

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL THREE

#### BUSINESS POLICY AND STRATEGY - PAPER 14

MONDAY, 15 JUNE 2009

#### INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.  
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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.

## SECTION A

### Question 1

In September 2000, UTIL took over UGEX Electricity Company in a deal that was expected to fetch the government over Shs 500 billion. This was among the biggest deals in privatisation history in Africa, and was one of those that were not tainted by corruption scandals.

Under the deal, UTIL paid Government a lump sum and was to pay annual rental fees of about Shs 20 billion for use of the assets of UGEX. On top of this, UTIL was obliged to invest a minimum of Shs 110 billion in the distribution system over the ensuing five years. The money was to be used to upgrade the existing distribution infrastructure, improve the billing system, and develop customer support services. They were also expected to make a certain minimum number of new customer connections per annum.

UTIL is a subsidiary of a major European-based power company, and this gives them access to huge financial resources, modern technology and expertise. Extracts from the company's annual report for 2006 and the regulatory reports by the Energy Regulatory Body as well as select regional statistics are attached as an appendix.

According to the MD, UTIL's enviable performance record since privatisation in 2000 is largely attributed to the following:

- Investment in modern IT infrastructure in which most customers are now using newly installed pre-paid electricity meters.
- Investment in people. On an annual basis UTIL sends some of its staff to Europe for attachments with their parent company. Similarly the parent company reciprocates by sending its own staff to UTIL
- The fact that UTIL managed to take control of power generation, transmission and final distribution to customers. The major source of electricity is the Rwizi station which was managed by another company (GEN ex) until UTIL took over in 2005. Electricity transmission was also done by a different company (TRANS ex) but was taken over by UTIL later the same year. Putting on a smile, the MD says..." we are now in control of the value chain, and in control of 95% of the market".

However, all has not been rosy over the past few years. In what was described by environmentalists as the longest and most catastrophic drought ever, Uganda was hit by a serious drought in 2006. This led to a reduction in the water levels in Lake Nakivale by over one metre. This led to shortage of electricity generated, and therefore meant increasing power rationing (load shedding) for the consumers. From the traditional 4 hours, load shedding was now at 12 hours

every day!! UTIL requested that they be allowed to release more water through the dam so as to increase the electricity output. This move was strongly opposed by environmentalists.

In an attempt to bridge the shortfall in generation, UTIL decided to install diesel generators for thermal electricity. This measure worked well for the first six months but is being revised in the wake of increasing world oil prices. World oil prices have risen to a record \$ 138 per barrel!! In response to this, UTIL increased the unit cost of electricity to over Shs 400 for domestic users. This is a 200% increase since UTIL took over. For industrial users, the tariffs have risen by a mere 70%!

As the prices hit the Shs 450 mark, consumer lobbyists have picked interest in the rates and are taking on the company in attempt to protect the powerless domestic consumers. Ironically, the industrial users have used their associations to influence government to take action. Government has a tendency to listen to "those who have a voice." Industrial associations do have a voice since they comprise major taxpayers.

It remains to be seen whether the domestic consumers will do the same, and whether there will be any government action. Recently, there has also been an increase in customer complaints about the newly installed pre-paid meters. Customers claim that their credit does not give them the stipulated hours and there are rumours that the company is deliberately cheating customers! Three months down the road, UTIL is yet to officially respond to these allegations. UTIL has also suffered huge power losses through the use of old transmission equipment. Despite contractual provisions on the upgrade of the infrastructure, little has been done leading to significant losses. This is another contributor to the power shortages being experienced but there has been no action from government.

### **The Future**

The future outlook is one of more competition in the electricity sector, and hopefully price reductions for consumers. Some solar electricity companies are slowly building market share especially in urban centres. With their slogan of sustainable use of the environment, they have so far managed to get endorsement from environmentalists. How far they will succeed in taking on UTIL, only the future will tell.

There are also government plans to construct two more electricity dams, Kitagata and Kisizi. It is hoped that by the date of completion, Uganda will be hooked on to at least 250 MW of electricity. Completion of Kitagata and Kisizi, if done on time will wipe off the expensive thermal dependency.

The challenge here though is that with the ever-failing regional climate, it is less likely that both Kitagata and Kisizi dams will produce at full capacities since the poor rains are expected to have a sustained negative impact on river flows.

"But regional governments still have a chance to reverse this through increased allocation of resources into environmental and ecological restoration, because though government has ignored it, the current power problems are a result of its careless policy on the environment," said a high level executive at the Environment Management Authority.

### Appendix:

A comparison of select Financial Extracts from UTIL's Annual Report 2006 / Energy Regulatory Body Reports and the Regional Statistics.

