



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

EAE314: FINANCIAL ETHICS

DATE:

TIME:

INSTRUCTIONS:

Answer Question One, And Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain and explore the nature of the principal- agent relationship in the context of corporate governance. (10 marks)
- b) Outline the circumstances under which a director may be considered as not independent, according to the UK Combined Code. (10 marks)
- c) Explain ways in which Agency conflicts that may arise in companies between the owners of the company and managers. (10 marks)

QUESTION TWO (20 MARKS)

- a) Certain key issues in corporate governance establish how well or badly a company is governed. Explain the main areas covered by codes of corporate governance. (10 marks)
- b) Explain the composition of the unitary board adopted by major companies in many countries. (10 marks)

QUESTION THREE (20 MARKS)

- a) Explain the advantages of a unitary board (6 marks)
- b) According to Freeman, 1984 a stakeholder is any group or individual who can affect or be affected by the achievement of an organization's objectives.
In line with the above definition, explain the stakeholders that a company may have. (14 marks)

QUESTION FOUR (20 MARKS)

- a) Explain five main ethical arguments against insider trading. (10 marks)
- b) In 2001, US corporation Enron collapsed unexpectedly. The collapse was blamed to a large extent on poor corporate governance.
Explain the Failings that occurred in corporate governance in Enron, that led to its collapse. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Explain and explore social responsibility in the context of corporate governance. (10 marks)
- b) Explain and assess how internal controls underpin and provide information for accurate financial reporting. (10 marks)