



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
MARCH 2024 SEMESTER**

COURSE CODE : EAB41403
COURSE NAME : INTEGRATED CASE STUDY
PROGRAMME NAME : BACHELOR IN ACCOUNTING (HONS)
DATE : 29 JUNE 2024
TIME : 2.00 PM – 5.00 PM
DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Please **CAREFULLY** read the instructions given in the question paper.
2. This question paper has information printed on both sides of the paper.
3. This question paper consists of **THREE (3)** questions.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE SIX (6) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)**INSTRUCTION: Answer ALL questions.****CASE STUDY 1**

Beready Berhad is a manufacturer of rechargeable batteries. It produces a range of rechargeable batteries of different types and sizes, which it sells to two main markets; industrial markets and individual consumers. For industrial markets, Beready Berhad focuses on the manufacturing of batteries for cordless power tools, laptop computers and mobile phones. For individual consumers, the focus is on batteries for portable personal stereos, toys, hand-held equipment and cameras.

Beready Berhad has enjoyed steady growth in its industrial markets segment. It employs a differentiated segmentation strategy in each of its targeted segments (industrial and individual consumers), allowing it to focus on markets that offer high returns and opportunities for growth, in line with its key corporate objectives.

Lisa has been the Chief Executive Officer of Beready Berhad for the last three years. Previously, when she was the Marketing Manager, responsible for boosting profits and market share, the following strategies had been adopted:

- Increasing the marketing of batteries under the individual consumer segment, by targeting the growth of cordless applications.
- Investing heavily in the niche camera battery market, which is fast growing due to the trendy lifestyle and shrinking prices of digital cameras to maintain the high market share held by Beready Berhad.
- Reducing investment in the larger 'battery pack' products; the market share of which has been low and steadily eroded by miniaturization.
- Investing in the development of new 'smart' batteries that indicate to users the amount of power remaining and charging status of the batteries.

Recently, Beready Berhad has suffered several setbacks. A new legislation has been introduced to ban one type of rechargeable batteries produced by Beready Berhad, due to the harmful health effect of the cadmium electrode to consumers. The legislation will come into force in the upcoming years. Lisa is therefore keen to maximise sales of the existing

product whilst it is still marketable. She has initiated a major sales promotion and increased the rate of production, to keep pace with demand, by halting all product testing. However, the news of the negative impact of cadmium electrodes has reached the public. Consequently, Beready Berhad is overwhelmed by returned goods from both industrial markets and individual consumers.

To keep the share price high, Lisa instructed Yusry, the Finance Director, who is also a Chartered Accountant, to omit the recording of returned products worth RM1.5 million. In addition, Lisa warned that the company's performance might also be affected and this will also affect Yusry as the Finance Director. Yusry initially argued that this would be unethical and against his professional code of conduct, but he eventually complied with Lisa's instructions. Under further pressure, Yusry was also persuaded by Lisa to create fictitious sales worth RM7 million and to falsify the earnings per share figure. He managed to do this by generating several hundreds of false invoices for large industrial orders and by understating expenses.

Lisa insisted on an unqualified audit report from their present audit firm, Azam and Co. who have been with them since inception. However, the senior auditor in charge disagreed with the request. Lisa approached a new audit firm, owned by her cousin, Mikail and Co, to audit and provide an unqualified audit report. In return, she guaranteed to an above average audit fee for Mikail and Co. Despite difficulties in completing the audit due to incomplete information and records, Mr. Ismail from Mikail and Co. issued an unqualified audit report.

With reference to the abovementioned case, you are required to answer the following questions:

- a) Comment on the marketing strategies adopted by Lisa during her time as the Marketing Manager.

(12 marks)

- b) Identify and propose **FIVE (5)** possible solutions to the ethical issues that have arisen in Beready Berhad.

(15 marks)

- c) If you were the Finance Director of Beready Berhad, what would be your response to Lisa's instructions. Provide **FIVE (5)** possible responses.

(15 marks)

- d) Discuss **FIVE (5)** implications of the action taken by Mr. Ismail to his firm Mikail and Co in relation to the professional audit code of conduct.

(10 marks)

- e) Explain **FOUR (4)** auditor's responsibilities in detecting fraud and error.

(8 marks)

[60 marks]

CASE STUDY 2

As a new coffee company in China, Luckin coffee has already surpassed Starbucks and other coffee chains in the number of local stores since its establishment, and has a good development prospect. However, before the financial fraud was exposed, there had been signs of problems in its operation, which attracted the attention of the outside world. The first store in Luckin coffee opened in October 2017, and Luckin coffee was listed on NASDAQ on May 17, 2019. It was successfully listed in less than two years after its establishment, setting a record for the fastest listing of Chinese start-ups. Luckin coffee is committed to providing customers with high-quality, cost-effective, and convenient products by making full use of the new retail model of mobile internet and big data technology. In January 2020, the number of direct-operated stores reached 4,507 making it the largest coffee chain brand in China. Luckin coffee had carried out many rounds of financing, with the help of strong capital to promote the rapid development of the company. In July 2018, the A round of financing of 200 million US dollars was completed, and the post-investment valuation was 1 billion US dollars; in December 2018, it completed Series B financing of USD 200 million, with a post-investment valuation of USD 2.2 billion.

