CPA

Certified Public Accountant Examination

Stage: Foundation F1

Subject Title: F1.4 Business Management Ethics and Entrepreneurship

Examination Format Revision Pack 1

iCPAR
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

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F1.4 Business Management, Ethics & Entrepreneurship

Foundation 1

EXAMINATION FORMAT REVISION QUESTIONS AND SOLUTIONS

NOTES
Answer 5 out of 6 questions. All Questions carry equal marks.

TIME ALLOWED:
3 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

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List on the cover of each answer booklet, in the space provided, the number of each question(s) attempted.

QUESTION 1

(a) Identify and explain all four phases of the lifecycle of a typical product.

(10 Marks)

(b) Think of two products you use on a regular basis and suggest where they may be located on the lifecycle chart in (a) above, giving reasons in support of your answer. Comment analytically on the practicality of the product life cycle concept as a marketing tool.

(10 Marks)
Total 20 Marks

QUESTION 2

(a) Porter identified five competitive forces used in analysing the intensity of competition of an industry. Describe any four of these competitive forces.

(10 Marks)

(b) Organisations use a range of distribution strategies in marketing their products; intensive, selective or exclusive. Describe each of these strategies giving examples.

(10 Marks)
Total 20 Marks

QUESTION 3

(a) Describe the role and key duties of the Finance Function in an organisation.

(20 Marks)

Total 20 Marks

QUESTION 4

(a) Explain the main duties owed by an auditor to a Company

(8 Marks)

(b) List THREE statutory rights of a company auditor **(2 Marks)**

(c) Discuss FIVE rights of a member/student where a case is presented to the Disciplinary Tribunal

(10 Marks)

Total 20 Marks

QUESTION 5

(a) Explain the characteristics of Entrepreneurs **(20 Marks)**

Total 20 Marks

QUESTION 6

(a) Explain 5 threats a Professional Accountant in Public Practice has to be aware of whilst engaging in business relationships

(20 Marks)

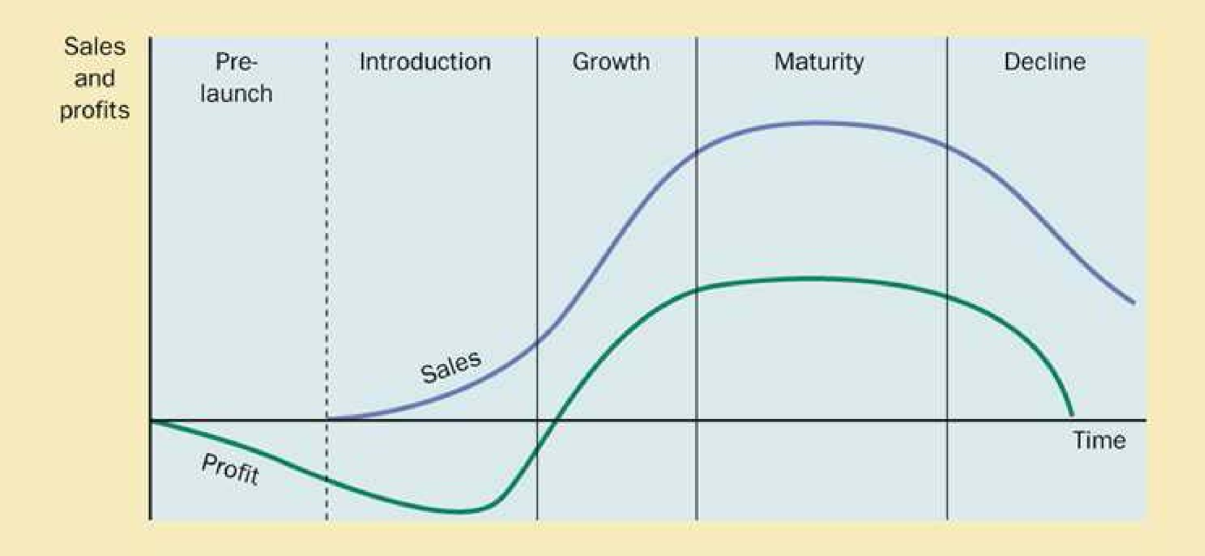
Total 20 Marks

END OF PAPER

SOLUTION TO QUESTION 1

PART A

All products have a life cycle - this model includes four stages through which individual products develop over time and extends from introduction to obsolescence. The prelaunch stage (as seen in diagram below) refers to the marketing activities prior to the launch or commercialisation of the new product.



Introduction

_ Low sales & high costs as the product is being introduced to the market
_ Competition is limited
_ Customer type is known as an innovator
_ Core objective is to generate awareness among the target audience

Growth
_ Rising sales, costs declining and profits being achieved
_ Growing number of competitors entering the market
_ Customer type is known as an early adopter
_ Core objective is to increase demand in order to increase market share

Maturity
_ Sales & profits reach their peak, cost per customer is low
_ Competition is intense
_ Customer type is known as middle majority
_ Core objective is to maximize profit and maintain market share

Decline
_ Sales & profits decline
_ Number of competitors have reduced
_ Customer type is known as a laggard
_ Core objective is to exploit the brand

PART B

The Product Life Cycle concept helps interpret product and market dynamics and can be used for planning and control. Not all products follow the product lifecycle. Some products are introduced and die off quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

Whilst the exact shape and length of a products lifecycle may not be known in advance, the company's task is to recognise the lifecycle pattern of its offerings and to devise appropriate marketing strategies for its portfolio.

A manufacturer of Laptops
In the case of a manufacturer of laptops the Product Life Cycle is likely to be particularly relevant. It ought to allow the company to adopt different marketing and pricing strategies at the different stages of the life cycle of its products.

In the introduction stage the company is likely to be able to capitalise on the price inelasticity of the early adopters of its offerings. At the growth stage it is likely to pursue intensive marketing initiatives to try to enable it to obtain a sizeable share of the market.

Later in the mature phase competition is likely to be intense and economies of scale will be called for if the company is to match the competitions offerings. At the final stage the company will have to consider its options to exploit the brand whilst pursuing an aggressive innovation strategy to bring out new products. *(e. g. Apple's product range)

Similarly manufacturers of motor vehicles have to constantly strive to enhance the design features of their models every few years to keep them up to date with developments in technology and other environmental and economic concerns. In addition to try and hold their place at the maturity stage of the market for petrol cars they are investing heavily in electric and hybrid cars which are currently at the prelaunch stage of that market.

Some of the common criticisms of the Product Life Cycle concept are as follows:
1. Duration of the Product Life Cycle stages is unpredictable
2. Difficult to tell which stage the product is in
3. Not marketing orientated
4. Misleading objective and strategy prescriptions
5. Not all products follow the classic Product Life Cycle curve

SOLUTION TO QUESTION 2

PART A
Porter identified five forces that assist the organisation in analysing the intensity of competition, profitability and attractiveness of an industry.

Understanding these forces gives managers the necessary insights to facilitate them to develop relevant strategies to be successful in their market. The five forces are:

Threat of new entrants

The more uncomplicated it is for new companies to enter the industry, the more aggressive the competition will be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

- Existing loyalty to major brands
- Incentives for using a major brand
- High fixed costs
- Scarcity of resources
- High cost of switching brands / companies
- Government restrictions or legislation

Power of Suppliers

This focuses on the amount of pressure suppliers can place on a business entity. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds considerable power. Reasons that suppliers might have this power include:

- Few suppliers of a particular product exist
- No substitute products are available
- Switching to another competitive product is costly
- The product is very important to buyers
- The supplying industry has a higher profitability than the buying industry

Power of Buyers

This relates to the amount of pressure customers can place on a business. If one customer has a large enough purchasing power to affect a company's margins and volumes, then the customer holds considerable power. Reasons that customers might have this power include:

- Small number of buyers exist
- These buyers purchase large volumes of the product
- Switching to another competing product is simple
- The product is not important to buyers; they can do without the product for a period of time
- Customers are price sensitive

Availability of substitutes

If the cost of switching to competitive products is low, then brand switching could be a serious threat. Factors that can affect the threat of substitutes include:

- if substitutes are similar, it can be viewed in the same light as a new entrant
- if the substitutes are perceived to have the same benefits
- if significant price differentials emerge and
- if products are equally available and accessible

Competitive rivalry

This depicts the intensity of competition between existing firms within an industry. Companies that are highly competitive generally earn low returns because the cost of competition is high. A highly competitive market may result from:

- Players within an industry that are similar in size; there is no dominant firm
- Little differentiation between competitor's products and services
- A mature industry with very little growth; companies can only grow by encouraging customers to switch from competitors.

From the foregoing we can see that the variables in the model are intuitively relevant to the nature of competition in most industries.

PART B

Distribution strategies are varied. Some firms use intensive strategies where the product is stocked in as many outlets as possible. Fast Moving Consumable Goods are examples here. Another option is employing a selective strategy whereby the use of more than one intermediary is seen as effective. This provides good coverage with more control and costs less than intensive distribution. Finally an exclusive strategy can be used. This is where producers purposely limit the number of intermediaries handling their products. Exclusive rights are instead handed to companies in specific regions. Luxury brands often adopt this strategy.

SOLUTIONS TO QUESTION 3

Cash is the lifeblood of any organisation whether in the not for profit or private sector.
Decisions made and activities planned are meaningless without the necessary finance to carry them through. The finance function is concerned with not only ensuring the adequate supply of funds for organisational activities but also reporting the results and putting in place procedures to evaluate and examine performance over periods. Indeed the various elements of the finance function are specialist areas in themselves.

