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MALAYSIAN COMPANIES INVOLVEMENT IN CREATIVE ACCOUNTING:
THE IMPLICATIONS, METHODS AND FACTORS.



THESIS SUBMITTED TO
TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY
UNIVERSITI UTARA MALAYSIA
MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)
2024



Kolej Perniagaan
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Universiti Utara Malaysia

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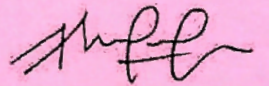
: MALAYSIAN COMPANIES INVOLVEMENT IN CREATIVE ACCOUNTING:
THE IMPLICATIONS, METHODS AND FACTORS.

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(Programme of Study)

: M20D – MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

Nama Penyelia/Penyelia-penyelia
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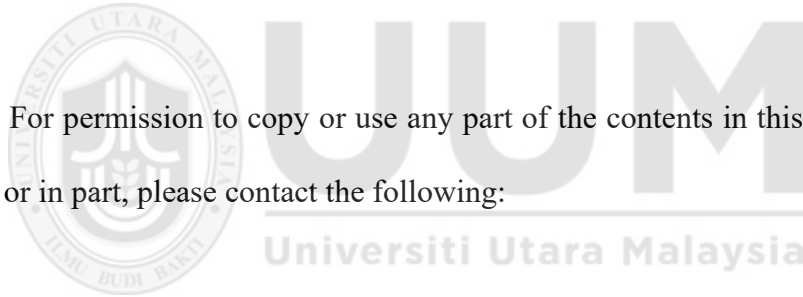
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Abstract

This thesis investigates the implications, methods, and factors driving Malaysian companies' involvement in creative accounting. Creative accounting, which involves manipulating financial records to present an overly favorable view of a company's financial position, poses significant challenges to the integrity of financial reporting. This study focuses on the consumer products and services industry in Malaysia, a sector characterized by its substantial contribution to the national economy and frequent encounters with financial transparency issues. The research adopts a comprehensive quantitative approach, utilizing a survey of 152 professionals from various companies within the industry. Key areas explored include economic pressures, regulatory environments, corporate governance practices, financial performance pressures, and the impact of creative accounting on stakeholder trust. The findings indicate that economic factors, regulatory scrutiny, and corporate governance significantly influence the prevalence of creative accounting practices. Reliability and validity tests confirmed the robustness of the measurement instruments, with Cronbach's alpha values exceeding 0.7 for all scales. Descriptive statistics provided insights into the demographic characteristics of the respondents and the extent of creative accounting practices. Correlation and multiple regression analyses revealed strong interrelationships among the independent variables and their collective impact on creative accounting. The study's implications underscore the need for stringent regulatory oversight and enhanced corporate governance to mitigate the risks associated with creative accounting. Recommendations for future research include longitudinal studies and comparative analyses across different industries and regions. This research contributes to the understanding of creative accounting practices in Malaysia and offers practical insights for policymakers, regulators, and corporate managers aiming to improve financial reporting integrity.

Keywords: Creative Accounting, Financial Reporting, Malaysian Companies, Corporate Governance, Financial Integrity, Consumer Products and Services, Economic Factors, Regulatory Environment, Financial Performance, Stakeholder Trust.

