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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.4: BUSINESS MANAGEMENT, ETHICS AND
ENTREPREURSHIP**

DATE: MONDAY, 28 MARCH, 2022

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 should be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**
- 4. The question paper should not be taken out of the examination room.**

QUESTION ONE

Johann Kibonge is the Managing Director of Friedland Timbers Ltd which makes specialized wood products for the construction industry in Kayonza District. The organization is relatively complex systems that are involved in various activities. Strategic, tactical, operational, and contingency plans are needed to guide operations, monitor and control organizational activities.

Johann has recently been worried by late deliveries to some important customers. The industry is very competitive, and Johann knows that customers will go to other suppliers if he cannot guarantee deliveries. The marketing manager is particularly upset because he has worked with these customers for a long time and promised deliveries that were not made.

Johann Kibonge asked the production manager for an explanation. She told him that ‘Our own suppliers were late in delivering certain types of wood. This shortage of a key raw material disrupted our production plans. We cannot be blamed for this. If anyone in the company is to blame, it is the warehouse manager who did not plan and keep enough stocks of raw materials to cover for late deliveries.’

Johann then went to the warehouse manager to see what was happening. ‘There can’t be anything wrong here’, he was told. ‘Stocks have been climbing for the past year, and last month they were at an all-time high. In part, this is a deliberate decision, as I want to improve service levels to production. In part, though, stocks seem to have just drifted upwards. Now we have high stocks of most items, but there are still occasional shortages. These high stocks are causing me problems with space and are stretching my budget. I think that the blame lies in purchasing, who do not order the amounts that we request.’

Johann saw that some stocks were drifting upwards because purchasing were buying large quantities of some materials. At the same time, they were delaying some purchases, and this lead to the shortages. The purchasing manager explained to Johann, ‘Let me remind you that eight months ago you instructed me to reduce materials costs. I am doing this by taking advantage of the discounts given by suppliers for larger orders. Often, I order more than requested under the assumption that we will need the material at some stage, so I get a discount and the material is already in stock when we need it. Sometimes keeping things in stock would take too much space or be too expensive, so then I might delay an order until I can combine with others to get bigger discounts.’ Johann thought that he was near the source of his problems and might ask for the purchasing policies to be reviewed. Then he talked to the transport manager who was not sure. ‘It is much more efficient for me to bring larger quantities into the company’, he said. ‘If you reduce the average order size, the transport costs will rise.

Our budget is already being squeezed, as we have to pay for expensive express deliveries of materials that production classifies as urgent. If you lower the order size, there will be more shortages, more express deliveries, and even higher costs.’ Johann talked to some major suppliers to see if they could somehow improve the flow of materials into the company. Unhappily, while he was talking to one company, they raised the question of late payments. This was contrary to Friedland’s stated policy of immediate payment of invoices, so he asked the accounting section for an explanation. He was given the unwelcome news that ‘The Company’s inventory and transport costs are so high that we are short of cash. We are delaying

payments to improve our cash flow. As it is, we had to use a bank overdraft to pay suppliers for last month.’

Later that day Johann found that the late customer deliveries which had started his investigation, were actually caused by poor sales forecasts by the marketing department. They had seriously underestimated demand, and planned production was too low. All the employees at FT were doing their best, but things seemed to be going wrong.

Required:

(a) Discuss the main different types of plans in a complex organization (8 Marks)

(b) Identify and explain any 4 main challenges involved in effective management of Friendland Timbers Ltd (8 Marks)

(c) Explain the main advantage of planning in a company like Friedland Timbers Ltd (4 Marks)

(Total: 20 Marks)

QUESTION TWO

Read the passage below and answer the questions

Magasin “sport Inshuti” Ltd is located at Remera Kimironko, it is founded by Thomas Hirwa after his Graduation at University of Rwanda in 2016. In 2018 Thomas Hirwa through his network attracted FRW 20 million in capital for expansion. In 2019 the expansion paid off in FRW 80 million in sales. Magasin “Sport Inshuti” Ltd offers high quality sport equipments especially with discount in the case the customer buys in large quantities. Every sport equipment is sold at the lowest margin possible, and volume determines success. At the same time, the company ensures highly trained sales staff that are enthusiastic and attentive to every customer.

