of L for divison B, if the total direct labour hours available in divison A are restricted to 15,000? 10

Unit-IV

8. (a) Do all the budgets aim at controlling the costs? Give reasons to support your answer.

   (b) Differentiate between flexible budgeting and zero base budgeting. 5+5

9. Why is a differentiated control system required for different organisations? Identify the various internal and external considerations variably used for differentiated organisations. Explain with the help of suitable examples. 10

A (Printed Pages 8)

Roll No. ____________

MS-3126

Master of Business Administration

(Finance & Control) (Semester-IV)

Examination, 2015

MANAGEMENT CONTROL SYSTEM

(FC-043)

Time Allowed : Three Hours] [Maximum Marks : 70

Note : Answer five question in all. Question No.1 is compulsory and carries 30 marks. Answer one question carrying 10 marks from each of the four Units.

1. Read the attached case carefully and answer the questions following it. 4×7½

Control Systems at Philips Company

After a dismal performance during the 1990s Netherlands based Royal Philips Company embarked on a restructuring exercise, to turn the company around. The efforts continued till the late 1990s as even during the mid-

1990s, the company reported losses. Due to high manufacturing costs the product could not be priced competitively. This led the company initiating job cuts, selling unprofitable businesses and closing down several facilities. Rapid changes in the external business environment and growing competition due to Asian manufacturers made Philips realise the need to transform into a flexible organisation and shift from high volume business to high value business. However, the existing organisation structure at Philips did not support this kind of change. The company's operations were spread across several countries and the products were most often sold in the country in which they were manufactured. At the same time, the growing influence of Asian companies like LG and Samsung increased competition in the business in which Philips was operating. These changes made Philips realise its operations needed to be more responsive to external environmental changes. A silo mentality had developed in the organisation due to years of

(b) Compare and contrast negotiated transfer pricing and market based transfer pricing. 5+5

7. A company is organised in two division namely A and B produces three products K, L and M. Data per unit are:

	Product K	Product L	Product M
Market Price (Rs.)	120	115	100
Variable costs (Rs.)	84	60	70
Direct labour hours	4	5	3
Maximum Sales potential (Units)	1,600	1,000	600

Division B has a demand for 600 units of product L for its use. If division A cannot supply the requirement, division B can buy a similar product from market at Rs 112 per unit.

What should be the transfer price of 600 units initiative to implement Balance Score Card came from the top management. The top management and all the divisions identified the factors that were important to create value and they were grouped under four perspectives- competence, process, customers and financial. After establishing the Critical Success Factors (CSFs), key indicators to measure the CSFs were decided. Some of the indicators like achieving revenue growth, employee satisfaction, and customer satisfaction were common for all the business units while other indicators were different. Balance Score Card was also used to measure corporate results. According to the company, "BEST is integrated in every business performance review cycle, providing measurment tools and focus through Business Balanced Cards."

Questions :

1. What problems did Philips face in its business operations globally?
2. Detail the features of strategic and management control systems related changes adopted by Philips.
3. Assess the possible benefits expected with implementation of Balance Score Card.
4. Suggest some more measures for the complete turnaround of Philips operations globally.

Unit-I

2. (a) What is 'Goal Congruence'? How is it helpful in management control system?

   (b) Differentiate among strategic fomulation, management control systems and task control. 5+5

3. Explain the various types of financial and non-financial tools which are successfully used in an organisational control. How do organisational structure, culture and human resource affect the design of management control system of any given organisation? 10

Unit-II

4. Why is the application of responsibility accounting considered as an effective tool for an organisational management control systems? Explain the benefits and limitations this tool

under cost centres, profit centres and investment centres? 10

5. Supply the missing information in the following table: 10

Particulars Sales	Division-A Rs.60,000	Divison-B Rs.75,000	Division-C Rs.1,00,000
Operating Income	?	25,000	?
Operating assets	30,000	?	50,000
Return on Investment (ROI)	15%	10%	20%
Minimum Required Rate of Return	10%	?	?
Residual Income (RI)	?	5,000	0

Unit-III

6. (a) What is meant by sub-optimisation problem? How can this problem be resolved?

bureaucracy.

In order to bring in the desired change, Philips embarked on an improvement programme in all its divisions and departments across the world, encompassing all the employees. The programm called Business Excellence through Speed and Teamwork (BEST), described a set of methods and tools through which Philips aimed to improve business and financial performance. BEST was a company-wide initiative aimed at achieving excellence in every aspect of business at Philips. Philips used several tools and approaches as a part of BEST.

Some of these were Philips Business Excellence Model (PBE), Process Survey Tools (PST) and Balance Score Card (BSC). The Balance Scored Card was used to communicate the strategy across the Philips divisions that had more than 1,20,000 employees spread across 150 countries in the world. The Balanced Score Card enabled the employees understand the existing policies and plans for the future. The