

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL FOUR

#### BUSINESS POLICY - PAPER 17

TUESDAY, 16 DECEMBER 2003

#### 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

National Cinema Centre is a government body under the Ministry of Gender, Labour and Social Development. It was set up in 1987 to promote and increase public awareness of the Cinema as an entertainment and Cultural medium. The National Cinema Centre is managed through a part-time board of governors drawn from the entertainment Industry, from government nominees and from elected members of the Uganda Cinema Fans Association.

The Board of Governors delegate executive responsibility to a Chief Executive Officer (CEO).

The National Cinema Centre has 4 major operational divisions each headed by a manager. These are:

- The Museum of the Cinema (MoC) which provides a permanent exhibition of the history and development of the film industry.
- The Africa Village Restaurant, bars and cafeteria which are open to cinema goers and to the general public.
- The Film Archive Unit (FAU) which is charged with the transfer of old film archive material to CDs as a means of long-term preservation.
- The Uganda Cinema Fans Association is open to members of the public who pay annual subscription.

Members receive preferential bookings to events, seat discounts and free copies of the Film Fan Magazine. The magazine and associated publishing activities also form part of the responsibilities of the Fans Association.

In addition to the four (4) business units there are also three (3) support units which provide common support services as follows:

- |                |                                                                                 |
|----------------|---------------------------------------------------------------------------------|
| Administration | • office services, finance, personnel, computing.                               |
| Buildings      | • building maintenance, cleaning, security, repairs and renewals.               |
| Maintenance    | • technical and technician support for the repair and maintenance of equipment. |

The 3 support units come under the control of a head of support services.

The National Cinema Centre is partly funded by government grant and partly funded from its own commercial activities. However, as part of government policy to reduce public expenditure, the grant to the National Cinema Centre will over the next three years be reduced by 25%. A financial summary of the current year's operations of the National Cinema Centre is provided in Table 1 below:

**Table 1 - Summary Financial Data**

	Commercial Income Shs million	Direct Costs Shs million	Apportioned Indirect Costs Shs million	Surplus (Deficiency) Shs million
Museum	25	220	111	(306)
Africa Village Restaurant	170	90	45	35
Film Archive Unit	Nil	320	162	(482)
Fans Association	<u>230</u>	<u>190</u>	<u>96</u>	<u>(56)</u>
	<b><u>425</u></b>	<b><u>820</u></b>	<b><u>413</u></b>	<b><u>(809)</u></b>
Government Grant				800
Surplus/(Deficit)				<b><u>(9)</u></b>

Mrs. Mugina has been appointed as Chief Executive Officer of the National Cinema Centre. She has a wealth of experience and expertise in International media operations. She was recently recruited on the directives of the Government of Uganda in order to solve a series of management problems that have adversely affected the Centre. These include:

- A failure to follow government financial guidelines.
- A report by the IGG indicating financial mismanagement at the Centre.
- Press criticism about the loss of archived films due to the failure to speed up the transfer to CDs.
- A recent imposition of an admission charge to the Museum of the Cinema Centre.
- Reports of poor quality service and expensive food in the Africa Village Restaurants.
- Poor labour relations.
- Complaints from the Fans that the films season has concentrated too much on popular income earning mainstream films with a subsequent fall in the number of showings of classic and non-Luganda language films.

Mrs. Mugina realizes that she faces major challenges in revitalizing the National Cinema Centre and dealing with the proposed sharp reduction in government funding. She believes that what the Cinema Centre needs is a vision of its role and priorities plus management control systems which link performance to clear-cut divisional objectives.

She has offered you a one-year management consultancy contract to assist her.

**Required:**

- (a) Mrs. Mugina's background is in profit making organizations in which objectives and goals seemed so much more clear-cut than at the National Cinema Centre. To clarify the 'Vision' of the organization, Mrs. Mugina decided to undertake an analysis of all the internal and external stakeholder groups at the National Cinema Centre.

(i) Explain how this analysis can assist Mrs. Mugina.

**(14 marks)**

(ii) Select and identify four different National Cinema Centre stakeholder groups, indicating for each, its potential power, influence and likely expectations of the National Cinema Centre.

**(8 marks)**

- (b) The previous CEO at the National Cinema Centre had not considered strategic management relevant to a non-profit making organization and, although a 3 year rolling plan was put forward annually to government as a basis to secure funding, Mrs. Mugina is unable to find any evidence of formalized processes for strategy development.

