

CBSE Class 12 Business Studies

NCERT Solutions

Chapter 08

Controlling

Multiple Choice:

1. An efficient control system helps in

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

Ans: (a) An efficient controlling system helps in achieving all the aforementioned objectives. Controlling refers to the process of assessing the progress of the current tasks and activities and setting the work standards to achieve the goals of the organisation. An efficient control system helps in keeping a close watch on the progress of the work towards the accomplishment of the organisational goals and takes the required corrective actions. It helps in tracking the changes taking place in the organisation and the business environment and thereby, helps in judging the accuracy of the standards set. Along with this, controlling boosts employee morale by telling them in advance about what is expected from them and motivating them to work according to the set policies.

2. Controlling function of an organisation is

- (a) Forward looking**
- (b) Backward looking**
- (c) Forward as well as backward looking**
- (d) None of the above**

Ans: (c) Controlling as an essential part of management is **forward as well as backward looking**. It is a backward looking function in the sense that it assesses the work done and analyses deviations from the set standards. Based on these deviations it attempts to take the required corrective measures. Thus, it guides the future course of action and aims at improving the future performance. In this sense, it is also a forward looking function. Hence, we can say that controlling is forward as well as backward looking function.

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

(a) Company

(b) Management of the company

(c) Shareholders

(d) Customers

Ans: (b) Management audit implies a systematic assessment of the overall actions of the management of a company. It aims at evaluating the efficiency and effectiveness of the management and helps in identifying the areas where it lags behind. It reveals the deficiencies in performance and helps in taking corrective measures. Hence, management audit keeps a check on the overall performance of the management of the company.

4. Budgetary control requires the preparation of

(a) Training schedule

(b) Budgets

(c) Network diagram

(d) Responsibility centres

Ans: (b) Budgetary control technique of managerial control involves the preparation of budgets for each operation of the organisation and then comparing the realised results with the budgetary standards.

A budget is a quantitative statement defining the objectives to be achieved in a specified time

period and the policies to be followed.

5. Which of the following is not applicable to responsibility accounting?

- (a) Investment centre**
- (b) Accounting centre**
- (c) Profit centre**
- (d) Cost centre**

Ans: (b) Accounting centre is not a part of responsibility accounting. Responsibility accounting basically refers to a system in which different divisions of the organisation are established as responsibility centres. Herein, each department is given a set target and the head of the department (manager) is made responsible for achieving it. They are of different types of responsibility centres such as cost centre, investment centre, profit centre and revenue centre.

Short Answer Type:

1. Explain the meaning of controlling.

Ans: Controlling is very important managerial function. It is concerned with taking necessary measures or preventing actions to ensure achievement of organizational goal. Controlling function can be defined as comparison of actual performance with the planned performance. If there is any difference then finding the reason for such difference and taking corrective measures or action to stop those reason so that in future there is a match between actual and planned performance..

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

Ans: Planning is looking ahead and controlling is looking back. This statement is partially true. Planning is a psychological process of 'thinking and deciding in advance' about 'what is to be done' and 'how it is to be done'. It is a mental activity that includes deciding the goals and also the actions through which they are to be accomplished. Thus, it is said that planning

is looking ahead as it involves predicting the future. Controlling on the other hand, involves an assessment of the past performance and evaluating them against the set standards. In this sense, controlling is said to be a backward looking function.

However, both these statements are only partially true. Though planning is a futuristic concept but it is based on past actions and experiences. Planning for future cannot take place without peeping into the past. Similarly, though controlling involves assessment of past performance, it also aims at improving the future performance by taking the required corrective actions. Hence, we can say that planning and controlling are backward looking as well as forward looking functions.

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

Ans: The statement, 'an effort to control everything may end up in controlling nothing' is in regard with the principle of 'Management by Exception'. It stresses on the fact that everything cannot be effectively controlled. According to this principle, rather than controlling each and every deviation in performance, an acceptable limit of deviations in various activities should be set and only those deviations that go beyond the acceptable range should be brought to the notice of the managers for control. In other words, only the major deviations which are beyond permissible limit should be acknowledged. For instance, suppose the acceptable range of increase in the input cost is set at 3 percent. In this case, only a more than 3% increase in the input cost (say 7%) should be brought to the notice of the managers. On the other hand, a less than 3% increase (say 1%) should be neglected. Hence, an effort should be there to control only the major things instead of trying to control everything.

