

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA – SEMESTER –IV-EXAMINATION – SUMMER-2022**

**Subject Code: 4549286****Date: 22-07-2022****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** Explain the Following Terms with suitable Example 14
- (a) Goal Congruence
  - (b) Responsibility Accounting
  - (c) Sales Mix Variance
  - (d) EVA
  - (e) Strategic Planning
  - (f) Performance Measurement System
  - (g) Engineered and Discretionary Expense Centre
- Q.2** (a) Explain the term “Control”. Discuss the elements of a Control System 07
- (b) Explain similarities and differences between a Revenue Center and Expense Center 07
- OR**
- (b) Discuss and Differentiate between Task Control & Management Control 07
- Q.3** (a) Define responsibility center. Enumerate various types of responsibility centers. 07
- (b) Compare the two measures of relating profit with assets employed: EVA vs. ROI 07
- OR**
- Q.3** (a) An investment centre is necessarily a profit centre but a profit centre may not be an investment centre.” explain what are the different types of influences which an investment centre manager may exercise on their investment decision? 07
- (b) What are the advantages of establishing organization units as profit centers? What are the difficulties? 07
- Q.4** (a) What is transfer pricing? Why and how it is used? Explain with example 07
- (b) Explain, how budgeting can be considered as a Management Control Tool 07
- OR**
- Q.4** (a) Write a note on Interactive Control 07
- (b) Describe Balanced Scorecard method. What are its advantages? 07

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 over emphasized by some companies, with results similar to those experienced by Nataraj.

#### Answer the Following Questions

- (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 are the Other Control measures do you think that, Nataraj Corporation can take to enhance the performance of the organization. 07

OR

- (a) Explain using the concepts of goal congruence and motivation of division executives, how Nataraj's over emphasis 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 changes could be made in Nataraj Company's Corporation policy to avoid this problem? Explain your answer. 07

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