ADOPTION OF FINANCIAL REPORTING STANDARDS (FRSs) : IMPACT ON MALAYSIAN COMPANIES

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Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

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STATEMENT OF PURPOSE

The Malaysian Accountancy Research and Education Foundation (MAREF) is a trust body initiated by the Malaysian Institute of Accountants (MIA) established in 1990 for the promotion, encouragement and advancement of accountancy research and education in Malaysia.

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ABSTRACT

From 1 January 2006, reporting entities in Malaysia are required to prepare their financial statements in accordance with the adopted new and improved Financial Reporting Standards. This study seeks to survey the impact of the adoption of FRS on public listed companies. It also looked at implementation issues faced during the transition period by these companies. A total of 888 questionnaires were sent through the mail to companies listed on the Main and Second Board of Bursa Malaysia. To complement the questionnaires, interviews were also conducted with representatives from the audit firms and regulatory bodies in the Klang Valley. After much effort has been made to collect back the questionnaires, only 67 were received and a total of 7 interviews conducted. These data were used in the analysis to arrive at the findings. The findings revealed that only 71.6% of the companies had adopted fully FRS beginning 2006. The biggest drawback in the implementation process was the lack of briefing to financial analysts and investors on the impact of FRS on the company’s financial statements. As for the most difficult standards to apply, 82.1% agreed that it was FRS 139 with 68.7% stating that it was FRS 2. A survey of the first and second quarter interim reports 2006 of Malaysian Top 30 Companies was also conducted via the internet. The findings revealed that the standard which has the highest impact on the group’s accounting policies is FRS 101 (57%) followed by FRS 3 (46%). The standard with the least impact were FRS 119 and FRS 131. The results of this study were subject to several limitations. The main limitation is the poor response rate. Further researchers could perhaps, make use of annual reports to study the impact of specific FRS on the reported earnings of companies.
CHAPTER 1
INTRODUCTION

1.1 BACKGROUND

The year 2001 saw the dawn of a new era for the accounting profession when the world witnessed the formation of the International Accounting Standard Board (IASB) by the IOSCO Agreement to streamline accounting practices throughout the world. IASB, based in London, is funded by contributions from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organizations. The Board is committed to developing a single set of high quality global accounting standards that require transparent and comparable information to be disclosed in general purpose financial statements. Initially the Board adopted the IAS issued by the IASC and the standards issued by the Board are named International Financial Reporting Standards (IFRS). Another milestone was achieved when IASB and US FASB at their joint meeting in Norwalk, Connecticut, USA on September 2002 reached an agreement to commit to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. The agreement was formalized in a Memorandum of Understanding, now known as the Norwalk Agreement.

Sir David Tweedie, Chairman of the IASB, commented, “Both IASB and the FASB see the convergence project as an opportunity to build upon existing best practice, contained in IFRS and in US GAAP and other national standards. In pursuing the convergence goal, the two boards will improve the quality of their existing standards, while reducing differences that cause unnecessary confusion and barriers to cross-border investment and economic growth. Convergence of accounting practices world wide is seen as essential with increase in cross border trading and globalization and the need to achieve greater transparency and comparability, without having the need for overseas companies to reconcile their accounts. In an era of economic globalization and mobile information, the current diverse accounting standards make comparison of financial information between companies of different origins difficult and misleading. With increasing cross border listings by multi national enterprises, there is an urgent need for a single set of high quality global accounting standards. Hence the step towards convergence to IFRS is seen as a move forward in the right direction.

The year 2005 was an exciting one for the accounting profession as in that year over 7,000 listed companies in the European Union, Australia, Singapore and Hong Kong report their financial performance to the users under International Financial Reporting Standards (IFRS). Other countries around the world which are not IFRS compliant yet, are also moving towards convergence with IFRS.

Malaysia cannot afford to be left behind in this world wide move towards adoption of IFRS. Malaysian companies have to be in step with these developments in financial reporting practices adopted worldwide in order that their financial statements presented is globally accepted. Full convergence to international accounting standards will put Malaysia in good stead for increased globalization of capital markets, providing comparable financial statements to promote investor confidence. Malaysia has done well so far and will continue to move ahead and so are the other countries in the region.( Dato’ Johan Raslan, Chairman of Financial Reporting Foundation PwC Alert April 2005).

A common set of reporting standards will allow more transparency, understandability, competitiveness and comparability of financial statements presented by entities in various
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Towards this end, MASB on 31 October 2005 published a notice of issuance of 18 of the 21 new/revised MASB approved accounting standards for application in relation to financial statements, including 11 Issues Committee Interpretations. These pronouncements are to be effective for financial periods beginning on or after 1 January 2006.

To demonstrate their seriousness to converge with IFRS, the Financial Reporting Foundation (FRF) and MASB jointly announced the renaming of the existing MASB standards to Financial Reporting Standards (FRS) as of January 2005 in line with similar move by other countries in this region to change the name of their standards. In addition to the name change, MASB also changed the numbering of the standards to correspond to those of international standards. This move will eliminate the past anomaly when the numbering of the MASB standards had not been the same as the numbers assigned to the respective international standards. As a further evidence of their commitment, FRF and MASB released the IASB exposure draft in Malaysia at the same time as IASB, thus ensuring that MASB, on behalf of the Malaysian commerce, industry, accounting profession, regulators and other interested parties, has an opportunity to comment on the IASB exposure draft before it is finalised. In this way FRF and MASB cannot be accused of merely rubber stamping the IASB standards as Malaysia’s FRS (PwC Alert April 2005).

1.2 CHALLENGES IN MANAGING THE TRANSITION

The transition to Financial Reporting Standards (FRS) represents one of the biggest challenges to Malaysian reporting entities, especially issues relating to the changeover which must be confronted, to ensure that during the transition period continued integrity of the financial reporting processes is maintained.

First and foremost, companies must realise that the change is not simply an accounting exercise that chief financial officers and their staff can do in their spare time. The conversion is a change in primary GAAP and this means fundamental changes in some companies – changes that can ripple right across their business operations to everyday procedures. The change will not only affect the accounting regime, but also other aspects of the business operations. At the macro level, the adoption of the new and improved standards will affect everyone within the investing community; from the investors to the Board of Directors, as well as external parties such as the government, lenders, customers etc. Within a company itself, a wide range of functions will be affected with the changeover, such as taxation issues, accounting procedures and treatment, legal matters, information systems, human resources, investor relations, etc. In other words, the transition will not impact only the reporting but also the operations, systems, processes and people of the entity.

Accountants have been very comfortable in preparing financial statements based on historical cost accounting. The new standards will see a shift from historical to fair value accounting as a result of a shift in thinking worldwide towards having a financial report that provides more relevant, up-to-date information for investment and economic decisions. This will result in volatility of earnings as balance sheet items will reflect market values and any gains or losses arising from changes in fair value have to be reflected in the income statement.

For the implementation to be successful, external users must also play their role. Users of financial statements such as analyst, investors, and shareholders must understand the significance of the move towards convergence. They must, for example, continue to lobby for increased transparency in financial statements, greater disclosure of estimations and judgement based on business strategies and decision outcomes to be included within the financial accounting
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framework. According to Dato’ Johan, Chairman of Financial Reporting Foundation (a government agency), “All players in the corporate reporting supply chain have equal responsibility. Users need to communicate with accountants to avoid complaints later. Financial reporting is no longer just about balancing books, it’s a public responsibility with global impact.”

