

STRICTLY CONFIDENTIAL

**THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI**

2013 EXAMINATIONS

FOUNDATION STAGE

PAPER 4: ORGANISATIONAL FRAMEWORK

THURSDAY 5 DECEMBER 2013

**TIME ALLOWED : 3 HOURS
2.00 PM - 5.00 PM**

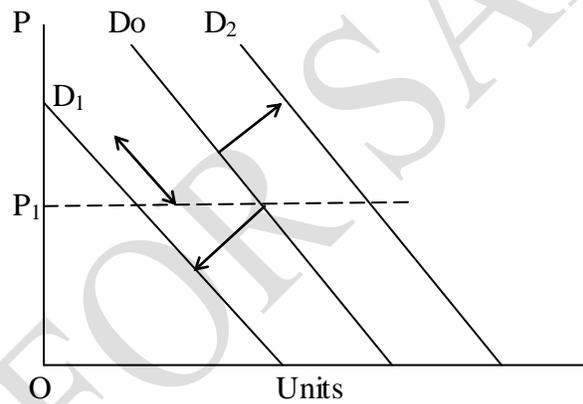
SUGGESTED SOLUTIONS

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

SECTION B

Answer ONE question ONLY from this Section

2. (a) (i) Demand is the quantity of goods or service which buyers are willing and able to buy during a particular period under a given set of conditions i.e. a set of variables.
- (ii) A demand curve is that part of the demand function which expresses the relationship between price charged for a product and the quantity demanded holding constant the effects of all other independent variables expressed above. It is a graph in which all the independent variables are assumed to be constant except price.
- (iii) The Demand Curve



1. The demand curve slopes downwards to the right indicating that quantity demanded increases or decreases with decreases or increases in price respectively.
 2. The demand curve can shift up or down indicating an increase or decrease in quantity without corresponding change in price.
 3. Movements along a demand curve represent changes in quantity responding to changes in price.
- (b) (i) A demand function is a statement that specifies the relationship between the quantity of a good demanded and the factors that determine this quantity i.e. the independent variables such as prices, consumer incomes, population, advertising expenditure.

A demand function may be written as:

$$Q = a_0 + a_1P + a_2Y + a_3\text{Pop} + a_4C + a_5A + \dots$$

(ii) The meaning of the parameters:

Q = quantity demanded

$a_1 - a_5$ = Parameters of variables that affect demand

P = price

Y = Disposable income

Pop = population

C = index of credit terms

A = advertising expenditures

Estimation of demand using demand function

$$\begin{aligned} Q &= -3000P + 1000Y + 0.05\text{Pop} + 1,500,000C + 0.05A \\ &= (-3000 \times \text{K}3000) + (1000 \times \text{K}2000) + (0.05 \times 20,000,000) + \\ &\quad (1,500,000 \times 1) + (0.05 \times \text{K}100,000,000) \end{aligned}$$

$$= -9,000,000$$

$$2,000,000$$

$$1,000,000$$

$$1,500,000$$

$$5,000,000$$

$$Q = \underline{\underline{500,000}} \text{ chickens}$$

3. (a) A production function is a statement which relates inputs to outputs of production. It specifies the maximum output that can be produced with a given amount of inputs or the minimum quantity of inputs necessary for the production of a given level of output if inputs are used efficiently.

A production function representing two factor inputs can be drawn as $q = f(x, y)$ where x and y are factor inputs.

The production function is determined by the technology available to the firm so that the input/output relationship for a production system is a function of the technological level of the firm's plant, equipment, labour and materials.

- (b) "Returns to scale" and "factor productivity" (Return to a factor) are two types of production function relationship. Returns to scale refers to a relationship where all inputs can be varied together. This is a long-run situation where all inputs can be varied thereby affecting the operating capacity or scale of the firm.

Factor productivity is an output/input relationship where only one of the input factors can be varied. This is a short-run analysis which assists in determining the

At the lower levels of output, marginal cost is lower than Average Total Cost (ATC) and Average Variable Cost (AVC). As output increases, MC increases fast rising above the AVC and ATC.

