

Question Paper

Management Control and Information Systems-I (MB281): July 2008

- Answer all 82 questions.
- Marks are indicated against each question.

Total Marks : 100

1. Managers sometimes hesitate to backtrack or make changes that can be interpreted as an admission of error. Therefore, rather than taking any policy shift, they get on with the previous decisions and hence, spend more time and energy trying to justify their earlier decisions is defined as <Answer>

- (a) Resistance to change
- (b) Entrapment
- (c) Force field analysis
- (d) Sacrificing
- (e) Compromising.

(1 mark)

<Answer>

2. Every organization needs to identify the variables that influence its success at each level, so that it can monitor and predict the values of key variables. Which of the following is **not** a key input variable for a thermal power plant?

- (a) Quantity of coal
- (b) Availability of wagons for transportation of coal
- (c) Transmission losses
- (d) Capacity utilization
- (e) Availability of water.

(1 mark)

<Answer>

3. In which of the following situations, cost-based transfer price is considered?

- (a) When market price is available
- (b) When market price is not available
- (c) When buying division is not willing to pay the market price
- (d) When top management decides so
- (e) When selling division has outside market.

(1 mark)

<Answer>

4. The accounting systems in an organization provide an important database for management and operational controls. Which of the following accounting helps managers to trace costs, revenues and profits in order to enable them to arrive at right decisions?

- (a) Financial accounting
- (b) Responsibility accounting
- (c) Decision accounting
- (d) Control accounting
- (e) Cost accounting.

(1 mark)

<Answer>

5. Which of the following is **true** about the 'Internal Control Style' of managing employees?

- (a) The management style should be participatory in nature as the employees are involved in the process of decision making
- (b) Strategies are designed to solve problems jointly and to blame a particular individual for its occurrence
- (c) Rewards in this system are based on one or two specific measures of performance and not on accountability of the overall performance
- (d) Employees who are willing to participate in this kind of management may not perform well
- (e) It does not inspire high level of commitment and motivation in the employees.

(1 mark)

<Answer>

6. The present values of cash flows of project Sigma are as follows:

Period	Rs.
0	(60,000)
1	22,384
2	25,946
3	23,245

The Benefit-cost Ratio of the project is

- (a) 1.19
- (b) 1.46

(2 marks)

- (c) 1.17
- (d) 1.34
- (e) 1.66.

7. A difference between standard costs and budgeted costs

[<Answer>](#)

- (a) Can exist because standard costs must be determined after the budget is completed
- (b) Can exist because standard costs represent what cost should be, whereas budgeted costs represent expected actual costs
- (c) Can exist because budgeted costs are historical costs, whereas standard costs are based on engineering studies
- (d) Cannot exist because they should be the same amounts
- (e) Can exist because standard costs must be determined before the budget is completed. (1 mark)

[<Answer>](#)

8. Which of the following methods of transfer pricing is favored by tax and customs authorities, as this method is more transparent and help them to cross-check the price details?

- (a) Two sets of prices method
- (b) Two step pricing method
- (c) Market-based pricing method
- (d) Cost-based pricing method
- (e) Negotiated pricing method. (1 mark)

[<Answer>](#)

9. Which of the following conducts a strategic analysis in order to decide which business to be exited from, which business to retain and which business to add to the firm's portfolio?

- (a) Business unit strategy
- (b) Contingency theory
- (c) Corporate strategy
- (d) Budgeting
- (e) Planning. (1 mark)

[<Answer>](#)

10. Which of the following provides a framework or structure of systems, based on which particular discipline and particular subject matters can be visualized and developed in the interest of an organization?

- (a) Systems theory
- (b) Dynamic theory
- (c) Cybernetic theory
- (d) Management theory
- (e) Motivational theory. (1 mark)

[<Answer>](#)

11. Which of the following theories is based on the premise that the design and use of control systems is dependent upon the particular context of the organizational setting in which the controls operate?

- (a) Force field theory
- (b) Contingency theory
- (c) Cybernetic theory
- (d) Herzberg theory
- (e) Theory X. (1 mark)

[<Answer>](#)

12. Which of the following is **not** a production variable?

- (a) Capacity utilization
- (b) Quality control
- (c) Maintenance
- (d) Market share
- (e) Spoilage. (1 mark)

[<Answer>](#)

13. The management can ensure the quality of its products by focusing on two aspects - financial and non financial. In the financial measures, the costs of doing things wrong are estimated and aggregated. Which of the following costs arise when a defect is discovered after a customer has received a product or service?

- (a) Preventive costs
- (b) Appraisal costs
- (c) Internal failure costs
- (d) External failure costs
- (e) Maintenance costs. (1 mark)

14. Which of the following indicates that the business unit's goal is to increase its market share, even at the expense of short-term earnings and cash flow? <Answer>
- (a) Hold
 - (b) Build
 - (c) Harvest
 - (d) Acquire
 - (e) Liquidate.
- (1 mark)
15. Which of the following statements is **false** with regard to key success variables? <Answer>
- (a) They are those variables in the external environment to which goals, objectives and strategies of managers, are most sensitive
 - (b) They are also referred to as key success factors
 - (c) The top management should continuously analyze the reasons for significant changes in them
 - (d) They are only quantitative in nature
 - (e) They indicate to the management, the necessity for prompt action.
- (1 mark)
16. Which of the following is/are **not** the merit(s) of Net Present Value (NPV) method? <Answer>
- I. This method considers the time value of money.
 - II. The ranking of projects is independent of the discount rate used for determining the present value.
 - III. It is not based on the entire cash flows generated during the useful life of the asset.
- (a) Only (I) above
 - (b) Only (III) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.
- (1 mark)
17. Most of the budgetees in many organizations tend to budget revenues lower and expenses higher than their best estimates of these amounts. The difference between the budget amount and best estimate is known as <Answer>
- (a) Lead time
 - (b) Hold
 - (c) Slack
 - (d) Budget overrun
 - (e) Budgeted proportion.
- (1 mark)
18. Sales budget is prone to variances because actual sales usually differ from the budget. However, three principal reasons have been identified which are responsible for deviations in sales budget in most of the organizations. Which of the following is/are the reason(s) for deviations? <Answer>
- I. The actual price realized is different from the price that is envisaged at the time of budget formulation.
 - II. The actual volume of product sold is similar to planned volume of sales.
 - III. The actual sales mix is similar to the budgeted sales mix.
- (a) Only (I) above
 - (b) Only (III) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.
- (1 mark)
19. The changes responsible for the frequent modifications of budget requests are changes in external forces and changes in internal policies and practices. Which of the following is **not** one of the external factors? <Answer>
- (a) Changes in product mix
 - (b) Changes in labor rates
 - (c) Changes in the price of purchased materials and services
 - (d) Changes in selling price
 - (e) Changes in the cost of discretionary activities.
- (1 mark)
20. In expense centers, which of the following costs can be estimated to a reasonable extent by the management? <Answer>
- (a) Engineered costs
 - (b) Discretionary costs
- (1 mark)

- (c) Fixed costs
- (d) Notional costs
- (e) Imputed costs.

