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**University Examinations 2014/2015**

FOURTH YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBC 2237: FINANCIAL ACCOUNTING THEORY**

**DATE: DECEMBER 2014 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE**

1. Human Resource is one of the valuable assets in any organisation.

**Required:**

1. Discuss the importance of human resource accounting (6 marks)
2. Afco engineers stated its business with a capital of Ksh. 1,000,000; It has a purchased fixed assets worth Ksh. 50,000 in cash. It has kept shs. 26,000 as working capital and incurred Ksh. 24,000 on recruitment training and developing the engineers and a few workers. The value of engineers and workers is assessed at Ksh. 80,000.

**Required:**

Prepare a balance sheet for Afco engineers (5 marks)

1. Explain the characteristics of a good theory (5 marks)
2. By use of appropriate examples, explain the criteria used by accountant in selecting relevant accounting principles (8 marks)
3. By use of examples, explain the difference between the following:
4. Normative and descriptive theories (3 marks)
5. Purchasing power accounting and current cost accounting (3 marks)

**QUESTION TWO**

1. Briefly discuss the salient features of .SSAP-16. entitled; Current Cost Accounting (6 marks)
2. Following are the Final Account of A ltd for 2005 and 2006.

**Profit and loss account**

Particulars 2005 2006 Particulars 2005 2006

ksh. ksh. ksh. ksh.

Material consumed 7,000 9,000 sales 20,000 25,000

Excise duty 2,000 3,500 other income 1,000 500

Manufacturing Exp. 3,000 4,000

Other expenses 1,000 2,000

Depreciation 1,000 1,200

Provision for tax 3,500 2,900

Profit 3,500 2,900

21,000 25,500 21,000 25,500

**Balance sheet**

Liabilities 2005 2006 Assets 2005 2006

ksh. ksh. ksh. ksh.

Share capital 4,000 4,000 Fixed assets

Profit and loss A/c 3,500 2,900 cost 12,000 15,000

Loan 8,500 7,700 Depreciation 4,000 5,200

8,000 9,800

Trade creditors 2,000 2,500

Provision of tax 3,500 2,900 Inventories

Raw materials 2,000 3,000

Finished goods 1,000 1,200

Trade debtors 4,000 5,000

cash 6,500 1,000

21,500 20,000 21,500 20,000

**Additional information:**

1. Fixed assets costing ksh. 12,000 were acquired by the company in 1995 when the price index was 100. The price index in respect of was 200 at the end of 2005 and 250 at the end of 2006. Fixed assets costing ksh. 3000 were acquired during the year. The company expects the life of the fixed assets as 20 years in each case and would prefer to charge depreciation according to fixed instalment method.
2. During 2006 the price of materials, finished goods increased by 40% while the manufacturing costs increased by 20%.
3. The value of stock of finished goods on current cost basis was Ksh. 1,400 and Khs. 1,800 on 31.12.2005 and 31.12.2006 respectively. The value of stock of raw materials, as per current cost basis, amounted to Ksh. 2,400 and Ksh. 3,600 respectively on the above two dates.
4. Stock of raw materials and finished goods are valued on FIFO basis.

**Required:**

Prepare the profit statement and the balance sheet of the company as per CCA method (14 marks)

**QUESTION THREE**

1. Discuss the advantages and limitations of accounting theory (10 marks)
2. Explain how the following roots have influenced the accounting theory
3. Decision theory (4 marks)
4. Measurement theory (3 marks)
5. Information theory (3 marks)

**QUESTION FOUR**

1. Postulates, concept and principles are sometime used interchangeably

Required:

Explain each of the above terms showing clearly their differences (10 marks)

1. Explain the significance of the following in accounting:
2. Going concern concept (3 marks)
3. Dual aspect of accounting (3 marks)
4. Historical cost principle (4 marks)

**QUESTION FIVE**

1. Explain the relevance of accounting for inflation (6 marks)
2. Discuss the merits and limitations of the following human resource valuation approaches:
3. Historical cost (5 marks)
4. Present value (5 marks)
5. Replacement cost (4 marks)