UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EAB21004
COURSE NAME	:	FINANCIAL ACCOUNTING AND REPORTING 3
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	1 JULY 2026
TIME	:	9.00 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 ELEVEN (11) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.
Please use the answer booklet provided.

Question 1

Earnings Management at NurVeya Diagnostics Sdn. Bhd.

Company Background

NurVeya Diagnostics (NVD) Sdn. Bhd. is a private healthcare company headquartered in Shah Alam, Selangor, specialising in diagnostic imaging, laboratory testing, executive health screening, and outpatient specialist consultations. Established in 2014, the company has expanded steadily and now operates several diagnostic centres across Peninsular Malaysia. Its flagship facility in Shah Alam is equipped with advanced MRI and CT scan machines, pathology laboratories, and day-care consultation units.

In recent years, NVD benefited from rising public awareness of preventive healthcare and increasing demand for corporate health screening packages. However, the financial year ending 31 December 2025 proved more challenging than expected. The company faced a decline in patient volume due to increased competition from newly established private clinics and specialist centres in the Klang Valley. At the same time, the costs of imported medical supplies, laboratory reagents, and equipment servicing rose significantly due to inflation and exchange rate pressures.

In addition, the company experienced a shortage of qualified radiographers and laboratory technologists, forcing management to rely more heavily on outsourced professionals and temporary staffing. As a result, operating costs increased and profit for the year fell below management's expectations.

This weaker performance comes at a critical time because NVD is currently seeking new external investment to finance the opening of an integrated specialist screening and wellness centre in Penang. Potential investors have requested evidence of stable profitability, efficient operations, and strong financial performance before making any commitment. Senior management is therefore concerned that the company's weaker 2025 earnings may affect investor confidence and delay its expansion plans.

Key Players

Two senior executives are central to the year-end financial reporting process:

Mr. Hafiz, the Managing Director, is under pressure to deliver stronger financial results to support the company's fundraising efforts and maintain investor confidence.

Ms. Farah, the Finance Manager, is responsible for ensuring that the company's financial statements comply with MFRS and fairly and ethically reflect the company's actual financial performance.

While Mr. Hafiz argues that some year-end accounting adjustments are necessary to "present the business in a more favourable light," Ms. Farah is increasingly concerned that several of these proposals may amount to aggressive earnings management and may not reflect the company's true financial position.

Preliminary Financial Results (Before Adjustments)

NVD's preliminary results for the financial year ended 31 December 2025 are as follows:

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

	RM,000
Radiology and imaging revenue	28,500
Pathology and laboratory revenue	18,200
Health screening and consultation revenue	9,300
Total Revenue	**56,000**
Medical supplies and consumables	(13,800)
Salaries and staff costs	(17,400)
Equipment maintenance and service contracts	(4,800)
Depreciation expense	(5,600)
Administrative and advertising expenses	(4,900)
Net profit before tax	**9,500**

Proposed Earnings Management Strategies

Before the draft financial statements are submitted to the external auditors, management proposes the following adjustments to improve reported profit:

1. Recognise RM1,200,000 of revenue in 2025 relating to corporate health screening contracts that will only be delivered in January 2026, on the basis that customers had already signed agreements and paid deposits before year-end.

2. Postpone RM500,000 of equipment maintenance expense to the following financial year, claiming that some servicing work can be delayed without immediate operational impact.

3. Capitalise RM680,000 of nationwide promotional campaign costs for a public health awareness programme as an intangible asset, to be amortised over future years.

4. Recognise a RM2,800,000 fair value gain on the revaluation of the company's freehold land and diagnostic equipment in the profit or loss account.

5. Extend the useful life of MRI and CT scan equipment from 10 years to 15 years, resulting in a reduction of annual depreciation expense by RM720,000.

Mr. Hafiz insists that these adjustments are commercially justifiable and fall within management's discretion. However, Ms. Farah believes that several of the proposed adjustments may mislead investors and compromise the reliability of the company's financial statements.

