COMPLIANCE WITH THE MALAYSIAN ACCOUNTING STANDARDS BY THE PUBLIC-LISTED COMPANIES IN MALAYSIA

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Rosaniza Omar has firstly enrolled in Diploma in Business Studies in 1996 at UiTM Kelantan and after three years, she continued her study there, in Degree in Finance. Later in 2002, she has furthered her study at USM, in Master of Business Administration and graduated in 2004. Since then, she has been involved in some researches, conducted by her previous lecturers at USM, including those conducted by Associate Professor Dr Hasnah Haji Haron. Currently, she is teaching Accounting subjects at a private institution in Penang and has been working there since 2005. Apart from that, she is also a part-time tutor in Financial Accounting at the School of Management, Universiti Sains Malaysia.

Raihan binti Zakaria graduated from Universiti Utara Malaysia, April 2001 in Bachelor of Accounting (Hons). Started her career with Chang Kong Foo & Co. (Chartered Accountant) in July 2001 as an audit trainee. In 2002 she have move to P.S. Yap & Associates (Chartered Accountant) and later been offered by Baqir Hussain & Co. (Chartered Accountant) as a senior in charge of accounting, auditing and taxation job and providing training to new trainees. She also held a contract tutor in University Sains Malaysia, teaching accounting subjects to bachelor degree students. As a part of her learning process she was also taking part in assisting several research projects under supervision of Associate Professor Dr. Hasnah Haji Haron.

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Lastly we would like to convey our thanks to all the respondents who have participated in the study and hoped that they would benefit from our findings.

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Abstrak

Kajian ini dijalankan bagi menguji tadbir urus koporat dan ciri-ciri korporat syarikat yang memberi kesan ke atas tahap penzahiran mandatori piawaian MASB bagi syarikat-syarikat Malaysia yang disenaraikan di dalam Bursa Malaysia. Ciri-ciri korporat yang dikaji ialah keuntungan, nisbah hutang, jenis industri, saiz syarikat dan sifat juruaudit luaran manakala tadbir urus korporat pula ialah bilangan mesyuarat jawatankuasa audit, peratusan bebas dalam ahli jawatankuasa audit dan bilangan ahli jawatankuasa audit. Seratus satu laporan tahunan pada 2003 yang diumumkan kepada awam digunakan bagi tujuan pengumpulan data. Senarai semak yang mengandungi 252 item merangkumi MASB 1-30 (kecuali MASB 7, 16, 17, 18, 26 dan 28) disediakan dan digunakan sebagai kaedah untuk mengkaji tahap penzahiran mandatori. Teknik bukan pemberat digunakan dalam kajian. Hasil dari kajian mendapati saiz syarikat dan peratusan bebas dalam ahli jawatankuasa audit memberi kesan kepada tahap penzahiran mandatori. Peratusan penzahiran mandatori bagi keseluruhan piawaian MASB ialah 20.3% dan bagi setiap piawaian pula peratusannya antara 0 hingga 96.6%. Kajian mendapati 6 piawaian MASB dengan tahap penzahiran yang rendah. Piawaian-piawaian tersebut adalah MASB 4, 6, 10, 21, 23 dan MASB 29. Terdapat 4 item di dalam MASB 6 yang tidak langsung mengikuti tahap penzahiran mandatori. Ini menunjukkan bahawa kurangnya pengawasan dari badan-badan perundangan. Di sini, badan-badan perundangan perlu memainkan peranan penting dalam menanganinya.

Abstract

This objective of the study is to examine the influence of the corporate attributes and corporate governance characteristics on the level of mandatory disclosure of Malaysian public-listed companies. The corporate attributes examined are profitability, leverage ratio, type of industry, size of company and nature of external auditors and corporate governance characteristics examined are number of audit committee meetings, percentage of independent members in the audit committees and size of audit committees. One hundred and one annual reports of the public listed companies as at 2003 were used to collect the data. A checklist containing 252 items covering MASB 1-30 (excluding MASB 7, 16, 17, 18, 26 and 28) were prepared to be used as an instrument to measure the level of mandatory disclosure. Unweighted method was used. This research has found that size of company and the percentage of independent member of the audit committees do effects the level of mandatory disclosure of the companies. The overall MASB compliance is 20.3% and for each MASB Standards the range of compliance between 0-96.6%. The research also found that the were six MASB standards with low level of compliance. The MASB standards that have level of compliance lower than 50% are MASB 4, 6, 10, 21, 23 and MASB 29. There were 4 items in MASB 6 there were not complied at all. This shows there is lack of monitoring by the regulatory in financial reporting. This calls for more stringent and effective role to be played by the regulatory bodies.

CHAPTER 1

INTRODUCTION

1.0 Introduction

Accounting Standards are involved with the system of measurement and disclosure rules to produce a set of fairly presented financial statement. They appear with a set of authoritative statements of how particular types of transaction, events and other costs should be recognized and reported in the financial statements (Christopher & Islam, 1999). During the last twenty years or so there have been many studies, which have focused on the differences in accounting practices between countries. To reduce the differences in accounting practices, a number of accounting standard-setting bodies, both in public and private sector has emerged during the last two decades. The IASC (International Accounting Standards Compliance) was formed in 1973 to bring about harmonization in accounting and reporting practices in individual countries. It has 142 member accountancy bodies throughout the world representing 103 countries (Tower, Hancock & Taplin, 1999). So far it has issued 41 IASs covering most important accounting issues.

International Accounting Standards (IASs) can help to understand the financial statements globally and protect the interest of cross-broader investment and promote international flows of capital. The rapid growth of globalization forced the accounting profession towards the adoption of IASs to ensure or guarantee greater harmony in accounting and reporting practices. In the Malaysian context, the accounting standards are views under Malaysian Accounting Standard Board (MASB). The MASB's role in this development is to ensure that financial reporting standards lead to full and transparent disclosures of transactions that help to protect and assists shareholders, and other report users. The creation of the MASB can be further regarded as timely as the International Accounting Standard Committee (IASC) has been through an exhaustive period reviewing its own accounting standards.

The MASB initially adopted 24 of the extant International Accounting Standards (IASs) and Malaysian Accounting Standards (MASs) issued by the Malaysian professional accountancy bodies prior to the creation of the MASB. Adoption by the MASB gave these IASs and MASs the status of approved accounting MASB standard. MASB standards are developed in accordance with the principles, objectives and concepts presented in the MASB 1, A Proposed Framework for the Preparation and Presentation of Financial Statements. In addition, MASB Standards are developed with reference to the work of other national standard setters such as Australia, Canada, New Zealand, the United Kingdom, the United States of America, and the International Accounting Standards Committee (IASC). The MASB's Standards are framed with due consideration of the balance between the benefit and cost of providing the information. In recognition of this balance, the MASB may grant exemptions to selected enterprises from either the whole or nominated sections of a MASB pronouncement.

Starting in early 2006, the new accounting standards, FRS (Financial Reporting Standard) will be replacing the MASB Standards. Interview with Faiz Azmi, partner at PricewaterhouseCoopers said that, the new FRS are only an improvisation of the old International Accounting Standards (IASs) and Malaysia has always (since 1958) adopted the IASs with minor local modifications. As such, there is no major technical requirements imposed upon the profession except perhaps a couple of new standards which include financial instruments, measurement and disclosure. All the public listed companies in Malaysia need to comply with FRS in preparing their annual report. The purpose in applying the FRS is to standardize the presentation of annual reports due to the changes in presenting the properties, assets, investments and others.

According to The Star on the 24 February 2006, Financial Reporting Standards (FRS) are now optional for private companies following a decision by the Malaysian Accounting Standards Board (MASB) for two sets of accounting standards. The two SETS are FRS and Private Entity Reporting Standards (PERS), according to MASB chairman Datuk Zainal Abidin Putih. FRS is for listed companies, their subsidiaries, associates or firms jointly controlled by them. PERS is for private entities other than public listed companies. It includes the government sector and small business enterprises.

The different standards are required bearing in mind that private companies have different information needs and also to lessen the burden of these companies if they were to comply with international financial reporting standards. According to MASB Executive Director, Dr Nordin Mohd Zain stated that with PERS, private entities were not affected by the revisions and the requirements of the new standards issued under the FRS regime. He added that, "Essentially, PERS are MASB Standards issued by the Board prior to 1 January 2005 (*The Star,* 24 February 2006).

With PERS coming into being, private entities are not affected by the revisions and the requirements of the FRS. Private entities are given the option to use FRS or to use PERS. If an entity chooses FRS or PERS, it must comply with the full set of FRS or PERS respectively in their entirety. According to Dato' Zainal Putih, entities other than private entities are required to comply with the full set of FRS including their interpretations beginning 1 January 2006 except for FRS 117 Leases, FRS 124 Related Party Disclosures and FRS 139 Financial Instruments: Recognition and Measurement which will be effective for financial statements with annual periods beginning on or after 1 October 2006 (*The Star,* 24 February 2006).

1.1 Background

Adoption of international accounting standards has increased the acceptability as well as creditability of the financial statements of Malaysia companies to domestic as well as foreign investors. Malaysia has implemented a number of measures to enhance the standards of reporting and disclosure. In 1997, Malaysian Accounting Standard Board (MASB) was established under the Financial Reporting Act to develop and issue accounting standards. Before its establishment, the accounting standards applicable in Malaysia were promulgated by two accounting professional bodies i.e. the Malaysian Institute of Accountants (MIA), set up in 30 September 1967, under the Accountants Act by the government as a statutory body to regulate the accounting profession, and the Malaysian Association of Certified Public Accountants (MACPA); where is now known as MICPA (Malaysian Institute of Certified Public Accountants), set up in the private sector in 1958, to complement the notion of interests (Susela, 1999). Malaysian Accounting Standards include International Accounting Standards that adopted by the MASB. MASB is solely responsible for the accounting standards adhered to in Malaysia. These accounting standards are intended to describe methods of accounting or disclosure for the application to all adopted accounting statements expected to give a true and fair view of financial position and results. All listed companies are to abide by Accounting Standards adopted by the MASB and hence, accounting standards are mandatory only for the companies listed on the Bursa Malaysia.

In Malaysia, sixteen Accounting Standards are effective from 1 July, 2000. The table below shows the list of International Accounting Standards (IASs) adopted by the Malaysian Accounting Standards Boards as of 2003. There were 32 MASB standards in existence at the time. MASB 31 and 32 ARE for 'Accounting for Government Grants and Disclosure for Government Assistance' and 'Property Development Activities', respectively. These two standards are very specialized topics and are not applicable to the public listed companies in general as the sample of the companies are from public listed companies, therefore these standards were not considered.

After several discussions with a chartered accountant, it was decided to limit the study to MASB 1 to 15, MASB 19 to MASB 25, MASB 27, MASB 29 and MASB 30 rather than all 32 MASB standards. These standards will be applicable to most public listed companies. After discussion also, it was decided to concentrate only on three applicable to these three companies where we only concentrate on Industrial Products, Trading Services and Consumer Products as they involved less complex transactions. Association between the level of disclosure and industry types provides mix evidence. Cooke's (1989) findings report that manufacturing companies disclosed more information than other types of companies. But the findings of Inchausti (1997) and Owusu-Ansah (1998) provide no evidence of this association.

Table 1.1.1

List of International Accounting Standards (IASs) adopted by the Malaysian Accounting Standard Board (MASB) as of 2003.

MASB	IASs	Title as Adopted by MASB	MASB's Effective Date
1	1	Presentation of Financial Statement	1 July 1999
2	2	Inventories	1 July 1999
3	8	Net Profit or Loss for The Period, Fundamental Errors and Changes in Accounting Policies	1 July 1999
4	9	Research and Development Costs	1 July 1999
5	7	Cash Flow Statement	1 July 1999
6	21	Effects on Changes on Foreign Exchange Rates	1 July 1999
7	11	Construction Contracts	1 July 1999
8	24	Related Parties	1 Jan. 2000
9	18	Revenue	1 Jan. 2000
10	17	Leases	1 Jan. 2000
11	27	Consolidated Financial Statement and Investments in Subsidiaries	1 Jan. 2000
12	28	Investment in Associates	1 Jan. 2000
13	33 & MAS-1	Earnings per Share	1 Jan. 2000
14	4	Depreciation Accounting	1 July 2000
15	16	Property, Plant and Equipment	1 July 2000
16	31	Financial Reporting of Interest in Joint Ventures	1 July 2000
17	MAS-3	General Insurance Business	1 July 2000
18	MAS-4	Life Insurance Business	1 July 2000
19	10	Events After the Balance Sheet Date	1 July 2001
20	37	Provisions, Contingent Liabilities and Contingent Assets	1 July 2001
21	22	Business Combinations	1 July 2001
22	14	Segment Reporting	1 Jan. 2002
23	36	Impairment of Assets	1 Jan. 2002
24	32	Financial Instruments: Disclosure and Presentation	1 Jan. 2002
25	12	Income Taxes	1 July 2002
26	34	Interim Financial Reporting	1 July 2002
27	23	Borrowing Costs	1 July 2002
28	35	Discontinuing Operations	1 Jan. 2003
29	19	Employee Benefits	1 July 2003
30	26	Accounting and Reporting by Retirement Benefits Plans	1 July 2003

IASC was established in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the

United Kingdom and Ireland and the United States, and these countries constituted the Board of IASC at that time. The international professional activities of the accountancy bodies were organized under the International Federation of Accountants (IFAC) in 1977. In 1981, IASC and IFAC agreed that IASC would have full and complete autonomy in setting international accounting standards and in publishing discussion documents on international accounting issues. At the same time, all members of IFAC became members of IASC. This membership link was discontinued in May 2000 when IASC's Constitution was changed as part of the reorganization of IASC. The MASB, together with the Financial Reporting Foundation (FRF), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including prepares, users, regulators and the accountancy profession.

While there are changes in MASB Standards to FRS, the are some reporting standards that are remains the same except for the numbering in reporting. Table 1.1.2 shows the 21 new or revised Financial Reporting Standards and other existing Financial Reporting Standards. The subscript 2004 refers to the year when it was the first year FRS has been announced. The latest FRS is without subscript because it was already been implemented.

Initially standards issued by MASB were referred to as MASB standard 1 etc. However, from January 2005 all standards issued by MASB are called Financial Reporting Standards (FRS). The numbers assigned were changed to coincide with the numbers assigned to IASs. For example MASB 1 *Presentation of Financial Statements* is renamed FRS 101.

Table 1.1.2

The 21 new/revised Financial Reporting Standards as of 2004

Standard	Title	Standard Superseded	Formerly known as
FRS 1	First-time Adoption of Financial Reporting Standards	-	-
FRS 2	Share-based Payments	-	-
FRS 3	Business Combination	FRS 122_{2004}	MASB 21
FRS 5	Non-current Assets Held for Sale and Discontinued Operations	FRS 135_{2004}	MASB 28
FRS 101	Presentation of Financial Statements	FRS 101_{2004}	MASB 1
FRS 102	Inventories	FRS 102_{2004}	MASB 2
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	FRS 108_{2004}	MASB 3
FRS 110	Events After the Balance Sheet Date	FRS 110_{2004}	MASB 19
FRS 116	Property, Plant and Equipments	FRS 116_{2004}	MASB 15
FRS 117	Leases	FRS 117_{2004}	MASB 10
FRS 121	The Effects of Changes in Foreign Exchange Rates	FRS 121_{2004}	MASB 6
FRS 124	Related Party Disclosures	FRS 124_{2004}	MASB 8
FRS 127	Consolidated and Separate Financial Statements	FRS 127_{2004}	MASB 11
FRS 128	Investments in Associates	FRS 128_{2004}	MASB 12
FRS 131	Interest in Joint Ventures	FRS 131_{2004}	MASB 16
FRS 132	Financial Instruments: Disclosure and Presentation	FRS 132_{2004}	MASB 24
FRS 133	Earnings per Share	FRS 133_{2004}	MASB 13
FRS 136	Impairments of Assets	FRS 136_{2004}	MASB 23
FRS 138	Intangible Assets	-	-
FRS 139	Financial Instruments : Recognition and Measurements	-	-
FRS 140	Investment Property	FRS 125_{2004}	-

As of January 2005, MASB has renumbered the accounting standards. The new numbers coincide with the numbers of the relevant IAS. For example MASB 1 *Preparation and Presentation of Financial Statements* is numbered FRS101; MASB2 becomes FRS102; MASB5 is now FRS107 and so on. The IFRS 1 is FRS1, IFRS 2 is FRS 2 and so on. To be in line with convergence programme of IASB, MASB is adopting the standards issued by IASB. Table 1.1.2 that explained the other existing Financial Reporting Standards that was formerly known as MASB. Appendix 1 at the end of the thesis shows the details of FRS and MASB standards, the recognition, measurements and disclosures.

Although the FRS has been implemented, the annual reports before year 2005 will still follow the MASB Standards. This will explain why compliance to MASB Standards will be used in this research. Therefore this study will examine the mandatory level of compliance with MASB in Malaysia and will refer to the previous studies looking at the mandatory compliance level with IASs.

Mandatory disclosure is the minimum amount of information that should be presented in the companies' annual reports (Choi & Muller, 1992). Mandatory disclosure requirement is used as a basis to protect investors' rights. Professionals or governmental regulatory bodies such as the Security Exchange Commission in the United States, the Ministry of Finance in Japan, or the Capital Market Agency in Indonesia will determine the mandatory requirements. These regulatory bodies imposed disclosure requirements for both domestics and foreign companies seeking access to their securities markets. These bodies are concerned with ensuring that investors are provided with a minimum amount of disclosure that will permit them to intelligently appraise a company's past performance and future prospects. (Arifin, 2002)

Mandatory disclosures provide only information prescribed by the accounting standards and/or the Stock Exchange Regulations (Penmann, 1988). Mandatory disclosures would not have included other useful information that is needed by users, such as earnings forecast, capital expenditure and occupational background of directors or description of marketing networks. Muller et al. (1994) argued that if too much information is disclosed, users or readers can easily get lost in all of the clutter (i.e. suffer from 'information overload'). So management needs a way to decide on the amount of information to be revealed in the financial statement.

Table 1.1.3

Other existing Financial Reporting Standards

Standard	Title	Formerly known as
FRS 104_{2004}	Depreciation Accounting	MASB 14
FRS 107_{2004}	Cash Flow Statements	MASB 5
FRS 109_{2004}	Research and Development Cost	MASB 4
FRS 111_{2004}	Construction Contracts	MASB 7
FRS 112_{2004}	Income Taxes	MASB 25
FRS 114_{2004}	Segment Reporting	MASB 22
FRS 118_{2004}	Revenue	MASB 9
FRS 119_{2004}	Employee Benefits	MASB 29
FRS 120_{2004}	Accounting for Government Grants and Disclosure of Government Assistance	MASB 31
FRS 123_{2004}	Borrowing Costs	MASB 27
FRS 126_{2004}	Accounting and Reporting by Retirement Benefits Plans	MASB 30
FRS 129_{2004}	Financial Reporting in Hyperinflationary Economies	IAS 29
FRS 134_{2004}	Interim Financial Reporting	MASB 26
FRS 137_{2004}	Provision, Contingent Liabilities and Contingent Assets	MASB 20
FRS 210_{2004}	Property Development Activities	MASB 32
FRS 202_{2004}	General Insurance Business	MASB 17
FRS 203_{2004}	Life Insurance Business	MASB 18
FRS 204_{2004}	Accounting for Aquaculture	MASB 5
FRS i-1_{2004}	Presentation of Financial Statements of Islamic Financial Institutions	MASB i-1

1.2 Problem Statement

Due to the rapid growth of globalization, countries all over the world are moving towards the full adoption of IASs to ensure a greater harmony in accounting and reporting practices. With a standardized or more harmony in the accounting standards, it is the intention that after AFTA (Asean Free Trade Area) that has taken place in 2003, companies from any country can invest in Malaysia. Previous studies have proved that there is a low compliance level of mandatory disclosure between countries. As of the date of this study, the International Financial Reporting Standards

(IFRS) and FRS has not come into being. Therefore the study will examine the compliance to International Accounting Standards and MASBs.

