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UNIVERSITY EXAMINATIONS

END OF YEAR EXAMINATION FOR BACHELOR OF COMMERCE YEAR IV SEMESTER II

ACADEMIC YEAR: 2021/2022

UNIT NAME: ETHICS IN ACCOUNTING

SEMESTER: JAN APRIL 2022

UNIT CODE ACCT 421 I

DATE: APRIL 2020

TIME: 2 HOURS

Instructions: Answer SECTION A (Compulsory) and Any Other Two Questions

SECTION A 30 MARKS

QUESTION ONE 30 MARKS

A high-quality audit features the exercise of professional judgement by the auditor, and importantly, a mind-set which includes professional skepticism throughout the planning and performance of the audit.

Required:

a. Explain the meaning of the term professional skepticism and discuss its importance in planning and performing an audit. [5 Marks]

b. The management team of Cheetah Co has also approached Leopard & Co to ask whether representatives of the firm would be available to attend a meeting with the company's bankers, who they are hoping will finance the acquisition of Zebra Co, to support the management team in conveying the suitability of the acquisition of Zebra Co. For the meeting the bank requires the most up-to-date interim accounts of Cheetah Co with the accompanying auditor's independent interim review report. Your firm is due to complete the interim review shortly and the management team of Cheetah Co has requested that the interim review is completed quickly so that it does not hold up negotiations with the bank, stating that if it does, it may affect the outcome of the next audit tender, which is due to take place after the completion of this year's audit.

Required:

Comment on the ethical and professional issues raised, and recommend any actions which should be taken in respect of the request from the management team of Cheetah Co. [8 Marks]

c. Consequently, Professional accounting bodies at local (e.g. ICAN, ANAN, CITN etc) and international (e.g. ACCA, CPA, IMA etc.) levels have developed ethical codes to guide their members in discharging professional responsibilities. Discuss (8marks)

d. Stipulating that auditor must be independent in fact and in appearance may not be easy in practice due to five broad threats to auditor's independence, Discuss. (9 marks)

SECTION B ANSWER ANY TWO

QUESTION TWO

You are a sole practitioner who used to provide a range of accountancy services for a small company (Company A) that owns a hardware shop in the town where you practice. Following a brief retendering process, the client chose to engage an alternative firm of accountants. Both you and the other firm had been asked to tender for a range of services, including the preparation of year end accounts, tax compliance work, and a due diligence exercise in respect of the intended purchase of a small hardware business in the neighboring town. You believe that you were unsuccessful in the tendering process on the basis of cost alone, as Company A is not very profitable, and suffers from the competition of the other hardware business that it intends to acquire.

You are the continuity provider for another local sole practitioner. Two months ago, he suffered a heart attack, and so you are currently acting for a number of his clients. He is not expected to resume practicing for another two months.

One of the clients of the incapacitated practitioner (Company B) operates a shop selling electrical goods. The director and majority shareholder has called you to arrange a meeting to discuss a business venture that he is considering.

At the meeting, the client explains that he intends to make an offer for the same small hardware business that Company A is seeking to acquire. He is aware that there is another bidder for the business, but is unaware that it is Company A, or that Company A used to be your client.

When the meeting is over, you start to feel uneasy. You want to help Company B and provide a valued service on behalf of the practitioner for whom you are the continuity provider. But you realize that you are also in possession of confidential information concerning the plans of your previous client. You are aware of Company A's problems and its motivation for wishing to acquire the business.

a) As an accountant is it your due diligence to be straightforward or honest? (4 marks)

- b) How will you ensure that you do not use confidential information relating to your previous client to the advantage of Company B? (4 marks)
- c) How will you safeguard your reputation and that of your profession? (4 marks)
- d) What is the possible cause of action ? (8 marks)

QUESTION THREE

You are one of three partners in a firm of accountants. Five years ago the firm was appointed as external accountants to a young, successful and fast-growing company, engaged to prepare year end accounts and tax returns. The business had started trading with a handful of employees but now has a workforce of 200, while still remaining below the size of company requiring a statutory audit.

Due to your close relationship with the directors of the company (who are its owners) and several of its staff, you become aware that staff purchases of goods manufactured by the company are authorized by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

Answer the following questions, identify the relevant facts, affected parties who should be involved in the resolution.

- a) Would omitting income from staff sales result in the financial statements and returns to the tax authority being misleading? Is the practice dishonest, and what should be your involvement? (4 marks)
- b) In view of the trust that has built up between you and your client, and the threat brought about by the familiarity you have with the directors and staff of the company, how will you maintain your objectivity when deciding on a course of action? (4 marks)
- c) How should you act in order to protect your reputation and that of your firm and your profession? (4 marks)
- d) Discuss what is the possible course of action ? (5 marks)
- e) Define the meaning of ethics in the accounting profession. (3 marks)

QUESTION FOUR

- a) Discuss the factors that affect ethical judgement of professional accountants (10 marks)
- b) In the present society ethics has been a key factor , as an accountant what are some of the challenges that are faced with accountants in Kenya. (10 marks)

