

*Ollscoil na hÉireann, Gaillimh*  
**National University of Ireland, Galway**

**Summer Examinations 2000**

**Bachelor of Commerce Degree Examination**

**Financial Accounting Seminar (AY 311)**

**Professor R. W. Scapens**

**Professor S. Collins**

**Mr. K. Warnock**

**Time Allowed:    Three Hours.**

**Answer TWO questions from each section, a total of FOUR questions.**

**Please use separate answer books for each section of the paper.**

**All questions carry equal marks.**

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**SECTION A**  
**(Answer TWO Questions)**

**Question 1:**

"There is no simple answer to the question of how much weight should be accorded economic consequences in formulating accounting standards". (Victor H. Brown).

Explain the term *Economic Consequences* and discuss the relevance of economic consequences considerations in the standard-setting process.

(25 Marks)

**Question 2:**

In his paper "*Decision Oriented Financial Accounting*", Sterling developed a case for Exit Value accounting by applying the "relevance" criterion.

- a) Explain how Sterling applied the relevance criterion in this case.

(10 Marks)

- b) Is Sterling's argument for Exit Value accounting compelling? Discuss.

(15 Marks)

Total: 25 Marks

**Question 3:**

Zmijewski and Hagerman (Z & H) adopted an '*income strategy*' approach in attempting to explain management's choice of accounting methods.

- a) Explain why a manager may have preferences for the accounting methods to be used in the reporting of financial results.

(10 Marks)

- b) Explain why Z & H adopted this income strategy approach, and indicate how successful their model appears to be in explaining accounting-choice behaviour.

(15 Marks)

Total: 25 Marks

**Question 4:**

"We should not despair because accounting research cannot provide conclusive evidence about the optimal set of allowable accounting procedures". (May & Sundem).

Discuss May and Sundem's views on the nature of accounting policymaking, and on the role of accounting theory and research in the policymaking process.

(25 Marks)

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**Section B begins on the next page**

**P.T.O. ⇒**

**SECTION B**  
**(Answer TWO Questions)**

**Question 5:**

- (a) Summarise the discussion of the qualitative characteristic of reliability in the Accounting Standards Board's Statement of Principles.  
(9 Marks)
- (b) Explain, with appropriate illustrations, the potential for conflict between the four main qualitative characteristics.  
(8 Marks)
- (c) In your view, is the Statement of Principles likely to be useful to anybody other than the Accounting Standards Board itself?  
(8 Marks)
- Total: 25 Marks

**Question 6:**

"The process of setting accounting standards involves a compromise between fundamental principles of accounting and the need to develop a set of regulations which will prove acceptable to the major interest groups such as preparers."

Assess the validity of this statement by reference to the debate on the development of a standard on any topic which, in your view, has proved controversial for the Accounting Standards Committee or the Accounting Standards Board.  
(25 Marks)

**Question 7:**

The process of developing a set of international accounting standards commanding widespread support has proved difficult. Explain the problems that were encountered in this process, with particular reference to the significance of differences in the nature of accounting systems among countries.  
(25 Marks)

**Question 8:**

- (a) Outline the main features of the system of current cost accounting developed in the 1970s and 1980s.  
(15 Marks)
- (b) Assess the argument that current cost information is clearly more relevant than historical cost information, and the logic of the Accounting Standards Board's Statement of Principles therefore suggests that current cost accounting should be adopted even in the absence of a significant level of inflation.  
(10 Marks)
- Total: 25 Marks

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**( End of Question Paper )**