The reason for the low compliance is because some developing countries (e.g, Brazil, India, Mexico, Saudi Arabia, South Africa, Switzerland and Yugoslavia) have not adopted the IASs fully (Christopher & Islam, 1999). The accounting practices in Malaysia are largely based and strongly influenced by statutes. All listed companies in Malaysia are governed by statutory requirements of Bursa Malaysia and the MASB Standards. Previous studies examining the level of mandatory disclosure have investigated the practices of companies from different countries (Van, 1992; Emenyonu & Gray, 1992; Tower *et al.,* 1999; Hollis & Pincus, 2001). These studies have used the annual reports of different countries to address the compliance level with IASs. The main purpose of these studies was to investigate the degree of harmony, or comparability of the accounting practices of the companies across countries besides measuring their level of mandatory compliance with the accounting standards

However, research examining the level of compliance with approved accounting standards at a country level has been rather limited, particularly in the Asian region. Previous studies at the country level have found that there is a low level of compliance with the mandatory requirements of the financial statements. A research on the level of mandatory compliance in Bangladesh public listed companies has found that there is a low level of mandatory compliance with respect to the balance sheets, income statements, accounting policies, directors' report and historical summary items (Akhtaruddin, 2005). The research has been conducted by looking at the overall level of mandatory disclosure in the annual reports. The research found that out of six independent variables examined (i.e. age of the company, status, total capital employed, size of annual sales, net profit on capital employed and net profit on sales), only two variables which is size of company and profitability were found to be significant.

In Malaysia, investigation conducted by practice review teams of MIA have shown some evidence of non compliance (refer to table 1.2)

However to the author's knowledge, there is no empirical research to date that has examined the factors influencing the level of mandatory compliance in Malaysia. Hence this study will attempt to examine some corporate attributes and also some corporate governance characteristics that will have an influence on the level of mandatory disclosure in Malaysia. The factors selected were based on previous literature in studies conducted in other countries, outside Malaysia, which were found to be significant in affecting both the voluntary and mandatory disclosure.

The Malaysian code of Corporate Governance was implemented in 2001. By 2003, most companies would already have complied with the requirements that have been put in place. Hence, this study will examine the annual reports for year 2003.

Table 1.2

List of standards that are not being complied

Applicable standards/stated.	**Common findings on non-compliance with applicable standards/statues**
	Omission of required disclosures in the financial statements.
MASB 1(8), MASB 5(1)	Cash flow statement (Company level) within the financial statements of a group of companies
MASB 1(38)	Comparative for number of employees
MASB 1(72), CA Sch. 9(2)(1)(n)	Terms of repayment for long term loans / loans from holding company an security where applicable
MASB 1(83)	Staff costs
MASB 1(97), IAS 25	Policy on investment in subsidiaries / other investments
MASB 2(37)	The basis on which the carrying amount of inventories is stated (i.e. at cost or net realizable value)
MASB 5(45), (46)	Policy in determining the composition of cash and cash equivalents
MASB 6 (42)(a)	Distinguishing between realized and unrealized foreign

	exchange gain and loss
MASB 6(42)(c)	The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations
MASB 10(26)(b)	Reconciliation between the total minimum lease payments at the balance sheet and their present value
MASB 10, MASB 1(97)	Accounting policy for plant and equipment acquired under hire purchase / finance lease
MASB 15(78)	No depreciation is charged on buildings and leasehold land and there was no disclosure of the basis for not depreciating those assets
MASB 19(16)	Disclosure of the date when financial statements were authorized for issue and party giving the authorization
MASB 21(b)	Basis of consolidation i.e. acquisition method
MASB 23 (a)	Accounting policy on impairment of assets
MASB 24(49), (64), (86)	Disclosure on financial instruments including the financial risk management objectives and policies
MASB 25, MASB 1(97)	Accounting policy on income tax
MASB 25(79)(c)/IAS 12(53)(d)	An explanation on the effective tax rate of the Company / Reconciliation of tax expense applicable to accounting profit at statutory income tax rate to tax expense at the effective income tax rate
MASB 27(8), MASB 1 (97)	Accounting policy adopted for borrowing cost
	Erroneous disclosure in the financial statements
MASB 1(40)	Reclassification of comparative figures, without disclosure of its nature and amount of reclassification
MASB 1(72), Sch. 9(2)(1)(j), CA 1965	Aggregation of investment in subsidiary and the amount due from subsidiary and the amount due from subsidiary which is current in nature
MASB 5 (6),(7),(8)	Component of cash & cash equivalents include fixed deposits pledge / revolving credits
MASB 5(31)	Interest paid on hire purchase not separately disclosed in the cash flow statement
MASB (43),(44)	Plant and equivalents acquired by hire purchase was not excluded from the cash flow statement
MASB 15(33), (47), (51), (54)	No depreciation charged on building cost
MASB 25	Accounting policy note on deferred tax which deferred tax which permits partial provisioning

Source: http://www.mia.org.my Date accessed: 12 March 06.

1.3 Research Objectives

The objectives of the present study are as follows:

1. To measure the overall level of mandatory compliance of MASB 1-30 standards (excluding MASB 7, 16, 17, 18, 26, 28)
2. To measure the level of mandatory compliance of each of the twenty four MASB Standards.
3. To examine whether corporate attributes (profitability, leverage ratio, type of industry, size of company and nature of external auditors) and corporate governance characteristics (number of audit committee meetings, percentage of independent members in the audit committees and size of audit committees) of the companies do influence the level mandatory compliance of MASB.

1.4 Research Questions

This study is to examine whether or not the companies in Malaysia are in compliance with the Accounting Standards. In order to achieve the objective, this study will examine:

1. What is the overall level of mandatory compliance to MASB standards?
2. What is the level of mandatory compliance for each MASB Standard?
3. Which corporate attributes (profitability, leverage ratio, type of industry, size of company and nature of external auditors) and corporate governance characteristics (number of audit committee meetings, percentage of independent members in the audit committees and size of audit committees) of the companies do influence the level mandatory compliance of MASB. Will this corporate attributes and corporate

governance characteristics have a significant influence on the level of mandatory disclosure

1.5 Definition of key terms

1. IAS

   The accounting standards issued by International Accounting Standards Committee. These accounting standards will be adopted fully or to the extent necessary by MASB to be used in Malaysia.

2. MASB

   The Malaysian Accounting Standards Board (MASB) is established under the Financial Reporting Act 1997 (the act) as an independent authority to develop and to issue accounting standards for Malaysia. All the public listed companies must comply and followed the MASB standards as a guide line in reporting annual reports.

3. MAS

   The Malaysia Accounting Standards (MAS) is the standards that are issued specifically in line with its need. MAS was issued before the MASB established.

4. Compliance Level

   The compliance level refers to the degree of compliance off accounting standard disclose by the public-listed companies in the annual reports to the MASB standards.

1.6 Significance of the Study

In most of the research, the agency theory is usually used for voluntary disclosure. However, this theory is equally applicable for mandatory disclosure. This is because the agents (managers) are equally capable of not disclosing the mandatory information as thy do for voluntary disclosure (Christopher & Islam, 1999; Akhtaruddin, 2005).. This has been proven by previous studies that found a low level of mandatory compliance. Disclosure provisions of the Security Exchange Rules are, in fact, restricted only to companies listed on the stock exchanges. It is often alleged, however, that company annual reports do not comply with the disclosure compliance by the listed company (Ahmed & Nicholls, 1994; Hossain, 2000; Karim, 1996)

This research provides information on the level of disclosure and the compliance with the MASB of public listed companies in three industry sectors (Industrial Products, Consumer Products and Trading Services). It also highlights the items in each MASB Standard that have been disclosed in the annual report prepared by the public-listed companies in Malaysia.

By increasing the level of compliance can enhance the value of stock in the capital market, increased liquidity, reduced cost and so on. Corporations today are required to be transparent and accountable and should comply with the mandatory compliance requirements of the accounting standard setters.

There is not much research done in the area of mandatory disclosure for example, Arifin (2002) and Akhtaruddin (2005) tries to search evidence that look at mandatory disclosure where prior research focuses mostly in voluntary disclosure (Cooke, 1989; Inchausti, 1997; Lang & Lundholm, 1993; Wallace, Naser, & Mora, 1994). This research will examine the annual reports of public listed companies to see whether they are in compliance to MASB standards after the Malaysian Code of

Corporate Governance was issued. Factors influencing mandatory compliance examined include corporate attributes and corporate governance characteristics. Hence it will be able to address which important variables in corporate attributes and corporate governance characteristics will give influence the level of mandatory disclosure. Results of the study will be able to guide the regulatory bodies as to steps to be taken to enhance compliance to the MASB standards.

1.7 Organization of Remaining Chapters.

This study is categorized into five chapters. Chapter 1 will discuss the research objectives, problem statement and significance of the study. Chapter 2 will discuss the issues results of previous studies, methodology used, theoretical framework and hypothesis of the study. Chapter 3 outlines the questionnaire design, discuss the mandatory disclosure checklist, explains how and sample is selected, stages in data collection, determination of validity of instrument and data collected and data analysis. Chapter 4 presents the results of the study. It will explain the data profile, hypotheses testing and summary of the results. Lastly, Chapter 5 presents the recapitulation of study, discussion of the study, implication of study, limitation of the study and suggestion for future research and will conclude the research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Previous studies have addressed the impact of various corporate characteristics on the level of disclosure (both voluntary and mandatory) in the annual report (Owusu-Ansah, 1998 and Wallace & Naser, 1995). These characteristics includes corporate attributes (profitability, leverage ratio, type of industry, size of company and nature of external auditors) and corporate governance characteristics (number of audit committee meetings, percentage of independent in the audit committees and size of audit committees) of the companies. Previous studies on corporate governance characteristics include the size of audit committee, number of audit committee meetings, and percentage of independence members in the audit committee (Balachandran & Bliss (2003), Liu (2004) and Evans (2004). The demand for published information has been increasing worldwide against the backdrop of rising awareness among users to the need of information. Sometimes disclosure is not often adequate to the users as it is subject to the discretion of the management, where managers are likely to consider their interaction in exercising managerial discretion. This might enhance the disclosure gap – the difference between expected and actual disclosures, which is viewed as the result of principal-agent problems. The fact is that the company provides information to discharge its some specific obligations: the obligation to the society, the investor, the supplier, creditors, and the legal authorities.

2.1 Review of the literature

The adoption of IASs improved the quality of disclosure and hence the degree of comparison (IASC, 1999). One of the main purposes of financial statements is to provide a more comparable data about the business enterprise. Accounting standards assist the preparation of financial statements and comparability of enterprise data in at least four ways: (1) mandating a specific presentation format, (2) compelling an explicit measurement technique, (3) ensuring an increasing level of disclosure, and (4) requiring the disclosure of additional information (Cairns, 1995). There is a great controversy as to the application of IASs. Some are of the opinion that IASs are meant for developed countries while others advocate for developing countries. It is evident from the study of Chamisa (2000) that 80% of the IASC members are from developing countries and majority of them have adopted the IASs. In fact, IASs are relevant to developing countries where the private sectors dominate the economy and where capital markets are present (Briston & Liang, 1985; Chamisa, 2000). Additionally, pressure to adopt IASs is felt specifically in developing countries because of their significant reliance on inflow of foreign capital for financing their industrial and economic developments (Chamisa, 2000). Christopher and Islam (1999) have pointed out that developing countries increasingly need sophisticated accounting standards as their economies grow and become more complex.

There is evidence that a number of developing countries have not even adopted the IASs as the basis of their domestic accounting standards (Christopher & Islam, 1999). Furthermore, they mentioned that some developing, countries have developed their accounting standards at variance with the IASs (e.g., Brazil, India, Mexico, Saudi Arabia, South Africa, Swaziland and Yugoslavia).

2.1.1 Corporate Attributes

Cooke (1989) found that industry type, size of companies and listing status of companies were found to be significantly related to the level of voluntary disclosure. Benjamin, Au-Yeng, and Lau (1990) examined the quality of disclosure in the corporate annual reports of 76 listed companies in Hong Kong for the years 1984, 1985 and 1986. They examined significant areas of non-compliance of financial statements with the Companies Ordinance and Securities Ordinance of Hong Kong, and departures from the Statements of Standard Accounting Practices (SSAPs) issued by the Hong Kong Society of Accountants (HKSA). They also reviewed whether non-compliance was closely related to the size of the listed companies, the nature of the listed companies and the size of the auditing firm. Their analysis of the annual reports revealed major departures from the disclosure requirements of the Companies Ordinance, Security Ordinance and the HKSA's requirements. They found non compliance relates to size of company. However, they did not find any significant association between departure from disclosure requirements and size of auditing firms. The main reasons behind non-compliance with disclosure requirements were found to be difficulties in interpreting disclosures and auditing guidelines; insufficient awareness of general accounting concepts; lack of proficiency of staff, management intention to 'improve' the of the companies' financial position and results of operation; and lack of resources to keep abreast of changes in the disclosure requirements.

For the reduction of non-compliance of disclosure requirements, they suggested that the directors' report should be reviewed by the auditors for reasonableness and consistency with other financial information and certain punitive measures should be instituted against company directors for willful departures from a checklist incorporating all the disclosure requirements which should be updated periodically and whenever new disclosure requirements were promulgated.

Evaluating standards in developing countries having differences in economic, socio-political, cultural and contextual differences between countries, nations and societies exists, there is a problem in applying accounting standards (Samuels & Oliga, 1982). They argued that there are both conceptual and practical problems that will dampen the pursuit of harmonization of accounting standards. The IASs are meant to apply to companies within a country whether or not they are multinationals. Therefore, they suggested that priority must be given to the needs of developing countries in applying the feasible accounting standards.

Tower, Hancock and Taplin (1999) examined the extent of compliance with International Accounting Standards (IAS) in six countries in the Asia-Pacific region. By providing evidence as to the level of compliance with IAS in financial statements, this study also indicates the extent of harmonization in the accounting. The paper also examines various determinants of compliance with IAS and finds that country of location remains the clear driving force.

Chong, Tower and Taplin (2001) examined accounting harmonization and determinants explaining accounting measurement policy choice decisions by Asia-Pacific listed manufacturing companies. Using Thomas' (2002) theoretical framework, four contingent variables (country of reporting, company size, profitability and debt leverage) were examined as possible determinants of firms' accounting choices concerning non-current asset valuation measurement base, goodwill and depreciation. 130 listed manufacturing companies' annual reports were examined from Australia, Hong Kong, Indonesia, Malaysia and Singapore. Their study involves two phases. The first phase evaluates accounting harmonization measurement indices in comparison with the extant literature. An important innovation is the operationalization of Archer *et al.* (1995) between-country and within-Country C indices. Their results indicated variations in the level of harmony across the five countries for all three accounting measurement practices. The second phase of their study employed logistic regression to examine possible determinants of accounting policy choice decisions. Such a combined research approach should lead to a better understanding of de facto accounting harmonization and practices. Additionally, their results indicated that country of reporting, company size, profitability and debt leverage are important variables influencing listed manufacturing companies' accounting policy choice for accounting measurement policies.

The studies discussed above deal with harmony of a single issue rather than the degree to which enterprises comply with the multitude of issues in International Accounting Standards. The construction of their disclosure indices does not lend itself to inferential statistics or insights about explanatory factors such as the industry in which the enterprise operates or the size of the enterprise. This study will apply stronger empirical techniques and explanatory insights concerning compliance through the use of the general linear model using multivariate statistics.

According to Fama (1980), the corporate board is an important internal governance mechanism. Proponents of good corporate governance advocate the board characteristics such as board size, composition and leadership structure affect the effectiveness of board monitoring of management to protect shareholders' interest (Fama & Jensen, 1983).

Karim (1996) uses annual sales, total assets, and market value of the firm to measure size, whereas Hossain (2000) uses sales turnover and total assets as size variables. The larger companies are expected to disclose more information. According to the results in multiple regression test, show that the size company significant with the level of disclosure.

Tsang (1998) found that banking, food and beverage and hotel industry disclose more social information than any other types of industry. There are limited researches in mandatory disclosure especially in Malaysia. Thus Table 2.1.1, will include studies that have examined corporate attributes for both voluntary and mandatory level of disclosure.

Previous studies have concluded that corporate attributes that were found to be significant were company size, ownership structure, company's age, multinational corporation affiliation, profitability, country of reporting and debt leverage. There were mixed findings with regards to industry type, liquidity or leverage). Although the quality of external audit was found to be not significant in previous studies, the study has included this variable as it would be pertinent to find out whether there would be a difference in compliance level for firms audited by big four or non big four firms.

Table 2.1.1

Summary of research concerning corporate attributes that influence the level of mandatory disclosure.

No.	Author	Variables Used	Location & Sample Used	Results of Analysis
1	Cooke (1989)	Listing status, size of companies and industry types	Sweden, 90 firms	All variables were found to be significant to the level of voluntary disclosure.
2	Benjamin, Au-Yeng, Kwok, M.C. and Lau L.C. (1990)	Size of companies, nature of listed companies and size of auditing firm	76 listed companies listed in Hong Kong for the years 1984, 1985 and 1986	Non-compliance and disclosure requirements are closely related to the company size and no significant association between departure from disclosure requirements and size of auditing firms.
3	Tower, Hancock and Taplin (1999)	Compliance with IASs indicates the extent of de-facto harmony	Six countries in the Asia-Pacific region	Country of location remains the clear driving force for compliance with IASs
4	Owusu-Ansah (1998)	49 listed companies – annual reports (1994)	Zimbabwe 214 mandated information items	Significant influence were fond for 1) company size, (2) ownership structure, (3) company age, (4) multinational corporation affiliation and (4) profitability on the level of mandatory disclosure. No significant influence were found for: (1) quality of external audit, (2) industry type, and (3) liquidity on the level of mandatory disclosure.
5	Chong, Tower and Taplin (2001)	Country of reporting, company size, profitability and debt leverage	130 listed manufacturing companies' from Australia, Hong Kong, Indonesia, Malaysia and Singapore.	All variables were found to be significantly related to the level of voluntary disclosure.
6	Akhtaruddin (2005)	Company size, age of listing, industry type and profitability	94 listed companies in Bangladesh	Variables that were found to be significant are company size and profitability. Level of mandatory disclosure in Bangladesh firms were found to be low compared to the others companies.

This study will examine the influence of profitability, leverage ratio, type of industry, size of companies and nature of external auditors on the level of mandatory disclosure of companies. The variables have been chosen as it would have an influential effect on the level of mandatory disclosure.

2.1.2 Corporate Governance Characteristics

The corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking into account the interest of other stakeholder (Finance Committee Report on Corporate Governance, 2000). By doing this, it also provides the structure through which company objectives are set, and the means of attaining these objectives and monitoring performance.

The approach adopted by the Malaysian Code on Corporate Governance (MCCG), represents a hybrid between the prescriptive and non-prescriptive models. The former sets 'standards' of desirable practices which require disclosure of compliance by the companies, while the latter requires the disclosure of actual corporate governance practices by the company. The Code aspires towards two primary but inter-related objectives. First, it aims to encourage disclosure by providing investors with timely and relevant information upon which investment decisions may be made and the performance of companies evaluated. Secondly, it serves as a guide to boards of directors by clarifying their responsibilities as well as by providing prescription to strengthen the control which they exercise. The MCCG can be divided into four principles; directors, directors' remuneration, shareholders and accountability and audit (Pan, P.H, 2000). They are prescriptive in nature that is the Code prescribes a list of the standards for desirable practices but not the disclosure of actual practices.

