



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

P.O. Box 62157

00200 Nairobi - KENYA

Telephone: 891601-6

**MAIN EXAMINATION**

**JANUARY – APRIL 2019 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR / ODEL PROGRAMME**

**CAC 422: EMERGING AND CONTEMPORARY ISSUES IN ACCOUNTING**

**Date: APRIL 2019**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions. Show ALL The Workings.**

- Q1. a) Agency theory postulates that owners (principals) and the managers (agents) of companies have different objectives. For the objectives of the owners to be met certain costs have to be incurred. These costs are called agency costs.
1. Identify two major forms of agency costs. **(2 marks)**
  2. Justify why owners have to incur agency costs. **(2 marks)**
  3. Justify why agents have to incur agency costs. **(1 mark)**
- b) Explain how corporate governance may influence the financial reporting. **(3 marks)**
- c) Identify three benefits to companies that provide “high financial reporting quality.” **(3 marks)**
- d) The accounting industry is changing due to many factors. Such factors include; technology developments, investor expectations, user know how, etc. To adequately prepare for these changes, the accountant of the future is expected to acquire certain skills and competences. Outline four key skills that you, as a future accountant, should have. **(4 marks)**
- e) Company A has since 2010, been audited by PriceWaterhouseCoopers (PWC) and Company B was audited by KPMG from 2010 to 2012 and from 2013 to date its auditors have been Adongo and Associates. Briefly evaluate the audit quality of Company A and Company B based on this information.

marks)

- f) A question that keeps coming up in the popular business press is whether executives are overpaid. Should users of financial reports be concerned about this question? Justify your answer. **(3 marks)**
- g) An innovative tool in performance evaluation designed by Professors Robert S. Kaplan and David P. Norton is the Balanced Score Card (BSC).
1. Explain how this tool differs from other measures of performance. **(1 mark)**
  2. Explain what is meant by “common measure bias” in the use of the balanced score card. **(2 marks)**
- h) Explain what is meant by integrated accounting and what limitations it is envisaged to remedy in the current reporting regime. **(2 marks)**
- i) Six internal control principles related to cash transactions are discussed in the textbook. These principles, with code letters, are:

<u>Code</u>	<u>Internal Control Principle</u>
A	Documentation procedure
B	Establishment of responsibility
C	Independent internal verification
D	Physical controls
E	Segregation of duties
F	Human resource controls

### Required

Match the above principles to the following applications related to cash receipts and cash disbursements by placing the code in the space provided. Each code letter can be used once, more than once, or not at all. **(3 marks)**

1. Cash is received by one employee and recorded in the accounting records by another.
2. Daily cash counts should be made by cashier department supervisors.
3. Payments are approved by one employee while the disbursement is made by another.
4. All cheques are pre-numbered.
5. Only the treasurer is authorized to sign cheques.
6. Each cheque is compared with an approved invoice before being issued.
7. Employee hours are tracked using a time clock.
8. All personnel who handle cash should be bonded.
9. Inventory is stored in a locked warehouse with restricted access.

Q2. The data below provides information about the audit client and audit fees for Auditor ACD LLP Auditors.

COMPANY NAME	FISCAL YEAR	AUDIT FEES (\$)	NON-AUDIT FEES (\$)	TOTAL FEES
LATTICE INC	2010	84,500	12,500	97,000
BODISEN BIOTECH, INC	2010	99,900	40,917	140,817
CHINA PHARMACEUTICALS INC	2010	47,700	78,537	126,237
CHINA PEDIATRIC PHARMACEUTICALS, INC.	2010	61,900	3,365	65,265
CHINA POWER EQUIPMENT, INC.	2010	171,000	-	171,000
IGENII, INC.	2010	14,000	-	14,000
AIVTECH INTERNATIONAL GROUP CO.	2010	105,000	45,000	150,000
TIBET PHARMACEUTICALS, INC.	2010	100,000	-	100,000

