THE IMPACT OF MANDATORY IFRS ADOPTION ON EARNINGS MANAGEMENT IN MALAYSIA

NOOR AINI BINTI ARIFFIN

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NOOR AINI BINTI ARIFFIN

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ABSTRACT

This study investigates whether the impact of mandatory adoption of international accounting standards, IFRS, by Malaysian listed companies is associated with lower earnings management from 2009 to 2014. Earnings management is identified using absolute value of abnormal accruals, measured by ABACDEC and ABACKAS. By using Ordinary Least Squares Regression (OLS) and fixed effects estimation, the result of this study concludes that Malaysian listed companies engage in more earnings management after IFRS adoption. This study also investigates whether size (ASSET), profitability (ROA) and leverage (LDEBTA) influence the level of earnings management in Malaysian listed companies. The result shows that ASSET has a negative relationship with ABACDEC and ABACKAS, implying that larger companies engage in less earnings management as compared to smaller companies. In the aspect of leverage, the results indicate that LDEBTA has a positive relationship with the ABACDEC and ABACKAS, demonstrating that high leverage companies engage in more earnings managements. Finally, ROA has a positive relationship with ABACDEC and ABACKAS, demonstrating that in Malaysia, more profitable companies involve in more earnings management.

KEY WORDS: Earnings management, IFRS, Malaysia

ABSTRAK

Kajian ini mengkaji kesan penggunaan mandatori piawaian perakaunan antarabangsa, IFRS, ke atas pengurusan perolehan terhadap syarikat-syarikat yang tersenarai di Malaysia dari tahun 2009 hingga 2014. Pengurusan Perolehan diukur dengan menggunakan nilai mutlak akruan yang tidak normal, yang dilabelkan sebagai ABACDEC dan ABACKAS. Dengan menggunakan teknik *Ordinary least squares regression (OLS)* dan *fixed effects estimation*, hasil daripada kajian ini menyimpulkan bahawa syarikat-syarikat tersenarai di Malaysia semakin melibatkan diri dalam pengurusan perolehan selepas penggunaan mandatori IFRS. Kajian ini juga menyiasat sama ada saiz (ASSET), keuntungan (ROA) dan keumpilan (LDEBTA) mempengaruhi tahap pengurusan pendapatan terhadap syarikat-syarikat tersenarai di Malaysia. Hasilnya menunjukkan bahawa ASET mempunyai hubungan yang negatif dengan ABACDEC dan ABACKAS, menjelaskan bahawa syarikat-syarikat yang lebih besar kurang melibatkan diri dalam pengurusan perolehan berbanding dengan syarikat-syarikat yang lebih kecil. Dalam aspek keumpilan, hasil menunjukkan bahawa LDEBTA mempunyai hubungan yang positif dengan ABACDEC dan ABACKAS, menjelaskan bahawa syarikat-syarikat yang mempunyai keumpilan yang tinggi lebih melibatkan diri dalam pengurusan pendapatan. Akhir sekali, ROA juga mempunyai hubungan yang positif dengan ABACDEC dan ABACKAS, menunjukkan bahawa di Malaysia, syarikat-syarikat yang lebih menguntungkan lebih terlibat dalam pengurusan pendapatan.

PERKATAAN PENTING: Pengurusan Perolehan, IFRS, Malaysia

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CHAPTER ONE

INTRODUCTION

1.1 Background of study

International Financial Reporting Standards (IFRS) was first introduced in 2005. The European listed companies in European Union (EU) are among the earliest in preparing financial statement in accordance with the IFRS. The objectives of IFRS are to promote the transparency and comparability of financial statements, improve access to international capital markets, develop the quality of financial reporting, and increase the disclosure of financial information. Since its inception, many countries around the world require their domestically listed companies to prepare their financial reports in accordance with the IFRS. European Union (EU) countries make up the largest countries to fully comply with the IFRS since 2005, and for the Asia Pacific, Australia and Hong Kong were among the first countries to comply with the IFRS.

Nowadays, most of the countries are changing their accounting standards in accordance with the IFRS. According to Chebaane and Othman (2014), more than 115 countries around the world have adopted IFRS. For countries in emerging markets, Brazil, Canada, China, India and Japan are the earliest countries to adopt the IFRS in 2011 (Jeanjean and Stolowy, 2008). In Malaysia, the accounting standard setting body which is Malaysian Accounting Standard Board (MASB) had announced that Malaysia will comply with a mandatory adoption of the IFRS starting from 1 January 2012.

According to Chan (2012), most of the public listed companies in Malaysia had published their first set of IFRS-based quarterly reports by the end of May 2012. The transition from Malaysia national standards (FRS) to IFRS may change the company's financial results. As pointed out by Kouagou and Walker (2007), there are several key challenges of adopting the IFRS: performance figures are likely to differ from GAAP, and companies who use national accounting standards will experience cultural change in adopting the new standards. Aubert and Grudnitski (2012) summarized the adoption of the IFRS will benefit those countries that has already matured as it gives the greater comparability in financial reporting. The switch to the IFRS is costly for companies which use lower quality local accounting standard in the countries and significant reduce in managing earnings management practices.

Jeanjean and Stolowy (2008) concluded that by sharing the same accounting standard, it will help the managers and analysts to have a better look in comparing the company's performance of financial in different countries. Besides, this encourages positive competition because the same accounting standard will provide a lower cost for companies involved in international capital markets that seek the international fund as the IFRS promotes the transparency and gives a high quality financial reports. Moreover, Ewert and Wagenhofer (2005) in their study concluded that controlling the accounting standard can produce a financial reporting of good quality and reduce earnings management. For example, in emerging market, Zhou et al (2009) found the transition to the IFRS had increased the quality of financial reports, as well as decreasing the level of earnings management in China.

1.2 Overview of Malaysian Accounting System

Accounting standards in Malaysia are derived from common law sources and historically, they were derived primarily from the International Accounting Standards (IAS) (Graham and King, 2000; Saudagaran and Diga, 2000; Taplin, *et al.*, 2002). Accounting standards in Malaysia are regulated by the Malaysian Accounting Standards Board (MASB). This accounting standard body is assisted by the Financial Reporting Foundation (FRF). Overall, the MASB acts as an independent authority to develop and promote the accounting and financial reporting standards in Malaysia, in line with international best practices, to bring benefits to consumers, providers, auditors, and public members in Malaysia.

Before the IFRS was first introduced, the company must prepare financial statements in accordance with the provisions of the Companies Act 1965 and national accounting standards issued by the MASB. In accordance with the IFRS introduction in 2005 by the International Accounting Standard Board (IASB), MASB and FRF have introduced new accounting standards called Financial Accounting Standards (FRS) as an initial effort to reduce the gap between national accounting standards and international accounting standards. On 1 August 2008, the MASB and FRF had announced the plan for companies in Malaysia to fully adopt the IFRS on January 1, 2012, and the standard is now known as the Malaysian Financial Reporting Standards

(MFRSs). The execution of the new standards is expected to help local companies to be more competitive globally.

1.3 Differences between FRS and MFRS (IFRS equivalent)

IFRS emphasizes on robust disclosure requirements in order for companies in generating a transparent and high quality financial statement. The most significant change is in the measurement and recognition of financial assets, where the IFRS has introduced three categories of financial assets, the securities held to maturity (competition held-to-maturity), securities trading (trading securities), and available for sale securities (available-for-sale securities. Table 1.1 provides a brief comparison between the financial reporting standards (FRS) and IFRS.