1.3 OBJECTIVES OF THE STUDY

The overall aim of this project is to investigate the impact of the implementation of FRS on Malaysian companies’ accounting and reporting practices. It is hoped that this study is able to provide some indications as to the level of awareness and preparedness of public listed companies in moving into the FRS framework. It also hoped to be able to provide some preliminary indications on the impact of the FRSs on the existing accounting practices and on key performance indicators. For those companies that will delay adoption of FRS, we hope to identify the underlying reasons for their postponement, which could be beneficial to the Malaysian Institute of Accountants and Malaysian Accounting Standards Board. The information gathered concerning issues and problems faced by big companies during the implementation could also benefit smaller companies as they can learn from their experiences.

Specifically, at each company and parent company’s level we seek to consider the degree to which companies are likely to experience material differences in reported earnings and financial position as a result of FRSs. This will be achieved by looking at the following objectives:

1. To identify assets and liabilities which are recognized under FRSs but not recognized under previous GAAP
2. To identify assets and liabilities which are not recognized under FRSs but were recognized under previous GAAP
3. To examine the reclassification, if any, that were recognized under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under FRSs
4. To examine the effect of changes in the measurement rules of assets and liabilities in adopting FRSs
5. To examine the extent companies are taking advantage of exemption to full retrospective applications of all FRSs
6. To examine the notes to the interim financial statements of selected companies to determine the extent to which companies have applied FRS to the interim reporting

We hope to be able also to identify the number of companies adopting the FRSs before 2006 and their underlying motivations; to identify the number of companies NOT adopting the FRSs in 2006 and their reasons for not doing so; to report on the problems, if any, encountered during the implementation phase and to forward their recommendations and suggestions to MASB in relation to FRS guidelines.

1.4 RESEARCH METHODOLOGY

The sample size for this research comprised of all companies listed on the main board and second board of Bursa Malaysia. This research takes the form of a questionnaire survey. Questionnaires will be sent through postal mail, to the Financial Controllers /Chief Accountants as these are the personnel who will be directly involved with the adoption process of FRSs in their respective companies. The returned questionnaires will be analysed using the statistical SPSS software package.
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Besides the questionnaire, interviews will be conducted with the Big 4 auditing firms, namely Ernst & Young, Deloitte, Pricewaterhouse Coopers Malaysia and Peat Marwick, and with 4 medium/small auditing firms to get their opinions and feedback on any issues or problems encountered pre implementation stage. Interviews will also be conducted with the regulatory body, the Securities Commission and also the standard setting body, Malaysian Accounting Standard Board (MASB).

1.5 SIGNIFICANCE AND SCOPE OF THE STUDY

The findings of this study will be able to highlight some critical issues to the accounting regulators such as the Securities Commission (SC), professional bodies like the Malaysian Institute of Accountants (MIA), standard setters (MASB) and the investing public. Issues like problems dealings with the implementation process, availability of technical expertise, level of awareness and preparedness will provide some feedback and help these bodies come with some aids or guidelines as IFRS becomes prevalent world wide.

The sample use in this study is limited to companies listed in the Main Board and Second Board of Bursa Malaysia only. It is the intention of the study to exclude private companies as these companies do not have to comply with FRSs.

1.6 SUMMARY

The biggest challenge facing the accounting profession in Malaysia now is to see whether Malaysian public listed companies are able to meet the reporting dateline for the transition to the new Financial Reporting Standards. Though it is mandatory, international experience has shown that some companies could not meet the required dateline. It is expected that Malaysian companies should have by now adopted or at least prepared to adopt and transform to the new reporting system as comparative statements are required in the first year of change. It is timely at this juncture therefore, to explore the extent and the impact of the adoption of the standards among Malaysian companies.

The next section of this paper discusses the related literature relevant for the project and highlights some experiences faced by countries that have implemented IFRS. The ensuing section describes the research methodology, and the last section summarizes the findings from the study and gives the conclusion reached from the research.
CHAPTER 2
LITERATURE REVIEW

2.1 INTRODUCTION

Adoption of International Financial Reporting Standards (IFRS) or convergence with the standards is now a global phenomenon. International Accounting Standards Committee (IASB) requires countries to adopt the IFRS from January 2005. Australia, Russia, New Zealand, the entire European Union (EU), several countries in the Middle East and Africa are some of the countries that have decided on a wholesale mandatory change to IFRS. However, the United States of America, South Africa, Turkey, Singapore and Malaysia, to name but a few, is committed to the convergence of local standards with the international benchmark. United Kingdom, Australia, Hong Kong, Singapore and many other European Union countries are some of the countries that have decided on a change to IFRS beginning from 2005. For these countries, the annual financial statements for year ending 2005 will be the first complete set of financial statements to be presented under IFRS (Accountancy London, 2004, p.74). Malaysia has joined the IFRS bandwagon, effective 1 January 2006. New Zealand, however, will adopt only in 2007, followed by Russia. China and Japan are implementing the international standards one at a time.

2.2 DEFINITION OF HARMONIZATION AND STANDARDIZATION

“Harmonization” is a process of increasing the compatibility of accounting practices by setting bounds on their degree of variation. “Standardisation”, on the other hand, is a process by which all members agree to follow the same or very similar accounting practices. Standardisation appears to imply the imposition of a more rigid and narrow set of rules, with the end result being a state of uniformity (Tay and Parker,1990). Within accounting, these two words have almost become technical terms, and one cannot rely upon the normal difference in their meanings. Harmonization is a word that tends to be associated with the supranational legislation promulgated on the EU, while standardisation is a word associated with the IASB (Roberts et.al.2002) However, in practice these two words are often used interchangeably.

2.3 ADVANTAGES OF THE MOVE TOWARDS GLOBAL HARMONIZATION

With globalization and borderless trading, the case for a set of uniform accounting practices to be used by companies regardless of where the company is being based is unavoidable, especially so when one realizes that countries which adopt internationally recognized and understood standards for financial reporting will be positioned at a significant advantage to those who do not.

Provision of information in accordance with a known set of accounting standards that is of high quality, transparent and comparable will attract investors and analysts as they can understand and compare information published by a target company with its competitors. Investors will choose to invest in these countries as they consider them to be safer investments.

Furthermore, adoption of IFRS will reduce cost of operations for multinational companies, eliminates confusion and allows accounting professionals to operate more efficiently across the world.
2.4 PROBLEMS WITH HARMONIZATION

Although the adoption of IFRS is often seen as being able to bring about significant advantages to companies, there are nevertheless a number of problems that need to be addressed if the progress of accounting harmonization to be achieved by each country is to be preserved.

IFRS is seen as a comprehensive framework of quality accounting standards. However, it has had a relatively brief history of application and interpretation, and it is still unclear whether IFRS will be interpreted consistently in the countries that have adopted it. The heart of the problem of IFRS, being principle based standards, lies in the way the standards are being interpreted. IFRS are written in a conceptual way and can be characterized as a “substance over form” approach to accounting. Accountants are used to the traditionally prescriptive based standards, and in areas where accountants have little or no experience with the substance over form concept, the resultant effect could be devastating. Take, for example, the formats for presenting accounts, companies are not required to complete rigorous compliance with detailed rules. There is still room for interpretation and in making their choices; preparers need to ensure that they understand what investors want and how investors will react to the information.