21. Which of the following is **true** with respect to ‘Corporate Strategy’?

[<Answer>](#)

- (a) Corporate strategy relates to a specific part of a firm
- (b) Corporate strategy involves only executing of plans regarding where and how the firm can compete in an industry
- (c) Corporate strategy and controls should be integrated in order to keep the employees behavior in congruence with managerial goals
- (d) An organization which has a well-aligned structure will function effectively without a control system in place
- (e) Planning and control requirements are same for different corporate strategies.

(1 mark)

[<Answer>](#)

22. Which of the following is an example of a profit center?

- (a) Painting department
- (b) Sales department
- (c) Company-owned restaurant in a fast-food chain
- (d) Reservation department
- (e) Maintenance department.

(1 mark)

[<Answer>](#)

23. Which of the following aims to provide cost data for managerial planning, controlling and decision making and gives a complete explanation of how scarce inputs are put to use in business?

- (a) Financial accounting
- (b) Cost accounting
- (c) Uniform accounting
- (d) Environmental accounting
- (e) Inflation accounting.

(1 mark)

[<Answer>](#)

24. Which of the following steps of strategic planning process involves making broad assumptions about growth in the gross domestic product, cyclical movements, the rate of general inflation, labor rates, prices of important raw materials, selling prices, market conditions and the Government legislation in each of the countries in which a company operates?

- (a) First iteration of the strategic plan
- (b) Deciding on assumptions and guidelines
- (c) Analysis
- (d) Second iteration of the strategic plan
- (e) Reviewing and updating the strategic plan.

(1 mark)

[<Answer>](#)

25. Which of the following committees of an organization deals with the goals, strategies, plans and action programs?

- (a) Executive committee
- (b) Operating management committee
- (c) Strategic committee
- (d) Reward committee
- (e) Investment committee.

(1 mark)

[<Answer>](#)

26. Yuvraj Ltd., has estimated the following production budget of 14,500 units for a year, spread over in 4 quarters:

January to March	3,950 units
April to June	2,800 units
July to September	3,600 units
October to December	4,150 units

Budgeted fixed overheads for the year were Rs.2,40,000. The company works for 48 weeks in a year, 5 days per week, 8 hours per day. Standard output is 4 units per hour. In the month of June, 25 days were worked. Actual output was 728 units. Actual hours worked were 164 hours. Actual fixed overheads for the month were Rs.18,800. The fixed overhead volume variance for the month of June was

(2 marks)

- (d) Rs.2,750 (Favorable)
- (e) Rs.2,750 (Adverse).

[<Answer>](#)

27. Division A of Birla Manufacturing Ltd., sells parts to Division B of the same organization. The cost to Division A for providing the parts to Division B is Rs.38.50 per unit. With an additional cost of Rs.16.50 per unit, Division B sells the units to an outside party for Rs.88 per unit. What transfer price will provide a profit of Rs.27.50 per unit to Division B?

- (a) Rs.12.50
- (b) Rs.14.00
- (c) Rs.44.00
- (d) Rs.45.80
- (e) Rs.50.25.

(2 marks)

[<Answer>](#)

28. North Division of Alwal Ltd., has furnished the following financial information for the year 2007-2008:

Particulars	Rs. in Thousands
Average plant and machinery	1,815
Cost of goods sold	3,660
Net sales	4,480
General and administrative expenses	170
Average working capital	785

If the company treats the North Division as an investment center for measurement of performance, the Return on Investment (ROI) for the year is

- (a) 35.62%
- (b) 31.54%
- (c) 25.00%
- (d) 23.25%
- (e) 22.00%.

(2 marks)

[<Answer>](#)

29. Which of the following is/are particularly associated with operating a system of transfer pricing?

- I. Ensuring that goal congruence is retained among the organization's separate divisions.
- II. Ensuring that divisional performance measurement is not affected.
- III. Ensuring that corporate profits are maximized.
- IV. Ensuring increase in the revenue of the revenue centre.

- (a) Only (I) above
- (b) Only (IV) above
- (c) Both (II) and (III) above
- (d) (I), (II) and (III) above
- (e) All (I), (II), (III) and (IV) above.

(1 mark)

[<Answer>](#)

30. Which of the following is/are **not** the need(s) identified by McClelland?

- I. Need for achievement.
- II. Need for material possessions.
- III. Need for power.
- IV. Need for self-actualization.

- (a) Only (I) above
- (b) Only (IV) above
- (c) Both (II) and (III) above
- (d) Both (II) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

(1 mark)

[<Answer>](#)

31. A company has recently introduced a compensation system for its managers based on Management By Objectives (MBO) approach. The essential premise of MBO is that

- (a) Employees should participate in setting goals
- (b) Compensation should not be based on quantitative factors
- (c) Manager should establish goals for their employees
- (d) Employees should concentrate only on routine matters and managers should attend to exceptions
- (e) Top management should establish goals for all levels in the organization.

(1 mark)

32. As proposed by Smith and Walsh, which of the following is the route with alternatives for reaching objectives and goals? <Answer>

- (a) Plan
- (b) Objective
- (c) Strategy
- (d) Policy
- (e) Program.

(1 mark)

33. Organizations are divided into subunits. The control systems play a major role in coordinating the efforts of these subunits. The cost of coordinating the efforts of these subunits may be referred to as <Answer>

- (a) Transaction costs
- (b) Translation costs
- (c) Termination costs
- (d) Overhead costs
- (e) Direct costs.

(1 mark)

34. Which of the following is **not** a key factor that is considered during the preparation of parts? <Answer>

- (a) Market position
- (b) Targeted sales volume
- (c) Pricing strategy
- (d) Quality of raw materials
- (e) Manufacturing efficiency.

(1 mark)

35. Which of the following is/are **true** regarding strategy? <Answer>

- I. It is a rule for decision making which can be delegated in order to facilitate decision making at the lowest level.
- II. It essentially pertains to the interface between an enterprise and its environment.
- III. It is futuristic and indicates the direction of growth on the basis of which the growth plan is formulated.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

(1 mark)

36. Which of the following analysis developed by Kurt Lewin, says that there are certain facilitating factors and certain inhibiting factors in every situation faced by an individual? <Answer>

- (a) Force Field analysis
- (b) Strategic analysis
- (c) Network analysis
- (d) Business analysis
- (e) Regression analysis.

(1 mark)

37. A project yields annual pre-tax profit of Rs.3,00,000 after providing depreciation of Rs.80,000 p.a. Tax rate is 40%. If the payback period of the project is 6 years, then the project cost would be <Answer>

- (a) Rs.18,00,000
- (b) Rs.10,80,000
- (c) Rs.13,20,000
- (d) Rs.16,50,000
- (e) Rs.15,60,000.