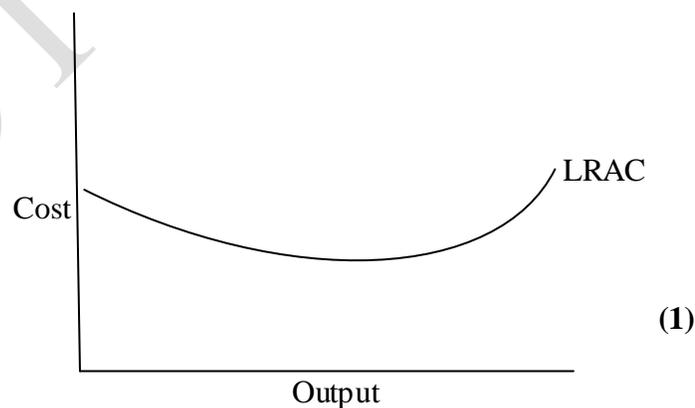
It shows, therefore, that as a firm increases output, Average Fixed Costs decrease as more and more units are sharing the fixed costs.

The average variable costs decrease and then increase because of the increasing variable costs. The marginal costs rise higher than the AVC because additional VC at higher levels of output are high.

Long Run Costs

The long-run is a period of time long enough for a firm to vary all its input resources that it uses. In the long-run all costs are variable. A company may wish to increase its production capacity by increasing the size of its plant. There is, therefore, no distinction between Fixed and Variable costs in the long-run.

While short-run costs are influenced by the law of diminishing returns, long-run costs are not. Rather they are influenced by economies of scale as follows:



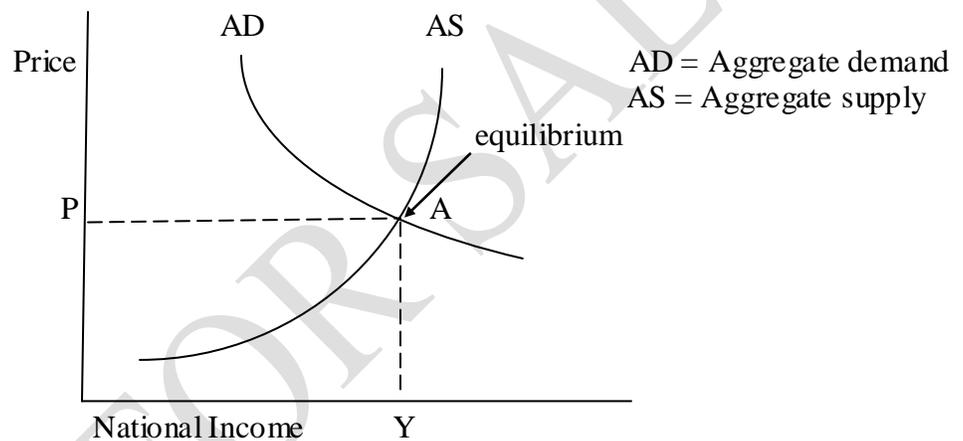
Long-run average costs decrease at first as output is increased through large scale production. As a firm continues to expand, it encounters diseconomies of scale and long-run average costs begin to increase.

SECTION C

Answer ONE question ONLY from this Section

4. (a) Aggregate demand is the total demand for goods and services in an economy. It is the nation's total planned spending at a given price level. The aggregate demand curve slopes downwards to the right because at lower prices, higher quantities of goods are demanded and vice versa.

Aggregate supply is the total amount of goods supplied at a given price level. The supply curve slopes upwards to the right. It will reach a certain optimal level of output where it rises vertically. Suppliers want to supply more at higher prices and less at lower prices.



- (b) Aggregate demand is influenced by the following:

- consumption
- levels of investment
- Government policy.

