

CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION 1 EXAMINATIONS
F1.4: BUSINESS MANAGEMENT, ETHICS AND
ENTREPRENEURSHIP
FRIDAY: 01 DECEMBER 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven (7)** questions and only **five (5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. All iCPAR Examination rules and regulations apply.

Attempt any five questions

QUESTION ONE

Gatome James is the new general manager for ETTAN Ltd. A month ago he moved from KEAN Enterprises Ltd where he had served in a similar position for 10 years. Using his business skills, he transformed the company into a big profit making enterprise. ETTAN Ltd deals in purchasing pineapples from farmers and processing of pineapple juice for export. As part of his duties, Gatome James oversees the preparation and implementation of company policies. When he reported for duty, the policies he found were the best he has ever seen that once implemented as expected the company would be the best in the whole country. However, much as the policies were good and workers were trying to work, the general manager noted that there were some loopholes among others which included workers reporting to work late and leaving work early claiming that they had done their duties and finished; others would absentee themselves with fake excuses, while others would report and spend most of the time conversing and as a result they would produce less output per day. As general manager he set out to investigate the performance of each individual employee at the company.

Among other devices he used to establish the performance was to introduce a performance appraisal tool, which is known as means of rewarding, criticizing, encouraging and counseling. The superior of the person appraised is meant to be both critic and counselor. The general manager knew that with this tool he would ably test the effectiveness of employees, check the way they were selected and their areas of placement in departments and who inducted them. Also by filling and discussing this tool it would help him track their record of performance and their potential as well in different areas. He wanted to make sure that the lazy absentee workers know that their future in the organization depended on these appraisals as well. In the process of appraisal he would know whether the employees needed refresher training in different departments since the output had also reduced compared to the size and quality of machinery they had at that time although his fellow employees were comfortable with the production. Also since some employees would come late and spend time conversing he thought this exercise would motivate them to do their work well knowing that good performance would be rewarded according to the quality and quantity making a basis for wage differentials and incentive plans.

Later on when the general manager explained to the employees that the exercise of appraisal was going to be carried out, he was surprised that the majority of the workers was against it and started to criticize it; they thought it was one way the new manager wanted to chase them. Some even threatened to leave jobs since they referred to the exercise as useless and not needed at that time. Some employees complained that appraisals are not effective tools to base on while evaluating performance of workers; they criticized it basing on for example the ratings especially where the appraiser does not have full information about the appraise . They also complained that some of the appraisers may develop bias in judgment and this would reduce the of scores they would get; that some appraisers may tend to over emphasize one quality and rate the appraise on the basis of general impression. Also other employees argued that the appraisal process might be based on the recent performance of the employee which may bring wrong results. The employees also feared that superiors might review all peer groups the same regardless of individual performance since already the general manager was complaining about their general behaviour. Some employees had not heard or even ever seen an appraisal tool and could not easily understand the procedures to follow. The appraisal process faced a lot of resistance from the employees, though the general manager tried to explain why it was very much needed in the company.

When the process was done the general manager and the management were able to identify the challenges the company was facing and many of the employees at the end were appreciative since they had thought that they were performing well since they were always producing the quantity of juice required per day but they noted that a lot more would have been done towards production.

REQUIRED:

- (a) Explain the benefits that ETTAN Ltd would achieve after carrying out performance appraisal for its employees, as suggested by Gatome James. **(10 Marks)**
- (b) Identify and explain the limitations of carrying out performance appraisal at ETTAN Ltd that were observed by the employees. **(10 Marks)**

(Total 20 Marks)

QUESTION TWO

Read the following passage and answer the questions that follow.

Building customer relationship is one of the client retention strategies an entrepreneur can use to become a market leader. To be able to retain customers, every businessman should have good customer relationship and care, with the ever growing competition in the procurement and supply market. Good customer service is essential for a healthy business since customers are the lifeblood for any business. Offering good service creates new customers, keeps loyal ones and develops referrals for future customers.

Excellent customer service begins with greeting and interacting with customers in person, on phone or e-mail. Good communication skills give a positive first impression. A smile is a sign of welcome, but a frown disheartens. A high market share gives companies a competitive advantage which means better prices, greater production and lower costs to produce. Good customer service should also go beyond the initial contact and involve helping customers choose the right products and services. Going an extra mile establishes goodwill and increases customer loyalty. Building customer relationship involves building rapport with the client, to know and remember their name, needs, wants and preferences.

