

Roll No. \_\_\_\_\_

University of Pune  
Department of Management Sciences (PUMBA)  
Executive MBA  
**2<sup>nd</sup> Year External Exam May - 2013**

**401 - MANAGEMENT CONTROL SYSTEMS**

**Time: 2.30 hrs**

**Marks: 50**

**Instructions to Students:**

**Attempt all questions.**

**Marks as indicated in brackets.**

1. Write a note on EVA and its importance. OR Write a note on Management Audit. (12)
  2. Explain Goal Congruence and its importance. Does the culture of a company play a role in this? OR Discuss why Organization Behavior and MCS have to go hand in hand. (12)
  3. Explain the Balance Scorecard. (12)
1. Ajit Enterprises has three operating divisions. The managers of these divisions are evaluated on the divisional operating income, a figure that includes an allocation of corporate overhead proportional to the revenues of each division. The operating income statement (in thousands) for the first quarter of 2007 is as follows:

	Div A	Div B	Div C	Total
Revenues	2000	1200	1600	4800
CGS	1050	540	640	2230
	-----	-----	-----	-----
Gross margin	950	660	960	2570
Divisional Overhead	250	125	160	535
Corporate overheads	400	240	320	960
Div operating income	-----	-----	-----	-----
	300	295	480	1075
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The manager of Div. A is unhappy that his profitability is about the same as the Div. B's and is much less than the Div. C's even though his revenues are much higher than higher than either of these other two divisions. The manager knows that he is carrying one line of products with very low profitability. He was going to replace this line of business as soon as more profitable product opportunities became available, but he has kept it because the line is marginally profitable and uses facilities that would otherwise be idle. That manager now realizes however the sales from this product line are attracting a fair amount of corporate overheads because of the allocation procedure, and may be the line is already unprofitable for him. This low margin line of products had the following characteristics for the most recent quarter (in thousands)

Revenues	800
Cost of goods sold	600
Avoidable div. overhead	100

Required:

1. Prepare the operating income statement for Ajit Enterprises for the second quarter of 2007. Assume that revenues and operating results are identical to the first quarter except that the manager of the Div. A has dropped the low-margin product line from his product group.
2. Is Ajit Enterprises better off from this action?
3. Is the Div. A manager better off from this action?
4. Suggest changes for Ajit Enterprises' system of division reporting and evaluation that will motivate division managers to make decisions that are in the best interest of Ajit Enterprises as a whole. Discuss any potential disadvantages of your proposals.

(14)