

2012

**MASTER OF BUSINESS ADMINISTRATION**

[Third Semester Examination]

**MANAGEMENT CONTROL SYSTEM AND AUDITING**

(Specialisation : *Financial Management*)

PAPER— F-304

*Full Marks* : 100

*Time* : 3 hours

*The figures in the right-hand margin indicate marks*

*Candidates are required to give their answers in their own words as far as practicable*

*Illustrate the answers wherever necessary*

**Write the answers to questions of each Half in separate books**

FIRST HALF

[*Marks* : 50]

1. Answer any *four* questions : 5 × 4
- (a) What do you mean by Management Control ?  
What are the basic principles in Management Control System ? 2 + 3
- (b) Define Performance Budgeting. What steps are to be followed in preparing a performance Budget ? 2 + 3
- (c) What is Transfer Pricing ? Explain how Government revenues may be affected by Over-invoicing and Under-invoicing through transfer pricing mechanism. 2 + 3
- (d) Define budget. Classify different types of budget. 2 + 3
- (e) Division X and Y are currently considering an outlay on new investment projects. From the following details determine which project is to be accepted if (i) ROI method, and (ii) Residual Income method are used. Consider cost of capital to be 13 % . 5

	Division X	Division Y
Investment outlay (Rs.)	2,00,000	2,00,000
Net annual return (Rs.)	32,000	24,000
Target ROI	18 %	12 %

(f) Write a brief note on divisional performance measurement techniques. 5

2. Answer any *two* questions : 10 × 2

(a) The following information could be obtained from the records of a manufacturing unit using standard costing system. Compute all possible variances. 10

	Standard	Actual
Production (Units)	4,000	3,800
Working Days	20	21
Fixed Overhead (Rs.)	40,000	39,000
Variable Overhead (Rs.)	12,000	12,000

(b) Chemical Ltd. manufactures two products—AB and CD. These are produced by mixing the following raw materials in the given proportion shown below :

Raw Materials	Product AB	Product CD
A	80 %	—
B	20 %	—
C	—	60%
D	—	40%

During the month of February, 2013 it is expected that 60 tons of AB and 200 tons of CD will be sold. Actual and budgeted inventories and the purchase price of the materials for the month of February are as follows :

Materials/Products	Actual Inventory (1 <sup>st</sup> February) Quantity (Tons)	Budgeted Inventory (28 <sup>th</sup> February) Quantity (Tons)	Purchase Price (Rs. per Ton)
A	15	20	500
B	10	40	400
C	200	300	100
D	250	200	250
AB	10	5	—
CD	50	60	—

Labour hours required per ton of production are :  
 AB – 10, and CD – 15. Same grade of labour can produce both the products. Labour Hour Rate is Rs. 10. Variable Overheads costs are :  
 AB – Rs. 50 per ton, and CD – Rs. 100 per ton.

Total monthly Fixed Overhead and the Direct Labour Hours in the Company are Rs. 5,00,000 and 5,000 hours. Fixed Overheads are absorbed on Labour Hour Rate basis. You are required to prepare :

2 + 2 + 2 + 4

- (i) The Production Budget for the month of February, 2013,
- (ii) The Materials Requirement Budget for February, 2013,
- (iii) The Materials Purchase Budget (in Value) for February, 2013,
- (iv) The Budgeted Cost of Production per ton for the products.

( c ) What is Zero Base Budgeting (ZBB) ? Indicate the steps in ZBB. Also indicate the contents of a Decision Package.

2 + 2 + 6

[ *Internal Assessment* – 10 Marks ]

## SECOND HALF

[Marks : 50]

3. Answer any *four* questions : 5 × 4
- (a) What is 'audit evidence' in auditing? What are the auditor's responsibility in respect of obtaining sufficient and appropriate audit evidence? 2 + 3
- (b) What do you mean by 'auditing -in-depth'? Give an example. 3 + 2
- (c) Define 'test checking'. What are its limitations? What important precautionary measures are to be adopted when 'test checking' is applied? 3 + 2
- (d) What is management audit? Discuss the usefulness of management audit. 2 + 3
- (e) (i) 'Vouching is the essence of auditing'. – Explain.
- (ii) What is internal auditing? 3 + 2
- (f) What are verification of assets and liabilities? How as an auditor would you verify copyright' or 'plant and machinery'? 2 + 3

4. Answer any *two* questions : 10 × 2

(a) What is Cost audit ? Is cost audit compulsory for all companies in India ? Discuss the necessity of cost audit. 2 + 2 + 6

(b) What is propriety audit ? Discuss in brief the various areas of propriety audit covered under the companies Act, 1956. 2 + 8

(c) (i) Discuss briefly the necessary provisions of the Companies Act, 1956 regarding the appointment, removal and remuneration of company auditor.

(ii) Write short notes on 'audit report'. 7 + 3

[*Internal Assessment* – 10 Marks ]