Financial Management must not be confused with accounting. Financial management is a management activity whereas accounting is a service activity. As a service activity, accounting processes and interprets information either to those inside an organisation (management accounting) or outside an organisation (financial accounting). In contrast financial management, as its name suggests, deals with the management of an organisation's finances. Financial Managers are part of the decision-making system within organisations. In the general decision/control context the information processed by financial managers includes:

- the cost of raising funds
- current exchange rates
- short-term interest rates on money markets
- information on new investment opportunities
- internal and external financial reports.

From the foregoing information the Financial Manager will produce:

- information about the interest rates at which the organisation will lend or borrow money
- advice on raising funds (whether by equity, new long-term debt, short-term debt, re-investment of internally generated funds or some combination of the foregoing)
- advice on risk management techniques
- forecasts about future cash needs of the organisation
- forecasts of economic aggregates and interpretations of their effects on the organisation
- internal management accounts
- external financial reports.

Financial control of activities is vital to all organisations. Many smaller firms, for a variety of reasons, such as lack of expertise or over-trading, opt for informal rather than formal systems of control. This can be catastrophic for the small firm as the true performance or profitability cannot be gauged.

Budgetary control requires that realistic profit and loss and cash flow forecasts are prepared at the beginning of the period and that they be updated normally on a quarterly basis as the year progresses. The financial manager is intimately involved in this process ensuring that due care and consideration is given to interpreting variances from budget to ensure managers are held accountable for all those matters that fall within their sphere of control

Monitoring profitability and liquidity in these difficult times is a particularly important function of the financial manager. In this regard he / she will be responsible for preparing cash flow forecasts to determine if company borrowing is required or if surplus funds are likely to be available for re-investment. Comparing actual performance against forecasted profit and loss account projections allows them to monitor margins on a regular basis and to take appropriate corrective action before deviations become too serious.

You will see from the above that there are many demands on the finance function some of which require economic analysis (e.g. interest rates, exchange rates, forecasts of economic aggregates and risk analysis) and others accounting related skills.

The key tasks undertaken by the finance function may be summarized as follows:

1. Raising capital by means of equity, long-term debt and short-term debt.
2. Preparation of reports and internal management accounts. Examples of these would include cashflow statements, profit and loss accounts and balance sheets.
3. Preparation of realistic budgets for the organization and the development of an effective costing strategy.
4. Monitoring and controlling the finances of the organisation.

SOLUTION TO QUESTION 4

Part A

- **Duty to provide an Audit Report** – report to the members of the company on the financial statements examined by them. The auditors' report must be read at the general meeting and should be made available to every member of the company.

- **Duty to report failure to maintain proper books of account –** where auditors form the opinion that the company being audited is disobeying, or has disobeyed its obligations to maintain proper books of account, they are obliged to serve notice on the company informing it of that opinion. The auditors may report this to the Office of the Registrar General (ORG)
- **Duty to exercise Professional Integrity** – Auditor is under a duty to carry out the audit with professional integrity. In preparing their report, they must exercise skill, car and caution of a reasonably competent, careful and cautious auditor.

Part B

- Access to all written information regarding financial affairs of the company
- To ask questions/request explanations by the company's officers
- To call Meetings eg (Extraordinary General Meeting)
- To attend and be heard at company meetings on any matter that affects him in his role as Auditor
- To receive notice of all company meetings

Part C

- To attend and be heard at meetings
- To be represented (Legal Person)
- To receive material regarding the complaint from the Institute in advance of the hearing
- To give documentary evidence
- To make any submissions that they desire
- To call witnesses

SOLUTION TO QUESTION 5

Much research has been undertaken to identify the basic characteristics and personality traits common to entrepreneurs. However, entrepreneurs generally come from all walks of life; they can be teachers, engineers, business students, farmers, accountants, lawyers etc. They are usually self-confident, sure of their goals and of how to achieve them. They are self-nurturing, and capable of overcoming disappointments. They are usually action-oriented, with high energy levels and with a capacity to work with uncertain situations.

Traits include:

- Total commitment, determination and perseverance
- A drive to achieve and grow
- Opportunity and growth orientation
- Willingness to take initiative and personal responsibility
- Persistence when problem solving
- Low need for status and power
- Calculatedly risk taking and risk seeking

SOLUTION TO QUESTION 6

- **Self – Interest Threat –** The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour.
    - *E.g.: the improper use of corporate assets or where an accountancy firm has an undue dependence on one particular client's fees or enters into a joint venture.*

- **Self – Review Threat** – The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service.
    - *E.g.: providing a service for a client that relies on previous results that the individual, firm or another professional carried out – if this situation arises such results should be double checked before proceeding*.

- **Advocacy Threat –** The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.
    - *E.g.: When a professional accountant promotes an organisations position with misleading and factually incorrect statements, or where you inappropriately promote shares of a client that you are auditing.*

- **Familiarity Threat –** The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.
    - *E.g. becoming too sympathetic to the client's needs and losing <u>objectivity.</u>*

- **Intimidation Threat –** The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.
    - *E.g... Where an individual or firm is placed under pressure to act in a certain way or feels threatened by a client, employer or third party if they do not produce the results they expect.*

END OF SOLUTIONS

F1.4 Business Management, Ethics & Entrepreneurship

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QUESTION 1

(a) Mintzberg described ten roles commonly undertaken by managers of business organisations. Describe any four of these roles.

(10 Marks)

(b) Describe **four** management functions a manager should possess?

(10 Marks)

QUESTION 2

(a) Describe the four layers of organisational culture

(10 Marks)

(b) Explain the three levels of planning within organisations

(10 Marks)

QUESTION 3

(a) Describe the recent developments in Organisational Structure

(10 Marks)

(b) Describe “High Performance Organisations” **(10 Marks)**

QUESTION 4

(a) “Leadership” within Organisations, describe the various types of Leadership styles

(10 Marks)

(b) Describe “Transactional” and “Transformational” Leadership

(10 Marks)

QUESTION 5

(a) Describe the “Generation and Sources” of entrepreneurial ideas

(10 Marks)

(b) **“**Market Research and Entrepreneurs” **–** Explain the type of research an entrepreneur should carry out on Markets.

(10 Marks)

QUESTION 6

(a) Explain the five fundamental principles of the ICPAR Code of Ethics in order to achieve the objectives of the profession **(20 Marks)**

END OF PAPER

SOLUTION TO QUESTION 1

PART A

Mintzberg (1973) suggested that rather than looking at the functions of managers, we should instead look at the roles they perform. Mintzberg identified ten roles that all managers perform and grouped these roles into three categories as shown in Figure 1.1.

Category	**Role**
Interpersonal Role	Figurehead
	Leader
	Liaison
Information Role	Monitor
	Disseminator
	Spokesperson
Decisional Role	Entrepreneur
	Disturbance Handler
	Resource Allocator
	Negotiator

Figure 1.1: The role of management

Interpersonal Role

A key aspect of a manager's job involves interacting with other people. In the role of **figurehead** the manager represents the organisation by performing ceremonial and symbolic activities. In the role of **leader** a manager will attempt to motivate, communicate with and influence people. As a **liaison** a manager develops relations with groups both inside and outside the organisation. These groups could include customers, trade unions and government departments.

Information Role

Information is a very important resource of any organisation. The **monitor** role refers to the acquiring of information from internal and external resources. The **disseminator** role refers to the transmitting of information to those who require it. As a **spokesman** a manager conveys information to groups outside the organisation such as the media.

Decisional Role

The **entrepreneur** role involves the manger seeking out new ways to deal with problems and find opportunities for the organisation. The **disturbance handler** role involves resolving conflicts between individuals and teams. In the **resource allocator** role the manager must make decisions on how to allocate resources such as money, people, materials and time, to best achieve the objectives of the organisation. In the **negotiator** role a manager will negotiate with various interest groups such as customers, suppliers and other managers.

PART B

Fayol (1916) wrote that all managers perform five main management functions:

1. **Planning:** Planning is an activity which involves making decision about ends.
2. **Organising:** This is concerned with dividing and coordinating tasks.
3. **Commanding:** This refers to the importance of leadership in organisations.
4. **Controlling:** Controlling involves measuring actual performance against agreed standards and taking corrective action if necessary.
5. **Co-ordinating:** This involves ensuring that all activities and groups are brought together to achieve the overall objectives.

Today these functions have been condensed down to the following four:

1. Planning
2. Organising
3. Leading
4. Controlling

1. Planning

Planning is concerned with where the organisation wants to be in the future and how it is going to get there. The planning function includes defining an organisation's goals, establishing an overall strategy for achieving those goals and developing a hierarchy of plans to co-ordinate all activities. Planning can be long term or short term and takes place at all levels in the organisation.

2. Organising

Organising generally follows planning and it refers to deciding on an organisational structure, staffing it adequately and making sure the organisation is running efficiently. Managers develop a framework of necessary tasks and available resources called an organisational structure. This structure sets out the groupings of staff organisation. In simple terms organising includes determining how tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom and where decisions are to be made.

3. Leading

Leadership involves motivating employees to achieve organisational goals. Leading entails creating a vision, communicating that vision and goals, and influencing others to achieve high levels of performance. It also involves directing the activities of others and resolving conflicts among employees.

4. Controlling

Activities within an organisation don't always go as smoothly as planned. Controlling involves monitoring employee activities to determine whether or not they are achieving targets. It involves comparing actual performance against predetermined goals and taking corrective action if necessary.