- a) What is meant by “non-audit fees.” **(2 marks)**
- b) On the basis of the information provided which client would you say had the highest audit quality? Justify your answer. **(2 marks)**
- c) On the basis of the information provided which client would you say had the lowest audit quality? Justify your answer. **(2 marks)**
- d) Explain how audit quality can be assessed using auditor size and auditor industry specialization. **(4 marks)**
- e) Explain why the audit quality is such an important issue in financial reporting. **(2 marks)**
- f) Explain how the following can affect audit quality; (6 marks)  
 - low balling  
 - auditor independence  
 -auditor tenure
- g) What is the role of audit committee? **(2 marks)**
- Q3. a) What is meant by “ethics” in accounting? **(2 marks)**
- b) Why is ethics considered an important aspect in financial reporting? **(2 marks)**
- c) Explain how (i) the profession, and (ii) companies ensure high quality of ethical behaviour. **(4 marks)**
- d) Several threats have been identified for professional accountants. One of them is self-interest threats. Identify five situations that comprise self-interest threats for accountants. **(5 marks)**

- e) Below is provided an extract from an ethical dilemma case. Read the extract and answer the question that follows.

Lisa Gipson is 24 years old and has worked as an Internal Auditor I for the New Beginnings for 2.5 years. Prior to accepting her current position, she graduated with her B.S. in accounting. Upon graduating, she didn't expect to land an auditing position. She stated, "I never ever thought I would have been an auditor." Of the several jobs she applied for, she only received offers for internal audit positions. She is also currently working on a MBA and plans to sit for the CPA exam. And, after acquiring two years experience and achieving a top score on an exam for promotion, she now eligible for promotion to Internal Auditor II.

After obtaining an understanding of the task at hand, Lisa and Eric worked to plan and coordinate the audit. They agreed to distribute the work by contracts and to audit the total population of contract payments. Of the 10 contracts, Lisa was to audit seven and Eric three, Lisa's preliminary steps for her portion of the audit began with familiarizing herself with the grant award rules and guidelines that governed how the ARRA funds were to be accounted for and used. She decided she would refer back to the grant award rules and guidelines as needed throughout the audit. After several hours of reviewing the material, she proceeded on to the next step, locating and examining contract payments.

**Required**

Considering the fundamental principle of professional competence and due care, assess Lisa Gipson based on the above information. **(7 marks)**

- Q4. Board of Directors' information for two companies, Bamburi Cement Limited and East African Breweries Limited for year 2012 is provided below. Both companies are listed at the Nairobi Securities Exchange.

<b>Panel A: Bamburi Cement Limited</b>				
Name	Age	Gender	Tenure (years)	Position and type of director
Richard Kemoli	76	Male	1	Non-executive Chairman
Hussein Mansi	44	Male	3	Executive Managing Director
David Njoroge	40	Male	13	Executive
Dominique Brugier	52	Male	2	Non-executive
Solomon Karanja	74	Male	1	Non-executive
Alex Kazongo	46	Male	3	Non-executive
Chris Kisire	44	Male	1	Non-executive
Sheila M'Mbijjewee	53	Female	1	Non-executive
John Stull	50	Male	3	Non-executive
Joshua Oigara	37	Male	4	Executive

**Panel B: East African Breweries Limited**

Name	Age	Gender	Tenure (years)	Position and type of director
Jeremiah Kiereini	82	Male	24	Non-executive Chairman
Seni Adetu	48	Male	3	CEO
Dr. Nick Blacquez	50	Male	7	Deputy Chairman
Mark Bomani	79	Male	1	Non-executive
Christina Diezhandino	45	Female	2	Non-executive
Constance Gakonyo	46	Female	3	Non-executive
Richard Kemoli	76	Male	16	Non-executive
Charles Muchene	54	Male	1	Non-executive
Evanson Mwaniki	73	Male	12	Non-executive
Dr. Alan Shonubi	52	Male	3	Non-executive

- a) Distinguish between executive and non-executive directors. **(2 marks)**
- b) "All non-executive directors are independent." Do you agree? Why or why not? **(3 marks)**
- c) Assess the quality of the board of directors for both companies using appropriate criteria. Indicate which company had a higher quality board in your opinion. **(8 marks)**
- d) Indicate how the diligence of the board of directors can be assessed. Do you find this as an appropriate measure of assessing board diligence? Explain. **(4 marks)**
- e) Explain why the quality of the board considered important in financial reporting. **(3 marks)**

**\*END\***