Innovation is one method used by rival firms to lure customers away from competitors, by introducing new technology. By strengthening customer relationship companies protect their existing market share and will be assured that their loyal customers will not be jumping ship when a competitor rolls out a hot new offer. Better still, satisfied customers frequently speak of their positive experiences to friends and relatives who then become new customers. Gaining market share through word of mouth increases a company's revenues without associated increases on marketing expenses. Maintaining a close link with customers enables an entrepreneur to get feedback and customer complaints. "To know what customers think about a particular product or service, gives you a chance to redeem yourself and keep potentially toxic reviews from hitting social media" says Mr. Boniface Twagiramungu, a business manager.

Adapted from: *Market Leaders, May 2016*

REQUIRED:

- (a) According to the passage, briefly state **two** steps a businessman needs to take to build good customer relationships. **(4 Marks)**

- (b) “Customers are the lifeblood for any business and good customer service is essential for a healthy business”

REQUIRED:

Identify **three** clear indicators of a healthy business. **(6 Marks)**

- (c) Using a specific situation; explain how:
- (i) An employee may exercise good communication skills with a customer to create a positive impression. **(2 Marks)**
- (ii) A businessman may go an extra mile to establish goodwill and increase customer loyalty. **(2 Marks)**
- (d) Explain **three** reasons to emphasize the importance of strengthening customer relationships by companies in a competitive market. **(6 Marks)**

(Total 20 Marks)

QUESTION THREE

INNOVATE OR DIE

Toyota is an established manufacturer and designer of vehicles. While on a business visit to Kigali, Toyota executives stressed that creativity and innovation are at the heart of Toyota and employee behaviors and practices focus on innovation and teamwork at every level. Toyota has core values of continuous improvement and respect. These drive the widespread use of innovative processes and the desire for constant improvement. There is within all teams, a focus on the process at hand and how to improve it and this focus on process improvement means that there is a diminution of any sense of personal blame for people.

Toyota’s culture strongly emphasizes consensus building, and consultation and influence leading to agreement of impacted stakeholders, on issue or process change. Hence an idea put forward for improvement or innovation by a person becomes- through the process of discussion and consensus building- ‘Toyota’s idea’. Then it is implemented once consensus is achieved as ‘our idea’. This is seen as a key strength of Toyota’s culture, and it leads to full collective effort once an idea is ready for implementation. Toyota does a series of tests of potential staff, and tries to ensure there will be a ‘fit’ with the Toyota way philosophy, values and methods. It engages in a ‘cultural fit assessment’. Toyota staff can be rotated through a series of jobs, to benefit their

perspective on working at Toyota and assist with staff development. People are rotated in recent years on a global basis, which opens up opportunities and hence people find Toyota a very attractive place to work where people stay for longer serving which preserves the culture. Bonuses are awarded to staff when targets are achieved, such as a cost reduction target. Toyota's leadership drives for successful implementation of these cultural, systematic innovation and improvement behaviors. It started as a leader driven initiative, but has now taken hold throughout the company and occurs through team behaviors and is just the expected norm. "It is a way of thinking, it takes a lot of practice, and it takes years to mature."

REQUIRED:

- (a) Explain the difference between creativity and innovation. **(2 Marks)**
- (b) Explain why Toyota qualifies to be referred to as an innovative company. **(8 Marks)**
- (c) Discuss factors that hinder the development of entrepreneurial culture in modern organizations. **(10 Marks)**

Total 20 Marks

QUESTION FOUR

Mr. Emma Turatsinze is an audit manager with Fair Audit Associates, a firm of certified public accountants. He was recently been appointed as team leader for the audit of MKG Rwanda Limited. During the audit, MKG Rwanda Limited paid for all his transport and food expenses. He has since become a friend of the managing director, Mr. George Gabona. They hang out together in various social places in Kigali. George made a substantive contribution to Emma's wedding which was held recently. MKG Rwanda Limited also gave the newlywed couple a very expensive present. George encouraged Emma to befriend the head of finance, Ms. Grace Mutesi. He actually arranged an outing for them to Bwindi Impenetrable Forest. They are now very close friends.

While compiling the final report, Emma's audit junior provided evidence and mentioned to him that MKG Rwanda Limited maintains two sets of records with the aim of evading taxes. However, Emma ignored the concerns of his junior with an excuse that he cannot confirm the allegations of the junior since the junior does not understand the accounting system used by MKG Rwanda Limited. After the audit, Emma shared information about the profits of MKG Rwanda Limited with his brother who works with the Rwanda Revenue Authority (RRA). Two months later RRA instituted a tax audit of the company.