Table 1.1
Differences between FRS and IFRS

FRS	**Equivalent IFRS/IAS**	**Differences**	**Transition to 2012**
FRS 102 Inventories	IAS 2 Inventories	The wordings in paragraphs 2 and 3 on biological assets follow that of the respective paragraphs in the original IAS 2 [the version of IAS 2 before issuance of IAS 41 Agriculture.]	The wordings in paragraphs 2 and 3 will be amended to follow that of IAS 2 when MASB adopts IAS 41 Agriculture.
FRS 116 Property, plant and equipment	IAS 16 Property, Plant and Equipment	An additional disclosure is included to require entity to disclose if it had applied the transitional provision, if any, provided by MASB when IAS 16 was first adopted as MASB approved accounting standard in 1998. That transitional provision allowed the entity to carry the asset's revalued amount as surrogate costs.	The staff proposes that this additional disclosure to be removed. See MASB ED 75
FRS 117 Leases	IAS 17 Leases	Two transitional provisions are added, one of which is in relation to the migration of	The staff proposes that these transitional

		MASB 10 Leases to FRS 117: 1. To require an entity that had previously accounted its leasehold land to classify the unamortised carrying amount as prepaid lease payment. If the entity had previously revalued such leasehold land, the entity shall retain the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments. IAS 17 does not have this transitional provision as the requirement to treat leasehold land as prepaid lease payment was already prescribed in the original IAS 17. 2. An entity need not disclose the effect of impending changes of accounting standards required under FRS 108 Accounting Policies, Changes in Estimates and Errors when it first applied the revised Standard.	provisions to be removed. See MASB ED 75
FRS 121 The Effects of Changes in Foreign Exchange Rates	IAS 21 The Effects of Changes in Foreign Exchange Rates	FRS 121 mandates the presentation currency to be Ringgit Malaysia so as to be consistent with local law. IAS 21 allows any currency to be the entity's presentation currency.	The staff proposes that this requirement to be removed. See MASB ED 75
FRS 139 Financial Instruments: Recognition and Measurement	IAS 39 Financial Instruments: Recognition and Measurement	Three transitional provisions are added: 1. The transitional provision for first time adoption of FRS 139 is as per the original IAS 39 when IASB put in place that	The staff proposes that these transitional provisions to be removed. See MASB ED 75

		Standard for the first time. 2. An entity need not disclose the effect of impending changes of accounting standards required under FRS 108 Accounting Policies, Changes in Estimates and Errors when it first applied the revised Standard. 3. As a transitional arrangement, the Financial Services sector had requested for a transitional period for the purpose of complying with the collective assessment of impairment requirement in this Standard. Consequently, Bank Negara Malaysia may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions for a transitional period.	
FRS 140 Investment Property	IAS 40 Investment Property	An additional disclosure is added to require entity to disclose that it had applied the transitional provision, if any, provided by MASB in 1998. That transitional provision allowed the entity to carry the asset's revalued amount (under IAS 16) as surrogate costs. The transitional provision in FRS 140 is also amended to follow that of the original IAS 40 when IASB put in place that Standard for the first time.	The staff proposes that the additional disclosure and transition to be removed. See MASB ED 75
FRS 4 Insurance Contracts	IFRS 4 Insurance Contracts	A transitional provision is added that an entity need not disclose the effect of impending changes of accounting standards required under FRS 108 Accounting Policies, Changes in Estimates and Errors when it first applied the Standard.	The staff proposes that the additional transition provision to be removed. See MASB ED 75

FRS 7 Financial Instruments: Disclosures	IFRS 7 Financial Instruments: Disclosures	Two transitional provisions are added: 1. An entity is not required to present any comparative disclosures required by the Standard when it first applied the Standard. 2. An entity need not disclose the effect of impending changes of accounting standards required under FRS 108 Accounting Policies, Changes in Estimates and Errors when it first applied the Standard. A requirement is added that an entity shall not apply the Standard before 1 January 2010 unless it also applies FRS 139.	The staff proposes that these additional provisions to be removed. See MASB ED 75
IC Interpretation 12 Service Concession Arrangements	IFRIC 12 Service Concession Arrangements	A transitional provision is added that an entity need not disclose the effect of impending changes of accounting standards required under FRS 108 Accounting Policies, Changes in Estimates and Errors when it first applied the Standard.	The staff proposes that the additional transition provision to be removed. See MASB ED 75

Source: *http://www.masb.org.my*

1.4 Research problem

IFRS are principle-based accounting standards that are associated with robust disclosure requirements. The objective of IFRS is to promote the comparability and transparency of financial information entire the globe (Daske and Gebhardt, 2006; Schipper, 2005). According to Jermakowicz and Gornik-Tomaszewski (2006), the robust disclosure requirements under IFRS should improve financial transparency and, therefore, reduce management incentives to manage earnings. This is also supported by Barth, et al., (2008) as well as Ewert and Wagenhofer (2005), which concluded the efforts put in by standards-setters to remove accounting options in the international accounting standards could improve accounting quality and mitigate earnings management.

The literature on prior research showed the mixed results according to the impact of IFRS adoption on earnings management. Some studies show that the IFRS increased the level of earnings management while some other studies reported that the adoption of the IFRS decreased the degree of earnings management. Barth et al., (2008) concluded that companies that adopt the IFRS had yielded higher quality in accounting compared to the companies that do not use international standards. Aubert and Grudnitski (2012) focused the effects of transition of the IFRS on earnings management in Europe. They found the decline in earnings management parallel with the aim of adoption of the IFRS that enhanced transparency and set a high quality of reporting standard. In contrast, Jeanjean and Stolowy (2008) suggested that earnings management remained unchanged in Australia, France, and the UK after changing to the IFRS. On the other hand, a study by Zeghal et al., (2011) reported that the different result which is decreased in earnings management after the IFRS was criticized in French companies.

However, Liu et al., (2013) suggested there are no significant effects on earnings management among US GAAP and IAS/IFRS in German companies. Atwood et al., (2011) did not find any changes in earnings management when financial statement reports were produced under the IFRS in E.U countries. This is supported by Doukakis (2014) who found an unsuccessfully to restrict on earnings management when the companies was change their accounting standard to IFRS in 22 European countries. Thus, the finding is parallel with Beuselinck et al., (2007) who suggested the introduction of the IFRS does not improve earnings management in Europe.

The issue of earnings management is become very important for the integrity of published accounting reports. Ball et al. (2000) in their study had concluded that Malaysia, Singapore, Hong Kong and Thailand have low quality in publishing of earnings management because these countries used local accounting standard in preparing their financial report. There are not many studies about the implementation of the IFRS on earnings management of Malaysian listed companies. A recent study by Ismail et al., (2013) presented with evidence that Malaysian listed companies demonstrates lower in reporting earnings management after adoption of IFRS. They suggested that the change to new accounting standard will increase the quality of accounting report in Malaysia.

Ismail et al (2013) cited the Malaysia's first adoption of the IFRS starting from January 2006 in their study. This study differs from the study done by Ismail et al., (2013) by taking the data where the IFRS was first made mandatory in 2012. The previous literature confirmed that different accounting standards play an important role in measuring the level of earnings management. This study focuses on the effects of mandatory adoption of the IFRS on earnings management changes in Malaysian listed companies. The question is, does the IFRS gives an impact by reducing the level of earnings management activities of Malaysian listed companies after they comply with the IFRS?