This research will focus only on Audit Committee as it is believed to be a very important variable in monitoring and evaluating the operations of the company. The audit committee is an important committee that assists the board of directors in overseeing and ensuring adequate functioning of internal control mechanism, monitoring and focusing on reviewing financial risk and risk management. In 1994, all public listed companies were required to have an audit committee. The role of audit committee is essentially threefold; to watch over management to ensure there is no management override of established prudent financial practices and procedure, to assists the board of directors in discharging their responsibilities for financial reporting and internal controls and to provide an impartial channel for complaints concerning the management and direction of a company. The members of the audit committee (the SOX requirements) must be appointed from amongst the directors.

The audit committee must be composed of not fewer than three members, the majority being non-executive independent directors, at least one member who an 'accountant'and must not include an alternate director as a member. The role played by an audit committee has been defined differently by the regulatory agencies and researchers (Eow, 2003). The meetings held by the audit committee are also an important factor as this is the arena where they actually sit and discuss their findings and also decide on their next plan of actions. Eow, found that the number of meetings held by the audit committee is significantly related to the performance of companies. Several researches have also included this variable and other corporate governance variables in the study of the level of mandatory compliance (please refer to table 2.1.2).

In conclusion, Corporate Governance characteristics that were found to be significant are CEO duality proportion of independents non-executive director on audit committees, proportion of independents on board of directors and audit committee independents. While audit committee meetings, non influential CEOs, CEO stock ownership, block holder on committee, board size, board independents, CEO / chairman duality and number board meetings were found not significant.

This study has chosen only the audit committee to be a variable of interest because the audit committee will indirectly measure the quality of the Board of Directors as it is a subset of the Board of Directors. Furthermore, previous studies have repeatedly shown it to be a significant variable that influences the level of mandatory disclosure.

2.1.3 Agency Theory

This study will use agency theory to explain why the factors do in fact influence the level of mandatory disclosure of the public listed companies. Jensen and Meckling (1976) discussed the agency relationship as: "contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". However, agency conflict may arise from the possible divergence of interest between shareholder (principals) and managers (agents).

Table 2.1.2

Summary of research concerning corporate governance characteristics that influence the level of mandatory disclosure.

No.	Author	Respondent Used	Location and Number of items	Results
1	Balachandran & Bliss (2003)	Annual reports (2001)	Malaysia 3 items	Significant influence (p-values less than the .05 cutoff) such as: (1) CEO duality, (2) proportion of independent non-executive directors on the audit committee, and (3) proportion of independent non-executive directors on the board of directors
2	Liu (2004)	Firms listed on the 1996 Fortune 500 (over the period 1996 to 2000)	USA 7 items	Significant influence (p-values less than the .05 cutoff) such as: (1) audit committee independents, (2) audit committees financially literate, and (3) audit committee members that serve on three or less than three boards. Not Significant influence (p-values less than the .05 cutoff) such as: (1) audit committee meetings, (2) non influential CEOs, (3) CEO stock ownership, and (4) block holder on committee.
3	Evans (2004)	Annual reports, 10-Ks, and proxy statements (2001)	USA 8 items	Not Significant influence (p-values less than the .05 cutoff) such as: (1) board size, (2) board independence, (3) audit committee independence, (4) CEO / chairman duality, (5) number of board meetings, (6) audit committee meetings, (7) extent of managerial ownership, and (8) extent of institutional ownership.

Agency theory shows the relationship between the shareholders who act as the principal, and the managers of companies that act as agents (Fama & Jensen, 1983). Management makes decisions in the running of the company as they have access to information that may not be available to the shareholders. To be able to monitor the activity and performance of the agent, the principal needs financial information. Otherwise the agent is able to perform an activity that protects its own interest instead of the principal's interest. Here there is a clear difference between ownership and control (Tan, 1997).

However, the agent is likely to present all information (mandatory and voluntary) to allow the capital market to function optimally (Hendriksen & Brenda, 1992). This is because they have interest in ensuring that share prices do not fall. In the event where managers' remuneration is based on the share prices performances, its fall will affect manager's interest.

This agent-principal problem leads to agency costs for example monitoring costs, bonding costs and residual loss from dysfunctional decisions. Managers are likely to disclose information if they think it may reduce such costs. Thus, the agents need to monitor the activities of the organization to minimize the conflict.

By disclosing the information in the corporate annual reports, the company will reduce information asymmetry. The stakeholder would then be informed with about the same information that the directors have. The agency theory implies that companies increase disclosure in order to mitigate conflicts between shareholders and managers. In addition, companies wishing to enhance their firm value may do so by increased disclosure (Lobo & Zhou, 2001; Marston & Shrives, 1991).

Corporate attributes and corporate governance characteristics will both influence the amount of information disclosed based on previous studies in table 2.1.1

and table 2.1.2. The number of audit committee meetings, percentage of independent member in the audit committees and size of the audit committees was found to have a significant and negative association with financial misstatements arising from fraud or aggressive application of generally accepted accounting principles (GAAP) (Abbot *et al*, 2002). In addition, they also showed that the audit committee that lacks a member with financial expertise will lead to a higher incidence of restatements. Thus the audit committee can be said to play the role of a caretaker to the stakeholder who exhibits the agency theory relationship between an agent and a principal.

2.2 Theoretical Framework and Hypothesis

Previous studies do show that disclosure may reduce transaction costs such as brokerage fees. Here it is believed that a person can obtain the information they want whether by buying it or entering into a private contract with the firm. Therefore, market forces will ensure the optimal allocation of resources (Wolk & Tearney, 1997). Further, other benefits include lower costs of capital and increased share liquidity (Chooi & Levich, 1990).

Christopher and Islam (1999) tried to develop a framework to explain and predict the level of disclosure of the adopted MASB in the context of developing countries with reference to a number of variables. Very little empirical work has so far appeared in the literature on the factors determining their acceptance by the developing countries and no attempts have so far been made to articulate a framework for the prediction of the acceptance of the MASB in the developing countries (Christopher & Islam, 1999). From the discussion above, the model of the level of disclosure has been developed.

Corporate Governance is measured by Corporate Governance characteristics for example quality of Board of Directors, effective internal audit function and audit committee. This study has chosen audit committee as a measurement of Corporate Governance mechanism as previous studies have shown that an effective audit committee will lead to an improved level of mandatory and voluntary disclosure. Furthermore audit committee is a part of BOD and will also measure the BOD's quality indirectly.

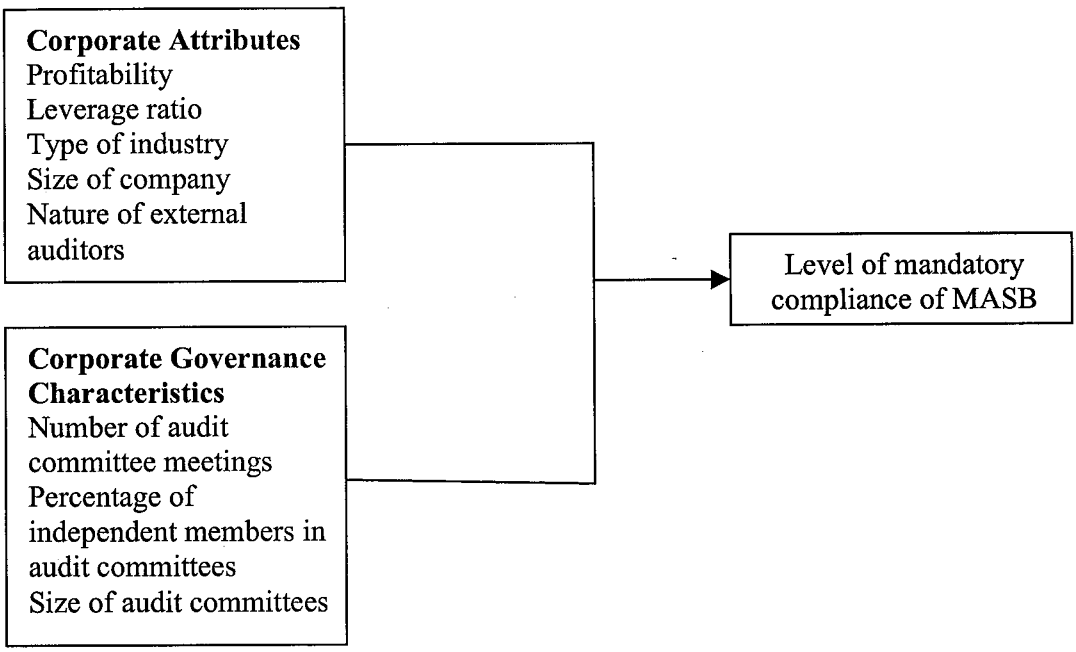

Figure 2.2 Theoretical Framework

2.2.1 Profitability

Profitability was used by a number of researchers as an explanatory variable for differences in disclosure level. Researchers have used a number of profitability and profit-related measures in their studies, such as net profit to sales, earnings growth, dividend growth and dividend stability, rate of return and earnings margin, and return on assets. Companies having higher profitability may disclose more information in their corporate annual reports than the companies with lower profitability (or losses) for a number of reasons. If the profitability of a company is high, management may disclose more detailed information in the corporate annual report in order to experience the comfort of communicating it as it is good news (Hossain, 1999).

On the other hand, if profitability is low, management may disclose less information in order to cover up the reasons for losses or lower profits. For profitable companies if the rate of return or return on investment is more than the industry average, the management of a company has an incentive to communicate more information which is favorable to it as the basis of explanations of good news and is likely to disclose more information in their corporate annual reports as a result. In the present study, profit before interest and tax divide by total sales will be used as the measures of profitability. The following specific hypotheses will be tested regarding profitability:

H_1: Profitability is significantly related to the level of MASB compliance.

2.2.2 Leverage ratio

Several researchers to assess whether it bears any relationship to disclosure level have studied the leverage ratio empirically. Researchers such as Ahmed and Nicholls (1994), Wallace, Mora and Naser, (1994), Wallace and Naser (1995) and Inchausti (1997) found no significant association between the leverage ratio and the extent of disclosure. Belkaoui and Kahl (1978) observed a significant negative relationship between the extent of disclosure and the leverage ratio.

The nature of the relationship between the level of disclosure and gearing is ambiguous. Companies having more debt in their financial structure can be argued to disclose more as well as less information in their annual reports. Relatively highly geared companies may disclose more information to suit the needs of lenders and thus bear increased monitoring costs in the form of more public disclosure. In addition, such companies may disclose more information to reassure equity holders in order that they might reduce risk premiums in required rates of return on equity. On the other hand, there is a possibility that the companies with higher debt-equity ratios may want to disguise the level of risk and may disclose less information in their corporate annual reports. Companies with relatively large borrowings can expect to be monitored more closely by financial institutions and may be required to furnish information more frequently than companies having smaller amounts of, debts (Ahmed & Nicholls, 1994). As a result, it is likely that companies with large borrowings will provide more detailed information in their annual reports than companies with small borrowings. Several measures of leverage have been used in previous studies, including debt to total assets, total debt as well as the debt-equity ratio. The debt-equity ratio will be used as measure of leverage in this study. The following specific hypothesis will be tested regarding the leverage ratio:

H_2: The level of firm leverage is significantly related to the level of MASB compliance

2.2.3 Type of industry

A few researchers have used type of industry as an explanatory variable for differences in disclosure level. It is possible that disclosure in corporate reports in Malaysia may not be identical throughout different industries. The existence of a dominant firm with a high level of disclosure in a particular industry may produce a bandwagon effect on levels of disclosure adopted by other firms in the same industry (Cooke, 1991). No other firm may wish to be outscored by the leader firm and as a result, a particular industry may have similar disclosure policies because of the follow the leader effect (Wallace, 1987; Belkaoui & Kahl, 1978). In addition, the adoption of different industry-related accounting measurement, valuation and disclosure techniques and policies may lead to differential disclosure in financial reports published by enterprises within a country (Wallace, 1987). Cooke's findings report that manufacturing companies provide more information than other types of companies. Again, findings of Inchausti (1997) and Owusu-Ansah (1998) provide no evidence of this association. In the present study the companies are classified broadly into two categories: Traditional and Modern. Traditional companies consist of food, textile, and synthetic, paper, cement, and Sugar. On the other hand modern companies include engineering, pharmaceuticals, chemicals, and metal alloys. It is expected that modem companies will provide more information than traditional type of company. In this research, only three types (consumer products, trading services and industrial products) of companies will be tested.

The following specific hypotheses will be tested regarding industry type:

H_3: Type of industry is significantly related to the level of MASB Compliance

2.2.4 Size of the company

There are few studies which have found a positive association between company size and disclosure in the corporate annual report (Firth, 1979; Wallace, 1988; Cooke, 1989; Naser & Mora, 1994; Owusu-Ansah, 1998). Larger companies may be hypothesized to disclose more information items as per accounting standards in their company annual reports than smaller companies for a variety of reasons.

Firstly, the cost of disseminating and accumulating detailed information may be relatively low for the larger corporation than the smaller corporation, and large companies have the resources and expertise to produce more information in their company annual reports and hence little extra cost may be incurred to increase disclosure (Lang & Lundholom, 1993; Benjamin et al. 1990).

In addition, larger corporations may collect more information to be used for their internal management systems (Hossain, 1999). Secondly, smaller firms may feel that their information disclosure activities could endanger their competitive position with respect to other larger firms in their industry. As a result, smaller companies may tend to disclose less information than large companies (Hossain, 1999). Thirdly, large companies receive far greater press coverage and demands for more information are almost inevitable results. Since companies like to have as favorable a share price as possible greater disclosure may be felt to give more confidence to investors (Firth, 1979). Finally, Firth (1979) argued that large firms tend to be in the 'public eye' and attract more interest from government bodies, and thus may disclose more information to enhance their reputation and public image on one hand and to allay public criticism and government intervention in their affairs on the other hand. This is analogous to arguments concerning political visibility put forward by Watts and Zimmerman (1986) although the latter authors are concerned not with disclosure but the choice of accounting policies. There are several measures of size used in different studies. These are equity capital, total assets, market value of equity shares, sales turnover, number of employees etc. In this study, sales turnover and total assets will be used as the measures of company size. The following specific hypothesis will be tested regarding size of the firm:

H_4: The size of the company is significantly related to the level of MASB Compliance.

2.2.5 Nature of external auditors

Some studies have examined empirically the relation between the characteristics of the audit firm (nature of external auditors) and the extent of disclosure and found positive association between the audit firm size or well-known audit firms and the level of disclosure. It may be argued that audit firms are concerned with the minimum disclosure that is required by law and other aspects of GAAP. However, it is more likely that the larger audit firms have a stronger incentive to produce high quality audits in order to maintain their reputation than do smaller audit firms (Hossain & Taylor, 1998). If clients prepare financial reports in which disclosure is inadequate or erroneous, larger audit firms may be more likely to report adversely on the position of the company (Ahmed & Nicholls, 1994). It has been argued that the percentage of audit companies with foreign affiliation may significantly influence adopt ion/non-adopt ion of an International Accounting Standard by a developing country (Christopher & Islam, 1999). Although, the primary responsibility for preparing the annual report rests with the company, the company's auditors may exercise some influence or provide advice regarding the level of disclosure to give. It has been argued that larger, better known audit firms may be able to exercise greater influence and they may be associated with higher disclosure levels (Firth, 1979). As a result, larger audit firms may have more influence over their clients to disclose more information than the minimum which is adequate. The larger audit firms refers to the top 4 of the audit firms in Malaysia such as KPMG, Kassim and Deloitte, Ernst and Young, and PricewaterhouseCoopers.

Prior literature holds that a company's financial reporting practices are largely influenced by its external auditor. However, the effect depends on whether the auditor is one (or an affiliate) of the then Big-5 international audit firms or not (DeAngelo, 1981). The Big-5 audit firms are more likely to report misstatement, and ensure that client companies comply with all relevant statutory and regulatory requirements for two reasons. First, they have a worldwide reputation of high quality audit service which they seek to protect. Second, they (or their affiliates) have greater incentive to maintain economic independence from their clients because they have wide client base that they do not depend on any particular client (DeAngelo, 1981). Hence, companies audited by Big-5 audit firms (or their affiliates) are more likely to comply with reporting requirements than their counterparts audited by non-Big-5 audit firms. (Patton & Zelenka, 1997) 9 Prior empirical evidence corroborates this prediction (Owusu-Ansah, 2005). The following specific hypothesis will be tested regarding the audit firm size or international link of the audit firm:

H_5: Nature of auditor is significantly related to the level of MASB Compliance

2.2.6 Number of audit committee meetings

According to Menon and William (1994), board and audit committee meetings are one of the important tools that been used by director to monitor the financial reporting. There is correlation between the frequent audit committee and the movement of share price (Vafeas, 1999). The primary role of the audit committee is to monitor financial reporting and internal controls on behalf of the shareholders, one would expect that effective monitoring necessarily requires regular meeting. The frequent number of meetings will enhance audit committee effectiveness and can improve the firm performance. There are no requirements of Bursa Malaysia to specify the number of meetings required. There is research that suggested based on the functions of the audit committee seems that it needs to have at least five times meetings yearly (Kang, 2001). This is because the audit committee must review and report to the board on the quarterly results and the year-end financial statement of the company prior approval of the board.

The following specific hypotheses will be tested regarding number of audit committee meetings:

H6: Number of audit committee meetings is significantly related to the level of MASB Compliance.

2.2.7 Percentage of independent members in the audit committee

Audit Committee is on of the important parties to monitor the firm's performance. Based on Cadbury Committee (1992) and Blue Ribbon Committee (1999) further point out that the audit committee represents the full board, provides personal contact and communication amongst the board, the external auditors, the internal auditors, the finance directors and the operating executives. There is requirement of Bursa Malaysia to establish an audit committee must be at least three directors with majority comprising of non-executive director. The independents in audit committee are important to make sure that the board fulfils its oversight role and holds management accountable to shareholders. Independent director is independent of management, no business relationship and not a major shareholder of the listed company or any of its related corporations.

According to Blue Ribbon Committee (1999), found that there is significant correlation between the independence of the audit committee and two desirable outcomes: a higher degree of active oversight and a lower incidence of financial statement fraud. Thus, it will reduce the agency cost and increase profitability.

The following specific hypotheses will be tested regarding percentage of independents I audit committee:

H7: Percentage of independent members in audit committee is significantly related to the level of MASB Compliance.

2.2.8 Size of audit committee

Size of audit committee plays an important role in preparing the annual report. This research will study whether the number of audit committee will give an impact to the level of disclosure. There is difference in having an effective audit committee. An effective audit committee is the committee that able to carry the responsibilities to meet the objectives (Kalbers & Fogarty, 1993). The following specific hypotheses will be tested regarding the size of audit committee:

H8: Size of audit committee is significantly to the level of MASB Compliance.

2.3 Summary

Accounting standards, such as MASB, set forth the minimum disclosure guidelines, which companies are obligated to follow. However, the IASC and international federation of Accountants (IFAC) are concerned that some companies claiming to comply with MASB may not in fact be complying with all of the requirements of MASB. In this regard, the President of the IFAC has criticized auditors for asserting that financial statements comply with MASB when the accounting policies and other notes show otherwise (Cairns, 1997). Research by Cairns (1999) and Street *et al.* (1999) supports the assertions of the IASC and IFAC by providing evidence that the degree of compliance by companies claiming to comply with MASB is mixed and somewhat selective. The findings of these studies reinforce the significance of the acceptance and observance issue for the MASB. The current research extends these previous studies by examining the factors that may be associated with noncompliance.

In addition to the information companies are obligated to disclose (although as previously noted some may not fully comply), in many instances, companies voluntary disclose information *beyond* that required by accounting standards and listing authorities. Hence, this research also address the extent of voluntary disclosure provided by companies claiming to follow MASB and seeks to identify the factors associated with voluntary disclosures.

