

# CPA

**Certified Public Accountant Examination**

**Stage: Foundation F1**

**Subject Title: F1.4 Business Management  
Ethics and Entrepreneurship**

**Revision Guide**



**INSIDE COVER - BLANK**

## CONTENTS

Title	Page
Study Techniques	3
Examination Techniques	4
Assessment Strategy	9
Learning Resources	10
Sample Questions and Solutions	11

# STUDY TECHNIQUE

## What is the best way to manage my time?

- Identify all available free time between now and the examinations.
- Prepare a revision timetable with a list of “*must do*” activities.
- Remember to take a break (approx 10 minutes) after periods of intense study.



## What areas should I revise?

- Rank your competence from Low to Medium to High for each topic.
- Allocate the least amount of time to topics ranked as high.
- Allocate between 25% - 50% of time for medium competence.
- Allocate up to 50% of time for low competence.

## How do I prevent myself veering off-track?

- Introduce variety to your revision schedule.
- Change from one subject to another during the course of the day.
- Stick to your revision timetable to avoid spending too much time on one topic.

## Are study groups a good idea?

- Yes, great learning happens in groups.
- Organise a study group with 4 – 6 people.
- Invite classmates of different strengths so that you can learn from one another.
- Share your notes to identify any gaps.

# **EXAMINATION TECHNIQUES**

## **INTRODUCTION**

Solving and dealing with problems is an essential part of learning, thinking and intelligence. A career in accounting will require you to deal with many problems.

In order to prepare you for this important task, professional accounting bodies are placing greater emphasis on problem solving as part of their examination process.

In exams, some problems we face are relatively straightforward, and you will be able to deal with them directly and quickly. However, some issues are more complex and you will need to work around the problem before you can either solve it or deal with it in some other way.

The purpose of this article is to help students to deal with problems in an exam setting. To achieve this, the remaining parts of the article contain the following sections:

- Preliminary issues
- An approach to dealing with and solving problems
- Conclusion.

## **Preliminaries**

The first problem that you must deal with is your reaction to exam questions.

When presented with an exam paper, most students will quickly read through the questions and then many will ... **PANIC!**

Assuming that you have done a reasonable amount of work beforehand, you shouldn't be overly concerned about this reaction. It is both natural and essential. It is natural to panic in stressful situations because that is how the brain is programmed.

Archaeologists have estimated that humans have inhabited earth for over 200,000 years. For most of this time, we have been hunters, gatherers and protectors.

In order to survive on this planet we had to be good at spotting unusual items, because any strange occurrence in our immediate vicinity probably meant the presence of danger. The brain's natural reaction to sensing any extraordinary item is to prepare the body for 'fight or flight'. Unfortunately, neither reaction is appropriate in an exam setting.

The good news is that if you have spotted something unusual in the exam question, you have completed the first step in dealing with the problem: its identification. Students may wish to use various relaxation techniques in order to control the effects of the brain's extreme reaction to the unforeseen items that will occur in all examination questions.

However, you should also be reassured that once you have identified the unusual item, you can now prepare yourself for dealing with this, and other problems, contained in the exam paper.

## **A Suggested Approach for Solving and Dealing with Problems in Exams.**

The main stages in the suggested approach are:

1. Identify the Problem
2. Define the Problem
3. Find and Implement a Solution
4. Review

### **1. Identify the Problem**

As discussed in the previous section, there is a natural tendency to panic when faced with unusual items. We suggest the following approach for the preliminary stage of solving and dealing with problems in exams:

#### **Scan through the exam question**

You should expect to find problem areas and that your body will react to these items.

#### **PANIC!!**

Remember that this is both natural and essential.

#### **Pause**

Take deep breaths or whatever it takes to help your mind and body to calm down.

Try not to exhale too loudly – you will only distract other students!

#### **Do something practical**

Look at the question requirements.

Note the items that are essential and are worth the most marks.

Start your solution by neatly putting in the question number and labelling each part of your answer in accordance with the stated requirements.

#### **Actively reread the question**

Underline (or highlight) important items that refer to the question requirements. Tick or otherwise indicate the issues that you are familiar with. Put a circle around unusual items that will require further consideration.