In the rush to move to IFRS, companies must not forget that the users of the accounts, for example, the investors, analysts must be educated and informed regarding the impact and changes on the financial statements as these will affect their investment decisions. In a survey conducted by PricewaterhouseCoopers in the UK market (ACCA Accounting & Business February 2006) of fund managers, the results of the survey indicated that the biggest single issue faced is the short frame of time given to assimilate and understand the impact of IFRS. Companies need to support their investors by providing a platform for them to engage actively with the preparers and in the process to further develop their understanding of IFRS, in other words, to narrow the gap in their knowledge so that a positive outcome can be achieved for all parties concerned.

Another issue that need to be addressed is the problem of translation of the standards in many countries where English is not the dominant language. According to Association of Chartered and Certified Accountants (ACCA) chief executive Allen Blewitt, what is needed are highly sophisticated translators with good knowledge of the English language as well as technical accounting concepts, and such people are rare.

Thus, assimilating IFRS fully world wide is not as easy as it may seem. It is basically a difficult task because of fundamental differences between national and international attitudes and practices that arise from diverse, language, historical, cultural and legal traditions.

2.5 MANAGING THE TRANSITION PROCESS

Converting to FRS means migrating from the existing accounting rulebook and adopting a new set of standards (Cope & Clarke, 2003). It will dramatically change the way we had to prepare our profit and loss and balance sheet (Ravlic, 2005) The conversion goes beyond a mere accounting and compliance exercise (Pedrasa & Calayag, 2004; Lang, 2004; Canniffe, 2004). It cuts across several business areas such as management reporting systems, tax planning, investor relations, employee and executive compensation, employee benefits, performance indicators, corporate finance, and financial accounting and reporting.

Preparation for the transition to FRS is vital; companies must understand the new requirements and be comfortable about their impact before attempting to communicate their
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effects thus, compliance with the new standards should not be underestimated (Pedrasa & Calayag, 2004). Ignoring or underestimating the issues involved in changing from the previous standards to the new international standards laid down by the IASB could have serious negative consequences for a firm (Canniffe, 2004), as companies not already engaged in the transition process could face a significant challenge to meet their reporting deadlines. John McDonnell (Accountancy, Ireland 2005) outlined in his article seven steps to a smooth transition as:

- To assess the impact IFRS on the business operation
- To decide optional accounting policies
- To identify any missing data
- To ensure that the systems and operations have been adapted for IFRS
- To ensure that there is sufficient time for IFRS to be embedded in the processes for the conversion
- To ensure that internal controls of the company have been enhanced, and finally
- To examine if IFRS has been embedded across each business unit including in management reports

By having FRS-compliant financial reports will send a strong signal to prospective investors: enabling the country to compete for much-needed foreign direct investments that will help boost the economy (Pedrasa & Calayag, 2004). Thus, the company should start planning for IFRS transition by examining the issues at a strategic level to avoid running down blind alleys and focus on the big picture items on where things were most likely to bite (Ravlic, 2005). It has to understand all of the implications, both externally and internally, the changeover would have on the reporting entity. This has to be communicated well ahead to those who need to know so that they can start reading the standards, digest them and think about the consequences to the organization and the industry. Not only must the accountants be informed, presentations must also be given at various meetings to raise the level of awareness and understanding of non-accountants as well. Workstreams can be set up headed by an expert of each area to do the detailed work. For example one expert in charge of the workstream that dealt with analyzing the impact of changes in reporting requirements on the valuations of non current assets. These experts have to inform and report to the organization of any current developments (Ravlic, 2005).

In Malaysia all public listed companies must prepare financial statements that are FRS compliant beginning 1 January 2006. A company that is slow to respond to the change will have to face the axe because the Government has toughened its stance on the quality and accuracy of financial statements of listed companies. The Securities Commission is also looking aggressively into the accounts of listed companies and will not fail to come down hard on companies that do not comply. To quote a few cases for example, OilCorp Bhd and Aktif Lifestyle were ordered to restate their 2004 accounts because it was not prepared in accordance with approved accounting standards, and Goh Ban Huat Bhd (GBH) Managing Director and Executive Director were fined each RM50,000 each for failing to comply with approved accounting standards in their accounts. Besides the Securities Commission, the Minority Shareholder Watchdog Group will continue to monitor, especially public listed companies to ensure that good corporate governance continues over the transition period. The capital market will also be harsh on companies issuing accounts that do not comply with the new standards.
2.6 SOME WORLD SCENARIOS

2.6.1 Australia

The decision to adopt IFRS in Australia was made on 3 July 2002, requiring all reporting entities, including not-for-profit sector to fully adopt IFRS beginning 1 January 2005 because Australia cannot be lag behind Europe (Alfredson, 2003).

In a case study conducted by Steven Cunico in CPA Australia (2004) on a rapidly expanding import and distribution company, revealed that the key to a smooth transition is to identify before the implementation date, problem areas that will be affected and communicate them to stakeholders about the potential impact. In this way, management would be seen as proactive in anticipating reporting issues before they occur, and be able to negotiate changes to agreements, where necessary, and hopefully work to an acceptable outcome for all parties concerned.

Another study on an insurance company Tom Ravlic (CPA Australia, 2005) showed how this company plan for IFRS transition by spending six months examining and understanding the implications and sophisticated process the impact of the change would have on the company’s information and reporting systems. This company engaged the expertise of PricewaterhouseCoopers. Various experts in the company were appointed to take ownership of parts of the transition project and to report back to the organization on any developments.

The Australian Stock Exchange has announced in June 2005, a once only measure to extend the reporting deadlines by 15 days for half yearly and preliminary financial reports in which IFRS is adopted for the first time. Similarly, the Australian Securities Commission has provided unlisted companies, an additional month to submit their financial reports; for example if the financial year end is 31 December 2005, the company has till 31 May 2006 to distribute and lodge their annual reports.

2.6.2 Philippines

The transition of Philippines accounting standards to IFRS without modification started in 2001 with 2005 targeted as the year for full adoption for all public listed companies. Non-publicly accountable entities have been given a two year deferral (2005 to 2007) from the transition to IFRS equivalents. They are permitted to use Philippines accounting standards are in effect in 2004.

According to Pedrasa & Calayag (2004), in 2001 the country adopted for a gradual transition approach. Since then, IFRS have been adopted by batches, with the standards that are expected to have more significant impact and are more complex pushed back to 2005. The adoption of the standards may not cause immense sweeping changes but this could be a tough challenge for those companies that are used to the US standards.

2.6.3 European Union

The driving force behind the efforts to develop and adopt a common set of accounting standards for the European Union is the desire to create a single, unified European financial market. IFRS was adopted for the first time beginning 1 January 2005 for consolidated financial reports of all listed companies in the European Union. There are large scale changes as companies
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moved from local generally accepted accounting principles to the IASB’s newer, more stringent requirements. PricewaterhouseCoopers (2002) commissioned a survey of more than 650 chief financial officers across the 15 European Union member states to determine companies’ views on the requirement to adopt IFRS by 2005. Overall the survey found that there was strong support for the use of IFRS. Most companies believed that the introduction of IFRS would help establish a common European market, and that this would be beneficial to Europe. Also, most companies wanted the regulation to be extended to individual company accounts as well. This is understandable because if they are preparing consolidated accounts under IFRS, then it would be easiest to also prepare their individual accounts under IFRS.