REQUIRED:

- (a) Analyse the fundamental ethical principles that Emma violated in his assignment at MKG Rwanda Limited. **(8 Marks)**
- (b) (i) Advise Fair Audit Associates on the ethical obligations upon a person dealing with financial information. **(8 Marks)**
- (ii) Explain circumstances under which disclosure of confidential information may be appropriate. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

St. Mark Secondary School (SMSS) is the first private school in the sub-county of Nyaruguru. It was established in 2010 by James Gahiji and his brother John Muteteli. At that time there was only one government-aided day secondary school in the sub county. Consequently, the majority of the students were dropping out of school after primary level owing to long distances they had to move to the government-aided secondary school. SMSS commenced operations with 100 students. The directors ensured that the school was properly registered and had all the requirements as stipulated by Ministry of Education. By 2011, the enrollment had doubled which energized the proprietors. In the same year, the school received a donation from Youth Empowerment Project (YPP) towards construction of more classrooms. This was spearheaded by the sub-county chief and the area member of parliament under the youth projects.

In 2014, the Rwanda Information Technology Authority (RITA) which oversees the development and implementation of the national information communication infrastructure in public and private schools, constructed a computer laboratory and donated 100 computers to the school. This greatly improved the teaching-learning process since students and teachers could conduct research. Management processes were also eased due to the use of accounting software and student databases. It was a requirement of RITA for all staff to undergo training in computer skills.

In the fourth quarter of 2016, headline inflation in Rwanda increased to 7.0% from 6.4% in the third quarter. Food prices increased due to the poor performance in agricultural production resulting from the long dry spell. This increased the cost of living. Currently the school is doing very well and enrollment has grown to 2,000 students, with over 500 students from the

neighboring countries. Foreign students pay school fees in US dollars but the unstable exchange rate has greatly affected the school's income.

The school employs about 150 workers; they all have formal contracts with the school but they have been complaining of low salaries. Consequently, at the beginning of 2017, the head teacher together with 10 teachers left SMSS for Graham International School which is located in the same locality.

At SMSS cleanliness is one of the core values. In a bid to maintain a clean environment the school has contracted Bin Waste Disposal Company (BWDC) to collect the rubbish on a weekly basis and at the end of the term to empty the septic tanks. BWDC, however, is involved in a law suit with the National Environmental Authority (NEA) for poor waste management thus pollution of the environment. This has dented the school's image due to the relationship they have with the BWDC.

REQUIRED:

- (a) Using the **PESTEL** framework analyze the macro-environment of SMSS. **(12 Marks)**
- (b) Explain the likely consequences of technological changes in managing SMSS. **(8 Marks)**

(Total 20 Marks)

QUESTION SIX

At the end of every financial year Ukuri Investment Limited organizes a workshop to review goals and boost performance. A guest speaker is normally invited to address salient issues regarding, among others:

1. Personal and professional attributes.
2. Knowing your strength and weaknesses.
3. Recognizing and amending failure.
4. Meeting targets.
5. Interpersonal relation
6. Time management.

REQUIRED:

- (a) Write out an oral presentation you will give as a guest speaker and a human resource expert. **(10 Marks)**
- (b) Identify one non-verbal signal you may use in your presentation and explain how it is likely to:

- (i) Strengthen or,
- (ii) Weaken your message.

(3 Marks)

- (c) One staff member of Ukuri Investment Limited is held up and is not able to show up for the workshop and requests a colleague to link him to the presentation on a social networking site.

REQUIRED:

Explain the limitation associated with this kind of online presentation. **(4 Marks)**

- (d) Effective listening strengthens organizational relationships, paves way for innovations and facilitates efficiency in management of both employees and customers.

REQUIRED:

Suggest **three** ways to overcome potential barriers to listening. **(3 Marks)**

(Total 20 Marks)

QUESTION SEVEN

In business plan development the executive summary is a one-page distillation of the entire plan, and often is the last section to be written but it is presented first.

REQUIRED:

- (a) Explain why it is important to present the executive summary first when preparing a business plan. **(4 Marks)**
- (b) Describe the contents of a good executive summary. **(6 Marks)**
- (c) Recent research on entrepreneurship has seen increased attention in social entrepreneurship, and at a global scale the concept has become an important social economic phenomenon. A survey that was conducted on social entrepreneurship activity in Rwanda suggested that social start-ups are emerging at a faster rate than conventional ventures.

REQUIRED:

Discuss the factors driving the growth of social entrepreneurship in Rwanda. **(10 Marks)**

Total 20 Marks

End of question paper