SOLUTION TO QUESTION 2

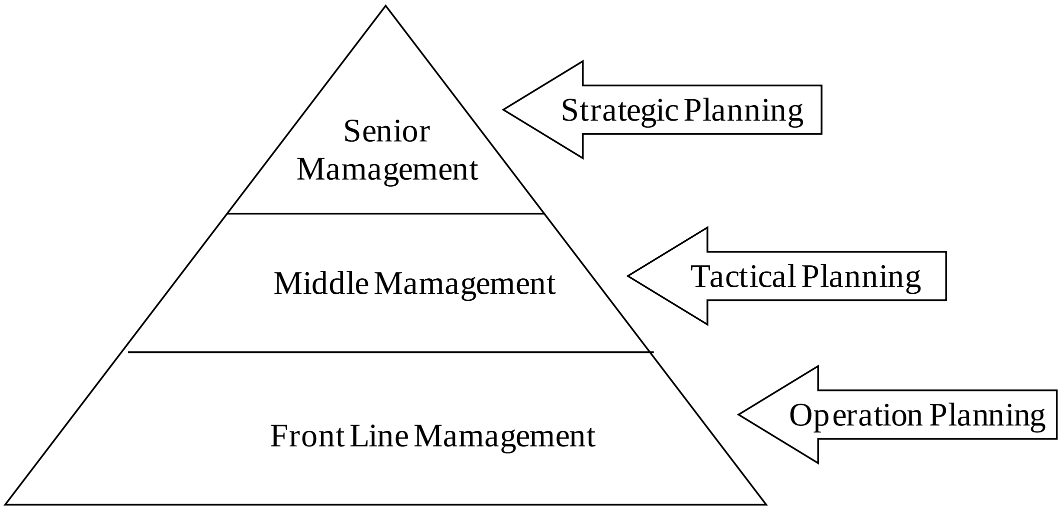
PART A

Organisational culture can be described as consisting of four layers:

- **Values:** These may be easy to identify in an organisation as they are often written down as statements about the organisation's mission, objectives or strategy. However they often tend to be vague such as "service to the community".
- **Beliefs:** These tend to be more specific but again there are issues, which people in the organisation can bring to the surface and talk about. They might include the belief that the company should not trade with a particular country.
- **Behaviours:** These are the day-to-day ways in which an organisation operates and can be seen by people both inside and outside the organisation. This includes the work routines, and how the organisation is structured and controlled.
- **Taken for granted Assumptions (paradigm):** These are the core of an organisation's culture. They are the aspects of organisational life which people find difficult to identify and explain. For an organisation to operate effectively there has to be a generally accepted set of assumptions. These assumptions can underpin successful strategies and constrain the development of new strategies.

PART B

In general there are three levels of planning within organisations as shown below.



Strategic Planning
Strategic planning is concerned with determining the major goals and mission of an organisation and crafting a strategy to achieve them. Strategic planning is normally carried out at the senior management level. A strategic plan is a long-term plan that will stretch from three to five years.

All other planning in an organisation is derived from the strategic plans.

Tactical Planning
Tactical planning takes place at the middle management level and is concerned with the various component parts of the organisation. A tactical plan is normally a medium term plan covering a period of up to 1 year. Tactical plans will be focused on achieving the overall objectives of the organisation.

Operational Planning
Operational planning is concerned with the short-term, day-to-day functions of the organisation. It is concerned with achieving the operational targets set out in the tactical plans. Operational planning is normally undertaken by front line managers and supervisors within the different functions of the business including sales, production, human resources and finance.

SOLUTION TO QUESTION 3

PART A

The challenge facing organisations is the need to become more flexible and responsive to changes in the external environment. There has been a shift from bureaucratic hierarchical forms of organisation to flatter, more adaptable ones. The changes in organisational practices can be grouped under the following headings:

- **Flatter hierarchies**: Many organisations are de-layering their management structure in an effort to speed up decision-making and communications. The widespread use of information technology has facilitated a reduction in layers of clerical management in particular. Overall, in many companies the number of managers and in particular middle management is being reduced.
- **Emphasis on teamwork**: The use of different teams from project teams to product development teams and sales teams has become a common feature in many organisations, particularly in the technology sector. The use of the team approach is an effort to improve employee commitment and motivation, thereby increasing productivity and profitability. The subject of teamwork is covered in more detail in Chapter 5.
- **More distributed responsibility and decision-making authority**: Flatter organisations have facilitated a move to delegate authority down to lower levels in the organisation than was previously possible. The emergence of teamwork has enabled decision making to be moved closer to the front line.

PART B

The High Performance Organisation
High performance organisations are structured to encourage and enable employees to deliver a high performance. Key aspects of this approach are the development of self- managed teams, decentralisation and a focus on products, services and customers. Employees are encouraged to take responsibility and also deal directly with customers and suppliers. These types of structures tend to be common in the technology sector where innovation and flexibility are needed to be able to deal with a rapidly changing environment.

SOLUTION TO QUESTION 4

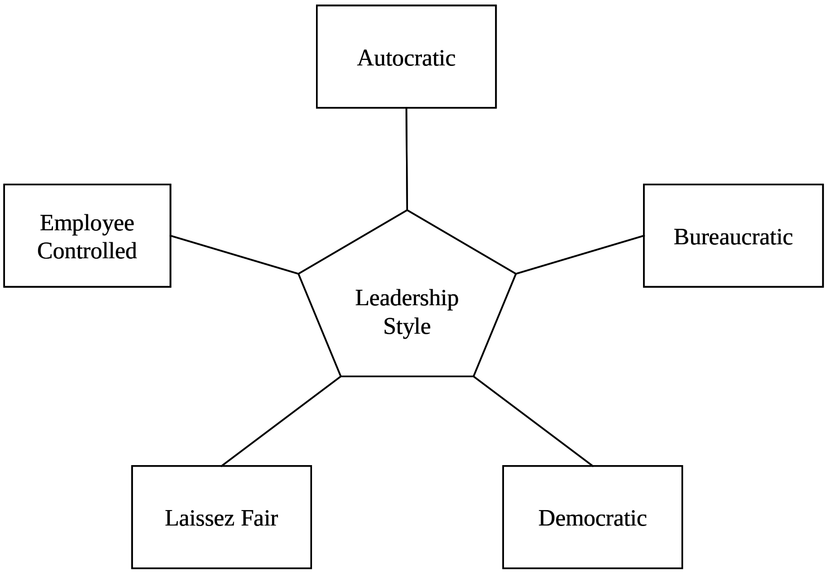
PART A

Leadership

A key role of management is to direct and motivate employees to work productively, in order to achieve the organisational objectives that have been set for them. While organisations traditionally focused on directing employees in a top down hierarchical fashion the current focus in on leading and motivating.

Leadership Styles

The fundamental difference between leadership styles has to do with where decision making rests. It is possible to identify the following five generic leadership styles as shown below.



Autocratic Leadership

This style of leadership involves making decision without consultation. Management retain high levels of power over subordinates through the issuing of orders. The dominant characteristics of an autocratic leader include:

- Decisiveness
- Dominance
- Aggressiveness
- Self-assurance
- Initiative

Autocratic leadership is most prevalent in the military and is most effective in emergency situations where absolute trust in the leaderships is required. Motivation will often be the result of fear and intimidation.

Bureaucratic Leadership

This style of leadership involves centralised managerial decision-making and is supported by rules, regulations and policies, which employees must follow. Because of the absence of flexibility, organisations using bureaucratic leadership will often find it difficult to cope with changes in the market place. The dominant characteristics of this type of leadership include:

- Stability
- Strength of conviction
- Deliberateness
- Persistence.

This style of leadership is most prevalent in large organisations and in the civil service.

Democratic Leadership

Democratic leadership involves wider participation in the decision-making process - it would involve employees having input in management decision making. The management characteristics associated with democratic leadership include:

- Flexibility
- Good communication skills
- Co-operation
- Openness

Organisations that rely on rigorous and consistent procedures for their success would have limited scope for democratic leadership.

Laissez Fair Leadership

This style involves management setting goals and objectives, and allowing employees a free reign to accomplish these as they see fit. It is most commonly seen in high tech industries; engineering, research and development and professions such as architecture, management consultancy and medicine. The managerial characteristics required for this style of leadership include:

- Understanding
- Good judgement
- Trust

Employee Controlled Leadership

In these types of organisations employees set goals and make decisions, while management deal with the administrative aspects of these decisions. An example of where this style of leadership would be used is in universities. Dominant management characteristics include:

- Responsiveness
- Tact
- Adaptability
- Flexibility

PART B

Transactional leadership:

- Leaders motivate their followers in the direction of established goals by clarifying role and task requirements.
- Leaders allocate work, make routine decisions and monitor performance.
- Works best in stable situations with routine tasks.

Transformational leadership:

- Leaders have skills to recognise the need for change and identify action.
- Associated with vision, inspiration and charisma.
- Focus on high performance.
- Works best in uncertainty and change**.**

SOLUTION QUESTION 5

PART A

Entrepreneurial ideas can come from a wide variety of sources. Examples of venture ideas include the following:

- **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 in 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 with its extensive search capabilities.

PART B

Market research enables the entrepreneur to determine whether there are people willing to buy their product or service. Essentially market research should cover the following areas:

- **Determine the market:** Who are the customers? How many are there? Where are they located? What price are they prepared to pay? Is the number of customers increasing or declining?
- **Analyse the competition:** What are the strengths and weaknesses of the competition? What products do they offer? For how much? Where do they sell?
- **Assess the environment:** How will the economy affect your business? Are there any trends in society that may influence your product e.g. green issues etc?
- **Evaluate the resources required:** How much capital will be required? How much working capital will be needed?