Many companies in the UK expend significant efforts in the preparation for IFRS. Much progress has been made, though many commentators have acknowledged that some companies are more prepared than the others (Vaessen, 2005). The publication of the first quantified explanations of the impact of IFRS in the last few months heralds the start of a very different phase in the implementation of IFRS – the period in which companies must explain to analysts, the markets and other users the findings of all that preparation. Yet in the PwC survey of 650 CFOs around Europe, only 39% of organizations were considering communication to the shareholders and market analysts as part of the impact assessment in the move to IFRS.

At KPMG’s annual IFRS conference held in Vienna in October 2004, a survey of 149 finance professionals were used to gauge progress in implementing IFRS, and its position as a strategic priority in the business. The results were compared to similar surveys conducted at conferences held in the previous two years. Generally, the survey indicated that many companies had been delayed by uncertainty over the final standards and those that will be applicable in the European Union. As companies have delved deeper into IFRS, the extent of differences has become clearer and many issues have been resolved, while others have been identified (Vaessen, 2005).

A report by Canniffe (2004) on the current level preparedness in the Irish market indicated that the situation in Ireland is fairly mixed. Some Irish public listed companies have been working very hard on the managing the transition and are well advanced but there are many public listed companies that are less prepared and will have a huge amount of work to do to meet their deadlines. An emerging issue is the availability of specialist IFRS resources to carry out the task because it is a new area and there is a shortage of people with knowledge of the new standards and the ability to interpret the standards.

A survey conducted between the end of May and early July of 2004 by the Institute of Chartered Accountants in Ireland revealed that a lot of work still has to be done on IFRS compliant financial statements. The most prepared are the financial institutions and companies that have had IFRS project teams in place.

2.6.4 Russia

In 2002 as a result of the Russian Corporate Governance Roundtable, a Task Force was formed to study into the implementation of IFRS in Russia. IFRS should initially be applied only to large listed companies, regulated financial institutions and companies of major national interest. All public interest companies irrespective of size, that would be required to produce consolidated accounts according to IFRS should also produce IFRS financial statements. If a company has subsidiaries, then its financial statements should be consolidated as required by IFRS.
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Interpretations of IFRS must remain under the purview of the International Financial Reporting Interpretations Committee (IFRIC) in order to preserve the integrity of IFRS and ensure consistent interpretation across countries.

The introduction of IFRS in the Russian Federation in 2007 will bring about many important benefits for a range of stakeholders. For the investors, they will be able to understand the financial statements and increase their confidence in their investments. For the management, the new standards will make the companies more transparent. For policy makers, it could help strengthen Russia’s capital market and regulators could benefit from improved regulatory oversight and enforcement.

2.6.5 New Zealand

While companies have been able to adopt IFRS voluntarily since 1 January 2005, adoption of IFRS will become mandatory only in 2007 for all reporting entities in New Zealand. New Zealand will encounter more problems when adopting IFRS because IFRS is applicable to all entities and not just public companies.

However, by delaying the adoption, New Zealand has the benefit of learning from countries which have adopted IFRS and incorporate the lessons learnt into the implementation process. Also, valuable lessons can be learnt from early adopters of IFRS of New Zealand companies.

2.6.6 Singapore

Singapore embarked on the switch to IFRS by renaming and numbering the reporting standards to coincide with IFRS. Singapore was committed towards convergences of their FRS with IFRS. It moved in stages to adopting FRS starting in 2003 with full adoption in 2005. The timing was appropriate as Singapore based multinationals are required to comply with IFRS for financial years starting on or after 1 January 2005 for their group financial statements. This would have had a direct impact on Singapore operations of EU and Australian based multi-nationals that need to report under IFRS for group reporting purposes.

2.6.7 Malaysia

In Malaysia, as according to Datuk Johan Raslan, the Financial Reporting Foundation Chairman, the scenario is “quite quiet”. He split Malaysia into two categories “…The smaller camp comprises of people who know the next wave (of financial reporting standards) is coming and they are very frightened. The other camp seems blissfully unaware.” However, there are indications that the larger Malaysian companies and multi national corporations are aware of the implications of having to comply with the new standards and have started to get ready for the changeover. For example, the Genting group has initiated a program to educate its executives on the requirements and the impact the new standards will have on the group. DigiComBhd, which is controlled by Norway’sTelenor ASA, recently announced quarterly results that reflect accounting policy changes instituted by the parent company (Oh, 2005).

Malaysia has always benchmarked itself against standards issued by the IASB. Aligning our FRS to IAS/IFRS should not be a major issue as it was for the European Union. Nevertheless,
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accountants in Malaysia cannot afford to sit back and take it easy as the regulators will come hard on those who did not comply. It is encouraging to see professional bodies and accounting firms working hand in hand to disseminate FRS information. PricewaterhouseCoopers has organized seminars, training and workshops, special awareness sessions with Boards, dialogues with regulators, educating the public via articles and providing guidance in various forms from publications and technical advisory to assisting clients in implementation.

Besides educating the various user groups of financial statements, the accounting academia also needs to familiarize itself with the new IFRS because their current students will be the future accountants. Academic staff needs to undergo training as well as to attend seminars or participate in workshop to fully comprehend the fundamentals of the new IFRS.

Unlike some countries like Australia, UK where adoption of IFRS is applicable for all companies, the Malaysian Accounting Standard Board has decided to exempt non listed companies from complying with FRS/IFRS as the need of small to medium-sized companies are not the same as the public listed companies and their command of resources are not on the same level.

2.7 SIGNIFICANT STANDARDS

According to Ernst & Young technical partner Stephen Ong (The Star 20 August 2005), the biggest impact on listed firms would come from FRS 139, FRS 140, FRS 2 and FRS 3. FRS 139 requires full recognition of fair value for financial instruments. Previously, the treatment for derivatives have been sporadic with some countries completely ignoring them, for example in Europe, derivatives do not appear on the balance sheet except in trading books. This makes the accounts of companies who employ derivatives heavily, like financial firms, potentially misleading. FRS 2 which refers to share based payments requires companies to expense off share options offered to employees. This expense will be calculated on estimates of the value of the options and the number of options that will be exercised each year which will have an impact on reported results. Astro All Asia Networks public listed company was the first listed company to adopt the new standard on ESOS, warning it would take a charge of RM48 million as cost during 2006 financial year, of which RM8.1 million was for the previous year. (The Star 20 August 2006).

FRS 140 requires investment property previously classified under property, plant & equipment to be now disclosed as a separate line on the face of the financial statement. A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property.

FRS 3 requires goodwill, which previously was amortised over its estimated useful life, now has to be tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognized in the income statement and subsequent reversal is not allowed. This change in accounting policy could cause a substantial effect in the reported earnings in the year of change.

Other interesting standards like FRS 121, FRS 117 and FRS 127 may also cause a stir among some accountants. Companies may now find that the Japanese yen or the US dollar is their measurement currency .With the introduction of functional currency under FRS 121, the functional currency is the currency of the economic environment in which the entity primarily generates and expends cash and this may not be in Ringgit Malaysia. Companies incorporated in

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Malaysia are, however still required to present their financial statements in Ringgit Malaysia. Next, we have FRS 117 which requires the land component of a leasehold property, which previously was classified as property, plant & equipment now has to be classified as operating lease and accounted for as prepaid lease payments and amortised over the remaining lease terms.