1.5 Research objective

It is still a question whether the adoption to the IFRS can increase the accounting quality of Malaysian listed companies, thereby reducing the level of earnings management. The objective of this study is to investigate the impact of mandatory IFRS adoption on earnings management activities of Malaysian listed companies.

1.6 Significant of the study

The result of this study is expected to give an understanding about the impact of the adoption of the IFRS on the quality of financial reporting in Malaysia. In addition, the finding is useful to encourage regulators and standard setters as they shed light on the effectiveness of the IFRS in managing the manipulation of earnings management. The finding from this study may also help Malaysian standard setter; Malaysian Accounting Standards Board (MASB) to make comparison between the IFRS and local accounting standards as IFRS in Malaysia is relatively new and there might be a challenge in promoting IFRS to the local companies as the cost of adaptation is probably high.

The implementation of the new standards is also expected to help local companies to be more competitive globally as by using only the same standard; it will yield comparability among the companies, and enable companies from various areas to use exactly the same standards. Companies can compare the financial report among others companies if they use the same accounting standard.

Moreover, this study is expected to bring benefits to providers, auditors, and public members because the objectives of IFRS are to promote the transparency and comparability of financial statements, thus develop the quality of financial reporting, and increase the disclosure of financial information. Financial statement users also should benefit from the findings because they highlight the potential problems between national standards and IFRS after the convergence process. For example, analysts use information content in the reports statements for their benefits such as to predict forecasted earnings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this study is to investigate whether there is any reduction in earnings management activities after the IFRS implementation in Malaysian listed companies. This chapter reviews the literature related to this study. To achieve the aim of this study, three broad areas of literature are reviewed. Firstly, section 2.2 discusses the literature on earnings management to give an understanding to what is earnings management and how it is measured. Secondly, section 2.3 includes the literature review on the effects of the IFRS adoption on earnings management in E.U countries, where IFRS was first implemented. Thirdly, section 2.4 provides the literature on the impact of the IFRS adoption on earnings management from emerging market. Lastly, section 2.5 discusses the hypothesis development in this study.

2.2. Earnings Management review

Previous studies on earnings management show that earnings management is very important for companies in preparing the accounting report. Prior literatures on earnings management show the reason why companies manipulate earnings. According to Ahadiat and Hefzi (2012), earnings management are used to manipulate the corporate financial data in achieving a specific objective. Earnings management is very important for company in preparing the financial statement and it has been used by company insiders to manipulate and provide the financial information to outsiders in order to secure their positions and interest (Wang and Campbell, 2012). Earnings management can be a major issue in preparing the accounting reports and it is important for the need of reliability in publishing accounting reports (Rundra, 2012).

McNichols and Stubben (2008) concluded that earnings management may change the decision made by the parties involved who are focused on financial reports. Moreover, companies manipulated earnings to get outside financing for investment projects and to reduce the ability of weak returns in the past overinvestment. Earnings management occurs when managers alter the results in financial reports to cover the weaknesses of financial statements that delineate management's performance for their interests (Evans et al., 2012).

Levitt (1998) defined "earnings management as a grey area where the accounting is being perverted, where managers are cutting corners; and, where earnings reports reflect the desires of management rather than the underlying financial performance of the company." On the other hand, the increase in earnings management will reflect lower quality of financial reporting.

According to Grecco (2013), earnings management is restricted by accounting rules and it is expected that when changing in accounting standards, this will produce the decreasing in earnings management by reducing results manipulation. The aim of changing in accounting quality is to ensure the quality, comparability and integrity in disclosure of information patrimonial position and company performance. The decline in earnings management is commensurate with the increase in the quality of accounting. If the companies have a high quality of accounting standard, it will reduce the level of earnings management (Paananen, 2008).

The issue of earnings management is very important for the reliability of published accounting reports. Literatures show that rigging of earnings management is quite rampant among publicly traded companies (Barth et al. 2008; Burgstahler and Dichev, 1997).

Most of countries are now applying the IFRS and mandatory adoption of the IFRS indirectly gives opportunities for research on accounting standards and their effect on preventing earnings management. There are arguments whether the IFRS is successful in producing high quality financial reporting by reducing earnings management.

2.3 The impacts of International Financial Reporting Standard adoption on earnings management in European Union countries.

IFRS was first implemented in European Union (EU) countries. There are a huge number of researches studying the effects of the IFRS adoption on various aspects such as the quality of accounting (Daske and Gebhardt, 2006), usefulness and value relevance, the cost of equity capital (Karamanou and Nishiotis, 2009; Li, 2010), and earnings management (Spathis et al., 2002; Baralexis, 2004; Christensen et al., 2008).

Most of literature presented the implementation of the IFRS resulting in decrease in earnings management. Barth et al., (2006) investigated the IAS adoption in a sample of 21 countries from 1994 to 2003. The results shown that the earnings management is reduces when the countries is implemented the IFRS.

Aubert and Grudnitski (2012) investigated the IFRS implementations in Europe and found the decline of earnings management is parallel with the aim of the adoption of IFRS that enhance transparency and to set a high quality of reporting standard. The results were useful to analysts as they needed transparency and upright data in preparing the accounting reports.

Cai et al., (2008) suggested the decline in earnings management during IFRS period in European Union countries. The results indicated that the decrease in earnings management is because of the enforcement to high quality accounting standard. On the other hand, in seventeen European countries, Aussenegg et al., (2008) focused on the relationship between the IFRS adoption and earnings management. They suggested companies that applied the IFRS experienced less earnings management compared to none applied. However, the UK, Ireland, and Northern European countries remain unchanged. This is because they are already categorized by lower earnings management levels, and the results show no changes according to the IFRS adoption.

In contrast, Ahmed et al., (2010) compared earnings management companies that adopted IAS/IFRS from twenty-one non-IFRS countries at the first time adoption. They suggested that the companies that adopted IAS/IFRS standards in 2005 exhibited greater earnings management.

The study by Capkun et al., (2012) on the sample of companies from twenty-nine countries also suggested the early and mandatory adoption of the IFRS revealed the same results which are the increase in the level of earnings management. They concluded that there are no differences in the effect on earnings management between early adoption of IFRS and mandatory adoption of IFRS.

Lippens (2010) investigated the effect on earnings management on listed companies in the European Union. The study is based on pre-adoption of the IFRS and post-adoption of the IFRS. The results show that there are changes on earning management after companies complied with the IFRS. The level of earnings management was strictly increased. Hence, the results indicate failures in restricting earnings management after the IFRS adoption.

However, the results also show no significant impacts on earnings management when the IFRS is adopted. Doukakis (2014) on his study found that the adoption of the IFRS could not reduce the earnings management in twenty-two European countries where the results on his study show that there is no change on earnings management after adoption of the IFRS.

According to Goncharov and Zimmermann (2007), the choice of accounting standard will influence the results on earnings management. Moreover, they concluded that the different type of accounting standard will change the result in earnings management. Thus, the findings show that under US GAAP, there is decrease but roughly equal for both German GAAP and IAS.

In U.S, Lin and Paananen (2005) evaluated that there is no evidence changes on earnings management in 121 non U.S companies which operate in U.S when they implement the IFRS. Thus, the transparency of IFRS cannot be proved. Then, Evans et al., (2012) studied the effect of earnings management with the IFRS in U.S companies. They suggested that adoption of IFRS in U.S companies is decrease in earnings management.