Thomas Hirwa the CEO and the Owner of Magasin Sport Inshuti Ltd worries on how the company can compete in a saturated industry dominated by several huge corporations. Mr Thomas instructed his planning department to study the proposal and give recommendations for viable markets and complete existing marketing mix strategies. Market research is conducted to complete marketing mix strategies and enable the company to make better decisions regarding the markets. Market research revealed three vital pieces of information to him. First, consumers wanted a broad selection of particular brand items. Second, although the industry is saturated, there were several geographical areas with few competitors; like Tanzania had a lucrative market and that the company should consider acquiring an existing business to avoid bureaucratic processes of starting up new company. Third, and not least important, economics of sporting goods sales showed that sports equipment had very high elasticity of demand. Consequently, customers were extremely sensitive to prices. Thomas H. reacted on these findings and created an extraordinary venture.

Required:

(a) Explain any 4 importance Mr Thomas Hirwa gained from carrying out a Market research (8 Marks)

(b) Discuss any 3 main elements of marketing mix that can be used by Magasin Sport Inshuti Ltd (6 Marks)

(c) Examine any 3 main factors that influence the price of a product or a service in the organization like Magasin sport Inshuti Ltd (6 Marks)

(Total: 20 Marks)

QUESTION THREE

Mr Alex Kabanda is an auditor at Kigali Audit Partners (KAP). The audit firm got an appointment to audit Akanyaru Motors Ltd (AML) a Rwandan company dealing with manufacturing and assembling Lifan in the Policy of “Made in Rwanda”. Alex Kabanda is a team Leader that will review KAP ‘s financial statements but he knows that the work experience presented to get hired in Kigali Audit Partners were forged. While reviewing books of accounts and legal documents of the previous 2 years, he discovered that the Finance Director who is also a shareholder in AML is a wife to the Managing Partner of Kigali Audit Partners. A number of transactions have been discovered between Kigali Audit Partners (KAP) worth disclosing to the managing Partner. Alex Kabanda has had a whats app chat with the Managing Partner as his boss and they agreed on the following:

1. Not to disclose any relationship between him and finance Director at MIL, otherwise the other shareholders will lose trust in her.
2. Not to issue any report that implicates his wife, as this will affect their relationship.

In conclusion, the Managing Partner has asserted that Kigali Audit Partners cannot decline the engagement due to a small issue like that, which can be resolved by you acting as an independent person.

Required:

(a) The International Federation of Accountants (IFAC) code of ethics for professional Accountants states “the circumstances in which professional accountants operates may give rise to specific threats to compliance with fundamental principles. Discuss any five categories of threats that Alex Kabanda may face (10 Marks)

(b) Explain any 3 ICPAR fundamental principles Mr Alex Kabanda would comply with to resolve unethical practices at AML. (6 Marks)

(c) Explain how Alex Kabanda would be impacted on his independence in financial reporting. (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

Read carefully the case study and answer the questions

The small business credit program covers loans made to finance capital goods and services of Rwandan small business exporters. The national Bank of Rwanda enables banks to offer medium term fixed rate export loans through guarantee that effectively eliminate the loan risks. Banks are assured for repayment and the small business exporter is provided low interests, fixed rate capital to pursue foreign markets.

Commercial banks that provide export financing face several risks that are removed by small business credit program. First, bankers cannot make sufficient loans for medium or long terms without risking the possibility that costs of money will accelerate before the loans are repaid. Second, with few exceptions, foreign exchange rate fluctuates, thereby increasing the risks to the borrower, and subsequently to the lender. Third, may foreign buyers simply default on payments. Startup entrepreneurs have fewer choices than large firms for obtaining loans, they are excluded from financial source as they have a very high rate of failure at their initial stage. Development of their businesses requires promotion of entrepreneurship, physical infrastructure, provision of business assistance, management guidance and counseling, help them get venture capitalists and business Angels, enabling environment and sound practices through incubation centers to help the survival and growth of many small businesses. Thus, they require business incubators to perform significant roles or fill the gap. Through incubation centers startups benefit from having insured loans and immediate cash flow without risk of buyer defaults or foreign exchange fluctuation as the incubators assist them on daily basis.

