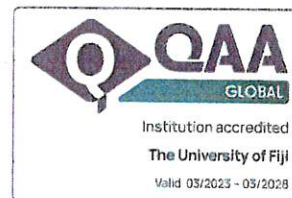




The University of Fiji
(An Entity of Arya Pratinidhi Sabha of Fiji)



SCHOOL OF BUSINESS AND ECONOMICS

Department of Accounting and Finance

Semester 2, Year 2025

FINAL EXAMINATION PAPER

ACC301: ACCOUNTING THEORY AND APPLICATIONS

INSTRUCTIONS:

1. Read the questions and the instructions carefully and answer the questions.
2. You are allowed an **extra 10 minutes reading time** (during this time, you are not allowed to write with a pen) and **180 minutes (3 Hours) to complete this paper**.
3. Silent, non-programmable calculator is allowed, but not supplied. Electronic Devices are not permitted.
4. Write all your answers in the answer booklet provided. If you need extra sheets, please ask the supervisor. Write your name, course code and student identification number on the answer booklet.
5. This Examination Paper is worth **100 marks** and **contributes 40%** towards the course assessments. Students need to score at least 40 marks in this exam and an overall minimum mark of 50% to pass.
6. This paper contains **FIVE questions**. All questions are compulsory.
7. State all your assumptions clearly and provide relevant examples where applicable.
8. Write all your answers legibly. The marker has the right to award zero for answers that are not legible.
9. This is a **Closed Book Examination**. The University views cheating and plagiarism as a serious offence. If found, offenders are penalised as per the University regulations.

Examination Format:

<u>Question</u>	<u>Content</u>	<u>Marks</u>	<u>Suggested Time</u>
1	Accounting Theory Concept Mapping	20	36 Minutes
2	Behavioural Accounting Research and Capital Market Research	20	36 Minutes
3	Positive Accounting Theory	20	36 Minutes
4	Accounting Measurement Systems	20	36 Minutes
5	Sustainability Reporting and Emerging Issues in Accounting	<u>20</u>	36 Minutes
	TOTAL	100	180 Minutes

*Registered with the Fiji Higher Education Commission as a University under the Higher Education Act 2008.
Registration Certificate Number (RGN0020/11)*

QUESTION 1

ACCOUNTING THEORY CONCEPT MAPPING – 20 MARKS

(Suggested Time: 36 Minutes)

Accounting theory serves as the backbone of the accounting profession, providing a structured framework that guides the preparation, presentation, and interpretation of financial information. It is essential for accountants, auditors, and financial analysts to understand and apply accounting theory to ensure that financial statements are accurate, consistent, and comparable (Source: <https://accountingexamsmastery.ca/>).

REQUIRED:

Map the accounting theory concepts with their correct description.

CONCEPTS	ANSWER	DESCRIPTION
1. Pre-Theory Era		A. Is considered the main overriding principle in accounting and also known as accounting for the society.
2. Theory		B. The ontological perspective of this approach is that reality is seen as a concrete process as behaviour conforms to a set of rules.
3. Pragmatic Period		C. Discusses about the research programme. Theories have positive and negative heuristics.
4. Bonus Plan Hypothesis		D. Looks at the grounds of knowledge, how do researchers gather and acquire knowledge and communicate to the relevant parties.
5. Imre Lakatos		E. When an accounting standard is being introduced, certain groups would try to influence the standards so that it is in their favour as the standards affect wealth transfer.
6. Syntactic and Semantic Approaches		F. Very little was written about the theory underlying accounting practices ever since the double entry system of recording transactions were formalised.
7. Decision Usefulness		G. Is a building block towards a structured theory in accounting and provides guidance where no accounting standards exist?
8. Scientific Approach		H. This famous legislation was introduced in 2002 by the USA government as a counter to prevent further corporate collapses due to fraud and accounting practices causing reputational issues to the profession.
9. Naturalistic Approach		I. The emphasis in this period was on providing an overall framework to explain the works of the accountants based on observation of current practice.
10. Epistemology		J. The main objective of the general-purpose financial reports is to provide useful information to these user groups.
11. Conceptual Framework		K. Normative theories rely upon both of these theory classifications providing logical understanding and corresponds with the real-world events.