## **2. Define the Problem**

Having dealt with the preliminary issues outlined above, you have already made a good start by identifying the problem areas. Before you attempt to solve the problem, you should make sure that the problem is properly defined. This may take only a few seconds, but will be time well spent. In order to make sure that the problem is properly defined you should refer back to the question requirements. This is worth repeating: Every year, Examiner Reports note that students fail to pass exams because they do not answer the question asked. Examiners have a marking scheme and they can only award marks for solutions that deal with the issues as stipulated in the question requirements. Anything else is a waste of time. After you have re-read the question requirements ask yourself these questions in relation to the problem areas that you have identified:

### **Is this item essential in order to answer the question?**

Remember that occasionally, examiners will put ‘red herrings’ (irrelevant issues) into the question in order to test your knowledge of a topic.

### **What’s it worth?**

Figure out approximately how many marks the problem item is worth. This will help you to allocate the appropriate amount of time to this issue.

### **Can I break it down into smaller parts?**

In many cases, significant problems can be broken down into its component parts. Some parts of the problem might be easy to solve.

### **Can I ignore this item (at least temporarily)?**

Obviously, you don’t want to do this very often, but it can be a useful strategy for problems that cannot be solved immediately.

Note that if you leave something out, you should leave space in the solution to put in the answer at a later stage. There are a number of possible advantages to be gained from this approach:

- 1) It will allow you to make progress and complete other parts of the question that you are familiar with. This means that you will gain marks rather than fretting over something that your mind is not ready to deal with yet.
- 2) As you are working on the tasks that you are familiar with, your mind will relax and you may remember how to deal with the problem area.
- 3) When you complete parts of the answer, it may become apparent how to fill in the missing pieces of information. Many accounting questions are like jigsaw puzzles: when

you put in some of the parts that fit together, it is easier to see where the missing pieces should go and what they look like.

### **3. Find and Implement a Solution**

In many cases, after identifying and defining the problem, it will be easy to deal with the issue and to move on to the next part of the question. However, for complex problems that are worth significant marks, you will have to spend more time working on the issue in order to deal with the problem. When this happens, you should follow these steps:

#### **Map out the problem**

Depending on your preferred learning style, you can do this in a variety of ways including diagrams, tables, pictures, sentences, bullet points or any combination of methods. It is best to do this in a working on a separate page (not on the exam paper) because some of this work will earn marks. Neat and clearly referenced workings will illustrate to the examiner that you have a systematic approach to answering the question.

#### **Summarise what you know about the problem**

Make sure that this is brief and that it relates to the question requirements. Put this information into the working where you have mapped out the problem. Be succinct and relevant. The information can be based on data contained in the question and your own knowledge and experience. Don't spend too long at this stage, but complete your workings as neatly as possible because this will maximise the marks you will be awarded.

#### **Consider alternative solutions**

Review your workings and compare this information to the question requirements. Complete as much of the solution as you can. Make sure it is in the format as stipulated in the question requirements. Consider different ways of solving the problem and try to eliminate at least one alternative.

#### **Implement a solution**

Go with your instinct and write in your solution. Leave extra space on the page for a change of mind and/or supplementary information. Make sure the solution refers to your workings that have been numbered.

### **4. Review**

After dealing with each problem and question, you should spend a short while reviewing your solution. The temptation is to rush onto the next question, but a few moments spent in

reviewing your solution can help you to gain many marks. There are three questions to ask yourself here:

### **Have I met the question requirements?**

Yes, we have mentioned this already. Examiner Reports over the years advise that failure to follow the instructions provided in the question requirements is a significant factor in causing students to lose marks. For instance, easy marks can be gained by putting your answer in the correct format. This could be in the form of a report or memo or whatever is asked in the question. Likewise, look carefully at the time period requested. The standard accounting period is 12 months, but occasionally examiners will specify a different accounting period.

### **Is my solution reasonable?**

Look at the figures in your solution. How do they compare relative to the size of the figures provided in the question?

For example, if Revenue were 750,000 and your Net Profit figure was more than 1 million, then clearly this is worth checking.

If there were some extraordinary events it is possible for this to be correct, but more than likely, you have misread a figure from your calculator. Likewise, the depreciation expense should be a fraction of the value of the fixed assets.

