



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2025 SEMESTER**

COURSE CODE	: EAB21004
COURSE NAME	: FINANCIAL ACCOUNTING AND REPORTING 3
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 29 JANUARY 2026
TIME	: 02:00PM – 05:00PM
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 NINE (9) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided

Question 1

Earnings Management at Coral Bay Medical Centre

Company Background

Coral Bay Medical Centre (CBMC) is a 350-bed private specialist hospital located in Kota Kinabalu, Sabah. Established in 2010, the hospital is operated by Health Core Berhad, a publicly listed healthcare group that manages several private hospitals across Malaysia. CBMC is known for its advanced cardiology unit, maternity facilities and state-of-the-art diagnostic centre.

The hospital has experienced steady growth over the past decade, driven by increasing demand for private healthcare. However, the financial year ending 31 December 2025 proved challenging. A slowdown in patient admissions occurred due to a surge in public healthcare subsidies, which diverted some patients to government hospitals. Additionally, CBMC faced rising medical supply costs due to global inflation and a shortage of specialist nurses, which increased over time, as well as contract staffing expenses.

The hospital's operating margin dropped significantly, and profit fell by nearly 18% compared to the previous year. Meanwhile, Health Core Berhad is in the middle of negotiating a RM250 million financing deal to build a new cancer treatment centre in Johor. Bank lenders require strong evidence of stable earnings, liquidity, and operational efficiency. Management fears that CBMC's weaker 2025 profit could reduce confidence in the group's overall financial health.

Key Players

The two key figures are Dr. Raymond, the Chief Executive Officer (CEO) of CBMC, and Ms. Amira, the Financial Controller. Dr. Raymond is under intense pressure from Head Office to present a stable financial performance that supports the group's expansion plans. He believes that showing stronger 2025 results will help secure the financing needed for the new cancer centre.

Ms. Amira, however, is responsible for ensuring compliance with MFRS and ethical standards. While she understands the strategic importance of the financing deal, she is uncomfortable with several proposed financial adjustments that may distort the hospital's actual performance and mislead stakeholders.

Preliminary Financial Results (Before Adjustments)

CBMC's preliminary results for the financial year 2025 show a net profit of RM8.2 million, down from RM10 million in 2024, raising concerns about a decline in performance.

Statement of Profit or Loss for the year ended 31 December 2025:

	RM,000
Inpatient Services Revenue	40,000
Outpatient Services Revenue	22,000
Diagnostic and Laboratory Income	<u>5,000</u>
Total Revenue	67,000
Medical Supplies and Drugs	(18,000)
Staff Costs	(22,000)
Utilities and Maintenance	(6,500)
Depreciation Expense	(7,000)
Administrative and Other Expenses	(5,300)
Net Profit Before Tax	<u>8,200</u>

Proposed Earnings Management Strategies

Management suggested several adjustments to "strengthen" year-end profit before reporting to auditors:

1. Recognise RM1,500,000 of revenue from January 2026 elective surgeries in 2025 because patients had paid deposits before year-end.
2. Reduce maintenance expense from RM900,000 to RM400,000, arguing that equipment servicing could be postponed.
3. Defer the RM600,000 clinical training programme for nurses to the next financial year.

4. Capitalise RM750,000 of 2024 public awareness advertising in other expenses by classifying it as "health education assets," to be amortised in 2025.
5. Recognise a RM3,000,000 fair value gain on revaluation of medical equipment and hospital land.
6. Extend the useful life of diagnostic equipment from 8 years to 12 years, resulting in a reduction of depreciation by RM650,000.
7. Introduce aggressive year-end medical screening promotions, resulting in an additional RM520,000 diagnostic revenue recorded in 2024.

Dr. Raymond insists that all adjustments are defensible and fall within the "flexible interpretation" of accounting standards. However, Ms. Amira fears that these decisions undermine faithful representation and could mislead bankers, investors, and regulators.

