

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,

PGDM – A & B – III TRIM – 2017-19 BATCH

Subject: Management Control Systems

Maximum Marks: 25

Duration: 3 Hrs

Date:30-3-2018

Q1 is compulsory which carries 10 marks and Q.2 to Q6 answer any three which carries 5 marks.

Q1)Hewlett Packard (HP) manufactures various types of color laser printers in a highly automated facility with high fixed costs. The market for laser printers is competitive. The various color laser printers in the market are comparable in terms of features and price. HP believes that satisfying customers with products of high quality and lower costs by improving yields and reducing defects in its manufacturing operations. HP will train workers and encourage and empower them to take the necessary actions. Currently, a significant amount of HP's capacity is used to produce products that are defective and cannot be sold. HP expects that higher yields will reduce the capacity that HP needs to manufacture products. HP does not anticipate that improving manufacturing will automatically lead to lower costs because HP has high fixed costs. To reduce fixed costs per unit, HP could lay off employees and sell equipment, or it could use the capacity to produce more of its current products or improved models of its current products. HP's Balanced scorecard for fiscal year 2009 follows:

objectives	Measures	Target performance	Actual performance
Financial perspective			
Increase shareholder value	operating income changes from productive improvements	Rs10000000	Rs 4000000
	operating income changes from growth	Rs 15000000	Rs 6000000
Customer perspective			
Increase market share	Market share in color laser printers	5%	4.60%
Internal Business Process			
Improve manufacturing quality	yield	82%	85%
Reduce delivery time to Customers	order delivery time	25 days	22 days

Learning and growth perspective	Measures	Target	Actual
Develop process skills	Percentage of employees trained in process and qty. mgmt	90%	92%
Enhance information system capabilities	Percentage of manufacturing processes with real time feedback	85%	87%

Questions

- 1) Was HP successful in implementing its strategy in 2009 Explain
- 2) Is HP's balanced scorecard useful in helping the company understand why it did not reach its target market share in 2009? give reasons for the answer, explain what other measures you might want to add under the customer perspective and why
- 3) Would you have included some measures of employee satisfaction in the learning and growth perspective and new product development in the internal business perspective? That is, do you think employee satisfaction and development of new products are critical for HP to implement its strategy
- 4) What problems, if any, do you see in HP improving quality and significantly downsizing to eliminate unused capacity?
- 5) Add two more relevant measures in IBP perspective in order to achieve the chosen strategy

Question No. 2

A Co. has two divisions, viz., Processing and Refining. Processing division produces 500 tonnes of product M from 1000 tonnes of raw material per month. Refining produces 300 tonnes of product FM from 500 tonnes of M received from the Processing Division. The cost data are:

Processing Division: Raw Materials Variable Costs Fixed Costs	Rs.12 per tonne of input Rs.80 per tonne of output Rs.50000 per month
Refining Division: Variable Costs Fixed Costs	Rs.30 per tonne of output Rs.21000 per month

The market price of product M is Rs.500 per tonne and of product FM is Rs.1200 per tonne.

Required:

1. Compute, the overall profit of the company for the month
2. Compute the profit of each division based on the following pricing methods:
 - (a) 200% of variable costs of Processing Division for M.
 - (b) Market price for M

3. Which method will you recommend and why?

Question 3

(A) ALT Ltd. operates a number of divisions located at different regions. Division Y has incurred a losses in the first half of the current year 2011-2012.

Particulars	Rs. Lakhs
Sales	15
Controllable variable cost	9
Controllable fixed costs	3
Attributable segment costs	2
Common firm wide costs allocated to this division	1.20

You are required to prepare a performance evaluation statement of division Y and advice the management whether its operation should be continued or shut down.

Question 4

A company is currently working at 50% capacity. It sells 20000 units now at price per unit of Rs.100. the cost per unit is Rs.90. Breakup of this is as follows:

Material cost	Rs.40
Manufacturing cost	Rs.30 (30% fixed)
Selling Cost	Rs.10 (40% fixed)
Administration cost	Rs.10 (50% fixed)

When company works at 80% of its capacity selling price would fall by 5% and material cost would go up by 5%. Calculate Profit at 50% and 80% level. Should company at its full capacity?

Question 5

ABC CO. fixes the inter-divisional transfer prices for its product on the basis of cost plus a return on investment in the division. The budget for Division A for 2004-05 is as under:

Fixed assets	250000
Current Assets	150000
Debtors	100000
Annual fixed cost of the Division	400000
Variable cost per unit	10

Budgeted volume 200000 units per year

Desired ROI 28%

Determine the transfer price for Division A

Question 6 (5 marks)

Explain Goal congruence with suitable diagrams and write its importance in organisations.