### **What have I learned?**

Very often in exams, different parts of the solution are interlinked. An answer from one of your workings can frequently be used in another part of the solution. The method used to figure out an answer may also be applicable to other parts of your solution.

### **Conclusion**

In order to pass your exams you will have to solve many problems. The first problem to overcome is your reaction to unusual items. You must expect problems to arise in exams and be prepared to deal with them in a systematic manner. John Foster Dulles, a former US Secretary of State noted that: *The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.* We hope that, by applying the principles outlined in this article, you will be successful in your examinations and that you can move on to solve and deal with new problems.

# **ASSESSMENT STRATEGY**

## **Examination Approach**

Students through narrative questions have the opportunity to demonstrate their understanding and application of key business management, ethical and entrepreneurial concepts.

Where appropriate, students are expected to evaluate alternative possibilities and apply their knowledge to specified or illustrative problems.

In answering all questions, students are expected to convey unambiguously, the required information.

## **Examination Format**

Examination Duration: 3 Hours

The examination is unseen, closed book.

Students are required to answer 5 questions out of 6.

## **Marks Allocation**

<b>Question</b>	<b>Marks</b>
Each question carries 20 marks (5 x 20)	100
<b>Total</b>	<b>100</b>

# LEARNING RESOURCES

## Core Texts

- Management (4th Edition) - Williams, C, 2007
- Exploring Corporate Strategy – Johnson, Scholes and Whittington 2008
- Management and Organisational Behaviour - Mullins, LJ, 2004
- Management: Concepts and Practices - Hannagan, TJ, 2004
- Modern Management – Tiernan, Morley and Foley 2001
- Model Business Letters, Emails & other Business Documents – Taylor, S, 2004
- Excellence in Business Communication, 7/E - John V. Thill, 2007
- Management Information Systems, 9E – Laudon and Laudon, 2004
- Management Information Systems, 6E, – O’Brien, J, 2004
- E-commerce, business, technology, society – Laudon and Traver, 2004
- Management, Meeting and Exceeding Customer Expectations – Plunkett, W, 2007
- Understanding Business in Ireland J L Lynch & F W Roche 2nd Edition, 1999
- “Skills of an effective Administrator” from Harvard Business Review 51 1974 (Katz, R 1974):
- John Kotter Harvard Business Review 1999
- New Era of Management, Ninth Edition by Richard L. Daft. 2010
- Corporate Governance and Society, S Jacoby, 2005
- Management Accounting for Decision Makers - Atrill and McLaney 2009
- Introduction to Human Resource Management – D Currie 2007
- Introduction to Information Technology, Rainer, E.Turban, E, et al., (2007) Wiley

## Manuals

Institute of Certified Public Accountants of Rwanda – F1.4 Business Management, Ethics & Entrepreneurship

## Useful Websites (as at date of publication)

- [www.ifac.org](http://www.ifac.org)
- [www.icparwanda.com](http://www.icparwanda.com)
- [www.entrepreneur.com](http://www.entrepreneur.com)
- [www.nasbm.co.uk](http://www.nasbm.co.uk)
- [www.instam.org](http://www.instam.org)
- [www.marketingtoday.com](http://www.marketingtoday.com)
- [www.bplans.com](http://www.bplans.com)
- [www.businessballs.com](http://www.businessballs.com)

**F1.4 BUSINESS MANAGEMENT,  
ETHICS & ENTREPRENEURSHIP  
REVISION QUESTIONS AND SOLUTIONS**

## QUESTION 1

Mintzberg described ten roles commonly undertaken by managers of business organisations. Describe any five of these roles?

**(10 Marks)**

## SOLUTION

Mintzberg suggests, that rather than look at the functions of the manager, it is more useful to view the key roles that they play. He identified ten roles common to all managers and grouped them into three major categories; interpersonal, informational and decisional.

### **Interpersonal Roles**

Management is very much about people. Most managers spend between 60% and 80% of their time in face-to-face communication with others. If management is “getting things done” through people, managers need to be excellent at interacting with individuals and teams. As a Figurehead, the manager handles ceremonial and symbolic activities for the organisation. In the Leader role managers motivate and encourage workers to achieve organisational objectives. They need to be able to read situations, provide direction, persuade and influence. In the Liaison role managers deal with others outside their own department.

