

STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2009 EXAMINATIONS

FOUNDATION STAGE

PAPER 4 : ORGANISATIONAL FRAMEWORK

(DECEMBER 2009)

TIME ALLOWED: 3 HOURS

SUGGESTED SOLUTIONS

1. (a) (iv)
(b) (i)
(c) (iii)
(d) (iv)
(e) (i)
(f) (i)
(g) (iii)
(h) (i)
(i) (iii)
(j) (iv)
(k) (ii)
(l) (iii)
(m) (iii)
(n) (i)
(o) (iv)
(p) (i)
(q) (iii)
(r) (iv)
(s) (iii)
(t) (iii)

(TOTAL : 20 MARKS)

Continued/.....

2. (a) (i) Price elasticity of demand is the degree of change in quantity demanded resulting from change in price. **1 Mark**

(ii)

	<u>OLD</u>	<u>NEW</u>	<u>% Change</u>
Quantity demanded	220,000	180,000	$-\frac{40,000}{220,000} \times 100$
			= -18%

Price	K140	K180	$\frac{40}{140} \times 100$
			= 29%

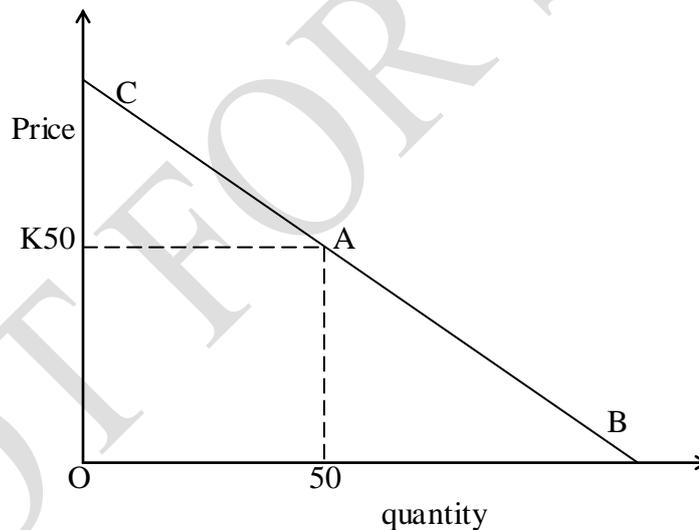
Coefficient of price elasticity of demand

$$\frac{-18\%}{29\%} = -0.62$$

ignoring the minus sign, the price elasticity of demand is 0.62 i.e. less than one which means demand is relatively inelastic.

5 Marks

(b)



- (i) The demand line has different slopes from top to bottom indicating the presence of different elasticities.

At point A, the % price change is exactly equal to the % change in quantity so that the elasticity coefficient is 1 i.e. price elasticity of demand is unitary.

1½ Marks

The upper part of the curve is steeper than the lower part indicating that it takes a relatively large change in price to bring about a relatively small change in quantity demanded. Elasticity is relatively inelastic.

1½ Marks

The slope of the lower part of the curve is flatter, meaning a small change in price generates a relatively large change in quantity demanded. Elasticity is relatively elastic.

1½ Marks

4½ Marks

(ii) Some of the decisions made through the concept of price elasticity of demand are:

- Product pricing; elasticity helps business people to know how consumers will react to price changes. **1½ Marks**

- It helps in assessing the response of sales revenue to price changes.

1½ Marks

- Taxation – determining how much tax should be imposed on a product.

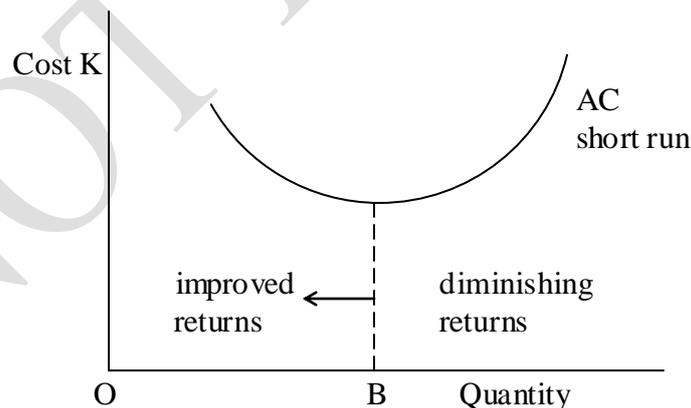
1½ Marks

(TOTAL : 15 MARKS)