SOLUTION TO QUESTION 6

PART A

Fundamental Principles

1. Integrity
Integrity implies fair dealing and truthfulness.
A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:-

- Contains a materially false or misleading statement
- Contains statements or information furnished recklessly
- Omits or obscures information required to be included where such omission or obscurity would be misleading

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

2. Objectivity
A professional accountant may be exposed to situations that may impair objectivity.
A professional accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect of that service.

3. Professional Competence & Due Care
Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. There are 2 phases of professional competence:-

1. *Attainment* of professional competence
2. *Maintenance* of professional competence

The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

The professional accountant should act in accordance with the requirements of an assignment, *carefully, thoroughly and on a timely basis*. The professional accountant shall take steps to ensure that those working under the professional accountant's authority in a professional capacity have *appropriate training and supervision.*

Where appropriate the professional accountant shall make clients, employers, or other users of the accountant's professional services *aware of the limitations inherent in the services.*

4. Confidentiality
The professional accountant shall maintain confidentiality, including in a social environment.
A professional accountant shall take reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer.

Circumstances where disclosure of confidential information is appropriate:-

- Disclosure permitted by law and is authorized by the client or employer
- Evidence in legal proceedings
- Public authorities of infringements of the law
- Quality review of a member body or professional body
- Respond to an inquiry or investigation by a member body or regulatory body
- To protect the professional interests of a professional accountant in legal proceedings
- To comply with technical standards and ethical requirements

Factors to consider in deciding whether to disclose confidential information:-

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant.
- When a situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment shall be used in determining the type of disclosure to be made.
- The type of communication that is expected and to whom it is addressed
- Whether the parties to whom the communication is addressed are appropriate recipients.

5. Professional Behaviour

In marketing and promoting themselves and their work, professional accountants shall not bring the profession to disrepute. Professional accountants shall be honest and truthful and not:-

1. Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained
2. Make disparaging references or unsubstantiated comparisons to the work of others

F1.4 Business Management, Ethics & Entrepreneurship

Foundation 1

EXAMINATION FORMAT REVISION QUESTIONS & SOLUTIONS

NOTES
Answer 5 out of 6 questions. All Questions carry equal marks.

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3 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

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List on the cover of each answer booklet, in the space provided, the number of each question(s) attempted.

QUESTION 1

(a) Explain Maslow's Hierarchy of needs

(10 Marks)

(b) "STRUCTURING OF WORK "Explain any 2 of the 3 :-

- Job Enlargement
- Job Enrichment
- Job Rotation

(10 Marks)

QUESTION 2

(a) "Report Writing" describe the key steps to effective report writing

(10 Marks)

(b) Explain any **three** of the following forms of communication:-

- Videoconferencing
- Teleconferencing
- Blogs
- Social Networks
- Webinars
- Wikis

(10 Marks)

QUESTION 3

(a) Describe the stages of HR planning **(10 Marks)**

(b) Describe three forms of employee training and development **(10 Marks)**

QUESTION 4

(a) Explain any two of the following forms of business organisations **(10 Marks)**

(b) Why is Financial Planning important to an aspiring entrepreneur **(10 Marks)**

QUESTION 5

(a) Explain the approaches an entrepreneur should take in writing a business plan

(10 Marks)

(b) What are the factors an entrepreneur should investigate in obtaining entry to the market? **(10 Marks)**

QUESTION 6

(a) What are the possible threats a professional accountant in business may be subject to whilst preparing and reporting information and list three the possible safeguards.

(10 Marks)

(b) List circumstances where disclosure of confidential information is appropriate for the professional accountant in practice. **(10 Marks)**

END OF PAPER

SOLUTION TO QUESTION 1

PART A

Maslow's Hierarchy of Needs

Maslow's Hierarchy of Needs theory states that human motivation is dependent on the desire to satisfy various levels of needs. According to this theory, human needs are classified into five categories and grouped in a hierarchy with the most basic needs.

The basic assumptions of this theory are:

- Only unsatisfied needs are motivators.
- Higher level needs will not emerge until lower level needs have been satisfied.

Lower level needs are called deficiency needs and higher level needs are called growth needs.

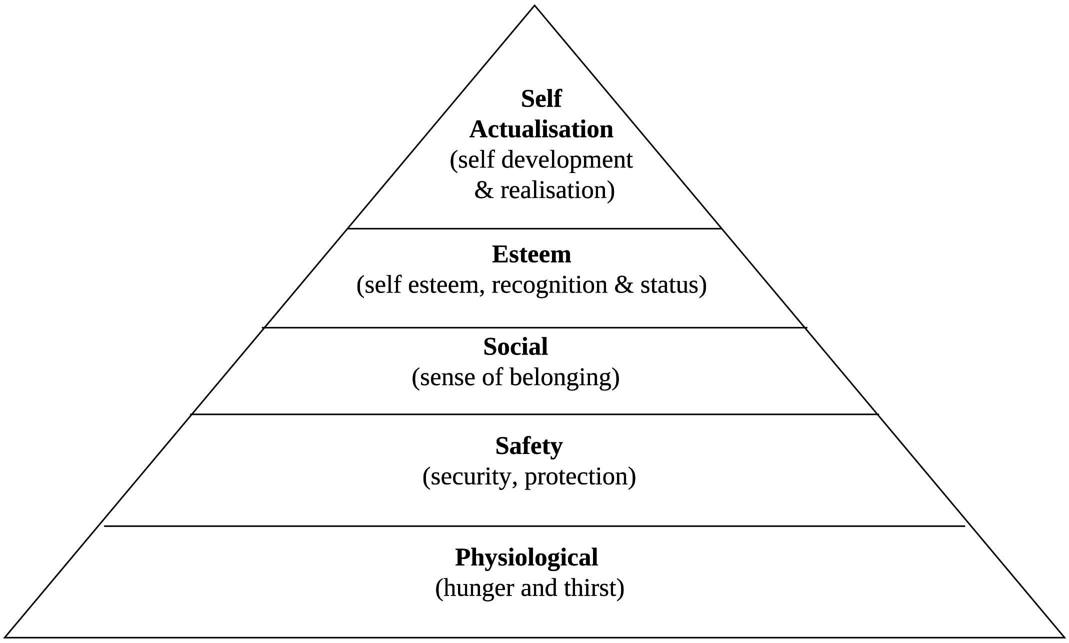
DEFICIENCY NEEDS

- **Physiological Needs**: These needs relate to basic survival needs, which allow for continued existence and include food, water, warmth and freedom from pain.
- **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 needs relate to the requirement 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.

GROWTH NEEDS

- **Esteem Needs**: These relate to the need for self-esteem and a feeling of personal self-worth. These needs become active once all the deficiency needs have been satisfied
- **Self-Actualisation Needs**: These refer to an individual's need for self-fulfilment, personal development and realising ones potential. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled. The more they are satisfied the stronger they become. Maslow believed that managers should strive to create the climate necessary to develop employees' potential to their fullest.

Although research findings on the validity of Maslow's hierarchy have not always been positive it remains useful as an introduction to needs theory.



PART B

Structuring of work

Organisations can also use job design to improve motivation by making tasks more interesting to the employees. The following are the main approaches:

- Job Enlargement
- Job Enrichment
- Job Rotation

Job Enlargement

Job enlargement involves increasing the scope of the job by extending the range of duties and responsibilities involved. Job enlargement is a reversal of the process of division of labour.

Job Enrichment

Job enrichment was developed for the advancement of the Hertzberg's 'two factor' theory of work motivation discussed earlier in the chapter. The job enrichment approach suggests that employees gain most satisfaction from the work itself and it was the intrinsic outcomes arising from the work that motivated employees to perform well in their job. Herzberg (1966) established the concept of **vertical loading.** Vertical loading involves the addition of more challenging dimensions to the job; including increasing the authority, responsibility and accountability associated with the job and at the same time reducing some controls.

On a similar line Hackman and Oldham (1980) suggested that three basic conditions necessary for promoting job satisfaction and employee motivation:

- Work should be **meaningful** for the doer.
- Doers should have **responsibility** for the results.
- Doers should get **feedback** on the results.

Hackman and Oldham identified five core job characteristics, which needed to be incorporated into job design to increase meaningfulness and feedback:

- **Skill variety**: the extent to which a job requires a variety of skills from an employee.
- **Task identity**: the degree to which a task is perceived as a unified one with a clear outcome visible from the start.
- **Task significance**: the degree to which the task has an impact on others in the organisation.
- **Autonomy**: the degree of discretion the employee has in scheduling work and determining procedure.
- **Feedback:** the amount and kind of information that is received about job performance.

Job Rotation

This approach involves moving workers from one job to another, in order to increase interest, satisfaction and motivation.

SOLUTION TO QUESTION 2
PART A

A Guide to Writing Reports
The main stages in writing a report are:

- **Defining a Purpose**: The author should be clear about:
    - Why they are writing the report
    - What to include
    - What to leave out
    - Who the readers are
- **Investigating the Topic**: This depends on the topic and purpose of the report. You may need to read, interview, experiment and observe.
- **Organising the report into sections**: Reports can be set out in eight parts but not all parts are always necessary.
    - **Title or title page**: A short report will not need a titles page, only a title.
    - **Contents list**: This is normally only needed for long reports.
    - **Abstract**: This is only needed for formal reports such as scientific research. The abstract is a summary of the report that appears in library files and journals. It is usually between 150 to 300 words.
    - **Introduction**: The introduction should be brief and answer questions such as: What is the topic? What was the method used? What is the background? What were the sources?
    - **Discussion**: This is the main body of the report. It will generally be the longest part of the report containing all the details of the work organised under headings and sub headings.
    - **Summary and conclusions**: This section describes the purpose of the report, the conclusions and how they were reached. This section is sometimes placed before the discussion section
    - **Recommendations**: The section details what future actions are required to improve the situation.
    - **Appendix**: This contains material which readers only need if they are studying the report in depth.