### **Informational Roles**

Mintzberg found managers spend a considerable amount of their time getting and sharing information with others. Therefore management can be viewed as gathering information by scanning the business environment and listening to others in face-to-face conversations, and then sharing this information with people inside and outside the organisation. In the Monitor role, managers scan the environment for information, actively contact others for information, and interpret how it impacts the business. The Disseminator and Spokesperson roles refer to the transmission of information to others who require it, inside and outside the organisation, respectively.

### **Decisional Roles**

The time spent obtaining information is useful if it helps in making good decisions. Managers need to balance competing interests and choose among alternatives. Through decisional roles, strategies are formulated and implemented. The Entrepreneur role involves the initiation of change, thinking about the future and devising ways to deal with current and future problems. The Disturbance Handler role involves the resolution of conflicts between individuals and teams. The Resource Allocator involves making decisions on how to allocate resources to meet stated objectives. The Negotiator role refers to the formal negotiation and bargaining activity.

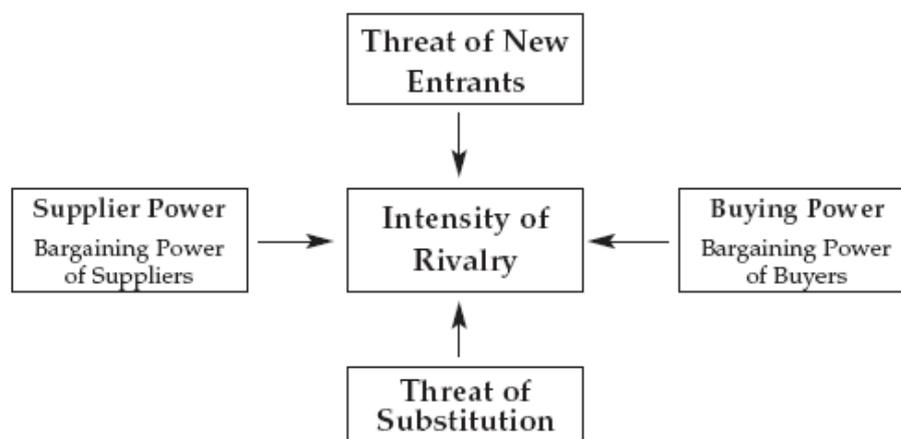
## QUESTION 2

Describe each of the five forces identified by Porter for analysing the nature and intensity of competition in an industry.

(10 Marks)

## SOLUTION

Porter identified five forces that assist organisations in analysing the intensity of competition, profitability and attractiveness of an industry. An understanding of these forces increases a managers insight into the nature and dynamics of the market place thereby facilitating the development of appropriate business and marketing strategies. The five forces are as shown in figure 1.



*Figure 1: Porter's Five Forces*

### **Threat of New Entrants**

The threat of new entrants will depend on the extent to which there are barriers to entry. Barriers to entry are factors that need to be overcome by new entrants if they are to compete successfully. Typical barriers include; capital cost of building and equipment, economies of scale, access to supply or distribution channels, customer loyalty, experience, government regulations and differentiation.

### **Bargaining Power of Suppliers**

Whether the suppliers to an industry are a weak or strong competitive force depends on market conditions in the supplier industry and the importance of the item they supply. Supplier-related competitive pressures tend to be minimal whenever the item supplied is a standard commodity available on the open market from a large number of suppliers with

ample capacity. Suppliers also tend to have less leverage to bargain over price and other terms of sale when the firm they are supplying is a major customer. Supplier's power is likely to be high when there are only a few main suppliers of the product or service, or when the costs of switching from one supplier to another are high. Supplier power is also strong if there is the possibility of the supplier competing directly with their buyers (forward integration).

### **Bargaining Power of Buyers**

The bargaining power of the buyer is strong when some of the following conditions exist:

- Where there are a few dominant buyers and a large number of small suppliers
- Where the number of buyers is small
- If the costs of switching to a competing product or substitute are relatively low
- If the buyer poses a credible threat of backward integration into the business of the supplier

### **Threat of Substitutes**

Firms in one industry are often in close competition with firms in another industry because their products are good substitutes. Substitution reduces demand for a particular class of products as customers switch to the alternatives.