FRS 127 now requires management to ask more questions and dig deeper to identify any potential changes to shareholding, for example share warrants, share options, debt or equity instruments that are convertible into ordinary shares, when determining whether a company has significant influence over an entity. In assessing whether potential voting rights contribute to control, the intention of management and the financial ability to exercise or convert is ignored. In other words, account for what you effectively have, not what you intent to have.

2.8 CONCLUSION

This chapter gives an overview of the development, transition and implementation of IFRSs in some countries throughout the world. The many diverse accounting standards around the world make it very difficult to compare financial information between companies of different origins in an era of economic globalization and mobile information. The accounting community cannot afford to ignore the issue of international harmonization of accounting standards. With FASB and IASB now working together, and the adoption of IFRS by 90 countries worldwide, the forward march towards international convergence will continue, with a healthy blend of US GAAP and principles-based standards.
CHAPTER 3
RESEARCH METHODOLOGY

This chapter introduces the methodological basis for the research project and is divided into four sections. The first section provides a theoretical basis for selecting the mixed approach of quantitative and qualitative. The second section explains the quantitative approach and the qualitative approach is outlined in the following section. A summary of the chapter is provided in the last section.

RESEARCH METHODOLOGY

Researchers choose their paradigm essentially based on their ontological view and on the nature of the research topic. The most appropriate research method is a function the research question of interest (Yin, 1989), the current state of knowledge regarding a particular phenomenon and the feasibility of using a given method to perform the study (Birnberg et al., 1990). This research uses a mixed methodology, combining quantitative through a questionnaire survey and qualitative (through conducting interviews) approach in addressing the research questions.

According to Gallier (1985), surveys enable a researcher to obtain ‘snapshots’ of practices, situations, views at a particular point of time via questionnaires and/or interviews from which inferences may be made via quantitative techniques regarding the relationships of variables in the past, present and/or the future. The strengths of this method are that greater number of variables may be studied and real-world situations can be described. However, the main disadvantage is that little insight is usually obtained regarding the causes or the processes behind the phenomena being studied. Other than that, there is possible bias in the respondents, the researcher and in the moment in time that the research is undertaken.

Quantitative’ or ‘qualitative’ methodologies encompass more than simply data gathering techniques (Rist, 1977).

Quantitative studies emphasise the measurement and analysis of causal relationships between variables, not processes. In contrast, qualitative research is any kind of research where findings are not arrived at by means of statistical procedures or other means of quantification (Strauss & Corbin, 1998). According to Denzin & Lincoln (2000), qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is being studied and the situational constraints that shape inquiry.

This research views them as different ways of conducting social investigations appropriate to different kinds of research question and capable of being integrated depending on the phenomena being studied.
Some differences between quantitative and qualitative research can be summarised as shown below.

**Table 3.1: Quantitative and Qualitative research**

<table>
<thead>
<tr>
<th></th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Role of qualitative research</td>
<td>Preparatory</td>
</tr>
<tr>
<td>2</td>
<td>Relationship between researcher and subject</td>
<td>Distant</td>
</tr>
<tr>
<td>3</td>
<td>Researcher’s stance in relation to subject</td>
<td>Outsider</td>
</tr>
<tr>
<td>4</td>
<td>Relationship between theory/concepts and research</td>
<td>Confirmation</td>
</tr>
<tr>
<td>5</td>
<td>Research Strategy</td>
<td>Structured</td>
</tr>
<tr>
<td>6</td>
<td>Scope of findings</td>
<td>Nomothetic</td>
</tr>
<tr>
<td>7</td>
<td>Image of social reality</td>
<td>Static and external to actor</td>
</tr>
<tr>
<td>8</td>
<td>Nature of data</td>
<td>Hard, reliable</td>
</tr>
</tbody>
</table>

**The Questionnaire**

This research makes use of a mail survey through questionnaires to solicit responses from the respondents. By conducting a survey using questionnaires as the instrument, this research is able to get the bulk of data to be analysed statistically. The questionnaires comprise many questions designed to tap the extent to which organisations in Malaysia is adopting the FRS. The survey serves as a basis for selection of comparison groups for in-depth qualitative approach in the next stage. It is important to identify cases and topic to be pursued in depth and to corroborate evidence.

A set of questionnaire (see Appendix) is devised to obtain the feedback from financial controllers from public listed companies regarding the adoption of FRS. The questionnaire is divided into five sections.

The first section requires the respondent to circle the appropriate answer, either “yes” or “no” in the column provided, regarding first time adoption of FRS in their organisation.

The next section, Part 1, deals with the implementation issues and problems and respondents were asked to indicate their opinions based on a five-point Likert scale, ranging from “1” (strongly agree) to “5” (strongly disagree).
Part 2 deals with significant changes in implementing the new and improved standards, and respondents were asked to tick in the appropriated column to indicate whether the new and improved standards will cause any significant, recognition, measurement and presentation changes in the company’s financial reporting.

Part 3 is to be answered only if the company is a First Time Adopter of FRS. It comprised of two sections: section A (at company level) and section B (at group level). Respondents do not have to answer section B if they do not prepare group financial statements.

Part 4 deals with the demographic profile of the respondent in terms of highest level of academic qualification, years of experience in accounting and reporting and position held in the company.

3.1.2 Pre-testing of Questionnaire

Pre-testing of the questionnaires was conducted and was particularly important to get feedback from people with diverse expertise and knowledge. The feedback was used to produce a better draft of the questionnaire. The pre-test can be viewed as an evaluation of procedures where some questionnaires are sent to a small sample of the respondent population to see whether questions asked are understandable, language/wording of the questionnaire are appropriate, and any other problems or important areas that are overlooked by the researchers. Other reasons for pre-testing are that it is a way to find out printing mistakes by having the target respondents fill out the questionnaire and a way to assess the level of understanding of the respondents on all the items included in the questionnaire. Most importantly, pre-testing consists of all these things and more, with each actively providing feedback that is not likely to come from other methods in a timely way (Dillman, 2000, p.140).

Academics and practising accountants were selected randomly through personal contacts to pre-test/pilot test the questionnaires. The main purpose was to obtain feedback on the design features which are intended to motivate people to respond and make the questionnaire appear interesting and important (Dillman, 2000, p.81). This was carried out by having in-depth discussion and consultation with them to determine the likelihood that each question could or would be answered and to get an understanding of how each question was being interpreted and whether the intent of each question was being realized. The general feedback was encouraging and positive except for a few minor adjustments regarding the phrasing of the question. These amendments were then made and content of the questionnaire was then finalized. A booklet format was adopted as suggested by Dillman (2000), because booklet formats are handled more or less automatically and usually without error (p.82).