Aggregate supply is influenced by the following:

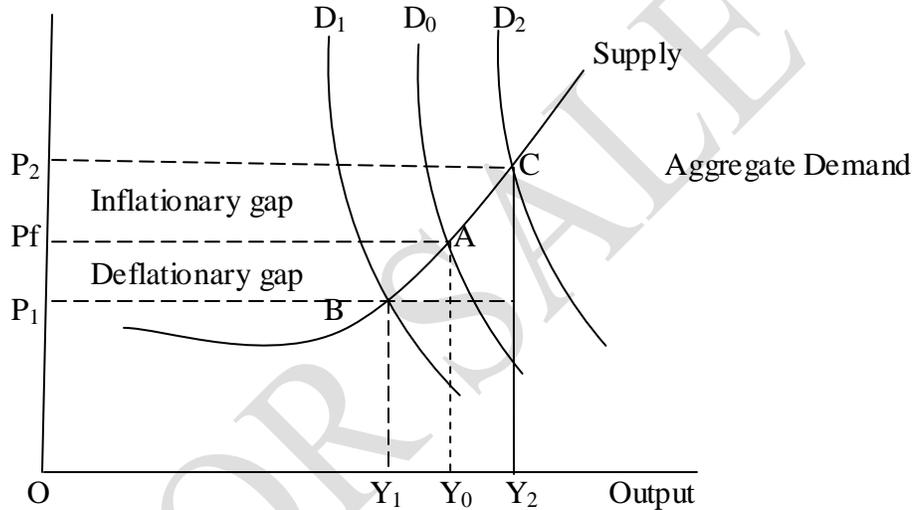
- production costs
- availability of production factors and technical skills.

(c) (i) Inflationary gap

Where resources are fully employed, an increase in aggregate demand will create a gap as shown in the diagram, below.

(i) Deflationary gap

Similarly where some resources are not employed, there will be a gap between the equilibrium level at full employment and the point where aggregate demand crosses AS.



At point A, the economy is at full employment.

At point B resources are not fully employed. The demand curve would have to move upwards in order to achieve full employment.

At point C, there is an inflationary gap because demand is higher than supply.

5. (a) (i) Inflation is defined as a persistent increase in the general price level of goods and services.
It is measured as a change in the price index of the cost of a given basket of goods representing the purchase of a typical urban consumer.

$$\text{The price index } I = \frac{\text{Price in period } i}{\text{Price in base period}} \times 100$$

Base period is considered as the starting point while period i represents the current period.

- (ii) Unemployment is the extent to which the available labour force is utilized.

It is measured as the ratio between the number of people in the labour force and those unemployed.

$$\text{Unemployment Rate} = \frac{\text{Number of people unemployed}}{\text{Number in labour force}}$$

(b) The relationship between inflation and unemployment is determined by the form of responses businesses make to price increases as follows:

- Increase in money supply

When many people are in employment (low unemployment), many people have money thereby increasing aggregate demand. If this AG is not met by a corresponding aggregate supply, there will be “too much money chasing too few goods” i.e. rising prices leading to inflation. The opposite might be true; that when there is high unemployment, many people have no money hence there will be a low rate of inflation. These are known as:

- (i) Demand – pull factors

In trying to meet the increased aggregate demand, aggregate supply will be increased and in the process lead to an increase in factors of production and wage increases to compensate for increased production. It can therefore be said that under conditions of demand – pull, inflation can only exist when unemployment is low.

- (ii) Cost – push inflation

This type of inflation occurs when the cost of factors of production rise regardless of whether or not they are in short supply. For instance, employees may seek wage increase to compensate anticipated price increases. This automatically forces employers to raise prices as well as cut down on labour force thereby increasing both unemployment and inflation.

It can therefore be concluded that when inflation is demand pull, inflation and unemployment will move in the opposite direction.

Under cost-push inflation, inflation and unemployment move in the same direction.

- Interest rates

Similarly, under the monetarist view, a reduction in the interest rate will reduce inflation by reducing growth in money supply.

Different types of unemployment also affect inflation differently. For instance, seasonal unemployment allows people to have money during one period but not another.

6.

SECTION D

Answer Question 6 and any other TWO questions

CASE STUDY

(a) Matilda Balala is both a problem and an opportunity to the organization:

1. Problems:

Although she is a supervisor, she breaks and does not observe rules and regulations of the company. For instance, she is often late or absent from work.