(2 marks)

38. A project with a capital expenditure of Rs.5,00,000 is expected to earn the following profits. <Answer>

Year	Profit before tax (Rs.)
1	40,000
2	80,000
3	90,000
4	30,000

The tax rate applicable to the company is 50% for 4 years. The book-value of the investment at the end of 4 years is expected to be Rs.60,000. The Accounting rate of return (ARR) of the company is

- (a) 21.43%

(2 marks)

- (b) 10.71%
- (c) 12.00%
- (d) 18.62%
- (e) 27.27%

39. The progress of Just-in-time (JIT) systems can be effectively monitored through which of the following ratios?

[<Answer>](#)

- (a) Cycle time/Processing time
- (b) Processing time/Cycle time
- (c) Processing time/Inventory turnover time
- (d) Cycle time/Inventory turnover time
- (e) Inventory turnover time/Cycle time.

(1 mark)

40. Which of the following is **not** an advantage of decentralized organization?

[<Answer>](#)

- (a) It allows closer control and supervision of subordinates within the division
- (b) Since managers are empowered to take decisions, they are motivated to perform better, keeping in mind the goals and strategies of the organization
- (c) It helps evaluate overall performance of the various organizational units of the business
- (d) It is advantageous to decentralize the organization, when there are few homogeneous markets
- (e) It ensures that managers are given right environment and autonomy, wherein they are trained to make the right decisions.

(1 mark)

41. Consider the following information pertaining to Dhavan Ltd., for the month of December 2007:

[<Answer>](#)

Particulars	Actual	Budget
Sales (Units)	14,700	16,000
Sales Revenue (Rs.)	1,69,932	1,80,000

The sales price variance for the month was

- (a) Rs.5,400 (Adverse)
- (b) Rs.5,400 (Favorable)
- (c) Rs.6,200 (Favorable)
- (d) Rs.4,557 (Adverse)
- (e) Rs.4,557 (Favorable).

(2 marks)

42. Consider the following data pertaining to production department in Skylab Ltd., for the month of June 2008:

[<Answer>](#)

Actual overhead costs	Rs.11,000
Standard hours for actual work	4,500 hours
Actual hours during the month	5,000 hours
Standard overhead rate	Rs.2 per hour

The overhead variance is

- (a) Rs.2,000 (Favorable)
- (b) Rs.2,000 (Adverse)
- (c) Rs.1,500 (Favorable)
- (d) Rs.1,000 (Adverse)
- (e) Rs.1,000 (Favorable).

(2 marks)

43. Which of the following statement(s) is/are **true**?

[<Answer>](#)

- I. Budget signals help the operations manager to determine the amount of money that has to be spent on various activities.
 - II. Ceiling includes the amount to be spent for particular activities such as advertising, entertainment expenses.
 - III. Floor includes activities for which no more than the budgeted amount should be spent.
- (a) Only (I) above
 - (b) Only (III) above
 - (c) Both (I) and (III) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above.

(1 mark)

44. Which of the following statements are **true** about Return on Investment (ROI) as measurement of responsibility structure?

[<Answer>](#)

(1 mark)

- I. The design of measurement systems and financial performance of a firm is based on the principles of ROI.
 - II. Each responsibility center should not contribute to the ROI.
 - III. The contribution of each center of an organization to ROI depends on allocation of resources to the center manager.
 - IV. To calculate the ROI of an investment center, it is important to define the revenue, expenses and investment allocated to the center.
- (a) Both (I) and (II) above
 - (b) Both (II) and (IV) above
 - (c) Both (III) and (IV) above
 - (d) (I), (III) and (IV) above
 - (e) All (I), (II), (III) and (IV) above.

<Answer>

45. Internal control style emphasizes

- (a) Authorized control system
- (b) Formal measurement
- (c) Formal evaluation
- (d) Human aspects of the organization
- (e) Maintenance of decision-making mechanism by top executive.

(1 mark)

<Answer>

46. Which of the following are the criteria used in the process of determining transfer prices?

- I. Goal congruence.
 - II. Fairness.
 - III. Decentralization.
 - IV. Efficiency.
- (a) Both (I) and (II) above
 - (b) Both (II) and (III) above
 - (c) Both (III) and (IV) above
 - (d) (I), (II) and (III) above
 - (e) All (I), (II), (III) and (IV) above.

(1 mark)

<Answer>

47. Culture becomes an important asset of an organization when it is properly imbibed in an organization. Conversely, it is a liability when it adapts poorly to the environmental needs of the organization. On which of the following factor(s) the strength of the culture does **not** depend?

- I. The assumptions made by the organization.
 - II. The assumptions made by the competitors.
 - III. The clarity of the assumptions.
 - IV. How well the assumptions are shared by external people.
- (a) Only (I) above
 - (b) Both (I) and (IV) above
 - (c) Both (II) and (IV) above
 - (d) (I), (III) and (IV) above
 - (e) All (I), (II), (III) and (IV) above.

(1 mark)

<Answer>

48. The total quality management approach can be looked at from three aspects. These are

- (a) Responsibility for inspection, product design and relationship with suppliers
- (b) Responsibility for inspection, product inspection and relationship with Government
- (c) Responsibility for quality, product design and relationship with suppliers
- (d) Responsibility for quality, product development and relationship with suppliers
- (e) Responsibility for quality, layout design and relationship with suppliers.

(1 mark)

<Answer>

49. A pricing method that measures the exchange of products and services between responsibility centers within a company is known as

- (a) Strategic pricing
- (b) Product pricing
- (c) Target pricing
- (d) Transfer pricing
- (e) Internal pricing.

(1 mark)

<Answer>

50. Environmental forces are now making it imperative that organizations should be more and more responsive. Organizations need to develop 'adaptability' to meet the rapidly changing environment. (1 mark)

Which of the following statements is **false** about an adaptive organization?

- (a) In order to adapt to environmental changes, organizations need to modify their structure
- (b) When environmental uncertainty prevails, organizations become more formal in response
- (c) An organization, which is not adaptive to environmental changes, is deemed to turn inefficient in due course of time
- (d) In order to adapt itself to the environmental changes, an organization has to increase the speed of decision-making
- (e) An organization needs to steer its resources and realign them to meet these changes.

<Answer>

51. If an investment project has a profitability index of 1.20, the

- (a) Cost of capital of the project is greater than its internal rate of return
- (b) Cost of capital used in the index calculation has to be less than 20%
- (c) Project's internal rate of return is 20%
- (d) Net present value of the project is positive
- (e) Internal rate of return of the project exceeds its net present value.

(2 marks)

<Answer>

52. Abhishek Ltd., has furnished the following information relating to a product:

Particulars	Standard	Actual
Labor hours	300 hours	315 hours
Labor rate per hour	Rs.25	Rs.22

The labor efficiency variance of the company is

- (a) Rs.375 (Adverse)
- (b) Rs.375 (Favorable)
- (c) Rs.330 (Adverse)
- (d) Rs.330 (Favorable)
- (e) Rs.300 (Adverse).

(2 marks)

<Answer>

53. Which of the following methods of evaluation of investment proposals ignores the time value of money?

- (a) Net present value
- (b) Accounting rate of return
- (c) Profitability index
- (d) Internal rate of return
- (e) Benefit-cost ratio.