3.2 THE SAMPLE

The population selected comprised of companies listed on the Main and Second Board as at 1 February 2006 on the Kuala Lumpur Stock Exchange (KLSE), now known as the Bursa Malaysia. The Bursa Malaysia was established in 1973 and now ranks as one of the largest bourses in Asia. Companies are listed either on the Main Board or the Second Board of the Bursa Malaysia. The Second Board, which complements the Main Board, was established on 11 November 1988 to enable smaller companies with strong growth potential to seek a listing on the Exchange. Each board is further classified by sectors which reflect the core business of these companies.
Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

A set of questionnaire addressed to financial controllers and chief accountants together with a cover letter and a return-paid self-addressed envelope were mailed to respondents to improve response among respondents and reduce non-response error. The covering letter described what the survey was about and why it was important to respond. The return envelope contributed to the convenience of sampling (Dillman, 2000, p.18) as this avoids additional effort to locate and address an envelope. Personalization of correspondence and stamped return envelopes have been shown to have modest effects on response rates in most survey situations and are usually important for maximizing survey response (Dillman, 2000). One advantage of self-administered questionnaires is that people can fill them up at their own speed, taking time to comprehend each question and provide a thoughtful answer (Dillman, 2000, p.81).

In anticipation of the festive mood and the overload of mails at the post office because of the Chinese New Year celebration, the questionnaires were intentionally only sent out in March. The questionnaires with covering letter and return-paid, self-addressed envelopes were distributed to 888 companies out of a total of 913 companies listed in the Bursa Malaysia, 263 questionnaires were sent to the second Board companies and 625 questionnaires to the companies listed on the Main Board. 25 companies were not included in the sample as their addresses were not available and some were PN 4 companies.

Following the initial mailing, a follow up by phone took place in May 2006. This was after taking careful consideration of time taken for the questionnaires to reach the respondents and also for the respondents to answer the questionnaire. Most of the companies that were called indicated that they have not received the questionnaire and some indicated that they do not have the time to answer the questionnaire and requested they be deleted from the research. A follow-up mailing including a set of questionnaire, and return-paid self-addressed envelope were then distributed together with a follow-up letter in June to all non-respondents after the telephone calls were made and who indicated their willingness to participate in the questionnaire survey. A second phone call was made again in July to those who did not respond again after the follow up mailing. Reasons given were: accountant outstation, busy, no time. These companies were then removed from the sample size. Another attempt was made to further improve the number of respondents by sending research assistants to companies located in the Klang Valley in the month of August. These research assistants were instructed to personally hand deliver the questionnaire together with a cover letter from the Dean of the Faculty of Accountancy at University Technology Mara, stating the importance of this research and the need to improve the sample size, to the person concerned in the company and if possible to answer the questionnaire on the spot. Thirty six companies were covered over a period of 6 days. None of these companies were able to answer the questionnaire on the spot and the research assistants have to return the next couple of days to collect the questionnaire. Only 8 responded. Reasons given from the non respondents were that they have no time to answer as most of the companies were busy finalising their interim reports.

3.3 THE INTERVIEW

The second stage of the research involved a qualitative study, where the researcher conducted semi-structured, taped-recorded interviews with partners of the Big 4 audit firms, medium sized audit firms and executive director/finance staff of MASB and the Securities Commission. The objective of the interview was to hear from the people who are directly involved in the implementation of FRS and those who are directly responsible for executing the changeover. Big 4 and non Big 4 audit firms were selected as the researchers expect a difference
in terms of training and preparation in these firms. The non Big 4 audit firms interviewed were those based in the Klang Valley.

Audit firms partners were selected to be included in the interview sample as they are the front liners of the accounting profession, and any changes in the accounting standard will have an impact on them. Audit staff will have to be prepared and trained to handle the changes.

MASB (standard setters) and Securities commission (regulatory body) were included in the interview to gather information regarding any problems faced/foresee as well as to receive feedback on the general preparedness of companies in Malaysia to take on this task.

This session was found to be useful in uncovering matters that may not be covered by questionnaire. This is in line with Cooper & Schindler’s (2001) explanation that the greatest advantage of interview lies in the depth of information and detail that can be secured. During the interview session, “probing technique” as recommended by Cooper & Schindler was applied so as to stimulate the interviewee to respond and answer fully and relevantly to the posed question.

3.4 STATISTICAL TESTS

Statistical Package for Social Sciences (SPSS) was used to analyse the results obtained from the questionnaire. A descriptive analysis was used to examine the demographic background and the responses from the questionnaires in terms of percentage, frequency, means and standard deviations.

3.5 CONCLUSION

This chapter focused on the research methods used and how the questionnaire is being designed together with steps taken to improve its reliability. The selection of the sample size is then being explained. An in depth explanation is given regarding the steps taken to improve the response rate. Reasons were also given as to why interviews were conducted to complement the quantitative approach. Finally the statistical methods chosen to analyse the data collected are explained.
CHAPTER 4
ANALYSIS OF FINDINGS

4.1 INTRODUCTION

The objective of the study is to investigate the impact of FRS on Malaysian public listed companies’ accounting and reporting practices and to investigate as to whether these companies encountered any implementation problems while preparing for the switch over. This chapter seeks to analyze the findings of the data collected from the research. The data collected from questionnaires are analyzed using the statistical package SPSS (version 14.0) as far as the data permits, whilst the information gathered from the interviews conducted are quoted, where it is relevant.

4.2 THE RESPONDENTS

Questionnaires were distributed to 888 out of a total of 913 companies listed in the main and second board of Bursa Malaysia. After spending much time and effort through phone calls and personal visits to the companies to collect the questionnaires, the sample size was reduced by 228 as these companies either changed their addresses, moved to new location or the questionnaires were lost in the mail. Of the remaining 660 companies, only 68 companies (10.30%) responded to the questionnaire, 60 were returned through mail and 8 were collected personally from the companies. The poor response rate however, could also be attributed to the fact that most companies are busy preparing interim reports to meet the datelines, and coupled with the transition to Financial Reporting Standards (FRS). The Finance department personnel could have been very busy and therefore, not willing to spend time in answering the questionnaire. Though only 68 replied, only 67 questionnaires received could be analyzed as one of it has to be excluded from the analysis due to incomplete data.

52 companies (77.6%) were from Main board and 15 companies (22.4%) were from the second board companies (see Table 1).

Table 1: The Respondents

<table>
<thead>
<tr>
<th>Type of Company</th>
<th>Main Board</th>
<th>Second Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>52</td>
<td>77.60%</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>22.40%</td>
<td></td>
</tr>
</tbody>
</table>

The lower response rate from the Second Board could be because second board companies generally do not have a strong accounting department and personnel, and therefore may not be willing to participate in the survey.

Malaysian Accountancy Research And Education Foundation
The respondent companies are grouped according to their industry sectors (see table 2). The highest percentage was Trading and Services companies with 29.9%, followed by Industrial Product with 25.4%. Consumer products were in the third level with 15%, closely followed by Properties companies with 14.9%. The rest were Finance companies and Plantation companies both with 4.5%, Construction companies 3.0% and the lowest was Technology Companies with 1.5%.

Respondents listed in the Main board comprised 6 companies from consumer products, 13 companies from the industrial products, 2 companies from construction industry, 15 companies from trading and services section, 4 companies from finance companies, 1 company from technology industry, 9 companies from properties and 3 companies from the plantation industry. 15 respondents were listed in the Second Board of which the majority were from the industrial products (6). This is followed by the consumer products (4), trading and services (4) and properties (1).
Overall, the majority of the respondents were from the trading and services sector of the Main Board (see table 3).

