



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 405: ACCOUNTING THEORY

DATE: 21/10/2020

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) You are a trainee accountant in your second year of training within a small practice. A more senior trainee has been on sick leave, and you are due to go on study leave. Your manager has told you that before you go on leave, you must complete some complicated reconciliation work. The deadline suggested appear unrealistic, given the complexity of the work. You feel that you are not sufficiently experienced to complete the work alone. You would need additional superior to complete it to the required standard and your manager appears unable to offer the necessary support. If you try to complete the work within the proposed time frame but fail to meet the expected quality, you would face repercussion on your return from study leave. You feel slightly intimidated by your manager, and also feel pressure to do what you can for the practice in what are challenging times.

Required:

Highlight the fundamental issues of integrity, objectivity, professional competence confidentiality and professional behaviour raised in the above case (10 marks)

- b) The most valuable capital is that which is invested in human beings. In the light of this discuss the significance of accounting for human resources (4 marks)
- c) Accounting standards improve quality and uniformity of reporting and introduce a definite approach to the concept of what us true and fair. List the main advantages of accounting standards. (5 marks)

- d) Qualitative characteristics are the attributes that make financial statement useful to users. Explain the following fundamental characteristics (4 marks)
- i) Understand ability
 - ii) Relevance
 - iii) Reliability
 - iv) Comparability
- e) Explain the following foundations of accounting theory (7 marks)
- i) Measurement theory
 - ii) Decision theory
 - iii) Information theory

QUESTION TWO (20 MARKS)

- a) Users of accounting information vary and they use information in order to satisfy some of their needs for information. Highlight four such users and explain their needs for information. (4 marks)
- b) Briefly explain the meaning and the significance of the following (8 marks)
- i) Accounting theory
 - ii) Accounting concepts
 - iii) Accounting principles
 - iv) Accounting standards
- c) In the preparation of published financial statements, a company is supposed to prepare a statement of comprehensive income. Explain in details the following elements of the income statement (8 marks)
- i) Interest payable and similar charges
 - ii) Extraordinary items, exceptional items and prior year adjustments
 - iii) Taxation
 - iv) Expenditure

QUESTION THREE (20 MARKS)

- a) In accounting as in other areas of business ethical dilemma are encountered frequently and some of these dilemmas are simple and easy to resolve while others are complex and not obvious. However, applied ethics is still necessary and possible. Explain the four steps that you may apply in the process of ethical awareness and decision making (10 marks)
- b) What are the reasons that accounting choices might have economic consequences? (5 marks)

- c) Discuss the scope of social responsibility accounting (5 marks)

QUESTION FOUR (20 MARKS)

- a) A decision was made by the council of the institute of certified public accountants of Kenya (ICPAK) to shift to the international standards and to phase out Kenyan Accounting standards. What reasons have persuaded the council to make this change and what benefits are likely to accrue to the accounting profession

(8 marks)

- b) Too much has been devoted to the theoretical differences in the various valuations approaches to historical cost model. The provision of useful information should take precedence over adherence to single measurement approach none of which may consistently provide the best information content.

The greater relevance of current values in providing such useful information suggest that they should be preferred model in all cases where they can be employed to produce meaningful figures. In view of the above quotation explain the following methods of accounting for inflation and in each case give two advantages and two disadvantages (12 marks)

- i) Historical cost accounting
- ii) Current purchasing power accounting
- iii) Current cost accounting method
- iv) Realisable value accounting

QUESTION FIVE (20 MARKS)

- a) Explain the following elements of financial statements and where possible to give examples (8 marks)

- i) Comprehensive income
- ii) Investments by owners
- iii) Distributors to owners
- iv) Revenues

- b) State and explain two boundaries/constraints to achieving the desired qualitative characteristics of accounting information (4 marks)

- c) Explain two techniques to human resource accounting (4 marks)

- d) State four functions of IASB (International Accounting Standards board) (4 marks)