### **Intensity of Rivalry**

This is normally the strongest of the five competitive forces. In some industries rivalry is centred around price competition, which sometimes results in lowered prices. In other industries rivalry is focused on factors such as performance features, new product innovation, quality, warranties, after-sale service and brand image.

Rivalry intensifies as the number of competitors increase and as competitors become more equal in size. Also rivalry is usually stronger when demand for a product is growing slowly or shrinking.

### QUESTION 3

Describe Maslow's hierarchy of needs theory of motivation.

(10 Marks)

### SOLUTION

Maslow's Need Hierarchy theory states that human motivation is dependent on the desire to satisfy various levels of needs. According to Maslow, five basic needs exist in a hierarchy from lower level deficiency needs to higher growth level needs. The five basic needs are;

- **Physiological needs:** These needs relate to the basic survival needs which allow for continued existence, such as food, water and adequate shelter.
- **Safety needs:** These needs relate to physical and psychological safety from external threats to our well-being, such as the need for security and protection. These needs take effect when physiological needs have been met.
- **Social needs:** This level of need relates to the need for company and companionship, and for a sense of personal belonging. These needs for personal contact and interaction with other people are triggered once physiological and safety needs have been met.
- **Esteem needs:** This is the first level of growth needs, which relates to the need for a sense of self-esteem and a feeling of personal self-worth. They become salient once the first three levels of deficiency needs have been satisfied.
- **Self-actualisation needs:** The final level in the hierarchy refers to the need for personal growth, and the development of one's full potential and capabilities. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled.

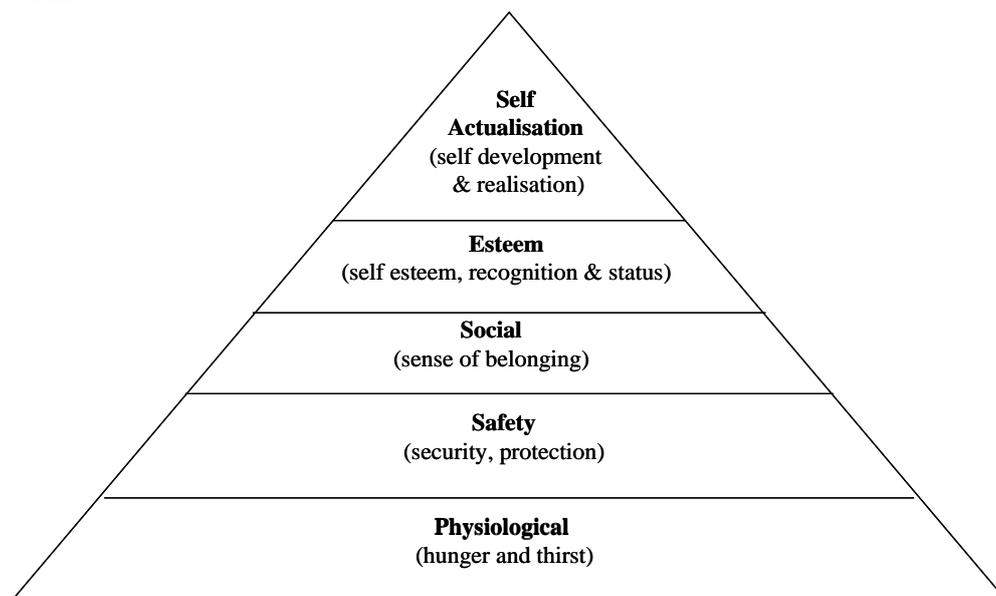


Figure 2: Maslow's Hierarchy of Needs

#### **QUESTION 4**

Explain what is meant by the extended marketing mix for services.

**(10 Marks)**

#### **SOLUTION**

Services are intangible; unlike physical products they cannot be seen, tasted, felt, heard or touched before they are bought. Services are difficult to describe, to demonstrate to the buying public, and to illustrate in communications and promotional material. Therefore the marketing of services pose additional challenges, in particular, how to differentiate one offering from those of the competitors.

Organisations' define their product offering using the 4P's, of price, product, place and promotion. The growth of Services has added a further three more elements to the marketing mix, namely, participants, physical evidence and process.