### 4.3 RESPONDENT PROFILE

From the sample that was returned, 80.6% of the respondents have professional qualifications and 11.9% had more than 10 years working in the current organization. The majority of the respondents worked as accountants (16.4%) and followed by finance managers (11.9%). The rest of the respondents held various positions such as General Managers (Finance), Assistant Finance Managers and Chief Financial Officers.

### 4.4 ADOPTION OF FRS

The respondents were asked as to whether their companies were preparing the current year’s financial statements using accounting standards other than those issued by MASB. 86.6% of the respondents stated that their company used the standards issued by MASB in order to prepare the current year’s financial statements (see table 4). Only 11.9% use accounting standards other than those issued by MASB. The highest number of companies using MASB standards came from the industrial product industry and trading & services (16 companies each) as compared to the other categories.
When asked whether their company is adopting FRSs fully from 2006 onwards, 76.1% indicated that their companies had adopted FRSs fully as from 2006. Out of these companies, the highest number came from the trading and services industry (34 companies) as compared to industrial products (14 companies), properties (8 companies), consumer products (7 companies), finance and construction industry (2 companies each).

As far as FRS 1 First Time Adoption of FRS is concerned, 41.8% (28 companies) indicated they would apply FRS 1 in 2006. Of these, 11 were trading and services companies, 9 were from industrial product industry, 5 from the consumer products, 2 are properties companies and only 1 from the construction industry.

85.1% (which comprised of 57 companies), stated that their companies would prepare interim financial statement and 13.4% will not. From the 57 companies that would prepare interim financial statement, 82.1% will apply FRSs in preparing and presenting the interim Financial Statement, while the rest will not. Of the 57 companies that would prepare interim financial statements, the highest number of companies came from the industrial product industry (17), followed by trading and services industry (13), properties (10), consumer products (9), plantation (3) and 2 each from finance and construction industry. One company did not mention its industry.
Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

Table 5: Adoption of FRS in 2006

4.5 IMPLEMENTATION ISSUES AND PROBLEMS

The transition to FRSs encompasses not only technical adjustments, but real behavioural changes as well, cutting across the organisation, right from top management level to the middle managerial level. The respondents were asked in the questionnaire whether their companies encountered any of the implementation issues and problems in relation to the adoption of FRSs in their companies.

4.5.1 Briefing to Stakeholders and Internal Management

The analysis (see table 6) showed that most of the companies (80.6%) did not conduct any briefings for financial analysts and investors on the impact of FRSs for the financial statements. Only 19.4% of the companies conducted the briefing. 43.2% companies agreed that their internal management had been aligned with requirement of new standards with 26.9% disagreeing and 29.9% remaining neutral.

Table 6: Percentage of Companies Conducting Briefing to Stakeholders & Alignment with Internal Management
4.5.2 Staff’s Skills and Trainings

Most of the respondents admitted that their staff who are involved in the preparation of FRS compliant financial statements were not competent (43.3%) as compared to 31.3% of those respondents who said that their staff are competent. When asked whether the companies had a continuous training and development programme on the implementation of the new standards, nearly half of the companies (46.3%) agreed. However, 34.3% of them were not sure and 19.4% of them did not have such training. Trainings conducted by professional bodies were also important in enhancing the skills of the staff in preparing the financial statements. More than half (56.7%) of the respondents agreed that there were sufficient training programs done by professional bodies. However, 29.8% of them did not agree and the rest was not sure.

Table 7: Staff Skill & Training

<table>
<thead>
<tr>
<th>Competency of staff (%)</th>
<th>Continuous Training (%)</th>
<th>Sufficiency of Program by Professional Bodies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3</td>
<td>46.3</td>
<td>56.7</td>
</tr>
</tbody>
</table>

In Malaysia, the Securities Commission had arranged meetings with the professional bodies to ensure that the professional bodies organised and conducted training sessions for public listed companies.

Even though there were efforts to increase the level of awareness on the switch to FRS reporting, one of the representatives from the Big 4 audit firms commented that some directors of companies were reluctant to send their staff for training on FRS as they viewed the transition to FRSs as an academic exercise only. They could not fathom the tangible results from switching to FRS and more transparent reporting. Further, directors are businessmen, interested in seeing only the bottom-line figure; they do not see the importance and the value that will accrue to their companies with the adoption FRS.

The main reason may be, according to the Executive Director of MASB:

“There is a gap between the directors and the staff. Directors are not willing to spend money to send staff for training and therefore the staffs are not competent, etc.”

A manager from a medium sized audit firm (specialising in tax services) in the Klang valley when interviewed, mentioned that her firm only started sending the staff for training in
August 2006. One of the reasons given for sending the staff for training only in August is that all of their audit staff have professional qualifications and were advised to make use of the several FRS related software programmes which the company has bought. Besides that, the company also conducts on going in-house training for its staff

The Executive Director of MASB further reiterated that:

“Our culture is such that we will wait till the standards are implemented before we decide what action to take. Standards when the effective date have been set, are mandatory and become laws, and people must see it as their responsibility. The responsibility of preparing the accounts rest with the preparers, not with the auditors, therefore the preparers need to know. These messages are also from the auditors and have come home strongly to the preparers. The mindset has to change. The approach is top down, not bottom up. Take the bosses first. Next step is to get their regulators such as SC, MIA, Bursa Malaysia to run courses for the CEOs and also professional bodies ACCA, CPA Australia and to a lesser extend MAISA. MASB itself does not conduct courses.”

4.5.3 MASB Standards and Guidance

The highest percentage (43.4%) of the respondents was neutral as to whether MASB should issue more rules-based or perspective financial reporting standards as opposed to the current principle-based standards. However, 37.3% agreed that MASB should issue more rules based standards, while 19.4% disagreed.

The respondents were also asked whether there should be more guidance on the application of the standards. Nearly all (93.7%) agreed that they needed more guidance to the application of the standards. Only 3% did not agree that they need more guidance and the rest was neutral. The findings also showed that most of them (92.5%) needed more examples on the application of the standards. This finding is consistent with a comment made by one of the representatives from the Big 4 audit firms:

“Standard setters who set the standards are very much influenced by academics and USA standards. Practitioners who used these standards are having problems with the interpretation of the standard. Overall, the influence from the academics is very strong. Theoretically, the standard may make sense but when you try to use the standards you are faced with the problem of interpreting the standards. For example the standard on Property, Plant and Equipment requires assets to be broken into their component parts – how do we separate the components of the assets in practice? For example: a client bought a plant and you are given the invoice of the cost of the purchase. How are you going to split the cost into its various components? It does not reflect the business reality.”

“In the past, we make provisions in advance: for example the shipping company will make a provision for the cost of dry dock of its ships: when the cost is incurred we write off against the provision. But now with FRS 136 we are not allowed to make such provisions as this is a future event and we cannot provide for a future event: We have to expense it off against income statement as it is incurred. Where previously we say it is prudent to provide, now we have to expense it as and when incurred and this lead to more volatility in earnings and companies do not like it as they cannot now manage their results. We are moving away from matching and prudence to an all inclusive concept.”
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86.8% suggested that FRSs should be tailored-made for the local environment yet complying with the international standards while 4.2% disagreed. 71.6% of the respondents agreed that the investing community needed a prescribed single set of standards and only 19.4% of the respondents were neutral about this.