(1 mark)

<Answer>

54. Which of the following is/are **true** regarding budgeting?

- I. Budgets help managers analyze the expenditure and keep it under check, thereby preventing wastage of all kinds.
 - II. Evaluating performance against standards enables employees to analyze their strengths and weaknesses.
 - III. Budgets help management trace discrepancies in any activity of the business and take suitable remedial measures.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.

(1 mark)

<Answer>

55. Ensuring that every work station produces and delivers to the next work station the right items in the right quantity at the right time is the purpose of

- (a) Task control information
- (b) Total quality control
- (c) Decisions support system
- (d) Just-in-time (JIT)
- (e) Management information system.

(1 mark)

<Answer>

56. Which of the following statement(s) is/are **true** with respect to corporate strategy which involves making plans regarding where and how the firm can compete in the industry?

- I. Control systems will differ on the basis of corporate strategy with regard to diversification.
- II. Firms with related diversification are not based on company wide core competencies.
- III. It is very important to have good channels of communication that allow interdependence among

(1 mark)

the different units.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (I) and (III) above
- (e) All (I), (II) and (III) above.

57. Bureaucracies, markets and clans are three types of corporate control mechanisms that exist in varying degrees in different organizations. Which of the following is/are **true** regarding the clan as a corporate control mechanism?

[<Answer>](#)

- I. It follows strict formal rules, procedures and directives.
- II. It has clearly defined roles for each member of the organization.
- III. It creates incentives to motivate performance.
- IV. It depends on values and beliefs to boost performance.

- (a) Only (I) above
- (b) Only (III) above
- (c) Only (IV) above
- (d) Both (II) and (III) above
- (e) Both (III) and (IV) above.

(1 mark)

58. The term decision support systems is broadly used for systems that aid decision making by providing the answers to a series of “what-if” questions. Which of the following is/are included in decision support system(s)?

[<Answer>](#)

- I. Expert systems.
- II. Natural language systems.
- III. Artificial intelligence systems.
- IV. Knowledge-based systems.

- (a) Only (I) above
- (b) Both (I) and (II) above
- (c) Both (I) and (III) above
- (d) Both (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

(1 mark)

59. Strategic planning involves a long term planning and is carried out at the top level of management. Which of the following are the characteristics of strategic planning?

[<Answer>](#)

- I. The process of strategic planning requires a number of estimates and variables to show the expected results of the plan.
- II. The information necessary for strategic planning is derived from the external environment.
- III. Strategic planning is a monotonous job where there is less scope for analysis.
- IV. Strategic planning essentially involves the process of goal setting.

- (a) Both (I) and (II) above
- (b) Both (I) and (III) above
- (c) Both (II) and (IV) above
- (d) (I), (II) and (III) above
- (e) (I), (II) and (IV) above.

(1 mark)

60. Saravai Ferro Alloys (P) Limited, is planning for a new plant in Ganjam, Orissa with an initial outlay of Rs.45 crore. This plant has a life of 5 years. Net expected cash inflows from this project are as follows:

[<Answer>](#)

(Rs. in crore)

Year	1	2	3	4	5
Cash inflows	11.00	13.50	15.50	13.00	16.50

The opportunity cost of capital of the company is 14%. The Net Present Value (NPV) of the project is

- (a) – Rs. 9.16 crore
- (b) Rs. 1.77 crore
- (c) Rs. 7.31 crore
- (d) Rs.15.96 crore
- (e) Rs.24.50 crore.

(2 marks)

61. If overhead is applied on the basis of units of output, the variable overhead efficiency variance will be

[<Answer>](#)

(1 mark)

- (a) A function of the direct labor efficiency variance
- (b) Favorable, if output exceeds the budgeted level
- (c) Unfavorable, if output is less than the budgeted level
- (d) Indeterminable from the information given
- (e) Zero.

[<Answer>](#)

62. Which of the following capital budgeting methods makes use of 'Trial and error' at the time of calculation?

- (a) Profitability index method
- (b) Net present value method
- (c) Accounting rate of return method
- (d) Pay-back period method
- (e) Internal rate of return method.

(1 mark)

[<Answer>](#)

63. Kiran Industries Ltd., is planning for a capital investment at a cost of Rs.150 crore where the projected cash inflows are as follows:

(Rs. in crore)				
Year	1	2	3	4
Cash inflows	35.0	40.0	60.0	50.0

The Internal Rate of Return (IRR) of the project is

- (a) 6.50%
- (b) 7.25%
- (c) 8.30%
- (d) 9.20%
- (e) 12.15%.

(2 marks)

[<Answer>](#)

64. A fixed factory overhead volume variance will exist if

- (a) Actual labor hours differ from budgeted labor hours
- (b) Actual labor hours differ from standard labor hours
- (c) Actual production volume differs from standard production volume
- (d) The fixed factory overhead applied on the basis of standard labor hours for actual output differs from actual fixed factory overhead
- (e) The fixed factory overhead applied on the basis of standard labor hours for actual output differs from the budgeted fixed factory overhead.

(1 mark)

[<Answer>](#)

65. Conflicts arise partly due to competition. Therefore, management should encourage healthy competition. Since the achievement of overall goals requires collaborative efforts, the control system should foster cooperation among various responsibility centers through appropriate coordinative mechanisms, such as

- (a) Coordination committee
- (b) Collaboration committee
- (c) Control committee
- (d) Cooperation committee
- (e) Responsibility committee.

(1 mark)

[<Answer>](#)

66. During the month of June 2008, Sujal Ltd., used 2,750 kg of material at a total standard cost of Rs.33,000. The material usage variance was Rs.1,080 (adverse). The standard usage of material for the month was

- (a) 2,840 kg
- (b) 2,660 kg
- (c) 2,740 kg
- (d) 2,762 kg
- (e) 1,092 kg.

(2 marks)

[<Answer>](#)

67. Profitability of a profit center can be measured in terms of

- (a) Contribution margin and return on equity
- (b) Contribution margin and residual income
- (c) Return on capital employed
- (d) Return on investment
- (e) Contribution margin, income before taxes, direct divisional profits and net income.

(1 mark)

68. Which of the following variables influence the behavior of the employees towards the achievement of organizational goals? <Answer>

- (a) Structural variables
- (b) Environmental variables
- (c) Process variables
- (d) Strategic variables
- (e) Satisfying variables.

(1 mark)

69. A systemized approach known as Zero-based Budgeting (ZBB) <Answer>

- (a) Commences with the current level of spending
- (b) Divides the activities of individual responsibility centers into a series of packages that are prioritized
- (c) Presents the plan for only one level of activity and does not adjust to changes in the level of activity
- (d) Presents a statement of expectations for a period of time but does not present a firm commitment
- (e) Presents a statement in which previous years figures are considered as base.

(1 mark)

70. Which of the following are known as the set of values or aspirations that underscore what an organization stands for and believes in and are the overreaching purposes to which an organization and its members dedicate themselves? <Answer>

- (a) Superordinate goals
- (b) Ordinary goals
- (c) Strategies
- (d) Policies
- (e) Plans.

