



TECHNICAL UNIVERSITY OF MOMBASA

School of Business & Social Studies

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE

BAC 4404: FINANCIAL ACCOUNTING THEORY

MAIN EXAMINATIONS

SERIES: APRIL 2017

TIME: 2 HOURS

INSTRUCTIONS:

Answer Question **ONE (Compulsory)** and any other **TWO** questions

This paper consists of Two printed pages

QUESTION 1 (Compulsory)

Section 11 of Betting, Lotteries and Gaming Act (CAP 131) Laws of Kenya reads as follows:

Submission of accounts by licensees and permit-holders

- (1) The Board may at any time, and shall, at least once in every twelve months, require a licensee to submit to the Board a properly audited statement of accounts.
- (2) The Board may require a permit-holder, other than a holder of a permit issued under section 23, section 54 or section 58, to render accounts to the Board in such form and within such period as it may specify.
- (3) The Board may require accounts submitted to it under this section to be the subject of audit by an accountant, whose appointment as auditor shall be notified by the licensee or permit-holder, as the case may be, to the Board and approved by it.

NB: licensee and permit holder are interpreted to mean a person issued with a license under any of betting schemes and related activities

Required:

- a) Explain the applicability of Agency Theory in the above scenario (5 marks)
- b) Explicate the basic features of accounting scope and how they apply in the above case (15 Marks)
- c) Using the elements of a conceptual framework as your reference point. Explain whether an accounting standard on betting activities can be developed (10 Marks)

QUESTION 2

“It’s simply to say that managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation.” Warren Buffett

Required:

- a) Explain the characteristics of accounting information that conform to the framework, which is critical to the users (10 Marks)
- b) Clearly outline the major differences between principles based standards and rules based standards (10 Marks)

QUESTION 3

Financial statements are prepared on the basis of historical data but the users use the information to make future decisions. Explain the various Accounting postulates that come into play during preparation of financial statements (20 Marks)

QUESTION 4

Briefly explain the following concepts as they relate to accounting theory

- a) Constructionism (5 Marks)
- b) market for lemons theory (5 Marks)
- c) Representational faithfulness (5 Marks)
- d) Positive Accounting theories (5 Marks)

QUESTION 5

- a) Different countries had different GAAP but basic things are universal. Explain any three such basic principles (6 Marks)
- b) Describe the principle of earnings management and the market role of auditing in relation to earnings management (7 Marks)
- c) Auditors are not super humans and hence may not be in a position to satisfy all the needs of stakeholders in an organization. Stakeholders sometimes have unreasonable expectations from the audit report. In light of the statements above, explain the concept of Audit expectation gap (7 Marks)