Required:

(a) Prepare a revised Statement of Profit or Loss for NurVeya Diagnostics Sdn. Bhd. for the year ended 31 December 2025, reflecting the impact of all proposed earnings management adjustments.

(7 marks)

(b) Calculate the percentage increase in net profit before tax after the proposed earnings management adjustments.

(2 marks)

(c) Identify **THREE (3)** of NurVeya Diagnostics' Sdn. Bhd. proposed adjustments that appear to be the most aggressive and justify your answer.

(6 marks)

(d) Discuss **THREE (3)** ethical issues faced by Ms. Farah in this case as the Finance Manager of NurVeya Diagnostics Sdn. Bhd.

(6 marks)

(e) Explain **TWO (2)** possible consequences of earnings management on the users of financial statements.

(4 marks)

[25 marks]

Question 2

Crestline Hospitality Sdn. Bhd. (CHSB) is a Malaysian hospitality company that owns and operates a chain of boutique hotels and serviced apartments in major tourist destinations, including Langkawi, Penang, Melaka, and Kuala Lumpur. Established in 2013, the company has built a strong reputation for offering affordable premium accommodation and event services to both domestic and international travellers.

As at 31 December 2025, CHSB employs 260 employees, including hotel managers, front office staff, housekeeping personnel, chefs, maintenance technicians, and administrative staff. To attract and retain skilled employees in the highly competitive hospitality industry, the company offers a range of benefits, including short-term incentives, annual incentives, long-service retirement benefits, and termination packages.

In 2025, CHSB undertook an internal restructuring due to weaker occupancy at one of its resort properties. As a result, the company reviewed its employee benefit obligations and requested the finance department to ensure proper recognition and measurement of all employee benefits in accordance with MFRS 119 Employee Benefits. The following information relates to the financial year ended 31 December 2025:

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

Employees are entitled to 14 days of annual leave, and any unused leave may be carried forward for up to one year. The previous year's liability for unused annual leave was RM84,000.

Total unused accumulated leave at 31 December 2025: 560 days

Average daily salary: RM220

2. Annual Incentive Bonus

Crestline Hospitality awards an annual performance bonus to employees based on hotel profitability and service performance. In December 2025, management estimates the total annual bonus for the year to be RM360,000, payable in March 2026.

3. Defined Benefit Retirement Plan

CHSB operates a defined benefit plan for selected long-serving employees. The actuary provides the following information for the year ended 31 December 2025:

	RM
Opening defined benefit obligation (DBO)	1,800,000
Opening plan assets	1,350,000
Current service cost	250,000
Interest rate (discount rate)	6%
Actual return on plan assets	72,000
Benefits paid to retirees	160,000
Employer contributions to the plan	210,000
Actuarial loss on the obligation	55,000

4. Termination Benefits

In October 2025, CHSB announced that it would permanently close one of its smaller hotel branches in Melaka. As a result, 10 employees will be terminated in January 2026. Each affected employee will receive:

- Cash compensation of RM9,000
- An additional 1 month's salary averaging RM4,800

Management formally communicated the restructuring decision to the affected employees on 15 December 2025, and all affected employees accepted the termination arrangement in writing before year-end.

Required:

(a) Compute the liability and expense for unused annual leave for the year ended 31 December 2025.

(2 marks)

(b) For the defined benefit plan, compute the following for 2025:

i. Interest cost. (1 mark)

ii. Interest income on plan assets. (1 mark)

iii. Closing Defined Benefit Obligation (DBO). (6 marks)

iv. Closing plan assets. (5 marks)

v. Net defined benefit liability. (1 mark)

vi. Remeasurement amounts to be recognised in Other Comprehensive Income.

(1 mark)

(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, net defined benefit position and any related amounts recognised in equity (Other Comprehensive Income).

(3 marks)

[25 marks]

Question 3

Nexa Retail Group Berhad (NRGB) is a Malaysian retail company that operates a chain of fashion and lifestyle stores across major shopping malls in Kuala Lumpur, Selangor, Johor Bahru, and Penang. Established in 2015, the company has grown rapidly and is known for its trendy, affordable clothing and strong online presence.

