



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION – DECEMBER 2016

EXAMINATION FOR THE BACHELOR OF COMMERCE
(BCOM YR III SEM I)

UNIT CODE: HBA 2303

UNIT TITLE: FINANCIAL ACCOUNTING THEORY

DATE: 7TH DECEMBER, 2016

TIME: 2:00 PM – 4:00 PM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- a) Differentiate between accounting theory and accounting practices (4 Marks)
- b) Explain the following Accounting Theories
- i. Generally accepted theories: (2 Marks)
 - ii. Deductive accounting Theory: (2 Marks)
 - iii. Inductive accounting Theory: (2 Marks)
 - iv. Communicative accounting Theory: (2 Marks)
 - v. Evaluative accounting Theory: (2 Marks)
 - vi. Normative accounting Theory: (2 Marks)
 - vii. Descriptive Theory: (2 Marks)
- c) Explain the meaning of the term Human Resource Accounting (2 Marks)
- d) Shamba Ltd is a land buying company based in California USA. On 1st January 2015, they reported that the current cost of land was \$20,000, and on 31st December, 2015, the same piece of Land was reported to be \$32,000.
Compute the holding gain/loss. (3 Marks)
- e) Constant dollar financial statements have been discussed widely within both the accounting profession and the business and financial community. They are lauded by many as a means of overcoming the reporting problems during periods of inflation or deflation.
Explain any FOUR Advantages of Constant Dollar Accounting. (8 Marks)

QUESTION TWO

- a) Explain any SEVEN types of information that financial statements provide to their users. (14 Marks)

- b) Sensor Ltd, Inc. started business on December 31st, 2014 by selling \$90,000 of capital stock for cash. Land costing \$40,000 is purchased immediately. During the next year 2015, the company reports \$160,000 of sales revenue, cost of goods sold of \$75,000, and operating expenses of \$25,000.

Required:

Prepare the income statement for Sensor, Inc., on a historical cost basis for the year ended 2015. (6 Marks)

QUESTION THREE

- a) Explain the term Accounting Theory (2 Marks)
b) Explain any NINE important Objectives of Human Resource Accounting. (18 Marks)

QUESTION FOUR

- (a) Explain the Accounting cycle. (6 marks)
(b) Segmental information reported externally is more useful if it conforms to information used by management in making decisions. The information can differ from that reported in the financial statements. Although reconciliations are required, these can be complex and difficult to understand. Additionally, there are other standards where subjectivity is involved and often the profit motive determines which accounting practice to follow. The directors have a responsibility to shareholders in disclosing information to enhance corporate value but this may conflict with their corporate social responsibility.

Required:

Discuss the corporate social responsibility disclosure reconciliation difficulties encountered to meet the shareholders expectations. (8 marks)

- c) Explain any SIX advantages of Human Resource Accounting (6 Marks)