Note: Writers often put the summary conclusions and recommendations together and circulate them as a separate document. This is often called an executive summary

- **Order of presentation**: The following is the recommended order of presentation. However all the sections would not be required for every report, especially those shown in brackets

Long Report

- Title or title page
- Contents list
- (Abstract)
- Introduction
- Discussion
- Summary and conclusions
- Recommendations
- (Appendix)
- (Bibliography): Long reports might include research and thus a bibliography or reference page may be required.

Short Report

- Title
- Introduction
- Discussion
- Summary and conclusions
- Recommendations
- (Appendix)

- **Order of Writing**: The order of writing doesn't have to follow the order of presentation. The following approach is useful as each section helps to write the next:
    - Introduction
    - Discussion
    - Summary and conclusions
    - Recommendations
    - (Abstract)
    - Title or title page
    - Contents list
    - (Appendix)
- **Numbering of sections and paragraphs**: Sections and paragraphs should be numbered and labelled.
- **Planning the writing**: Before writing a report you will normally have to collect a large volume of information. To save time and to produce a better organised report you should make a plan for each of the main sections of your report.
- **Revision**: You should always critically read what you have written. You may have to change your structure and rewrite parts of the report so that it is clear and concise.

PART B

Videoconferencing

Videoconferencing is a live video (television) exchange between people in different locations. The main benefits of Videoconferencing are the time and costs saved by not having to travel to meetings. Videoconferencing is still quite expensive and this has tended to limit its use.

Teleconferencing

Teleconferencing is cheaper to set up and use than videoconferencing. Teleconferencing is used widely to enable groups of graphically dispersed people to communicate. It can be useful for briefing staff at short notice and also for project teams to monitor the progress of a project. It is limited in its use in group decision-making situations, unless the issues are clearly understood and there is unlikely to be conflicting views within the group.

Blogs

Blogs, which represent the earliest form of social media, are special types of websites that usually display date stamped entries in reverse chronological order. They are the social media equivalent of personal web pages and can come in a multitude of different variations; from personal diaries describing the author's life to summaries of all relevant information in one specific content area. Blogs are usually managed by one person only, but provide the possibility of interaction with others through the addition of comments. Due to their historical roots, text-based blogs are still by far the most common.

Social Networks

Social networks such as Facebook are being used to complement other communication channels such as the telephone and email. Social networks also provide the opportunity to interact and engage with customers and the wider community.

Many companies have Facebook pages to communicate new products and offers with the public. Social networks are a very cost effective way of communicating with customers and getting their feedback on products and services. Social networks have opened up another dimension of advertising to the wider community. Two of the most popular social networking services are Facebook and Twitter.

Twitter is an online social networking and micro-blogging service that enables its users to send and read text-based posts of up to 140 characters. Twitter can provide businesses a means of fast, free, up-to-date communication of products/services/offers with twitter users. Social networks and blogs are of great importance for communication in businesses involved in media such as newspapers and magazines.

LinkedIn is a business orientated social networking service that can be used by businesses to communicate with potential further employees.

Web Conferencing (Webinars)
Web conferencing services enable conferences to be shared with remote locations. The web conference utilises Internet technologies, to allow the sender to communicate in real-time with many receivers using computers. This is referred to as a multicast communication. The Web conference enables information in text, audio, graphics and video formats to share over large geographic regions. Web conferencing can be utilised for meetings, presentations, lectures and training.

Web conferences are also referred to as Webinars (short for Web seminars). Webinars are generally interactive; that is as well as allowing the audience to receive information, they can also interact with the teacher/speaker to discuss and provide feedback.

Wikis
Wikis are a type of Web site that allows users to edit Web pages or create new Web pages directly from the browser without any need use Web development tools or programming languages. Wikis can be utilised by organisations to create and store knowledge as they cost much less than formal knowledge management systems and they are more flexible and dynamic.

SOLUTION TO QUESTION 3

PART A

There are four main stages in the human resource planning process as follows:

Stage 1: Demand analysis

This stage of the process is concerned with estimating the quantity and quality of human resources required to meet the objectives of the organisation. It is based upon a thorough understanding of the organisations strategy and its implication for the workforce, planned technology change, a detailed inventory of employee characteristics (age, skill level, qualifications, performance level, etc.).

Stage 2: Supply analysis

This is concerned with estimating the quantity and quality of manpower that is likely to be available to the organisation. There are two major sources to be examined, namely, the internal labour market (existing employees) and the external labour market (the potential supply of manpower that is available outside the organisation).

Stage 3: Estimating deficit/surpluses

As a result of conducting both a demand and supply analysis, it is now possible to compare the results of the first two stages to determine whether the supply of labour available matches the demand for labour. Equally it is possible that the supply of labour exceeds or falls short of the estimates required. Depending on the results achieved at this stage of the process, the action plan will be prepared.

Stage 4: Developing action plans.

This last stage is based on the information that the preceding stages have yielded. The purpose of the action plan is to ensure that the day-to-day human resource needs of the organisation are satisfied. Plans emanating from the process will cover what the organisation must do, and how it will manage recruitment, selection, training and development, promotions etc.

PART B

Training and development is the process of improving employee performance through learning. All training and development programmes undertaken should be linked to the organisation's long-term strategy. As well as the task related skills required to implement the strategy, the focus should be on developing employees and managers to make them more productive. Training and development can sometimes be linked with the reward structure, which further reinforces desired behaviour.

The main forms of employee training and development are as follows:

- **Employee Orientation Programmes:** Process of introducing employees to the organisation and its mission, to work colleagues, to supervisors, and to the various policies, practices and objectives of the organisation.
- **On the Job Training:** The employee learns by doing or watching others directly within the workplace. On the job training also includes coaching job rotation temporary

promotions, job rotations etc. Many commentators argue that the future workplace will be a place of continuous learning not simply in the employee's initial period with the organisation.

- **Off the Job Training**: This includes internal and external training programmes to develop a variety of skills, and foster personal development, away from the immediate workplace environment. Many colleges, university and other institutions offer part time courses for those in employment
- **Apprentice Programmes:** This involves a new worker working alongside a master technician or experienced professional to learn the appropriate skills or procedures.

SOLUTION TO QUESTION 4

PART A

There are many ways in which an enterprise can get up and running. Four main types of commercial enterprises are as follows:

- Sole trader
- Partnerships
- Limited Liability Companies (Private and Public)
- Franchises

Sole-Trader

Sole traders include farmers, tradesmen shopkeepers, and individuals who trade under their own name. As these businesses grow they can become difficult to manage and they may also find it difficult to raise finance. The characteristics of this form of business include:

- **Unlimited Liability** - owner is personally responsible for all the debts of the business
- Taxation at a Personal Level – and general public does not have access to the accounts of the business

Partnerships

A partnership is defined as an association of persons, not exceeding 20 formed in order to realise profit through a business venture. Partnerships are particularly common in profession such as Law and Accountancy,

Limited Liability Companies (Private and Public)

A company is a business organisation in which ownership is transferable through the buying and selling of shares. A limited liability company is one in which shareholders and investors are liable only for debts equalling the sum invested. This is the most common form of business enterprise for medium and large sized firms. The main advantage of limited liability companies is the capacity to attract sums of capital from various sources. Other advantages include taxation of limited companies at a specific corporation tax rate usually lower than the rate of personal income tax.

The main disadvantages are that profits are paid out as dividends, and the owners may lose control of the company.

Franchises

A franchise is an arrangement whereby a franchisee is permitted by the franchiser to sell or distribute trademarked goods or services. Example McDonalds (fast food). Franchises are often seen as the simplest way of getting into business, as the entrepreneur or franchisee can draw on the expertise, support and financial assistance of the existing business. Strict rules for every aspect of the business are written into the franchise agreement to ensure the products or services offered remain recognisably those of the franchiser. There is therefore little room for manoeuvre in terms of making the business distinctive. In addition, the cost of securing a well-known franchise can be very high, and royalty payments based on sales can be challenging.

PART B

FINANCIAL PLANNING

Financial planning involves the construction of financial forecasts and the appraisal of investment opportunities and is an aid to the development of a strategic plan. Financial planning enables an integrated approach across all functions.

Financial planning is useful to an entrepreneur for the following reasons:

It indicates to the entrepreneur funding requirements for entrepreneurial activities such as:

- Financial planning ascertains when and for how long funding will be required.
- It also demonstrates what financial outcomes will result if certain paths are followed.
- It provides a method of control whereby deviations from expected performance are highlighted allowing the entrepreneur to take corrective action in time.
- It can be used as a readily available criterion for decision-making.
- It can be uses in analysing the risk associated with proposed entrepreneurial activities.
- It can also be used as a motivational device for the entrepreneur.

There are two key types of financial planning - short **term planning** or forecasting and **long term financial planning** or forecasting.

Short Term Planning or Forecasting

A number of methods are used in identifying the short-term financial requirements of an entrepreneur. These include cash flow forecasting, projected profit and loss account and balance sheets and budgets.

Cash Flow Forecasting

The cash flow forecast outlines the expected cash receipts and payments over a period of time, providing information on the projected cash position for the period under examination.

