**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

 **Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

THIRD YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC3227: FINANCIAL ACCOUNTING THEORY**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Accounting standard are based on a mixture of accounting theory, current practice and policies. Discuss with particular reference the development of accounting standards in any country of your choice. (6 Marks)
2. Explain five benefits that would accrue to a company from the reporting of its social responsibility activities (6 Marks)
3. The most valuable capital is that which is invested in human beings, in light of this:
4. Discuss the significance of accounting for human resources (6 Marks)
5. Explain three methods of human accounting (6 Marks)
6. The element of financed statements are normally carried in the balance sheet and income statement of some predetermined monetary amount. Discuss the most common bases an enterprise may adopt in preparing the financial statement. (6 Marks)

**QUESTION TWO (20 MARKS)**

a) Define and give examples of environmental assets and liabilities. Suggest the treatment that one should accord environmental assets and liabilities in financed systems (14 Marks)

b) Give three authorities and three disadvantages of environmental accounting (6 Marks)

**QUESTION THREE (20 MARKS)**

1. Differentiate between regulated and unregulated accounting information market (8 Marks)
2. Discuss the argument in favour of unregulated accounting information market (6 Marks)
3. Describe three sources of accounting authority (6 Marks)

**QUESTION FOUR (20 MARKS)**

Sokomath limited historical financial statement are presented below:

Balance sheet for the year ended 31st December

 **2009 2010**

Land and Buildings 4,000,000 3,800,000

Furniture and Fitting 3,000,000 2,700,000

Motor Vehicles 2,500,000 2,200,000

 9,500,000 8,700,000

Stock 1,000,000 1,200,000

Debtors 2,000,000 2,500,000

Cash and Bank 3,000,000 3,300,000

 6,000,000 7,000,000

Creditors 1, 300,000 1,300,000

Tax 1,000,000 1,000,000

Dividends 800,000 1,000,000

 3,100,000 3,300,000

Long term loan 3,000,000 2,500,000

Net asset 9,400,000 9,900,000

Finance by

Ordinary share capital 6,000,000 6,000,000

Retained profit 3,400,000 3,900,000

 9,400,000 9,900,000

**Additional information**

1. Market value of land and building are as follows

Shs Shs.

Land 5,000,000 7,000,000

Building 3,000,000 4,000,000

1. Stock debtors and creditors are required on average two month to the end of respective year.
2. The following information is extracted from hastened profit/loss account for the year 2010.

 **Ksh.**

Operating profit before interest and tax 3,000,000

Interest 500,000

Purchases 3,000,000

Tax 1,000,000

1. Relevant price indices as follows:

Date Furniture and Fitting Motor vehicle Stock

31.12.2009 100 110 115

31.10.2009 120 130 140

31.12.2009 150 140 145

31.10.2010 160 150 162

31.12.2010 170 160 165

Average 2010 165 155 160

1. Land and building were required on 31st December 2010 at cost as follows:

Land 2,000,000

Building 4,000,000

Building one to be depreciated on a straight line for a further ten years as at 31/12/2010.

1. The current cost account is at 1st January 2000 several a current cost resave of Shs.6,867,532 of which Shs.650,000 were realised.

**Required:**

Draw the current cost statement (20 Marks)

**QUESTION FIVE (20 MARKS)**

Laches choice ltd historical financed statement was as follows:

 1999 2000

 Kshs. Kshs.

Fixed asset 1,000,000 950,000

Stock 500,000 550,000

Debtors 600,000 800,000

Bank and Cash 400,000 500,000

Creditors (500,000) (400,000)

Tax (100,000) (200,000)

Dividends 200,000 (250,000)

Net asset 1,700,000 1,950,000

Financed by

Ordinary share 800,000 800,000

Loan 100,000 80,000

Revenue Reserve 800, 000 1,070,000

 1,700,000 1, 950, 000

Profit and loss account for the year ended 31st December 2000

 **Shs.**

Sales 2,120,000

Opening stock ` (500,000)

Purchases 550,000

Closing stock 1,170,000

Gross profit (400,000)

Expenses 50,000

Interest 720,000

Profit before tax (200,000)

Tax 520,000

Dividend (250,000)

Profit after tax

Retained earnings 270,000

Retained earning b/f 800,000

Retained earnings C/D 1,070,000

**Additional information**

1. Price inches were as follows:

At purchase of fixed as at 110 31st December 2000 180

At issue of shares 110 at 31st October 2000 175

AT 31.12.1999 160 average 2000 170

At 31.10.1999 155 at 30th June 2000 165

b) Stocks are acquired on average two months before year end

c) Half of the interest was paid on 30th June 2000

d) The balance of the interest rate was paid at the year end.

**Required:**

Restate the accounts to the current purchasing power (CPP)