

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA – SEMESTER - 04 – EXAMINATION – SUMMER 2017**

**Subject Code: 2840007**

**Date: 01/06/2017**

**Subject Name: Management Control Systems**

**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 (a)**

**06**

1. A responsibility center where the manager is accountable for only the revenues and costs is a(n):  
A. Cost Center B. Revenue Center  
C. Investment Center D. Profit Center
2. The route with alternatives for reaching objectives and goals is referred to as:  
A. Goal B. Policy  
C. Strategy D. Objectives
3. Which of the following is a type of expense?  
A. Discretionary expense B. Engineered Cost  
C. Both (A) and (B) D. Neither (A) or (B)
4. In cost-based transfer pricing, which costing methods are used?  
A. Standard cost B. Full cost  
C. Arbitrary cost D. Direct cost
5. Budgeting in which lower level managers participate is known as:  
A. Top-down B. Bottom-up  
C. Zero-based D. Financial
6. Co-ordination and control of day-to-day operations are done by:  
A. Top level management B. Lower level management  
C. Middle level management D. None of the above

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|------------|------------|---|-----------|
| <b>Q.1</b> | <b>(b)</b> | Define followings:<br>1) Goal Congruence 2) Expense Center 3) Strategic Planning 4) SBU | <b>04</b> |
|            | <b>(c)</b> | Differences between EVA and ROI.  | <b>04</b> |
| <b>Q.2</b> | <b>(a)</b> | Explain with diagram various elements of Management Control System.                     | <b>07</b> |
| <b>Q.2</b> | <b>(b)</b> | Discuss the impact of internet on Management Control System.                            | <b>07</b> |
|            |            | <b>OR</b>   |           |
|            | <b>(b)</b> | Explain the concept of Balanced Score Card. State its importance in an organization.    | <b>07</b> |
| <b>Q.3</b> | <b>(a)</b> | Define Responsibility Center. Distinguish between Profit Center & Revenue Center.       | <b>07</b> |
|            | <b>(b)</b> | Explain process of formulating Corporate Level Strategy in detail.                      | <b>07</b> |

**OR**

- Q.3** (a) What is Transfer Pricing? Discuss Two step pricing method with its merits and demerits. **07**
- (b) How Budget is different from Forecast? Discuss advantages & disadvantages of Zero Based Budgeting. **07**

- Q.4** (a) Discuss various types of variances of financial performance reports. **07**
- (b) Write a note on Agency theory in Compensation Management. **07**

**OR**

- Q.4** (a) Discuss Management Control Systems for Professional Services Organization. **07**
- (b) Explain the concept of Performance Measurement System (PMS) and framework for designing PMS. **07**

**Q.5** **14**

The XYZ Company had two decentralized divisions: A & B. Division A has always purchased certain units from Division B at Rs. 7500 per unit. Because Division B plans to raise the price to Rs. 10,000 per unit, Division A desired to purchase these units from outside suppliers for Rs. 7,500 per unit. Division B's costs are as follows:

B's variable cost per unit Rs. 7,500

B's annual fixed cost Rs. 15,00,000

A's annual purchase from B is 1,00,000 units

**Required**

If Division A buys from the outside supplier, the facilities Division B uses to manufacture these units would remain idle. Would it be more profitable for the company to enforce the transfer price of Rs. 10,000 per unit than to allow A to buy from outside suppliers at Rs. 7,500 per unit?

**OR**

**Q.5** **14**

Havells India Ltd. manufactures and sells lighting product. Havells's sales and marketing division are organized along product lines – wall sconces, recessed light, track light, and so on. The manufacturing division produces lighting products for all the sales and marketing division.

During the planning process, each sales and marketing division specifies the quantity of each style of light to be manufactured. Senior management then assigns the task of manufacturing the lights to different plants in the manufacturing division. Because manufacturing capacity is limited, some of the production is also outsourced. Senior management determines the manufacturing schedule on the basis of detailed studies that have been done to measure the time and cost of manufacturing different types of lighting products. Manufacturing managers are evaluated based on achieving target output within budgeted costs.

**Questions:**

1. Are the manufacturing plants in the Manufacturing Division cost center or profit center? Explain.
2. Havells India Ltd. is considering decentralizing its marketing & manufacturing division by letting manufacturing and marketing managers directly negotiate the price for manufacturing various products.
  - a. How should Havells evaluate manufacturing plant managers under this proposal?
  - b. Would you recommend that Havells India Ltd. decentralize its marketing and manufacturing division? Explain.

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