
CERTIFIED PUBLIC ACCOUNTANT (CPA)
FOUNDATION 1 EXAMINATION
F1.4: BUSINESS MANAGEMENT, ETHICS AND
ENTREPRENEURSHIP
FRIDAY: 8 JUNE 2018

INSTRUCTIONS:

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

QUESTION ONE

JAMICO STATIONERY SUPPLIERS LIMITED

James Micombero graduated with a Bachelor's degree in Information Systems at Butare University in 2008. After completion, he searched for jobs and failed to get any. Almost on the verge of losing hope of future he decided to write a business plan to his father who accepted and decided to give him a starting capital of two million Rwanda francs. In 2010, James Micombero decided to open up a small retail stationery shop at Ruhengeri town, North West Rwanda. He later registered with the office of Registrar General as a sole proprietorship business.

He started by selling books, pens, reams of papers and other forms of assorted stationery and would sell and re-stock again while sometimes he would borrow from friends who had large stock in case he gets big orders. His business continued to grow and at the beginning of 2010, he decided to incorporate it into a private limited company known as JAMICO Stationery Suppliers Limited (an acronym of the proprietor's name) so that he could be able to apply and win tenders in both government and private sectors.

Whereas the business was still operating on a small scale, he ensured that he built good and strong customer care; well aware that customers are the heartbeat of all businesses. Developing a healthy relationship with them was very crucial to the success of his business. Through good and bad times James tried to maintain a healthy customer relationship with all the clients that would help in sustaining the performance of the business. He knew that it was necessary for the company to put in place appropriate marketing strategies so that his customers would comfortably buy goods from him and could always come back. He was truthful, and trust worthy to his customers in that he would always supply the right quality and quantity. For all the years, James endeavored to build confidence in his customers. Given the right strategies in place, James did not need to worry about his competitors because he was sure he had built a strong customer base. On daily basis he would ensure that his clients are satisfied so that he does not lose them looking at their potential to sustain his business and also get more other customers.

As the business grew James started winning tenders to supply big companies and this required him to recruit more workers given the high volume of business transactions executed on daily basis. He trained his employees in good customer care which increased their ability to resolve issues, handle customer queries, and this ultimately led to a decrease in the number of return calls. His employees improved in the manner of interacting with their customers and this made them feel appreciated and respected. He made his customers aware that good management of customers would increase the productivity of the company. James and his team maintained the reputation of the business and built the brand awareness of the company. This also made his company to get more profits and revenue that grew the business to a printing centre. Apart from James being trustworthy to his customers, he also had good leadership skills. He became an agent who would help his organization to accomplish its goals. None of his workers had ever left for another job since 2010 and very many people yearned to work with him. The fact that he started this business alone from scratch meant that he had the passion for it and no employee was able to criticize him because they knew he had the expertise in that field. Sometimes when workers misbehaved he administered punishments and counseled in line with the company human resource policy. James would breathe life into his employees and set the tone of the company and this was the motivation of his workers. He provided good advice and guidance by which his employees recognized their qualities and capacity. James

was also known by his employees for the rewarding system which made them feel at home and motivated. He always educated and updated them with the current information in the business sector and this earned him respect, trust and emotional involvement from his employees.

James was a dynamic leader who would encourage change in relation to current trends since professionally he was a specialist in information systems. At JAMICO Stationery Suppliers Limited James endeavored to serve as the personal embodiment of the group and a true guardian of company interests. In the town of Ruhengeri, the company is very well known for having excellent customer care, good employees and the proprietor James as a reliable leader that everyone can trust.

REQUIRED:

- (a) Discuss the benefits of good customer relations at JAMICO Stationery Suppliers limited. **(10 Marks)**
- (b) Explain the significance of leadership to effective management at JAMICO Stationery Suppliers Limited.

(10 Marks)
(Total 20 Marks)

QUESTION TWO

Read the following passage and answer the questions that follow.

To remain relevant in a digitized environment and fend off competitive threats, companies should be clear about their digital strategy.

“We didn’t do anything wrong, but somehow, we lost.” those were the words the NOKIA CEO ended his speech with during a press conference to announce Nokia’s smart phone division being acquired by Microsoft in 2013.

The company that once sold more than half the world’s mobile phones barely sold any. In fact, by 2010, the mobile phone giant started its downhill path, and within only a span of a few years, they had sold their business to Microsoft.

Nokia did not do anything wrong; the world just changed too fast for them and they failed to catch the tide of change.

The digital revolution is fast changing the rules of competition today, with the incumbent companies most at risk of being left behind. The new startups mainly driven by internet and technological revolution have had to redesign the landscape of doing business today. The older and more traditional companies have either had to embrace digitization or be left outside. Emmanuel Ntarugera an IT consultant says “It is important to understand the audience or clientele targeted and devise strategies that can be used to address their needs”.

