



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

FIRST/SECOND YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF SCIENCE (ACCOUNTING)**

COURSE CODE: BCA 222 / 122

COURSE TITLE: CORPORATE GOVERNANCE

DATE: Thursday 20th April 2023

TIME: 12.00-2.00 pm

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

QUESTION ONE (30 MARKS)

(a) Briefly explain the reasons why a corporate entity is thought to be a superior form of business organization compared to partnership. (10 marks)

(b) Read the passage below and attempt the questions that follow

The primary purpose of financial statements is to show the underlying economic performance of a company. The balance sheet provides a snapshot, at a moment in time, of the assets, liabilities and capital of the business; and the income statement, or profit-and-loss account, shows the difference between total revenues and total expenses. The auditors vouchsafe that these present a fair view, acknowledging the subjective nature of some of the measures behind the accounts. The independence of the auditors guarantees, in theory that 'fair' is just that. Somewhere along the line, though, things seem to have gone wrong.

'Our financial reporting model is broken,' said Joseph Berardino, former head of Andersen, Enron's auditor, last year(2002), immediately Enron Inc. collapsed after restating its financial statements by reducing its profits by \$591m over four years and increasing its debts by \$628m.

(i) From the passage Joseph Berardino, former head of Andersen, Enron's auditor, makes an observation in 2002, which was not all together new: similar observations were made when other companies collapsed such as Comroad, Cendant, Xerox and Waste Management and was precisely why Lord Cadbury's Committee was formed in 1991.

Briefly state and explain the underlying issues which were assumed to generate the collapse in financial reporting model in 1991 when the committee was formed. (5 marks)

(ii) The company law is based on agency theory of management and supported by shareholder theory of the firm and common law in the UK: trust law and agency law.

Briefly outline the prepositions of:

- (a) Shareholder theory of the firm
- (b) Agency theory of management
- (c) Agency law
- (d) Trust law

(12 marks)

(iii) Agency theory of management observes potential conflict of interest between principals and agents and recommends ways of reducing the impact of such conflict. Briefly outline its recommendations

(3 marks)

QUESTION TWO (20 MARKS)

(i) Board of directors is required to conduct its business first through the committees before being submitted by the committee to the board plenary to consider the proposals by the committee. The mandatory committees include: Audit, Remunerations, and Nominations committees. Briefly explain the duties of each committee and how it is recommended to be staffed. (10marks)

(ii) Briefly explain how directors are remunerated distinguishing between executive and non-executive directors. (10marks)

QUESTION THREE (20 MARKS)

Cadbury's committee of 1992 recommended that for good corporate governance the chairman to the Board of directors and the CEO need to be separate and also separate from the Board secretary; it also proposed that the membership to the Board should consist of non—executive directors being the majority and executive directors. Briefly explain the roles played to ensure Board effectiveness by:

- (i) The secretary (5 marks)
- (ii) The non-executive directors (5 marks)

(iii)The executive directors

(5 marks)

(iv)Chairman of board

(5 marks)

QUESTION FOUR (20 MARKS)

- (a) "family companies" in continental Europe , latin America, and japan has shown that where families are in absolute control, working control through dual class shares or minority control, they provide superior strategic leadership of the company resulting in superior corporate performance. Briefly explain the possible reasons behind this observation. (10 marks)
- (b) Atomistic shareholding has been credited with shareholder apathy resulting in recommendation for concentrated shareholding such as family or institutional investors to provide corporate leadership. Briefly explain who institutional investors are and why they can provide leadership to shareholders. (10 marks)