3. (a) In economic theory of the firm, the short run refers to a period during which at least one factor of production is fixed in supply. The cost of one factor of production is fixed whereas the other factors can be varied. The total cost (TC) of production is the sum of fixed costs (FC) and variable costs (VC) i.e. $TC = FC + VC$. **2 Marks**

$$\text{Average Cost (AC)} = \frac{FC + VC}{Q}$$

The average cost has a U shape because as output increases the fixed component of the Average cost becomes smaller and smaller as it is spread among more and more units resulting in improved returns. **2 Marks**



2 Marks

A point B will be reached beyond which the combination of fixed costs and variable costs become inefficient. For example, the workforce becomes too large for effective supervision or there are huge overtime payments or crowding makes production inefficient. After the lowest point on the AC i.e. Point B diminishing returns will set in. In the short run, existing capacity therefore limits any effort to reduce costs and maximise profit. **2 Marks**

In the long run all costs are variable so that factor combination can be achieved in many ways. Capital in the form of different sizes of factories or machines can be combined with any sizes of labour force or materials to achieve economies of scale.

1 Mark
9 Marks

(b) (i) In the long run (LR) Average Cost (AC) decreases at first because of the economies of scale. But as the firm continues to expand its production, it eventually encounters diseconomies of scale. Economies of scale arise from:

- Technical economies; increase in production resulting from increased efficiency in the use of resources. **1 Mark**
- Specialisation; breaking down production processes into component parts so that work becomes specialised. **1 Mark**
- Growth of the firm. **1 Mark**
3 Marks

(ii) Diseconomies of scale are the negative effects of large scale operations in the long run. These may arise from:

- Too much specialisation which alienate the worker from the end results of his/her effort. **1 Mark**
- Poor supervision. **1 Mark**
- Absenteeism and industrial strife. **1 Mark**
- Systems breakdown. **1 Mark**
- Communication problems. **1 Mark**

Any 3 =

3 Marks

(TOTAL: 15 MARKS)

4. (a) An economy is a composition of systems of subsystems of production, distribution and consumption of goods and services. Economic systems are known by systems of control e.g.

1 Mark

- market economies: where factors of production are owned and controlled by private individuals. **1 Mark**
- planned economies: where production decisions are made by government. **1 Mark**
3 Marks

(b) Candidates are required to answer any three;

(i) Economic Growth

Economic growth is an expression of change in the welfare of a nation. It is measured quantitatively as change in the Gross National Product (GNP) per head of a country's population i.e. per capita income. **1 Mark**

Economic growth is classified into:

- Actual economic growth measured as the annual percentage increase in the nation's output. **1 Mark**
- Potential economic growth the rate at which the economy would grow if all resources were utilised. **1 Mark**
- Sustainable growth

Growth that ensures future further growth resulting from new investment, proper management of natural resources and technological development. **1 Mark**

4 Marks

(ii) Economic Productivity

It measures the efficiency with which inputs are utilised. It is measured as the ratio of input to output. It measures how many units of a resource such as labour, materials, capital produce one unit of output.

Productivity is said to be low if a large amount of an input resource is required to produce one unit of output and vice versa. Productivity is influenced by technology, skilled workers, high morale among workers and efficient management of resources.

$$\text{Productivity ratio} = \frac{\text{Units of output}}{\text{Units of input}} \times 100$$

4 Marks

(iii) Exchange rate

An exchange rate is the price of one country's currency in terms of other currencies. It is the number of units of a currency a country requires to obtain one unit of another currency e.g. 250 Malawi Kwacha to obtain one British pound sterling. There are three types of exchange rates:

- Fixed rate: one which is set at a certain price and is kept at that price by government.
- Managed exchange rate controlled by the Reserve Bank.
- Floating rate – determined by the market forces of supply and demand.

Exchange rates are influenced by:

- The rate of inflation
- Interest rates
- The balance of payment
- Speculation
- Government policy.

4 Marks

(iv) Money

Money is anything that is generally accepted as a medium of exchange. It is the prime mover of any economy and acts as an expression of factor reward.

Money serves as:

- A medium of exchange
- A measure of value
- A store of value
- A standard for deferred payment.

Money is generally required for:

- speculation and for
- transactions.

4 Marks
15 Marks

5. (a) Gross National Product by the Expenditure approach

	K million
Personal consumption (C)	473
Gross private domestic investment (I)	82
Government purchases of goods (G)	141
Net exports	<u>14</u>
Gross National Product (GNP)	<u>710</u>
$C + I + G + M$	

4 Marks

(b) Gross National Product by the income approach

	K million
Wages and salaries	421
Wage and salary supplements	26
Rent	20
Interest	16
Proprietors income	48
Corporate income taxes	33
Dividends	29
Undistributed Corporate Profits	22
Depreciation	46
Indirect business taxes	<u>49</u>
Gross National Product	<u>710</u>

10 Marks

- (c) The GNP calculated under the expenditure approach is the same as that calculated under the income approach because all incomes are spent in one way or another.

