

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

BUSINESS POLICY – PAPER 17

THURSDAY, 20 JUNE 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Section **A** has **one** compulsory question carrying 50 marks.
3. Section **B** has **three** questions and only **two** are to be attempted.
Each question carries 25 marks.
4. Please, read further instructions on the answer book.

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SECTION A

Question 1

Central Retail Ltd [CRL] is a retail outlet supermarket operating 10 outlets in the central area of Uganda. The company is listed on the Uganda Securities Exchange. Over the years the company has attained distinctive competitive advantage by stocking and selling only high-quality products at affordable prices. CRL has enjoyed profitable trading and now ranks as one of the leading retailers in the country. Recently many retailers have gone through major restructuring arrangements including takeovers and mergers. CRL has not been affected by these actions and its board is intent on maintaining the company's independence.

The board of the company has set a clear aim of achieving profitability with efficient consumption of resources; while maintaining the sales of high-quality goods and delivering a courteous and efficient service to customers.

The overall aim has been incorporated within the mission statement and forms a central part of the company's promotion advertisements.

Financial Data

The following details have been extracted from the financial statements of CRL for the financial year ended 31 December 2001.

	Shs. '000
Turnover	2,400,000
Earnings attributable to ordinary shareholders	220,000

There were 1,200 million ordinary shares in issue as at 31 December 2001 and the company's share price was Shs 403.

CRL has established that its cost of capital is 12% per annum. In the year 2001 the company's share price varied between Shs 330 and Shs 405.

CRL paid dividends of Shs 12 per share in the year 2001 and has achieved steady dividend growth of 8.4% per annum over the last five years.

Out-of-Town Stores (OTS)

All the major towns in the central region are poorly planned and lack proper parking facilities in the centre of the towns. CRL has noted this and the fact that customers are increasingly favouring locations outside towns for security

reasons and availability of parking space. The company has established a plan for five years to build OTSs near 3 major towns. The first of these OTSs is already operational and the other two (2) are near completion.

In the other towns CRL is considering developing OTS as joint venture projects with other competitors. The only commitment to this initiative by CRL so far, is a feasibility study of a single joint project with another retailer. This will be completed before entering any contractual obligations.

The Superstore Strategy

CRL aims to provide a satisfactory return to its shareholders. The superstore, which is already operational, has achieved a high level of profitability in its first year of operation. The company has also experienced a simultaneous reduction in return obtained from other stores that it operates within the vicinity of the superstore. CRL is aware of growing government concern that the impact “Out-of-town” developments are having on city centre retailing and the concerns by the environmentalists with respect to the environmental aspects.

These factors have caused the company planners to pause before approving any other out-of-town developments. In addition, specific negotiations with public transport providers - UTODA (Uganda Taxi Operators and Drivers Association) – had yielded results to the extent that UTODA had agreed to service the operational superstore. UTODA is now objecting that there is insufficient demand to maintain frequent services as most customers travel to and from the site by car.

Superstore Developments

The superstore developments are all built to a standard specification which comprises 40,000 square metres. The life of the project is fifteen years. Typically, the development takes place over a three year period from planning stage to final commissioning. Each superstore is assumed, for investment appraisal purposes, to have a life of 12 years following completion. The cost of the first superstore development was Shs 25 billion with approximately 20% being incurred in the first year. The remaining costs are split evenly over the second and third years. Included within these costs was Shs 500 million architect's fees which have reduced by half in subsequent developments. The architect's fees can be assumed to fall due for payment in direct proportion to the building costs.

The superstore developments are targeted to achieve a net cash inflow of Shs 250,000 per square meter per annum from the commencement of operations. Experience has shown that the first superstore has achieved this target during

the first year of operation. A total reduction in net cash inflow over the same period has occurred in other CRL stores which trade within the surrounding areas. This has been calculated as having the effect of reducing the superstore net cash inflow by Shs 40,000 per square meter per annum.

Each superstore is assumed to have a net residual value of zero. All cash flows can be assumed to occur at the end of the year to which they relate. The cash flows and discounted rate are in real terms. (Taxation should be ignored)

Required:

- a) Prepare and comment on the financial appraisal which justified the investment in the first superstore. Assume that twelve equal annual net cash inflows commence in the first year following completion of a superstore; which takes three years to construct.

[8 marks]

- b) Identify the market opportunities and threats which CRL will confront if it develops more OTSs.

[12 marks]

- c) Describe and comment on the impact of the out-of-town developments by CRL on each of the five groups of stakeholders.

[15 marks]

- d) Describe the contribution a management accountant may make to the planning process of CRL in the areas of project feasibility, evaluation, monitoring and post audit.

[15 marks]

[Total 50 marks]

SECTION B

Question 2

You are a newly qualified accountant working for Uganda Children's Charity (UCC). The charity is a respected organisation with the first lady as its patron. It has a long history of helping children and their parents through all kinds of difficulty including coping with the effects of the AIDS scourge. Despite this and having the first lady as the patron the charity is not attracting the level of financial support it feels it merits. The board of trustees, which runs the charity, has decided to appoint a firm of consultants to devise and implement a marketing plan. Several consultants have indicated their interest and three (3) have been invited to present their ideas to the board.

The chief executive, knowing that you have just qualified as a CPA(U) under the ICPAU Examinations Scheme, has asked you to sit in on the presentations. As part of your contribution to the proceedings you are to advise the committee what to look for in a well-constructed marketing presentation.

Required:

Prepare a memo addressed to the chief executive setting out:

- a) A statement of the main differences between a marketing plan for a commercial profit making business and marketing plan for a non-profit making charity.

[10 marks]

- b) An outline of the principal features you would seek in a marketing presentation.

[15 marks]

[Total 25 marks]

Question 3

Overall cost leadership; differentiation and focus are three generic strategies suggested by "Michael Porter" for creating and sustaining superior performance.

Required:

- a) Describe each of these strategies and indicate how each strategy will result in competitive advantage.

[8 marks]

- b) What factors are important in achieving "overall cost leadership".

[9 marks]

- c) Discuss the risks faced by an organisation which adopts the strategy of "overall cost leadership".

[8 marks]

[Total 25 marks]

Question 4

A UK based clothing company has struck a deal with a Ugandan businessman to set-up a cloth manufacturing factory in Kampala so as to take advantage of the Africa Growth Opportunities Act (AGOA) to be able to export clothes to the USA and within COMESA. The UK company believes that its domestic market is limited and is pursuing this expansion venture to manufacture and sell its products abroad. The company believes that there are major advantages to be gained by setting up a factory in a country like Uganda with a low-wage economy.

The company recognises the need to understand the marketing environment of Uganda where it is going to establish its manufacturing facility. It appears that, besides labour, there are other local environmental issues that need to be fully considered before entering negotiations to build a factory.

The auditors of the UK company have a branch in Uganda which you have just joined as a trainee. The UK Senior Partner in charge of management consultancies has asked you to assist them with key issues of the Uganda environment, so that they can advise your mutual clients appropriately.

Required:

- a) Compare and contrast the environmental factors that apply in both the UK and Uganda.

[15 marks]

- b) Explain the possible cultural influences on the effectiveness of the workforce in respect of local education and training; technology; working hours and domestic amenities.

[10 marks]

[Total 25 marks]