- A supervisor or leader of any kind is supposed to set a good example because:
- Rules and regulations are set in order to standardize and check behavior in any group. Any person who deviates from or acts contrary to set standards ought to be disciplined or punished.
Malty is promoting anarchy by setting her own standards.

2. She observes no limits and boundaries of work and authority. Every person has a job description that specifies what to do. Malty's behavior undermines the authority of people in other departments.

3. Malty does not plan her work, keeps no records, and presents no report to her boss.

- Planning is important for any job. It is a way of establishing and communicating objectives to other members of the organization.
- Plans provide mechanisms for continuity. In Malty's absence, no one would know what to do since it is "all in her head".

Opportunities

Matilda Balala is an asset to the organization.

1. Good communication skills

Although she gets on other peoples feet, she has a way of making everybody "love her". She has good communication skills that allow her achieve what many people would not, under such conditions.

2. Customer relation

Malty has a “natural” attraction even to customers. This helps the hotel to obtain trade without having to advertise. Employees are required to present a positive image of their organization.

3. High performance

She is a high performer and helpful to others. Subordinates find her approachable and helpful when they need assistance. Malty is more interested in output and cares less as to how it is achieved.

- (b) Organizing is the process of grouping the activities to be performed into manageable components and assigning them in such a way as to achieve the organization’s objectives.
- (c) With respect to Maltilda Balala the following management principles have been violated:
- (i) Division of work
Work should be divided to provide specialization and achieve efficient use of labour.
Maltilda Balala observes no limits to division of work.
 - (ii) Authority/responsibility parity
Authority should be related to the amount of responsibility one has. Malty seems to have extended her authority beyond her job.
 - (iii) Discipline
This is important for developing obedience, respect and application of energy.
Malty is not disciplined. She does things the way she thinks is right.
 - (iv) Unity of command
Workers should receive orders from one person only.
Although helpful, Malty is creating confusion by extending her performance.
- (d) In dealing with Maltilda Balala, I would consider the following factors:
- (i) Maltilda is indeed an asset to the organization in that her department performance is superior. She gets things done and does them efficiently. However, her technique is detrimental to the future development and growth of the business.

- (ii) Her excellent performance is due to her personal charisma which would not remain if Malty goes away.
- (iii) Lack of documentation and planning mean that there would be no continuation of what is happening now.

Conclusion

I think that it is more beneficial to the company to keep Malty than fire her. The weaknesses reflected in points (i) and (iii) can be corrected through discussion and training for Malty.

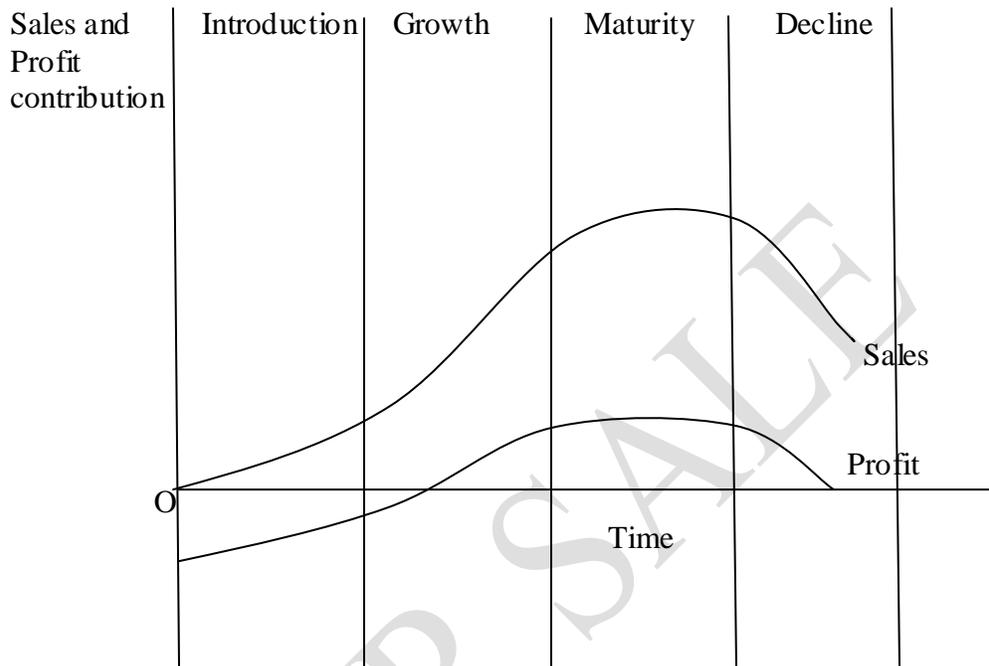
7. (a) A product life-cycle is a description of the stages in the life of a product from its inception to the end. This can be within a period of one year, longer or less than a year.

