KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 314: FINANCIAL ETHICS

DATE: Tuesday 16th May 2017 **TIME: 8.00a.m -10.00a.m**

INSTRUCTIONS: ATTEMPT ALL QUESTIONS

Question One

Read the case below and answer the questions that follow:

You are an accountant working for a medium sized public company. You report to the chief accountant who is preparing the annual accounts.

You have been involved in preparing valuation for inventory, and you have identified a substantial amount of slow moving inventory, which in your opinion should be written down in value, or even written-off all together.

The Chief Accountant has called you in for a meeting. He thanks you for the work you have done, and comments that he is hoping that you can expect to earn a bonus at the year end when the financial statements are approved and published. He then adds that before he discusses the accounts with the finance director and the auditors, he thinks that there is a problem with the write-down of the inventory. He thinksthat it would be premature to write-down the inventory this year and he does not want to create a problem by drawing the matter to the attention of the auditors.

He goes on to say that he thinks the matter is important but he is sure that you will show good professional judgment by agreeing with his point of view, will find it difficult in t and that you will alter the figures for inventory valuation in your report. He hints that if you do not agree with his request, he will have to reconsider his recommendation to the finance director about your annual bonus and that he will find it difficult in the future to work with you on a constructive professional basis.

Required

a) Consider whether you are faced with an ethical dilemma **(3 Marks)**

b) Using a model of identifying threats and safeguards, how should you deal with this situation **(12 Marks)**

Question Two

The Asal Company is based in a jurisdiction which has strong principles of corporate governance. The directors realize that if the rules of governance are broken, them there are financial penalties on them personally. However, the rules that must be followed are clear and the directors follow those rules even though they may not agree with them.

Recently, one director has noted that if one of the reports required under corporate governance is simply placed into the postal system, then it is deemed to have been received by the shareholders. However, with a significant percentage of items being 'lost in the mail' this provides the company with a good excuse for non-receipt of the report- the director even went so far as to suggest privately that the report should not be produced.

a) Define the term corporate governance **(2 Marks)**

b) Explain the principles-based and rules-based approaches to corporate governance **(5 Marks)**

c) Contrast the advantages and disadvantages of a principles-based approach to corporate governance as compared to rules-based approach. **(8 Marks)**

Question three

a) Insider trading refers to the practice of "insiders" trading on shares of a company for which they have privileged ``material'' information not available to the ``public'', and for which they seek to gain pecuniary or other benefits. Argue for and against insider trading **(10 Marks)**

b) Describe FIVE characteristics of Ponzi schemes. **(5 Marks)**

c) Differentiate between Relativism and Absolutism approaches to ethics **(5 Marks)**

Question four

a) Professionals are expected to act in a professional way, by complying with the relevant laws and obligations, including compliance with the code of conduct including the code of conduct of ethics of the relevant professional body.Explain FIVE fundamental principles that finance professionals' must comply with. **(10 Marks)**

b) Define money laundering and explain why it is often considered unethical in the banking sector **(5 Marks)**

c) Explain the forms of money laundering **(5 Marks)**