Prepare a short management briefing paper, for presentation to the next meeting of the board of governors justifying the establishment of a more formalized strategic management process.

**(16 marks)**

- (c) Management control at the National Cinema Centre is based on an allocated budget and monthly monitoring to ensure that divisions and support services keep within their budget targets. Mrs. Mugina believes that, although budgeting is important, what is also needed is a system of non-financial performance assessment.

Explain how Performance Measurement Indicators (PMIs) could assist management at the National Cinema Centre and provide one example of a suitable non-financial PMI for each of the 4 business divisions.

**(12 marks)**

**(Total 50 marks)**

**SECTION B****Question 2**

Wheat Products Ltd. is a Ugandan company based in Namanve Export Processing Zone. It produces a range of products including bread, biscuits and chocolates. These products are sold either direct to commercial consumers (such as hotels, restaurants, canteens, cafes and airlines) or through major supermarket retailers.

Commercial customers tend to buy biscuits and chocolates while supermarkets tend to stock a selection of all ranges. Wheat Products Ltd. has noticed that the mix of products stocked tends to vary greatly from supermarket to supermarket.

Wheat Products Ltd. does not sell to the general public but currently has over 18,000 customers throughout Uganda. In order to provide quality service to its customers, it has opened offices in Mbarara, Jinja, Soroti, Arua and Fort Portal. Each office has its own sales team.

Wheat Products Ltd. is quite a large organization with no clearly defined marketing strategy for customers. It only advertises direct to the consumer via The Monitor and The New Vision. Individual sales staff and regional sales teams each agree promotions and discounts with their own customers.

**Required:**

- (a) Explain the terms 'segmentation', 'targeting' and 'positioning' in relation to marketing strategy.  
(9 marks)
  - (b) Contrast the terms 'Customer' and 'Consumer' when used in the context of marketing.  
(4 marks)
  - (c) Recommend a suitable basis or bases for Wheat Products Ltd. to use when segmenting its target markets.  
(6 marks)
  - (d) Advise Wheat Products Ltd. on how the advertising budget can be set and advantages of each method recommended.  
(6 marks)
- (Total 25 marks)**

**Question 3**

Zen, Certified Public Accountants specializes in small and medium sized company audits, business planning and taxation. It has 5 partners, 3 managers, 10 accounting technicians and 4 support staff.

Zen has a reputation for quality performance and prides itself on being a good employer. It pays above market rate salaries, provides a pleasant office working environment and supports its junior staff by paying their fees for professional training.

Last year two senior partners designed and implemented a staff appraisal scheme. Views from other partners, managers and support staff on the appraisal scheme have been negative.

A list of feelings about the scheme and its operation is shown below:

- 'The appraisal scheme has taken up more time than earlier thought'.
- 'Appraisal interviews have been very difficult to fit into the busy schedule'.
- 'Some staff seem to see the interview as an opportunity to complain or ask for things'.
- 'Some staff just sit there and do not contribute anything to the interview'.
- 'We have doubts whether the scheme has improved the firm's performance in terms of client services, productivity and overall fee income'.
- 'Some of the problems in performance that we pointed out to staff during their appraisal interview have been totally ignored.'

**Required:**

- (a) Explain the function, operation and potential benefits of staff appraisal schemes.

**(12 marks)**

- (b) Comment on the appraisal problems experienced at Zen, Certified Public Accountants and suggest how a successful appraisal scheme could be organized and operated so as to address these problems.

**(13 marks)**

**(Total 25 marks)**

#### Question 4

Mr. Etengu Matovu is a business man from Mbale. He started business after retiring from the Public Service in 1992 by opening a store on Elgon Road Mbale. He devoted all his energy to the business and by 1996 his working capital had grown to over Shs 100 million. He decided to open branches in Soroti, Lira, Jinja and Gulu. He recruited managers and supervised them on a weekly basis.

His business continued to grow and by 2000 he was considering registering a limited liability company. He feels that its time he stopped dealing in dry produce and considers other options.

He has learnt that you are a trainee Accountant and needs your advice on:

- (i) How to carry out a strategic analysis.
- (ii) How to evaluate the available options.

#### Required:

- (a) Write a report to Mr. Etengu Matovu explaining how an External Environment analysis can be carried out. (Use of appropriate theoretical models is expected).

**(10 marks)**

- (b) Discuss the criteria that would be appropriate for evaluating any strategic options Mr. Etengu Matovu could come up with.

**(15 marks)**

**(Total 25 marks)**