 88/kg.

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Required :

- (1) Using each of the transfer price of ₹ 80,88,95,100, show with supportive calculations, the financial results projected by the :
 - (a) Manager of Division X
 - (b) Manager of Division Y
 - (c) Company

- (2) If you were to make a decision in the matter without regard to the views of the Division managers, where should Division X obtain its raw materials and at what price ?

3. Attempt any **two** from the following :

14

(a) What is Budgeting ? Explain Budgeting Process in detail.

(b) In current year Sun Ltd., operating at 60% of its capacity produces & sells 1,20,000 units.

Cost details of the company at different capacity utilisation rate are as follows :

Particulars	Capacity Utilisation Rate	
	40% (in ₹)	60% (in ₹)
Direct Material	1,10,000	1,50,000
Direct Labour	55,000	75,000
Factory Overheads	31,000	35,000
Admin Overheads	32,000	32,000

Direct material, admin overheads and fixed factory overheads are expected to grow at 10%; where as direct labour, variable factory overheads are expected to grow at 5%.

Prepare flexible budget at 80% capacity utilisation rate for the next year, assuming profit as 20% on sales.

(c) Following data is available for Fresh Ltd. for pre-determined standards :

Company has decided to produce 50,000 kg per month.

Direct Labour	
Total standard time for production is 1,50,000 hours, which requires skilled and unskilled labour both as follows :	
Skilled Labour	50,000 hrs. at ₹ 50 per hour
Unskilled Labour	1,00,000 hrs. at ₹ 25 per hour

In previous month, company has incurred following costs for producing 48,000 kg of output :

Direct Labour	
Skilled Labour	48,000 hrs. for ₹ 28,80,000
Unskilled Labour	1,05,000 hrs. for ₹ 24,15,000

Calculate all possible labour variances.

4. Attempt any **two** from the following : **14**
- (a) How can organizations evolve their performance measurement systems to capture value beyond traditional financial metrics ?
 - (b) How can the Balanced Scorecard framework be leveraged to drive strategic alignment and long-term performance across all key areas of an organization ?
 - (c) What are the different incentive compensation design options available for business unit managers ?
5. Attempt any **two** from the following: **14**
- (a) Which type of service organisation, an audit firm is ? Explain how Management Control System of an audit firm can be framed.
 - (b) 'Management Control System of an MNC differs from a domestic firm, due to prevalence of cultural differences.' Explain.
 - (c) Explain Management Control System of Project Organisation, when it is in project execution phase.
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