The following three elements are involved in the preparation of a cash flow forecast:

- **Preparing the cash inflow forecast:** The accuracy will depend on the reliability of the sales estimates and the expected credit terms taken by customers.
- **Preparing the cash outflow forecast:** This takes all cash payments into account, including wages, supplies, interest, etc.
- **Comparison:** The two forecasts are compared to determine whether there will be a surplus or a deficit of cash during each period. If there is a prolonged deficit, it will have to be financed through an overdraft or through some form of loan.

Projected Profit and Loss Account and Balance Sheet

A projected profit and loss account will show whether the business will record a profit or loss for the next trading period. This allows a comparison between future and current profit and losses. Action can be taken to improve the position if required. The projected Balance Sheet is based on information from the cash flow forecast. The projected Balance Sheet gives a broad picture of the entrepreneur's expected short term position, including the use and sources of finance, the debtors and creditors level, the amount of cash at hand or in the bank and the stock levels. This information is important for assessing the liquidity of the business on a short-term basis.

Budgets

Budgets provide a detailed statement of the financial objectives for the coming year. Once a budget is prepared it provides a forecast of activity. Budgets also help facilitate management control.

Long Term Planning or Forecasting

Techniques that are used in long term financial planning are called capital budgeting.

Capital Budgeting

Capital Budgeting which is sometimes referred to as investment appraisal is the planning process used to determine whether an entrepreneur's long term investments such as new plant machinery are worth pursuing.

Popular methods of assessing capital investments include net present value (NPV), internal rate of return (IRR), and payback period.

Payback Period: This method measures the time required to pay back the initial investment. Those investments that repay the quickest are often seen as the most attractive.

Net Present Value method: Net present value is the amount of money an investment is worth, taking into account its cost, earnings and the time value of money. The investment with the highest net present value amount is normally considered the most attractive

Accounting Rate of Return: The accounting rate of return on investment calculates the return from an investment by adjusting the project inflows produced by the investment for depreciation. The investment that provides the greatest accounting rate of return is considered the most attractive.

SOLUTION TO QUESTION 5

PART A

Writing the Business Plan

The purpose of writing a business plan is to show how the business is to be setup and managed. It sets targets for each phase of the development of the business, it clearly outlines the financial requirements of the business, and in addition it details the marketing strategy to be adopted.

It is often written with potential investors in mind as well as for the benefit of the entrepreneur. In general a business plan should include the following:

- An executive summary
- A description of the products or services to be offered
- An analysis of the market
- A detailed marketing plan
- A comprehensive human resource plan
- An operations plan and financial plan, including sales forecasts, financial projections, resource requirements etc.
- A capitalisation plan stating how much money the owner is putting into the business and what other finance is required.
- Details of the experience and expertise of the owner and/or management team.

In essence the business plan should show that:

- The venture is financially viable
- There is a market for the product or service
- The entrepreneur is able to manage the business

PART B

Market entry factors, which need to be considered by the entrepreneur, include:

- Finding funding sources
- Finding suppliers and distributors
- Finding suitable premises
- Recruiting and organising staff
- Acquiring machinery and technology
- Marketing and Venture launch
- Winning customers

SOLUTION TO QUESTION 6

PART A

A professional accountant in business may be a salaried employee, a partner, director, owner manager, a volunteer or another working for one or more employing organization. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. Investors, creditors, employers, and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business.

Preparation & Reporting of Information

A professional accountant in business may be involved with such information as:-

- Forecasts and budgets
- Financial Statements
- Management discussions and analysis
- Management letter of Representation – provided to auditors

Threats to compliance with the *fundamental principles*, e.g. self-interest or intimidation threats to objectivity or professional competence and due care, are created where a professional accountant in business is pressured to become associated with misleading information or to become associated with misleading information through the actions of others.

Possible Safeguards

- Consultation with superiors within the employing organization
- Consultation with audit committee or those charged with governance
- Consultation with relevant professional body

Where it is not possible to reduce the threat to an acceptable level, the professional accountant should refuse to be or remain associated with information he/she determines misleading, and it may be advisable to consider legal advice or resign.

PART B

Confidentiality

The professional accountant shall maintain confidentiality, including in a social environment.
A professional accountant shall take reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer.

Circumstances where disclosure of confidential information is appropriate:-

- Disclosure permitted by law and is authorized by the client or employer
- Evidence in legal proceedings
- Public authorities of infringements of the law
- Quality review of a member body or professional body
- Respond to an inquiry or investigation by a member body or regulatory body
- To protect the professional interests of a professional accountant in legal proceedings
- To comply with technical standards and ethical requirements

F1.4 Business Management, Ethics & Entrepreneurship

Foundation 1

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List on the cover of each answer booklet, in the space provided, the number of each question(s) attempted.

QUESTION 1

(a) What are the two broad categories of safeguards applied for professional accountants in public practice, and list four possible safeguards of each.

(10 Marks)

(b) List three possible safeguards that could be applied when a professional accountant in public practice is taking on a "specific client engagement"

(10 Marks)

QUESTION 2

(a) What are the five threats a professional accountant in public practice has to consider with new and existing clients?

(10 Marks)

(b) What are the circumstances that cause a firm to be disciplined by their professional regulatory body?

(10 Marks)

QUESTION 3

(a) What are the key steps required to set up a budget? **(10 Marks)**

(b) What are the main threats to an organisations information system and describe these threats? **(10 Marks)**

QUESTION 4

(a) What are the characteristics of effective control systems? **(10 Marks)**

(b) What are the barriers to an organisation's communication? **(10 Marks)**

QUESTION 5

(a) Describe any 2 of the 3 forms of effective communication

- Effective Listening
- Effective Writing
- Effective Meetings **(10 Marks)**

(b) Describe the 4 stages in the Product Development Life Cycle **(10 Marks)**

QUESTION 6

(a) What are the Seven Ps for service Management Strategy **(10 Marks)**

(b) Within Human Resources what are the stages of employee recruitment selection and induction? **(10 Marks)**

END OF PAPER

SOLUTION TO QUESTION 1

PART A

Safeguards

Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:-

1. *Safeguards created by the profession, legislation or regulation*
2. *Safeguards in the work environment*

E.g. Safeguards created by the profession, legislation or regulation include:

- Educational, training and experience requirements for entry into the profession
- Continuing professional development requirements
- Corporate Governance regulations
- Professional Standards
- Professional or regulatory monitoring and disciplinary procedures
- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

E.g. Safeguards in the work environment

- Leadership of the firm that stresses the importance of compliance with the fundamental principles
- Policies and procedures to implement and monitor quality control of engagements
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Having a professional accountant who was not involved with the non- assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged
- Rotating senior assurance team personnel.

PART B

Professional Appointment (Specific Client Engagement)
A professional accountant in public practice before accepting a specific client engagement shall determine whether acceptance would create any threats to compliance with the *fundamental principles*.
E.g. Professional Competence & Due Care – the engagement team does not possess the competencies necessary to properly carry out the engagement.

The professional accountant shall evaluate the significance of threats and apply safeguards, to eliminate them or reduce them to an acceptable level.

Possible safeguards:-

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed
- Acquiring knowledge of relevant industries or subject matters
- Possessing or obtaining experience with relevant regulatory or reporting requirements
- Assigning sufficient staff with the necessary competencies
- Using experts where necessary – consider: reputation, expertise, professional and ethical standards
- Agreeing a realistic timeframe for the performance of the engagement
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

The professional accountant should decline the engagement is threats cannot be eliminated or reduced to an acceptable level through the application of safeguards.

SOLUTION TO QUESTION 2

PART A

A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs or might impair *integrity, objectivity or the good reputation of the profession.*

Threats

When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into the following categories:-

- **Self – Interest Threat –** The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour.
  - *E.g.: the improper use of corporate assets or where an accountancy firm has an undue dependence on one particular client's fees or enters into a joint venture.*

- **Self – Review Threat** – The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service.
  - *E.g.: providing a service for a client that relies on previous results that the individual, firm or another professional carried out – if this situation arises such results should be double checked before proceeding.*

- **Advocacy Threat –** The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.
  - *E.g.: When a professional accountant promotes an organisations position with misleading and factually incorrect statements, or where you inappropriately promote shares of a client that you are auditing.*

- **Familiarity Threat –** The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.
  - *E.g. becoming too sympathetic to the client's needs and losing <u>objectivity.</u>*

- **Intimidation Threat –** The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.
  - *E.g... Where an individual or firm is placed under pressure to act in a certain way or feels threatened by a client, employer or third party if they do not produce the results they expect.*

PART B

Liability of Member Firms to Disciplinary Action

A member firm will be liable to disciplinary action in circumstances as follows:-

- Member firm has been guilty of misconduct whilst discharging its professional duties or otherwise
- Member firm has performed its professional duties or conducted its practice inefficiently or incompetently to such an extent that as to bring discredit to itself, the Institute or the accountancy profession
- Member firm has failed or neglected to respond adequately or at all to correspondence or other communication from an officer, the Secretary or an employee of the Institute or any person acting on behalf of any committee of the Institute or failed to co-operate fully with an enquiry or investigation being conducted by or on behalf of the Institute
- Member firm has failed to satisfy a judgment debt in any jurisdiction
- Member firm has before a Court pleaded guilty or has been found guilty of any offence involving violence or indecency, drug trafficking, money laundering, tax evasion, breach of companies legislation or complicity of any such offences or has in any criminal proceedings been found to have acted fraudulently or dishonesty, it should be presumed, unless to the contrary that such conviction or finding constitutes proof of misconduct.