#### **Participants**

This refers to the people who actually deliver the service at the point of customer contact. . Whether it be on a one-to-one basis, over the phone, or via the Internet, the professionalism, politeness and credibility of these participants is critical. Participants in general require training in personal selling, human interaction skills and customer problem resolution.

#### **Physical Evidence**

This relates to how facilities are designed and managed. Take for example, a cinema, a supermarket or a restaurant. The design of the interior and the exterior of these establishments are critical in the eyes of the consumer, as is the appearance and hygiene of the employees, the parking facilities etc.

#### **Process**

This refers to the efficiency and effectiveness of the service process involved in delivering the product / service mix. Most successful service providers develop detailed standards of performance for the facility, the process, the equipment and the jobs that deliver the consumer benefits package.

## QUESTION 5

“Training is an important element of human resource management” Explain how you would evaluate training in an organisation.

(5 Marks)

## SOLUTION

When assessing training and development activities need to look for validity, accuracy and reliability in the evaluation method used Evaluators are looking for evaluation approaches that are practical & relevant.

Kirkpatrick proposed the following four types of evaluation:

### **Reaction**

This method seeks to assess how the trainees like the training imitative and how satisfied they are. It is the most widely used method of evaluations and typically involves the use of an evaluation questionnaire.

### **Learning**

The method assesses whether or not the trainees have acquired the desired skills & whether they understood principles facts & techniques. Observation or test can be used to assess learning.

### **Behaviour (job related)**

This type of evaluation measures the trainee’s ability to transfer knowledge into on-the-job performance. It can involve on-the-job observation or supervision reports.

### **Results**

This organisational centred evaluation method assesses the impact of the training on programmes and delivery of service. It involves the measurement of service delivery performance.

## **QUESTION 6**

You are the marketing manager of a company selling foreign sun holidays and you are planning a new advertising campaign. Describe three factors your choice of media vehicle is likely to depend on. Suggest the media vehicles you would deem most appropriate for you company, giving reasons in support of your answer.

**(10 Marks)**

## **SOLUTION**

The advertising media selected by a firm will depend mainly on the following factors:

- The type of product or service to be advertised
- The target market for the product
- The amount of money that is available for advertising
- The method of presentation needed.
- The competitors choice of media
- Geographic coverage

A number of media vehicles may be used to advertise foreign sun holidays. It is possible to put forward arguments for TV, radio, newspapers and the internet or a combination of some of these.

The choice will depend on the marketing objectives of the company and the budget it has for the advertising campaign. I would recommend targeting selected populations using the Internet. This internet would be relatively inexpensive, gives a very high reach and enables segmentation and targeting. The interactive nature of internet advertising would allow potential customers to view pictures of the holiday resorts and accommodation, read reviews from other holiday makers or watch a video of the holiday resorts. This media could be supplemented with the use of other advertising vehicles

## QUESTION 7

“Resistance to change is a common feature of many organisational environments”. Describe four major underlying reasons behind employee resistance to change in the workplace?

(10 Marks)

## SOLUTION

There may be resistance to change from individuals or groups within the organisation. Individuals may feel their working habits are being disrupted or that they are not being adequately briefed, involved or compensated etc. Likewise sections of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on. Employees may resist change therefore for a number of reasons ranging from economic factors, habit/security, social factors, organisational structures, and group inertia.

**Economic Factors** - Changes in work practices that affect skills learned over a number of years could affect the income of the individual in the long term or the short-term while they learn the new skills.

**Habit/Security** - As people do their jobs they develop habits in the way they work. They also develop routines that help get them through the week. They develop a sense of security in their job and also in their lives. If there are any changes in their work they can become insecure. Pressure to change habits and routines can lead to resistance particularly if the individual does not see any advantage in changing.

**Social Factors** - Individuals are affected by group pressure or group norms. An individual may wish to embrace change but could resist it because of group pressure. Conversely they may accept change because the group accept it even though as an individual they are inclined to resist it.

Organisational structures such as roles, policies, rules and procedures are designed to maintain stability and continuity. However, these same structures can by their nature act as a form of "structural inertia" (Hannon and Freeman, 1984) that will slow the progress of change.

Group inertia occurs when a group refuses to change its behaviour patterns because of a desire to maintain the status quo.