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

Ans: Budgetary control is a technique of controlling that involves preparing plans in the form of budgets. Budget refers to a financial or a quantitative statement that defines the targets to be achieved and the policies to be followed in a specific period of time. The actual performance is then compared with the budgetary standards. This comparison helps in identifying the deviations and thereby, guides in taking appropriate corrective measures. Budget can be prepared for different divisions of the organisation such as sales budget,

production budget, purchase budget, etc. However, for the budgeting to be effective, future estimates must be made carefully. Budgeting also acts as a source of motivation for the employees by setting the standards against which their performance will be assessed. Thus, it encourages them to achieve the set objectives. In addition, it is also used to facilitate coordination among different divisions/departments of the organisation. Moreover, proper budgeting ensures that resources are allocated to different divisions as per their requirements. Thereby, it helps in optimum utilisation of the resources.

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

Ans: Management audit refers to the extensive and constructive appraisal of the overall performance of the management of an organisation. It aims at improving the overall effectiveness and efficiency of the management. It evaluates all the functions performed by the managers and helps in identifying the deficiencies in the work performance. The effectiveness of management audit for controlling can be judged from the following points.

i. Identification of Deficiencies: Management audit helps in recognising the current as well as probable deficiencies in the performances. Thereby, it helps in taking the necessary corrective measures.

ii. Improves Efficiency: Through management audit, various activities of the management can be continuously monitored. Thereby, it helps in improving the overall efficiency of the management.

iii. Enhances Coordination: It improves the coordination between employees as well as within the different functions of the organisation as it continuously oversees the work.

iv. Adapting to Environmental Changes: It helps the organisation to adapt to the environmental changes appropriately. This is done by ensuring that the managerial policies and strategies are up-to-date.

Long Answer Type:

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

Ans: Controlling is a systematic approach of managing and controlling the organisational

actions. The following are the steps involved in the controlling process.

(i) Setting Standards:

Standards means target against which the actual performance is measured. The standards become basis for comparisons and the manager insists on following of standards. The standards must be achievable, high or very high standards which cannot be achieved are of no use. Standards must be set up keeping in mind the resources of the organization and as far as possible standards must be set up in numerical or measurable terms. For example-

1. Standard sale: Rs 20 lakh per annum
2. Standard profit: Rs 4 lakh
3. Reduction in cost by 5%

(ii) Measuring Actual Performance: After setting up of standards the performance of the employees is measured by evaluating the actual work done by the employees. When the performance can be measured numerically then it is very convenient to measure the performance. While measuring the performance the quantitative as well as qualitative aspect of performance is kept in mind. Sometimes employees achieve the quantitative standards by ignoring qualitative standards. That is why while measuring the performance quality standards are also measured.

(iii) Comparing the Performances: After measuring the performance the manager compares the actual performance with the planned performance and standard. If there is match in both then the controlling function ends there only. But if there is mismatch then the manager tries to find out the extent of deviation. If the deviation is minor then it should be ignored. But if the deviation is more, then timely action must be taken.

(iv) Analysing Deviation: Every organisation faces deviations when comparing the actual performance with the pre-developed standards. Thus, it is important to find the deviations that are in the permissible range. It is said that deviations in key areas should be attended first. For analysing the deviations the managers generally use 'Critical Point Control' and 'Management by Exception'.

- Critical Point Control: An organisation cannot keep a check on all the activities of the

management. Thus, this technique of controlling aims at focussing on only the key result areas (KRAs) that affect the entire organisation. For example, rise in input cost would be more important than rise in stationary cost.

- **Management by Exception:** This technique of management is based on the belief that 'an attempt to control everything results in controlling nothing'. According to this, only the essential and significant deviations that are beyond the acceptable limit should be controlled. For example, if there is a 6 per cent rise in labour cost whereas the permissible limit is just 3 per cent, then, this should be immediately brought into the notice of the management. On the other hand a 2 percent rise in the cost can be ignored.
- Once the deviations are recognised, it is necessary to acknowledge the cause for it. There can be a number of elements causing deviations in work such as infeasible standards, deficiencies in process, under utilisation of resources, changes in business environment, etc. Thus, it becomes important for the management to take into regard the causes for the concerned deviations.