SOLUTION TO QUESTION 3

PART A

THE BUDGET SETTING PROCESS

The setting of budgets generally follows a formal process with a number of distinct stages. The following are the typical steps involved:

1. **Communicate the budget guidelines to managers**: It is important that those preparing plans are aware of what the strategic objectives of the organisations are how the upcoming budgeting period will work towards them.
2. **Determine the key limiting factor**: The limiting factor will determine the overall level of activity in the business. For many organisations this would be the level of sales expected.
3. **Prepare the budget for the area with the limiting factor**: This would usually be the sales budget since the level of sales will determine the level of activity in other areas such as production, purchasing, staffing etc.
4. **Prepare draft budgets for the other areas of the organisation**: There are two broad approaches to setting individual budgets. The top down approach involves senior managers in each area setting budget targets for that area, maybe in discussion with lower level managers. With the bottom-up approach target are fed up from lower levels in the particular area. They are then incorporated into the budget
5. **Review and co-ordinate budgets**: A review is carried out by the budget committee of the various budgets to ensure they complement each other. Some negotiation and alterations to budgets may be required.
6. **Prepare the master budgets**: The master budgets are the budgeted income statements, the budgeted statement of financial position (balance sheet) and generally a summarised cash budget.
7. **Communicate the budgets to all parties**: The formally agreed budgets are given to individual managers who will be responsible for their implementation
8. **Monitor performance relative to the targets set in the budgets**: One of the main purposes of budgets is that it enables each manager’s actual performance to be compared to planned targets which are set out in the various budgets. Corrective actions can be undertaken to address any variances. Where a budget is proving to be totally un-realistic it may need to be revised, although revision of a budget is a rare occurrence.

PART B

Types of Risk and Threats

The main threats to an organisation's information systems include the following:

- Malicious software
- Hackers
- Threats from employee
- Software errors

Malicious Software

Malicious software, also referred to as **malware,** is any program or file that is harmful to a computer user. Malware includes computer viruses, computer worms, Trojan horses, spyware and keyloggers.

Virus: A computers virus is a small program or programming code that replicates itself by being copied or initiating its copying from one file to another.

Worms: A computer worm is a self-replicating virus that resides in active memory and duplicates itself but does not alter files.

Trojan horse: A Trojan horse is a program in which malicious or harmful code is contained inside what appears to be harmless programming or data in such a way that it can get control and execute some form of damage to the computer system. A Trojan can also give a hacker remote access to a targeted computer system.

Like a virus and worms, a Trojans can also harm a computer system's data or performance.

Spyware: These are programmes that are resident in computers and gather information about a computer user without their knowledge.

Keyloggers: These record keystrokes made on a computer by the person using the keyboard to discover login names and passwords, bank account numbers etc...

Hackers

A hacker is an individual who intends to gain unauthorised access to a computer system. Hackers gain access to the systems by finding weaknesses in the security protections employed by Web sites or information systems. Hackers can steal information, deface, disrupt or damage a Website or information system.

Denial of Service (DOS) Attack

This is where hackers flood a network or Web server with thousands of false requests for service in order to crash the network of server

Spoofing and Sniffing

Spoofing involves hiding of a hacker's identity or email addresses, or redirecting a Web link to a different web site setup up by the hacker. The aim of spoofing is to trick users to provide information such as login names and passwords and account information to the outsider.

A **sniffer** is an eavesdropping program that monitors network information and can enable hackers to steal information transmitting over the network.

Threats from Employee

Some of the largest threats to businesses come from employees. These can include disruptions to service, errors in data entry, accidental deletion if data and diversion of customer credit data and personal information.

Many employees forget their passwords to access computer systems or allow other members of staff to use them, which can compromise the system. Employees can introduce errors by entering faulty data or by not following instructions for processing data and using computer equipment.

Software Errors

Software errors pose a constant threat to information systems as they can cause the system to crash, or slow down operation and can lead to large losses in productivity and in some cases cause losses of data. Software can contain hidden bugs in the program code which in addition to impacting performance can open system to hackers.

SOLUTION TO QUESTION 4

PART A

Characteristics of Effective Control Systems
For an organisational control system to be effective it must be linked to the organisational strategy and be accepted by employees. The information it produces must be accurate and timely. Effective controls display the following characteristics:

- Appropriateness
- Cost Effectiveness
- Acceptability
- Focus on Critical Points and Exceptions
- Flexibility
- Reliability and Validity
- Accessibility and Comprehensibility

Appropriateness
The type of control to be used depends on factors such as the size of the organisation, the area or function to which they are being applied, and the management level that they are designed for. Controls should be aligned with the organisational structure when assigning responsibility for implementing plans and for correcting any deviations. Controls should be geared to provide relevant information only and avoid generating redundant data.

Cost Effectiveness
Control mechanisms should be designed to work in a cost effective way. The control system should save more money than it costs to implement.

Acceptability
Controls should be designed in a way that avoids causing antagonism between management and staff.

Focus on Critical Points and Exceptions
Controls should focus on significant variations and on those points that are important to the overall objectives of the organisation. A small deviation on one point could be more significant than a larger deviation at a different point.

Flexibility
The control mechanism should ideally be flexible to cater for changed circumstances. A budget would be an example of an inflexible control mechanism because of its inability to cater for changed circumstance.

Reliability and Validity
The information supplied by the control mechanism must be dependable and must measure what it claims to measure.

Accessibility and Comprehensibility
Employees should have access to feedback on their performance and should understand how the control process operates. This will make them more likely to get involved in the corrective actions suggested by the control mechanism.

PART B

Barriers to Organisational Communications
Improving organisational communications depends on identifying barriers to effective communication, which may include the following:

- **Poorly defined Channels of Communications**: The organisational structure may hinder good communications. Managers and employees may not be aware of the information needs of other sections of the organisation.
- **Organisational Culture**: The culture of the organisation may not allow for sufficient opportunities for communication to take place. Meetings may be arranged infrequently and even then they are not conducive to free speech and openness.
- **Personality Clashes**: Personality differences between individuals or rivalry between departments can stifle communications.
- **Inappropriate Choice of Medium or Presentation**: Information can be either too detailed or too generalised or the information may not be expressed clearly. A medium such as written communication is more suitable for detailed communication while verbal communication in more appropriate when persuasion and clarification are necessary.
- **Frame of Reference**: Depending on past experience, individuals may interpret communications differently. This is a common cause of breakdown in communications.
- **Jargon**: Using technical language may make communication incomplete or incomprehensible to those unfamiliar with it.
- **Communication Overload or Underload**: Too much or too little information being communicated, directly affects receiver comprehension. Too little generates a feeling of mistrust, while too much information may produce mental overload or stress.
- **Communicator Credibility**: The level of credibility a receiver assigns to a sender will affect how the receiver will react to the ideas suggested by the sender.
- **Selective Listening**: Individuals tend to selectively perceive information which reaffirms their beliefs and filter out conflicting information.
- **Withholding Information and Filtering**: The sender may withhold or manipulate information for to create a more favourable appearance. The communication may become distorted and meaningless if information is omitted.

SOLUTION TO QUESTION 5

PART A

Effective Listening
For listening to be effective it needs to be active. Active listening is more than simply listening to what is being said, it is also confirming to the speaker that their points are being understood in the way that they were intended to be. In turn, they will be more open and participative in their work. Active listening skills can be verbal and non-verbal. Verbal listening skills include:

- Summarising what the person is saying.
- Clarifying that what was said is understood, such as facts, opinions etc.
- Paraphrasing – repeating back to the speakers a little of what was said either in their own words or similar words.
- Explaining – giving an interpretation of previous statements.
- Open-ended questions to encourage further disclosure.
- Encouraging – thanking the person for their contribution.
- Silence – to encourage the speaker to continue.
- Linking – linking various statements and comments.

Non-verbal listening skills are rarely used alone and work in conjunction with and enhance verbal skills. They include facial expression, eye contact, body language, gestures, personal space and timing. There are cultural variations in how non-verbal language is used and in the meaning attached to them.

Active listening skills are very valuable but there are a number of pitfalls, which should be avoided. These include over-analysing, parroting, over-expansion, omitting, exaggerating and rushing. It is also important that the person chooses the right environment for the meeting and avoids a judgmental attitude. If the listener is trying to find a solution, they may be concentrating on what they are going to say, and not on what is being said. Good listening skills are a very important part of management. To improve on their listening skills a person needs to be aware of their present level of skills in this area, recognise the areas that need improvement and then actively work on those areas.

Writing
With the wide spread use of e-mail and other forms of electronic communication, writing remains an important method of communication. It is a particularly important skill for managers whose job will involve writing reports, memos, etc. The following points should bear in mind when writing any document.

- Keeping the words as simple as possible will make the document more understandable.
- Avoid unnecessary formality but adapt your style to the purpose of the communication.
- Be concise and specific, otherwise accuracy and clarity may be lost.

