Corporate Management Course (Part I) Examination
G-I-P-2-Management Control and Management Audit

MAY 2010

Roll No..............................

Total No. of Questions—5] [Total No. of Printed Pages—4

Time Allowed—3 Hours Maximum Marks—100

HEH

Answer **all** questions.

Marks

1. The following is the Balance Sheet of a concern as on 31.3.2009 : 20

	Rs.		Rs.
Capital	12,00,000	Fixed assets	
Trade creditors	2,50,000	(at cost less depreciation)	5,00,000
Profit and Loss a/c	80,000	Stock	4,50,000
		Debtors	2,50,000
		Cash and Bank balances	3,30,000
	15,30,000		15,30,000

The management makes the following estimate for the year ended 31.3.2010 :

	Upto February, 2010	March, 2010
	Rs.	Rs.
Purchase	15,20,000	1,05,000
Sales	22,40,000	2,50,000

Additional information :

(i) It has been decided to invest Rs. 1,50,000 in purchase of Fixed assets. Which are depreciated @ 10%.

(ii) The time lay for payment to creditors and receipts from debtors is one month.

(iii) The Business earns a Gross profit of $33\frac{1}{3}\%$ on turnover.

Marks

(iv) Sundry expenses against Gross profit will amount to 12% of the turnover (excluding depreciation on Fixed assets).

You are required to prepare a projected fund flow statement for the year ended 31.3.10.

2. Define Working capital reports. What different Working capital reports are prepared for the purchase of controlling working capital ?

3. What do you mean by decision making ? Explain the necessary steps involved in the process of decision making.

4. Briefly discuss Net present value method vs internal rate of return method of ranking of projects.

2. M/s. Usha Co. Private Ltd. of Ghaziabad produces one product. The sales realisation from the product is estimated to be Rs. 20 lacs in 2008-09. The cost of goods sold has been forecasted as follows : 20

	Rs. Lacs
Direct Material	4
Direct Labour	6
Variable works overhead	3
Fixed works overhead	2
	15

In March, 2008-09, the Managing Director to the company feels that, rising costs have already set in and it is necessary to reorganise the company's production and sales policy. The Sales manager believes that if the product is not redesigned, the following operating results will be obtained :

Material price will register an increase of 5%.

Direct labour charges will increase by 8%.

Variable works overhead will vary proportionately with direct labour.

In the sale price is increased to yield the same rate of gross profit on cost of goods sold as in 2008-09, there will be 10% reduction in the number of units in 2009-10.

If the product is redesigned according to suggestion offered by the Sales Manager, it is expected that there will be 10% increase in the number of units sold even with an increase of 10% in the selling price per unit. The redesigning of product would involve the following changes :

Material quantity consumption will increase by 8% because of poor quality of material and material price will reduce by 5% on average in the year 2009-10.

Marks

Average direct labour rate in 2009-10 will be 10% below the average for 2008-09 as the redesign of the product will permit change in the manufacturing operations requiring engagement of semi-skilled workers. But 15% increase in the direct labour hours per unit would be required than was forecasted in 2008-09 variable works overhead will continue to maintain the same ratio with direct labour, but it is expected to increase by 8% due to price changes etc.

You are required to prepare Cost and Profit statement on the basis of above assumptions and cost and operating data, if the same product is continued in 2009-10 and if it is redesigned according to Sales Manager's suggestions.

3. The most recent statement of the financial position of a small wholesale business of a sole trader appears in summarised form as below : 20

Profit and Loss Account for the year ended 31st March, 2009

	Rs.
Sales	36,000
Cost of goods sold	23,040
Gross profit	12,960
Operating expenses	8,640
Net profit	4,320

Balance Sheet as at 31st March, 2009.

			Rs.
Fixed assets, net of accumulated depreciation			2,350
On a straight line basis			
Current assets	Rs.		
Stocks	7,680		
Debtors	6,000		
Cash	1,178		
		14,858	
Less Current liabilities			
Creditors	1,920		
Trade expenses	720	2,640	12,218
Proprietor's interest			14,568

Marks

The proprietor is 60 years old and plans to retire in 5 years time. Demand for his product was constant throughout the year ended 31st March, 2009 and upto that date he had expected it to continue at the same level, but he now expects it to fall steadily by an equal monthly amount over the 5 years period beginning in April, 2009 and falling to zero by 31st March, 2014. He asks you to assume that there will be no changes in sales price or purchase price in the products stocked and sold over the period nor in the periods of credit received and allowed nor in the stock turnover period and also assume that he can reduce his operating costs by about a fifth annually, starting immediately in April, 2009.

The business is not seasonal. You are required to calculate the amount of net cash flow for the year ended 31st March, 2010.

4. (a) You have been appointed as the Management auditor of a large company. The Managing Director of that company asks from you a Tentative Audit Programme for examining energy use in the organisation so that an action programme can be developed for energy savings. Prepare a suitable programme. 10

(b) What are the essential elements of Budgetary control ? Distinguish between a programme budget and responsibility budget. 10

5. Write short notes on the following : 20

(a) Control by exception

(b) Role of creativity in decision making

(c) Profitability index

(d) Control report.