CHAPTER 3

METHODOLOGY

3.0 Introduction

This section will deal with selection of sample companies, construction of disclosure index of Accounting Standards (DIAS), and scoring scheme of the information as per accounting standards comprising DIAS. This study will test whether or not the Malaysian companies are complying the mandatory accounting, standards. For that purpose all mandatory accounting standards will be duly considered and examined.

3.1 Research Design

This study will be conducted using the secondary data. Based from the list of companies in Bursa Malaysia main board, 101 companies will be selected. The selection is based on the types of industry (Industrial Product, Consumer Product and Trading Services).

Secondary data for this study will be collected by analyzing the annual reports of the 101 companies selected for the year 2003. The year 2003 was chosen because this was the latest year that MASB will be effective and annual reports would be more readily accessible. The level of mandatory disclosure items, the corporate attributes and corporate governance characteristics will be measured using the informations available from the annual reports.

3.2 Variables

3.2.1 Dependent variable

The dependent variable of the study is the level of mandatory disclosure compliance to MASB that relates to MASB 1-30 (excluding MASB 7, 16, 17, 18, 26 and 28). The unweighted approach of scoring is used to measure the level of mandatory disclosure.

3.2.2 Independent variables

3.2.2.1 Corporate Attributes

Profitability

Findings of Wallace and Naser (1995), Wallace, Naser and Mora (1994) and Hossain (2000); Owusu-Ansah, (1998) and Karim (1996) suggest that companies having higher profitability disclose more information than companies with lower profitability. In the present study rate of returns on capital employed and sales have been used as a measure of profitability. It is hypothesized that companies with a higher rate of return on capital employed disclose information to a greater extent than the companies with lower rate of return on capital employed. Proxy of EBIT (earnings before interest and tax) divided by total sales has been used to measure profitability.

Leverage ratio

The capital structure shows the proportion by which the company finances itself. This can be through equity that is issuance of shares or by debt. Leverage increases agency costs because managers act in the interest of stockholders by transferring wealth from the bondholders. Therefore agency costs increases when a company is highly financed trough debt (Jensen & Meckling, 1976; Smith & Warner, 1979). Disclosures by the company about its ability to meet the company's debt and how it proposes to manage its funds will help reduce this cost (Smith & Warner, 1979). This is because disclosures may help the stockholders and bondholders to assess the companies' growth, risk and return potentials. This may lead companies having higher leverage to disclose more information (Bradbury, 1992). However, studies in Malaysia found no relationship between leverage and voluntary disclosure (Hossain et al., 1994, Tan et al., 1990). The varying results from previous studies have motivated this study to examine leverage especially to test if this variable affects disclosures in more recent annual reports. Proxy of total debt divided by total equity has been used to measure leverage ratio.

Type of industry

Association between level of disclosure and industry types of industry provides mixed evidence. Cooke's findings report that manufacturing companies provide more information than other types of companies. While findings of Inchausti (1997) and Owusu-Ansah (1998) provide no evidence of this association. Industry type has been used in this study as an exploratory variable as because disclosure of one industry type differs from another. Three of the industry types that have been studied are Consumer Product, Industrial Product and Trading Services. Trading Services has been weighted by '1', Consumer Products by '2' and Industrial Product by '3'. In doing the multiple regression test, it then been recorded into dummy variable (dummy type co.1 and dummy type co.2)

Size of the company

Previous studies have identified size as significantly associated with the level of disclosure (Cooke, 1989; Lang & Lundholm, 1993; Hossain, 2000, Owusu-Ansah, 1998). The variables considered as size in these studies include sales, total sales, number of employees and number of shareholdings. In the present study, the size of company was determined taking into account the capital employed and the annual sales of the company. The size was classified into seven groups with minimum up to 50 millions to 1600 millions and above.

Consistent with the prior research, it is hypothesized that there is a significant association between company size and the extent of disclosure. Larger companies may tend to disclose more information than smaller companies in their annual report due to their competitive cost advantage (Lang & Lundholm, 1993; Lobo & Zhou, 2001). Proxy of total assets has been used to measured size of company where it then has been log.

Nature of external auditors

The nature of external auditors comprise of two categories, the big 4 audit firms and non-big 4 audit firms. The 4 well known audit firms are KPMG, Kassim & Delloitte, Ernst & Young and Pricewaterhouse Coopers. While the non-big 4 audit firms are the firms the operating in Malaysia in auditing the company annual reports. The big 4 has been weighted as '1' and non big 4 as '2'. It then been recorded to dummy variable (dummy audit 1)

3.2.2.2 Corporate Governance Characteristics

Number of audit committee meetings

Attendance of other directors and employees at audit committee meeting is prohibited unless on invitation. There is quorum in audit committee meeting. It refers to the numbers of majority members of who must be independent non-executive directors (Eow, 2003). The committee may require any employee and the representative of the external auditors to attend meetings. The Head of Internal Audit function shall attend all meetings of the Committee. Other Board members and employees of the Company and external auditors (or their representative) may all also attend upon the invitation of the Committee. The research will try to find whether the higher number of meeting or the regularly meetings will have the relation with level of mandatory disclosure compliance.

Percentage of independent members in audit committee

The audit committee must comprise of at least three members and majority should be independent directors. Number of independent members required by Bursa Malaysia is 1/3 of the total number or size of the audit committee. In this research the percentage is calculated by dividing the total number of independent members in the audit committee with the total number of members in the audit committee.

Size of audit committee

The size of audit committee refers to the number of audit committee members. Treadway (1987) and Cadbury Comission (1992) have found that the important of role that audit committee plays in corporate governance process. From this research we will be able to determine the correlation between the size of the audit committee and the level of disclosure compliance.

3.3 Population / Sample

3.3.1 Sample of Companies

One hundred and one (101) public-listed companies were examined to determine the level of mandatory disclosure. As a rule of thumb, sample sizes between 30 and 500 could be effective depending on the type of sampling design used and the research questions investigated (Sekaran, 2003). According to Hair, Anderson, Tatham and Black (1998) as a general rule, the minimum is to have at least five times as many observations as there are variables, and the most acceptable size would have a ten to one ratio. As the study has nine independent variables, a sample size of 101 is sufficient for the study. The 101 annual reports were downloaded from the Bursa Malaysia's website. Only annual reports available on the website were selected. Thus convenience sampling method was use in selecting the sample. Although the population was known but several of the companies annual reports are not fully available and have amendments report in the website. Only what Trading Services, Consumer Products and Industrial Products of companies were included because these industries applicable with MASB standards that been used in this research. The financial companies are excluded because the annual reports are more complex and applicable for the study.

3.4 Procedures

The checklist is prepared by referring to MASB 1-32. Based on personal contacts, illustration of annual reports from PricewaterhouseCoopers , Ernst & Young and KPMG were obtained. Based on the MASB standards and sample annual reports, and a series of deliberations with the supervisors, a checklist comprising of 275 items were constructed for the study. It took about one month to prepare the checklist. The prepared checklist was then given to a chartered accountant in one of the big 4 firms for validation. After a series of discussion with a chartered accountant, she felt that MASB 31 and 32 were quite new standards and might not be applicable to all companies at the time the study was conducted. Therefore based on MASB 1-30 and illustration of annual reports from PricewaterhouseCoopers, Ernst & Young and KPMG, an initial checklist was prepared to measure the level of mandatory disclosure of the public listed companies.

After the checklist was completed the assistance of a chartered accountant was again sought. After a discussion, the chartered accountant advised that MASB 7, 16, 17, 18, 26 and 28 will not be applicable for the three industries that we have decided to study on. Finally A checklist comprising of 252 items based on the remaining MASB Standards (MASB 1 to 15, MASB 19 to MASB 25, MASB 27, MASB 29 and MASB 30) were used as an instrument to measure the level of mandatory disclosure.

3.5 Measurement

3.5.1 Measurements of Dependent Variable

There are various approaches available to develop a scoring scheme to determine the disclosure level of corporate annual reports from the works of other researchers. There are two methods for determining the level of disclosure: weighted and unweighted approaches (Cooke, 1989). The weighted approach allows distinctions to be made for the relative importance of information items to the users (Inchausti, 1997). An unweighted approach assigns the same level of importance to all items. This study uses the unweighted approach. In this study, items of information are numerically scored on a dichotomous basis. Score "1" is assigned if a company discloses an item of information. In the case of non-disclosure a score of "zero" is given. "N/A" is given to items which are not applicable to the company.

After the data was collected, measurement of the level of mandatory disclosure was again validated. Six annual reports together with the completed checklist which measure the level of mandatory compliance of the companies were then send to two chartered accountants in different audit firms; one from a big 4 firm and another from a medium size audit firm. Each chartered accountant received three sets of annual report and the corresponding "filled" checklists with "1", "0" or "N/A" captured in it.

The overall level of disclosure has been calculated by taking the total number of disclosed items and dividing it by the total applicable items for each company across the MASBs examined. The total score was then divided by 101 companies to obtain an average overall level of mandatory disclosure. The total items in the checklist comprise of 252 items. The level of disclosure for each MASB standard has been calculated in the same manner.

Validity of data collection instrument

From the feedback given, they agreed with the scoring in the checklist but there differ with respect to MASB 29, Employee Benefits and Accounting and MASB 30 , Reporting Benefits Plans. Items were marked as "0", or non disclosed in the checklist were cancelled and marked N/A (not applicable) by the two chartered accountants. They both agreed that the items were not applicable to the companies. Corrections were made with respect to the comments received from the chartered accountants and a new score was obtained to measure the level of mandatory disclosure of the public listed companies.

3.5.2 Measurement of Independent Variables

Corporate attributes

For Profitability, it has been measured by divided EBIT with total sales. Leverage ratio has been measured by divided total debt with equity. In type of industry, Trading Services has been weighted as '1', Consumer Product as '2' and Industrial Product as '3'. The independent variable for size of company is measured by looking at the total asset. While for nature of external auditors has been weighted by '1' for big 4 and '2' for non big 4.

Corporate Governance Characteristics

The number of audit committee meeting is measured by looking at the number of meetings that have been held during the year. Percentage of independent in audit committee is measured by dividing the number of independent members in the audit committee with the total number of members of the audit committee. Finally, variable size of audit committee is measured by taking the number of members of the audit committee.

Multiple Regression Model

Multiple linear regression will be used to explain possible compliance patterns derived from each of the listed companies as the independent variable.

$$DIAS = \alpha + \beta_1 \text{ PROFITABILITY} + \beta_2 \text{ LEVERAGE} + \beta_3 \text{ INDUSTRY} + \beta_4 \text{ SIZE} + \beta_5 \text{ NATURE} + \beta_6 \text{ MEETING} + \beta_7 \text{ INDEPENDENT} + \beta_8 \text{ AUDIT} + \varepsilon \ldots\ldots\ldots \quad (1.\ 1)$$

Where, DIAS = total score received each sample company under disclosure of accounting standards index;

α = the constant, and

ε = the error term

Table 3.5.2

List of independent variables, their labels and expected signs and relationship in the regression

Variables Labels in the OLS	Variables	Expected sign and relationship
PROFITABILITY	Profitability	NPMARGIN has a significant positive relationship with the level of disclosure of accounting standards.
LEVERAGE	Leverage Ratio	LEVERAGE has a significant positive relationship with the level of disclosure of accounting standards.
INDUSTRY	Type of Industry	INDUSTRY has a significant positive relationship with the level of disclosure of accounting standards.
SIZE	Size of company	SIZE has a significant positive relationship with the level of disclosure of accounting standards

NATURE	Nature external of auditors	NATURE has a significant positive relationship with the level of disclosure of accounting standards.
MEETING	Number of audit committee meetings	MEETING has a significant positive relationship with the level of disclosure of accounting standards.
INDEPENDENT	Percentage of independents in audit committee	INDEPENDENT has a significant positive relationship with the level of disclosure of accounting standards.
AUDIT	Size of audit committee	AUDIT has significant positive relationship with the level of disclosure of accounting standards.

3.6 Summary

This chapter explains the framework of the study. Independent variables examined in the study that might have an influence on the level of mandatory disclosure in the annual reports of Malaysian selected public-listed companies are profitability, leverage ratio, type of industry, size of company and nature of external auditors and number of audit committee meetings, percentage of independent in the audit committees and size of audit committees of the companies.

This chapter also describes the methodology of the study. Secondary data was used in the study the level of mandatory disclosure. The populations in this study are the companies listed on the Bursa Malaysia main board. Multiple linear regression was used to examine the hypothesis.

CHAPTER 4

RESULTS

4.0 Introduction

This section presents the results of the study. It is divided into two sections. The first section will focus on the data profile. The second section will cover the result from the Multiple Regression Analysis.

4.1 Data Profile

The independent variables comprise the corporate attributes (profitability, leverage ratio, type of industry, size of company and nature of external auditors) and corporate governance characteristics (number of audit committee meetings, percentage of independent members in the audit committees and size of audit committees) of the companies. The data has been summarized in tables below.

Table 4.1.1

Summary of data profile (categorical)

Variables	Frequency	Percentage (%)
Type of industry		
Trading Services	29	28.7
Consumer Product	28	27.7
Industrial Product	44	43.6
Nature of external auditors	69	68.3
Big 4	32	31.7
Non-big 4		

The summary table of categorical variables showed the summary of data profile for categorical data. Based on the table above, the type of industry shows that 29 (28.7%) of the samples are from Trading Services sector, 28 (27.7%) from Consumer Product and 44 (43.6%) from Industrial Product. While for nature of external auditors, 69 or 68.3% of the 101 public listed companies are using the big 4 auditor (KPMG, Kassim & Delliotte, Ernst & Young and Pricewaterhouse Coopers). While 32 or 31.7% of the companies are using the non-big 4 auditors.

Table 4.1.2

Summary of data profile (continuous)

Variables	Mean	Standard Deviation
Size of audit committee	3.64	.832
Profitability	-.6207	6.89666
Number of audit committee meetings	4.48	.819
Size of company	2.4052	.69514
Percentage of independent in audit committee	.6859	0.6672
Leverage ratio	.9626	1.76126
Level of mandatory disclosure with MASB	85.9310	5.31094

The table above shows the summary data of continues variables profile. For size of audit committee will be 3.64 in average. The average for profitability is -0.6207, average number of audit committee meetings is 4.48, size of company is 2.4052. Followed by 0.6859 is the average of independent in the audit committee. Leverage ratio in average of 0.9626. For the average percentage of the dependent variable that is level of mandatory disclosure with MASB is 85.9310.

Result of Findings

According to the table 4.1.3, the highest level of disclosure is MASB 11 *Consolidated Financial Statements and Investigation in Subsidiary Company,* with 100% level of compliance, while the lowest level of MASB compliance is MASB 23 *Impairment of Assets,* with 15.68% level of compliance. Discussion on the low level of compliance to MASB standards (those with 50% and below) will be further discussed in the next session. The overall level of compliance of each item in each of the MASB standard will be analyzed to understand which item has the lowest level of compliance.

Table 4.1.3

Overall level of disclosure for each MASB Standard

MASB	Total Disclosure (%)
MASB 1	95.25
MASB 2	67.40
MASB 3	76.07
MASB 4	17.80
MASB 5	97.99
MASB 6	48.85
MASB 8	97.87
MASB 9	99.01
MASB 10	30.26
MASB 11	100.00-
MASB 12	59.46
MASB 13	95.03
MASB 14	99.00
MASB 15	84.12
MASB 19	82.12
MASB 20	82.03
MASB 21	35.64
MASB 22	74.08
MASB 23	15.68
MASB 24	87.98
MASB 25	86.61
MASB 27	88.76
MASB 29	28.70
MASB 30	83.33

Findings Section

The MASB standards with low level of compliance includes : (1) MASB 4, *Research and Development Cost,* (2) MASB 6, *Effects of Changes in Foreign Exchange Rates,* (3) MASB 10, *Leases,* (4) MASB 21, *Business Communications,* (5) MASB 23, *Impairment of Assets,* (6) MASB 29, *Employee Benefits.*

The low level of compliance for each MASB standard could be due to the fact that management of the company do not think that it is an important information to be disclosed. Non compliance is evident in MASB 6 for item 43(a) pertaining to the nature of change in classification, 43 (b) the reason for the change, 43(c) the impact of the change in classification of shareholders equity and 43(d) the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented. The range of the level of mandatory disclosure is from 0 to 96.6%.

4.2 Hypothesis Testing

4.2.1 Multiple Regression Analysis

The purpose of conducting this analysis is to establish the degree and relationship between the disclosure level of compliance and several of the independent variables, i.e the size of company, type of industry, nature of auditors, number of audit committee, number of audit committee meetings and percentage of independents in the audit committees, leverage ratio and profitability of the companies. The second objective is to determine the nature of the relationships between the independent and the dependent variables in terms of whether there is a linear association based on the correlations among

Table 4.1.4

Table of Findings on Non Compliance

Applicable Standards	Common findings on non-compliance with applicable standards/statutes	Level of Mandatory Compliance (%)
MASB 4	***Research and Development Costs***	17.8
	30: Research and development expenditure	
	Disclose:	
	(a) The accounting policies adopted for research and development costs;	76.92
	(b) The amortisation methods used;	42.85
	(c) The useful-lives or amortisation rates used; and	20.51
	(d) Research and development costs recognized as an asset/as expense.	20.83
MASB 6	***Effects of Changes in Foreign Exchange Rates***	48.85
	30 (c) – CE: Currency translation differences arising in year	84.09
	42: Disclose:	
	(a) Net exchange differences classified as equity as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period;	60
	(b) The amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the allowed alternative treatment in MASB 6.21; and	42.57
	(c) The closing rates used in translation.	90.36
	43: When there is a change in the classification of a significant foreign operation, an enterprise should disclose:	
	(a) The nature of the change in classification;	0
	(b) The reason for the change;	0
	(c) The impact of the change in classification on shareholders' equity; and	0
	(d) The impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.	0

	44 – AP (V): An enterprise should disclose the method selected in accordance with paragraph 33 to translate goodwill and fair value adjustments arising on the acquisition of a foreign entity.	26.66
	46 (a) – 48: Policy for foreign currency risk management.	85.29
	49: Where an enterprise avails itself of the transitional provision provided in MASB 6.49, it should disclose, by way of note, the accounting policy for the treatment of exchange differences arising from translation of foreign currency monetary items and the financial effects of the treatment on its financial statements for the period.	50
	51: An enterprise that applies MASB 6 which constitutes a change in accounting policy, should adjust its financial statements in accordance with MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The enterprise should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences that were deferred and classified as equity in previous periods.	27.27
MASB 10	***Leases***	30.26
	26 (a) – 17: The net carrying amount for each class of leased asset.	34.78
	26 (b) – 33: Reconciliation between the total of minimum lease payments at the balance sheet date, and their present value.	29.33
MASB 21	***Business Communications***	35.64
	60: The valuation of assets and liabilities at the date of acquisition.	67.5
	112 – 3 (a), 4 & 20: The names and descriptions of the combining enterprises.	61.22
	113	
	(a) The percentage of equity shares acquired in an acquisition;	71.42
	(b) The cost of acquisition and a description of the purchase consideration paid and contingently payable;	60.46
	(c) The amount of goodwill/negative goodwill arising on the acquisition.	43.39
MASB 23	***Impairment of Assets***	15.68
	115 (a) – IS, 3(b), 5 & 8:	
	(a) The amount of impairment losses recognised in the income statement and the line item(s) of the income statement in which those impairment losses are included;	70