(1 mark)

71. Which of the following statements is/are **true** regarding the limitation(s) of capital budgeting methods? <Answer>

- I. All the techniques of capital budgeting presume the various investment proposals are not mutually exclusive or independent.
- II. All these techniques require estimation of future cash inflows and outflows.
- III. The factors like goodwill of the firm, relations with other industries better service provisions etc., cannot be taken into consideration, as they cannot be quantified.

- (a) Only (I) above
- (b) Only (III) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

(1 mark)

72. A project having a life of one year is started with an initial investment of Rs.120 lakhs with 12% cost of capital. Its NPV and IRR are found to be Rs.15 lakhs and 25% respectively. If the cost of capital is increased to 14%, then the new NPV and IRR would be <Answer>

- (a) NPV = Rs.12.63 lakhs and IRR = 25%
- (b) NPV = Rs.20.00 lakhs and IRR = 23%
- (c) NPV = Rs.14.15 lakhs and IRR = 22%
- (d) NPV = Rs.11.72 lakhs and IRR = 21%
- (e) NPV = Rs.10.09 lakhs and IRR = 18%.

(2 marks)

73. Madhu Ltd., is preparing its cash budget for the forthcoming year. An extract from its sales budget for the same year shows the following sales values: <Answer>

July 2008	Rs.1,48,000
August 2008	Rs.1,60,000
September 2008	Rs.1,75,000
October 2008	Rs.1,88,000

30% of its sales are expected to be for cash. Of its credit sales, 40% are expected to be recovered in the month following the month of sales, 57% are expected to be recovered in the second month following the month of sales and 3% are expected to be unrecovered. The cash receipts for the month of September 2008 would be

- (a) Rs.1,35,500
- (b) Rs.1,56,352
- (c) Rs.1,48,412

(2 marks)

- (d) Rs.1,65,050
- (e) Rs.1,52,300.

[<Answer>](#)

74. Consider the following information:

Standard price of material	Rs. 1
Actual output	2,10,000 kg
Material used	2,80,000 kg
Actual cost of material	Rs.2,52,000

If the material consumption standard is 100 kg for 70 kg of finished product then, material usage variance will be

- (a) Rs.20,000 (Favorable)
- (b) Rs.23,000 (Favorable)
- (c) Rs.25,000 (Adverse)
- (d) Rs.20,000 (Adverse)
- (e) Rs.23,000 (Adverse).

(2 marks)

[<Answer>](#)

75. Which of the following are the methods of measuring the performance of a responsibility center?

- I. Efficiency measure.
 - II. Process measure.
 - III. Effectiveness measure.
 - IV. Allocation measure.
- (a) Both (I) and (II) above
 - (b) Both (II) and (III) above
 - (c) Both (III) and (IV) above
 - (d) (I), (II) and (III) above
 - (e) All (I), (II), (III) and (IV) above.

(1 mark)

[<Answer>](#)

76. Which of the following budgets would be prepared at the end in the normal budget preparation process?

- (a) Sales budget
- (b) Cash budget
- (c) Direct labor budget
- (d) Cost of goods sold budget
- (e) Manufacturing overhead budget.

(1 mark)

[<Answer>](#)

77. Which of the following statement(s) is/are **false** regarding the factors of Herzberg's two-factor model?

- I. Factors that prevent dissatisfaction are called hygiene factors.
 - II. Factors that prevent dissatisfaction are called motivators.
 - III. Salary, working conditions, company policy constitute hygiene factors.
 - IV. Advancement, development, responsibility, recognition are called motivators.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (II) and (III) above
 - (e) Both (III) and (IV) above.

(1 mark)

[<Answer>](#)

78. A favorable variance of Rs.4,420 for the flexible budget demonstrates that

- (a) Actual costs were Rs.4,420 more than the master budget
- (b) The total of the planning and efficiency variances is Rs.4,420
- (c) Actual costs were Rs.4,420 less than for the planned level of activity
- (d) Actual costs were Rs.4,420 less than standard for the achieved level of activity
- (e) The cost under master budget is Rs.4,420 more than the cost under planned level of activity.

(1 mark)

[<Answer>](#)

79. Which of the following is/are **not** the reason(s) for labor efficiency variance?

- I. Lack of supervision.
 - II. Poor working conditions in the factory.
 - III. Low labor turnover.
- (a) Only (I) above
 - (b) Only (III) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.

(1 mark)

80. Which of the following is **not true** in the context of management control systems in organizations?

[<Answer>](#)

- (a) Subunits comprise individuals who perform certain activities to fulfill purpose of the organization
- (b) The subunits are based on the principles of specialization and division of labor
- (c) The management establishes the purpose, goals and objectives of an organization and delegate responsibility to various subunits to accomplish the goals
- (d) The control systems play a major role in coordinating the efforts of these subunits
- (e) Efficient coordination of errors in subunits results in excess transaction costs.

(1 mark)

81. A company invested in an asset which has a useful life of 3 years. The expected rate of return from the investment is 10%. The cash flows for the 3 years are as follows:

[<Answer>](#)

Year	Cash inflows from the asset
1	Rs. 8,000
2	Rs. 9,000
3	Rs.10,000

All cash inflows are assumed to occur at year-end. If the asset generates positive net present value of Rs.2,000, the amount of the original investment was

- (a) Rs.28,345.60
- (b) Rs.22,225.50
- (c) Rs.20,223.40
- (d) Rs.20,000.00
- (e) Rs.19,990.10.

(2 marks)

82. Reality Ltd., has furnished the following estimated data for the month of August 2008:

[<Answer>](#)

Sales	Rs.10,00,000
Gross profit margin	25%
Increase in accounts payable for inventories	Rs.28,000
Decrease in stock	Rs.52,000

The estimated cash disbursement for the month would be

- (a) Rs.6,70,000
- (b) Rs.7,22,000
- (c) Rs.8,30,000
- (d) Rs.6,98,000
- (e) Rs.7,50,000.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

Management Control and Information Systems-I (MB281): July 2008

- | Answer | Reason |
|--------|--|
| 1. B | Managers sometimes hesitate to backtrack or make changes that can be interpreted as an admission of error. Rather than taking any policy shift, they get on with the previous decisions and hence spend more time and energy trying to justify their earlier decision is referred to as entrapment. < TOP |
| 2. C | Transmission losses is an output variable. Hence, it is not one of the key input variables in a thermal power industry. Hence, option (c) is correct. < TOP |
| 3. B | When market price is not available, cost-based transfer price is considered. Hence, option (b) is correct. < TOP |
| 4. B | Responsibility accounting helps managers to trace costs, revenues and profits in order to enable them to arrive at right decisions. Hence the answer is (b). < TOP |
| 5. A | The management style should be participatory in nature as the employees are involved in the process of decision making. < TOP
The other options are not true because: |

Strategies are designed to solve problems jointly and not to blame a particular individual for its occurrence (b). Rewards in this system are not based on one or two specific measures of performance, but on accountability of the overall performance (c). Employees who are not willing to participate in this kind of management may not perform well (d). It inspires high level of commitment and motivation in the employees (e).