Several studies show different findings on IFRS adoption to earnings management. The findings in German are mixed. Lin et al., (2012) showed earnings management is significantly increase for the companies that have adopted the IFRS, while earnings management is lower for companies under U.S. GAAP in German. The study indicates that the application of U.S. GAAP transition from U.S. GAAP to the IFRS had reduced accounting quality as there is an increase in earnings management.

Christensen et al., (2008) investigated the effects on earnings management after IFRS is adopted. The scope of study is during voluntary and mandatory adopters. They suggested that earnings management is unchanged after IFRS is mandatory but significantly decreases under voluntary. As they were concluded that adoption of IFRS alone does not necessarily lead to higher quality accounting.

Guenther et al., (2009) observed the effect of voluntary and mandatory IFRS adoption drive on earnings management of German companies from 1998 to 2008. Results on earnings management are mixed. The results of this study show similar result with Christensen et al., (2008) which suggested that during the voluntary adoption, there is a decrease in earnings management but for mandatory adoption, the level of earnings management does not change.

Tenderloo and Vanstraelen (2005) compared the accounting standard, IFRS with German GAAP by using discretionary accruals. However the results indicated that earnings management do not significant after the companies adopting IFRS, but significantly reduces for the Big 4 auditor companies.

Similar study by Liu et al., (2011) investigates potential differences in earnings management between German companies that compliance with IAS/IFRS and compliance with US GAAP. The results of their study found that earnings management is no significant effects for both accounting standard.

Following the IFRS mandatory adoption in Europe, Paglietti (2009) examined the impact on earnings management in Italy from a sample of 92 listed Italian non-financial companies. Overall, the results show that earnings management decreases after IFRS adoption.

Marra et al., (2009) studied the effect on the board directors in earnings management after implementing the IFRS for the Italian listed companies. The samples are from Milan Stock Exchange from 2003 to 2006 which are two years before and two years after the IFRS adoption. The results show that the earnings management decreases after mandatory IFRS adoption. They concluded that the higher level of transparency and disclosure make it easy to control the accounting policies characterizes by IFRS.

In different way, recent study by Cameran et al., (2014) focused the impact on earnings management among Italian private companies after IFRS is implemented. They suggested that the transition to IFRS is increases the earnings management. This is because the companies can exploit the level of flexibility embedded in IFRS in order to get their own benefit and interest.

The studies of the impact on earnings management after IFRS adoption is also conducted in Greece. Baralexis (2004) on his study compared the IFRS quality with the Greek GAAP regime and suggest that the implementation of IFRS appears to reduce the potential for earnings management. This study was same as the study by Spathis et al., (2002) those found that IFRS is unsuccessfully to restrict earnings management manipulation.

Similar to spathis et al., (2002) and Baralexis (2004), Iatridis and Rouvolis (2010) measured the degree of earnings management before and after IFRS implementation in Greek. The result shows an evidence that the earnings management activities are somewhat reduced after IFRS implementation in Greek.

There is a difference result when Doukakis (2010) investigated the impact of earnings management after adoptions of IFRS in Greece using the sample from Athens Stock Exchange. In this study, the author used ROE as a dependent variable. The result shows that earnings management does not affect the mandatory adoption of IFRS.

In French, there are comparative studies on the effects of earnings management when IFRS was become mandatory. Several studies presented evidence that changing to IFRS is reduced the degree of earnings management. Zeghal et al., (2011) analyzed the effect of mandatory adoption of IAS/IFRS on earnings management for period 2003 to 2006. The results show that the level of earnings management has decreased after adoption of IAS/IFRS in France. In addition, according to them, corporate governance influences the enforcement of IFRS and help to reduce earnings management level in France.

Boumediene et al., (2014) focused on 96 companies-year observations in France that changing to IFRS effects on earnings management. They concluded there are existed in manipulate earnings during the transition IAS/IFRS. Overall the result shows that after the IFRS adoption, earnings management is decreased as the manager had less motivated to manipulate the accounting numbers to increase earnings management.

In UK, Iatridis (2010) investigated the earnings management when the country had switches to IFRS. The purpose of the study is to find the relationship between IFRS and earnings management. The result shows that earnings management is decrease and the implementation of IFRS is successfully eliminating the manipulation of earnings management. They concluded that the implementation of new standard associated with higher quality of accounting information.

The previous study by Jeanjean and Stolowy (2008) in Australia, France, and the UK suggested that the earnings management did not changed after IFRS was complimented. The results show that in Australia and U.K the degree of earnings management is stable but increases in France.

Paananen (2008) examined the effects of the adoption of International Financial Reporting Standards (IFRS) on earnings management in Sweden using the data from 2003 to 2006. The result shows that the degree of earnings management is neither increases nor decreases after implementation of IFRS.

2.4 The impacts of International Financial Reporting Standard adoption on earnings management in emerging markets.

Many countries in emerging markets were transfer to international financial reporting standards (IFRS) as their primary standards in preparing company's financial statements. However, the literatures about this study were limited.

In China, literatures show that the implementation of IFRS was improved the quality of reporting account. The literatures indicated that the decrease in earnings management since 2007 (Liu et al., 2011).

As china becomes an emerging market, Zhou et al., (2009) studied the impact of IFRS compliance on earnings management. The result shows that the degree of earnings management is decreases from 1994 to 2000. Using the sample from 913 companies, the results indicated that companies adopting IFRS are less likely to decrease on earnings management compared to non-adopting companies.

The recent study by Cang et al., (2014) explained the impact of IFRS adoption on earnings management under analyst coverage in China. The data came from China capital market from 2003 to 2009. The result shows that after IFRS is implemented, companies with analyst coverage have a lower level of earnings management compared to those without analyst coverage.

However, Wang and Campbell (2012) on their empirical study investigated how IFRS influence the earnings management. The data came from Chinese domestically listed companies using the sample from 1998 to 2009. The result suggests the implementation of IFRS does not affect earnings management.

In Brazil, using a sample of 361 companies between 2005 and 2011, Greco (2013) evaluated whether the changes in Brazilian accounting practices to IFRS will reduce in earnings management by listed nonfinancial companies. The result indicates that there is a decrease in earnings management in the financial statements as a result of the implementation of IFRS. Therefore, there is no evidence of an increase in the quality of accounting information in Brazil in the IFRS era considering the earnings management by use of the discretionary accruals.

Afterwards, in the same vein Grecco et al., (2014) on their study suggested that by using discretionary accruals, earnings management in Brazil is decreases after all companies in Brazil are comply with the IFRS. Hence, they found an evidence that the improvement in accounting quality after IFRS implementation in Brazil.

Outa (2011) studied the impact of IFRS adoption on the earnings management of listed companies in Kenya between the pre-adoption period from 1995 to 1999 and the post adoption period from 2000 to 2004. The results of study are mixed and the author suggested neither increase nor decrease on earnings management in Kenya.

As India is becoming an emerging market, Rundra (2012) made comparison the effect of IFRS adoption on earnings management between adopting and non-adopting companies. The result suggests that companies that adopted IFRS show a decrease on earning management while non-adopting companies remain unchanged. The author concluded that IFRS adoption improved the quality of financial reporting in India.

Limanto and Fanani (2014) focused on changes in the new set accounting standard, IFRS on earnings management in Indonesia. The samples are from manufacturing companies in Indonesia in 2010. The result shows that IFRS adoption in Indonesia does not have an effect on earnings management in Indonesia.