	UTIL	Regional Average*
Property, plant and equipment (Shs billion)	145	180
Investment in IT and software (Shs billion)	18	11
Related party loans (Shs billion)	40	23
Total staff training costs (Shs billion)	2.1	3
Average number of staff	400	650
Power losses (percentage of generated power)	25	10
Return on equity	3	1.8
Current ratio	8.3	3.5
Number of dams maintained	1	4
Total generation capacity(mega watts)	120	800
Total output (mega watts)	96	650
Total number of known clients served	900,000	1.3 million
Industrial clients (percentage of the above)	30	50
Customer waiting time before connection (months)	3	1.5
Average number of complaints p.a.	270,000	560,000
Customer response time (days)	14	5

*\*The regional statistics cover Uganda, Kenya, Tanzania, Rwanda, Burundi, South Sudan and Democratic Republic of Congo (DRC)*

### Required:

- (a) Using appropriate strategic models, assess UTIL's operating environment. Attention should be paid to the following;
    - (i) Internal environment. **(20 marks)**
    - (ii) External environment. **(20 marks)**
  - (b) What are the potential sources of competitive advantage for UTIL? **(10 marks)**
- (Total 50 marks)**

## SECTION B

### Question 2

Workers United is a voluntary organization whose membership comprises of all willing workers in Kampala. Founded in the early 1980's, the objective of the organization is to mobilize and invest savings from members, so that they enjoy their retirement later in life. Members sign a binding contract upon joining, in which they agree to contribute a fixed percentage of their monthly salary. In return, Workers United promises to invest the amount so as to generate some return for its members. The organization has grown impressively, from a mere 150 founders in 1982, to over 150,000 in 1998, and is still growing.

In the late 1990's, the organisation realized that it had accumulated a lot of idle cash, and therefore decided to think of ways in which the money could be put to use. One such idea that came up was a housing project. Workers United entered into a joint venture contract with a real estate developer in which the two parties were to see through the construction of thousands of housing units, which would later on be sold to members of Workers United under mortgage arrangements. Two years later, it emerged that unknown to Workers United management, the housing developer had actually been paid two times the real value of work done. It also emerged that the real size of the land on which the houses were to be constructed was smaller than what was stated in the contract. Suspicions were rife that a senior manager at Workers United had received a 'huge' bribe as an incentive for him to see through the project.

The relationship between Workers United and the developer has since broken down. Unfortunately for Workers United, they are still bound by the contract and must go ahead with the joint venture. Angry members of Workers United have also demonstrated on the streets of Kampala, demanding that the entire management team resigns, and that the developer be arrested and prosecuted for fraud.

#### Required:

- (a) What key issues should management at Workers United have considered before entering into the joint venture?  
**(15 marks)**
- (b) Discuss any other **three** forms of strategic alliances that Workers United could have used to see through the housing project.  
**(10 marks)**

**(Total 25 marks)**

### Question 3

Peter Lubowa is the financial controller of a medium sized supermarket located in the down town Kampala. His department comprises of himself, as well as two management accountants and five cashiers. His counterparts in the sales and administration department are arguing that the finance department is over staffed. The head of administration was recently overheard saying *“how can you employ two people to prepare management accounts? Besides, what is important is whether we make a profit or a loss.....And the financial controller alone can surely deal with that. I believe we are employing a lot of unnecessary staff.”* Peter has also had trouble convincing his colleagues, including the Managing Director that there is need for some formal strategic planning processes. The last formal plan to be prepared was the business plan at the time of setting up of the supermarket.

Peter believes that a well researched paper on strategic management will provide answers to this increasing criticism. You have been assigned the task of writing this memo.

#### Required:

Write a memo to the financial controller describing what strategic management is, and also justifying the need for strategic management accounting.

**(25 marks)**

### Question 4

Batsy is a university established by indigenous Ugandans with business related education as its niche. Founded in the early 1970's, the institution was once dubbed the “Havard of Africa” with excellent ratings from all over the world. Back then, the institution was re-known for its excellent business research, and was often applauded for creating new knowledge. The mid 1990's saw an education revolution in Uganda in which several other universities were established. The universities formed an umbrella association which holds regular academic exhibitions, but Batsy University declined to join. Many of these universities have business education faculties which have since threatened Batsy University's once undeniable position as market leader in business related disciplines. Previously the top priority destination for high school leavers, the university is now struggling to attract top candidates from high school.

Matters have not been helped by the reported financial indiscipline, as well as unethical academic practices at the University. Reports have indicated poor teaching methods, with no use of IT, small lecture halls, etc.

As part of the efforts to “re-focus” the institution and also deal with the increasing competition, Batsy University senate recently decided to introduce

professional business courses like CPA, ATC, CIMA etc. The idea is that these programmes will attract experienced professionals, and that success in this venture will be used as a springboard to market the institution, and enhance its image.

**Required:**

- (a) How can promotion, as an element of the marketing mix be applied to help Batsy University change its image and recapture its position as market leader?

**(15 marks)**

- (b) To what extent can Batsy University use the 4Ps in marketing itself?

**(10 marks)**

**(Total 25 marks)**