

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL FOUR

BUSINESS POLICY - PAPER 17

WEDNESDAY, 23 JUNE 2004

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

Mukasa is the Managing Director of Mukasa & Co. Ltd. a small haulage contracting company which he founded twelve years ago. Originally Mukasa was a heavy goods vehicle driver himself working for other contractors but he was intent on establishing his own haulage business. With assistance of a loan, Mukasa acquired a heavy goods vehicle and began to work from home. Over time the business expanded and now Mukasa & Co. Ltd operates a fleet of 24 heavy goods vehicles, (tractor units as they are called) and 48 trailers which are hooked on the tractor units. A quarter of the current fleet of tractor units was acquired in the last financial year replacing older units which were becoming too expensive to maintain. Mukasa & Co. Ltd now employs 20 full-time, and a varying number of part time drivers. The part-time drivers work as and when required.

Mukasa acquired a piece of land six years ago and built a house on it which he and his family occupy. In addition, he built a garage with facilities for minor servicing and repairs on the same site. Living on the site has enabled Mukasa to offer 24 hour service to clients. Consequently, movement of tractor units and trailers on and off the site occurs at all times of day and night. There have been objections raised by local residents and administration officials to the disturbances and the local newspapers have at various times reflected this criticism.

Business Development

In addition to haulage, Mukasa & Co. Ltd obtained a licence to undertake fork lift truck training. This has proved to be a successful diversification as there is a regular stream of customers. This training takes place mostly in Mukasa & Co Ltd's garage facilities.

It became clear to Mukasa that the land on which the garage facility is built was inadequate for the needs of his growing business. In addition to the inadequacy of the maintenance provision for a growing fleet, it became impossible to house all the tractor units and tractors operated by the business. This problem was compounded when, as frequently occurs, the clients' own trailers were attached to the tractor units and parked overnight on Mukasa & Co. Ltd's premises.

Acquisition of Land

One year ago Mukasa entered into negotiations to lease some land which could more than satisfactorily accommodate all the tractors and trailers. The land is situated on an industrial estate 5 km from the existing facility. In addition there is room to build a workshop for repair and maintenance which would be adequate for the needs of the fleet. Mukasa believes that surplus land on site can be used for storage of trailers for local companies.

Following agreement on lease arrangement which was concluded just before the completion of the last financial year Mukasa & Co. Ltd occupied the land on which there were no buildings erected or utilities supplied. Since taking possession of the

land a large security fence has been erected and a small portable cabin placed on site. Water, sewerage and electricity utility services have been supplied and negotiations are taking place for the installation of a fuel station adequate to service other vehicles besides those of Mukasa & Co.

Financial Management within Mukasa & Co. Ltd.

Mukasa recruited Jagwe a part-time book-keeper four years ago. Prior to Jagwe's arrival Mukasa & Co. Ltd applied a policy of paying all invoices immediately on receiving them. As debtors were frequently taking over and above the credit period allowed Mukasa & Co. Ltd suffered a cash flow shortage which resulted in a large bank overdraft.

Jagwe introduced some basic financial accounting procedures into the company. In addition to exercising some control on Mukasa & Co. Ltd expenditure, Jagwe reduced the debtors' collection period to about half its former level. Creditors are now paid when the invoices are due rather than immediately upon their receipt. Such control had been lacking prior to his arrival at the company. The bank manager has praised Jagwe for his efforts and informed Mukasa that in his opinion the control measures now introduced have saved the business from receivership. As a consequence of the improvement in financial control, the bank has been willing to fund additional loans for the development of the new land. In making its decision, the bank required Mukasa & Co. Ltd to supply its statutory financial statements and a cash flow forecast for the development.

Jagwe has persuaded Mukasa of the need to provide information which will be useful for the strategic management process. Jagwe's own background and experience have been focussed on the provision of book-keeping services but he is enthusiastic about the challenge of obtaining and presenting strategic management accounting information.

Customer Base

The company faces strong competition for haulage contract work. Typically haulage contractors operate on a low margin basis and small companies offer to sub-contract for large-scale hauliers.