Required:

- (a) Prepare a revised Statement of Profit or Loss that reflects the impact of all proposed earnings-management adjustments made by CBMC.
(9 marks)
 - (b) Calculate the percentage increase in net profit after earnings management.
(2 marks)
 - (c) Identify **THREE (3)** of CBMC's proposed adjustments that appear to be the most aggressive and justify each answer.
(6 marks)
 - (d) Discuss **FOUR (4)** measures organisations can implement to prevent earnings management.
(8 marks)
- [25 marks]**

Question 2

Maple Sdn. Bhd. is a technology firm with 220 employees. The company offers a range of employee benefits, including short-term benefits, annual bonuses, and a defined benefit post-employment plan. The following information relates to the financial year ended 31 December 2025:

1. Short-term Employee Benefits (Accumulating Annual Leave)

Employees are entitled to 12 days of annual leave, and any unused leave can be carried forward for up to one year. In the previous year, the liability for unused leave was RM90,000.

- Total unused accumulated leave: 480 days
- Average daily salary: RM250

2. Annual Performance Bonus

Maple awards an annual performance bonus based on the company's profit. In December 2025, management estimates the bonus for the year to be RM300,000, payable in February 2026.

3. Defined Benefit Pension Plan

Maple operates a defined benefit plan for its long-service employees. The actuary provides the following information:

	RM
Opening Defined Benefit Obligation (DBO)	1,500,000
Opening Plan Assets	1,100,000
Current Service Cost	220,000
Interest Rate (discount rate)	7%
Actual return on plan assets	60,000
Benefits paid to retirees	140,000
Employer contributions to the plan	180,000
Actuarial loss on the obligation	90,000

4. Termination Benefits

In November 2025, Maple announced that it would close one of its divisions. As a result, 12 employees will be terminated in January 2026. Each affected employee will receive:

- Cash compensation of RM8,000
- An additional 1 month salary averaging RM5,000

Management communicated the decision formally on December 10, 2025, and the affected employees accepted it in writing before the end of the year.

Required:

- (a) Compute the liability and expense for unused annual leave for 2025. (2 marks)
- (b) For the defined benefit plan, compute the following for 2025:
- i. Interest cost.
 - ii. Interest income on plan assets.
 - iii. Closing Defined Benefit Obligation (DBO).
 - iv. Closing plan assets.
 - v. Net defined benefit liability.
 - vi. Remeasurement amounts to be recognised in Other Comprehensive Income. (9 marks)
- (c) Determine the termination benefits expense and liability as at 31 December 2025. (2 marks)
- (d) Based on all employee benefit adjustments recognised for the year ended 31 December 2025, prepare the following extracts:
- i. Extract of Statement of Profit or Loss showing all employee-benefit-related expenses. (3 marks)
 - ii. Extract of Statement of Financial Position showing all employee-benefit-related liabilities and net defined benefit position. (3 marks)
- (e) Discuss **THREE (3)** reasons why termination benefits must be recognised immediately when the restructuring plan is announced and accepted by employees. (6 marks)

[25 marks]

Question 3

Aurora Bhd introduced an equity-settled share-based payment scheme for its employees on 1 January 2024. The primary purpose of the scheme is to retain high-performing employees and align their interests with the long-term value of the company's shareholders.

Grant Details:

1. Number of share options granted: 5,000 options
2. Exercise price: RM4 per share
3. Grant-date fair value per option: RM6
4. Vesting period: 3 years (employees must remain employed until 31 December 2026)
5. Type of arrangement: Equity-settled
6. Vesting condition: Service condition only
7. Initial expected annual forfeiture rate: 10%
8. Actual employee departures in 2025: 12%
9. The revised expected forfeiture rate (to apply prospectively): 12%
10. No further changes are expected in subsequent years.
11. No options are exercised or cancelled during 2024 and 2025.

As at 31 December 2025, management requests you to prepare all relevant accounting entries and disclosures for inclusion in the draft financial statements.

Required:

- (a) Determine the number of options expected to vest:
 - i. Based on the initial forfeiture rate of 10% per year. (2 marks)
 - ii. Based on the revised forfeiture rate of 12% per year. (2 marks)
- (b) Calculate the total fair value of options expected to vest using both the initial and revised estimates. (2 marks)
- (c) Calculate the share-based payment expense for 2025 using the initial estimate and the revised expense for 2026 after adjusting for the updated forfeiture estimate.

