

Multiple Choices

For the following, choose the right answer.

Q1. An efficient control system helps to

- a. Accomplishes organisational objectives.
- b. Boosts employee morale.
- c. Judges accuracy of standards.
- d. All of the above.

Answer: (d) all of the above.

Q2. Controlling function of an organisation is

- a. Forward looking.
- b. Backward looking.
- c. Forward as well as backward looking.
- d. None of the above.

Answer: (c) forward as well as backward looking.

Q3. Management audit is a technique to keep a check on the performance of

- a. Company
- b. Management of the company.
- c. Shareholders
- d. Customers

Answer: (b) Management of the company.

Q4. Budgetary control requires the preparation of

- a. Training schedule.
- b. budgets
- c. Network diagram.
- d. Responsibility centres.

Answer: (b) budgets.

Q5. Which of the following is not applicable to responsibility accounting

- a. Investment centre
- b. Accounting centre
- c. Profit centre
- d. Cost centre

Answer: (b) Accounting centre

Short Answer Type

Q1. Explain the meaning of controlling.

Answer: Controlling is the process of comparing the actual performance with the standards and taking corrective action, if required. It finds out deviations from the pre-determined standards, so it is called a backward looking function and provides standards to control without which controlling becomes aimless or baseless.

Q2. 'Planning is looking ahead and controlling is looking back.' Comment.

Answer: Plans are framed for future and are based on forecasts about future events. Therefore, planning is regarded as a forward looking function. However, controlling also improves future planning by providing corrective action to the deviations from plans. Thus, controlling is also forward looking. Controlling analyses past activities to find out deviations from standards. Planning is also guided by past experiences and corrective action initiated by controlling, for improving future performance. Thus, both are backward looking.

Q3. 'An effort to control everything may end up in controlling nothing.' Explain.

Answer: According to the concept of 'Management by Exception' if a manager wants to control everything than he may end up controlling nothing. According to this concept, the deviations which are beyond the specific range should only be handled by managers and minute or minor deviations can be ignored. Manager should not waste his time and energy in finding solutions for minor deviations, rather he should concentrate on removing deviations of high degree. For instance, if the cost of production of Rs 1500 and as per policy any deviations beyond 5% need to be controlled. In such a case, if the cost increases by Rs 10, then it can be ignored, since it is within 5%. However, if it increases by Rs 100, then the manager must find out the reasons for such increase. He then need to take corrective steps to correct this deviation.

Q4. Write a short note on budgetary control as a technique of managerial control.

Answer: Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison enables necessary action to be taken on time to improve the performance. A budget is quantitative statement for a definite period of time. It reflects the policy of that particular period.

Q5. Explain how management audit serves as an effective technique of controlling.

Answer: It refers to the systematic appraisal of overall performance of management of an organization with the objective of reviewing efficiency and effectiveness of the management. Management audit serves as an effective technique of controlling as it offers following advantages:

- a. It helps to locate the deficiencies in performance of management functions.
- b. It helps to improve control system of an organization.
- c. It improves coordination in the functioning of various departments.
- d. It ensures updation of managerial policies and strategies for better results.

Long Answer Type

Q1. Explain the various steps involved in the process of control.

Answer: Steps in the controlling process are:

- a. **Setting up standards:** The first step in the controlling process is setting up the standards. Standards mean the target against which the actual performance is measured. The standards are the basis of comparison. The standards should be achievable, measurable and should be set keeping in mind the availability of the resources. For example, an enterprise sets the standard of increasing its sales by 20 percent in the current year. The standards set should also specify the time limit. This means that it must specify the time limit within which they have to be achieved.
- b. **Measuring of performance:** After setting up of standards the performance of the employees is measured by evaluating the actual performance done by the employees. Both the qualitative and quantitative aspects of performance are measured. Although it is difficult to evaluate the quality standards, yet certain quality parameters are fixed to measure the performance.
- c. **Comparing performance against standards:** The next step is to compare the actual performance with the standards. If both are parallel to each other then the controlling process ends there only. But if there are any deviations then the manager tries to find out the reasons for the same. Deviations of minor nature can be ignored but if the deviations are major then timely action must be taken.
- d. **Analysing deviations:** Only the deviations which have a significant impact on the organisation should be brought to the notice of the top management. Deviations must be divided in two categories; deviations which need to be attended urgently and the minor deviations. These two deviations must be controlled in the following way:
- e. **Critical point control:** It means focusing on the key areas and in case of any deviation in these areas then it should be attended urgently.
- f. **Management by exception:** A manager who tries controlling everything may end up controlling nothing. Therefore the deviations which are beyond the specific range should be handled by him and the minor deviations should be attended to by the lower or the middle level management.
- g. **Taking corrective measures:** After comparing the actual performance with the standards and finding out the deviations, the manager is required to know the reasons for the deviations and taking corrective actions to remove the occurrence of such deviations in future.