Required:

(a) Identify any 4 services offered by incubators to start up entrepreneurs (8 Marks)

(b) Discuss the alternative methods of financing ventures with equity (12 Marks)

(Total: 20 Marks)

QUESTION FIVE

Sameer Hussein (SH) Ltd is a prominent company dealing in motorcycle assembling in Rwanda. Since its inception, the company has built a brand name as specialist in assembling different kinds of motorcycles and distributing them to regional wholesalers across the country. During the recently concluded general meeting, Mr Hussein, the Managing Director the proprietor of the company unleashed a proposal to expand operations to other neighboring countries as a mechanism to boost the company's turnover. During the meeting, Mr Hussein tasked his research team to assess company readiness to take on the new business in terms of finance, technologies, equipment and personnel among others. He further emphasized the need for strong networks and time in implementing the proposed idea successfully. At the end of the meeting, Mr Hussein instructed his supply chain manager to study the proposal and give recommendations for viable markets and start up options.

After a thorough market research, the manager recommended that in the region, Uganda had a lucrative market because of the infrastructure, facilities, transportation and information

Technology. The company should consider acquiring an existing business to avoid bureaucratic processes of starting up a new company. One of the team raised the issues of higher taxation that leave entrepreneurs with less money to reinvest leading to less job creation and negative effect on consumption. The team also pointed out the need for thorough investigations for tax due diligence before the new business is acquired. The factors that the company need to consider include financial soundness of the business, physical conditions of the business, the present owner's plan after the sale, legal aspects of the business and the potential of the company's products and services. Mr Hussein appreciated the recommendations and noted that the necessary resources were available. However, he is not certain on what to consider before acquiring an existing business. Mr Hussein approached you as an expert for guidance.

Required:

- (a) Identify any 5 key resources required to expand the operations of Sameer Hussein Ltd (10 Marks)**
 - (b) Explain why internet marketing has become more popular in promoting products and services (5 Marks)**
 - (c) Explain how tax affect entrepreneurship in Rwanda (5 Marks)**
- (Total: 20 Marks)**

QUESTION SIX

Kwigira Culture, a Rwandan-based start-up which offers a solar-powered based irrigation kit to improve the productivity of the smallholder farmers, evolved in a short period of time to become a leading technology solution provider to the smallholder farmers. The company was conceived by Mr Kimonyo Hassan in April 2018, it comprises of 400 villages in savings groups in the country. The member groups pay a commitment fee of FRW 3,000 to the company and the company have a meeting every first Monday in the month. Village saving groups meet every week on specifically selected days and each member pays at least FRW 200 whenever they hold a meeting. These deposits provide a pool for contingency fund. The current activities carried out by members groups are weekly compulsory savings, poultry farming, piggery farming and chairs and Tents hire services. And this, despite the fact that the company faced many challenges which included competition from cheap copycats and fund managers reluctance to finance unless Kwigira Culture changes its business model to suit their criterion. Kwigira Culture worked closely with its customers on the ground to understand their problems and challenges and used their feedback to work with its partners such as Microsoft, the BDF, Energy Access Ventures, and Shell Foundation and came up with innovative solutions.

Kwigira Culture is a pioneer in bringing smart technology within the reach of the smallholder farmers by leveraging on GSM connectivity, Internet of Thing (IoT) technology, and Machine Learning. With the smallholder farmers in Africa seeing a 300% increase in yields, reduction in the use of fertilizers, diesel, and water, and an ability to earn up to FRW 30, 000,000 per acre per year. Kwigira Culture is achieving the triple bottom line and playing an important role in achieving Sustainable Development Goals (SDG). Offering smart technology to more than 10% of smallholder farmers is a great opportunity but it also has its challenges. In a bid to improve the productivity of the entire smallholder farmer's household, the company is planning

to provide financial assistance in form of soft loans to members groups to enable their members boost their small farming businesses, to offer trainings in technical and managerial skills in business, to launch a variety of appliances like TVs pressure cookers and egg incubators with the goal of solving the biggest challenges facing these households on a daily basis.

Required:

Write a report to potential investors on why they should consider investing in social Enterprises (20 Marks)

(Total: 20 Marks)

QUESTION SEVEN

- (a) Explain any 4 factors driving innovation in the organization (8 Marks)**
- (b) Explain any 3 benefits of innovation in the organization (6 Marks)**
- (c) Discuss any 3 challenges that affect innovation in the organization (6 Marks)**

(Total: 20 Marks)

End of question paper