12. Prudence		L. Refers to set of ideas used to explain real world phenomena.
13. Lobbying		M. Resources are entrusted to the management as part of their stewardship role as one of the secondary functions of accounting information.
14. Sarbanes Oxley-Act		N. Repeating of a method results in consistent results, however, it does not define accuracy.
15. Corporate Governance		O. Is a significant part of scientific inquiry and a fundamental issue in accounting with huge debates and controversies in the normative period with regards to assigning numbers to accounting items?
16. Harmonisation and Convergence Programmes		P. In this approach, complex inter-relationships and firm specific information can be explored as reality is a projection of the human imagination.
17. Financiers		Q. Assumes that the basic objective of accounting is to aid the decision-making process of certain users of accounting reports.
18. Accountability Function		R. One of the key elements as part of the regulatory framework which refers to structures, processes and institutions within organisations.
19. Measurement		S. In relation to accounting, refers to the process of increasing compatibility of accounting practices by setting bounds to their degree of variation, a project which IASB and FASB started which was unsuccessful.
20. Sources of Measurement Error		T. Numbers are only used as labels with not distinctive order or ranking provided.
21. Materiality		U. Private interest is considered the main overriding principle in accounting.
22. Reliability		V. This concept ensures that preparers need to be careful when handling items because its value need to be correctly done as it will have implications in the financial reports and future reporting periods.
23. Nominal Scale		W. Is a practical example of positive accounting theory? Which relies on managers being wealth maximisers even at the expense of the shareholders.
24. IFRS13		X. Instruments are faulty and the environment, attributes are unclear.
25. Public Interest		Y. Measurement based on exit price which was first proposed in the normative era and now standard setters place a significant emphasis in measuring items using this particular approach.
		Z. The significance of an item is paramount in the decision-making process as important information might be left out affecting the usefulness of accounting information.

QUESTION 2

BEHAVIOURAL ACCOUNTING RESEARCH AND CAPITAL MARKET RESEARCH – 20 MARKS

(Suggested Time: 36 Minutes)

PART A

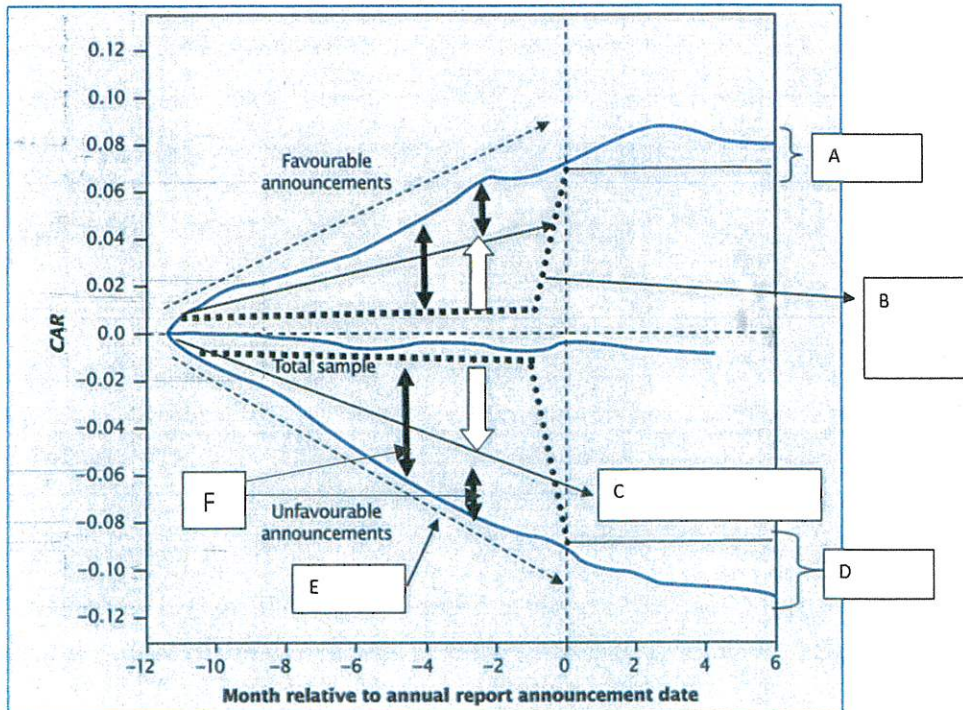
John is a recent finance graduate and realizes the importance of investment decision making. There are different forms of investment available such as cash, term deposits, shares, properties. John intends to develop a financial investment decision making model and he is considering several approaches.

