



UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

ACC 311: FINANCIAL ACCOUNTING THEORY

DATE: 27TH JULY 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the following case and answer the questions that follow:

**MANIPULATION OF FINANCIAL STATEMENTS; A
CONTRAVENTION OF PROFESSIONAL ETHICS**

Financial statements are a useful guide in the making of economic decisions by their users. Financial analysts make use of financial statements, coupled with computation and analysis of ratios derived from the contents of the financial statements, so as to offer professional advice to investors and prospective investors, creditors and other users with vested interests. The main financial statements are the income statement and the statement of financial position.

Shareholders and other stakeholders rely on information contained in financial statements to gauge the financial performance and financial position. In fact, shareholders engage the services of independent auditors as their watchdogs to protect their interests especially due to the inherent agency conflicts between the shareholders and management. The independent auditors are supposed to give their opinion as to whether the financial statements give a true and fair view of the profit or loss, and financial position, of the company or otherwise. This opinion of auditors is relied upon as assurance by the shareholders.

As may be expected, company's board of directors who are the top managers of corporates may be tempted to manipulate financial statements. After all, these top managers are often paid bonuses pegged on the financial performance of the company. At the onset, the term 'manipulation' of financial statements seems clearly unethical. Which professional codes of ethics would support such manipulation?

Materiality is one of the fundamental accounting concepts that guide the preparation of accounting records and financial statements. Auditors' concerns are not merely with errors and misstatements, but their materiality i.e. material errors and material misstatements. This tends to imply that misstatements, which are a form of manipulation especially

when done intentionally, are permissible. But to what extent are manipulations of financial statements permissible and when is the boundary crossed so that they become fraud? Is it ethical according to professional codes of conduct that guide accountants, to manipulate financial statements?

Required:

In the spirit of the above highlights on financial statements manipulation and professional ethics, balanced with your learning of financial accounting theory unit at the Management University of Africa (MUA);

- a)** Explain the accounting concept of 'materiality' showing how it is used as a guide in accounting practice, and its subjective nature.

(5 Marks)

- b)** Citing a professional accountancy body of your choice, produce five codes of ethics required to be adhered to highlighting their benefits to the society.

(10 Marks)

- c)** Using examples, demonstrate the bounds of ethical and unethical financial statements manipulation, otherwise known as earnings management.

(10 Marks)

QUESTION TWO

- a)** Appraise the underlying goals of Human Resource Accounting (HRA) according to its advocates.

(5 Marks)

- b)** The usefulness of information contained in financial statements is anchored on five qualitative characteristics. Demonstrate the usefulness of each of the five qualitative characteristics of financial statements.

(10 Marks)

QUESTION THREE

- a) Accounting theory sets the bases for financial reporting. Discuss. **(6 Marks)**
- b) Compose the demerits of the wide gap between the remuneration of company executives and the average remuneration of employees.
(9 Marks)

QUESTION FOUR

- a) Technology has played a major role in the reduction of information asymmetry in modern securities markets. Examine the problems associated with information asymmetry in financial markets.
(6 Marks)
- b) Evaluate three rationales for the rampant practice of earnings management in corporations.
(9 Marks)

QUESTION FIVE

- a) Financial reporting has been evolving as the world also evolves. Analyse three forces that trigger such evolution.
(6 Marks)
- b) Eugene Fama is credited in the financial world for his hypothesis on market efficiency. Show the applications of three levels of market efficiency in capital markets.
(9 Marks)

QUESTION SIX

- a) Financial statements for subsidiaries in less developed countries that experience galloping inflation require adjustments prior to their

inclusion in group consolidated financial statements. Argue why this is essential.

(5 Marks)

- b)** Assess five convincing reasons that provide support for practicing executive compensation in the corporate world.

(10 Marks)