(v) Corrective Measures: When deviations go beyond the admissible limits, there arises a need for the management to take corrective actions. This is the last step of controlling which aims at correcting the deficiencies of the organisation so that the errors do not occur again. For example, if the production target was not met duly, appropriate corrective actions such as training the workers or updating the machinery for working, etc. can be taken.

2. Explain the techniques of managerial control.

Ans: The techniques used for managerial control can be divided into two broad categories namely, Traditional Techniques and Modern Techniques.

Traditional Techniques: Techniques which are being used by the managers since long back, are known as traditional techniques. The following are traditional techniques of managerial control.

i. Personal Observation: This technique includes personal observation by the managers to oversee the work being done. It enables the manager to gather the right information and also creates a pressure on the workers to perform well as they are being continuously observed by their supervisor. However, it is a time consuming process and cannot be used where there

are a variety of functions to be overseen.

ii. Statistical Reports: Information in the form various statistical analysis such as averages, ratios, percentages, etc. can be easily presented in the form of graphs, charts and tables. Such presentation facilitates easy comparison of the performance with the standards.

iii. Break-Even Analysis: It involves a study of relation between costs, volume and profits. Break-Even point refers to that quantity of sales where there is neither profit nor loss. It is determined at the point where total cost incurred is equals the total revenue earned. Through this technique, the manager can estimate the costs and profits to the organisation at various levels of quantity and thereby, find the level where profit can be maximised.

iv. Budgetary Control: Budgetary control is a technique of planning the future operations in the form of budgets. Here, 'budget' refers to a quantitative or qualitative statement which presents the objectives to be achieved in a specified period of time. These budgets are then used as standards for measuring the actual performance. It also presents the time-bounded policies to be used for the attainment of the objectives. It also facilitates management by exception by focussing on the activities which deviate significantly from the set budgets. However, to ensure effectiveness of the technique, estimates about the future should be as accurate as possible. In addition, the budgets should be flexible so as to adapt to the changes in business environment.

Modern Techniques: Modern techniques as the name suggests are modern and recent in origin. They are based on the new thinking of the managers and provide refreshing ideas for a better managerial control. Following are the highlighted modern techniques of controlling.

i. Return on Investment: Return on investment refers to the gains or benefits earned in relation to the investments done. It is a useful technique in measuring whether the invested capital is being used effectively and if a reasonable amount of returns is being generated from these investments. Managers can opt for this technique when comparing the performances of different departments or divisions or when comparing the present actions in relation to the previous year performance.

ii. Ratio Analysis: This technique involves calculating various ratios in order to analyse the financial statements. These ratios are then used as a tool for effective managerial control. Following are the most commonly used ratios for controlling.

- (a) Liquidity Ratio, for determining the short-term solvency of business.
 - (b) Solvency Ratio, for determining the long-term solvency of a business.
 - (c) Profitability Ratios, for determining the profitability positions of a business.
 - (d) Turnover Ratios, for determining the efficiency of activities based on the utilisation of resources.
- iii. Responsibility Accounting:** Under this system, different divisions of an organisation are established as responsibility centres. The head of each centre is responsible for the targets and duties regarding his centre. The following are some of the responsibility centres that can be formed.
- (a) Cost Centre, is responsible for the costs incurred by the organisation.
 - (b) Revenue Centre, responsible for the revenue generated from the sales or marketing activities.
 - (c) Profit Centre, responsible for the profits generated considering the costs and revenues.
 - (d) Investment Centre, it takes into account the investment made in the form of assets.
- iv. Management Audit:** It refers to a systematic approach for analysing and appraising the overall efficiency of the management of a company. It aims at reviewing the efficiency and effectiveness of the management in order to identify the deficiencies in the overall performance. It acts as an important control system by continuously monitoring the working activities of the managers.
- v. PERT and CPM:** Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are techniques that are based on network analysis. It involves dividing the entire project into various activities and then deciding a time line and cost estimate for each activity and for the entire project. As these techniques deal with time scheduling and resource allocation, they enable effective execution of the projects. Such techniques are generally used in ship-building, construction projects, etc.
- vi. Management Information System:** MIS is a computer based controlling technique that provides timely data and information to the managers while aiming at effective decision

making. It processes the massive data of the organisation and generates useful information to the managers. MIS also ensures cost effectiveness in managing information as it facilitates collection and dissemination of information at different levels.

