Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER - 4 – EXAMINATION – SUMMER 2016

Subject Code: 2840007 **Date: 03/05/2016**

Subject Name: Management Control System

Time: 10.30 AM TO 01.30 PM **Total Marks: 70**

Instructions:

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

Q-1 (a) Answer the following MCQs **06**

1 Any control system has four important elements. Which element helps in comparing the actual results with the standard or expected results?

A. A detector B. An assessor
C. An effector D. Communication network.

2 Identify the main functions of a controller?

A. To design the control system B. To prepare financial reports and statements for the clear understanding of the shareholders and external parties
C. To develop internal auditing systems for the control of the physical and monetary assets of the firm D All of the given

3 Responsibility centers in which output is measured in monetary terms are termed as-

A. Profit center B. Investment center
C. Revenue centers D. Expense center

4 What are the costs for which a technical relationship can be established between cost and output known as?

A. Direct costs B. Indirect costs
C. Discretionary costs D. Engineered costs

5 Transfer pricing evolved

A. To improve profit of a company B. To improve profit of a division of a company
C. To cut necessary expenditure of the division of a company D. To estimate the financial needs of the company

6 The day-to-day activities of an organization are controlled by:

A. Management Control System B. Operational Control System
C. Both (a) and (b) D. None of the above.

Q.1 (b) Explain the following terms **04**

1. Engineered cost
2. Agency cost
3. Work packages
4. Information asymmetry

Q.1 (c) Explain the difference between strategic formulation and Management control system. **04**

Q-2 (a) What is the meaning of responsibility center? What are the difficulties in establishing research and development as responsibility center? **07**

(b) How corporate level strategy is formulated for related diversified industry? Explain with practical example. **07**

OR

(b) Explain the advantages and limitation of establishing profit center. **07**

Q.3 **(a)** How is the management control of project different from ongoing activities? **07**

(b) Distinguish between strategic planning and strategic formulation. How a new proposed program is evaluated through strategic planning? **07**

OR

Q.3 **(a)** What are the limitations of variance analysis? Explain. **07**

(b) What are limitations of financial related control systems? How the limitation can be overcome? **07**

Q.4 **(a)** Explain stock option as a long-term incentive plan. Are the CEO of the companies overpaid, explain with practical example. **07**

(b) What are the additional considerations involved in transfer pricing for MNCs, in the case of goods transferred to host country? **07**

OR

Q.4 **(a)** How the management control in service industry different from manufacturing industry? Explain **07**

(b) Explain the transaction and economic exposure faced by MNCs with suitable example. **07**

Q.5 **(a)** The MNO Company used the residual income method for measuring divisional profit performance. The company charges each division a 5% return on its average current assets and a 10% return on its average fixed assets. Listed below are some financial statistics for three divisions of the MNO Company: **14**

	Divisions		
Budgeted Data	**M**	**N**	**O**
2016 Budgeted Profit	90000	55000	50000
2016 Budgeted current asset	100000	200000	300000
2016 Budgeted Fixed Assets	400000	400000	500000
Actual Data			
2016 Profits	80000	60000	50000
2016 current assets	90000	190000	350000
2016 Fixed assets	400000	450000	550000

Required:

1. Calculate the ROI objective and actual ROI for each division for 2016.
2. Calculate the EVA objective for each division for 2016.
3. Calculate the actual EVA for each division for 2016 and calculate the extent that it is above or below objective.
4. Show the impact on the decision, with the help of EVA and ROI for the mentioned condition.

Situation 1: An investment in fixed assets is made. This action increases the average fixed assets by Rs.100000 and profits by Rs.10000

OR

Q.5 **(a)** A company is organized on decentralized lines, with each manufacturing division operating as a separate profit center. Each division manager has full authority to decide on sale of the division's output to outsiders and to other divisions. **14**

Decision C has always purchased its requirements of a component from

Division A. But when informed that Division A was increasing its selling price to Rs.150, the manager of Division C decided to look at outside suppliers.
Division C can buy the component from an outside supplier for Rs.135. But Division A refuses to lower its prices in view of its need to maintain its return on the investment.

The top management has the following information:
C's annual purchase of the component 1000 units
A's variable costs per unit Rs.120
A's fixed cost per unit Rs.20

Required:

1. Will the company as a whole benefit, if Division C bought the component at Rs.135 from an outside supplier?
2. If A did not produce the material for C, it could use the facilities for other activities resulting in a cash operating savings of Rs.18,000. Should C then purchase from outside sources?
3 Suppose there is no alternative use of A's facilities and the market price per unit for the component drops by Rs.20, should C buy from outside?