- (4 marks)
- (d) Determine the closing balance of the Share-based Payment Reserve at 31 December 2025 and 2026 based on cumulative expenses recognised.
- (2 marks)
- (e) Prepare extracts of the Statement of Profit or Loss for 2025 and 2026, showing the share-based payment expense within the employee benefits section.
- (2 marks)
- (f) Prepare extracts of the Statement of Financial Position as at 31 December 2025 and 2026.
- (2 marks)
- (g) Prepare the following disclosure notes required under MFRS 2:
- i. Nature and terms of the share-based payment arrangement.
 - ii. Method of measuring fair value, including key assumptions.
 - iii. Reconciliation and expense disclosure, including the number of options and amounts recognised.
- (9 marks)
- [25 marks]**

Question 4

XYZ Berhad is a manufacturing company preparing its financial statements for the year ended 31 December 2025. The company's finance team is working diligently to ensure that the year-end accounts present a true and fair view of the company's financial performance and position. The financial statements are scheduled to be authorised for issue on 28 February 2026.

The Statement of Financial Position as at 31 December 2025 (before adjustments) is as follows:

Assets:	RM
Cash and Bank	300,000
Accounts Receivable	500,000
Less: Allowance for Doubtful Debts	(20,000)
Inventory	200,000
Property, Plant and Equipment (Net)	<u>1,200,000</u>
Total Assets	<u>2,180,000</u>

Liabilities and Equity:

Accounts Payable	250,000
Accrued Expenses	80,000
Provision for Contingencies	30,000
Share Capital	1,200,000
Retained Earnings	<u>620,000</u>
Total Liabilities and Equity	<u>2,180,000</u>

Shortly after the year-end, management became aware of several events occurring before the authorisation of the financial statements, as outlined below:

1. Customer Bankruptcy

On 15 January 2026, a customer who owed XYZ Berhad RM120,000 as of 31 December 2025 went bankrupt. The finance team confirmed that the debt cannot be recovered. An allowance for doubtful debts of RM20,000 had already been recognised against this receivable in the 2025 accounts.

2. Fire at Warehouse

On 20 January 2026, one of the company's warehouses was destroyed by fire. The warehouse had a carrying value of RM500,000 and accumulated depreciation of RM150,000 as at 31 December 2025. The company's insurance covers RM450,000, and the claim is expected to be settled in full.

3. Dividend Declaration

On 25 February 2026, the board declared a dividend of RM0.10 per share, payable on 31 March 2026. XYZ Berhad has 2,000,000 ordinary shares outstanding.

4. Acquisition of ABC Sdn. Bhd.

On 10 February 2026, XYZ Berhad signed a contract to acquire ABC Sdn. Bhd. for RM1,200,000. The acquisition had not been completed by the reporting date.

5. Inventory Obsolescence

On 5 February 2026, management discovered that inventory with a cost of RM80,000, as of 31 December 2025, was damaged and could no longer be sold. The net realisable value of this inventory is zero.

6. Lawsuit Settlement

On 12 January 2026, the company settled a lawsuit related to an event that occurred during 2025, paying RM50,000. This liability had not been provided for in the financial statements.

Management of XYZ Berhad is now reviewing these events to determine which should be reflected in the 2025 financial statements and which require disclosure notes. The finance team needs to carefully analyse the timing and nature of each event to ensure compliance with MFRS 110 – Events After the Reporting Period. Proper classification and accounting treatment are crucial for providing users of the financial statements with accurate and reliable information, ensuring that the company's financial position and performance are fairly represented.

Required:

- (a) Classify each event as an adjusting or non-adjusting event according to MFRS 110. Provide a brief explanation for each. (6 marks)
- (b) Prepare journal entries for all adjusting events as at 31 December 2025. Include calculations where necessary. (4 marks)
- (c) Prepare an extract of the Statement of Profit or Loss showing the effect of adjusting events. (3 marks)
- (d) Prepare an extract of the Statement of Financial Position showing the effect of adjusting events on assets and liabilities. (6 marks)
- (e) Prepare disclosure notes for all non-adjusting events, including the nature of the event and estimated financial effect, if applicable. (6 marks)
- [25 marks]**

END OF EXAMINATION PAPER