(b) The amount of reversals of impairment losses recognised in the income statement and the line item(s) of the income statement in which those impairment losses are reversed;	30.3
(c) The amount of impairment losses recognised directly in equity during the period;	35
(d) The amount of reversals of impairment losses recognised directly in equity during the period.	31
119 – 3(b), 5 & 17: If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:	
(a) The events and circumstances that led to the recognition or reversal of the impairment loss;	42.1
(b) The amount of the impairment loss recognised or reversed;	45
(c) For an individual asset:	
(i) The nature of the asset; and	52.9
(ii) The reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in MASB 22, Segment Reporting, if the enterprise applies MASB 22);	56.25
(d) For a cash-generating unit:	
(i) A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in MASB 22 or other);	37.5
(ii) The amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprise's primary format (as defined in MASB 22, if enterprise applies MASB 22); and	40
(iii) If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;	60
(e) Whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;	38
(f) If recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and	38
(g) If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.	27.7

	120: If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:	
	(a) The main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under item 2 above; and	45.45
	(b) The main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under item 2 above.	33
MASB 29	***Employee Benefits***	28.7
	125: An enterprise should disclose the following information about defined benefit plans.	
	125 (a) – AP (Q): The enterprise's accounting policy for recognising actuarial gains and losses.	91.2
	125 (b) – 31: A general description of the type of plan.	96.96
	125 (c) – 31: A reconciliation of the assets and liabilities recognised in the balance sheet, showing at least:	
	(i) The present value at the balance sheet date of defined benefit obligations that are wholly unfunded;	71.4
	(ii) The present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;	45.45
	(iii) The fair value of any plan assets at the balance sheet date;	23
	(iv) The net actuarial gains or losses not recognised in the balance sheet (see paragraph 93);	26.3
	(v) Any amount not recognised as an asset, because of the limit in paragraph 59(b);	12.5
	(vi) The fair value at the balance sheet date of any reimbursement right recognised as an asset under paragraph 106 (with a brief description of the link between the reimbursement right and the related obligation); and	20
	(vii) The other amounts recognised in the balance sheet.	35.3
	125 (d) – 31: The amounts included in the fair value of plan assets for:	
	(i) Each category of the reporting enterprise's own financial instruments; and	37.5
	(ii) Any property occupied by, or other assets used by, the reporting enterprise.	9.5

125 (e) – 31: A reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet.	31.6
125 (f) – 9 & 31: The total expense recognised in the income statement for each of the following, and the line item(s) of the income statement in which they are included:	
(i) Current service cost;	31.6
(ii) Interest cost;	21.4
(iii) Expected return on plan assets;	20
(iv) Expected return on any reimbursement right recognized as an asset under paragraph 106;	33.3
(v) Actuarial gains and losses;	25
(vi) Past service cost; and	25
(vii) The effect of any curtailment or settlement.	25
152: An enterprise should disclose the following for equity compensation benefits.	
152 (b) – AP (Q): The accounting policy for equity compensation plans.	76.5
152 (c) – 38: The amounts recognised in the financial statements for equity compensation plans.	72.7
153: An enterprise should also disclose the following for equity compensation benefits.	
153 (a): The fair value, at the beginning and end of the period, of the enterprise's own equity financial instruments (other than share options) held by equity compensation plans; and	77.7
153 (b) – 10 & 38: The fair value, at the date of issue, of the enterprise's own equity financial instruments (other than share options) issued by the enterprise to equity compensation plans or to employees, or by equity compensation plans to employees, during the period.	77.7
156 (a) – 10: Provides equity compensation benefits to key management personnel.	58

the independent variables and dependent. It is also allows us to calculate the predicted values for each observation and to express the expected change in the dependent variable for each unit change in the independent variables. The basic model is:

DIAS = α + β_1 SIZE + β_2 PROFITABILITY + β_3 INDEPENDENT + β_4 AUDIT + β_5 INDUSTRY+ β_6 LEVERAGE + β_7 MEETING + β_8 NATURE

Where,

DIAS = level of mandatory disclosure with MASB

α = constant disclosure level independent of other independent variables

β_1 = the relative disclosure level with size of company

β_2 = the relative disclosure level with profitability of company

β_3 = the relative disclosure level with number of independents in audit committee

β_4 = the relative disclosure level with size of audit committee

β_5 = the relative disclosure level with type of industry

β_6 = the relative disclosure level with leverage ratio

β_7 = the relative disclosure level with number of meetings in audit committee

β_8 = the relative disclosure level with nature of external audit firms

The assumptions of the model include:

1. Normality of the error term;
2. Constant variance of error term (homoscedacity)
3. Independent of error term – Autocorrelation
4. Linearity of the relationship:
5. Independent of the independent variables

The results show that the following estimated model (based on unstandardized coefficients):

Table 4.2.1

Table variables in the equation

	Unstandardized coefficients		Standardized coefficients	t	Sig.
	β	Std. error	β		
(Constant)	65.221	5.768		11.306	0.000
Size of audit committee	0.143	0.600	0.023	0.238	0.812
No. of meetings	0.516	0.596	0.083	0.866	0.389
Profitability	0.106	0.071	0.143	1.499	0.137
Log assets	0.879	0.336	0.275	2.614	0.01
Percentage no. of independents in audit committee	19.338	7.551	0.252	2.561	0.012
Leverage ratio	-0.081	0.284	-0.028	-0.285	0.776
dummy type co. 1	0.421	1.243	0.037	0.339	0.736
dummy type co. 2	-0.029	1.199	-0.003	-0.024	0.981
dummy audit 1	-0.073	1.065	-0.007	-0.069	0.945

*significant level at 0.05

DIAS = 65.221 + 0.879 SIZE + 0.106 PROFITABILITY + 19.338 INDEPENDENT + 0.143 AUDIT + 0.421 TYPE1 – 0.029 TYPE2 – 0.081 LEVERAGE + 0.516 MEETING - 0.073 NATURE

Refer to table 4.2.1 and the equation above, all variables are positively related to the dependent variable except for 'leverage ratio' which is negatively related. In conducting the Multiple Regression Analysis, there is one item in casewise diagnostic, where the item number of case 23 has to be deleted. After the case number has been deleted, the total numbers of sample size of companies now are 100 companies. The regression test has been run again and it shows that the number of R square has been increased and the model more significant. Two independent variables; type of firm and nature of auditors have been recorded into two categories and one category.

4.2.1.1 Statistical Significance of the Model

From the model summary in table 4.2.1.1, the value of the Coefficient of Determination (R^2) is 0.203. The ANOVA table shows the F-value as 2.553 (table 4.3.1.1.2) and it is highly significant at 0.000 which allows us to proceed with the interpretation of each of the independent variable. This means that 20.3% variation in the disclosure level can be explained by the independent variables while 79.7% remains unexplained.

Table 4.2.1.1

Table of regression results

Regression results	
Coefficient of multiple regression	0.451
Coefficient of determination (*R2)*	0.203
Adjusted *R2*	0.124
Standard error	4.786

Table 4.2.1.2

Table analysis of variance

	Sum of squares	*df*	Mean square	*F*
Regression	526.198	9	58.466	2.553
Residual	2061.39	90	22.904	

4.2.1.2 Testing the Validity of the Model

$H_0 : H_1 = H_2 = H_3 = H_4 = H_5 = H_6 = H_7 = H_8$

H_1 : at least one H is not equal to 0.

From the table 4.2.1.2, the F-value at 2.553 with p = 0.00 indicates that there is sufficient evidence to infer that the model is valid.

4.2.1.3 Testing the Coefficients

The hypotheses are:

1. $H1_a$: H1 = 0 (profitability is linearly related to the level of mandatory compliance with MASB)

   $H1_b$: H1 $\neq$ 0 (profitability is not linearly related to the level of mandatory compliance with MASB)

2. $H2_a$: H2 = 0 (leverage ratio is linearly related to the level of mandatory compliance with MASB)

   $H2_b$: H2 $\neq$ 0 (leverage ratio is not linearly related to the level of mandatory compliance with MASB)

3. $H3_a$: H3 = 0 (type of company is linearly related with the level of mandatory compliance with MASB)

   $H3_b$: H3 $\neq$ 0 (type of industry is not linearly related with the level of mandatory compliance with MASB)

4. $H4_a$: H4 = 0 (size of company is linearly related to the level of mandatory compliance with MASB).

   $H4_b$: H4 $\neq$ 0 (size of company is not linearly related to the level of mandatory compliance with MASB).

5. $H5_a$: H5 = 0 (nature of external auditor is linearly related to the level of mandatory compliance with MASB)

   $H5_b$: H5 $\neq$ 0 (nature of external auditor is not linearly related to the level of mandatory compliance with MASB)

6. $H6_a : H6 = 0$ (number of audit committee meetings is linearly related with the level of mandatory compliance with MASB)

$H6_b : H6 \neq 0$ (number of audit committee meetings is not linearly related with the level of mandatory compliance with MASB)

7. $H7_a : H7 = 0$ (percentage of independent in audit commitees is linearly related with the level of mandatory compliance with MASB)

$H7_b : H7 \neq 0$ (percentage of independent in audit committees is not linearly related with the level of mandatory compliance with MASB)

8. $H8_a : H8 = 0$ (size of audit committees is linearly related with the level of mandatory compliance with MASB)

$H8_b : H8 \neq 0$ (size of audit committee is not linearly related with the level of mandatory compliance with MASB)

All computed t-values are significant except for the variable leverage ratio. Thus, there is enough evidence to infer the existence of a linear relationship between all variables with the dependent variable except for leverage ratio.

The result from the standardized coefficients' beta can also help to pinpoint the relative impact of each variable on the independent variables. Variable percentage of independents in audit committee has the highest impact whereas variable leverage ratio has the least impact on the level of disclosure with MASB standards. The results show that only size assets of the company and percentage independents in audit committee are significant at 0.01 and 0.012. The rest of the independent variables are not significant. The model is only able to explain 20.3% the relationship between the firm's characteristics with level of MASB compliance.

Generally, the existence of audit committees strengthens corporate governance structures, and enhances the credibility of the output of the external financial reporting process. Audit committees ensure that management adheres to all relevant statutory and regulatory reporting requirements before annual reports are publicly released. Other functions of audit committees include overseeing both the external and internal audit functions, reviewing companies' financial statements and accounting policies therein, reviewing companies' ethical policies and practices for corporate conduct, monitoring compliance with companies' code of conduct and requiring into illegal or unethical activities. Several studies have demonstrated the benefits that accrue to companies that have established audit committees (Owusu-Ansah, 2005). Research by DeFond and Jiambalvo (1991) reported that errors involving over-statement of income are less likely to occur in companies that have audit committees than those with no audit committees. Not all studies came out with positive effects of having audit committees in a company (Beasley, 1996)

Because the stock market rewards profitable companies with high stock values, managements of such companies have greater incentive to be forthcoming with much more information in their annual reports than loss-making companies (Cerf, 1961). However that's a argue that unprofitable companies also have greater incentive to release more information in defense of their poor performance. Thus as Lang and Lundhlom (1993) noted, the effect of profitability on corporate disclosure is ambiguous.

The previous research stated that a company's financial reporting practices are largely influenced by its external auditors. The effects depends on whether the auditors is one (or an affiliate) of the then Big-5 international audit firms or not (DeAngelo, 1981).

4.2.1.4 Testing the Validity of Assumptions

1. Normality of the error term

From the P-P Plot and the histogram, it can be said that the assumption on normality in the error term is met. The plots fall on a straight line with no substantial departures and the histogram is bell shaped.

2. Constant variance

From the scatterplots, it can be deduced that the assumption on constant variance is also met, as the plots on the diagram does not show any particular pattern of increasing residuals.

3. Autocorrelation

The Durbin-Watson statistic is 1.857, which is less than two. This means that there is first-order positive autocorrelation in the error term. The impact of this violation may affect the precision of our estimates of the coefficients may be tested as significant when in fact it is not.

4. Linearity

On the assumption of linearity, through the partial regression plots, they do not exhibit any nonlinear pattern for each of the independent variable, thus ensuring that each independent variable's relationship is also linear. The partial plots reveal that the relationships between the independent variables are quite well defined; thus they have strong and significant effects in the regression equation. The assumption of the linearity for each independent variable is met.

5. Independence of the independent variables

On the 5th assumption on multicollinearity, the Variance Inflation Factors for all independent variables are less than 10 and the tolerance values does not explain more than 10% of any independent variables' variance. Thus, it is not an issue.

4.3 Summary of Results

Refers to table 4.3, there are six hypotheses were rejected and on two out of eight hypotheses were accepted.

Table 4.3

Table of Results on Hypothesis

Hypothesis	Result
H1 : Profitability is significantly related to the level of mandatory compliance with MASB	Rejected
H2 : Leverage ratio is significantly related to the level of mandatory compliance with MASB	Rejected
H3 : Type of industry is significantly related to the level of mandatory compliance with MASB	Rejected
H4 : Size of company is significantly related to the level of mandatory compliance with MASB	Accepted
H5 : Nature of external auditor is significantly related to the level of mandatory compliance with MASB	Rejected
H6 : Number of audit committee meetings is significantly related to the level of mandatory compliance with MASB	Rejected
H7 : Percentage of independent MEMBERS in audit committees is significantly related to the level of mandatory compliance with MASB	Accepted
H8 : Size of audit committees is significantly related to the level of mandatory compliance with MASB	Rejected

The MASB standards with low level of compliance includes : (1) MASB 4, *Research and Development Cost,* (2*)* MASB 6, *Effects of Changes in Foreign Exchange Rates,* (3) MASB 10, *Leases,* (4) MASB 21, *Business Communications,* (5) MASB 23, *Impairement of Assets,* (6) MASB 29, *Employee Benefits.* The range of the level of mandatory compliance is form 0 to 96.6%.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.0 Introduction

This final chapter attempts to integrate and summarize the results and finding from Chapter 4. This chapter consists of six sections. Section 5.2 is the recapitulation of study, section 5.3 discuss about the findings and 5.2 about the implication in this study. The rest of the section covers the limitation of the study, suggestion for future research and conclusion.

5.1 Recapitulation of Study

The purpose of this study was to explore: (1) the level of mandatory compliance to MASB standards; (2) the level of mandatory compliance for each MASB Standards, and also to examine (3) the corporate attributes (profitability, leverage ratio, type of industry size of company and nature of external auditors) and corporate governance characteristics (number of audit committee meetings, percentage of independent in audit committees and size of audit committees) that have a significant influence on the level of mandatory compliance to MASB standards.

The sample size for this study was 101 public listed companies. The level of disclosure been measured using the checklist of MASB1-30 (excluding MASB 7, 16, 17, 18, 26 and 28). The companies are selected according to the three types of companies (Industrial Products, Consumer Products and Trading Services).

Eight hypotheses were formulated to achieve these research objectives. To examine the relationship of the hypotheses, the test of multiple regression has been used in this research. The results found that only two hypotheses can be accepted and

6 hypotheses are rejected. Besides that there are 23 MASB standards with low score in the level of disclosure.

It was found that there are 6 MASB standards have 50% or below level of compliance. The MASB includes: (1) MASB 4, *Research and Development Cost,* (2) MASB 6, *Effects of Changes in Foreign Exchange Rates,* (3) MASB 10, *Leases,* (4) MASB 21, *Business Communications,* (5) MASB 23, *Impairment of Assets,* (6) MASB 29, *Employee Benefits.*

5.2 Discussion of the Findings

The aim of this study was to examine the level of mandatory disclosure made by listed companies in Malaysia. It also investigates the factors that influence mandatory disclosure practice. The findings would be used to improve the quality of mandatory disclosure by Malaysian companies. The significant factor that is size and percentage of independent members of audit committee were found to be significant. This would mean, bigger companies could have more resources from them to use ensure that compliance are met. It could be that they could hire more experienced accountants are more training and exposure with regards to MASB Standards. Thus Bursa Malaysia and MASB should assist the smaller size companies on the importance of the level of mandatory disclosure. Bursa Malaysia and MASB could also request that public listed companies include more independent members in their audit committee as it has been proven that this could lead to an in the level of mandatory disclosure.

The study finds that many corporate annual reports followed the disclosure requirements of MASB standards. Only several items of information that the companies did not complied. It is because the standards are not applicable with the background of business. On average the level of disclosure of each MASB standards is better compared to the others companies like Bangladesh. According to M. Akhtaruddin (2005), on average the sample companies at Bangladesh only disclose information on only 43.5%. Study by Hossain (2000) is more encouraging, with average compliance rates for accounting standards disclosure reported at 69.05% with the range of 35.85% to 94.34%.

In this study the level of disclosure explained by R^2, was only 20.3%. Even though the explanatory power is on the lower side, but this is acceptable as previous study for example like Hossain and Taylor (1998), the R^2 is 29.33%. Also with the fact that since this is an exploratory study, a percentage of that size is acceptable.

The corporate characteristics also play an important role in disclose the information on annual reports. Based on the finding in this study found that only percentage independents members in the audit committee and size of the company will influence the level of disclosure. Larger size companies will disclose a higher level of mandatory disclosure because they tend to have more resources and human expertise to assist them in ensuring that they comply with the standards of reporting. They also have their reputation to maintain and thus quality of financial reporting is required. Previous studies (Owusu-Asah, 1998; Benjamin et al., 1990) also supported this finding. Percentage of independent members in the audit committee is important as they will have an influence on the compliance of the company with the mandatory requirements set forth by the regulatory bodies in Malaysia. This finding is also supported by Liu (2004) and Balachandran and Bliss (2003).

Other variables such as profitability and leverage ratio were not found to be significant as there is not much variation between the companies selected for the study. Also the type of industries was not found to significant as the nature of the three industries: industrial product, consumer product and trading services were not of much difference. The study has also shown that the quality of external audit, that is whether big four or non big four shows no significant relationship with the level of mandatory disclosure. This means to say that there is no difference in the quality of audit carried out by the big four or no big four audit firms.

As for corporate governance characteristics, the number of audit committee meetings and size of audit committee have no influence on the level of mandatory disclosure. This could imply that the number of audit committee meetings held during the year are not as important as the quality of issues discussed during the meetings. On average, the companies held their audit committee meetings between four to five times during the year.

Size of audit committee is found not to be significantly related to the level of mandatory disclosure as the quantity of members in the audit committee does not matter but rather the percentage of independent members in the audit committee is far more important. On average, the size of the audit committee in the companies ranges from 3 to 4 members in the audit committee.

In January 2001, the voluntary Malaysian Code on Corporate Governance was brought into full effect with the amendments to the KLSE's (as known as Bursa Malaysia in 2005) Listing Requirement. Under the new requirement, public listed companies with financial year ended after 30 June 2001 onwards were required to state in their annual reports the extent to which they had to comply with the code and the reasons for any non-compliance with the code. The Listing Requirement also state that one of the main functions of the audit committee is to review the financial statements focusing particularly on significant changes in accounting policies and practices, significant and unusual events and compliance with accounting standards and other legal requirements. All listed companies are required to disclose the audit committee report in their annual reports containing, among others, the audit committee composition, frequency of meetings and attendance of each member, terms of reference, a summary of activities and information on internal audit (Wan Nordin & Mohammad Azhar, 2003).

To encourage high standards of corporate disclosure to protect the investing public, companies seeking admissions to the KLSE were required to establish audit committees at least three people comprising a majority o independents directors and whose chairman is a non-executive director. For companies already listed on the KLSE, they were given until 31st August 1994 to set up audit committees. As it turned out, four companies out of 439 failed to meet the deadline and were given until 1 October 1994 to establish audit committee. By 2003, most of the PLC's have followed the standards. This research has found that the percentage of independent member of the audit committees do effect the disclosure in reporting the information in annual reports. This is in line with findings by Liu (2004) and Balachandran & Bliss (2003).

In March 2000, a year after the issuance of the Finance Committee's Report on Corporate Governance, the amended Malaysian Code on Corporate Governance was released. Among the recommendations incorporated in the code pertaining to corporate governance are mandating disclosure on the application of the principles and compliance with the best practices of the code, requiring directors to make statements on the state of internal controls, enhancing the role of the audit committee, and clarifying and enhancing the definition of independent director.