Due to new set of accounting changes in Malaysia, Ismail et al., (2013) investigated the differences between earnings management after IFRS adoption in Malaysian companies. They compared the impact on earnings management based on the sample of all companies (exclude financial institution and utility). Based on their study, Malaysia first adopting IFRS is on January 2006. The results show that IFRS implementation is reduces the degree of earnings management.

As a conclusion, the results in previous studies are mixed and show that there are changed in earnings management when the company used different set of accounting standard. Previous studies produced a mixed results and trigger interesting questions on the possible effect on earnings management after mandatory adoption of IFRS in Malaysia.

This study follows the study done by Ismail et al. (2013) but the data taken where IFRS was first made mandatory in 2012. The authors used the data where Malaysia had first adopted the IFRS starting from January 2006.

This study is focuses the impact on earnings management when IFRS become mandatory among Malaysian listed companies. It may provide a different insight on the potential impact since its introduction; the IFRS had gone through various revision and discussion to improve its capability to replace national standards across the globe.

The standard setting bodies (MASB) in Malaysia is an independent body in the government. According to Ball et al., (2003) and Graham and King (2000) there is a greater potential changes in the financial reporting when government controlled the standard setting. Although the MASB does not interfere in Malaysian listed company's operations, according to Ball, *et al.*, 2003, Malaysian government often interfered in big company's operations by not permitting them to disclose their true financial performance particularly during the Asian Financial Crisis in 1997. Therefore, companies in Malaysia are characterized as having strong incentives to hide both large profits and large losses, and thus reporting smooth earnings. In this regard, the introduction of IFRS may give an impact on the earnings management of Malaysian listed companies.

2.5 Hypothesis Development

This study focuses on the impact of IFRS on earnings management of companies in Malaysia. A number of studies related to the purpose of this research have been published in recent years, using different setting. The findings are mixed and inconclusive.

The adoption of IFRS is expected to lead to lower earnings management. However, a large number of studies (Tendeloo and Vanstraelen, 2005; Jeanjean and Stolowy, 2008; Paananen and Lin 2009) present evidences that IFRS adoption plays a limited role in lowering earnings management.

Limanto and Fanani (2014) on their study concluded that it is not appropriate to generalise the effects of adopting IFRS because single set of standards may not be suitable for all settings. Tendenloo and Vanstraelen (2005) analysed the effect on earnings management of German companies that have adopted IFRS voluntarily and the results show that only earnings management decreases significantly for companies audited by Big-4. They conclude that mere adoption of IFRS is not sufficient to guarantee a better quality of accounting information.

According to Ball et al. (2003), high quality standards like IFRS may also lead to low earnings management depending on the incentives of the preparers. Moreover, IFRS imposed changes on many technical accounting issues, such as the presentation of financial statements, segment reporting, intangible assets, depreciation, and promote the transparency of financial information. Based on this, in theory, the adoption of IFRS should significantly restrict the ability to engage in earnings management behavior and increase the overall quality of disclosed information.

This study explores the impact of IFRS adoption on earnings management of Malaysian listed companies. The mixed results from the previous studies trigger interesting questions on the possible effect on earnings management after mandatory adoption of IFRS in Malaysia. Thus, this study tests the following hypothesis:

> H_1: IFRS adoption reduces earnings management activities in Malaysian listed companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates the research methodology of the study which elaborates on data and identifies the method of analysis to test the hypothesis. Section 3.2 defined the data used in this study while section 3.3 explains the sample used in this study. Section 3.4 includes the variable measurement, consists of dependent variable, independent variable and control variable. Section 3.5 explains the model used in this study and section 3.6 includes the analysis techniques that are used in this study.

3.2 Data

This study uses secondary data collected from DataStream database and consists of account receivables, total debt, total assets, net income, revenue or sales, property, plant and equipment, share price, cash flow from operating, and book value per share. The empirical analysis used the data from 2009 to 2014.

3.3 Sample

The sample for this study included of all Malaysian listed companies in DataStream database. Accounting data is from consolidated financial statements. There are 912 Malaysian listed companies operating in Malaysia. However, the final sample of the study consists of 704 out of 912 companies that have completed financial data from 2009 to 2014.

3.4 Variables measurements

3.4.1 Dependent variable

Earnings management

In this study, the dependent variable is earnings management. The prediction model uses two approaches, by calculating the absolute value of the abnormal accruals in measure of level earnings management which is label as $\boldsymbol{TACCR_{it}}$**,** which is shown in model 1 and model 2. Following the previous study, the level of earnings management is measured by using the abnormal accruals. According to Rundra (2012) the higher value of abnormal accruals represents the lower on earnings management.

Model 3 then used the OLS regression and fixed effects regression to test whether IFRS compliance reduces earnings management activities in Malaysian listed companies. In this model, the level of earnings management represented by either $\boldsymbol{ABACDEC_{i,t}}$ or $\boldsymbol{ABACKAS_{i,t}}$, from model 1 and model 2. Model 1 is the regression from Dechow et al. (1995) and model 2 is the regression from the Kasznik (1999). Table 3.1 describes the measurement of dependent variable used in model 1, model 2 and model 3.

Table 3.1
Dependent variable measurement

Variables	Measurement	Author
$\boldsymbol{TACCR_{it}}$	The total accruals for companies i in year t and calculated by deducting the cash flow from operation (CFO) from the net income.	Jones (1991), Dechow et al., (1995), Ismail et al., (2012), Liu et al., (2013)
$\boldsymbol{ABACDEC_{i,t}}$	Absolute abnormal accrual from the Dechow et al. (1995) model in model 1	Jones (1991), Dechow et al., (1995), Ismail et al., (2012),
$\boldsymbol{ABACKAS_{i,t}}$	The absolute value of abnormal accrual from the Kasznik (1999) model in model 2.	Kasznik (1999), Ismail et al., (2012)

3.4.2 Independent variable

In model 1 and model 2, the previous year total assets $\boldsymbol{(1/ASSETS_{it-1})}$, change in revenue $\boldsymbol{(\Delta REV_{it})}$, change in receivables $\boldsymbol{(\Delta REC_{it})}$, gross property, plant and equipment $\boldsymbol{(PPE_{it})}$, and change in cash flow from operation $\boldsymbol{(\Delta CFO_{it})}$ are used as independent variables to measure the level of earnings management.

Adoption of IFRS

In model 3, dummy variable is used to analyse the impact on mandatory adoption of IFRS in earnings management. Dummy variable is given a value of 1 if the financial statement is prepared under IFRS, 0 otherwise; for companies ***i*** in year ***t*** **(**Ismail et al., 2013).

Based on previous literatures, the effects of IFRS can either increase or decrease in earnings management (Rundra, 2012). According to Lin et al., (2012), IFRS was successfully able to decrease the level of earnings management if the dummy for IFRS has negative significant. The study by Limanto and Fanani (2014) concluded that even though IFRS was fully implemented, it does not mean it gave an impact on earnings management. This study stated the hypothesis which is adoption of IFRS will reduce the earnings management activities in Malaysia. Table 3.2 describes the measurement of independent variables used.

