Unit 8

Part A

1. What is meant by Controlling?

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates.

2. What is 'Standard' in controlling process?

Standards are the criteria against which actual performance would be measured.

3. Expand PERT/CPM/MIS.

Program Evaluation and Review Technique

Critical Path Method

Management Information System

4. What is Ratio Analysis?

Ratio Analysis refers to analysis of financial statements through computation of ratios.

5. Controlling function of an organisation is (a) Forward looking (b) Backward looking **(c) Forward as well as backward looking** (d) None of the above
6. Management audit is a technique to keep a check on the performance of
    (a) Company **(b) Management of the company** (c) Shareholders (d) Customers
7. Budgetary control requires the preparation of (a) Training schedule **(b) Budgets** (c) Network diagram (d) Responsibility centres
8. Which of the following is not applicable to responsibility accounting? (a) Investment Centre **(b) Accounting centre** (c) Profit centre (d) Cost centre

Part – B

9. Define Managerial Control.

Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans. Koontz and O' Donnel

10. State any two traditional techniques of managerial control.

(a) Personal observation (b) Statistical reports (c) Breakeven analysis (d) Budgetary control

11. State any two modern techniques of managerial control.
    (a) Return on investment (b) Ratio analysis (c) Responsibility accounting (d) Management audit (e) PERT and CPM (f) Management information system

12. Give the meaning of Break-even Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities.

13. What do you understand by Budgetary Control?

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 reveals the necessary actions to be taken so that organisational objectives are accomplished.

14. What is Responsibility Accounting?

Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre.

Part – C

15. 'A good control system helps an organisation in many ways'-Justify this statement with any four points.

A good control system helps an organisation in the following ways:

a) Accomplishing organisational goals: The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

b) Judging accuracy of standards: A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards considering such changes.

c) Making efficient use of resources: By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

d) Improving employee motivation: A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance based on which they will be appraised. It, thus, motivates them and helps them to give better performance.

16. Explain the limitations of Controlling.

(a) Difficulty in setting quantitative standards: Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

(b) Little control on external factors: Generally, an enterprise cannot control external factors such as government policies, technological changes, competition etc.

(c) Resistance from employees: Control is often resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).

(d) Costly affair: Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

17. Explain briefly the relationship between planning and controlling.

Planning and controlling are inseparable twins of management. A system of control presupposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans.

Planning is basically an intellectual process involving thinking, articulation and analysis to discover and prescribe an appropriate course of action for achieving objectives. Controlling, on the other hand, checks whether decisions have been translated into desired action. Planning is thus, prescriptive whereas, controlling is evaluative.

It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and are based on forecasts about future conditions. Therefore, planning involves looking ahead and is called a forward-looking function.

However, planning is guided by past experiences and the corrective action initiated by control function aims to improve future performance. Thus, planning and controlling are both backward-looking as well as a forward-looking function. Thus, planning and controlling are interrelated and, in fact, reinforce each other

18. Explain briefly the steps involved in Controlling Process.

Step 1: Setting Performance Standards: The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards.

Step 2: Measurement of Actual Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

Step 3: Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

Step 4: Analysing Deviations: Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

a) Critical Point Control: It is neither economical nor easy to keep a check on every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.

b) Management by Exception: Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management. Thus, if the plans lay down 2 per cent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter must receive immediate action of management on a priority basis