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

Program: PGDM-FS *Trim VI*
Subject: Management Control System
(End Term Examination)

Maximum Marks: 50
Duration: 3 hour

Date: 11 April, 2019

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**

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 2018:
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 unfavouable variances will be distributed to the responsibility holders.

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

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

Question 4 **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 Revenue	1,00,00,000	12,00,000 A

A= adverse; F = favouable
Prepare responsibility accounting reports for the Managing Director, Director (Marketing), Director (Technical) and Mill Manager

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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