

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION 1 EXAMINATION

F1.4: BUSINESS MANAGEMENT, ETHICS AND ENTREPRENEURSHIP

FRIDAY: 10 JUNE 2016

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and only **five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

Jessie & Jones Ltd is a large manufacturer of toilet papers. It was established in 2000 by two brothers, Jessie & Jones, who had grown up from a humble home. Both were Chemical engineering graduates. Their father had little financial support to offer after their university education.

To start this company, the two brothers developed a business plan with clearly stated vision, mission and objectives to guide their business journey. In 2000, they bought a piece of land near Kigali - Gatuna highway and constructed small factory to make toilet paper. They used their savings which they had accumulated while at the university. In addition, they secured a loan from Jobra Microfinance Ltd to meet the funding gap.

They were conscious that they had entered into a competitive market. However, they were not scared. They had laid down a clear strategic marketing plan to help them achieve their set objectives. They had also evaluated the market opportunities before starting production. This approach enabled them to assess the potential demand for their product and determine the product characteristics desired by their consumers.

The management of Jessie & Jones Ltd, considered that product to be key in the marketing mix. Price was their focus to beat off competition. They were aware that it would not be easy to penetrate the market quickly. It required various strategies to achieve their target of producing ten tonnes of toilet paper every week, supply all of them, and produce the best toilet paper in the country. They wanted their product to be used in every home and office in the whole country. They focused on the use of modern technology and quality raw materials. In order to be competitive, they set prices that were slightly lower than their competitors and carried out aggressive advertising. Their target was to make some profits at the end of the year despite low prices. They had also convinced high income earners that their product was of high quality.

Jessie& Jones Ltd diversified into processing liquid detergents. These detergents would be sold alongside their major product of toilet paper. Their focus was to get more customers of all categories. In case a customer did not like toilet paper, he/she would probably buy the detergents. In so doing, the company would have optimized benefits on expenditure in advertising, and transport. This would also cover the losses incurred during the process of production or purchasing the materials. Their liquid detergent was low priced since they were using locally available raw materials and semi-skilled labour. Their pricing model was meant to attract more customers.

In order to capture the rural market they charged lower prices compared to the urban areas. The low income earners who were not using toilet paper were not an easy target. So they first captured market in schools and higher institutions located in those areas.

Eventually the companies manufacturing toilet paper came together and negotiated a better way of selling their product. They agreed to sell their products at the same price. This was meant to lock out new entrants into the market. Jessie & Jones Ltd grabbed this opportunity as well.

In 2010, the country was hit by inflation due to the elections that had taken place. This affected manufacturers, including Jessie & Jones Ltd. On realizing that this economic situation could bring them to collapse, they decided to make a slight reduction in the size of the toilet paper but maintained the price. This strategy worked for them for a short period of time. They later turned to their normal size and their customers did not complain.

Jessie & Jones Ltd has since gained stability amidst competition with other manufacturers which have lifted it up.

Required:

- (a) Differentiate the term marketing and marketing management. (2 Marks)
- (b) Discuss the pricing strategies that were used by Jessie & Jones Ltd as they introduced their product on the market. (12 Marks)
- (c) Explain other strategies, apart from pricing that enabled Jessie & Jones to succeed in business. (6 Marks)

(Total 20 Marks)

QUESTION TWO

Read the passage below and answer the questions that follow.

A common mistake made by business owners is to reward themselves excessively during boom times rather than conserving the excess. The result is that when the economy enters a downward cycle such businesses may face an uphill battle for financial survival.

However, your business does not have to become financially vulnerable during challenging economic times, or at worst fall prey to confiscation. All that is required is to make provision by saving and investing. However, it would need to be a disciplined approach for it to be successful.

To achieve this, a business owner should deploy sound medium-term (2 to 5 years) and long-term (6 to 10 years) savings and investment strategies that run concurrently and that has preferably been developed in conjunction with an accredited financial adviser.

This strategy should also and most importantly make provision for an emergency fund savings that are readily available to address possible financial shortfalls and cash flow problems during slow trading periods.

Apart from deciding how much of your free business reserves to set aside for regular, medium and long-term investing, you will also have to decide what you are going to do with your investments upon maturity – will you plough the funds back into the business to grow and strengthen your operation or will you use it for personal goals? The choice is yours.

Disciplined and regular saving towards your business goals will not only safeguard your business's future, but should also give you financial peace of mind during difficult times – knowing that you have sufficient liquidity to take your business forward.

Also, bear in mind that a saving and investing strategy is not a one-size-fits-all plan; every business has its own unique financial needs. It should be treated as ongoing process that needs to be revised, as your business grows and the economic landscape evolve.

