MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 405: ACCOUNTING THEORY

DATE: **TIME:**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) A conceptual framework has been defined as a "constitution, a coherent system of interrelated connectives and fundamentals that can lead to consistent standards and that prescribes the nature, functions and limits of financial accounting and accounting statements"

Required:

What are the limitations of conceptual framework (6 marks)

b) Accounting theories can be classified according to prediction levels. Support this statement. (6 marks)

c) Too much 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, non of which may be consistently to provide the best information content. The greater relevance of current values in providing such useful information suggests that they should be preferred model in all cases where they can be employed to produce meaningful figures. A no single valuation, need, it will be necessary to create an electric system that employs the methods best suited to the specific properties of individual categories of assets. In view of the above quotation, explain the following accounting methods. (6 marks)

i) Current purchasing power accounting

ii) Replacement cost accounting

iii) Realizable value accounting

d) Explain the following sources of accounting authority (6 marks)

i) Legislation

ii) Stock exchange

iii) Accounting principles and conventions

e) In the preparation and presentation of published financial statements, explain disclosure of the following:- (6 marks)

i) Profit or loss on ordinary activities before taxation

ii) Other investment income

iii) Turnover

QUESTION TWO (20 MARKS)

a) Name and explain any five financial statements (10 marks)

b) Explain the characteristics that should be identified for an item to be recognized as an asset. (6 marks)

c) State four disadvantages of current purchasing power accounting. (4 marks)

QUESTION THREE (20 MARKS)

a) Explain what is meant by materiality in relation to financial statements and state two factors affecting assessment of materiality. (4 marks)

b) Critique the four basic assumptions underlying GAAP (Generally Accepted Accounting Principles) (8 marks)

c) Explain four limitations of historical cost accounting (8 marks)

QUESTION FOUR (20 MARKS)

a) Users of accounting information are varied and they use accounting information in order to satisfy some of their needs for information. Discuss four such users and explain their information needs. (8 marks)

b) All professions are guided by a code of ethics. Define professional ethics and discuss the code of ethics of accounting. (7 marks)

c) Explain the two theoretical approaches to formulation of accounting theory. (5 marks)

QUESTION FIVE (20 MARKS)

a) Accounting standards improve quality and uniformity or reporting and introduce a definite approach to the concept of what is true and fair. List the main advantages and disadvantages of accounting standards. (10 marks)

b) What is the case against human resource accounting. (5 marks)

c) State five functions of IASB (International Accounting Standards Board) (5 marks)