

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL FOUR

#### BUSINESS POLICY - PAPER 17

**TUESDAY, 13 DECEMBER 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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## SECTION A

## Question 1

Kampala Business Solutions Limited (KBSL) is a specialist software company which has developed and now markets a modular suite of financial software under the product name of **Busisol**. In addition the company provides a system design consultancy service to the financial services industry particularly the banking industry in the East African market. The company was established several years ago and the three founding shareholders are also the three full time working directors. Extracts from the financial results for the last three years are given below. These show declining profitability although aggregate sales revenue has increased year on year.

Table 1

Year	<b>Busisol</b> units sold	<b>Busisol</b> sales	Systems design services sales	Operating profits
		UShs million	UShs million	UShs million
2002	2050	922,500	650,000	162,000
2003	2700	1,080,000	600,000	144,000
2004	3600	1,260,000	550,000	107,500

Operating profit is before interest charges and taxation. The current interest rate on the medium term loan from the East African Development Bank is 10% per annum.

Table 2

Year	Fixed assets	Current assets	Current liabilities	Medium term loan	Share capital & reserves
	UShs million	UShs million	UShs million	UShs million	UShs million
2002	950,000	425,000	260,000	200,000	915,000
2003	1,000,000	525,000	375,000	200,000	950,000
2004	1,225,000	650,000	475,000	400,000	1,000,000

The current liabilities figure includes an overdraft with the bank of UShs.300million. This is also the agreed maximum. The company owns its own premises and these comprise the majority of fixed assets. The premises have recently been expanded to cope with the increased sales volume of the **Busisol** package. Although the consultancy workload of the company has shown some decline in recent years this has been due to pressure on the software staff to develop more powerful versions of the **Busisol** package rather than a shortage of potential work. Kampala Business Solutions is well regarded in the system design services field and attracts good margins on the work carried out. It is estimated that the operating profit to sales ratio on systems design services is in the region of 15%.

Kampala Business Solutions employs 18 people mainly as software specialists. There is little subcontract software development undertaken. The Managing Director and majority shareholder with 40% of the voting share

capital is Misaeri Migadde. He was the prime mover behind the creation of Kampala Business Solutions and has substantial experience in the financial services industry. He sees his main role as ensuring the efficient day to day administration of the business.

The software technical aspects are managed by the Technical Director Dr. Tomasi Tumwine, who holds 30% of the voting share capital. He is responsible for research and development on the **Busisol** product range, customer technical support on software products and systems design consultancy projects.

Yudaya Uchanda, the third director, holds 30% of the voting shares and is fully in charge of sales and marketing of both software products and consultancy services. Her background is in the fast moving retail market.

Kampala Business Solutions see their **Busisol** product range as market leaders in terms of quality and functionality although this segment of the software market appears to be increasingly driven by price and product awareness. There has also been a recent move by hardware suppliers to sell the **Busisol** product as part of the hardware price of their product. The main competitor to **Busisol** is the **Fastplan** product range. **Fastplan** is part of a large international organisation based in the UK, with a product range very similar to **Busisol** but lacking in its level of functionality, particularly in its adaptability to East African conditions and requirements, especially legal and taxation requirements. **Fastplan** has always been marketed at prices which undercut **Busisol**. Yudaya Uchanda believes that **Fastplan** holds about two thirds of the market, **Busisol** about one quarter and the rest is split among a few other software suppliers. There are few barriers to other software houses and suppliers entering the market. Almost any quality software house is capable of producing a similar product for this market provided they are willing to devote sufficient resources.

Yudaya Uchanda, has a strong personality and her views have tended to dominate the recent direction of the business. She believes that Kampala Business Solutions Limited must cut its prices and put more effort into increasing sales. She has urged her colleagues to look at the way the software market is developing. Every year there is a bigger market for software, as new users get access to hardware. She believes that additional sales effort and a bigger sales force would easily be covered by additional sales units. She believes that **Fastplan** must be tackled head on to capture some of their market share. She has pointed out the fact that in 2004, **Fastplan** spent in the region of US\$500million marketing its software in East Africa whereas Kampala Business Solutions Limited spent only US\$100million marketing **Busisol**.

Misaeri Migadde is not convinced. He has observed that although their current advertising has generated lots of enquiries, very few of these have been translated into firm orders. He has also noted that the current level of advertising has placed a strain on the company cash flow. He had in mind the

letter he received from the company's bankers which confirmed their continued support, but which pointed out that KBSL overdraft was rising year on year and that this must not be seen as a permanent source of finance. The bank concluded their letter by requesting for a medium term projection as to how the overdraft would be brought under control.

Tomasi Tumwine took this opportunity to launch into his familiar attack on the marketing strategy or rather lack of it as he saw it. He told his software team that he thought the company should move away from the package market and into consultancy activities. These activities build on the company's reputation and software expertise.

"The margins are good and we can still sell on recommendation, not expensive advertising campaigns" remarked Tomasi Tumwine.

"As it stands, my team is being torn between development of **Busisol** and working on software projects" he continued." "We cannot do both well, we are in danger of losing our clients and at the same time losing our edge on **Fastplan**".

Misaeri Migadde was at a loss as to how to respond. Something had to be done but he did not know what.

Your audit firm audits KBSL and Misaeri Migadde has asked you from the consultancy wing of the audit firm to give him objective advice. He feels KBSL needs a strategy, but is not sure what it should be or how to go about preparing it. When you met him to discuss your brief he commented that events move so fast in the software industry that plans are out of date before they can be implemented.

