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Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Semester I Examinations 2001/2002

Bachelor of Commerce Degree Examination

Accounting Theory and Policy (AY 320)

Professor N. Garrod

Professor S. Collins

Time Allowed: Two Hours.

Answer Question 1, and two additional questions

Question 1: (This Question is Compulsory)

Answer either (A) or (B), for 30 Marks.

- (A) Discuss the alternative interpretations of accounting theory outlined by Sterling in his paper "On Theory Construction and Verification". What is his preferred interpretation of accounting theory, and why?

(30 Marks)

OR:

- (B) Describe the methodology applied by Ball and Browne in their study of capital market reactions to annual earnings announcements, and briefly review their findings.

(30 Marks)

The remaining questions are on the next page:

P.T.O. ⇒

Question 2:

- (a) Under "ideal circumstances", the problem of defining an appropriate measure of income and wealth is a trivial one. Discuss. (15 Marks)
- (b) Discuss the limitations of the approach which attempts to compare practical accounting methods with an "ideal", such as economic income, in the search for "better" accounting. (20 Marks)
- (Total: 35 Marks)

Question 3:

Rappaport and Solomons presented contrasting views on the role of 'Economic Consequences' considerations in the process of developing accounting standards.

- (a) Explain the term 'Economic Consequences', and discuss how economic consequences may be associated with accounting standards. (15 Marks)
- (b) Discuss Rappaport's and Solomons' views on the relevance of economic consequences considerations in accounting standard setting. (20 Marks)
- (Total: 35 Marks)

Question 4:

Beaver, Kennelly and Voss described the use and limitations of Predictive Ability as a criterion for the evaluation of alternative accounting methods.

- (a) Explain the rationale for the use of the predictive ability criterion in the evaluation of alternative accounting measurements. (15 Marks)
- (b) Discuss the limitations of this approach to the identification of "better" accounting. (20 Marks)
- (Total: 35 Marks)

Question 5:

Zmijewski and Hagerman argued that management selects an integrated portfolio of accounting procedures, i.e. an income strategy, rather than making a series of independent decisions in relation to each individual accounting choice.

- (a) Explain why a manager may be concerned with the choice of accounting methods used in the reporting of financial results. (20 Marks)
- (b) Discuss the reasons why these authors adopted this Income Strategy view, and outline their empirical research study on the issue. (15 Marks)
- (Total: 35 Marks)

End of Question Paper