Q2. Explain the techniques of managerial control.

Answer: The techniques of managerial control be classified as traditional techniques and modern techniques.

Traditional techniques:

- a. **Personal Observation:** Observation by supervisor continuously during performance of work. Most used in assembling industries, where each part is checked during assembling.
- b. **Statistical reports:** Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation.
- c. Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits.
- d. Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards.

Modern Techniques:

- a. Return on investment: It is used as yardstick for measuring that capital is used effectively for generating reasonable returns.
- b. Ratio analysis: It refers to the analysis of financial statement through computation of ratios. Liquidity, solvency and turnover ratios are computed for such analysis.
- c. Responsibility accounting: It is a system of accounting in which different section, divisions and departments are set up as responsibility centres.
- d. Management audit: It refers to the systematic appraisal of overall performance of management of an organization with the objective of reviewing efficiency and effectiveness of the management.
- e. PERT and CPM: These are important network techniques used in planning, scheduling and implementing time bound projects.
- f. Management information system: It is a computer based information system that provides information and support for effective managerial decision making.

Q3. Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

Answer: Controlling is an important function of management. It can be explained as follows:

- a. Helps in accomplishing organizational goals: Controlling compares the actual targets with the planned targets and brings out the deviations and brings the corrective action and thereby helps the organisation in achieving the goals.
- b. Helps in efficient use of resources: Control system helps the manager in reducing the wastage and spoilage of resources. Each activity is performed in accordance with the predetermined standards which ensure effective and efficient utilization of resources.
- c. Helps in judging accuracy of standard: A control system checks the changes of the organisations and helps to review and revise the standards and verifies whether the standards are accurate and objectively based.
- d. Facilitates coordination in action: Control helps to maintain equilibrium between means and ends. It means that proper direction is taken and all the departments are properly controlled according to the pre-determined standards which are well coordinated with one another. Controlling provides unity of direction.
- e. Ensuring order and discipline: Controlling helps to minimise the dishonest behaviour on the part of the employees by keeping a close check on their activities.

The problems faced by the organisation in implementing an effective control system are:

- a. External factors: Business environment keeps on changing and are not in control of the organization.
- b. Difficulty in setting standards: It is difficult to set standards and these standards are less effective in qualitative terms.
- c. Expensive: Controlling is the costly process both in terms of money and time.

Q4. Discuss the relationship between planning and controlling.

Answer: Relationship between planning and controlling:

There is a deep relationship between planning and controlling. Planning is meaningless without controlling and controlling is useless without planning.

- a. Planning can be successful only if there is proper controlling. If the process of controlling is not followed then no worker will take the plans seriously and so the plans will fail. Therefore if the process of controlling is not present then it is meaningless to have planning.

- b. Controlling is useless without planning. Under the process of controlling actual performance is compared with the standards, and the standards are determined with the help of planning. In the absence of planning, no comparison can be made and so controlling will fail.

Application Type Questions

Q1. Following are some behaviours that you and others might engage in on the job. For each item, choose the behaviour that management must keep a check to ensure an efficient control system.

- a. Biased performance appraisals
- b. Using company's supplies for personal use
- c. Asking a person to violate company's rules
- d. Calling office to take a day off when one is sick
- e. Overlooking boss's error to prove loyalty
- f. Claiming credit for someone else's work
- g. Reporting a violation on noticing it
- h. Falsifying quality reports
- i. Taking longer than necessary to do the job
- j. Setting standards in consultation with workers you are also required to suggest the management how the undesirable behaviour can be controlled.

Answer:

- a. Biased performance appraisals: The standards shall be set and the performance should be compared to such standards.
- b. Using company's supplies for personal use: Proper records should be maintained by stores person and timely updation shall be made to the records.
- c. Asking a person to violate company's rules: There shall be written rules and regulations for employees to be followed. Also it shall be stated that breach of rules will attract penalty.
- d. Calling office to take a day off when one is sick: The leave shall be approved before and team member shall be ready to share the work load.
- e. Overlooking boss's error to prove loyalty: The errors shall never be overlooked and shall be brought to the notice of concerned person.
- f. Claiming credit for someone else's work: Control is required on such activities and credit shall be given to employees for good work and their achievements.
- g. Reporting a violation on noticing it: For this open and free flow of communication is required. Feedback and suggestions must be welcomed from the employees.
- h. Falsifying quality reports: Misrepresentation and window dressing of reports shall be reported. This shall also attract penalty.
- i. Taking longer than necessary to do the job: Time study shall be performed and standards that are set shall be adhered to.
- j. Setting standards in consultation with workers: This is the best policy as real picture of organisation is clear to the workers. This encourages them to perform better.