Table 3.2
Independent variable measurement

Variables	Measurement	Author
$1/ASSETS_{it-1}$	1 divided by total assets for companies i in year t-1	Jones (1991), Dechow et al., (1995), Ismail et al., (2012), Liu et al., (2013)
Δ***REV_{it}***	revenues in year t less revenues in year t-1 for companies i	Jones (1991), Dechow et al. (1995), Ismail et al., (2012), Liu et al., (2013)
Δ***REC_{it}***	receivables in year t less receivables in year t-1 for companies i	Jones (1991), Dechow et al. (1995), Ismail et al., (2012), Liu et al., (2013)
PPE_{it}	gross property, plant and equipment for companies i in year t	Jones (1991), Dechow et al. (1995), Ismail et al., (2012), Liu et al., (2013)
Δ***CFO_{it}***	change in cash flows from operation for companies i in year t	Kasznik (1999), Ismail et al., (2012)
$IFRS_{i,t}$	dummy variable given a value of 1 if the financial statement is prepared under IFRS, 0 otherwise; for companies ***i*** in year ***t***	Rundra, (2012), Lin et al., (2012), Ismail et al., (2012)

3.4.3 Control Variables

Other than IFRS, there are other company's level factors that can influence earnings management and to be controlled in the estimations (Rundra, 2012). In model 3, three control variables, company's size (***$ASSET_{i,t}$***), profitability (***$ROA_{i,t}$***), and leverage (***$LDEBTA_{i,t}$***) are included in the study that can also influence the extent of earnings management.

Regarding the company size, Limanto and Fanani (2014) and Grecco et al., (2014) found that company size is associated with negative significant on earnings management. On the other hand, Rundra (2012), in his study suggested that company's size does not pose any effect on earnings management activities. According to Limanto and Fanani (2014), more pressures were put onto big company that influenced the managers to manipulate the level of earnings management accordingly to satisfy analysts' expectation and for their own benefits. As example, managers tend to manipulate earnings if the company is large and more matured than other companies because normally these companies have more sophisticated financial reporting system.

With regard to company's leverage, Limanto and Fanani (2014), Chen et al. (2010), and Sun et al. (2011) found that leverage has positive relationship with earnings management. On contrary, Lobo and Zhou (2001) found that leverage has negative significant relationship with earnings management. However, Grecco et al., (2014) found that leverage does not influence in measuring the earnings management. According to Limanto and Fanani (2014), high leveraged company enforced the manager to do something with the earnings to avoid violation of covenant. They changed the company's financial report so that the company's financial position looks better. The purpose of this alteration is to avoid renegotiation of a debt agreement.

Return on assets is included in the model for the purpose of controlling the performance, as suggested by Kothari et al., (2005) in their study. Cameran et al., (2014) included return on asset as of the independent variables because the profitability of the companies can influence the manipulation on earnings management. According to Iatridis and Kadorinis (2009), the company tends to increase the earnings management when the profitability was decreased.

As pointed out by Sun and Rath (2008), lower profitable companies are more likely to be involved in earnings management practices, both incomes increasing and decreasing. However, Degeorge et al., (1999) concluded that increase in profits is the main threshold to involve in earnings management activities. Table 3.3 presents the measurement for control variables.

Table 3.3
Control variables measurement

Variables	Measurement	Author
$\boldsymbol{ASSETS_{i,t}}$	natural logarithm of total assets for companies ***i*** in year ***t***	Rudra (2012), Ismail et al., (2012), Limanto and Fanani (2014), Liu et al., (2013), Doukakis., (2014), Grecco et al., (2014)
$\boldsymbol{ROA_{i,t}}$	return on assets ratio for companies ***i*** in year ***t***, (net income divided by total assets)	(Kothari et al., (2005); Cameran et al., (2014); Ismail et al., (2012)
$\boldsymbol{LDEBTA_{i,t}}$	total debt divided by total assets for companies ***i*** at the end of financial year ***t***	Johnson et al. (2002), Rudra (2012), Ismail et al., (2012), Limanto and Fanani (2014), Liu et al., (2013), Doukakis., (2014), Grecco et al., (2014)

3.5 Models

To test the objective, this study follows a method used by Ismail et al., (2013) with some modifications to investigate differences between earnings quality management after IFRS adoption in Malaysian companies. This study analyses the impact of earnings management after mandatory adoption of IFRS in Malaysia. The objective is to investigate whether there is a reduction in earnings management after IFRS compliance in Malaysia.

Three models are tested to analyse the change in earnings management after mandatory adoption of IFRS in Malaysia. The models follow the models used in previous studies (Jones, 1991; Dechow et al., 1995; Kasznik, 1999; Tenderloo and Vanstraelen, 2005; Rundra, 2012; Liu et al., 2013; Ismail et al., 2013; and Grecco et al., 2014).

Model 1

Following the study by Ismail et al., (2013), the absolute value of abnormal accruals was calculated to determine the level of earnings management. The model is from previous study by Jones (1991) model, and modified by Dechow et al. (1995). The following regression is:

$$TACCR_{it} = a\,(1/ASSETS_{it-1}) + b\,(\Delta REV_{it} - \Delta REC_{it}) + cPPEit + e_{it}$$

In model 1, the total accruals ***(TACCRit),*** change in revenue ***(***Δ***REV***$_{it}$***),*** change in receivables ***(***Δ***REC***$_{it}$***)*** and gross property, plant and equipment ***(PPE***$_{it}$***)*** are each scaled by previous year total assets ***(ASSETS***$_{it-1}$***).*** This study uses the same model with Ismail et al., (2013). Kothari et al. (2005) devalued the variables by total assets for the purpose of mitigating heteroscedasticity of the residuals. This study used the residual generated from this regression is the abnormal accruals of companies to measure the extent of earnings management and is labelled as **(ABACDEC)**. The company is associated with low earnings management if the results show the lower absolute value of abnormal accrual.

Model 2

This study follow the Kasznik (1999) by including the variables change in operating cash flows (ΔCFO) in the model to ensure robustness of the abnormal accrual estimation. According to Kasznik (1999), cash flows from operations is associated with negatively relationship total accruals. The regression is as follow:

$$\boldsymbol{TACCR_{it} \quad = \quad a\,(1/ASSETS_{it-1}) + b\,(\Delta REV_{it} - \Delta REC_{it}) + \; cPPEit + d\Delta CFO_{it}\; e_i}$$

Where Δ***CFO***$_{it}$ is the change in cash flows from operation for companies i in year t, and all other variables are defined as previous. The residual estimated from this model is labelled as **(ABACKAS).** According to Lin et al., (2012) the change in cash flows is also the factor in determining the total accruals.

Model 3

For the model 3, the OLS and fixed effects regression are estimated to test the hypothesis of whether IFRS compliance reduces earnings management activities in Malaysian listed companies.

$$ABAC_{i,t} = \beta_0 + \beta_1 LEVERAGE_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 PROFITABILITY_{i,t} + \beta_5 IFRS_{i,t} + e_{i,t}$$

Where $ABAC_{i,t}$ is the absolute value of abnormal accrual for companies i in year t. $ABAC_{i,t}$ represents either $ABACDEC_{i,t}$ from model 1 or $ABACKAS_{i,t}$, from model 2.

3.6 Analysis Technique

To test the hypothesis, multiple regressions method is used including correlation analysis and the descriptive statistics. Model 3 was tested by using the ordinary least squares (OLS) regression and fixed effects regression. The OLS regression and fixed effects regression, correlation analysis and the descriptive statistics, are analysed using STATA12.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter provides the empirical results on the impact of earnings management after mandatory adoption of IFRS in Malaysia. Section 4.2 reports the result of descriptive statistics. Section 4.3 notes the result on correlation matrix of the variables and lastly section 4.4 discusses the regression analysis of the study.

