MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR BACHELOR COMMERCE

BAC 405: ACCOUNTING THEORY

DATE:19/12/2017 **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Luca Pacioli is said to be the father of modern accounting. He established what is popularly known as Pacioli's System. As part of historical development of accounting, briefly describe this system and its bearings to modern age of accounting. (10 marks)

b) Mr Masaku, a sole trader realized a net profit of shs 2,000,000 in 2016 and the bank had an overdraft of shs. 1,500,000. He could not understand why the two balances are not equal. Required: Give an explanation to Mr Masaku on the possibility of the two figures not being the same. (10 marks)

c) Explain the meaning of conceptual framework in accounting. (4 marks)

d) State and explain any two problems of financial statements. (6 marks)

QUESTION TWO

a) Explain the role of International Accounting Standard Board (IASB) (6 marks)

b) Explain the need for harmonization of Accounting standards (4 marks)

c) What benefits arise from International harmonization of accounting standards (4 marks)

d) What are the problems encountered in a bid to harmonize the accounting standards (4 marks)

QUESTION THREE

a) Briefly discuss the following theories that form the theoretical foundation of accounting

   i. Normative accounting theories (8 marks)

   ii. Positive Accounting Theory (8 marks)

b) Identify the qualitative characteristics of preparing useful financial statements. (4 marks)

QUESTION FOUR

a) There has been a lot of outcry in the country in relation to corruption. Accountants have the mandate to ensure adherence to the accountant's ethics code. Explain the code of ethics and how the accountants should reduce the issue of corruption in Kenya. (12 marks)

b) Explain three methods of accounting for human resource. (6 marks)

c) Which method above is most applicable in Kenya (support your answer) (2 marks)

QUESTION FIVE (20 MARKS)

Jagua bought a machine from machinery distributors. The cash price was Shs 500,000 hire purchase was Shs. 560,000. He paid 160,000 cash as he picked the machine. The balance is to be paid in 4 equal installments for the next 4 years starting 1/1/2017. Jagua charges depreciation on the machine on a straight line basis.

REQUIRED

i) Identify the accounting principles applicable in this situation. Explain the meaning of substance over form. (12 marks)

ii) Illustrate how the records would appear in the books of Ken on 31/12/2017 (8 marks)