

SVKM's NMIMS UNIVERSITY
School of Distance Learning

Management Control Systems
PGDBM

Date: 29.5.2007
Time: 3.00 pm to 6.00 pm

Marks: 100

Note: Answer any FIVE questions. Each question carries 20 marks. There are ten questions in all.

1. Discuss the various ways of delegating the authority and associated responsibility in an organization. What factors usually determine delegation?
2. What factors need to be considered while setting up responsibility centres? Discuss the different types of responsibility centres and how performance of each of these can be evaluated?
3. What problems are faced in evaluating Profit centres? How do the boundary conditions influence the measurement of the performance of profit centers?
4. What is performance related compensation? What are its advantages? What are the pitfalls against which we must guard ourselves before introducing the same?
5. Prepare a matrix showing different transfer pricing models, situations ideal for each case, and advantages and problems of using different transfer prices.
6. Companies tend to look at transfer pricing not just as a mere accounting exercise, but also as an important tool in policy formulation towards achievement of corporate objectives. Discuss.
7. The Apparels division of Ibis Apparels uses yarn from Ibis Yarns, the spinning division which is operating at full capacity. The yarns division sells part of its output to regular outside customers at Rs. 15.00 a unit. Apparels division has now offered Rs.10.00 a unit for the yarn. It sells its products in the open market only.

The cost structure of Apparel Division is estimated as follows:

| | |
|----------------------|---------------|
| Selling price | Rs. 100 |
| Outside supplies | 40 |
| Ibis yarn supplies | 10* |
| Other variable costs | <u>15</u> |
| Fixed overheads | <u>Rs. 95</u> |

The Apparels Division is operating at about 50 per cent of its capacity and the divisional management believes that saving of Rs. 5.00 per unit of yarn which is a major part of the Apparel Divisions' input, can give it a price advantage in the market and will be able to increase its capacity utilization. The company uses return on investment to measure the financial performance of divisional managers.

- a) Assuming that you are the divisional manager of Ibis Yarns, will you agree to selling yarn at Rs. 10.00 to Apparel Division? Why or why not?
 - b) Will it be the immediate economic advantage of Apparel Division if the yarn division supplied yarn at Rs.10.00 per unit? Explain.
 - c) Can you evaluate the management issue involved in this situation? What will be your stand if you were the President of Ibis Company?
8. Differentiate between a profit center and an investment center. Which one do you think is a better device from the management control point of view and why?
 9. What problems are likely to be faced in evaluating the performance of investment centres? Are the performance of investment centres and the performance of its managers two different things? Discuss.
 10. The average asset balances of the Apparel division's of Ibis for 1999 are given below:

| | | |
|------------------------------|--------------|---------------|
| Cash | | Rs. 2,50,000 |
| Receivables | | 3,75,000 |
| Inventory: | | |
| Raw materials | Rs. 2,50,000 | |
| Works in process | 1,30,000 | |
| Finished goods | 2,45,000 | 6,25,000 |
| Gross fixed assets | Rs.2,500,000 | |
| Accumulated depreciation | 10,00,000 | 15,00,000 |
| Total : | | 27,50,000 |
| Current liabilities | | Rs. 7,50,000 |
| Equity | | 20,00,000 |
| Total liabilities and equity | | Rs.27,500,000 |

During 1999 the Apparel division earned a profit of Rs.3, 00,000 before taxes on total sale of Rs.40, 00,000.

- a) Compute ROI using net total assets (that is total assets less current liabilities) as the investment base.
- b) Compute RI using a capital charge of 10% on net total assets.
- c) If the corporate management desires, the division to increase its ROI by 5% during 2000, what change in the profit margin on sales or asset turnover ratio would be required?