It is expressed in terms of sales volume and profit for a product over a given period. A product is said to go through four distinctive stages:

1. Development and introduction stage where sales are low and the product is making a loss.
2. Growth stage
Where sales are increasing at a fast rate and the product begins to make profit.
3. Maturity stage
Where sales increase but at a lower and lower rate. Profit begins to decline.
4. Decline stage
Sales begin to decline as well as profit.

The diagrammatic presentation of a product life-cycle is as follows:

Product Life Cycle



(b) Product life cycle may be used by management in the following ways:

1. Helps in forecasting the level of demand for a product over a given period.
2. It helps in identifying external determinants of demand which are outside the control of the firm.
3. It helps management in developing product policies that may prolong or change the direction of a product.
4. It is used by marketers in determining sales promotion activities.
5. Helps in determining consumer attitude.

8. (a) (i) According to Tannenbaum and Schmidt, leadership can be portrayed on a line continuum of two extremes with variations in between ranging from 1 to 7.

1 is an authoritarian or autocratic leader who makes all the decisions.

7 is a *laissez faire* leader who lets subordinates make their own decisions.

The continuum is a balance between authority and freedom of workers.

(ii) Factors to consider in choosing a leader:

The theory holds that different situations require different leadership styles and that each style is determined by:

- the nature of the leader
- the nature of the subordinates
- the environment

(b) (i) According to the continuum theory, the first situation is representing an authoritarian (autocratic) leader. He has absolute authority and allows no freedom to employees. The second situation portrays a democratic leader i.e. 4 on the continuum theory spectrum. The leader has authority to make tentative decisions subject to change. The choice of a style will depend on the situation.

(ii) The consequences of the first situation are that there will be no input of employees to the decision. The employees will simply do what they have been told to do by the supervisor and no more or no less. The consequences of the second situation are that the employees can make an input to the decision by expressing their views about it. The decision can therefore be changed to accommodate the views of the employees.

(c) Power is the ability to influence the behavior of other people.

Power can be classified into:

1. Reward power – the ability to provide others with what they need.
2. Coercive power – ability to punish or block someone's progress.
3. Legitimate power – power obtained as a result of attained responsibility.
4. Expert power – arising from one's knowledge, skill or expertise.
5. Referent power – derived from personal pleasant traits i.e. personality charisma.

9. (a) Management is defined as the process of achieving objectives through people.

Objectives are defined as the desired end result of an activity.

Management by objective thus is the process of getting people to do something through objectives. Under this process, objectives are established through negotiation between subordinates and management. Results are measured by the level of goal achievement and performance appraisal focus on goal achievement.

Management by objectives presumes that employees are motivated to work by the desired objective.

- (b) A good objective must have the following characteristics:
1. Understood by those who will achieve it.
 2. Must be quantifiable and measurable.
 3. Be time bound i.e. achievable within a specified time.
 4. Specified conditions under which it can be achieved.
 5. Innovative, challenging but achievable.
 6. Consistent with other organizational objective.
- (c) Objectives are classified into primary and secondary. Primary objectives in a business organization include:
1. Shareholders wealth maximization
 2. Profitability
 3. Productivity
 4. Market share
 5. Public responsibility
 6. Customer satisfaction.

END