

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 4 – EXAMINATION – SUMMER 2019

Subject Code: 3549285

Date: 03/05/2019

Subject Name: Management Control Systems (MCS)

Time: 10:30 AM To 01:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 Explain the Terms

14

- (a) Management Control System
- (b) Responsibility Centre
- (c) Transfer Price
- (d) Performance Measurement
- (e) Interactive Control
- (f) EVA
- (g) Goal Congruence

Q.2 (a) Discuss and Differentiate between Task Control & Management Control

07

(b) Explain the concept of Responsibility Centre. Describe types of Responsibility Centre.

07

OR

(b) Explain similarities and differences between a Revenue Center and Expense Center.

07

Q.3 (a) “Responsibility Centers constitute the structure of management control system and its functions as performance measurement tool of the managers”. – Discuss in context with Profit Center.

07

(b) Calculate Economic Value Added (EVA) with the help of the following information of Lamda Company Ltd.

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Equity : Rs. 100 lakhs
Debentures: Rs. 20 lakhs
Unsecured Loans : Rs. 30 lakhs
Profit After Tax : Rs. 15.83 lakhs
Rate of Tax : 40%
Cost of Equity Capital : 12%
Cost of Debentures : 8%
Cost of Unsecured Loan : 10%

OR

Q.3 (a) Explain different corporate level strategies and their implications with respect to Management Control.

07

(b) What is transfer pricing? Why and how it is used? Explain with example.

07

Q.4 (a) Write a note on Management by Objectives (MBO).

07

(b) Describe Balanced Scorecard method. What are its advantages?

07

OR

- Q.4 (a)** From the following data of Product A, B and C of Maharaj Corporations calculate the Selling Price Variance **07**

Particulars	Product A	Product B	Product C
Actual Sales Volume	1,00,000	2,00,000	1,50,000
Actual Price per unit	Rs.0.90	Rs.2.05	Rs.2.50
Standard Price	Rs.1	Rs.2	Rs.3

- (b)** What are the key consideration of determination of transfer price in Multinational organizations **07**

Q.5 CASE STUDY:

Nataraj Company is a highly diversified company which grants its division executives a significant amount of authority in operating the divisions. Each division is responsible for its own sales, pricing, production, and cost of operations and the management of accounts receivables, inventories, accounts payables and use of existing facilities. Cash is managed by Corporate headquarters, all cash in excess of normal operating needs of the divisions is transferred periodically to corporate headquarters for redistributions or investment.

The division executives are responsible for presenting requests to corporate management for investment projects. The proposals are analyzed and documented at corporate headquarters. The final decision to commit funds to acquire equipment, to expand existing facilities, or for other investment projects is necessitated by Nataraj's Capital allocation policy.

The corporation evaluates the performance of division executives by the return on investment (ROI) measures. The asset base is comprised of fixed assets employed plus working capital exclusive of cash.

The ROI performance of division executive is the most important appraisal factor for salary changes. In addition, the annual performance bonus is based on the ROI results, with increase in ROI having a significant impact on the amount of the bonus.

The Nataraj Corporation adopted the ROI performance measure and related compensation procedures about 10 years ago. The company did so to increase the awareness of divisional management of the importance of the profit asset relationship and to provide additional incentive to the division executives to seek investment opportunities. The company seems to have benefited from the program. The ROI for the corporation as a whole increased during the first years of the program. Although the ROI has continued to grow in each division, the corporate ROI has declined in recent years. The corporation has accumulated a sizeable amount of cash and short – term marketable securities in the past 3 years.

The corporate management is concerned about the increase in the short-term marketable securities. A recent article in a financial publications suggested that the use of ROI was overemphasized by some companies, with results similar to those experienced by Nataraj.

- (a) Describe the specific actions divisions managers might have taken to cause the ROI to grow in each division but decline for the company. Illustrate your explanation with appropriate examples. **07**
- (b) What changes could be made in Nataraj Company's Corporation policy to avoid this problem? Explain your answer. **07**

OR

- (a) Explain using the concepts of goal congruence and motivation of division executives, how Nataraj's overemphasis on the use of the ROI measure might result in the recent decline in the company's return on investment and the increase in cash and short-term marketable securities. **07**
- (b) What are the Other ways (Control Strategy) that can be used by the Nataraj Company to balance the performance of the organization rather to stay emphasized on ROI? **07**