The MASB standards with low level of compliance includes : (1) MASB 4, Research and Development Cost, (2) MASB 6, Effects of Changes in Foreign

Exchange Rates, (3) MASB 10, Leases, (4) MASB 21, Business Communications, (5) MASB 23, Impairement of Assets, (6) MASB 29, Employee Benefits. The range of the level of mandatory compliance is form 0 to 96.6%. The findings are quite similar to the findings found by MIA investigation committee as shown in Table 1.3. Similar to MIA's findings on each item of MASB standard, the study also found the same item to have a low level of compliance. The items are: MASB 1(97) Accounting policy for plant and equipment acquired under hire purchase / finance lease, MASB5(45), (46), Policy in determining the composition of cash and cash equivalents, MASB 6(42a), Distinguishing between realized and unrealized foreign exchange gain and loss, MASB 6(42c), The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations, MASB 10(26b), Reconciliation between the total minimum lease payments at the balance sheet and their present value, MASB 21(b), Basis of consolidation i.e. acquisition method, MASB 23(a) and Accounting policy on impairment of assets were not complied with. However the level of mandatory compliance of each item can be considered high.

A similar finding was found in one item of MASB, that is MASB 10 (26b), *On reconciliation between the total of minimum lease payments at the balance sheet date and their present value.* Another interesting finding from this research which was not found in MIA's investigation is with respect to four items of MASB which the companies did not comply with at all. They are: MASB 6 (43 a) *The nature of change in classification*, 43 (b) *The reason for the change,* 43(c) *The impact of the change in classification of shareholders equity* and 43(d) *The impact on net profit or loss for each prior period presented had the change in classification occurred at the* *beginning of the earliest period presented.* This therefore calls for more stringent enforcement by the regulatory bodies.

Another positive note is a 1996 survey by the IASC that showed that many countries either use the IASC standards as the national standards or develop standards that are largely based on IASC standards (IASC Website, 1998). In recent years, firms from countries around the globe have begun to reference IAS in their financial reports. However, it is not clear what it means when a company refers to the use of IAS. We cannot be sure that the standards are those promulgated by the use of IASC. Indeed, many companies referring the use of IAS failed to comply with all of the IASC requirements. Even if the use of IAS is meant to refer to standards promulgated by the IASC it would be a mistake to assume that firms reporting use of IAS have necessarily increased the comparability and transparency of their financial statements. While it is important to understand *what* firms mean by the term IAS, it is equally important, if not more so, to understand *how* firms are using IAS. Many firms are using IAS along with home-country standards. Others are reporting a number of unreconciled exceptions to IAS. Inconsistency in how companies are referring to IAS leads to incomparability and a lack of transparency among firms (Taylor, & Jones, 1999).

5.3 Implications of the Study

Although a lot of studies were conducted on disclosure, but little research has been done on mandatory disclosure, especially in Malaysia. Therefore the results of the study would have a strong implication to the government, the Regulatory Bodies, such as Malaysian Institute of Accountants, Malaysian Accounting Standards Board (MASB) and Bursa Malaysia.

The study has also applied agency theory to a mandatory context. This is an extension to the previous studies (Akhtaruddin, 2005; Lobo & Zhou, 2001; Choi, 1973; Cooke, 1989). Agency theory has been able to be used to explain the relationship of both corporate attributes and corporate governance characteristics to the level of mandatory disclosure.

The study has shown a high overall level of mandatory compliance OF 86% among PLC's with MASB Standards. This would mean that Bursa Malaysia would have done an effective job.

However, a low level of compliance of 50% and below was found for 6 MASB. Further analysis of the 6 MASBs have shown that there were no compliance with 4 items in MASB 6. This calls for more stringent monitoring on the part of the regulatory bodies. However it should be noted that low or no level f mandatory compliance is only true with respect to the 'disclosure level' it does not mean that 'in practice this is not done. Thus structured interviews with the auditors or the accountants of the companies could be done to establish this fact that is low or no level of disclosure actually has similar meanings.

Size and percentage of independent members of audit committee was shown to be significantly related to the level of mandatory disclosure. This means that the regulatory bodies should ensure that there are more independent members on the audit committee so as to ensure quality reporting or compliance to the MASB standards. The regulatory bodies should also focus on the smaller size companies in providing assistance and educational training so as to enable them to comply with the disclosure in accordance to the MASB standards.

Further research, this study implies that Bursa Malaysia may need to investigate the reasons why company did not complied with certain of the MASB

Standards. The previous information in MIA website also shows the same items and MASB standards of non-compliance. By looking at the results, Bursa Malaysia can take on actions how to make company comply with the accounting standards.

In March 1997, Malaysia became the first country in Asia to set up an independent and statutorily incorporated accounting standard-setting body with the establishment of the MASB under the Financial Reporting Foundation (FRF) supervises MASB pursuant to an extensive due process involving consultation with all relevant parties including the accounting profession, the business community, users, prepares, auditors and regulators. This arrangement safeguards the impartially and integrity of the standards set by the board. With the establishment of the FRF and MASB, the Bursa Malaysia requires its listed companies to comply with all the MASB approved accounting standards (Wan Nordin and Mohammad Azhar, 2003).

Based on the statistics provided by Bursa Malaysia, out of 3,067 quarterly reports for quarters ended from 31 July 1999 to 30 June 2000, only 31 quarterly reports were submitted after the due date, giving a compliance rate of 99 percent Study by Razman and Iskandar (2002) investigating factors other than audit committee characteristics such as the provision of non-audit services and analyst following on the quality of financial reporting in Malaysia.

5.4 Limitations of the Study

Although this study provided some interesting insights to disclosure compliance level with Bursa Malaysia listing requirements, it is subject to a few limitation. Firstly, due to time constraint, the scope of the study limited to public listed annual reports in 2003.

During this study, the new accounting standards, Financial Reporting Standards has just implemented in early 2006. Thus we can say that the used of these MASB standards for future research is outdated. Besides that, this research only limited on three type of companies. The sample size of the research also quite small comparing the numbers of companies listed in Bursa Malaysia.

Finally, the study only focused on eight independents variables of firm's characteristic. It might be other variables that influence the level of disclosure. The characteristics like the age of company, liquidity and others corporate governance characteristics that might influence the level of disclosure. Also this study concentrates only on three industries. The study measures the level of disclosure but not the actual practice as to whether the companies comply with the MASB standards. There could be a high level of disclosure but in practice it is not so, and vice versa.

Lastly, although the checklist has been validated by two chartered accountants, nevertheless, there might be shortcomings in the assignment of marks. The difficulty lies in whether the items in the checklist were not disclosed or not applicable. Therefore the level of compliance might be a little bit higher than what it should be. However, the results were again validated by a third chartered accountant especially pertaining the 6 MASBs that were not complied. The chartered accountant confirmed that there were 0 (no) compliance with regards to MASB 6 (43) a-d.

MASB 6(43) states that "When there is a change in the classification of a significant foreign operation,
an enterprise should disclose:
(a) The nature of the change in classification;
(b) The reason for the change;
(c) The impact of the change in classification on shareholders' equity; and
(d) The impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

5.5 Suggestions for Future Research

Taking into cognizance the findings from this study, future study can be extended to examine compliance with Financial Reporting Standards (FRS) that is in now in existence. The latest annual report can be analyzed and the results can be compared to this study.

The sample size of future studies can be extended to include a larger sample from different industries. Looking at the low explanatory variable of this study (20.3%), future studies can incorporate more corporate governance variables such as quality of board or directors can be included.

Future study should also interview the Board of Directors of Companies to examine the reasons why certain MASB standards have a low level of compliance and also why certain items of MASB standards (in this case MASB 6, item 43a, 43b , 43c and 43d) were not complied with. Also interview can help establish whether companies that have a low level of compliance with the mandatory disclosure do in fact in real practice, do not fully comply with the MASB Standards.

5.6 Conclusion

This study reveals the MASB compliance level among the public listed companies. Also provide the firm's characteristics that influence the level of compliance and the level compliance for each MASB standards. In conclusion, the results of this study are expected to assists practitioners and regulators in developing better guidelines towards improving the compliance level and effectiveness which will further enhance the mandatory disclosure among public listed companies.

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APPENDICES

APPENDIX A

Standard	Recognition, Measurement and Disclosure
FRS 101 (MASB 1) Presentation of Financial Statements	*Disclosure* • Illustrative format for balance sheet has changed. Total assets = equity + LT liabilities + current liabilities • Investment properties, agriculture assets and non current assets held for disposal are disclosed separately. • Classification of assets and liabilities in order of liquidity rather than current / non-current presentation is allowed only if the liquidity presentation is allowed only if the liquidity presentation provides more information. • Liabilities that are due within twelve months of the balance sheet date including those that do not have unconditional right to defer even there is an agreement to refinance before the financial statements are authorized for issue are classified as current liabilities. • Deferred tax is not current assets / liability • Prohibition of extraordinary items • Discontinued operation • Reclassification of comparatives • Number of employees not required
FRS 102 (MASB 2) Inventories	***Recognition and measurement*** • Difference between cost of inventory purchase under deferred payment and normal purchase price is interest. • LIFO method is prohibited ***Disclosure*** • Impaired inventories held at fair value less cost to sell
FRS 108 (MASB 3) Accounting Policies, Changes in Accounting Estimates and Errors	***Recognition and Measurement*** • Change n accounting policies and correction of errors to be applied retrospective application is eliminated • Prospective application allowed if retrospective application is impracticable • No fundamental error • Material errors of prior period are corrected retrospectively ***Disclosure*** • No extraordinary item • Impact of new standard or interpretation is required • Effect of changes in policies and errors on EPS and DEPS
FRS 110 (MASB 19) Events After Balance Sheet Date	***Recognition and measurement*** • Dividends declared after balance sheet not to be recorded as liability at balance sheet date
FRS 116 (MASB 15) Property, plant and equipment	***Recognition and measurement*** • Property, plant and equipment held for sale scoped out of this standards

	of this standards • Subsequent expenditure capitalized has to meet the recognition criteria as for initial recognition • Dismantling, removal and restoration costs are part of carrying amount of property, plant and equipment. • Component approach for depreciation of property, plant and equipment. • Residual value based on expected future circumstances measured at current prices and no adjustment to be made for changing price. • Depreciation continues trough idle periods and ceases only on derecognition • Use of revaluation model depends on ability to measure fair value reliably • Replacement of component item of property, plant and equipment results in derecognition of the component being replaced • Property, plant and equipment is derecognized on the date the criteria for the sale of goods according to FRS 118 • Classification of gain on disposal as revenue is prohibited ***Disclosure*** • Prior year comparatives for property, plant and equipment mandatory • Property, plant and equipment held for disposal separately disclosed
FRS 117 (MASB 10) Leases	***Recognition and measurement*** • Investment properties held under finance lease initially measured using FRS 117 • Initial direct costs defined as incremental costs directly attributable to negotiating / arranging a lease • Clarification of inception and commencement date of lease • Leases of land and building split into separate leases of land and building • Lease on land is operating unless title passes to lessee • Lessor's indirect costs on finance lease are part of finance lease receivable • Lessor's indirect costs on capitalized operating lease are part of the carrying value of the asset and realized over the leased term. • Initial direct cost of lessor is expensed off only for manufacturer / dealer.
FRS 121 (MASB 6) The Effects of Changes in Foreign Exchange Rates	***General*** • Introduction of functional currency of the entity's operating environment • Introduction of presentation currency as the currency used to present financial statements

	• Hedge accounting moved to FRS 139 ***Recognition and Measurement*** • Distinction between integral foreign operation and foreign entities eliminated • Only one translation method i.e. foreign entity method • Greater emphasis on currency of economic environment in determining currency • Exchange differences resulting from severe devaluation or depreciation of a currency against which there is no means of hedging are now recognized in profit and loss. Previously there was a limited option to capitalized such exchange differences; this option is no more available • Change in functional currency is accounted for prospectively • IFRS / IAS21 allows presentation of financial statements in any currency. This is not allowed in Malaysia. • Goodwill and fair value adjustment on acquisition of a foreign entity be expressed in acquiree's currency and translated at a closing rate ***Disclosure*** • Reason for not using the functional currency as presentation currency • To disclose details of reason for any change in presentation currency
FRS 124 (MASB 8) Related Party Disclosure	***General*** • Removal of exemption given for situation where compliance with the Standard will conflict with the reporting entity's duties of confidentiality arising from operations of law • Definition of related party expended • Venturers sharing joint control not related • Close members of the family of an individual defined ***Disclosure*** • Key management personnel to be disclosed • Profit-oriented state-control companies required to apply the standard • Amount of transactions and outstanding balances with the related parties • Amount with the related parties expensed as bad or doubtful debts • Separate classification of amounts receivable and payable to related parties by types of related parties • Name of ultimate parent or senior partner preparing consolidated financial statements
FRS 127 (MASB 11) and Separate Financial Statements	***General*** • Change in name of Standard • Applies to accounting of investments in subsidiaries,

	associates and JV in the separate financial statements of parent / joint venturer / investor • Unicorporated entities included in definition of subsidiary • The Standard requires an entity to consider the existence and effect of potential voting rights currency exercisable or convertible when assessing whether it has the power to govern the financial and operating policies of another entity • Subsidiaries acquired with the intention to resell within 12 months are treated under FRS 5 ***Recognition and Measurement*** • Criteria for exemption to prepare consolidated financial statement expanded • Exclusion from consolidation allowed only if control is lost. Prohibited to exclude for long-term severe restriction • Use of same accounting policies is required and exeption on grounds of impractically is not allowed • In the separate financial statement to disclose the investment at cost or under FRS 139 • Potential voting rights currency exercisable or convertible to be considered in determining control ***Disclosure*** • Allocation of profit or loss between parent and minority interest • In the consolidated balance sheet minority interest disclosed as part of equity but separately • Summary of assets, liabilities, operating income and profit or loss of unconsolidated subsidiaries
FRS 128 (MASB 12) Investment in Associated	***General*** • Unincorporated entities included in definition of associates • The Standard requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee • The Standard provides exemption include when the investor is also an intermediary parent exempted in accordance with FRS 127 ***Recognition and Measurement*** • Equity method not applied in separate financial statement • The Standard clarifies that investment in associates over which the investor has significant influence must be accounted for using the equity method whether or not the investor also has investment in subsidiaries and prepares consolidated financial statements

	• The Standard does not require the equity method to be applied when an associate is acquired and held with a view to its disposal within twelve months of acquisition. There must be evidence that the investment is acquired with the intention to dispose of it and that management is actively seeking a buyer. The words "in the near future" were replaced with the words "within twelve months". These investments are treated under FRS 5 • Significant influence must be lost before the equity method ceases to be applicable • Use of same accounting policies is required and exeption on grounds of impractically is not allowed. • Profits and losses resulting from 'upstream' and 'downstream' transaction between an investor and associate must be eliminated to the extent of the investor's interest in the associate • When financial statements of an associate used in applying the equity method are prepared as of a reporting date that is different from that of the investor, the difference must be no greater than three months • An investor must consider the carrying amount of its investment in the equity of the associate when recognizing its share of loses of the associate • The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with FRS 139
FRS 129 Financial Reporting in Hyperinflationary Economies	***Recognition and Measurement*** • Hyperinflationary functional currency translated into different presentation currency
FRS 131 (MASB) Interest in Joint Ventures	***General*** • Standard does not apply to qualifying investment held for trading under FRS 139 • Investment in joint ventures where the intention is to dispose within 12 months is considered under FRS 5 ***Recognition and Measurement*** • FRS 127 criteria applied to exemption of proportionate or equity accounting for investment in joint ventures • Proportionate or equity method has to be applied whether or not subsidiaries exist • Joint control must be lost before proportionate consolidation or the equity method ceases to apply ***Disclosure*** • The venturer to disclose the method it uses to recognize its interest in jointly controlled entities (i.e. proportionate consolidation o the equity method)

FRS 132 (MASB 24) Financial Instrument: Disclosure and Presentation	***General*** • A derivative financial instrument is a financial asset or a financial liability when it gives one of the parties to it a choice of how it is settled unless all of the settlement alternatives would results in it being an equity instrument • Transaction cost incurred as a necessary part of completing an equity transaction and are deducted from equity • The acquisition or subsequent resale by an entity of its own equity instrument does not result in gain or loss for the entity • Recognition of elements of compound financial instruments requires separation of equity and liability. Liability is determined and the residual amount being equity ***Disclosure and Presentation*** • Criteria for an instrument being equity (para 16) • Obligation to repurchase own shares is a liability • Derivatives and non-derivatives contracts indexed to or settled in entity's own instruments create a liability • Puttable instruments are classifies as a financial liabilities • Derivatives financial instruments giving genuine choice of settlement can be an asset, liability or equity
FRS 133 (MASB13) Earnings Per Share	***General*** • EPS determined for continuing operations and entity ***Disclosure*** • If the entity reports a discontinued operation the basic an diluted amounts per share for the discontinued operation is disclosed either on the face of the income statement or in the notes • Parent-only EPS is not to be disclosed I the consolidated financial statements
FRS 136 (MASB 23) Impairment of Assets	***General*** • 'Fair value less costs to sell' replaces term 'net selling price' • Property, plant and equipment held for sale come under FRS 5 ***Recognition and Measurement*** • Concept of intangible assets with indefinite lives introduced • Recoverable amount for intangible assets with indefinite lives, intangible not yet available for use and goodwill to be measured annually • Goodwill to be allocated to CGU within 12 months • Clarification that the carrying value of allocated goodwill included in disposal of CGU. Partial disposal of CGY requires apportionment of goodwill on

	reasonable basis • New guidance in determining future cash flows of asset and present value techniques
FRS 138 Intangible Assets	***General*** • Intangibles held for sale are treated under FRS 5 • Introduction of indefinite lives ***Recognition and Measurement*** • Identifiability criterion is met when the intangible is separable or arises from contractual or legal rights • Presumption (rebuttable) that the fair value of intangibles with finite life can be measured reliably when acquired in business combination • Subsequent expenditure on acquired in-process research and development expenses unless it met capitalization • Intangible with indefinite life of intangible reassessed annually • Useful life of indefinite life of intangible reassessed annually • Change from indefinite life to finite life is accounted for a change in accounting estimate • A change from indefinite to finite life is an indication of impairment
FRS 139 Financial Instrument : Recognition and Measurement	***General*** • New Standard ***Recognition and Measurement*** • Category of 'Fair value trough profit and loss' introduced • Gains and losses on AFS instruments recognized in equity • Reversal of impairment trough profit and loss for AFS is prohibited • Hedges of foreign currency risk of firm commitments can be cash flow or fair value hedge
FRS 140 Investment Property	***General*** • Investment properties held under operating lease falls in the definition of investment property • Investment property held for disposal comes under FRS 5 ***Recognition and Measurement*** • Option to recognize individual properties under operating lease if fair value method used ***Disclosure*** • Choice of fair value to be disclosed
FRS 3 (MASB 21) Business Combinations	***General*** • Replaces MASB 21 and IAS 22 ***Recognition and Measurement*** • Only purchase method is allowed

	• Goodwill on consolidation is not amortised but tested for impairment annually • 'Negative goodwill' is recognized in profit or loss after reassessing the cost of business combination and identification and measurement of the assets, liabilities and contingent liabilities of the acquiree