**Required:**

- (a) Identify any additional internal and external information which you need before you could set about writing your report and indicate how you would gather such information.

**(12 marks)**

- (b) To gain a strategic perspective of any business requires the use of frameworks or models which enable the strategist to make sense of the complexity of the business and its environment.

Identify two such frameworks and evaluate their usefulness in the context of KBSL

**(12 marks)**

- (c) (i) Provide a short report for Misaeri Migadde identifying the strategic options available to KBSL  
(ii) Suggest, with reasons, which option you feel is most appropriate and how this option might be achieved.

**(26 marks)**

**(Total 50 marks)**

## SECTION B

### Question 2

The organization for which you work, a small group of five hotels called the Rwenzori Hotel Group, is about to evaluate a proposal for a major upgrade in its information technology support for office administration staff. Currently the work of these staff is fragmented, lacking integration and cohesion. The proposed upgrade will enable information transfer to be more readily achieved and should improve both the efficiency and effectiveness of the office administration. The suggestion is for each of the thirty staff members to have a high specification personal computer (PC) with associated software (word processing, spreadsheets etc.). All PCs will be linked into a local area network comprising several file servers to handle shared applications, plus network links into internet services. At the present time about fifteen staff have access to PCs of a variety of types and specifications which are running a number of stand-alone applications. There is limited access on some machines to networked shared services. The capital cost of this proposed upgrade is estimated to be in the region of Shs.50million.

The Finance Director has asked you to take charge of the proposed project. He wishes the project to focus on two main issues: the cost justification of the expenditure in relation to competing IT project proposals and, if a go-ahead is given, the achievement of a smooth transition in moving staff and applications to the new office support system. However, he is worried that the review might concentrate exclusively on monetary considerations, such as discounted cash flow, and he feels that this approach would be both simplistic and unsuitable.

#### Required:

- (a) The new office support system is believed to be technically feasible but has not yet been cost justified. Explain how you might undertake a non technical evaluation of the proposed investment of Shs.50million in office information technology. Your evaluation should cover the treatment of both financial and non-financial criteria.

**(15 marks)**

- (b) Outline an approach which you might propose to adopt in planning for and executing an implementation of the new office support system.

**(10 marks)**

**(Total 25 marks)**

### Question 3

You are a newly qualified accountant working for a national children's charity called ***Hope for Children***. The charity is a respected organization with a long history of helping children, and their parents, through all kinds of difficulty. Despite this ***Hope for Children*** is not attracting the level of financial support it feels it merits. The governing council, which runs the charity, has decided to appoint a firm of consultants to design and implement a marketing plan.

Several consultants have indicated their interest and three have been invited to present their ideas to the council.

The Chief Executive, has asked you to sit in on the presentation. As part of your contribution to the proceedings you to advise the committee on 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 a marketing plan for a non-profit making charity.

**(7 marks)**

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

**(18 marks)**

**(Total 25 marks)**

**Question 4**

Matunda Corporation Limited, is a medium-sized regional company based in Kampala, producing and distributing fruit flavoured, carbonated drinks. In recent years it has seen a rapid decline in its sales to local stores and supermarkets. There are two main reasons for its poor performance. Firstly the major corporations, selling cola drinks have developed global brands which are now capturing the youth market which is seeking more 'sophisticated' products. Secondly the sales outlets are no longer willing to provide shelf-space to products which are not brand leaders, or potential leaders in their product category.

The Managing Director (MD) of Matunda Corporation Limited believes that the company needs a drastic turnaround if it is to survive. The soft drinks industry has become too competitive, and the bottling technology too expensive to warrant new investment. However the company feels that its greatest strength is its knowledge and access to distribution channels and therefore its opinion is that it should still stay within the food and drinks industry. Whilst on a fact-finding mission to China the MD was attracted by a new product based on Chinese herbs which claims to provide high energy content, but low in caffeine and containing vital vitamins. This seemed to be a successful combination of attributes for those consumers, mainly active participants in sporting activities and youth who were concerned with their diet but who enjoyed their drink and wished to boost their energy levels. The product has been developed and is owned by a relatively unknown company in China far away near the borders with Tibet. The company has agreed to provide Matunda with a licensing contract for manufacture and sale of the product within East Africa.

The MD is convinced that the secret to success will be in the marketing of the product. The company has suffered in its drinks business because it did not develop a distinctive and successful brand. The new product is also unknown in East Africa. In order to get national and regional recognition and acceptance from the major retail outlets the product will need considerable promotional support. As the company has very little experience or expertise in promotional activity it was decided to use a marketing consultancy to provide guidance in developing a promotional plan.

Matunda, being a medium-sized company, has only a limited budget. It will have to focus upon a new and regional market instead of its traditional, national base. It has to develop a new brand in a product area with which it is now not familiar. Before committing itself to a national and regional launch, Matunda has decided to try the product launch in a test market.

**Required:**

You have been appointed to act as the business consultant as part of the marketing consultancy team assisting Matunda.

- (a) Present a report to the management of Matunda recommending and justifying the types of promotional activity that could be used to support the launch of the new product.

**(15 marks)**

- (b) Which factors need to be considered to ensure that the test market produces results which can be reliably used prior to the national launch?

**(10 marks)**

**(Total 25 marks)**