On April 2, 2020, the fraudulent transactions of Luckin coffee company were exposed, involving a total amount of 2.2 billion yuan. The negative impact of financial fraud on the company's share price was very prominent, from foreign regulators to domestic netizens, Luckin coffee stock price fell and triggered the fuse mechanism, the total closing value was less than 1.6 billion US dollars, the subsequent malignant influence continued to expand. In

2020, Luckin coffee disclosed that the financial fraud sales amounted to 2.2 billion, which aroused media and social concern. Luckin coffee announced that it had set up a special committee to conduct internal investigation, and the preliminary investigation report of self-explosion showed that the sales increased by 2.2 billion yuan from the second quarter of 2019 to the fourth quarter of 2019. Liu Jian, chief operating officer (COO) and director of Luckin coffee, and several subordinate employees engaged in misconduct, including fabricating transactions. Affected by this, Luckin's stock price dropped by over 80%, and its market value evaporated by nearly 5 billion US dollars. In the first three quarters of 2019, Luckin's main business income was 2.9 billion yuan, and now the fraud scale of 2.2 billion yuan in 2019 has approached the total revenue scale of the first three quarters. On May 19th, Luckin coffee was asked to delist from Nasdaq and apply for a hearing. On June 29th, Luckin coffee officially suspended trading and was delisted. Since the establishment of Luckin business stability, the highest share price reached 50.02 yuan. However, the stock price in 2020 occurred a precipitous decline, until now 1.38 yuan, resulting in this result is the direct cause of the financial fraud Luckin exposure. The fraud is a breach of trust that cannot be tolerated in the market. It causes consumers to lose trust in the company, and the corresponding demand for its shares will decrease, resulting in a drop in the share price. It also causes the company to be plagued by lawsuits and huge fines, and eventually delisted from Nasdaq.

The outbreak of the Luckin incident not only brought about a serious crisis of confidence and punishment for the company, but also greatly worsened the foreign listed companies, the credibility of the obvious decline, reputation risk increased. The financial fraud by Luckin has had a negative impact on other Chinese companies listed in the US, not only the listed companies but also their share prices, making it even more difficult for unlisted companies. On the one hand, for listed companies, the financial frauds of one china-listed stock will reflect through the investor's market that this channel will cause negative externalities to other China-listed stocks, this is reflected in the abnormal fluctuations in the share prices of China's listed companies. In the wake of the Luckin incident, the market performance of China's and Taiwan's stocks became increasingly unfavourable, the yield began to show negative values, and the credibility of China's and Taiwan's stocks was significantly damaged. On the other hand, when a crisis of trust arose, Chinese companies wishing to go public in the United States might come at a greater cost.

(Source: Adapted from Feng & Chen, 2021)

Required:

- a) Elaborate the frauds committed by Luckin Coffee. (12 marks)
- b) Analyse and elaborate the case by utilising Fraud Triangle Theory. (10 marks)
- c) Explain **FOUR (4)** significant impacts that financial fraud can have in both financial and non-financial perspectives. (8 marks)
- [30 marks]**

CASE STUDY 3

DowChem Ltd manufactures a chemical compound which is widely used in industrial cleaning. The compound is made from a small number of chemical products. One of these raw materials, Chemical X, is bought from a supplier in a developing country. Chemical X is toxic and can cause serious damage to health of individuals who are exposed to it. It is also known that the local environment around factories that produce Chemical X are subject to extensive contamination.

A few months ago DowChem Ltd renewed a long-term agreement with the supplier for the purchase of Chemical X. Senior management are aware of the health and environmental risks associated with Chemical X, but did not see that these had any relevance to its own business. The toxic effects of the chemical are discharged by its treatment in the production process that DowChem Ltd uses to make its own chemical compound.

Following a major industrial accident one week ago at the main manufacturing site of the supplier of Chemical X, there has been a widespread and intensive reporting campaign in the press and television. The dangers of the Chemical X have become a matter of widespread public debate, and a television program has identified DowChem Ltd as a major user of the product. An action group has been formed that seeks to ban the import of Chemical X into the country and to ensure the closure of DowChem Ltd manufacturing sites.

The board of directors of DowChem Ltd believe that the public concern is excessive and unjustified, but the directors now recognise that they should have done much more to report on the risks from Chemical X, and the measures taken to deal with them, in their social and environmental report.

Required:

Based on the case, discuss **FOUR (4)** Sustainable Development Goals (SDGs) that are particularly significant to assist the company and society to address the issue of Chemical X contamination.

(10 marks)

10 marks

END OF EXAMINATION PAPER