APPENDIX B

No.	Name of Companies	Type of Company
1	ACP Industries Bhd	Industrial Products
2	Advance Synergy Bhd	Industrial Products
3	Ajijaya Bhd	Industrial Products
4	Ajinomoto (Malaysia) Bhd	Consumer Products
5	Aluminium Bhd	Industrial Products
6	Amalgamated Industrial Steel Bhd	Industrial Products
7	Ancom Bhd	Industrial Products
8	Amsteel Corporation Bhd	Industrial Products
9	Ann Joo Bhd	Industrial Products
10	Antah Holdings Bhd	Trading Services
11	APL Industries Bhd	Industrial Products
12	Appollo Food Holdings Bhd	Consumer Products
13	AsiaFile Corporation Bhd	Consumer Products
14	Baneng Holdings Bhd	Consumer Products
15	Bintai Kinden Corporation Bhd	Trading Services
16	Box-Pak (Malaysia) Bhd	Industrial Products
17	BSA International Bhd	Industrial Products
18	Camerlin Group Bhd	Industrial Products
19	Chemical Company of Malaysia Bhd	Industrial Products
20	Chin Well Holdings Bhd	Industrial Products
21	Choo Bee Metal Industries Bhd	Industrial Products
22	Coastal Contracts Bhd	Industrial Products
23	Courts Mammoth Bhd	Trading Services
24	Cymao Holdings Bhd	Industrial Products
25	Daibochi Plastic & Packaging Industry Bhd	Industrial Products
26	Delloyd Ventures Bhd	Industrial Products
27	Diperda Holdings Bhd	Trading Services
28	DNP Holdings Bhd	Consumer Products
29	Dolomite Corporation Bhd	Industrial Products
30	Duopharma Biotech Bhd	Consumer Products
31	Dutch Lady Milk Industries Bhd	Consumer Products
32	Eksons Corporation Bhd	Industrial Products
33	Emivest Bhd	Consumer Products
34	Epic	Trading Services
35	Esso	Industrial Products
36	Evermaster Group Bhd	Industrial Products
37	Fiamma Holdings Bhd	Trading Services
38	Genting Bhd	Trading Services
39	Georgetown Holdings Bhd	Trading Services
40	Goh Ban Huat Bhd	Industrial Products
41	Gold Is Bhd	Consumer Products
42	Golden Pharos Bhd	Consumer Products
43	Gopeng Bhd	Trading Services
44	Grand United Holdings Bhd	Industrial Products
45	Hexza Corporation Bhd	Industrial Products
46	HiapTeck Venture Bhd	Industrial Products
47	Hua Joo Seng Bhd	Consumer Products
48	Hup Seng Industries Bhd	Consumer Products
49	Industrial Concrete Products Bhd	Industrial Products
50	Jaya Tiasa Bhd	Industrial Products
51	Johan Ceramics Bhd	Industrial Products
52	Kenmark Bhd	Consumer Products
53	KFC Holdings Bhd	Trading Services

54	Khee San Bhd	Consumer Products
55	Kia Lim Bhd	Industrial Products
56	Kimble Corporation Bhd	Consumer Products
57	Kinstell Bhd	Industrial Products
58	Knusford Bhd	Trading Services
59	Konsortium Bas Ekspress Semenanjung	Trading Services
60	Kramat Tin Dredging Bhd	Industrial Products
61	Kris Components Bhd	Industrial Products
62	KUB Malaysia Bhd	Trading Services
63	Kumpulan Emas Bhd	Trading Services
64	Luster Industries Bhd	Industrial Products
65	Magni-Tech Industries Bhd	Industrial Products
66	Malayan United Bhd	Trading Services
67	Malayawata Steel Bhd	Industrial Products
68	Matrix International Bhd	Trading Services
69	Matshushita Electric Company (Malaysia) Bhd	Consumer Products
70	Measat Global Bhd	Trading Services
71	Megan Media Holdings Bhd	Industrial Products
72	Metrod (M) Bhd	Industrial Products
73	Metroplex Bhd	Trading Services
74	Minho (M) Bhd	Industrial Products
75	Mintye Bhd	Consumer Products
76	Malaysia Merchant Marine	Trading Services
77	MWE Holdings Bhd	Consumer Products
78	NV Multi Corporation Bhd	Trading Services
79	OCB Bhd	Trading Services
80	Octagon Consolicated Bhd	Consumer Products
81	Oriental Food Bhd	Consumer Products
82	Paos Holdings Bhd	Industrial Products
83	PCCS Group Bhd	Consumer Products
84	Perak Corporations Bhd	Consumer Products
85	Petra Perdana Bhd	Trading Services
86	Petronas	Trading Services
87	PJI Holdings	Trading Services
88	Putera Capital Bhd	Consumer Products
89	Setron Bhd	Consumer Products
90	Sime Darby Bhd	Trading Services
91	Sumatec Resources Bhd	Trading Services
92	Tenggara Oil Bhd	Industrial Products
93	Time Engineer Bhd	Trading Services
94	Tractors Malaysia Holdings Bhd	Industrial Products
95	Tradewids Bhd	Consumer Products
96	Transmile Group Bhd	Trading Services
97	Upa Corporation Bhd	Industrial Products
98	Warisan TC Bhd	Trading Services
99	Xiong Leng Holdings Bhd	Consumer Products
100	YeeLee Corporation Bhd	Consumer Products
101	Yeo Hiap Seng (M) Bhd	Industrial Products

APPENDIX C

Checklist of Malaysian Accounting Standard Board (MASB) Compliance

MASB	Title as Adopted by MASB	Yes/No /N.A.
1.	***Presentation of Financial Statements***	
	8 – IS: Income statement	
	8 – BS: Balance sheet	
	8 – CE: Statement of changes in equity	
	8 – CF: Cash flow statement	
	8 – AP: Summary of significant accounting policies	
	12: Statement of compliance with MASB.	
	53 – BS: Classification of assets and liabilities.	
	54 – BS: Disclosure of amount is expected to be recovered or settled after the twelve months from the balance sheet date.	
	66 – BS: Present the following amounts:	
	(a) Property, plant and equipment;	
	(b) Intangible assets;	
	(d) Investments;	
	(e) Inventories;	
	(f) Trade and other receivables;	
	(g) Cash and cash equivalents;	
	(h) Trade and other payables;	
	(i) Tax liabilities and tax assets;	
	(j) Provisions;	
	(k) Non-current interest-bearing liabilities;	
	(l) Minority interest; and	
	(m) Issued capital and reserves.	
	72 – 17: Details of property, plant and equipment.	
	72 – 27: Receivables, deposits and prepayments.	
	72 – 33: Borrowing.	
	72 – 35: Convertible unsecured loan stocks/secured loan stocks.	
	73 (b) – 27: Details of receivables.	
	73 (c) – 26: Inventory classified.	
	73 (d) – 31 & 32: Provisions are analyzed showing separately provisions for employee benefit costs and other items classified.	
	73 (e) – CE: Equity capital is analyzed showing separately the various classes of paid up capital, share premium, treasury shares, retained earnings, etc.	
	73 (e) – 40: Reserves are analyzed showing separately the various classes of reserves.	
	73 (f) – 33: Long-term liabilities are disclosed separately showing the nature of recipient such as secured loans, unsecured loans, inter-company loans and loans from associated companies.	
	74 – BS: Share capital.	

	An enterprise should disclose the following, either on the face of the balance sheet or in the notes:- (a) For each class of share capital: (i) The number of shares authorised; (ii) The number of shares issued and fully paid, and issued but not fully paid; (iii) Par value per share, or that the share have no par value; (iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the year; (v) The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; (vi) Shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise; and (b) A description of the nature and purpose of each reserve within owner's equity; **(c)** When dividends have been proposed but not formally approved for payment, the amount included (or not included) in liabilities.	
	75 (a) – IS: Sales/Revenue	
	75 (b) – IS: The results of operating activities	
	75 (c) – IS: Finance costs	
	75 (d) – IS: Share of results of jointly controlled entity and associates	
	75 (e) – IS: Tax expense	
	75 (f) – IS: Profit or loss from ordinary activities	
	75 (h) – IS: Minority interest	
	75 (i) – IS: Net profit or loss for the period	
	77 – IS: An analysis of expenses based on either the nature of expenses or their function.	
	85 – 14: The amount of dividends per share declared or proposed for the period covered by the financial statements.	
	86 (d) – CE: Capital transactions with owners and distributions to owners after the issuance of share.	
	93 – 44: Commitments	
	93 – 46: Contingent liabilities (unsecured)	
	97 – AP (A): The measurement basis (or bases) used in preparing the financial statements.	
	99 (a) – AP (U): Revenue recognition policy.	
	99 (b) – AP (B): Consolidation principles, including subsidiaries and associates.	
	99 (c) – AP (C): Depreciation/amortisation policy of tangible assets.	
	99 (c) – AP (E): Depreciation/amortisation policy of intangible assets.	
	99 (d) – AP (O): Interest capitalisation of borrowing cots and other expenditure.	
	99 (g) – AP (F): Investments.	
	99 (g) – AP (W): Financial instruments.	
	99 (h) – AP (H): Leases.	
	99 (i) – AP (E): Research and development costs.	
	99 (j) – AP (I): Inventories.	
	99 (k) – AP (P): Taxes, including deferred taxes.	
	99 (l) – AP (S): Provisions.	
	99 (m) – AP (Q): Employee benefit costs.	
	99 (n) – AP (V): Foreign currency translation and hedging.	
	99 (o) – AP (M): Definition of cash and cash equivalents.	

	100 – AP (B): In consolidated financial statements, the policy used for determining minority interest is disclosed.	
	100 – AP (E): In consolidated financial statements, the policy used for determining goodwill is disclosed.	
	102 (a) – 1: The domicile and legal form of the enterprise, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office).	
	102 (b) – 1: A description of the nature of the enterprise's operations and its principal activities.	
	102 (d) – 1 & 9: Total number of employees at the end of the period.	
2.	***Inventories***	
	37 (a): The accounting policies adopted in measuring inventories, including the cost formula used.	
	37 (b): The total carrying amount of inventories and the carrying amount in classifications appropriate to the enterprise.	
	37 (c): The carrying amount of inventories carried at net realizable value.	
	37 (d): The amount of any reversal of any write-down that is recognized as income in the period in accordance with MASB 2.34.	
	37 (e): The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34.	
	37 (f): The carrying amount of inventories pledged as security for liabilities.	
	40: Disclose either: (a) The cost of inventories.	
3.	***Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies***	
	10 (a) – IS: Profit or loss from ordinary activities	
	18: Any exceptional or unusual credits or charges.	
	32 – IS: The nature and amount of a change in an accounting policy, if any.	
	59: Change in accounting policy - allowed alternative treatment (a) The reasons for the change in accounting policy; and the amount of the adjustment recognised in net profit or loss.	
4.	***Research and Development Costs***	
	30: Research and development expenditure Disclose: (a) The accounting policies adopted for research and development costs; (b) The amortisation methods used; (c) The useful lives or amortisation rates used; and **(d)** Research and development costs recognized as an asset/as expense.	
5.	***Cash Flow Statements***	
	10 – CF: Report cash flows during the period classified by operating, investing and financing activities.	
	45 – CF: • The components of cash and cash equivalent; • A reconciliation of the cash and cash equivalent amounts with the balance sheet amount.	
	48 – 30: The amount of significant cash and cash equivalent balances held by the enterprise that is not available for use.	
	31 – CF: Cash flows from interest and dividends received and paid should each be disclosed separately and classified in a consistent manner from period to period as either operating, investing or financing activities.	
	35 – CF: Cash flows arising from taxes on income should be separately disclosed and classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.	

6.	***Effects of Changes in Foreign Exchange Rates***	
	30 (c) – CE: Currency translation differences arising in year	
	42: Disclose: (a) Net exchange differences classified as equity as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period; (b) The amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the allowed alternative treatment in MASB 6.21; and (c) The closing rates used in translation.	
	43: When there is a change in the classification of a significant foreign operation, an enterprise should disclose: (a) The nature of the change in classification; (b) The reason for the change; (c) The impact of the change in classification on shareholders' equity; and (d) The impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.	
	44 – AP (V): An enterprise should disclose the method selected in accordance with paragraph 33 to translate goodwill and fair value adjustments arising on the acquisition of a foreign entity.	
	46 (a) – 48: Policy for foreign currency risk management.	
	49: Where an enterprise avails itself of the transitional provision provided in MASB 6.49, it should disclose, by way of note, the accounting policy for the treatment of exchange differences arising from translation of foreign currency monetary items and the financial effects of the treatment on its financial statements for the period.	
	51: An enterprise that applies MASB 6 which constitutes a change in accounting policy, should adjust its financial statements in accordance with MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The enterprise should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences that were deferred and classified as equity in previous periods.	
8.	***Related Party Disclosure***	
	23: Disclosure of related party relationships.	
	25 – 10 & 47: The nature and types of related party transactions.	
9.	***Revenue***	
	36 (a) – AP (U): Revenue recognition policy.	
	36 (c) – IS: Category of revenue.	
10.	***Leases***	
	26 (a) – 17: The net carrying amount for each class of leases asset.	
	26 (b) – 33: Reconciliation between the total of minimum lease payments at the balance sheet date, and their present value.	
11.	***Consolidated Financial Statements and Investments in Subsidiaries***	
	7: Preparation of consolidated financial statements.	
	28 – AP (B): Basis of consolidation.	
	34- IS & BS: Minority interests in the consolidated financial statements.	
	47 (a) – 20: List of each subsidiary company including the name, country of incorporation or residence, the principal activities of, proportion of ownership interest and, if different, proportion of voting power held.	

	47 (b)(iv) – 3 & 5: The effect of the acquisition/disposal of subsidiaries on the financial position.	
12.	***Investments in Associates***	
	37 (a) – 22: List and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held.	
	37 (c) – AP (B) & AP (F): The methods used to account for investments in associates.	
	38 – BS & 22: For investment accounted for using the equity method disclose separately as long term assets.	
	38: (a) The group's share of the net assets other than goodwill of the associates.	
	39 - IS: Disclosure of investor's share of profits or losses and taxes.	
	41: Method of valuing goodwill.	
13.	***Earnings per Share***	
	51 – IS: • Basic earnings/loss per share. • Diluted earnings/loss per share.	
	53 (a) – 15: The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.	
	53 (b) – 15: The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.	
14.	***Depreciation of Accounting Policy***	
	15 (a) – AP (E): The depreciation methods used.	
	15 (b) – AP (E) & 19: The useful lives or the depreciation rates used.	
	15 (c) – 19: Total depreciation allocated for the period.	
	15 (d) – 19: The gross amount of depreciable assets and the related accumulated depreciation.	
15.	***Property, Plant and Equipment***	
	78 (a) – AP (C): The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.	
	78 (b) – AP (C): The depreciation methods and useful lives or the depreciation rates used, where no depreciation is charged on the basis that it is not material, this fact should be disclosed.	
	78 (c): Accumulated impairment losses at the beginning and end of the period.	
	78 (d): A reconciliation of the carrying amount at the beginning and end of the period showing Additions/Disposals/Acquisitions/Impairment losses.	
	79 (a) – 17: The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.	
	79 (d) – 44: The amount of commitments for the acquisition of property, plant and equipment.	
	82: When items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:	
	82 (a) – AP (C): The enterprise's policy on revaluation.	
	82 (b) – 17: The basis used to revalue the assets.	
	82 (c) – 17: The effective date of the revaluation.	
	82 (d) – 17: Where the revalued carrying amounts have been determined in accordance with an independent valuation and the revaluation was made during the financial year, the name of the firm, the valuer and his qualification.	

	82 (f) – 17: The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment in paragraph 33.	
	82 (g) – 17 & 40: The revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.	
19.	***Events After the Balance Sheet Date***	
	11 & 12: Dividends proposed or declared after the balance sheet date but before the financial statements are authorized.	
	16: (a) The date when the financial statements were authorized for issue and who gave that authorization.	
	21 (a) & (b): The nature of non-adjusting events after the balance sheet.	
20.	***Provisions, Contingent Liabilities and Contingent Assets***	
	85 – 32: (a) The carrying amount at the beginning and end of the period;	
	(b) Additional provisions made in the period.	
	(c) Provision used (i.e. incurred and charged against the provision) during the period;	
	86 – 32: A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.	
	90: A brief description of the nature of the contingent assets/liabilities.	
21.	***Business Communications***	
	60: The valuation of assets and liabilities at the date of acquisition.	
	112 – 3 (a), 4 & 20: The names and descriptions of the combining enterprises.	
	113:	
	(a) The percentage of equity shares acquired in an acquisition;	
	(b) The cost of acquisition and a description of the purchase consideration paid and contingently payable;	
	(c) The amount of goodwill/negative goodwill arising on the acquisition.	
22.	***Segment Reporting***	
	25 – AP (X): • Disclosure of business segment; • Disclosure of geographical segment.	
	52 – 2: Segment revenue from sales to external customers and segment revenue from transactions with other segments.	
	53 – 2: Segment result for each reportable segment.	
	56 – 2: The total carrying amount of segment assets for each reportable segment.	
	57 – 2: The segment liabilities for each reportable segment.	
	58 – 2: The total cost incurred to acquire segment assets.	
	59 – 2: The amount of depreciation and amortisation of segment assets.	
	62 – 2: The total amount of significant non-cash expenses, other than depreciation and amortisation.	
	65 – 2: The enterprise's share of the net profit or loss of associates, joint ventures, or other investments in aggregate.	
	67 – 2: The aggregate investments in associates and joint ventures.	
	82 – 2: The types of products and services provided by the business segment.	
23.	***Impairment of Assets***	
	115 (a) – IS, 3(b), 5 & 8:	
	(a) The amount of impairment losses recognised in the income statement and the line item(s) of the income statement in which those impairment losses are included;	
	(b) The amount of reversals of impairment losses recognised in the income statement and the line item(s) of the income statement in which those impairment losses are reversed;	

	(c) The amount of impairment losses recognised directly in equity during the period;	
	(d) The amount of reversals of impairment losses recognised directly in equity during the period.	
	119 – 3(b), 5 & 17: If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:	
	(a) The events and circumstances that led to the recognition or reversal of the impairment loss;	
	(b) The amount of the impairment loss recognised or reversed;	
	(c) For an individual asset:	
	(i) The nature of the asset; and	
	(ii) The reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in MASB 22, Segment Reporting, if the enterprise applies MASB 22);	
	(d) For a cash-generating unit:	
	(i) A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in MASB 22 or other);	
	(ii) The amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprise's primary format (as defined in MASB 22, if enterprise applies MASB 22); and	
	(iii) If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;	
	(e) Whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;	
	(f) If recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and	
	(g) If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.	
	120: If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following: (a) The main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under item 2 above; and (b) The main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under item 2 above.	
24.	***Financial Instruments: Disclosure and Presentation***	
	27 – CE, 35 & 40: Classification of the financial instruments.	
	48 – 48:	
	(a) Price risk - There are three types of price risk: currency risk, interest risk and market risk.	
	(b) Credit risk.	
	(c) Liquidity risk.	
	(d) Cash flow risk.	

