



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## University Examinations 2024/2025

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

### BFC 3327: FINANCIAL ACCOUNTING THEORY

DATE: JANUARY 2025

TIME: 2 HOURS

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

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#### QUESTION ONE (30 MARKS)

- a) Define accounting and accounting theory. (3 marks)
- b) The Accounting profession is dogged by a myriad of regulations which may be viewed as tiresome and unnecessary.

#### Required:

- i. Argue the case for and against the regulation of the accounting profession in Kenya. (12 marks)
- c) Discuss the problems caused by accounting regulation in Kenya (6 marks)

- d) Accounting information faces a number limitations in its quest to communicate a fair view of the entity's state of affairs to users for decision making. Discuss 3 such limitations clearly indicating a suggested best practice to overcome the limitation. (9 marks)

### **QUESTION TWO (20 MARKS)**

There are various qualitative characteristics that enhance the usefulness of accounting information.

#### **Required:**

- a. Explain any four (4) qualitative characteristics of accounting information (4 Marks)
- b. Discuss any two (2) accounting concepts clearly bringing out their application in accounting (4 Marks)

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.”

Explain the elements of financial statement (12 Marks)

### **QUESTION THREE (20 MARKS)**

For many years, many accounting professions in the world have attempted to formulate a method of preparing financial statements that takes account of the effects of price increases (inflation). It seems that no proposed method of reflecting the effects of changing prices has gained acceptance. Advice from the International Accounting Standards Committee is that no form of accounting for price changes should be made compulsory, but companies are encouraged to present such information.

There have been two main methods put forward for reporting the effects of price changes. One method is based on the movements in general price inflation (as measured by the Retail Price Index — RPI) and is referred to as Current Purchasing Power accounting (CPP); the other method is based on specific price changes of goods and is generally referred to as Current Cost Accounting (CCA).

**Required:**

- a) Explain the limitations of (pure) historic cost accounts when used as a basis for assessing the performance of an enterprise. (10 marks)
- b) Describe the advantages and criticisms of CPP and CCA accounting. (10 marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss any four (4) advantages of accounting concepts (4 marks)
  - i. In a statement of financial position prepared in accordance with IAS 16, what does the net bookvalue (carrying value) represent?
  - b) In a set of financial statements prepared in accordance with IAS 16, is it correct to say that the net book value (carrying value) figure in a statement of c financial position cannot be greater than the market (net realizable) value of the partially used asset as at the end of the reporting period? Explain your reasons for your answer.

**QUESTION FIVE (20 MARKS)**

- a) Discuss the need of the following accounting bodies (8 marks)
  - i. IFRIC
  - ii. EC
  - iii. IFSB

iv. IASC

b) Describe the method of developing

i. Accounting theory,

(6 marks)

ii. Accounting standard

(6 marks)