Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 4 – EXAMINATION – WINTER 2018

Subject Code: 2840007 **Date:05/12/2018**

Subject Name: Management Control System

Time:02:30 Pm To 05:30 Pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Marks

Q.1 (a) **Objective Questions** **6**

1. Organizational control systems:

A. always penalize ethical decision making.
B. may help to embed corporate social responsiveness.
C rely entirely on formal controls
D. are just another name for budgeting

2. Method of pricing, when two separate pricing methods are used to price transfer of products from one subunit to another, is called

A. Dual Pricing
B. Functional Pricing
C. Congruent Pricing
D. Optimal Pricing

3. Per unit opportunity cost to selling subunit of company, is added into per unit incremental cost is incurred at point of transfer to calculate

A. Minimum Operating cost
B. Maximum Operating costs
C. Maximum Transfer price
D. Minimum Transfer price

4. Which of the following term is used to describe an organization subunit whose managers are held responsible for costs and in which the relationship between costs and output is well defined?

A. Cost center
B. Revenue center
C. Profit
D. Investment center

5. The objective of Value chain analysis is

A. To ascertain the cost of each activity
B. To make each activity cost effective.
C. To control the cost of each activity
D. To recognize the cost incurred for each activity

6. Zero-based budgeting

A. Is an approach to budgeting that solely applies to public sector organizations
B. Is best carried out on a quarterly basis
C.Is an approach in which managers are required to justify all budgeted expenditures, not just changes in the budget from the previous year
D. Should be undertaken on a routine basis

Q.1 (b) **04**

1) Core Competency
2) Zero Base Budgeting
3) Key Success Factor
4) Balance Score Card

Q.1 (c) "Management Control System plays crucial role in the success of business" Discuss the statement with example. **04**

Q.2 (a) What is Goal Congruence? Discuss factors affecting Goal congruence. **07**

Q.2 (b) What do you mean by Responsibility center? Explain the types of responsibility center **07**

OR

Q.2 (b) Explain Profit center. Discuss the condition for delegating business unit to be declare as profit center along with Pros & cons. **07**

Q.3 (a) Explain fundamentals principles of Transfer pricing. And discuss Ideal situation for implementing Transfer pricing. **07**

Q.3 (b) Define EVA and ROI. Explain advantages and disadvantages of EVA and ROI and discuss difference between EVA and ROI **07**

OR

Q.3 (a) What do you mean by Transfer pricing. And discuss various methods for transfer pricing. **07**

Q.3 (b) Suppose your company fixes The Inter- divisional transfer prices for its products on the basis of cost plus a return on investment in the division. The budget for Division – X for financial year 2016 -17 appears as under: **07**

Investment in Division 'X'	Amount
Fixed Assets	500000
Debtors	200000
Current Assets	300000
Annual cost of the Division	800000
Variable cost p.u.	10
Budgeted volume per year	400000 units
Desired ROI	28%

Determine the price for Division 'X'.

Q.4 (a) What is Interactive Control? Discuss control as a Strategy formulation and implementation tool. **07**

Q.4 (b) P & G uses a traditional standard costing system to control costs & established following material standards. Compute Material variances. (a) Material price variance (b) Material Usage variance (c) Material Cost variance. **07**

Actual Quantity - 2500 units
Actual price per unit - ₹ 3
Budgeted Quantity - 2400 units
Budgeted price per unit - ₹ 2.50

OR

Q.4 (a) Differentiate between application of MCS in Manufacturing organization and Service organization. **07**

Q.4 (b) With the following data for 60% capacity. Prepare budget for production 80% and 100%. **07**

Production at 60% is of	600 units
Material per unit	₹ 100
Labour per unit	₹ 40
Expenses per unit	₹ 10
Factory expenses	₹ 40000 [40% fixed]
Administration expenses	₹ 30000 [60% fixed]

Q.5 IBM Electronic makes three products P, Q and R. P is for an exclusive segment. Q is for upper class, not so exclusive segment. R is for mass segment. They have different brand names and are sold through different distribution channels. IBM Electronics consider P, Q and R as separate divisions. The manufacturing lines are also divisionalized. But some components are common between them. IBM centrally buys some of these components and allows each of the divisions to specialize in the manufacture of particular components which are them not purchased from outside sources. These decisions to make these components are made for many complex reasons. From past records, it was noticed, Divisions P innovates in new products which are then incorporated by Divisions Q and R. conversely, Division R has a track record of excellent process innovations that reduce costs and these are picked up by P and Q. **14**

Questions:

1) Should P, Q and R be profit centers? If yes, should they provide a bonus on their individual profits? If no how do we encourage them for improvement?
2) What should the transfer price policy be between them for components or cost centers?
3) Should central purchase costs be transferred to the divisions? If yes what should be the basis?

OR

Q.5 **14**

The SBU in New Semiconductor Product company was engaged in the design and manufacturing of special-purpose semiconductor assemblies called hybrids. This product involved mounting and interconnecting active and passive microelectronic components within a single, small package. At the time of the preparation of the 1990 strategic plan, a decision was made to transfer responsibilities for these hybrids to this SBU. The SBU then assumed responsibility for maintaining and expanding hybrid products. At mid-year, contacts with a major existing customer indicated possible interest in a very large quantity of hybrids for controlling small electric motors. The product manager became very interested in capitalizing on this opportunity to expand sales, consistent with the new business unit responsibility. After exploratory conservations with the customer, it became apparent to the product manger that capital investment of over $ 1 million would be required to procure the production equipment to meet these new production requirements. Since this opportunity was not foreseen when the previous strategic plan was revised, a strategic investment proposal was normally required.

The product manger used a series of informal channels to alert upper management to the possibility of this investment. She also prepared a preliminary version of the CEA for review, subject to refining the final details upon continuing conservations with the customer. In preparing this preliminary version of CEA, the product manager took care to ensure that the financial analysis was well supported and of high quality. In turn, upper management began to alert the CEO as opportunity presented itself. The proposal was considered highly attractive informal discussions at this stage because of the general reputation of the customer. Also, expansion of this product line was consistent with the new strategic charter of the business unit. Moreover, economic returns were promising.

On the basis of this preliminary atmosphere of approval, the investment was included in the capital plan even though it was not included in the strategic plan prepared only a few months earlier. The actual investment was subject to the preparation and approval of the CEA. With all of this pre- warning, coupled with very favorable investment characteristics, the CEA worked its way up the approval latter very quickly. It was signed by the president of the company one month after its preparation.

Questions:

1) What actual role did the formal approval process play in the actual approval of this project?
2) Who provided the impetus for this project?

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