IFRS CONVERGENCE AND EARNINGS MANAGEMENT:
MALAYSIAN EVIDENCE

By

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ABSTRAK


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.

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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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
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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, FRS\(^1\), 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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REFERENCES


New Straits Times Malaysia.