Hence the right answer is (a).

6. A Benefit-cost ratio (Profitability Index)= PV of cash inflows/ PV of cash outflow [< TOP](#)
- $$= \frac{\text{Rs.22,384} + \text{Rs.25,946} + \text{Rs.23,245}}{\text{Rs.60,000}} = \frac{\text{Rs.71,575}}{\text{Rs.60,000}} = 1.19$$
7. B Standard cost is predetermined, attainable unit costs. Standard cost systems isolate deviations of actual from expected costs. One advantage of standard costs is that they facilitate flexible budgeting. Accordingly, standard and budgeted costs should not differ when standards are currently attainable. However, in practice, budgeted (estimated actual) costs may differ from standard costs when operating conditions are not expected to reflect those anticipated when the standards were developed. Answer (a) is incorrect because standard costs are determined independently of the budget. Answer (c) is incorrect because budgeted costs are expected future costs, not historical cost. Answer (d) is incorrect because budgeted and standard costs should in principle be the same, but in practice they will differ when standard costs are not expected to be currently attainable. Answer (e) is not correct. Therefore (b) is the answer. [< TOP](#)
8. C Tax and customs authorities favor market-based transfer pricing methods, as this method is more transparent and help them to cross-check the price details provided by the company by comparing them with market prices on that date. Hence the answer is (c). [< TOP](#)
9. C Under corporate strategy, analysis is done to decide which business is to be exited from, retained and added to the firm's portfolio. Corporate strategies influence the organization's structure and thereby its control. Hence, strategies are greatly influenced by the diversification of business by the firms. [< TOP](#)
10. A Systems theory provides a framework or structure of systems based on which particular discipline and particular subject matters can be visualized and developed in the interest of the organization. [< TOP](#)
11. B Contingency theory is based on the premise that the design and use of control systems is dependent upon the particular context of the organizational setting in which the controls operate. [< TOP](#)
12. D Market share of a company indicates its performance and its competitive strength. This is a marketing variable. While all other options are production variables. Therefore the correct answer is (d), i.e. market share. [< TOP](#)
13. D External failure costs arise when a defect is discovered after a customer has received a product or service. Hence the right answer is (d). [< TOP](#)
14. B Build indicates that the business unit's goal is to increase its market share, even at the expense of short-term earnings and cash flow. [< TOP](#)
15. D Key variables may be both qualitative and quantitative in nature. However, they should not be omitted from the control system because they are qualitative. All other options are true regarding Key success variables. Hence the right answer is (d). [< TOP](#)
16. B The NPV method is based on the entire cash flows generated during the useful life of the asset. Hence, option (b) is correct. [< TOP](#)
17. C Most of the budgetees in many organizations tend to budget revenues lower and expenses higher than their best estimates of these amounts. The difference between the budget amount and best estimate is known as Slack [< TOP](#)

the budget amount and best estimate is known as Slack.

Hence the answer is (c).

18. A Reasons for deviation: [< TOP](#)

The actual price realized is different from the price that is envisaged at the time of budget formulation.

The actual volume of product sold is different from planned volumes of sales.

The actual sales mix is different from the budgeted sales mix.

Hence the answer is (a).

19. A Changes in the product mix is not one of the external factors, it is an internal factor for the organization. [< TOP](#)

20. A Engineered costs can be estimated to a reasonable extent by the management. [< TOP](#)

21. C Corporate strategy and controls should be integrated in order to keep employees behavior in congruence with managerial goals. [< TOP](#)

The other options are not true because:

Corporate strategy relates to firm as a whole (a). Corporate strategy involves making of plans regarding where and how the firm can compete in an industry (b). An organization, which has a well-aligned structure, will not function effectively without a control system in place (d). Since planning and control requirements are different for different corporate strategies, they need to be designed in accordance with the corporate strategies (e).

22. C For a company-owned restaurant in a fast food chain, both cost and profit can be traced, therefore it is an example of profit center. [< TOP](#)

23. B Cost accounting aims to provide cost data for managerial planning, controlling and decision making and gives a complete explanation of how scarce inputs are put to use in business. Hence, option (b) is correct. [< TOP](#)

24. B The second step of strategic planning process i.e., Deciding on assumptions and guidelines involves making broad assumptions about growth in the gross domestic product, cyclical movements, the rate of general inflation, labor rates, prices of important raw materials, selling prices, market conditions and the government legislation in each of the countries in which a company operates. [< TOP](#)

25. C Strategic Committee of an organization deals with existing and new goals, strategies, SBU plans and action programs. [< TOP](#)

Hence the right answer is (c).

26. D Actual production in terms of standard hours = 728 units × 0.25 hours = 182 standard hours [< TOP](#)

Standard rate per hour = Budgeted expenses for the year ÷ Budgeted hours for the year

= Rs.2,40,000 ÷ (48 × 5 × 8) hours = Rs.2,40,000 ÷ 1,920 hours = Rs.125 per hour

Average budgeted hours per month

= Budget hours for the year ÷ 12 = 1,920 ÷ 12 = 160 hours.

Average budgeted hours = 160; Standard hours for actual production = 182

Difference = 160 – 182 = 22 (Favorable)

Fixed overhead volume variance = 22 × Rs.125 = Rs.2,750 (Favorable).

27. C Transfer price = Revenue-division cost-profit [< TOP](#)

$$= \text{Rs.}88 - \text{Rs.}16.50 - \text{Rs.}27.50 = \text{Rs.}44.$$

28. C Profit = $\text{Rs.}44,80,000 - \text{Rs.}36,60,000 - \text{Rs.}1,70,000 = \text{Rs.}6,50,000$ [< TOP](#)
Investment = $\text{Rs.}18,15,000 + \text{Rs.}7,85,000 = \text{Rs.}26,00,000$