The aforementioned traditional and modern techniques can be used by the managers for effective and efficient controlling of the organisation.

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

Ans: Controlling is an important and an indispensable function of management. It aims at managing the managerial actions by setting the standards and identifying the deviations of actual performance as against the set standards. It also ensures optimum utilisation of resources while taking corrective measures for the deviations. The following are the factors that highlight the importance of controlling.

(i) Achieving Organisational Goals: The controlling process is implemented to take care of the plans. With the help of controlling, deviations are immediately detected and corrective action is taken. Therefore, the difference between the expected results and the actual results is reduced to the minimum. In this way, controlling is helpful in achieving the goals of the organisation.

(ii) Evaluating the Standards: While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined..

(iii) Optimum Utilisation of Resources:Controlling makes it possible to use human and physical resources efficiently. Under controlling, it is ensured that no employee deliberately delays his work performance. In the same way, wastage in all the physical resources is checked.

(iv) Employee Motivation:Through the medium of controlling, an effort is made to motivate the employees. The implementation of controlling makes all the employees to work with complete dedication because they know that their work performance will be evaluated and if the progress report is satisfactory, they will have their identity established in the

organisation.

(v) Order and Discipline:Controlling ensures order and discipline. With its implementation, all the undesirable activities like theft, corruption, delay in work and uncooperative attitude are checked.

(vi) Promoting Coordination: Pre-determined standards provide a basis for better coordination within various activities. As the departments are made aware of their duties and tasks, controlling promotes coordination among them. Controlling provides unity of direction while ensuring that the organisational objectives are met.

Hence, Controlling is an important function that is performed by all the managers.

However, controlling has some limitations. The following points highlight the problems faced by the organisation when implementing an effective controlling system.

(i) Complication While Setting Standards: It is important to set the standards in quantitative terms as well as qualitative terms for better controlling. However, controlling becomes less effective when the standards are defined in qualitative terms. Qualitative standards make the evaluation of the performance and the comparison of actual work with the standards, a complicated task. Thus, it might pose a problem in the process of controlling.

(ii) External Factors: Business environment keeps on changing and the organisation have very little control over such external factors. These factors might create hurdles in effective controlling. Such factors can be in the form of change in government policies, environmental changes, competition, etc.

(iii) Resistance from Employees: Controlling can be resisted by the employees if it goes against their comfort zone and freedom. For instance, if the managers set a defined quantity for production as a standard and if the workers take it as unrealistic, then they can go on strike.

(iv) Expensive Process: Effective controlling is a costly affair in terms of time, money and effort. For example, setting up of CCTVs involves a lot of costs. Thus, it may not be possible for a small organisation to set up such system. Thereby, the managers should ensure that the costs incurred in operating such controlling systems do not exceed the benefits derived from it.

4. Discuss the relationship between planning and controlling.

Ans:

Planning and controlling are two separate functions of management, yet they are closely related. The scope of activities of both are overlapping to each other. Without the basis of planning, controlling activities become baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by. Therefore, planning and controlling reinforce each other. According to Billy Goetz, " Relationship between the two can be summarized in the following points

1. Planning precedes controlling and controlling succeeds planning.
2. Planning and controlling are inseparable functions of management.
3. Activities are put on rails by planning and they are kept at right place through controlling.
4. The process of planning and controlling works on Systems Approach which is as follows :

Planning → Results → Corrective Action

5. Planning and controlling are integral parts of an organization as both are important for smooth running of an enterprise.
6. Planning and controlling reinforce each other. Each drives the other function of management.

In the present dynamic environment which affects the organization, the strong relationship between the two is very critical and important. In the present day environment, it is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it gives us stimulus to make better plans. Therefore, planning and controlling are inseparable functions of a business enterprise.