Businesses need to embrace digital technology in some form, whether by using e-commerce and digital marketing, or utilizing new technology for product development or manufacturing. Many businesses, however, do not know how to go about this, and that’s why developing a digital strategy becomes important.

A digital strategy is a high level plan of how digital technology can be used to achieve the goals of an organization or business. Its role is to establish the digital technologies or communication platforms that can be used and how. For instance, with internet and mobile phone penetration

growing, business cannot deny the power of digital marketing which is a big hit these days because it is interactive. Gone are the days when there was only one way of communication between companies and their consumers through suggestion boxes with no option for a response. Instead of using traditional means, inquiries and complaints can be made digital on social media sites such as Facebook and Twitter.

Various other social media platforms are being made use of to reach out to customers to convey messages. With mobile phones becoming an integral part of our lives; mobile marketing too has become a major segment in digital marketing.

Mobile is dominating traffic as opposed to computers, so a company website should be adjusted to integrate the mobile platforms as well because everybody these days is on the go and most people access internet using their mobile phones.

The Internet is now a key vehicle in digital marketing and '*communication's tool box*'. It is used for a wide range of functions, from general information source, much like an electronic brochure, to a product-delivery service like software downloads.

Unlike print advertisements placed in different publications, the Internet offers clear defined measurements of whether the website is being used and how frequently.

Source: *Adapted from Digital Business June 14 2016.*

REQUIRED:

- (a) According to the passage briefly explain why it is imperative for businesses to embrace digital technology today. **(4 Marks)**
 - (b) Mention four forms of digital communication platforms which can be used by a business for product development. **(4 Marks)**
 - (c) State the reason given to emphasize the importance of developing a digital strategy. **(2 Marks)**
 - (d) Give **three** benefits of digital marketing highlighted in the passage. **(6 Marks)**
 - (e) Suggest two reasons to explain why the Internet in the last paragraph, is referred to as a '*communications tool box*'. **(4 Marks)**
- (Total: 20 Marks)**

QUESTION THREE

Since childhood, Keza had always wanted to run a sole proprietorship business and be popular in his community. After graduating from School of Finance and Banking in Rwanda in 2015, Keza spent three months in an internship with an accounting and financial advisory firm. At the end of the training, Keza was immediately hired as a finance officer in Ministry of Finance. His salary was meager and could not enable him to support his family.

In 2017, Keza decided to acquire a salary loan of Frw 1 million to start-up a clearing and forwarding firm in Kicukiro Kigali to supplement his monthly income from the white-collar job. The business employs three people and they are paid on weekly basis. Keza manages the entire business but has decided to employ his girlfriend to handle customer care section. In late 2017, he

met his former schoolmate in a small business conference in Serena Hotel Kigali who then introduced him to corporate firms that deal in import and export. This was a turning point for him as he saw his dream come true.

Early 2018, Keza decided to resign the ministry job to concentrate on growing his business. He further developed an online accounting system that enables small businesses to audit their activities without hiring an auditor. He wants to protect his new innovation from imitation by others but lacks knowledge about business protection. Keza is also making consultations on how to expand his operations and, he has been advised to legalise or register his business operations first. Keza is confused about business legalisation and would like to know the benefits of legalising a business before committing himself.

REQUIRED:

- (a) Explain the characteristics of sole proprietorship type of business. **(8 Marks)**
 - (b) Explain to Keza the benefits of legalizing business operations in Rwanda. **(6 Marks)**
 - (c) Describe the ways Keza can use to protect his new innovation. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

GR & Associates (GRA) is an audit firm registered in Rwanda, with Henry Ganza and Kenneth Rukundo as partners. The audit firm provides accounting, book keeping, auditing and assurance services to small and medium companies.

GRA has been offering auditing and assurance services to Toto Logistics Limited (TLL) for the last 11 years. Recently, TLL was sued by his supplier, Seromba Fabrics Limited (SFL), for failure to pay Frw 50 million debt for raw materials supplied in 2016. As evidence in court, SFL submitted copies of audited financial statements and supply invoices of that particular transaction.

During the court proceedings, TLL discovered that their auditor GRA is also the auditor of SFL and thus they have petitioned court not to allow GRA to act as a witness for SFL stating the following grounds of conflict of interest:

- TLL alleged that he was an existing audit client of GRA at the time of the said debt transaction and thus the audit firm could not act against his interest by giving evidence on this matter for fear of disclosing confidential information they may have received during the course of performing the audit services.
- TLL also alleged that Mr. Richie Ntampaka (Senior Auditor at GRA) was employed at TLL as a Senior Accountant two years back, the time when the funds in question were misappropriated from the business and used for his personal expenditures.