REQUIRED:

- Discuss how John can develop an investment decision making model using the Brunswick Lens Model. (5 Marks)
- Discuss the concept and types of Heuristics and how does it assist in the decision-making process. (5 Marks)

PART B

“Capital market research has been a major focus of financial accounting research for many decades. Ball and Brown (1968) was the first major capital market research investigating the usefulness of accounting earnings using the historical cost model” (Deegan, 2014).



(Source: Godfrey et al., 2012)

REQUIRED: Label the above diagram from A to E and explain in some detail with justification and examples the three main key findings from the graph. (10 Marks)

QUESTION 3

POSITIVE ACCOUNTING THEORY – 20 MARKS

(Suggested Time: 36 Minutes)

Adam is the financial controller of Aquatic Corporation, a large publicly traded company that is experiencing rapid growth. Recently, the company's CEO has expressed concerns about a potential hostile takeover by competitors due to the undervaluation of the company's stock. In response, the CEO has proposed a plan to boost the company's reported earnings over the next few quarters.

At the same time, the company has a significant amount of debt, and there are concerns about meeting the debt covenant ratios specified by lenders. The company's loan agreements require it to maintain a specific debt-to-equity ratio and interest coverage ratio. Any violation of these covenants could lead to penalties, higher interest rates, or even immediate repayment of the debt.

Additionally, Aquatic Corporation is under increased scrutiny from regulators and the media due to its market dominance, leading to concerns about potential political costs. The CEO has asked for Adam's advice on the financial reporting decisions that could help manage the company's political visibility and mitigate these concerns.

REQUIRED:

- A. Identify and discuss three potential agency problems that could arise between the company's shareholders and management in this scenario. (6 Marks)
- B. Given the company's debt situation and the loan covenants in place, identify two potential agency problems between debt holders and management. How could these issues impact the company's financial health and its relationship with creditors? (4 Marks)
- C. Discuss some of the opportunistic actions that the CEO might undertake to show an improved reported performance to avoid certain risks? (6 Marks)
- D. Considering the increased scrutiny from regulators and the media, explain one type political cost the company could face, and how might management use earnings management to help reduce this cost? (4 Marks)

QUESTION 4

ACCOUNTING MEASUREMENT SYSTEMS – 20 MARKS

(Suggested Time: 36 Minutes)

PART A

Best Sugars Limited started operations with \$200,000 cash on 1st January, 2025. The company also received loan from the bank worth \$100,000. With the available cash, the company used 50% of the money and bought sugarcane stalks (raw material) from various sugarcane farmers at the price of \$50 per tonne. On 31st December, 2025 the company sells all the sugar produced at \$150 per tonne. On this date, the current cost of each tonne of sugarcane has risen by \$25. Assume that 40% of profits made at the end of the accounting period are paid out as dividends after a tax payment at the rate of 10%. Assumption: 1 tonne of sugarcane = 1 tonne of sugar produced. The company also incurred operational costs of \$165,000.

REQUIRED:

Using the current cost accounting as a measurement, calculate the maximum dividend the company can pay out while still maintaining its: (Show all your working)

- A. Financial Capital (5 Marks)
- B. Physical Capital (5 Marks)

PART B

There are three main measures of profit and capital (Godfrey et al., 2012).

REQUIRED:

Discuss the three main measures of profit and capital in some detail and provide some optimistic views and criticisms of each of the measures. (10 Marks)

QUESTION 5

SUSTAINABILITY REPORTING AND EMERGING ISSUES IN ACCOUNTING – 20 MARKS

“The Trustees of the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB) on 3 November 2021 at COP26 in Glasgow, following strong market demand for its establishment. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets” (Source: IFRS Foundation).

REQUIRED:

- A. Discuss in some detail about the two new sustainability standards developed by the International Sustainability Standards Board (ISSB) including their main objectives and how it achieves the strong market and public demand. (10 Marks)
- B. Use relevant systems-oriented theories to explain why the ISSB is focusing only on primary users similar to Conceptual Framework of Accounting and what are some of the criticisms noted about this approach. (10 Marks)

*****THE END*****