4.2 Descriptive statistics

Table 4.1 presents the descriptive statistics of the variables used in this study. On average, the absolute value of the residual, ABACDEC and ABACKAS are 1.63e-10 and 1.54e-11 respectively for the period of 2009 to 2014. The table shows that there is differences between the absolute value of abnormal accruals calculated using Dechow et al. model (ABACDEC) and those calculated using the Kasznik model (ABACKAS). For LDEBTA which is presented by the company's leverage, the mean is 0.1853, the minimum is 0 and the maximum is 2.3750. This implies that the companies use less of debt financing. Company size which is measured by ASSET is 12.7210 for mean, 5.7930 and 18.5219 for minimum and maximum. The mean for ROA is 0.0231 for 2009 to 2014 and the minimum and maximum of variable are -

19.1585 and 6.4949 respectively. The ROA measures how effectively the companies used their assets to get the profits. This indicates that the companies get the profit about two cents in every one ringgit they invest in assets. The mean for IFRS is 0.5 because the variable is a dummy IFRS and exhibits minimum of 0 and max of 1.

Table 4.1
Descriptive statistics

Variable	Observations	Mean	Std. Deviation	Min	Max
ABACDEC	4224	1.63e-10	0.2465	-1.9700	9.7947
ABACKAS	4224	1.54e-11	0.2021	-1.0861	9.2999
LDEBTA	4224	0.1853	0.1690	0	2.3750
ASSET	4224	12.7210	1.5762	5.7930	18.5219
ROA	4224	0.0231	0.3673	-19.1585	6.4949
IFRS	4224	0.5	0.5001	0	1

Notes: ABACDEC and ABACKAS are the absolute value of abnormal accruals estimated using Dechow et al. (1995) model and Kasznik (1999) model, respectively; ASSET is the natural logarithm of total assets; ROA is the return on assets ratio(net income divided by total assets); LDEBTA is total long-term debt divide by total assets. IFRS is 1 if the financial statement is prepared under IFRS, 0 otherwise.

4.3 Correlation matrix of variables

Table 4.2 presents the correlation matrix of variables. Correlation test is conducted to examine the relationship between the dependent and independent variables. It shows that company's leverage which is measured by LDEBTA have positive correlation with the company's size as measured by ASSET and have negative correlation with the profitability, measured by ROA and IFRS. Meanwhile ASSET has positive correlation with ROA and IFRS. However, ROA shows negative correlation with IFRS. According to Baltagi (1995), the limit value correlation coefficient is 0.8 confirm the null hypothesis. Table 4.2 shows that all correlation coefficients for all variables are smaller than 0.8. The results show that the variables used in this study are unrelated with multicollinearity problem. This study has to reject the null hypothesis if correlations between two variables are above 0.8.

Table 4.2
Cross correlation matrix of variables

	LDEBTA	ASSET	ROA	IFRS
LDEBTA	1.0000			
ASSET	0.2878	1.0000		
ROA	-0.2191	0.1360	1.0000	
IFRS	-0.0248	0.0540	-0.0025	1.0000

Notes: ABACDEC and ABACKAS are the absolute value of abnormal accruals estimated using Dechow et al. (1995) model and Kasznik (1999) model, respectively; ASSET is the natural logarithm of total assets; ROA is the return on assets ratio(net income divided by total assets); LDEBTA is total long-term debt divide by total assets. IFRS is 1 if the financial statement is prepared under IFRS, 0 otherwise.

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4.4 Regression analysis

Table 4.3 presents the results of the two different sets of control (panel A and panel B) from ordinary least square (OLS) and fixed effects regression. To ensure robustness, the variables have been administered by fixed effect approach. Robustness test was conducted to see whether the results were affected by different econometrics specifications. The results show the relationship between earnings management, measured by the absolute value of abnormal accrual either ABACDEC (panel A) or ABACKAS (panel B) with the IFRS adoption and the other determinants of earnings management practices such as the company's size (ASSET), profitability (ROA), and leverage (LDEBTA) as controls. Panel A of the table reports the results from estimating the model using the absolute value of abnormal accrual based on Dechow et al. (1995). Meanwhile Panel B reports the results from estimating the model using the absolute value of abnormal accrual based on Kasznik (1999).

According to ordinary least square (OLS) estimation, panel A shows the result that the coefficient on the dummy variable IFRS is significant at the 1 percent level with a t-statistic of 2.96. Surprisingly, the result indicates that the adoption of IFRS-based accounting standards is positively significant associated with the level of earnings management and shows the level of earnings management is higher after the adoption of the new standard. Panel B reveals the similar results, which is IFRS positive significantly associated with the level of earnings management and this suggests the robustness of alternative estimation for the absolute value of abnormal accruals. Panel B shows that the coefficient on the dummy variable IFRS, is significant at the 5 percent level with a t-statistic of 2.30. The finding is consistent with the study by Lin et al., (2012), the dummy for IFRS has positive significant and shows that the implementation of IFRS has increase the level of earnings management. Thus, the hypothesis is rejected. Hence, the results indicate unsuccessfulness in restricting earnings management after IFRS adoption. According to Doukakis 2014, although IFRS increases transparency and improves the quality of financial reporting, managers might apply other earnings management techniques. As suggested by Christensen et al. (2008), adoption of IFRS alone does not necessarily lead to higher quality of accounting.

Moreover, the result on panel A shows that company's size (ASSET) is negatively significant at the 1 percent level with t-statistic of -7.92. The finding is consistent with the previous study by Limanto and Fanani (2014) and Grecco et al. (2014) which found that there is negative significant between company's size and earnings management. According to Limanto and Fanani (2014), large companies may face more pressure on special circumstances, and motivates managers to do earnings management to achieve the analysts' expectations. However, panel B exhibits ASSET has a positive relationship with earnings management, but not statistically significant at any levels. This indicates that company's size does not give an impact on earnings management in Malaysia.

The results from panel A and panel B suggested that profitability (ROA) is highly significantly and positively related to earnings management at the 1 percent level of significance. This positive relationship shows that profitability has significant positive impact on earnings management. Markarian et al., (2008) concluded that more profitable companies tend to manipulate earnings management because they invested in high risk projects, which need to fulfill the entire requirement needed by the standard such as having a better financial position. As pointed out by Degeorge et al., (1999), increase in profits is the main threshold to involve in earnings management activities.

With regard to company's leverage (LDEBTA), panel A and panel B suggested that LDEBTA is highly significantly and positively related to earnings management at the 1 percent level of significance. The findings are consistent with Limanto and Fanani (2014), Chen et al. (2010), and Sun et al. (2011), where they found that there is a positive significant between company's leverage and earnings management. According to Limanto and Fanani (2014), managers in companies under high leverage tended to do earnings management to avoid violation of covenant. Limanto and Fanani (2014) concluded that managers in companies with high leverage tend to do earnings management to make the company's financial position and capability look better in case to avoid renegotiation of a debt agreement.

