



**MURANGA UNIVERSITY COLLEGE**  
(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAIN CAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER EXAMINATIONS**

**FOR THE DEGREE OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBA 2303**

**COURSE TITLE: FINANCIAL ACCOUNTING THEORY**

**DATE: 10<sup>TH</sup> DECEMBER, 2015**

**TIME:**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer any other TWO(2) questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 2 printed pages. Please turn over



### QUESTION ONE

- (a) Explain five reasons why accounting market information should be regulated (8 marks)
- b. Explain the fundamental accounting concepts (12marks)
- c Explain four methods of measuring social cost benefits (10 marks)

### QUESTION TWO

- a) Discuss the desirable characteristics of financial reports (10 marks)
- b) Explain five factors to consider when introducing a fully accounting system (10marks)

### QUESTION THREE

- a. Distinguish between inductive approach and deductive approach to theory construction (10 marks)
- b. Explain the decision usefulness approach to financial reporting (10 marks)

### QUESTION FOUR

- a. The following is a profit and loss statement for Melma ltd for the year ended 31<sup>st</sup> December 2014

#### PROFIT AND LOSS STATEMENT

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

Sales	2,000,000
Less: cost of sales	
Opening inventory	80,000
Purchases	<u>1,400,000</u>

Cost of goods available	1480,000	
Less closing inventory	<u>100,000</u>	
	<u>1380,000</u>	
Gross profit		620,000
Less operating expenses	200,000	
Interest on debentures	20,000	
Depreciation on machinery	45,000	
Depreciation on furniture	5,000	
Total expenses		<u>270,000</u>
Net profit		<u>350,000</u>

**Additional information**

1. Interest on debenture was paid on 31<sup>st</sup> December 2014
2. The general price index was as follows:

Jan 1, 2014	150
Average for the year	160
Dec 31 <sup>st</sup> , 2014	180

**Required:**

Prepare a profit and loss statement after adjusting for price level changes under current purchasing power method (10 marks)

- b. Explain five benefits of human resource accounting (10 marks)