	49 – 48: • Financial risk management objectives and policies. • Policy for hedging.	
	55 (a) – 33, 34, 35 & 48: Information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.	
	55 (b) – AP (F), AP (H), AP (L), AP (N), AP (O) & AP (W): The accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied.	
	62: The methods used to assess the fair value of derivatives and financial instruments.	
	63: Disclose the basis for reporting in the income statement realised and unrealised gains and losses, interest and other items of income and expense associated with financial assets and financial liabilities. This disclosure includes information about the basis on which income and expense arising from financial instruments held for hedging purposes are recognised. If income and expense items are presented on a net basis even though the corresponding financial assets and financial liabilities on the balance sheet have not been offset, the reason for that presentation is disclosed if the effect is significant.	
	64 (a) – 30, 32, 35 & 48: Maturity dates of the financial instruments.	
	64 (b) – 30, 35 & 48: Effective interest rates, when applicable.	
	72 (d) – 33 & 48: Interest rate for individual financial instruments or weighted average rates or a range of rates for each class of financial instrument.	
	74: For each class of financial asset, both recognised and unrecognised, an enterprise should disclose information about its exposure to credit risk, including: (a) The amount that best represents its maximum credit risk exposure at the balance sheet date, without taking into account of the fair value of any collateral, in the event other parties fail to perform their obligations under the financial instrument; and (b) Significant concentration of credit risks.	
	97 – 48: When an enterprise carries one or more financial assets at an amount in excess of their fair value, the enterprise should disclose: (a) The carrying amount and the fair value of either the individual assets or appropriate groupings of those individual assets; and (b) The reasons for not reducing the carrying amount, including the nature of the evidence that provides the basis for the management's belief that the carrying amount will be recovered.	
	100 – 48: When an enterprise has accounted for a financial instrument as a hedge of risks associated with anticipated future transactions, it should disclose: (a) A description of the anticipated transactions, including the period of time until they are expected to occur; (b) A description of the hedging instruments; and (c) The amount of any deferred or unrecognised gain or loss and the expected timing of recognition as income or expense.	
25.	***Income Taxes***	
	67 – BS: Tax assets and tax liabilities should be presented separately from other assets and liabilities in the balance sheet. Deferred tax assets and liabilities should be distinguished from current tax assets and liabilities.	
	75 – IS: The tax expense (income) related to profit or loss from ordinary activities should be presented on the face of the income statement.	
	77 – 14: The major components of tax expense (income) should be disclosed separately.	
	78 (a) – 14: Current tax expense (income).	

	79 (a) – 25: The aggregate current and deferred tax relating to items that are charged or credited to equity.	
	79 (c) – 14: An explanation of the relationship between tax expense (income) and accounting profit.	
	79 (c)(i) – 14: A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed.	
	79 (c)(ii) – 14: A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.	
	79 (e) – 25: The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet.	
	79 (f) – 25: In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits.	
	79 (f)(ii) – 25: The amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet.	
	79 (g): In respect of discontinued operations, the tax expense relating to: i) The gain or loss on discontinuance; and ii) The profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.	
	80: An enterprise should disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: (a) The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. (b) The enterprise has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.	
	81 – 41: An enterprise should disclose whether there is sufficient tax credit to frank the distribution of its retained profits, and if there is insufficient tax credit, the extent of the retained profits not covered.	
27.	***Borrowing Costs***	
	29 (a) – AP (O): The financial statements should disclose: The accounting policy adopted for borrowing costs.	
	29 (b) – 12 & 17: The amount of borrowing costs capitalized during the period.	
	29 (c) – 24: The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.	
29.	***Employee Benefits***	
	125: An enterprise should disclose the following information about defined benefit plans.	
	125 (a) – AP (Q): The enterprise's accounting policy for recognising actuarial gains and losses.	
	125 (b) – 31: A general description of the type of plan.	
	125 (c) – 31: A reconciliation of the assets and liabilities recognised in the balance sheet, showing at least:	
	(i) The present value at the balance sheet date of defined benefit obligations that are wholly unfunded;	
	(ii) The present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;	
	(iii) The fair value of any plan assets at the balance sheet date;	

	(iv) The net actuarial gains or losses not recognised in the balance sheet (see paragraph 93);	
	(v) Any amount not recognised as an asset, because of the limit in paragraph 59(b);	
	(vi) The fair value at the balance sheet date of any reimbursement right recognised as an asset under paragraph 106 (with a brief description of the link between the reimbursement right and the related obligation); and	
	(vii) The other amounts recognised in the balance sheet.	
	125 (d) – 31: The amounts included in the fair value of plan assets for:	
	(i) Each category of the reporting enterprise's own financial instruments; and	
	(ii) Any property occupied by, or other assets used by, the reporting enterprise.	
	125 (e) – 31: A reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet.	
	125 (f) – 9 & 31: The total expense recognised in the income statement for each of the following, and the line item(s) of the income statement in which they are included:	
	(i) Current service cost;	
	(ii) Interest cost;	
	(iii) Expected return on plan assets;	
	(iv) Expected return on any reimbursement right recognized as an asset under paragraph 106;	
	(v) Actuarial gains and losses;	
	(vi) Past service cost; and	
	(vii) The effect of any curtailment or settlement.	
	152: An enterprise should disclose the following for equity compensation benefits.	
	152 (b) – AP (Q): The accounting policy for equity compensation plans.	
	152 (c) – 38: The amounts recognised in the financial statements for equity compensation plans.	
	153: An enterprise should also disclose the following for equity compensation benefits.	
	153 (a): The fair value, at the beginning and end of the period, of the enterprise's own equity financial instruments (other than share options) held by equity compensation plans; and	
	153 (b) – 10 & 38: The fair value, at the date of issue, of the enterprise's own equity financial instruments (other than share options) issued by the enterprise to equity compensation plans or to employees, or by equity compensation plans to employees, during the period.	
	156 (a) – 10: Provides equity compensation benefits to key management personnel.	
30.	***Accounting and Reporting by Retirement Benefit Plans***	
	14: The report of a defined contribution plan should contain a statement of net assets available for benefits and a description of the funding policy.	
	33: Retirement benefit plan investments should be carried at fair value. In case an estimate of fair value is not possible, the reason should be disclosed.	
	35: The report of a retirement benefit plan, whether defined benefit or defined contribution, should also contain the following information:	
	(a) A statement of changes in net assets available for benefits;	
	(b) A summary of significant accounting policies; and	

	(c) A description of the plan and the effect of any changes in the plan during the period.	

Compliance with the MASB by listed companies in Malaysia

Independent variables

1. Name of the company---
2. Type of the company--
3. Industry type: manufacturing/ non-manufacturing
4. Date of listing on Bursa Malaysia-----------------------------------
5. Age of the company (listing years)---------------------------------
6. Size of audit committee--
7. Total no of INDs on the committee-------------------------------
8. Nature of external auditors: Big-4/ non-Big-4
9. Total assets of the company----------------------------
10. Total sales of the company-----------------------------
11. Equity--------------------------------------
12. Debt (long-term)-------------------------------- ----
13. Capital employed-------------------
14. Net profit (before tax and interest)------------------------ -
15. Net profit (after tax and interest)------------------------

APPENDIX D

Frequencies

Statistics

		Type of company	Nature of external auditors
N	Valid	100	100
	Missing	0	0
Mean		2.16	1.32
Median		2.00	1.00
Mode		3	1
Std. Deviation		.838	.469
Variance		.701	.220
Range		2	1
Minimum		1	1
Maximum		3	2
Percentiles	10	1.00	1.00
	20	1.00	1.00
	25	1.00	1.00
	30	2.00	1.00
	40	2.00	1.00
	50	2.00	1.00
	60	3.00	1.00
	70	3.00	2.00
	75	3.00	2.00
	80	3.00	2.00
	90	3.00	2.00

Frequency Table

Type of company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Trading Services	28	28.0	28.0	28.0
	Consumer Products	28	28.0	28.0	56.0
	Industrial Products	44	44.0	44.0	100.0
	Total	100	100.0	100.0	

Nature of external auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Big 4	68	68.0	68.0	68.0
	Non Big 4	32	32.0	32.0	100.0
	Total	100	100.0	100.0	

APPENDIX E

Descriptives

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Type of company	101	1	3	2.15	.841
Size of audit committee	101	3	7	3.64	.832
Nature of external auditors	101	1	2	1.32	.468
No. of meetings	101	2	8	4.48	.819
Profitability	101	-69.18	.66	-.6207	6.89514
Disclosure level of company	101	67.31	95.39	85.9310	5.31094
Log assets	101	-.82	9.60	5.5430	1.59466
Percentage no of independents	101	.40	.83	.6859	.06672
Leverage ratio	101	-2.03	12.94	.9626	1.76126
Disclosure level 1	101	80.00	100.00	95.2480	4.10764
Disclosure level 2	101	.00	100.00	67.3952	24.01949
Disclosure level 3	101	.00	100.00	76.0718	31.94428
Disclosure level 4	59	.00	100.00	17.7966	38.01396
Disclosure level 5	101	80.00	100.00	97.9864	5.52022
Disclosure level 6	101	.00	100.00	48.8541	28.34655
Disclosure level 8	94	.00	100.00	97.8723	14.50787
Disclosure level 9	101	.00	100.00	99.0099	9.95037
Disclosure level 10	76	.00	100.00	30.2632	44.78016
Disclosure level 11	97	100.00	100.00	100.0000	.00000
Disclosure level 12	86	.00	100.00	59.4570	46.60158
Disclosure level 13	99	.00	100.00	95.0336	16.01277
Disclosure level 14	100	.00	100.00	99.0000	10.00000
Disclosure level 15	101	.00	100.00	84.1204	15.49568
Disclosure level 19	96	.00	100.00	82.1184	32.46623
Disclosure level 20	86	.00	100.00	82.0349	35.97788
Disclosure level 21	78	.00	100.00	35.6410	46.55927
Disclosure level 22	87	.00	100.00	74.0815	41.70402
Disclosure level 23	94	.00	100.00	15.6803	31.67906
Disclosure level 24	101	.00	100.00	87.9761	17.93073
Disclosure level 25	101	.00	100.00	86.6066	15.56188
Disclosure level 27	89	.00	100.00	88.7639	26.68296
Disclosure level 29	81	.00	100.00	28.6969	38.19509
Disclosure level 30	30	.00	100.00	83.3333	37.90490
Valid N (listwise)	6				

APPENDIX F

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Disclosure level of company

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.405[a]	.164	.082	5.08942	1.888

a. Predictors: (Constant), dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1

b. Dependent Variable: Disclosure level of company

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	463.512	9	51.501	1.988	.050[a]
	Residual	2357.098	91	25.902		
	Total	2820.609	100			

a. Predictors: (Constant), dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1

b. Dependent Variable: Disclosure level of company

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	66.621	6.120		10.885	.000		
	Size of audit committee	.017	.637	.003	.026	.979	.922	1.085
	No. of meetings	.658	.633	.102	1.040	.301	.964	1.037
	Profitability	.105	.075	.136	1.395	.166	.966	1.035
	Log assets	.887	.357	.266	2.482	.015	.797	1.255
	Percentage no of independents	17.164	8.004	.216	2.144	.035	.908	1.101
	Leverage ratio	-.055	.302	-.018	-.182	.856	.918	1.089
	dummy type co. 1	-.205	1.308	-.018	-.157	.876	.732	1.366
	dummy type co. 2	.031	1.275	.003	.024	.981	.788	1.269
	dummy audit 1	-.322	1.130	-.028	-.285	.776	.927	1.078

a. Dependent Variable: Disclosure level of company

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions									
				(Constant)	Size of audit committee	No. of meetings	Profitability	Log assets	Percentage no of independents	Leverage ratio	dummy type co. 1	dummy type co. 2	dummy audit 1
1	1	6.460	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.01
	2	1.016	2.522	.00	.00	.00	.18	.00	.00	.00	.18	.25	.00
	3	1.010	2.529	.00	.00	.00	.72	.00	.00	.03	.07	.02	.00
	4	.767	2.902	.00	.00	.00	.05	.00	.00	.76	.00	.02	.03
	5	.389	4.075	.00	.00	.00	.03	.00	.00	.10	.51	.57	.11
	6	.243	5.153	.00	.01	.01	.00	.01	.00	.07	.13	.10	.78
	7	.056	10.712	.00	.05	.09	.02	.79	.00	.02	.09	.00	.01
	8	.037	13.189	.00	.84	.21	.00	.00	.01	.00	.00	.01	.00
	9	.017	19.268	.08	.08	.64	.00	.19	.18	.00	.00	.00	.05
	10	.004	38.795	.92	.02	.05	.00	.00	.82	.01	.00	.01	.00

a. Dependent Variable: Disclosure level of company

Casewise Diagnostics[a]

Case Number	Std. Residual	Disclosure level of company
23	-3.284	70.74

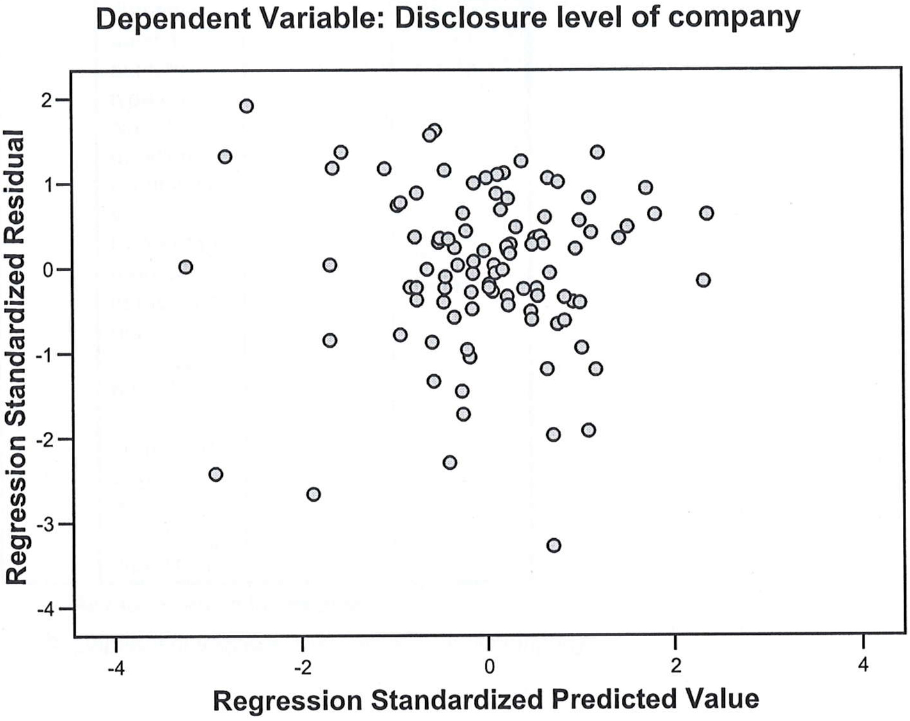
a. Dependent Variable: Disclosure level of company

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	78.9833	91.0293	85.9310	2.15293	101
Std. Predicted Value	-3.227	2.368	.000	1.000	101
Standard Error of Predicted Value	.942	5.087	1.495	.577	101
Adjusted Predicted Value	-28.8460	91.1092	84.7816	11.66722	101
Residual	-16.71573	9.74101	.00000	4.85499	101
Std. Residual	-3.284	1.914	.000	.954	101
Stud. Residual	-3.379	2.127	.013	1.016	101
Deleted Residual	-17.69039	107.94203	1.14939	12.08553	101
Stud. Deleted Residual	-3.593	2.169	.008	1.035	101
Mahal. Distance	2.438	98.905	8.911	11.460	101
Cook's Distance	.000	44.936	.461	4.470	101
Centered Leverage Value	.024	.989	.089	.115	101

a. Dependent Variable: Disclosure level of company

Scatterplot



Regression (After item deleted)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Disclosure level of company

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.451[a]	.203	.124	4.78585	1.857

a. Predictors: (Constant), dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1

b. Dependent Variable: Disclosure level of company

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	526.198	9	58.466	2.553	.012[a]
	Residual	2061.390	90	22.904		
	Total	2587.588	99			

a. Predictors: (Constant), dummy audit 1, dummy type co. 2, No. of meetings, Profitability, Percentage no of independents, Leverage ratio, Size of audit committee, Log assets, dummy type co. 1

b. Dependent Variable: Disclosure level of company

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	65.221	5.768		11.306	.000		
	Size of audit committee	.143	.600	.023	.238	.812	.920	1.086
	No. of meetings	.516	.596	.083	.866	.389	.963	1.038
	Profitability	.106	.071	.143	1.499	.137	.966	1.035
	Log assets	.879	.336	.275	2.614	.010	.800	1.250
	Percentage no of independents	19.338	7.551	.252	2.561	.012	.911	1.098
	Leverage ratio	-.081	.284	-.028	-.285	.776	.918	1.089
	dummy type co. 1	.421	1.243	.037	.339	.736	.736	1.359
	dummy type co. 2	-.029	1.199	-.003	-.024	.981	.791	1.265
	dummy audit 1	-.073	1.065	-.007	-.069	.945	.928	1.078

a. Dependent Variable: Disclosure level of company

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Size of audit committee	No. of meetings	Profitability	Log assets	Percentage no of independents	Leverage ratio	dummy type co. 1	dummy type co. 2	dummy audit 1
1	1	6.452	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.01
	2	1.017	2.518	.00	.00	.00	.03	.00	.00	.01	.24	.27	.00
	3	1.011	2.526	.00	.00	.00	.86	.00	.00	.03	.02	.00	.00
	4	.765	2.904	.00	.00	.00	.05	.00	.00	.75	.00	.03	.03
	5	.394	4.048	.00	.00	.00	.03	.00	.00	.10	.50	.57	.11
	6	.245	5.131	.00	.01	.01	.00	.01	.00	.07	.14	.10	.78
	7	.057	10.643	.00	.05	.09	.02	.80	.00	.02	.09	.00	.02
	8	.037	13.152	.00	.84	.21	.00	.00	.01	.00	.00	.01	.01
	9	.018	19.180	.08	.07	.65	.00	.19	.17	.00	.00	.00	.05
	10	.004	38.675	.92	.02	.05	.00	.00	.82	.01	.00	.01	.00

a. Dependent Variable: Disclosure level of company

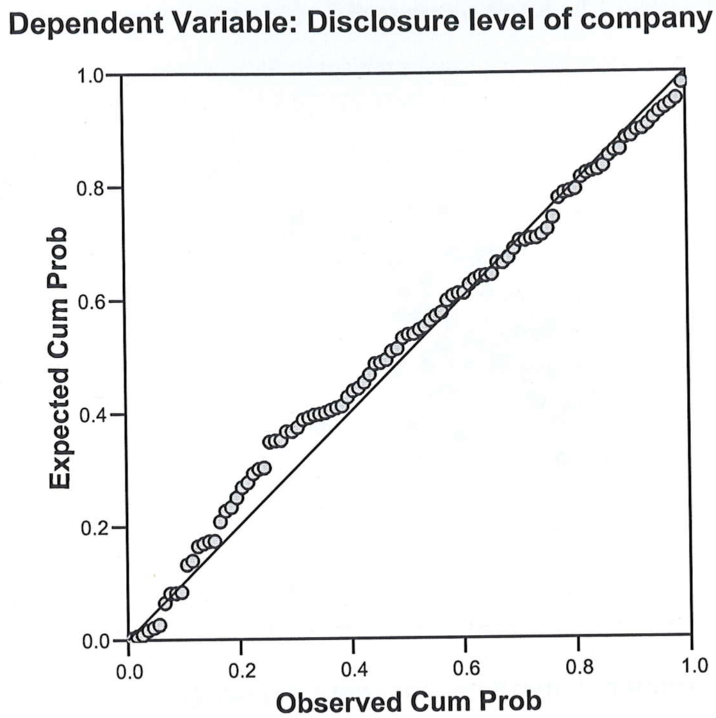
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	78.9592	92.2080	86.0829	2.30546	100
Std. Predicted Value	-3.090	2.657	.000	1.000	100
Standard Error of Predicted Value	.886	4.783	1.413	.544	100
Adjusted Predicted Value	-52.1395	91.8902	84.6900	14.05687	100
Residual	-13.66380	9.73985	.00000	4.56313	100
Std. Residual	-2.855	2.035	.000	.953	100
Stud. Residual	-2.990	2.261	.015	1.022	100
Deleted Residual	-16.30445	131.23549	1.39294	14.14147	100
Stud. Deleted Residual	-3.133	2.315	.012	1.039	100
Mahal. Distance	2.405	97.907	8.910	11.392	100
Cook's Distance	.000	75.116	.769	7.510	100
Centered Leverage Value	.024	.989	.090	.115	100

a. Dependent Variable: Disclosure level of company

Charts

Normal P-P Plot of Regression Standardized Residual



Scatterplot