

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH
Vidyavihar Mumbai- 400077
Program: PGDM- IB SEM-4
Subject: Management Control Systems
(End Term Examination)

Maximum Marks: 25

Duration: 2 hours

Date: 12th September, 2017

Instructions

Question No. 1 is compulsory. Out of the remaining three questions, attempt any TWO.

Question 1

Prepare a Balanced Scorecard for the Case attached.

Question 2.

CCLS IS A SEAFOOD RESTAURANT CHAIN operating in the northeast part of the country. The company has two sources of long term capital: debt and equity. The cost to CCLS of issuing debt is the after tax cost of the interest payments on the debt taking into account the fact that the interest payments are tax deductible. The cost of CCLS's equity capital is the investment opportunity rate of CCLS's investors, that is the rate they could earn on investments of similar risks to that of investing in CCLS. The interest rate on CCLS's ` .80 Million of long term debt is 9 per cent, and the company's tax rate is 40 per cent . The cost of CCLS's equity capital is 14 per cent. Moreover, the market value (and book value) of CCLS's equity is ` 120 million.

CCLS consists of two divisions, the properties division and the food service division. The financial particulars for the most recent year are as follows:

Division	Total assets	Current Liabilities	Pre tax Operating Income
Properties	145,000,000	3,000,000	29,000,000
Food Service	64,000,000	6,000,000	15,000,000

1. Calculate the weighted average cost of capital for CCLS
2. Calculate the economic value added (EVA) for each of CCLS's division.

Question 3

The AB Co has two divisions X & Y. One of the parts produced by Division X is used in the manufacture of a product that is assembled at Division Y. This part is not unique and there is readily defined market so that X can sell outside the firm and Y can buy from outside.

Following details are available in respect of Division X –

Capacity to produce the part	1,25,000 units
External sales at Rs.100 per unit	1,00,000 units

Transfer to Division Y	25,000 units
Variable production cost per unit	Rs.84
Variable selling cost per unit (only on external sales)	Rs.2
Fixed production costs per unit (based on 1,25,000 units)	Rs.6
Fixed selling costs per unit (based on 1,00,000 units)	Re.1

The Division Y represents the following data on the assumption of a volume of 25,000 units (one part is required for each unit of its own production)

Variable production cost per unit (excluding transfer or outside purchase price)	Rs 100
Variable selling cost per unit	Rs.6
Fixed production cost per unit	Rs.10
Fixed selling cost per unit	Rs.4
Selling price of Finished product	Rs.240

You are required to make the following calculations:

1. If Division X could sell 1,25,000 units at Rs.100 each in the outside market, what transfer price the central management would prefer in order to provide proper motivation to Division Y
2. As a Management Accountant, would you advise Division Y to buy at the transfer price determined in 'a' above?
3. Assume transfer price as in 'a' above If selling price drops to Rs.200 , should Division y buy at that price? Would this be advisable from the point of view of the firm and why?

Question 4 Answer any TWO

- a) Explain the problems of using ROI as a performance measure
- b) Which transfer pricing approach is better
- c) How is a Balanced Scorecard a superior measure of performance?

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