Table 4.3
Regression analysis

Independent Variable	Panel A Dependent variable : ABACDEC		Panel B Dependent variable : ABACKAS	
	OLS	**Fixed effects**	**OLS**	**Fixed effects**
Constant	0.1977*** (6.61)	0.1016 (0.60)	-0.0439* (-1.84)	0.2535* (1.84)
IFRS	0.0212*** (2.96)	0.0222*** (3.10)	0.0130** (2.30)	0.0194*** (3.32)
ASSET	-0.0192*** (-7.92)	-0.0148 (-1.09)	0.0016 (0.82)	-0.0251** (-2.27)
ROA	0.2351*** (23.05)	0.2450*** (20.36)	0.2270*** (27.97)	0.2471*** (25.19)
LDEBTA	0.1671*** (7.28)	0.3797*** (8.20)	0.0643*** (3.52)	0.2694*** (7.13)
R-square	0.1145	0.0959	0.1662	0.1259
F-statistics	136.40***	118.17***	210.24***	178.85***
Observation	4224	4224	4224	4224

Notes: ABACDEC and ABACKAS are the absolute value of abnormal accruals estimated using Dechow et al. (1995) model and Kasznik (1999) model, respectively; ASSET is the natural logarithm of total assets; ROA is the return on assets ratio(net income divided by total assets); LDEBTA is total long-term debt divide by total assets. IFRS is 1 if the financial statement is prepared under IFRS, 0 otherwise.

To ensure robustness, the variables have been administered by fixed effect approach. According to the fixed effect, the result shows that the coefficient on the dummy variable IFRS, both panel A and panel B is highly significant and positive related at the 1 percent level. Panel A reported a t-statistic of 3.10 and panel B reported a t-statistic of 3.32 respectively. These results reveal the similar finding with the OLS regression, which indicates that earnings management is increase after the adoption of IFRS. Hence, the results indicate failure in restricting earnings management after IFRS adoption. According to Cameran et al (2014), the companies can exploit the level of flexibility embedded in IFRS in order to get their own benefit and interest. As Aubert and Grudnitski (2012) summarised, the adoption of IFRS will benefit for those countries that had already matured as it gives the greater comparability in financial reporting.

However, for company's size, the result on panel A shows that ASSET has a negative relationship, but not statistically significant at any levels. This finding consistent with Rundra (2012), find that there is no significant relationship between company's size and earnings management. This indicates that company's size does not give an impact on earnings management. For panel B, ASSET has negative relationship with the level of earnings management at the 5 per cent level with t-statistic of -2.27. The finding is consistent with the previous study by Limanto and Fanani (2014) and Grecco et al. (2014) which found that there is negative significant between company's size and earnings management. According to Limanto and Fanani (2014), large companies may face more pressure on special circumstances, and motivates managers to do earnings management to achieve the analysts' expectations. These results are contradicted for OLS regression for both panel A and panel B where in OLS regression, panel A reported that ASSET has negative relationship with the level of earnings management at 1 percent level and panel B shows that ASSET has a positive relationship, but not statistically significant at any levels. This might be due to the different estimation techniques employed that alter the results.

Similar with the report by OLS regression, the results from panel A and panel B from fixed effects regression suggested that profitability (ROA) is highly significantly and positively related to earnings management at the 1 % level of significance. The results indicate that increase in profitability will increase in earnings management for the companies. According to Markarian et al., (2008) more profitable companies tend to manipulate earnings management because they invest in high risk projects, which need to fulfill all of the requirement need by the standard such as must having a better financial position. Degeorge et al., (1999) concluded that increase in profits is the main threshold to involve in earnings management activities.

With regard to company's leverage (LDEBTA), results from panel A and panel B report that leverage is highly significant and positively related to earnings management at the 1 percent level of significance, similar with the OLS regression results. The results indicate that increase leverage will increase in earnings management for the companies. The findings are consistent with Limanto and Fanani (2014), Chen et al. (2010), and Sun et al. (2011), where they found that there is a positive significant between company's leverage and earnings management. Managers in companies under high leverage tend to do earnings management to avoid violation of covenant and tend to do earnings management to make the company's financial position and capability look better in case to avoid renegotiation of a debt agreement (Limanto and Fanani, 2014). Overall, the results for OLS and panel data regression analysis are not much different. This suggests that, the robustness of alternative estimation for the regression analysis.

CHAPTER FIVE

CONCLUSION

5.1 Introduction

In this chapter, section 5.2 discusses the summary of the findings, while section 5.3 analyses the implications of the study. Section 5.4 includes the limitations of the study and lastly section 5.5 suggests the recommendation for future research.

5.2 Summary of the study

This study focuses on the impact of IFRS implementation on earnings management by using the sample of Malaysian listed companies from 2009 to 2014. The first hypothesis stated that the adoption of IFRS will reduce in earnings management, however the result is contradicted. Based on a sample of Malaysian listed companies from 2009 to 2014, the findings show that IFRS has led to increase in earnings management, which is unable to restrict earnings management as the earlier hypothesis in this study. As Limanto and Fanani (2014) stated in their study, the single standard, IFRS maybe is not applicable and suitable for all setting, thus it would be as a factor why it is does not give an impact on reducing earnings management.

This study also investigates whether company size, company profitability and company leverage have an effect on earnings management in Malaysian listed companies. Earnings management is identified using absolute value of abnormal accruals, measured by Dechow et al. (1995) model and Kasznik (1999) model. The results on this study show that company's size, company's profitability, and company's leverage have an effect on earnings management.

In addition, results show that company's size has a negative effect on earnings management. It can be explained that the larger companies tend to do more earnings management because companies may face more pressure on special circumstances, and motivates managers to do earnings management to achieve the analysts' expectations (Limanto and Fanani, 2014).

Furthermore, results show that company's profitability has positive effect on earnings management. It can be explained that profitable companies tend to manipulate earnings management. As Markarian et al., (2008) explained in their study, profitable companies are investing in high risk project and they are motivated to do earnings management so that the company's financial position will look better in order to fulfill the requirement need by standard.

For company leverage, results also show that company's leverage has positive effect on earnings management. It can be explained that highly-leveraged companies are associated with more earnings management. It can be concluded managers in companies with high leverage tend to do earnings management to make the company's financial position and capability look better in case to avoid renegotiation of a debt agreement(Limanto and Fanani, 2014).

5.3 Implications of the study

Generally, this study provides some interesting contribution to the literature by demonstrating only just accounting standards does not play an important key driver of reducing earnings management. As a complement to past literature, IFRS are to promote the transparency and comparability of financial statements, improve access to international capital markets, develop the quality of financial reporting, and increase the disclosure of financial information. However, this study shows that adoption of IFRS can lead to an increase in earnings management although IFRS is the high quality financial reporting standards.

Financial statement users can get the benefit from the findings of this study because they highlight the potential problems between national standards and IFRS after the convergence process. For local standard setter, the result will benefit for them because sharing the same accounting standard will have similar market and institutional characteristics.

5.4 Limitations

This study is based on data from Malaysian listed companies only, and should not be used in other countries because each country reflects different economic and social characteristics.

Full effort has been put to accomplish this individual study according to the objectives. Because of time constraint, it is difficult to cover in detail about this study. The limitation of the availability of data is the barrier faced when conducting this study because the data gathers from DataStream are incomplete and there is a need to remove most of the missing data.

5.5 Recommendation for future research

Due to the limitation of the scope of data, further research should be carried out in the future, such as to investigate the impact of IFRS adoption on SMEs' company in Malaysia. This study considers only the aspect of earnings management. Further research could be conducted in other aspects such as financial ratio, behavior and characteristic and others earnings quality in Malaysia.

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