

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL FOUR

BUSINESS POLICY - PAPER 17

WEDNESDAY, 22 JUNE 2005

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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Question 1

Umoja Ltd is a private limited company based in Kampala. It was founded in 2000 by three former electricians because they liked working together. They thought that they could make a living by making good, quality, inexpensive electrical equipment. Each of the founders invested Shs 30 million as the share capital of their company in 2000, and the share capital has remained the same since then.

Umoja manufactures small electrical appliances such as kettles, hair dryers and irons. These are sold to wholesalers and eventually to the retail market. They compete with importers of the same appliances from Japan, Dubai and other places. Competition has also been coming from imported used appliances.

Product research and development was managed by Mr. Musoke, one of the founders. In 2004, he retired from full time work with Umoja Ltd but continues to work part-time for two days a week. Mr. Musoke is still a shareholder with an equal amount of share capital as the other two founders.

Mr. Musoke's replacement was a graduate electronics engineer from Makerere University who had previously worked for the company during vacations. She is not a shareholder. Since her appointment, she devoted most of her time in the department on developing a new product called 'super'. She has now finished this and the product has performed well during trials.

The 'super' is a remote control device that can operate any remotely-controlled electrical appliance e.g. television, video, alarm system etc. The component which is unique, is a computer chip designed by the engineer. The chip has been patented and ownership of the patent is vested in Umoja Ltd.

Market Prospects

Umoja does not have a marketing department and it has commissioned a leading firm of consultants to study the market prospects of the 'super' in Uganda. The results are very encouraging. The market is expanding in the region covering Kenya, Tanzania, Rwanda, the Congo, Sudan and other countries. The consultants also suggested that Umoja should seek world-wide patented production of the 'super' as it will be attractive in many countries.

The consultants charged Shs 50 million for their report which is double the amount Umoja would normally spend on marketing in a year. The consultants have offered to study the world market for the product at a cost of Shs 200 million.

Following the Uganda marketing study, Umoja felt it needed to make some plans for the future. It felt it appropriate to gain further guidance from the consultants who had the experience that Umoja Ltd lacked. This further study cost Shs 80 million and Umoja had to arrange a bank overdraft to finance this.

In the opinion of the consultants, Umoja has the following choices:

1. Manufacture the ‘super’.

In order to do this, Umoja Ltd would have to invest an extra Shs 400 million in its manufacturing process, working capital and launch costs to enable it to meet the demand in East and Central Africa. To meet future world demand, the investment would need to be more substantial but the consultants cannot forecast this until they do a further marketing study.

2. Sell the patents

The consultants are sure that the patent would fetch a substantial sum of money but until they seek offers they are not sure how much.

3. Franchise the rights to the manufacture and market the ‘super’.

The consultants believe that such a franchise would be eagerly sought by many reputable companies.

Required:

- (a) Using more than two strategic models, analyse the current position of Umoja Ltd.
(20 marks)
 - (b) Evaluate the three strategies suggested by the consultants indicating particularly the finance, production, marketing and personnel implications of each of these strategies.
(10 marks)
 - (c) Recommend and justify alternative strategies for Umoja Ltd, where necessary.
(10 marks)
 - (d) Discuss whether or not the original objective of the founders – that working together – is still applicable after the invention of the ‘super’.
(10 marks)
- (Total 50 marks)**

SECTION B**Question 2**

It has been suggested that the logical start for the strategic planning process would be to review the current situation of the organization in terms of its internal resources and the external environment.

Required:

- (a) Explain what you regard as a logical starting point for strategic planning process.
(5 marks)
 - (b) Describe how Porter's Model of generic strategies could be used by an organization wishing to generate strategies.
(10 marks)
 - (c) Explain the limitations of the Porters model in (b) above.
(10 marks)
- (Total 25 marks)**

Question 3

Most companies intending to enter a new market with a product that is materially different from their current outputs generally prefer to acquire or invest in existing business. This strategy has inherent costs e.g. goodwill has to be paid for, and inefficiencies existing in the acquired firm supported until any necessary reorganization has taken place. This could entail possible losses in production and lowering of staff morale. Despite these factors, the acquisition strategy is preferred to internal growth i.e. developing one's own production expertise or marketing channels.

Required:

- (a) Explain what advantages are likely to accrue to the purchaser of an established brand name from an undercapitalized supplier of consumer products.
(15 marks)
 - (b) Explain how far the choice of operational strategy after acquisition needs to take account of the policies implemented by previous management.
(10 marks)
- (Total 25 marks)**

Question 4

Jinja Agricultural Group (JAG) is a not-for-profit organization with 300 members. It is owned by its members who each pay an annual subscription of Shs. 50,000 and it has Shs. 20,000,000 in its current account in the bank. It has no debts and its only assets are a computer and office furniture. It rents its premises. The Group's purpose is to "promote a greater understanding of agriculture." The group has held an annual agricultural show since 1990. During the period of the show, it was well supported. It was held for a week and attracted many people from all around the country and other countries like Kenya and Tanzania. Such level of attendance enabled the group to cover the costs of the show and make a surplus. It used the surplus to finance its other activities for example providing free seeds to local elderly people.

Since 2000, the attendance has declined and in 2003 the show was held for a day as admission receipts were insufficient to pay for the hire of premises for the week. Attendance has continued to decline and the latest show was "very disappointing", said the Chairman.

Following this, the Chairman made a statement in which he called all people of Jinja to become involved with the show like they used to be. He observed that at the time the Jinja show was being held another group held a much bigger show in Mbale. The show made profits and was very well attended. Some residents of Jinja travelled to Mbale for the show but did not attend the Jinja Show. The Chairman concluded, "unless we get better support in future we will not be able to continue with the show and the people of Jinja will lose out".

Required:

- (a) Describe the fundamentals of the marketing concept. **(6 marks)**
- (b) Provide a report for the members of the group which comments on the extent to which the marketing concept has been utilized by the group. **(6 marks)**
- (c) Recommend strategies that would enable the group to fulfill its purpose in the future. **(13 marks)**

(Total 25 marks)