$$\text{ROI} = \frac{\text{Rs.}6,50,000}{\text{Rs.}26,00,000} = 25\%$$
29. D A balance needs to be kept between divisional autonomy to provide incentives and motivation, and retaining centralized authority to ensure that the organization's divisions are all working towards the same targets, the benefit of the organization as a whole. It ensures the goal congruence, divisional performance in different divisions and, maximizes the corporate profit.
Therefore (d) is correct. [< TOP](#)
30. D Need for material possessions and need for self-actualization are not the needs identified by Mc Clelland. Hence, option (d) is correct. [< TOP](#)
31. A MBO is the process by which a manager and his/her subordinate work together to formulate the objectives and goals of the subordinate. [< TOP](#)
Option (b) is incorrect because MBO goals may be set in terms of quantitative measures.
Options (c) and (e) are not correct because goal setting should be participative.
Option (d) is incorrect because it describes management by exception.
32. C As proposed by Smith and Walsh, strategy is the route with alternatives for reaching objectives and goals. [< TOP](#)
33. A The costs are referred as transaction costs. [< TOP](#)
Hence option (a) is correct.
34. D Quality of raw materials is not one of the key factors that are considered during the preparation of parta. [< TOP](#)
35. D Strategy essentially pertains to the interface between an enterprise and its environment and It is futuristic and indicates the direction of growth on the basis of which the growth plan is formulated. [< TOP](#)
Hence the right answer is (d).
36. A Force Field analysis developed by Kurt Lewin, says that there are certain facilitating factors and certain inhibiting factors in every situation faced by an individual. [< TOP](#)
37. E Let cost of project = x [< TOP](#)
- | | |
|--|--------------------|
| Profit before tax | Rs.3,00,000 |
| Less: tax @40% | <u>Rs.1,20,000</u> |
| Profit after tax | Rs.1,80,000 |
| Add: depreciation Rs.80,000 p.a. | <u>Rs. 80,000</u> |
| Profit before depreciation but after tax | <u>Rs.2,60,000</u> |
| annual cash inflow = | Rs.2,60,000 |
- Cash outlay of the project
- Payback period = $\frac{\text{Cash outlay of the project}}{\text{Annual cash inflow (before depreciation after tax)}}$
- $$6 \text{ yrs} = \frac{x}{\text{Rs.}2,60,000} = x = 6 \times \text{Rs.}2,60,000 = \text{Rs.}15,60,000.$$
- Hence, the cost of the project = Rs.15,60,000.
38. B Average Profit after deducting 50% tax [< TOP](#)
= $\text{Rs.}(20,000 + 40,000 + 45,000 + 15,000) \div 4 = \text{Rs.}30,000$
Average investment = $(\text{Rs.}5,00,000 + \text{Rs.}60,000) \div 2 = \text{Rs.}2,80,000$

ARR = Average annual profit after tax/Average investment
 = Rs.30,000 ÷ Rs.2,80,000 = 0.1071 or 10.71%.

39. B The progress of Just-in-time systems can be effectively monitored through the ratio Processing time/Cycle time. Hence, option (b) is correct. < TOP

40. D When there are few homogeneous markets, it is easier to plan, administer and coordinate functional departmental activities. This is the advantage of centralization not decentralization. The other alternatives given are advantages of decentralized organization. < TOP

41. E The sales price variance is determined by multiplying the difference between actual price and budgeted price by actual units. < TOP

$$\text{Actual price} = \frac{\text{Rs.1,69,932}}{14,700 \text{ units}} = \text{Rs.11.56}$$

$$\text{Budgeted} = \frac{\text{Rs.1,80,000}}{16,000 \text{ units}} = \text{Rs.11.25}$$

∴ Sales price variance is 14,700 units (Rs.11.56 ~ Rs.11.25) = Rs.4,557 (favorable).

42. B < TOP

Actual overhead costs	Rs.11,000
Less: Applied overhead cost = (Standard hours for actual work × standard overhead rate) 4,500 hours × Rs.2	Rs. 9,000
Overhead cost variance	Rs. 2,000 (Adverse)

Other options (a), (c), (d) and (e) are not correct.

43. A Budget signals help the operations manager to determine the amount of money that has to be spent on various activities is correct and remaining statements are wrong. Hence, option (a) is correct. < TOP

44. D The true statements are: < TOP
 I. The design of measurement systems and financial performance of a firm is based on the principles of ROI,
 III. The contribution of each center of an organization to ROI depends on allocation of resources to the center manager.
 IV. To calculate the ROI of an investment center, it is important to define the revenue, expenses and investment allocated to the center.
 Hence, option (d) is correct.

45. D Internal control style has an informal dimension consisting of interpersonal relationships and emphasizes human aspects of the organization. Hence, from above discussion, we can infer that option (d) is correct. < TOP

46. A The process of determining transfer prices is governed by goal congruence and fairness. Hence, option (a) is correct. < TOP

47. C Strength of the culture does not depend on the assumptions made by the competitors and How well the assumptions are shared by external people. Hence, option (c) is correct. < TOP

48. C The total quality management approach can be looked at from three aspects. These are responsibility for quality, product design and relationship with suppliers. Hence the answer is (c). < TOP

49. D The pricing that measures the exchange of products and services between responsibility centers within a company is known as transfer pricing. < TOP

50. B When environmental uncertainty prevails, organizations become more informal in response. Ad hoc teams are developed to cope with uncertainty. Verbal < TOP

communication is encouraged so that people can better understand and respond to the environment.

All other options are true with respect to an adaptive organization.

Hence the right answer is (b).

51. D The profitability index is the ratio of the present value of future cash inflows to the initial net cash investment. It is a variation of the NPV method that facilitates comparison of different investment. A profitability index greater than 1 indicates a profitable investment, or one that has a positive net present value. [< TOP](#)
 (a) is not correct because, if the index is 1.20 and the discount rate is the cost of capital, the NPV is positive, and the IRR must be higher than the cost of capital.
 (b) & (c) are not correct because the IRR is the discount rate at which the NPV is Rs.0, which is also the rate at which the profitability index is 1. The IRR cannot be determined solely from the index.
 (e) is not correct because the IRR is a discount rate, whereas the NPV is an amount.
52. A Labor efficiency variance [< TOP](#)
 = Standard rate per hour (Actual hours ~ Standard hours)
 = Rs.25 (315 hours ~ 300 hours) = Rs.375 (Adverse).
53. B Accounting rate of return is an accounting method and ignores time value of money. [< TOP](#)
54. E All the given statements are true regarding the budgeting. Hence, option (e) is correct. [< TOP](#)
55. D The purpose of just-in-time technique is to ensure that every workstation produces and delivers the right items in the right quantity at the right time to the next workstation. If this system is adopted, there will not be any need for buffer inventory. [< TOP](#)
56. D The statements “control systems will differ on the basis of corporate strategy with regard to diversification” and “it is very important to have good channels of communication that allow interdependence among the different units” are correct. Hence, option (d) is correct. [< TOP](#)
57. C Clan control mechanism depends on values and beliefs to boost performance. Hence option (c) is correct. [< TOP](#)
58. E All the given options, expert systems, natural language systems, artificial intelligence systems and knowledge-based systems are included in decision support systems. Hence, option (e) is correct. [< TOP](#)
59. E The statements; The process of strategic planning requires a number of estimates and variables to show the expected results of the plan, the information necessary for strategic planning is derived from the external environment and strategic planning essentially involves the process of goal setting are the characteristics of strategic planning. Hence, option (e) is correct. [< TOP](#)
60. B [< TOP](#)

$$\text{NPV} = -45 + \frac{11.00}{1.14} + \frac{13.50}{(1.14)^2} + \frac{15.50}{(1.14)^3} + \frac{13.00}{(1.14)^4} + \frac{16.50}{(1.14)^5}$$

$$= -45 + 9.65 + 10.39 + 10.46 + 7.70 + 8.57$$

$$= \text{Rs.1.77 crore.}$$
61. E The variable overhead efficiency variance equals the product of the variable overhead application rate and the difference between the standard input for the actual output and actual input. Hence, the variance will be zero if variable overhead is applied on the basis of units of output because the difference between the actual and standard input cannot be recognized. Option (a) is incorrect because the correlation between the variable overhead and direct labor efficiency variance occurs only when overhead is applied on the basis of direct labor. Options (b), (c) and (d) are incorrect because the variance would be zero. [< TOP](#)