1 Mark**(TOTAL : 15 MARKS)**

6. (a) Case analysis

- (i) Management has already decided how many and who they want to eliminate (the three secretarial positions). The work study exercise is just a cover up. **1 Mark**
- (ii) The study is affecting the entire organisation when the number required to be dismissed is very small. **1 Mark**
- (iii) Management is not co-operating with staff. The method has created animosity between management and staff. **1 Mark**
- (iv) The method used to assess efficiency in the organisation is not appropriate and will not produce the desired information. **1 Mark**

In conclusion the problem is the use of a wrong method to reduce staff which has created conflict.

1 Mark**5 Marks**

(b) System evaluation

- (i) Whistle blowing, like bell ringing, gong banging, clock cards and registers, is a method of ensuring that a worker is physically present. It can not measure efficiency in performance as a worker can be physically present but doing nothing.

Whistle blowing is commonly used in prisons to enable wardens carry out head count of prisoners. That is why the workers are finding John Mwale's system degrading. **1½ Marks**

- (ii) The number of times the whistle is blown is too much. Seven times a day suggest an average of one blow every hour. An employee has to stop work and fill a form every hour.

The system is indeed disruptive, time wasting and cost ineffective.

1½ Marks

- (iii) In the end, the forms have to be analyzed. There is going to be a large number of forms, information not comparable as people are bound to be doing different tasks.

1½ Marks

- (iv) Finally the study is involving the whole organisation rather than a segment. Mwale does not give reasons for targeting the secretarial group. The hiring of a whistle blower defeats the spirit of reducing costs.

1½ Marks

6 Marks

(c) Staff appraisal

John Mwale should have carried out a staff performance appraisal. Staff performance appraisal is a systematic continuous measure and assessment of an employee performance over a given period with the aim of identifying performance weaknesses and strengths for purposes of selection, promotion or reward. John should:

1½ Marks

- (i) Restructure the organisation to determine which department need reducing .

1½ Marks

- (ii) Set supervisors to monitor performance.

1½ Marks

- (iii) Assess the performance to determine who has not met the targets. John would then rank the appraised in order of performance.

1½ Marks

6 Marks

(d) Most of the employees are not likely to be honest in reporting their activities because:

- (i) There is already growing animosity between workers and management so that the workers would not want to see the system succeed. Giving wrong information is a form of showing solidarity with the targeted secretaries.

1 Mark

- (ii) Most employees are likely to inflate their activities for fear of being eliminated.

1 Mark

- (iii) The constant stoppages caused by the whistle blows mean that workers are not able to complete a task at a time.

- (iv) Filling the forms must be boring and workers are likely to report what they think will please management.

1 Mark

Any 3 =

3 Marks

7. The historical development of management started in the early part and developed in the second half of the twentieth century. Prior to this, businesses were managed by owners relying basically on experience. The spread of the industrial revolution meant that businesses grew requiring employed managers.

The separation of ownership from management led to the growing development of management as a profession and the need for management principles. The development of management has gone through the following steps. **1 Mark**

(i) The Classical Approach

The earliest researchers on management sought to find ways of improving efficiency on performing jobs. They felt that there must be one best way of performing a job that would produce the best results. This led to what was known as scientific management. **1 Mark**

Scientific management was first developed by Fredrick W Taylor and Lillian Gilbreth. They studied how efficiency would be enhanced through tools, motions, jobs and the worker. **1 Mark**

Classical organization theory

Another writer Henri Fayol sought to find out how efficiency could be achieved through improvement of business activities. Fayol divided business activities into six categories such as technical, commercial, financial, security, accounting and managerial. **1 Mark**

Fayol also developed techniques which he felt could be applied to many business. These later came to be known as Fayol's principles of management. **1 Mark**

(ii) The Behavioural Approach

As time passed, researchers found that much attention had been placed on the technical aspect of the job. It was time to study the human side. Researchers such as Elton Mayo started studying the relationship and effect of the environment on worker performance. Notable in behaviour approach are Abraham H Maslow who, in 1943, developed the theory of motivation and the "hierarchy of human needs" concept. This relates satisfaction to needs. **1 Mark**

(iii) The management science approach

The discovery and development of the computer brought new dimensions to the study of management theory. Because of the ability to compute fast and large amount of information, an era of decision making using computers ushered in researchers such as McGregor, Drucker and Herzberg are renowned for their contribution towards management science. **1 Mark**

(iv) Integrative Approach

This is a management approach that tries to combine all management theories. There are two integrative approaches i.e. **1 Mark**

The Systems Approach

The systems approach involves looking at an organisation as a set of parts related to accomplish a common good. The systems approach is associated with such writers as D Koontz. They believed that the working of a system **1 Mark** is more important than the part. This therefore emphasizes management interrelationships. Another integrative theory is what is known as the contingency approach.

