



FINAL EXAMINATION
MARCH 2024

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| COURSE TITLE | ACCOUNTING THEORY AND PRACTICE |
| COURSE CODE | AACT4123 |
| DATE/DAY | 28 JUNE 2024 / FRIDAY |
| TIME/DURATION | 09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s) |

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 4 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet provided. [100 MARKS]

QUESTION 1

(25 Marks)

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established back in 1991, with the vision and objective to provide a platform to establish Islamic standards for the Shari' ah, Accounting, Auditing, Ethics and Governance for the global Islamic finance Industry which was then at an early infancy stage and was growing very fast. Since then, AAOIFI has come a long way setting up more than 100 standards for Shariah, accounting, etc. Compared to this good progress that has been achieved, the development that has happened in the financial industry and the conventional accounting standards was also enormous and it was always felt that AAOIFI is lagging to catch up with the new developments and changes that is happening in the Standard setting sphere and the overall business environment.

Since the last couple of years, the accelerated pace revision and development of new standards has reflected the changing business needs and the cover the gap between Islamic accounting standards and the conventional accounting standards.

Today, the Islamic financial industry has grown to more than US\$2 trillion in assets. AAOIFI has proper standards for recognition, measurement, disclosure, and financial reporting. The users of financial statements are overwhelmed with the various standards that are in use and applied for preparing the financial statements. At times, comparability and understanding of financial statements becomes difficult due to the various accounting standards used by different institutions, different regulators, and different geographies. Also, the Islamic transaction and products are not very common and prevalent. It becomes difficult for the user to clearly apprehend the transaction and products.

From the global Islamic financial institution's perspective, the Islamic Accounting Standards have not reached a mature stage that covers all aspects and transaction types of Islamic financial institutions. Nowadays, Islamic financial institutions are using either conventional accounting standards like IFRS modified to their requirements or Islamic Accounting Standards like AAOIFI issued in conjunction with IRS or GAAP.

Source: IFRS and the Shari'ah Based Reporting: A Conceptual Study (2018)

Required:

- a) Explain any **TWO (2)** needs of the Islamic Accounting Standards for Islamic financial institutions. (5 marks)
- b) Discuss any **TWO (2)** impacts of the establishment of AAOIFI Islamic Accounting Standards in supporting Islamic finance industry. (10 marks)
- c) Deliberate any **TWO (2)** of the differences in the financial statement elements between MASB and AAOIFI. (10 marks)

QUESTION 2 (25 Marks)

The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act 1997 (Act) as the standard-setting body of Financial Reporting Foundation (FRF) whose functions shall be the determination and issuance of accounting standards for the preparation of financial statements, which are required to be prepared or lodged under any law administered by the Securities Commission Malaysia, Bank Negara Malaysia, or the Registrar of Companies.

The MASB, together with the FRF make up the frameworks for financial reporting in Malaysia. This framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators, and the accountancy profession.

Required:

Explain any **FIVE (5)** roles of MASB in Malaysia. (25 marks)

QUESTION 3 (25 Marks)

Creative accounting can be defined as: "The use of methods of recording financial information about a company, which are considered as being legal but do not show the real situation clearly, usually making the company seem more successful than it really is."

Financial statements provide information that is used by interested parties to assess the performance of managers and to make economic decisions. Users may assume that the financial information presented in the financial statements or accompanying documents is reliable and fit for its purpose. Accounting laws and regulation attempt to ensure that reliable, consistent and timely information is produced and disseminated to the intended users. That is the principal

reason for having a broadly consistent and coherent set of accounting standards throughout the globe.

However, communications between users of the financial statements may be deliberately distorted by the activities of financial statement preparers who wish to alter the content of the messages being transmitted. This type of distortion or manipulation is often known as "creative accounting". While opinions on the acceptability of accounting manipulation vary, it is often perceived as reprehensible.

Required:

- a) Explain the **THREE (3)** main motives behind the use of creative accounting. (15 marks)
- b) Analyze the **FIVE (5)** techniques of creative accounting used worldwide. (10 marks)

QUESTION 4

(25 Marks)

Generally, the term "ethics" refers to morals or a code system that strongly offers the criteria for distinguishing between wrong and right (Banerjee & Ercetin, 2014). In accounting, financial statements is created with the element of independence and upholding the required ethical attributes, minimize errors and generate suitable information for the users of financial statements.

Users of financial statements rely on the accuracy, fair and truthful representation of financial statements and auditors' opinions regarding whether the statements represent the fair value of the organization. Even auditors and accountants, who are responsible for the integrity of a company's financials, are expected to implement professional ethics in performing their roles and responsibilities.

Required:

Based on the above statements, evaluate the **FIVE (5)** important elements of ethics in accounting. (25 marks)

***** END OF QUESTION PAPER *****