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Program: PGDM (IB) 2018 – 20 Tri III Management Control System

Maximum Marks: 25 Duration: 2 hours

Date: 29 March 2019

<u>Instructions</u>

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

Question 1

Explain the variance in profits as given in the case attached.

Question 2

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 A's facilities and the market price per unit for the component drops by `20 should C buy from outside?

Question 3

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

Expenses	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 administration	1,75,000	25,000 A
Director(Marketing)Office 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

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.

A= adverse; F = favorable

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

Question 4 Answer any THREE

- a) Compare Budgets with Standards as a control measure
- b) Explain the problems of using ROI as a performance measure
- c) How does a Balanced Scorecard translate a company's strategy to a control measure?
- d) Market based transfer pricing and its pros and cons