It is never too late to start, no matter how small the amount. You will be surprised how quickly your savings grow especially when you factor in the magic of compound interest.

(Adopted from: The business owner and manager's choice "Succeed How I Got Rich")

Required:

- (a) Explain the consequences of excessive self-rewarding by businesses. (2 Marks)
- (b) With examples advise business owners on how to avoid financial vulnerability. (6 Marks)
- (c) Advise business owners on what to do with their business investments upon maturity. (2 Marks)
- (d) Identify ways of accumulating savings quickly with a disciplined approach. (6 Marks)
- (e) Give two reasons from the passage to explain the importance of saving and investing. (4 Marks)

(Total 20 Marks)

QUESTION THREE

- (a) In this fiercely competitive, fast-passed, global economy, creativity is not only an important source for building a competitive advantage but also necessary for survival. When developing creative solutions to modern problems, entrepreneurs must go beyond merely relying on what has worked in the past.

Required:

Explain at least six 'mental locks' that limit individual creativity. (12 Marks)

- (b) Although creative ideas may appear to strike as suddenly as of lightning, they are actually the result of the creative process, which involves seven steps. At the incubation state, it may look as though nothing is happening.

Required:

Explain four ways through which an entrepreneur can enhance the incubation phase of the creative process. (8 Marks)

(Total 20 Marks)

QUESTION FOUR

Jerry Gasi is a qualified accountant and an audit senior at Jim & Associates, Certified Public Accountants. He recently completed an audit assignment for Kigali bakeries Ltd. While undertaking the audit assignment he is reported to have asked the client to lend him Frw 200,000 to solve his personal needs.

He had previously carried out accountancy work for the same client without approval from his employer. Jerry has been sharing some key information with his friends about the client during their regular evening bar visits. He also brags that his skills in doing accounting work are unmatched in the entire Kigali city.

An independent review of his work revealed that, it was poorly done with material errors and a huge suspense account balance. It has also emerged that he recently developed an intimacy relationship with a key staff of his client and they normally hangout at Mango Tree shade a popular drinking joint in Kigali.

The client has formally lodged the complaint. He has requested you as the audit manager to handle the issue.

Required:

Advise the partner on the fundamental principles that Jerry Gasi breached and the action to be taken.

(Total 20 Marks)

QUESTION FIVE

“In any organization, structural transformation brings along change effects that have significant alteration of the status quo and can last for a long time. However, organisations reap the rewards when change occurs at individual employee level.”

Required:

- (a) Explain ten principles of change management. (10 Marks)
- (b) Explain five ways in which change affects organizations. (10 Marks)

(Total 20 Marks)

QUESTION SIX

- (a) Umuhanda Tours and Travel Company Ltd has organised a workshop for the induction and orientation of the new employees. As the Managing Director of the company, you are expected to give the opening remarks.

Required:

Write a speech to address the new members on:

- (i) Efficiency (2 Marks)
- (ii) Effectiveness (2 Marks)
- (iii) Commitment (2 Marks)
- (iv) Organization (2 Marks)
- (v) Attitude (2 Marks)
- (b) State three benefits of Power Point presentation. (3 Marks)
- (c) “Telephone plays a central role in business communication and should be used in a professional manner.”

Required:

- (i) Explain the importance of good phone etiquette. (2 Marks)
- (ii) Suggest two scenarios of inappropriate phone etiquette. (2 Marks)
- (d) E-mail has been a primary medium of communication over the years for many companies. However, new tools are now in use for instant messaging and specialized tasks for which they are better suited.

Required:

Distinguish between the e-mail and ‘WhatsApp’ as business communication media. (3 Marks)

(Total 20 Marks)

QUESTION SEVEN

- (a) Owning a business as a form of self-employment has many benefits and provides many opportunities. Every potential entrepreneur should consider the benefits of small business ownership and be aware of its potential disadvantages.

Required:

- (i) Explain four incentives for aspiring entrepreneurs. (4 Marks)
- (ii) Describe four drawbacks of entrepreneurship. (4 Marks)

- (b) The benefits of franchising can mean the difference between success and failure for some entrepreneurs. Prospective franchisee must understand the disadvantages of franchising before choosing this method of doing business.

Required:

- (i) Define the term 'franchising'. (2 Marks)
- (ii) Explain four drawbacks of a franchise. (4 Marks)

- (c) To be successful, both offline and online companies require solid planning and a well-formulated strategy that emphasizes customer service. How a company integrates the web into its overall business strategy determines how successful it will ultimately become.

Required:

- (i) Explain the term 'e-commerce'. (2 Marks)
- (ii) Explain four strategies entrepreneurs should use to achieve success in their e-commerce efforts. (4 Marks)

(Total 20 Marks)

End of question paper