Mukasa & Co. Ltd carries haulage for a variety of customers as well as undertaking some sub-contracting. Approximately 70% of its turnover is derived from Namanve Breweries Ltd which produces different kinds of beer brands and which has many depots all over the country.

Following the recent appointment of a new transport manager, Namanve Breweries Ltd has begun to employ other hauliers besides Mukasa & Co. Ltd. Over the last two months, the haulage work Mukasa & Co. Ltd has received from Namanve Breweries Ltd has fallen by about a third.

Required:

- (a) Assess the nature of competitive forces to which Mukasa & Co. Ltd is subject.
(12 marks)
 - (b) Present a position appraisal for Mukasa & Co. Ltd, separating the internal and external factors to which the company is exposed.
(10 marks)
 - (c) Explain the use which Mukasa & Co. Ltd could make of internal and external sources of information in establishing its marketing strategy.
(6 marks)
 - (d) Advise Mukasa on the strategic management information of a financial and non-financial nature that should be provided to assist future decision making and cost control.
(10 marks)
 - (e) Recommend and justify a marketing strategy for Mukasa & Co which emerges from analysis of its marketing mix.
(12 marks)
- (Total 50 marks)**

SECTION B

Question 2

It has been argued that products have life cycles whereas brands do not.

Required:

Using the models and frameworks in strategy and marketing:

- (a) Discuss the validity of the above argument.
(6 marks)
 - (b) Explain the role of brands in the construction of barriers to entry.
(8 marks)
 - (c) Recommend some suitable financial criteria which could be used, at the different stages of the product life cycle for the purposes of financial control.
(5 marks)
 - (d) Discuss with reasons, the advantages and disadvantages of capitalising brands on the balance sheet.
(6 marks)
- (Total 25 marks)**

Question 3

Otim is a Ugandan businessman located in Pader. He retired from public service in 1997 and sold off all his investments in Kampala in order to start a paint manufacturing business. He manufactures 3 brands of paint, namely Eagle brand, Dove brand and Hawk brand. These brands are sold through a selection of specialist hardware shops and through Pader retail stores.

Customers include professional painters and ordinary householders who are renovating their houses themselves. Sales have been declining whereas those of the competitors have been improving.

In order to encourage sales, Otim has decided to pay senior staff a bonus if certain targets are achieved. The two main targets are based on profit levels and annual sales. Two months before the end of last financial year the Accountant asked one of his staff to check through the orders and accounts to assess the current situation. He is informed that without a sudden improvement in sales before the end of the year the important sales targets will not be met and so bonuses may not be paid.

The Accountant has proposed to other senior staff that this shortfall in sales can be corrected by taking one of the following decisions.

1. A significant discount can be offered to any retail outlet which takes delivery of additional products prior to the end of the financial year.
2. Scheduled orders due to be delivered at the beginning of the next financial year can be brought forward and billed before the end of this year.
3. Distributors can be told that there is a risk of price increases in the future and that it will be advisable to order early so as to circumvent this possibility.

Otim is not sure of the implications associated with such decisions.

Required:

- (a) As a consultant, prepare a report for Otim, examining the commercial and ethical implications associated with each of the proposed options mentioned above.

(10 marks)

- (b) Identify the main weaknesses of using profits and sales as the sole indicators of performance and suggest other indicators which may be more appropriate.

(15 marks)

(Total 25 marks)

Question 4

Katwe zone in Makindye is the metal craft industry hub of Kampala district. Several small companies have been registered dealing in garage doors, house doors, windows and similar items.

A serious problem with these metal craft firms is their inability to market their products successfully so as to gain a significant market share.

They do not use a corporate approach to marketing but use a more flexible company specific approach which does not provide the required market penetration. They need to be more knowledgeable about their markets and to be more focused in their approach.

Required:

With reference to the metal craft industry:

- (a) Discuss the key differences between the industrial buying environment and the consumer goods buying environment and show how knowledge of these differences can help the firms.
(12 marks)
- (b) Describe how a company might effectively segment its industrial market and discuss the criteria which the company should consider in deciding upon the appropriate segments.
(13 marks)

(Total 25 marks)