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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FOURTH YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 5th December, 2019
Time: 2.30pm – 4.30pm

KAC 405 - ACCOUNTING THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Outline the reasons for the change from Kenya Accounting standards to the international standards. What are the benefits to the Accountants and the country as a whole. (9 Marks)
- b) Discuss the arguments against unregulated accounting reporting. (9 Marks)
- c) Discuss the nature of accounting theory. (4 Marks)
- d) Describe the approaches to the development of accounting theory. (8 Marks)

QUESTION TWO (20 MARKS)

- a) Explain the role of a conceptual framework. Distinguish between financial position, performance and financial adaptability. (10 Marks)
- b) Explain “reliability” and “relevance”. What makes information relevant and reliable. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss three methods used in computing provision for depreciation. (6 Marks)
- b) In historical cost accounting transactions are measured in monetary terms, money is not a uniform measure of value especially in periods of changing prices. Explain short comings of historical Accounting. (8 Marks)
- c) All professions are guided by code of ethics. Define professional ethics and discuss the code of ethics of accounting. (6 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain current purchasing power. (2 Marks)
- b) Discuss the advantages and disadvantages of current purchasing method. (10 Marks)
- c) Write short notes on the following;
 - i) Accounting concepts (2 Marks)
 - ii) Accounting standards (3 Marks)
 - iii) Accounting policies (3 Marks)

QUESTION FIVE (20 MARKS)

Sam and Sons Ltd are considering expanding their operations. Several alternatives strategies are being discussed for financing this expansion. The latest balance sheet of the company as at December 2010 is as follows:

Sam and Sons		
<u>Statement of Financial position as at 31/12/10</u>		
	Shs	Shs
<u>Fixed Assets</u>		
Land and Buildings		40,000
Plant & Equipment		90,000
		<u>130,000</u>
<u>Current Assets</u>		
Stocks	50,000	
Debtors	40,000	
Cash	5,000	
	95,000	
Creditors: Amounts falling due within 1 year	<u>25,000</u>	
Net current assets		<u>70,000</u>
Total assets less current liabilities		200,000
Creditors: Amounts falling due within 1 year:		
12% loan repayable 2016		<u>90,000</u>
		<u>110,000</u>
<u>Share capital and reserves</u>		
8% cumulative preference shares of shs 1 each		30,000
Ordinary shares of sh 1 each		50,000
Profit and loss account		30,000
		<u>110,000</u>

The board of directors has identified the following possible alternative ways of obtaining the additional Sh 50,000 required during the following year.

- a) Issue additional ordinary shares
- b) Issue additional 8 percent preference shares
- c) Raise additional long-term loan at 12%

Required:

Discuss the company's existing capital structure in terms of its gearing, and examine the advantages and disadvantages of each alternative method of financing the expansion plan. (10 Marks)

- b) Explain the weaknesses of ratio analysis in interpretation of financial statements. (10 Marks)