



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR
THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 426: ACCOUNTING THEORY

Date: 2nd August, 2017

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE
- Show all the workings clearly
- All questions carry equal marks

QUESTION ONE

a) Explain the need for the development of International Accounting Standards (IAS) under the International Accounting Standards Board Framework (IASB).

(10 marks)

b) Discuss any exceptions to revenues recognized after sale.
(7.5marks)

QUESTION TWO

a) Discuss the importance of accounting standards as propagated by the International Accounting Standards Board (IASB). (10 marks)

b) International Accounting Standards (IAS 7) underscores the importance of preparation of cash flow statements. Discuss the three major components of the cash flow statements giving relevant examples in each case. (7.5 marks)

QUESTION THREE

a) Explain the disclosures required regarding issued share capital and reserves under International Accounting Standards 1 (IAS 1). (7.5marks)

b) The Accounting Standards Board bases its financial reporting standards on what sometimes is called a conceptual frame work. Explain the importance of a conceptual framework in accounting theory and practice.
(10marks)

QUESTION FOUR

- a) Distinguish between accrued revenue and deferred revenue clearly giving relevant examples. (7.5marks)
- b) Explain the meaning and significance of the revenue realization principle, accruals concept and historical concept as applicable in accounting theory. (10marks)

QUESTION FIVE

- a) Faithful representation has its major components as a qualitative characteristic of accounting information. Explain its three major components as applicable in accounting theory. (10marks)
- b) Distinguish between inductive and deductive methods as used in accounting theory. (7.5 marks)

QUESTION SIX

The following balances were extracted from the general ledger of Homa Wholesalers on 30th June 2011 after the preparation of the Trading Account.

11% preferences share capital	1,000,000
Ordinary share capital	3,500,000
Land & building (cost sh. 5,750,000)	6,000,000
Equipment (cost sh. 400,000)	280,000
Motor vehicles (cost sh. 860,000)	602,000
Goodwill (cost sh. 800,000)	775,000
10% debentures (repayable year 2015)	1,500,000
Stock at 30 June 2011	1,361,000
Salaries and wages	462,000
Director's remuneration	315,000
Motor vehicles expenses	406,000
Rates and insurances	146,000

General expenses	28,000
Debenture interest	75,000
Debtors	930,500
Creditors	568,500
Cash at Bank	419,500
General reserves	250,000
Share premium	700,000
Interim ordinary dividends paid	175,000
Fixed assets (land & building)	
Revaluation reserve at 1 July 2009	250,000
Profit and loss account at 30 July 2010	847,000
Gross profit for the year	3,360,000

Additional information:

- i. Authorized share capital:
 - 40,000 11% preferences shares of sh. 25 each at par.
 - 500,000 ordinary shares of sh 10 each at par

(All issued shares are fully paid). During the year 100,000 ordinary shares were issued at a premium of 20%

No record has been made in regard to the issues. The new shares do not rank for the dividend in the year.
- ii. The policy of the company regarding the depreciations;
 - Not to depreciate land and building but to revalue the buildings at the end of every two years. The market value as at 30 June 2009 has been agreed with valuation experts at sh. 6,300,000.
 - To depreciate motor vehicles at the rate of 25% on reducing balance
 - To depreciate equipment at the rate of 10% on cost using the straight line depreciate method.
- iii. The interest on debentures is paid semi-annually on 1 July and 1 January. The company makes provision for interest accrued during a financial year but is not yet paid.
- iv. Goodwill is written off at the rate of 3.125% p.a on cost.
- v. The directors propose that the preference dividend and also a final ordinary dividend on ordinary shares for the year to sh. 1.50 per share paid. The directors also propose to transfer sh 100,000 to general reserve.
- vi. The corporation tax on the profit for the year is estimated at sh 250,000.

- vii. The company has decided to write off the debts of sh 30,500 which is considers bad. Whereas doubtful debts loss has previously been recognized when specific accounts are known to be uncollectible, the company now proposes to establish and maintain (with effect from the current year) a general provision for doubtful debts at 4% of debtors.
- viii. Rates include an amount of sh 96,000 paid to the municipality for the 12 months to 31 December 2009.
- ix. Casual labourers have not yet been paid sh 45,000 in respect of the services rendered during the last two weeks of June 2009.
- x. Sales in the years amounted to sh 5,400,000 while purchases were sh 2,100,000

Required

- a) Income statement for the year ended 30 June 2015. (10marks)
- b) Balance sheet as at 30 June 2015. (7.5marks)