



# MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (ACCOUNTING OPTION)

**BAC 405: ACCOUNTING THEORY.**

**DATE: 14/12/2021**

**TIME: 2.00-4.00 PM**

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## INSTRUCTIONS

Answer question ONE and any other TWO questions

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) A junior member of staff has just returned to work after taking special leave to care for her elderly mother. For financial reasons she needs to work full-time. She has been having difficulties with her mother's home care arrangements, causing her to miss a number of team meetings (which usually take place at the beginning of each day) and to leave work early. She is very competent in her work but her absences are putting pressure on her and her overworked colleagues. You are her manager, and you are aware that the flow of work through the practice is coming under pressure. One of her male colleagues is beginning to make comments such as "a woman's place is in the home", and is undermining her at every opportunity, putting her under even greater stress.
- i) Highlight the fundamental issues of integrity, confidentiality, professional behavior that have been raised in the above case. (5 marks)
- ii) From the above case; (5 marks)
- I. Identify the relevant facts.
  - II. Identify the affected parties.
  - III. Who should be involved in the resolution?

- b) “Inflation accounting is an elegant but a useless creature with a prodigious appetite for extra data. It is the sterile offspring of a scandalous marriage between high financial economies and mis-management economies. “
- i. In the light of the above statement, summarize some of the arguments that can be advanced to defend historical cost accounting (6 marks)
  - ii. What flaws exist under historical cost of accounting that can encourage setting of accounting standards for firms operating under inflationary conditions. (3 marks)
- c) In the absence of a fully developed theory of accounting many researchers and committees have approached the tasks of reforming accounting practices by enumerating the characteristics which they believe should be exhibited by the accounting reports. State and briefly explain the enhancing characteristics which you think are desirable in financial accounting reports (6 marks)
- d) Explain the case for social responsibility accounting (5 marks)

### **QUESTION TWO (20 MARKS)**

- a) When you run a business it’s easy to think of your accounting staff as glorified mechanics, people with specialized skills needed to keep your company’s financial machinery running properly. Flat is true to a point but accountants also play a role as the watchdogs of the business world. They are responsible for making sure that businesses report their finances clearly and according to recognized standards and that often puts them in situations that can be ethically or even legally dubious. Discuss this statement with reference to ethical issues dogging the accounting profession. (10 marks)
- b) There are four important broad accounting principles that provide significant guidance for accounting practice which include the historical cost principle. The realization principle. Matching principle and the full disclosure principle. Explain each of the principles and critique them (10 marks)

### **QUESTION THREE (20 MARKS)**

- a) State four objectives of human resource accounting. (4 marks)
- b) Giving examples in each case explain the following methods in the attempt to construct theories. (9 marks)
- i) Inductive method
  - ii) Deductive method
  - iii) Decision oriented approach

- c) All listed companies supposed to prepare published financial statements. What should the company disclose in relation to the following items?
- i) Interest payable and similar charges (2 marks)
  - ii) Profit or loss on ordinary activities before taxation (2 marks)
  - iii) Investments (3 marks)

**QUESTION FOUR (20 MARKS)**

- a) A lot has been devoted to the theoretical differences in the various valuation models to historical cost model. The provision of useful information should take precedence over adherence to single measurement model none of which may be consistent in providing the best information content. The greater relevance of current values in providing such useful information suggests that they should be preferred models in all cases where they can be employed to give meaningful figures. It will be necessary to create an electric system that employs the methods best suited to the specific properties of individual characteristics of assets. With reference to the above quotation, explain the following accounting methods
- i) Current purchasing power accounting
  - ii) Current cost accounting method
  - iii) Realizable value accounting
  - iv) Replacement cost accounting
- b) Applied ethics is still necessary and possible. Explain the steps that you might apply in the process of ethical awareness and decision making as ethical dilemma is concerned. (8 marks)

**QUESTION FIVE (20 MARKS)**

- a) With respect to capital maintenance concept discuss the following broad concepts giving example in each case (8 marks)
- i) Financial capital maintenance
  - ii) Physical capital maintenance
- b) The international accounting standards committee was formed in 1973. however it faced some barriers in the introduction of accounting standards. Support this statement (8 marks)
- c) Explain two practical boundaries (constraints) to achieving desired qualitative characteristics of accounting information. (4 marks)