Abstrak

Tesis ini menyelidiki implikasi, kaedah, dan faktor-faktor yang mendorong penglibatan syarikat-syarikat Malaysia dalam perakaunan kreatif. Perakaunan kreatif, yang melibatkan manipulasi rekod kewangan untuk memberikan pandangan yang terlalu baik tentang kedudukan kewangan sesebuah syarikat, menimbulkan cabaran besar terhadap integriti pelaporan kewangan. Kajian ini memberi tumpuan kepada industri produk dan perkhidmatan pengguna di Malaysia, satu sektor yang dicirikan oleh sumbangan ketara kepada ekonomi negara dan kerap menghadapi isu ketelusan kewangan. Penyelidikan ini menggunakan pendekatan kuantitatif yang komprehensif, menggunakan tinjauan ke atas 152 profesional dari pelbagai syarikat dalam industri ini. Kawasan utama yang dikaji termasuk tekanan ekonomi, persekitaran kawal selia, amalan tadbir urus korporat, tekanan prestasi kewangan, dan kesan perakaunan kreatif terhadap kepercayaan pihak berkepentingan. Penemuan menunjukkan bahawa faktor ekonomi, pengawasan kawal selia, dan tadbir urus korporat secara signifikan mempengaruhi kelaziman amalan perakaunan kreatif. Ujian kebolehppercayaan dan kesahihan mengesahkan ketahanan instrumen pengukuran, dengan nilai alfa Cronbach melebihi 0.7 untuk semua skala. Statistik deskriptif memberikan pandangan mengenai ciri-ciri demografi responden dan sejauh mana amalan perakaunan kreatif. Analisis korelasi dan regresi berganda menunjukkan hubungan yang kuat antara pembolehubah bebas dan kesan kolektif mereka terhadap perakaunan kreatif. Implikasi kajian ini menekankan keperluan untuk pengawasan kawal selia yang ketat dan peningkatan tadbir urus korporat untuk mengurangkan risiko yang berkaitan dengan perakaunan kreatif. Cadangan untuk penyelidikan masa depan termasuk kajian longitudinal dan analisis perbandingan merentasi industri dan wilayah yang berbeza. Penyelidikan ini menyumbang kepada pemahaman mengenai amalan perakaunan kreatif di Malaysia dan menawarkan pandangan praktikal untuk pembuat dasar, pengawal selia, dan pengurus korporat yang bertujuan untuk meningkatkan integriti pelaporan kewangan.

Kata kunci: Perakaunan Kreatif, Pelaporan Kewangan, Syarikat-syarikat Malaysia, Tadbir Urus Korporat, Integriti Kewangan, Produk dan Perkhidmatan Pengguna, Faktor Ekonomi, Persekitaran Kawal Selia, Prestasi Kewangan, Kepercayaan Pihak Berkepentingan.

Acknowledgment

I would like to express my deepest gratitude to my supervisor, Prof. Dr. Azharudin bin Ali, for his invaluable guidance, support, and encouragement throughout the course of this research. His insights and expertise have been instrumental in shaping this thesis.

I also wish to thank the faculty and staff of the Tunku Puteri Intan Safinaz School of Accountancy at Universiti Utara Malaysia (KL Campus) for providing the resources and environment conducive to this research. Special thanks to my colleagues and friends for their support and understanding during this journey.

My sincere appreciation goes to my colleagues and friends who have provided their support and understanding throughout this journey. Their constructive feedback, encouragement, and camaraderie have made this endeavor both productive and enjoyable. I am particularly grateful to Janani Thinagar for her specific contributions and support during this process.

Finally, I am deeply indebted to my family for their unwavering support and patience. This accomplishment would not have been possible without their love and encouragement.

Table of Contents

Certification of Thesis Work	i
Permission to Use	ii
Abstract.....	iii
Abstrak.....	iv
Acknowledgment	v
CHAPTER ONE: INTRODUCTION	1
1.1 Background and Context.....	1
1.2 Problem Statement	5
1.3 Research Questions.....	7
1.4 Research Objective	9
CHAPTER TWO: LITERATURE REVIEW	13
2.1 Literature review.....	13
CHAPTER THREE: METHODOLOGY	22
3.1 Introduction to Research Methodology.....	22
3.2 Research Design.....	23
3.3 Population, sample and sampling technique	24
3.4 Research Framework and Research Hypotheses.....	26
3.5 Questionnaire Design.....	29
3.6 Summary	37
CHAPTER FOUR: RESULTS AND DISCUSSION	40
4.1 Results and discussion	40
4.2 Demographic Characteristics	41
4.2.1 Introduction.....	41
4.2.2 Gender Distribution	42
4.2.3 Age Distribution.....	44
4.2.4 Professional Experience.....	46
4.2.5 Size of Employer.....	48
4.3 Reliability and validity test	50
4.3.1 Introduction.....	50
4.3.2 Economic Factors.....	50
4.3.3 Regulatory Environment.....	51
4.3.4 Corporate Governance	51
4.3.5 Financial Performance Pressure.....	52
4.3.6 Impact on Stakeholder Trust	53
4.4 Descriptive Statistics.....	54
4.4.1 Dependent Variable	55
4.4.2 Independent Variables	56
4.5 Correlation Analysis	62