## QUESTION 8

Briefly describe four approaches to system changeover.

(10 Marks)

### SOLUTION

A critical part of the implementation stage is the system conversion or changeover. System conversion or changeover is the process involved in changing from the old system to the new system. There are four main approaches to conversion: parallel running, direct cutover, pilot conversion and phased conversion.

#### **Direct Changeover or Cutover**

This is when the old system is turned off and the new system goes live straight away. This is fast and appears cheap, but if something goes wrong, there is no fall back.

#### **Parallel Conversion (Running)**

This is when both old and new systems run “in parallel” for a certain period of time (the ‘changeover’ period). This allows problems in the new system to be identified, and also allows time for users to familiarize themselves with the new system. But running two systems in parallel is very resource intensive and can be complex and expensive.

#### **Pilot Changeover or Conversion**

This is where the system is introduced in one location (or one department) initially. This can be viewed almost as a “trial run”, and once problems have been ironed out the system will be rolled out to the rest of the company.

#### **Phased Conversion**

Phased conversion involves introducing parts of the systems in stage which could be one module at a time. Each module is assessed and if working correctly then more modules are introduced

## QUESTION 9

Explain each of the three elements in the STP process.

(10 Marks)

## SOLUTION

### Segmentation

Market segmentation involves analysing the total market into segments that share common properties, such as, purchasing power, geographical spread, buyer behaviour, attitudes to environmental issues etc. The ultimate in terms of market segmentation is “customised marketing” where sellers design a separate product for individual buyers. Typical segmentation variables include:

- Age range – 18 to 30
- Gender – male or female
- Location – urban, rural, national or international
- Family life cycle – single, married no children, married young children, etc.
- Socio- economic status – professional, managerial, skilled workers, unskilled etc.

Market segmentation can be carried out at several different levels: mass marketing, segmented marketing, niche marketing and micro marketing.

### Targeting

Market targeting follows market segmentation. It involves evaluating the various segments identified during the segmentation process and deciding how many and which segments it can serve best. As part of targeting, the company must also decide on the type of marketing strategy to adopt.

**Undifferentiated marketing** - This is a full market coverage strategy, in which the firm serves all customer groups with products they might need. It is a market coverage strategy in which the firm decides to ignore market segment differences and goes for blanket market coverage. It relies on mass distribution and advertising which may provide cost efficiencies.

**Differentiated marketing** - This is a market coverage strategy in which the firm decides to target several market segments and designs a separate marketing mix for each. By offering product variations and marketing, the company hopes for higher sales and a stronger position in a market segment.

**Concentrated marketing** - This is a market coverage strategy in which a firm goes after a large share of one or a few sub-markets. It pursues a niche market strategy.

## **Positioning**

Market positioning considers the perceptions of the consumer about the product or service, relative to other products and services in the market. The marketer seeks to position the product so that it is perceived to possess the key variables considered important by customers. Re-positioning involves moving the product away from its current position to a point that improves its market appeal.

A perceptual map may be used to identify key consumer criteria and where brands are positioned in relation to each other. Branding may form part of the drive to re-position or reinforce an existing position in the market place.

## QUESTION 10

Describe two long term sources of finance commonly accessed by organisations.

(10 Marks)

## SOLUTION

### Ordinary Shares

Ordinary shareholders own a share of the company's assets and a share of any profits earned after all prior claims have been met. Ordinary shares or Equity, as they are termed, are a permanent source of finance. Ordinary shareholders provide seed capital to allow the business to develop and grow. There are no fixed repayment or interest charges to be paid in the case of equity. Equity also provides the owners with authority to influence policy and direction.

Equity is generally regarded as an expensive source of finance when compared to loan finance, as the dividends to equity holders unlike loan interest are not tax deductible. Another disadvantage of equity is the potential for change in the balance of control between existing and new shareholders.