62. E The Internal rate of return of an investment is the discount rate that equates the present value of the expected cash flows with the present value of the expected inflows. The discount rate that has to be applied for calculating IRR is arrived at only by trial and error method. [< TOP](#)
63. C Initial Investment = Rs.150 crore [< TOP](#)
 Let the IRR of the project be k
 So, Rs.150 crore = 35 PVIF (k,1) + 40 PVIF (k,2) + 60 PVIF (k,3) + 50 PVIF (k,4)
 At k = 10 percent, the RHS = 144.10 while at k = 8 percent, the RHS =151.07
 By interpolation,

$$= 8 + \frac{151.07 - 150}{151.07 - 144.10} \times (10-8)$$

$$K = 8 + 0.15 \times 2 = 8.30 \text{ percent.}$$
64. E A fixed factory overhead volume variance is the difference between the budgeted fixed factory overhead and the overhead applied based on a predetermined rate and standard direct labor hours allowed for the actual output. Option (a) is incorrect because sales volume is irrelevant. Option (b) is incorrect because the difference between actual direct labor hours and standard direct labor hours allowed is the basis of the variable overhead efficiency variance. Option (c) is incorrect because it is not the difference between actual production and standard production. Option (d) is incorrect because the difference between fixed factory overhead applied on the basis of standard allowed direct labor hours and the budgeted fixed factory overhead defines the total fixed overhead variances. [< TOP](#)
65. A Conflicts arise partly due to competition; therefore, management should encourage healthy competition. Since the achievement of overall goals requires collaborative efforts, the control system should foster cooperation among various responsibility centers through appropriate coordinative mechanisms, such as coordination committee. Hence, option (a) is correct. [< TOP](#)
66. B The correct answer is (b). [< TOP](#)
- | | | | | |
|-----------------------|---|--|---|-----------|
| | | $\frac{\text{Rs.33,000}}{2,750 \text{ kgs}}$ | | |
| Standard price per kg | = | | = | Rs.12 |
| | | $\frac{\text{Rs.1,080}}{\text{Rs.12}}$ | | |
| Usage variance (Kg) | = | | = | 90 kg |
| ∴ Standard usage | = | 2,750 kg – 90 kg | = | 2,660 kg. |
67. E Contribution margin, income before taxes, direct divisional profits earned by a profit center and net income indicate that the center is running on a profitable basis. [< TOP](#)
68. C Process variables influence the behavior of the employees towards the achievement of organizational goals. Hence, option (c) is correct. [< TOP](#)
69. B Zero-based budgeting is a planning process under which a manager must build the budget every year from a base of zero and all expenditures must be justified regardless of the variances from previous years' budgets. It divides the activities of individual responsibility centers into a series of packages that are prioritized. Option (a) is incorrect because ZBB begins with zero. Option (c) is incorrect because a static budget (not ZBB) does not adjust for changes in activity levels. Option (d) is not correct because ZBB does present a firm commitment. Option (e) is incorrect because in ZBB previous year's figures are not considered. [< TOP](#)
70. A Superordinate goals are also known as shared goals. They are set of values or aspirations that underscore what an organization stands for and believes in and are the overreaching purposes to which an organization and its members dedicate themselves. [< TOP](#)
71. D Statement (I) is false and all the other statements are true regarding the limitations of capital budgeting methods. [< TOP](#)

Hence, option (d) is correct.

72. A NPV = Rs.15 lakhs, initial outlay = Rs.120 lakhs, cost of capital 12%, Project duration = 1 year. [< TOP](#)

$$\frac{CF}{(1.12)}$$

$$\therefore 15 = -120 + \frac{CF}{(1.12)}$$

or, CF = 151.20

When cost of capital changed to 14% then NPV

$$= -120 + \frac{151.20}{1.14} = \text{Rs.}12.63$$

We know IRR is does not depend on cost of capital, so it remains 25%.

73. B

Particulars		Rs.
Cash sales	Rs.1,75,000 × .3	52,500
Credit sales realized:		
August	Rs.1,60,000 × .7 × .4	44,800
July	Rs.1,48,000 × .7 × .57	59,052
Cash receipts		1,56,352

[< TOP](#)

Particulars		Rs.
Cash sales	Rs.1,75,000 × .3	52,500
Credit sales realized:		
August	Rs.1,60,000 × .7 × .4	44,800
July	Rs.1,48,000 × .7 × .57	59,052
Cash receipts		1,56,352

74. A Standard quantity for actual output = 2,10,000 kg ÷ 0.7 = 3,00,000 kg [< TOP](#)

Material usage variance = (SQ – AQ) × SR

$$= (3,00,000 \text{ kg} - 2,80,000 \text{ kg}) \times \text{Re.}1 = \text{Rs.}20,000 \text{ (Favorable).}$$

75. D Except option (IV) all the other options are true. [< TOP](#)

76. B The budget process begins with the sales budget, proceeds to the production and expense budgets and eventually the cash budget. The cash budget cannot be prepared until the end of the process because all other budgets provide inputs to the cash budget. [< TOP](#)

(a) is not correct because budget process begins with the sales budget.

(c) is not correct because direct labor budget provides inputs to the cash budget. (d) and (e) are not correct because these budgets provides inputs to the cash budget, which is not prepared until the end of the process.

77. B Except the statement (II) all the other statements are correct. [< TOP](#)

78. D A favorable variance denotes that the actual cost for the achieved level of activity was less than the standard. Here in this case option (d) which says costs were Rs.4,420 less than standard for the achieved level of activity is correct. All other options are incorrect. [< TOP](#)

79. B Low labor turnover is not the reason for labor efficiency variance. Infact, high labor turnover is the reason for labor efficiency variance. Hence, option (b) is correct. [< TOP](#)

80. E Inefficient coordination of errors in subunits results in excess transaction costs. Subunits comprise individuals who perform certain activities to fulfill purpose of the organization. The control systems play a major role in coordinating the efforts of these subunits. In the past subunits were not expected to be aware of the overall purpose of the organization. The management establishes the purpose, goals and objectives of an organization and delegate responsibility of various subunits to accomplish the goals. [< TOP](#)

81. C The net present value of a proposed investment is computed by subtracting the original investment from the present value of future cash flows. [< TOP](#)

Let, original investment = X

$$\text{Therefore, } 8000 \times 0.9091 + 9,000 \times 0.8264 + 10,000 \times 0.7513 - X = \text{Rs.}2,000$$

$$\text{or, Rs.}7,272.8 + \text{Rs.}7,437.6 + 7,513.0 - X = \text{Rs.}2,000$$

or, $X = 20,223.40$. Therefore the original investment = Rs.20,223.40.

82. A Cash disbursement = Cost of goods sold – Increase in accounts payable – Decrease in stock [< TOP](#)
= 75% of sales – Rs.28,000 – Rs.52,000
= Rs.7,50,000 – Rs.80,000 = Rs.6,70,000.

[< TOP OF THE DOCUMENT >](#)