

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2007 EXAMINATIONS
(PROFESSIONAL)**

PART 2

**TAXATION
(Paper 2.4)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

SECTION A

CASE STUDY

QUESTION 1

Read the following carefully and answer ALL the questions that follow:

AIR SANCO COMPANY LTD

Air Sanco was established in the mid 1980s as an international airline. In the early 90's it was one of the best airlines in Africa. Known for its safety records, in flight hospitality and reliability, it had developed a large base of customers. It was one of the few aircraft from Africa which had the license to fly direct to the U.S.A.

However, Air Sanco has been in trouble for well over 10 years. It has been unable to reduce its cost sufficiently fast in the face of increased competitive pressures, employee resistance and inefficient working practices. Various strategies have been tried but have not been useful.

There is no doubt about the basic problems. The airline has made a net loss every year from 1995 to 2005, the total running into several millions of dollars.

Its aircraft had become too old and it was facing threats of sanction from international aviation authorities. The number of its aircraft had also reduced from twelve to three while its staff strength stood at 200 employees out of which 35 were pilots. Some of the routes had become unprofitable but were being maintained "for strategic reasons" according to one official. The airline had lost its reputation as one of the best along the east coast. Customers regularly complained about poor customer service, over booking, delays and unreliable service.

In the face of these difficulties, Air Sanco had attempted a number of strategies. Within the last ten years, the company had changed its CEO about four times.

Within the last two years new routes believed to be very profitable have been added to the previous ones. Huge amounts of money have also been borrowed from the banks in order to rehabilitate the airport in order to upgrade it to international standards.

Consultants have proposed job cuts particularly at the management level but this has been rejected by management who have argued that the company would not be in a position to sign new contracts with these people whenever they have to be re-engaged. Before his departure, the previous CEO played an unusual card. He caused an international pastor to be flown in to pray for the airline.

The current CEO has recently announced some measures. These will include a reduction in the number of routes flown by the airline and in the number of aircraft used. There would be about 100 job cuts and the conditions of service of the rest of the staff will be reviewed downwards. The booking and pricing arrangements will also be reviewed in order to raise revenue for the airline.

The workers' union has sworn to take up arms against management if they attempt to implement these measures. They fear job losses and loss of privileges. Observers are expressing fears about

customer reaction to these measures. Meanwhile, rival airlines, including the global carriers are in brisk business.

Required:

- a) Evaluate the strategies of the previous CEOs and those proposed by the current CEO. ***(15 marks)***

 - b) Suggest any **five (5)** measures to turn the company around. ***(10 marks)***

 - c) What implementation tasks would you propose to resolve the threat from the workers union and to ensure the implementation of a strategy in the organization? ***(15 marks)***
- (Total: 40 marks)**

SECTION B

Answer three (3) Questions from this Section

QUESTION 2

The General Manager of Onuado Limited, a company which deals in four different products which are performing at various levels in the market has approached you to explain how the BCG matrix can be used to allocate resources and to optimize returns on the company's portfolio.

Draft a report to the General Manager explaining the use of the BCG matrix.

(20 marks)

QUESTION 3

- a) Explain the concept of competitive advantage. ***(5 marks)***

- b) Discuss **five (5)** characteristics of organizational resources that make competitive advantage sustainable.

(15 marks)

(Total: 20 marks)

QUESTION 4

- a) Explain the relationship among corporate, business and functional level strategies. *(12 marks)*
- b) Discuss the roll of **two (2)** of the functional areas in the implementation of business strategy. *(8 marks)*
(Total: 20 marks)

QUESTION 5

- a) What is an organizational structure? *(2 marks)*
- b) Identify and explain **six (6)** basic types of organizational structures that can serve to implement a chosen strategy. *(18 marks)*
(Total: 20 marks)