Contingency Approach

This theory is attributed to researchers such as Follett and Fred E Fieldler. These refuted the “one best way” theory noting that every situation **1 Mark** requires a different approach to management. It is therefore known as a situational theory. Models on leadership styles emphasize the fact that **1 Mark** each situation determines a specific type of leadership.

(v) Contemporary Management

Modern management is characterized by the complexity of activities and developments in the business activities. Factors such as automation, globalization, liberalization, environmental changes have greatly affected management styles. For example **1 Mark**

- Automation has greatly changed production processes hence management.
- Globalization has changed marketing and capital movement **1 Mark** world-wide.
- Communication has changed inter and intra company relationship.
- Jack Welch, former Chief Executive Officer of General Electric proposed the establishment of a boundaryless organisation.

15 Marks

8. (a) Planning is the process of determining ahead of time what one wants to achieve and how to achieve it. A plan is a qualitative or quantitative expression of what one wants to achieve in a foreseeable future and what should be done to achieve it. **2 Marks**

(b) Planning is beneficial because:

- (1) It provides direction; one is able to think ahead about what they want to do.

- (2) It helps in formally allocating resources.
 - (3) It helps by providing written information for future action.
 - (4) It helps in communicating ideas throughout an organisation.
 - (5) It encourages development of performance standards and subsequent improvement in standards.
 - (6) It motivates staff by giving challenging and realistic goals to employees.
- Any five = 5 Marks**

(c) The Planning Process

The planning process begins with:

- (1) Establishing goals and objectives.

Goals are general statements of intent e.g. "I want to start a business after I retire". Objectives are specific, mostly being quantitative, indicating a particular ability, knowledge or condition necessary for its achievement.

1 Mark

Objectives must be:

- Measurable and time-bound for one to be able to verify their achievement.
- Related to the needs of the organisation.
- Challenging but achievable.

3 Marks

- (2) Forecasting

Forecasting is the process of "looking" into the future and attempting to predict future needs. Future needs must relate to specific items such as:

- equipment: what type, how much, source etc.
- personnel: how many, what skills, what training
- facilities: how much space, fixtures, furniture, storage
- work: methods and processes including materials.

2 Marks

- (3) Developing Action Plan

An action plan describes how objectives are to be accomplished. What specific actions, activities and tasks must be performed.

1 Mark
8 Marks

9. (a) The 4Ps of marketing stand for the utilities of satisfaction of consumer needs i.e.

Product - that which is to be consumed or used.
 Place - where and when the product is to be found (distribution).
 Price - value of the product.
 Promotion - knowledge about the product.

A marketing manager seeks to satisfy consumer needs through the provision of these Ps. **5 Marks**

- (b) SWOT stands for strengths, weaknesses, opportunities and threats. These are internal and external attributes of an entity and its environment such as an individual person, product, business or asset. The entity or product has strengths and weaknesses. It is, however, affected or influenced by opportunities and threats found in its environment. Managers compare the internal factors i.e. strengths and weakness with the external factors i.e. opportunities and threats to determine appropriate courses of action i.e. decision making. **5 Marks**

- (c) Stakeholders are interested parties in a business entity. There are internal stakeholders: people inside the organisation who undertake the running of the organization e.g. employees and management. There are also external stakeholders: those groups of people who influence the running of the organization. Their businesses are, in turn, dependent on the operations of the entity. For example, customers, suppliers, financiers, government.

The success of a business is influenced by management's ability to balance the interests of various stakeholders. **5 Marks**

- (d) Ghant Chart

A Ghant Chart is a table that shows period against the activities or tasks that must be undertaken during a certain period or project. Like CPM, it enables management to plan and visualize activities which can be undertaken during the same period. It also helps to show which activities should precede which, as follows:

ACTIVITY	JAN	FEB	MARCH	APR	MAY
Planning	█				
Call meeting		█			
Design		█	█		
Purchase of material			█	█	
Clear size			█	█	
Foundation				█	█

While CPM shows sequence and period taken to complete a project, the ghant chart shows when these events would take place. **5 Marks**

- (e) Labour turnover is a measure of the number of employees being recruited and leaving an organization during a period of time as a percentage of the total labour force.

Rate of labour turnover is found by

$$\frac{\text{No. of Replacements}}{\text{Average No. of employees in period}} \times 100$$

Labour turnover may be caused by

- Poor remuneration packages and poor working conditions.
- Poor relationship between management and staff.
- Dismissals.

5 Marks

ANY THREE = 15 MARKS

END