4.5.1 Correlation Coefficient Interpretation.....	62
4.5.2 Results.....	62
4.6 Multiple Regression Analysis.....	69
4.7 Summary.....	74
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION.....	77
5.1 Introduction.....	77
5.2 Discussion of the Findings.....	77
5.3 Implications of the Study.....	79
5.4 Limitations of the Study.....	80
5.5 Recommendations for Future Studies.....	81
5.5 Conclusion.....	82
5.7 Summary.....	83
REFERENCES.....	84



List of Tables

Table 4.1 Gender Distribution	42
Table 4.2 Age distribution.....	44
Table 4.3 Professional Experience.....	46
Table 4.4 Size of Employer.....	48
Table 4.5 Reliability Statistics for Economic Factors.....	50
Table 4.6 Reliability Statistics for Regulatory Environment.....	51
Table 4.8 Reliability Statistics for Financial Performance Pressure.....	52
Table 4.9 Reliability Statistics for Impact on Stakeholder Trust.....	53
Table 4.10 Summary of Reliability Statistics for All Scales	54
Table 4.11 Descriptive Statistics for the Dependent Variable (Creative Accounting Practices)	55
Table 4.12 Descriptive Statistics for Economic Factors	57
Table 4.13 Descriptive Statistics for Regulatory Environment	58
Table 4.14 Descriptive Statistics for Corporate Governance.....	59
Table 4.15 Descriptive Statistics for Financial Performance Pressure	60
Table 4.16 Descriptive Statistics for Impact on Stakeholder Trust	61
Table 4.17 Correlation Matrix.....	63
Table 4.18 Model Summary.....	71

List of Figures

Figure 3.1 Research Framework	26
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List of Abbreviations

Abbreviation	Description
MFRS	Malaysian Financial Reporting Standards
IFRS	International Financial Reporting Standards
MCCG	Malaysian Code on Corporate Governance
MACC	Malaysian Anti-Corruption Commission
AOB	Accounting Oversight Board
SC	Securities Commission Malaysia
Bursa Malaysia	Bursa Malaysia Berhad (Malaysian Stock Exchange)
GDP	Gross Domestic Product
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FASB	Financial Accounting Standards Board
SEC	Securities and Exchange Commission
PCAOB	Public Company Accounting Oversight Board
KPMG	Klynveld Peat Marwick Goerdeler (One of the Big Four Accounting Firms)
UUM	Universiti Utara Malaysia
SPSS	Statistical Package for the Social Sciences
SOX	Sarbanes Oxley Act
MESB	Malaysian Economic Statistics Bureau
AR	Accounts Receivable
AP	Accounts Payable
FA	Fixed Assets
JV	Joint Venture
UAT	User Acceptance Testing
GES	Global Employee Survey

CHAPTER ONE

INTRODUCTION

1.1 Background and Context

Creative accounting, a practice that manipulates financial records to present an overly positive view of a company's business activities, remains a contentious issue in the global business landscape. In Malaysia, as in many other countries, the fine line between creative and fraudulent accounting practices has led to increased scrutiny by regulators, investors, and the public. This study seeks to delve into the intricacies of Malaysian companies' involvement in creative accounting, aiming to uncover the implications of such practices, the methods employed, and the underlying factors driving these activities.

Creative accounting can encompass a wide range of activities — from aggressive interpretation of accounting standards to the outright falsification of financial statements. While these practices may temporarily enhance a company's financial appearance, they can lead to significant negative outcomes, including diminished corporate reputation, legal penalties, and adverse effects on market performance. In the Malaysian context, the implications of creative accounting are particularly poignant given the country's evolving regulatory framework such as MFSR 15 transition where since the full adoption of the MFRS in 2012, which is closely aligned with the International Financial Reporting Standards (IFRS), Malaysia has continually updated its standards to enhance transparency and comparability of financial statements. Recent updates aim to address complex areas like revenue recognition, financial instruments, and leasing, and the increasing importance of corporate governance. Whereas from the corporate governance perspective the Malaysian Code on Corporate Governance (MCCG) has updated versions of the

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