To retain key employees and motivate long-term performance, NRGB introduced an equity-settled share-based payment scheme on 1 January 2024. The scheme is designed to reward employees based on continued service and to align employee interests with shareholder value.

Grant Details:

1. Number of share options granted: 8,000 options
2. Exercise price: RM5 per share
3. Grant-date fair value: RM7 per option
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: 8%
8. Actual employee departures in 2025: 10%
9. The revised expected forfeiture rate (to be applied prospectively): 10%
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, the finance department is required to account for the share-based payment scheme in accordance with MFRS 2 Share-based Payment and prepare the relevant calculations and financial statement extracts.

Required:

(a) Determine the number of options expected to vest:

i. Based on the initial forfeiture rate of 8% per year.

(2 marks)

ii. Based on the revised forfeiture rate of 10% 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 2024 using the initial estimate and the revised expense for 2025 and 2026 after adjusting for the updated forfeiture estimate.

(9 marks)

(d) 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)

(e) Prepare extracts of the Statement of Financial Position as at 31 December 2025 and 31 December 2026.

(2 marks)

(f) Prepare the following disclosure notes required under MFRS 2 Share-based Payment:

i. Nature and terms of the share-based payment arrangement.

(2 marks)

ii. Method of measuring fair value, including key assumptions.

(2 marks)

iii. Reconciliation and expense disclosure, including the number of options and amounts recognised.

(2 marks)

[25 marks]

Question 4

Green Plantation Berhad (GPB) is a Malaysian agricultural company that cultivates and processes palm oil. The company operates several plantations across Sabah and Sarawak, supplying crude palm oil to both local and international markets. Established in 2008, GPB has experienced steady growth driven by global demand for agricultural commodities.

As of 31 December 2025, the company is preparing its financial statements. The financial statements are scheduled to be authorised for issue on 1 March 2026.

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

	RM
Assets:	
Cash and bank	450,000
Trade receivable	620,000
Less: Allowance for doubtful debts	(25,000)
Inventory	300,000
Biological assets	900,000
Property, plant and equipment (Net)	1,500,000
Total Assets	**3,745,000**
Liabilities and Equity:	
Trade payables	300,000
Accrued expenses	120,000
Provision for legal claims	50,000
Share Capital	2,000,000
Retained Earnings	1,275,000
Total Liabilities and Equity	**3,745,000**

Shortly after year-end, the following events occurred before the financial statements were authorised:

1. **Customer Default**

   On 10 January 2026, a major customer owing RM150,000 as at 31 December 2025 was declared insolvent. The company expects to recover only RM30,000. The existing allowance for doubtful debts included RM20,000 for this customer.

2. **Flood Damage to Plantation Equipment**
   On 18 January 2026, heavy flooding damaged plantation machinery with a carrying amount of RM400,000. Insurance is expected to cover RM350,000.

3. **Dividend Declaration**
   On 15 February 2026, the board declared a dividend of RM0.08 per share. The company has 3,000,000 ordinary shares.

4. **Decline in Inventory Value**
   On 5 February 2026, management discovered that inventory valued at RM90,000 at 31 December 2025 had deteriorated due to improper storage. Its net realisable value is estimated at RM20,000.

5. **Court Case Settlement**
   On 12 January 2026, the company settled a legal claim arising from a dispute that occurred in November 2025. The settlement amount was RM80,000, while a provision of RM50,000 had already been recognised.

6. **Acquisition of New Land**
   On 8 February 2026, the company signed an agreement to acquire a new plantation land for RM2,500,000. The acquisition had not been completed as of 31 December 2025.

Management is required to determine the appropriate accounting treatment for these events, including whether they should be adjusted in the financial statements or disclosed only, in accordance with MFRS 110 Events After the Reporting Period.

Required:

(a) Classify each event as an adjusting or non-adjusting event according to MFRS 110 Events After the Reporting Period. Provide a reason for each event.

(6 marks)

(b) Prepare the journal entries for each adjusting event identified in part (a) as at 31 December 2025 with relevant calculations.

(3 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.

(7 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