TLL has also filed a complaint with Institute of Certified Public Accountants of Rwanda (ICPAR) citing acts of indiscipline on the part of GRA since they have a duty of confidentiality and duty of care, which have been violated when they act as witnesses for SFL in court.

In GRA's response, the partners contend that since the matter is before the courts of law and they have been compelled to act as witnesses in this case, then there is no conflict of interest. Secondly, they also argue that SFL has already paid their audit fees for that service and thus cannot let them down regardless of ICPAR's intervention.

REQUIRED:

As a Risk and Compliance Officer at GRA, explain:

- (a) (i) the possible situations that can give rise to conflict of interest in audit firms like GRA. **(8 Marks)**
 - (ii) the guidelines forwarded by the ICPAR's Code of Ethics when charging audit fees. **(4 Marks)**
 - (iii) the circumstances under which practice firms are liable to disciplinary actions before ICPAR. **(4 Marks)**
 - (b) Discuss the measures ICPAR should undertake to resolve possible conflicts between the audit firm and client like GRA and TLL. **(4 Marks)**
- (Total 20 marks)**

QUESTION FIVE

- (a) Identify and explain the challenges faced by business arising from their environment. **(10 Marks)**
 - (b) Explain the benefits of controlling function to an organisation. **(10 Marks)**
- (Total 20 Marks)**

QUESTION SIX

- (a) GANZA Traders Limited is a renowned and prosperous association of entrepreneurs in Kigali Kicukiro district. An extra ordinary meeting is to be held, to resolve issues regarding reports of members who are evading taxes, and as result damaging the reputation of the association. You are requested by the Chairperson to take the minutes on behalf of the secretary who is unable to attend.

REQUIRED:

Provide an outline of the draft minutes of the meeting to reflect Chairperson's communication on reports received, decisions made, action to be taken and any other business.

- (b) Employers today expect employees to be competent at a wide range of communication tasks like critical thinking and problem solving, which skills will help them advance in their careers. **(10 Marks)**

REQUIRED:

- (i) Identify two ways to show how critical thinking and problem solving skills may facilitate employee's career advancement. **(2 Marks)**
- (ii) Explain using two examples how an employee will demonstrate critical thinking and problem solving skills in day to day proceedings in an organization. **(2 Marks)**
- (c) State three advantages online communication has over face to face engagement in business. **(3 Marks)**
- (d) Short messaging service (SMS) or phone based texting is soon replacing email for routine communication in many companies. **(3 Marks)**

REQUIRED:

Identify three formal situations for which SMS would be an appropriate mode of communication in business.

(3 Marks)
(Total: 20 Marks)

QUESTION SEVEN

Unique Décor Supplies is a small company that manufactures and sells a variety of design products such as curtains, sofa sets, cushions, tablecloths, decorative craft products, decorative wrought iron, and so on to interior design stores in Kigali province. Rukundo an experienced designer founded the five-year-old company. The company has won several awards for unique and innovative products and has earned a solid reputation among its customers and homeowners who ultimately buy its products. Before launching this company, Rukundo had been an electrical engineer for about 15 years. When the price of home heating fuels rose dramatically over time, Rukundo began to incorporate simple, inexpensive ways to help homeowners save energy. This idea triggered him to think of a product that could automatically regulate the amount of electricity consumed in a home. Rukundo was able to invent an auto designer bulb that would automatically switch on and off depending on the house activities. The simple inexpensive auto designer bulb had a big hit in construction industry and its success prompted him to expand sales to other parts of the country. The domestic demand for the designer bulb has tripled the sales of Unique Décor Supplies and company's accountant reported 75% profit growth by end of 2017. A friend has advised Rukundo to consider globalization and venture into the international market in order to sustain company sales. Rukundo was amused by the proposal but he wondered how a small business could go global. "Interesting idea, I had never really thought of selling anything overseas. In fact, I have never travelled overseas and I don't know anything about doing business there," said Rukundo. He called a consultative meeting with the company's top marketing team to discuss the strategies for going global. However, the entire team appeared ignorant about globalization.

REQUIRED:

- (a) With evidence from the case, identify and describe the stage of growth the company has reached.
(4 Marks)
 - (b) Advise Rukundo and the marketing team on the strategies they should take to get into the global market.
(8 Marks)
 - (c) Enlighten the managers of Unique Décor Supplies about the potential challenges associated with globalisation.
(8 Marks)
- (Total 20 Marks)**

END OF QUESTION PAPER