



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

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BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025

Three Hours

ACC 31103 Accounting Theory and Practice

Academic Year 2024/2025

Instructions: Answer any five (05) questions.

01.

- I "What is meant by Accounting Theory? Discuss its main objectives in the context of financial reporting". **(03 Marks)**
- II Critically examine the role of Accounting Theory emphasizing its usefulness for accounting and reporting practices. **(05 Marks)**
- III Differentiate between Stakeholder theory and Shareholder theory in accounting with particular reference to the following aspects.
- (a) The major concerns of each theory.
- (b) The core principle of stakeholder theory with examples.
- (c) The relative importance of Stakeholder Theory over Shareholder Theory in ensuring sustainable and successful businesses. **(06 Marks)**
- (Total Marks 14)**

02.

- I Agency theory in accounting explains how financial reporting, auditing, and incentive systems are designed to align the interests of managers and shareholders, reduce information asymmetry, and control agency costs.
- Define Agency Theory in accounting, and discuss its key structures, agency problems, and the role of accounting in managing these problems. **(06 Marks)**
- II Critically evaluate the three main categories of agency costs, providing examples for each category, and discuss the associated advantages and challenges, if any. **(08 Marks)**
- (Total Marks 14)**

03.

- I Briefly explain the three main stages involved in installation of an Accounting Information System (AIS). (04 Marks)
- II Outline four general principles that should be considered when designing an accounting information system. (02 Marks)
- III. Describe the key steps involved in the implementation of an Accounting Information System (AIS), highlighting the benefits of AIS implementation and the considerations necessary for its successful implementation. (08 Marks)

(Total Marks 14)

04.

- I Discuss accounting as a social phenomenon and explain how societal factors influence accounting practices. (04 Marks)
- II Social theories explain the social nature of accounting. Social theories of accounting examine how accounting practices are shaped by, and in turn influence, social structures, relationships, and broader societal contexts. These theories challenge the traditional view of accounting as a neutral, technical practice by highlighting its social construction and implications.

Explain three social theories illustrating associated key ideas with suitable examples.

(05 Marks)

- III Corporate Social Responsibility (CSR) accounting is the most business-focused alternative, specifically dealing with how corporations measure, manage, and report their social responsibility initiatives. CSR accounting often emphasizes voluntary initiatives beyond legal compliance.

In view of the above statement, briefly explain the key principles of 'Ethical Sourcing', a key component of CSR, and discuss its implications for creating long-term value for businesses through ethical business conduct. (05 Marks)

(Total Marks 14)

05.

- I Discuss the main purposes and the role of accounting standards in relation to the accounting profession. (03 Marks)
- II The conceptual framework identifies two types of qualitative characteristics of useful financial information.

Briefly discuss these characteristics, providing suitable examples.

(04 Marks)

III What is meant by Human Resource Accounting (HRA), and outline its main objectives.

(04 Marks)

IV Several approaches exist for valuing human resources, each with distinct advantages and limitations.

Discuss this in relation to the four main Human Resource valuation methods in HRA.

(03 Marks)

(Total Marks 14)

06.

I Explain the concept of value relevance of accounting information, illustrating the factors affecting to the Value Relevance. (03 Marks)

II "Basic Premise behind the value relevance is that if accounting information is useful, it should be reflected in stock prices, either immediately upon release or through its ability to predict future cash flows and firm performance".

Describe the connection of **Gordon's Dividend Valuation Model** to value relevance in accounting, highlighting related assumptions. (03 Marks)

III Sineth PLC provides the following details relating to its stock prices and dividends.

Current stock market price: Rs. 600.00

Last year's dividend: Rs. 25.00 per share

Historical dividend growth rate: 10% annually

Required rate of return: 15% (based on risk assessment)

(a) Calculate the intrinsic value of a share. Give your recommendations for investment decisions comparing this intrinsic value with the current market value, and interpret the consequences of valuations.

(03 Marks)

(b) Explain the practical implications of Gordon's Dividend Valuation Model for corporate reporting, financial analysts and accounting standard setters.

(03 Marks)

(c) Outline the limitations of Gordon's Dividend Valuation Model and clarify the situations where the model may not be appropriate for use.

(02 Marks)

Total Marks 14)

Note: Gordon's Model $P_0 = D_1/(r - g)$; $D_1 = D_0 \times (1 + g)$

Where: P_0 = fair value (Intrinsic Value) of the Stock,

D_1 = expected dividend, r = required return, g = growth rate

07.

- I) "Traditional accounting methods are becoming less efficient, especially for companies considering to grow and expand their businesses significantly while improving efficiency and profitability. Cloud-based accounting represents a fundamental shift from traditional desktop-based accounting software to internet-based platforms that store and process financial data on remote servers. This contemporary accounting concept has become essential for modern businesses".

Evaluate the above statement focusing on the key features and capabilities, their security and data protection aspects, and associated benefits for the business with cloud-based accounting practices. (06 Marks)

- II "Society's increasing awareness of environmental issues has encouraged companies to consider their interactions with the natural environment. Business firms need to manage and control both external environmental costs from their activities and internal environmental costs relating to waste management, energy consumption etc. Companies going for environmental accounting should identify internal environmental costs in the first instance".

Evaluate the above statement focusing on the followings;

- (a) The major components, measurement approaches, and environmental reporting elements involved in Environmental Accounting and Reporting
- (b) Internal environmental costs
- (c) Incentives and disincentives for corporate environmental reporting, listing out five points in each category based on Solomon and Solomon (2006).

(08 Marks)

(Total Marks 14)
