

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077

Program: PGDM –A / B Trim III
Subject: Management Control System
(End Term Examination)

Maximum Marks: 50

Duration: 3 hour

Date: 1 April 2017

Instructions

Question 1 is compulsory and attempt ANY THREE questions from the rest.

Question 1

a) In the given case, give your suggestions on which offer should Northern Division accept and why?

b) How should the Corporate office resolve the transfer pricing differences between the divisions?

14

marks

Question 2

12 marks

In a cotton textile mill, the spinning superintendent, weaving superintendent, and the processing superintendent report to the Mill Manager who along with the Chief Engineer reports to Director (Technical). The sales Manager along with publicity manager reports to Director marketing who along with Director Technical reports to the Managing Director. The following data have been extracted from the books for a particular period.

	Budget	Variance
Travelling expense	40,000	2,000 A
Publicity Department Salaries & Administration	1,20,000	10,000 A
Sales Commission	2,50,000	10,000 F
Spinning Department Labour	8,00,000	40,000 A
Weaving Department Labour	6,00,000	20,000 A
Raw Materials	28,00,000	1,20,000 A
Process House material	7,00,000	60,000 F
Maintenance Stores	2,00,000	10,000 F
Processing Dept. Labour	5,00,000	12,000 A
Maintenance Dept. labour	2,60,000	5,000 F
Utilities - Spinning Dept	1,50,000	15,000 A
- Weaving Dept	2,00,000	10,000 F
- Processing dept.	3,00,000	50,000 A
Maintenance Dept.	50,000	10,000 A
Weaving Materials	1,00,000	5,000 A
Sales Dept., salaries & administration	1,00,000	5,000 F
Publicity Expenses	2,00,000	2,000 F
Director (technical) Office Salaries & administration	1,75,000	25,000 A

Director(Marketing)Office Salaries & administration	2,00,000	10,000 F
MD's Office Salaries & administration	2,50,000	20,000 A
Mill Manager's Salaries & Administration	1,00,000	5,000 A
Sales	1,00,00,000	12,00,000 A

A= adverse; F = favourable

Prepare responsibility accounting reports for the Managing Director, Director (Marketing), Director (Technical) and Mill Manager

Question 3

12 marks

A Company is organized on decentralized lines with each manufacturing division operating as a separate profit centre. Each division manager has full authority to decide on sale of the divisions output to outsiders and to other divisions.

Division C has always purchased its requirements of a component from Division A. But when informed that Division A was increasing its selling price to `150, The manager of Division C decided to look at outside suppliers.

Division C can buy the component from an outside supplier for ` 135. But Division A refuses to lower its price in view of its need to maintain its return on Investment.

The top management has the following information-

C's annual purchases of the component – 1000 units

A's variable cost per unit - ` 120

A's fixed cost per unit - ` 20

a) Will the company as a whole benefit, if Division C bought the component at ` 135 from an outside supplier?

b) If A did not produce the material for C, it could use the facilities for other activities resulting in a cash operating savings of `18,000. Should C then purchase from outside sources?

c) Suppose there is no alternative use of As facilities and the market price per unit for the component drops by ` 20 should C buy from outside?

Question 4

12 marks

Asian artifacts manufactured terracotta sculpture horses which were famous in the art market. The horses were all of the same size.

The following information is the static budget for 2016:

Expected sales was 5000 units at Rs.300 per horse. The sales manager was responsible for this.

The production manager was expected to produce the quantity which the sales manager could sell.

The standard quantity of the special mud used was 10 kilo per horse.

The purchase manager was expected to buy the material at Rs.10 per kilo

The production manager was expected to use four hours labour per horse

The personnel manager was expected to hire labour at Rs.40 per hour.

Other fixed costs was Rs.1,00,000 controlled by the general manager

The actual results of the year were:

Produced and sold 6000 horses at Rs.590

Direct Material 54,000 kg at Rs.11 per kg

Direct labour 25000 hours at Rs. 38 per hour

Actual fixed costs Rs.1,05,000

It was decided that a bonus of five per cent on favourable variances and penalty of one percent on unfavourable variances will be distributed to the responsibility holders.

Required: Suggest the amount of variances to be distributed to each RC. Explain your variances.

Question 5 Answer any THREE

12 marks

- a) Explain the problems of using ROI as a performance measure
- b) Distinguish engineered expense centre and discretionary expense centre
- c) Which method of transfer pricing is better?
- d) How is Balanced Scorecard a superior measure of performance?

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