



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION MARCH 2024 SEMESTER

COURSE CODE	: EAB30903
COURSE NAME	: ACCOUNTING THEORY AND PRACTICES
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 10 JULY 2024
TIME	: 09.00 AM – 12.00 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 **FOUR (4)** 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 FIVE (5) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.

Question 1

- a) The failure of managers to release bad news is a version of the adverse selection problem. Such failure indicates that the securities market is not working well.

Required:

- i) Briefly explain why might a manager withhold bad news.
(4 marks)
- ii) Briefly explain when the disclosure principle operates to motivate managers to report bad news.
(4 marks)
- iii) Discuss why adverse selection and moral hazard problems are sources of market failure in the production of information.
(5 marks)

- b) Information asymmetry is a unifying theme that formally recognizes that some parties to business transactions may have an information advantage over others or may take actions that are unobservable to others. When this happens, the economy is said to be characterized by information asymmetry.

Required:

Briefly explain the following scenario and why it occurred by using the concept of information asymmetry.

- i) You observe that used cars sold by new car dealers sell for a higher price, for models of same make, year, and condition, than used cars sold by used car dealers.
(3 marks)
- ii) Why would a fire insurance policy contain a RM1,500 deductible provision?
(3 marks)

- iii) Why would a life insurance company require a medical examination before approving applications for new policies.

(3 marks)

- iv) A firm plans to raise additional capital by means of a new issue of common shares. Before doing so, it hires a well-known investment house to help design and market the issue, and also switches auditors from a small, local firm to a "Big Four" firm.

(3 marks)

[25 marks]

Question 2

- a) Regulators or standard setters, such as the Securities Commission Malaysia (SC) promote Sustainability Reporting Framework, while the Malaysian Accounting Standards Board (MASB), issued Malaysian Financial Reporting Standards (MFRS).

Required:

Discuss whether regulators or standard setters should be aware of the insights from institutional theory.

(5 marks)

- b) The Trustees of the IFRS Foundation established the International Sustainability Standards Board (ISSB) in 2021. In 2022, the ISSB released two exposure drafts. In terms of why the ISSB published the exposure drafts, it is stated (ISSB, 2022, p. 5) that:

These proposals respond to calls from primary users (investors, lenders and other creditors) of general purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value.

Required:

Given the above purpose, discuss the relevance of the ISSB.

(8 marks)

- c) Evidence shows that organisational social and environmental reporting is often a response to negative media attention. Such evidence supports the view that managers will publicly disclose information as a means of strategically managing different stakeholders, including winning stakeholder support.

Required:

Discuss **FOUR (4)** points on why this evidence should be a concern to us.

(12 marks)

[25 marks]

Question 3

- a) In the international arena, the International Accounting Standards Board (IASB) has also issued accounting standards for SME. However, initially the Board has been criticised that it should not bear the responsibility of formulating accounting standard for SMEs.

Required:

- i) Discuss **FOUR (4)** reasons behind this criticism.
- (12 marks)
- ii) Justify the need to develop a set of accounting standards specifically for SMEs.
- (5 marks)
- b) Overall, Extensible Business Reporting Language (XBRL) projects have had a significant impact on financial reporting, contributing to greater transparency, efficiency, and reliability in the reporting process.

Required:

Discuss **FOUR (4)** benefits of XBRL to corporations and stakeholders.

(8 marks)

[25 marks]

Question 4

- a) “Many countries have opted for International Financial Reporting Standards (IFRSs) for the apparent economic advantages perceived. As such it is not surprising that even countries like Malaysia, which is one of the pioneers and at the forefront in Islamic finance, had opted for full convergence of its reporting practices with IFRSs in 2012, but not Accounting and Auditing Organization of Islamic Financial (AAOIFI). Many believe the Islamic banks require accounting standards consistent with the underlying *shariah* principles which are unique. The major problem for Islamic banks that follow IFRSs is that the nature of transactions and their reporting framework do not match”.

Hussan & Sulaiman (2016). Between International Financial Reporting Standards (IFRS) and Financial Accounting Standards (FAS): The Debate Continues. International Journal of Economics, Management and Accounting, 24, 107-123.

Required:

- i) Explain **THREE (3)** roles of Accounting and Auditing Organization of Islamic Financial (AAOIFI) and International Accounting Standard Board (IASB).
(12 marks)
- ii) Assess why IFRS is more popular among Islamic financial institutions (IFIs) than FAS AAOIFI. Provide **THREE (3)** factors.
(6 marks)
- b) “The clear distinction between investment and deposit accounts under the Islamic Financial Services Act (IFSA) 2013 paves the way for the accelerated growth of investment accounts as a distinct *shariah* compliant asset class and source of funding for Islamic banks. Under the IFSA, these important distinctions between these deposit accounts must be reflected in an Islamic bank’s operations as well as in its dealings with customers. Accordingly, pursuant to section 74 of the IFSA 2013, a licensed person shall ensure that financial statements are prepared in accordance with the MFRS ... and shall disclose a statement to that effect in the financial statement”.

(Bank Negara Malaysia (2014). Financial Stability and Payment Systems Report)

Required:

Assess the implication of IFSA 2013 on different types of investment accounts and the differing accounting treatment of these accounts in IFRS and AAOIFI.

(7 marks)

[25 marks]

END OF EXAMINATION PAPER