

**IFRS CONVERGENCE AND EARNINGS MANAGEMENT:
MALAYSIAN EVIDENCE**

By

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ABSTRAK

Kajian ini menyiasat tentang sama ada Piawai Laporan Kewangan Antarabangsa (PLKA) akan mengurangkan tahap pengurusan pendapatan dan menyampaikan maklumat penyata kewangan yang berkualiti kepada penggunaanya. Selain itu, kajian ini juga mengkaji tentang faktor-faktor yang menyumbang kepada pengurusan pendapatan sebelum dan selepas penggunaan PLKA. Sampel kajian ini terdiri daripada 231 buah syarikat-syarikat yang senarai di Bursa Malaysia. Tempoh masa kajian ini meliputi tahun 2005 (iaitu, sebelum penggunaan PLKA) dan tahun 2006 (iaitu, selepas penggunaan PLKA). Model akruan Kothari digunakan dalam kajian ini untuk mengukur tahap pengurusan pendapatan.

Dengan membandingkan tahap pengurusan pendapatan dalam dua tempoh yang berbeza (iaitu, sebelum dan selepas penggunaan PLKA), kajian ini mendapati bahawa penggunaan PLKA dapat mengurangkan tahap pengurusan pendapatan di kalangan syarikat yang senarai di Bursa Malaysia. Kajian ini juga menunjukkan bahawa faktor-faktor yang menyumbang kepada pengurusan pendapatan kekal sama selepas penggunaan PLKA. Hasil kajian melaporkan bahawa nisbah ahli pengarah yang tidak berlatarbelakang politik dalam lembaga pengarah mempunyai hubungan positif penting dengan pengurusan pendapatan sebelum dan selepas penggunaan PKLA. Di samping itu, kajian ini juga mendapati bahawa nisbah ahli pengarah bebas dalam lembaga pengarah, saiz lembaga pengarah, kualiti audit, pergantungan pasaran saham asing dan etnik tidak mempunyai hubungan dengan pengurusan pendapatan.

Antara pembolehubah kawalan, kajian menunjukkan bahawa saiz syarikat mempunyai hubungan negatif penting dengan pengurusan pendapatan sebelum penggunaan PKLA. Selain itu, kajian itu juga melaporkan bahawa keuntungan mempunyai hubungan positif penting dengan pengurusan pendapatan sebelum dan selepas penggunaan PKLA.

Kajian ini mempunyai implikasi untuk badan-badan kawal selia, tugas mereka untuk melihat ke dalam kesan IFRS penumpuan kepada sejauh mana pengurusan perolehan, terutamanya di negara Asia - Malaysia. Kajian ini mempunyai implikasi terhadap badan-badan kawal selia untuk memantau kesan penggunaan PKLA terhadap pengurusan pendapatan, terutamanya di negara Asia - Malaysia.

ABSTRACT

The study sheds light on whether IFRS convergence would reduce the extent of earnings management, which in turns delivers higher quality of financial statement information to its users. Besides, the study also investigates the explanatory factors of earnings management before and after IFRS convergence. The sample of the study consists of 231 Malaysian listed companies. The time frame of the study is year 2005 (i.e., pre-IFRS convergence) and year 2006 (i.e., post-IFRS convergence). Kothari's discretionary accruals model is used in the study to measure the extent of earnings management.

By examining the extent of earnings management in two different periods (i.e., pre-IFRS convergence & post-IFRS convergence), the study finds that IFRS convergence reduces the extent of earnings management among Malaysian listed companies. In addition, the findings reveal that the explanatory factors of earnings management remain unchanged after IFRS convergence. The findings report that the proportion of non-political connected directors on boards is significant positively associated with earnings management before and after IFRS convergence. In addition, the study also finds that the proportion of independent external directors on board, board size, audit quality, foreign stock market listing and ethnicity do not have any association with earnings management before and after IFRS convergence.

Among the control variables, the study reveals that company size is significant negatively associated with earnings management before IFRS convergence. Besides, the study also

reports that profitability is significant positively associated with earnings management before and after IFRS convergence.

This study has implications for regulatory bodies, tasking them to look into the effects of IFRS convergence on the extent of earnings management, particularly in an Asian country – Malaysia.