### Preference Shares

Preference shareholders have the right to a fixed dividend rate which is paid before anything can be distributed to ordinary shareholders. They may be cumulative or noncumulative. With non-cumulative preference shares, when profits are poor and no preference dividend is paid in the year, the dividend is foregone forever. In the case of cumulative preference shares previously unpaid dividends can be recouped in future years. Unlike interest payments, preference dividends are not allowable deductions for taxation purposes. For this reason they hold few attractions for the majority of companies and tend not to be widely used as a source of finance

### Debentures

A debenture is a written acknowledgement of indebtedness by a company. Interest is paid at a fixed rate, normally at half- yearly intervals. Debentures are not part of the share capital of a company and debenture holders are not members of the company. A debenture holder is a creditor of the company. His interest is a debt of the company, payable irrespective of whether there are profits or not.

Debentures may be redeemable or irredeemable

- Convertible debentures can be converted into equity shares of the issuing company after a predetermined period of time.

- Non-convertible debentures cannot be converted into equity shares – as a result these carry a higher interest rate

Debentures may be secured or unsecured. Most debentures are secured by a charge on the assets of the company. This charge may be fixed or floating. In the case of a fixed charge, the security relates specifically to a particular asset or group of assets. The company is not permitted to dispose of the asset or assets. .

The terms of the debenture and the rights and responsibilities of the parties involved are set out in the Debenture Trust Deed. The Debenture Trust Deed will contain, details of the maturity date, interest rate, interest payment, provisions related to any security pledges and any other terms & conditions between issuer & holders.

***Note: The student should describe any two of the above.***

### **QUESTION 11**

Explain what is meant by “B2B”, “B2C” and “C2C” in relation to e-commerce. Illustrate your answer with examples.

*(5 Marks)*

### **SOLUTION**

Business-to-business (B2B) e-commerce is the wholesale and supply side of the commercial process, where businesses buy and sell goods and services with other businesses. Many businesses are integrating their Web-based e-commerce systems with supply chain management, customer relationship management, and other information systems.

Business to consumer (B2C) e-commerce involves retailing products and services to individual shoppers. In this form of e-commerce the sellers are organisations and the buyers are individual consumers. The Internet provides companies with new channels of communications and interaction with customers that can be more cost-effective than traditional retailing. A successful business to consumer e-commerce example is Dell.com who sells computer equipment directly to consumers from its Web site.

Consumer-to-Consumer (C2C) e-commerce is a category of e-commerce where consumers sell directly to other consumers. For example the e-Bay online auctions site enables consumers to sell to other consumers.

## QUESTION 12

Explain the five fundamental principles of the Institute of Certified Public Accountants of Rwanda Code of Ethics in order to achieve the objectives of the profession.

(10 marks)

## SOLUTION

iCPAR Code of Ethics fundamental principles:

- ***Integrity*** – This principle requires that the members should be straightforward and honest in all professional and business relationships.
- ***Objectivity*** – This principle requires that members should be fair and should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- ***Professional Competence and due care*** – This principle requires that members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. Members are required to act diligently and in accordance with applicable technical and professional standards when providing professional services
- ***Confidentiality*** – This principle requires that members should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority or unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the member concerned or third parties.
- ***Professional Behaviour*** – This requires that members should comply with relevant laws and regulations and should avoid any action that discredits the profession.

### **QUESTION 13**

What are the major entrepreneurial traits or qualities of a successful entrepreneur?

**(5 marks)**

### **SOLUTION**

- Motivation
- Listening Skills
- Communication
- Analytical
- Confidence
- Optimism
- Moderate Risk Taking
- Vision
- Creativity

## QUESTION 14

What sources are venture ideas generated from?

(10 marks)

### SOLUTION:

- **Prior Employment:** Many new venture ideas come from the experience gained in former jobs. Some employees start their own business to fill a gap they found in the market that is now being served by the industry.
- **Obtaining Rights:** Acquiring a licence to produce and sell a product or service developed by others is another way of developing a new business venture.
- **Collaboration or Invention:** An inventor or creator of an idea who lacks some necessary skill sales, finance, production etc may be willing to let an appropriate person collaborate with them a new venture.
- **Hobbies:** These can be a source of new venture ideas. For example an avid part-time gardener may decide to open their own garden centre.
- **Social and Business Networks Encounter:** Social and Business networks play an important role in the commercialisation of new venture ideas.
- **Chance Observation:** Sometimes the inspiration for a new product or service will come simply from seeing a need in ones daily life.
- **Deliberate Search:** This approach involves the entrepreneur searching for ideas. The internet is a growing source of ideas