Effective Meetings

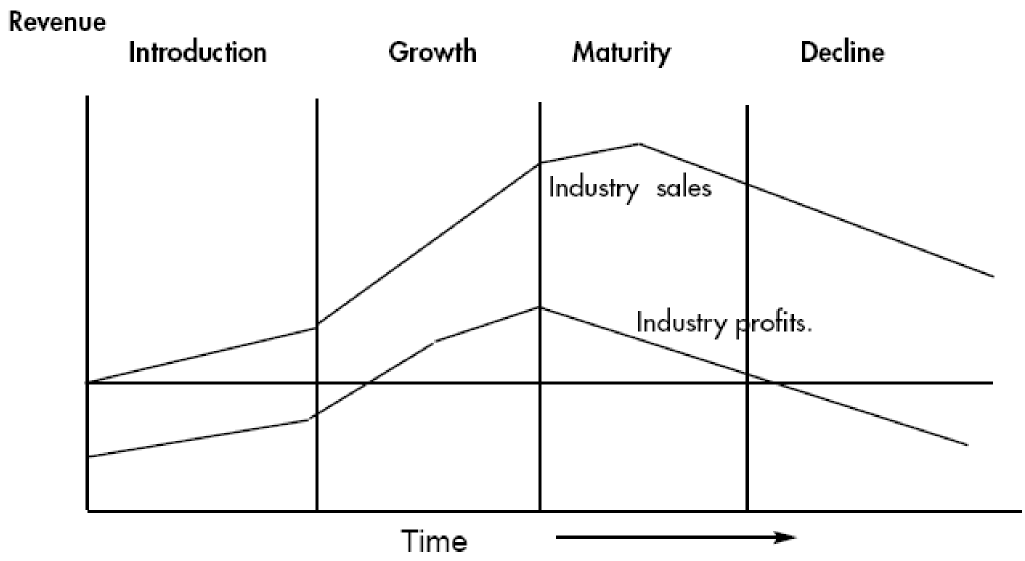
Meetings are an important means of sharing information and making decisions and those who chair them must ensure that people's time and talent are used effectively. The following are some guidelines for effective meetings:

- Make sure that the meeting is necessary and cannot be achieved by a memo or phone call.
- Set out an agenda; including items to be covered and what is expected of participants.
- Invite only those who need to attend.
- Prepare for the meeting, including a strategy on how to stimulate discussion on areas you need the meeting to focus on. Reserve your own opinion until near the end to avoid unduly influencing others.
- Give the meeting your undivided attention and avoid possible interruptions.
- Encourage participants to contribute, but keep to the agenda and avoid discussions of unrelated topics.
- Conclude the meeting by summarising the discussion, and confirm any action to be taken and by whom. As soon as possible after the meeting make out a set of minutes and distribute to participants.

PART B

The Product Life Cycle

Every product has a life cycle, from introduction to growth to maturity and finally decline. The length of a product life cycle varies from product to product. The concept of the Product Life Cycle can be used to assist managers to develop appropriate strategies for managing products depending on the stage that the product is at in its development. As the product moves through its cycle, the strategies relating to competition, promotion, place/distribution, pricing and market information must be periodically evaluated and possibly changed.



INTRODUCTION

The introduction stage is the most risky and costly. The public must be informed about the product through a promotional campaign, and perhaps given incentives to buy the product. Costs during this phase include research and development, market research, and product launch costs. The level of competition would generally be low at this stage.

GROWTH

As the product becomes known, sales will increase and consequently profits. Competition may emerge as competitors are attracted by the growth of sales. This is a critical stage for the product's survival because competition will increase greatly and will affect the product's life expectancy. Aggressive promotional pricing, including price cuts is typical at this stage. The goal is to establish the products position and to strengthen it by encouraging brand loyalty. During this stage, the product offerings may have to be expanded, and segmentation may be used to achieve greater penetration. Gaps in the marketing channels should be filled during the growth stage, and the company may move from an exclusive to a more intensive distribution. Later on, advertising expenditure may be lowered slightly from the high levels of the introductory stage, but still needs to be substantial.

MATURITY

Maturity sees the sales curve peak and should level off before it starts to decline. For those products with a large market share this is generally they most profitable stage. There will be severe competition, with many brands in the market. Competitors emphasise improvements and differences in their product. Many of the weaker competitors are likely to be squeezed out at this point. For those remaining, they must make fresh promotional and distribution efforts to ensure brand visibility is maintained. It will often require modification to the product and marketing mix. Product modification covers quality, enhanced functionality and modifications to the appearance and style of the product.

DECLINE

Demand falls as the product becomes obsolete. The choices for the company are to phase out the product or drop it immediately. If the company has continued to develop products there will be a new product ready to replace it.

The produce life cycle has implications for all firms. No business can afford to stand still even if its position is the market is strong at present. Unless a company continues to improve upon its existing products and plans for their replacement, that company will eventually be overtaken by its competitors. Consequently, companies should have many different products at various stages of the life cycle, thus ensuring the continued growth of the company.

SOLUTION TO QUESTION 6

PART A

The Seven Ps of Service Management Strategy

- Product
- Price
- Place
- Promotion
- Physical Evidence
- Process
- Participants

Product

The product in a service environment is referred to as a Consumer Benefits Package (CBP), which normally consists of a bundle of products and services. The service marketers must communicate with consumers and adapt the CBP to changing market demands.

Many factors have to be considered at the service level including:

- The range of services required to satisfy the different segments of the market
- The intangibles as well as the tangibles consumers evaluate when buying a service
- Differentiation - how to promote the distinguishing characteristics of the service that the organisation provides
- Difference between consumer and industrial markets
- Branding the bundles of benefits provided

Price

As in a manufacturing environment, many service firms base their pricing policies on cost factors alone without accounting for the dynamics of the market place and the pricing behaviour of competitors. It is important that service firms develop a flexible pricing strategy based on the purchasing power of the target market and the pricing behaviour of competitors. A service may be successful at a certain price but not at another. The main factors that determine the price of a service include:

- Market structure
- Economic conditions
- Competitive conditions
- Types of customers and their disposable income bracket
- Strategic objectives of the firm
- Legal issues
- Distribution channels

Place
Distribution and location are very important for many firms, in particular retailing, restaurants and financial services. For example the multinational retail giants will generally locate in the high street or may become anchor tenants in new shopping centres. Online shopping and Tele-shopping have become important distribution channels for service providers in recent years as it allows retailers to reach a much larger market without the expense of retail outlets.

Promotion
From a service perspective the advertising and communications strategy is vital in positioning the product/service bundle. In many instances the product/service bundle is purchased and consumed simultaneously which increases the opportunity for personal and direct selling at the point of contact. The key issues to be addressed within promotion include:

- Promotion and promotional mix
- Marketing communication
- Market research

Promotion is defined as an attempt by marketers to persuade others to participate in an exchange with them. The promotional mix is the combination of tools marketers use to promote their services and is made up of the following:

- Personal selling
- Publicity
- Public relations
- Sales promotion
- Advertising

Physical Evidence
The physical evidence relates to how the facilities are designed and managed. The key management activities in this instance are as follows:

- The interior /exterior facility layout with regard to theme, décor, lights, signage. Service encounter, cleanliness, etc.
- Employee appearance and hygiene.
- Equipment/automation convenience reliability, ease of use, attractiveness etc.
- Adequate exterior capacity such as parking facilities etc.
- Visible professional credibility e.g. licences etc.

Process
Process refers to the efficiency and effectiveness of the service process involved in delivering the product/service mix. The specific management activities from a process perspective are as follows:

- The drawing up of detailed operating procedures, manuals and job descriptions.
- Specifying procedures for customer problem resolution.
- Training on technical and procedural aspects of the job.
- Establishing standards of performance for the facility, the process, the equipment, and the jobs that deliver the Consumer Benefit Package.
- Facility design and layout to enhance customer/item movement through the process.

Participants (People)

The final P in the service environment is the Participants, which refer to the people who actually deliver the service at the point of customer contact. In essence the other 6 Ps play only a support role in a service environment. Whether it is a one-to-one basis, over the phone or via the Internet, the professionalism, politeness and credibility of the Participants are critical. The key issues to be considered here are the following:

- The use of employee reward system as a motivational tool.
- Training on human interaction skills and customer problem resolution.
- Personal Selling procedures and techniques.
- Self-service/group participation procedures and norms of behaviour.
- Simultaneous execution of technical and human interaction skills at points of customer contact.

PART B

Employee Recruitment Selection and Induction

Employee Recruitment is the process of obtaining the right people at the right time to best meet the need of the organisation. It involves finding, hiring and holding on to people who can satisfy the technical, educational and social needs of the organisation. Recruitment relies on a number of sources including promotions, advertising, employment agencies, management consultants etc.

The process of Recruitment and Selection involves a number of stages:

Recruitment

- **Manpower planning/Needs Analysis:** As part of manpower planning, a needs analysis can be used to identify staff requirements.
- **Job Description:** The vacancy is discussed with the department manager and a job description is drawn up. The job description is a detailed description of the job, which is to be carried out by the new employee, who exactly they report to, and their place in the organisational structure.
- **Attributes/Aptitudes Required:** The necessary attributes/aptitudes required of the candidate would include skill, knowledge, experience etc.
- **Establishing Conditions:** The conditions of employment, which include the type of contract, hours of work and rate of pay, are laid down.
- **Job Advertisement Drawn up**: The job advertisement is drawn up which invites interested applicants to write in for an application form or to send in a Curriculum Vita with a cover letter.
- **Advertised Internally:** A vacancy that is filled internally will usually mean promotion for the successful employee.
- **Advertised Externally:** The Company may avail of the services of an employment agency at this stage.

Selection

The purpose of selection is to select from those applicants coming forward at the recruitment stage, the one who appears most suitable for the position. Selection involves:

- **Short-listing:** Using pre-determined selection criteria a number of the original applicants are short-listed and invited to attend an interview.
- **Interview and other selection procedures**: Interviews are held to select the best person for the vacant position. The interview may be supplemented with various selection tests.
- **Offers are made**: The successful candidate is offered the position and if it is accepted the unsuccessful candidates are notified.
- **Induction and Training:** New employees will need to be inducted into the organisation and trained.