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TABLE OF CONTENT

PERMISSION TO USE.....	ii
ABSTRAK.....	iii
ABSTRACT.....	v
ACKNOWLEDGMENTS	vii
LIST OF TABLES.....	xi
LIST OF ABBREVIATIONS.....	xii
LIST OF FIGURE	xiii
CHAPTER ONE.....	1
INTRODUCTION	1
1.0 Introduction.....	1
1.1 Background of the study	1
1.2 Problem Statement	6
1.3 Research Objectives.....	8
1.4 Research Questions.....	9
1.5 Scope of the study.....	10
1.6 Significance of the study.....	10
1.7 Organization of the study.....	11
CHAPTER TWO.....	12
LITERATURE REVIEW	12
2.0 Introduction.....	12
2.1 Theoretical framework.....	12
2.2 Conceptual framework of earnings management	14
2.3 International Accounting Standards Board and IFRS.....	19
2.4 Malaysian Accounting Standards Board and accounting developments in Malaysia.....	22

2.5	Empirical results on IFRS and earnings management	24
2.6	Explanatory factors of earnings management.....	28
2.6.1	Independence of board members	30
2.6.2	Board size.....	32
2.6.3	Audit quality	33
2.6.4	Foreign stock market listing.....	34
2.6.5	Ethnicity	35
2.6.6	Political influence	37
2.7	Summary	39
CHAPTER THREE		40
METHODS		40
3.0	Introduction.....	40
3.1	Research frameworks.....	40
3.2	Hypotheses development	41
3.2.1	Impacts of IFRS on earnings management	41
3.2.2	Explanatory factors of earnings management.....	42
3.3	Research design	45
3.3.1.	Sample.....	46
3.3.2.	Operational definition and measurement of variables	49
3.3.3.	Research model for multivariate analysis	54
3.4	Summary	59
CHAPTER FOUR.....		60
RESULTS AND DISCUSSIONS.....		60
4.0	Introduction.....	60
4.1	Results of univariate analysis.....	60

4.2	The magnitude of IFRS convergence on earnings managements	71
4.3	Results of multivariate analysis	71
4.4	Results of additional analysis.....	78
4.5	Summary.....	82
CHAPTER FIVE		85
CONCLUSIONS AND RECOMMENDATIONS		85
5.0	Introduction.....	85
5.1	Findings of the study.....	85
5.2	Limitations of the study and recommendations	89
5.3	Summary.....	91
REFERENCES		92
APPENDIX.....		97

LIST OF TABLES

	PAGE
Table 3.1 Derivation of sample size	46
Table 3.2 Industrial sector of sample companies	48
Table 3.3 Operational definition and measures	51
Table 4.1 Descriptive statistics	62
Table 4.2 Results of univariate analysis	67
Table 4.3 Pearson moment-product correlation analysis	74
Table 4.4 Ordinary Least Square regression analysis	77
Table 4.5 Descriptive statistics for joint data	79
Table 4.6 Pearson moment-product correlation analysis for joint data	81
Table 4.7 Ordinary Least Square regression analysis for joint data	82

LIST OF ABBREVIATIONS

CCM	Companies Commission of Malaysia
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offerings
MACPA	Malaysian Association of Certified Public Accountants
MASB	Malaysia Accounting Standards Board
MBO	Management Buyouts
MICPA	Malaysian Institute of Certified Public Accountants
MIA	Malaysian Institute of Accountants
NEP	New Economy Policy
SC	Securities Commission

LIST OF FIGURE

	PAGE
Figure 3.1 Research framework for univariate analysis	40
Figure 3.2 Research framework for multivariate analysis	40

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This introductory chapter is organized as follows: Section 1.1 discusses background of the study. Section 1.2 highlights problem statement of the study. Section 1.3 describes the research objectives. Section 1.4 relates to research questions. Section 1.5 explains the scope of the study. Section 1.6 highlights the significance of the study, and Section 1.7 expounds the organization of the study.

1.1 Background of the study

Effective from 1 January 2006, IFRS-based accounting standards that are known as Financial Reporting Standards (FRS) is employed by public accountability companies in Malaysia. The new accounting standards, FRS¹, issued by Malaysian Accounting Standards Board (MASB) would be identical with International Financial Reporting Standards (IFRS) released by International Accounting Standards Board (IASB). The convergence of new accounting standards that are in line with IFRS is seen as a milestone in Malaysian accounting history, especially after the country experienced several domestic financial scandals, such as Transmile Group Berhad (TGB). In mid of 2007, TGB accounting scandal was shocked the domestic financial markets as its revenue for year 2005 and year 2006 was overstated by over RM500 million (The Edge Malaysia, 2009). The external auditor of TGB refused to declare true and fair view opinion on its financial statements and it resulted the company failed to file their audited account before

¹ The terms FRS, IFRS-based accounting standards and IFRS are used interchangeably in the study.

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