Table 8: MASB Standards and Guidance

<table>
<thead>
<tr>
<th></th>
<th>more rules-based</th>
<th>more examples needed</th>
<th>prescribed single set needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>agreed</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>neutral</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>disagreed</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4.5.4 Time Frame Given Between Exposure Draft and Implementation Date For Adoption of FRSs

From the analysis, 53.7% of the respondent agreed that the time given was not adequate between the exposure draft and finalization of standards to allow dissemination of knowledge to relevant parties. The rest was either neutral or disagreed. In order to understand the implications of new standards, 61.2% of the respondents agreed that inadequate time was given, 32.8% were neutral and 6% disagreed. On another aspect, 32.8% of the respondents disagreed that the consultation process between MASB, investing community, regulators, companies and business was adequate. Only 9.4% agreed. The rest were neutral in opinion. When asked whether their companies actively participated in the consultation process, for example giving feedback on the exposure draft, majority of the respondents (67.1%) disagreed and only 9.0% agreed.

Table 9: Time Frame For Adoption

<table>
<thead>
<tr>
<th></th>
<th>to disseminate</th>
<th>to understand</th>
<th>consultation time</th>
<th>active participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>agreed</td>
<td>53.7</td>
<td>51.2</td>
<td>32.8</td>
<td>0</td>
</tr>
<tr>
<td>% agreed</td>
<td>53.7%</td>
<td>49.2%</td>
<td>32.8%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Adoption of Financial Reporting Standards (FRSs) : Impact on Malaysian Companies

MASB had also sent out questionnaires to members of the professional accounting bodies before 2006 to find what they are actually doing with the FRS and their participation level in terms of feedback, suggestions and recommendations, during the Exposure Draft stage. However, participation from the members during the Exposure Draft stage of the standard was almost nil. Thus, there is no point in complaining and voicing out dissatisfaction now when the preparers do not give their views and comments during the Exposure Draft stage. Financial Reporting Foundation chairman, Datuk Johan Raslan says “The time for debate is the exposure draft period of the standard. MASB and FRF received very little constructive criticism of the standards during this period. Based on that, you could say that the financial community is totally in agreement” (NST 21 May 2005).

4.5.5 Most Difficult Standards are FRS 139 and FRS 2

55 companies (82.1%) agreed that FRS 139 – Recognition and Measurement of Financial Instruments would be the most difficult standard to be applied and 68.7% (46 companies) agreed that the new FRS 2 – share based payment would affect the companies policies on bonus plan, remuneration and share option scheme. 19.4% of them were not sure about the implications.

With regards to FRS 2, a representative from one of the Big 4 audit firms commented:

“Those companies with new schemes for options will not recognize it as a problem. These companies will accept what they have to do. There is no resistance. However, for companies which previously have options schemes and do not need to show in the financial statements, now find that they have to value the share options at fair value. A lot of estimates have to be done when determining fair value. What is fair value to one party may not be fair value to another. To quote Tan Sri Wan Azmi Wan Hamzah, when he was the Chairman of the Financial Reporting Foundation (FRF), “the profession runs the risk on occasion of being precisely wrong when it can try to settle for being approximately right…….” (PW Alert Issue No. 5 July 1997)

4.5.6 Too Many New Standards

As regards to the number of standards issued, MASB claimed that the issuance of the standards all at one time (16 improved and 5 new ones) was not be too much as Malaysia is already one year behind the rest of the world. 45 companies (67.2%) agreed that MASB had issued too many new standards simultaneously, 20.9% of them were neutral and the lowest percentage of 11.9% disagreed.

Effectively there are only four new standards (FRS 2, 3, 4 and 5) and the rest of the standards had no major changes as MASBs have always been IAS compliant. Malaysia is unlike other countries in Europe who have been having their own standards, therefore the switch over would be more drastic for them. Furthermore, adopting the standards in batches may create some anomalies as some standards do not stand alone in its application: they are inter-related.

On the other hand, in general the majority of the representatives from the audit firms felt that MASB should have staggered the implementation instead of implementing all FRS implemented at one go even though our MASB are very much IAS based, especially those that require subjective interpretation.

Overall (see table 10), the findings revealed that the biggest drawback in the implementation process is the lack of briefing to financial analysts and investors on the impact of
FRS on the company’s financial statements. The second biggest drawback is that companies did not participate actively in the consultation process of the standard setting. The least of the issues is the need for more examples.

Even though there were many workshops and seminars on FRS organised by the professional bodies, it appears that most companies in the sample size did not send their staff for training. However, the findings seems to be contradictory as since the respondents indicated that there was a lack of briefings given by their companies, we would expect that the respondents would therefore like to see more examples given in the standards. But this was not the case, as the results showed this was the least problematic.

Table 10

<table>
<thead>
<tr>
<th>IMPLEMENTATION ISSUES / PROBLEMS</th>
<th>TOTAL MEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>More examples should be given in the standards</td>
<td>1.54</td>
</tr>
<tr>
<td>More guidance to the application of the standards</td>
<td>1.57</td>
</tr>
<tr>
<td>FRS should be tailor-made for the local environment</td>
<td>1.72</td>
</tr>
<tr>
<td>Fin Instrument :Recognition and Measurement will be the most difficult to apply</td>
<td>1.75</td>
</tr>
<tr>
<td>The investing community needs a prescribed single set of standards</td>
<td>2.06</td>
</tr>
<tr>
<td>MASB has issued too many new std simultaneously</td>
<td>2.07</td>
</tr>
<tr>
<td>Inadequate time to understand implications of new standards</td>
<td>2.15</td>
</tr>
<tr>
<td>Inadequate time to allow disseminate knowledge</td>
<td>2.24</td>
</tr>
<tr>
<td>Has sufficient training programs by professional bodies</td>
<td>2.52</td>
</tr>
<tr>
<td>MASB should issue more rules-based instead of principle-based</td>
<td>2.70</td>
</tr>
<tr>
<td>Has continuous training programs</td>
<td>2.73</td>
</tr>
<tr>
<td>Internal Management has been aligned with requirement of new standard</td>
<td>2.76</td>
</tr>
<tr>
<td>Staffs are competent and have skills</td>
<td>2.85</td>
</tr>
<tr>
<td>The consultation process between MASB and relevant parties was adequate</td>
<td>3.22</td>
</tr>
<tr>
<td>FRS2-share based payment affect company's policies</td>
<td>3.48</td>
</tr>
<tr>
<td>Company has actively participated in the consultation process</td>
<td>3.90</td>
</tr>
<tr>
<td>Has conducted briefings on impact of FRSs to FS</td>
<td>5.21</td>
</tr>
</tbody>
</table>

In an interview with the Executive Director of MASB, he stated:

“The objective of MASB is to facilitate growth in the capital market in Malaysia. We want to implement a system that will enhance the vigour of the capital market...”

Malaysia cannot afford to delay in its implementation of FRS if we want to stay afloat in the competition for market share and attracting foreign investment. When asked whether the public listed companies were ready for the transition to FRS, another representative from the Big 4 commented:

“The big public listed companies already have their task force in place and the awareness is very strong. Those public listed companies which have form project teams to cope with the transition are doing very well. The main issue here is not so much the training given but the implementation of the standards. Guidance is required especially for FRS 139, 117(for example why is it that leasehold land is now not part of the finance
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lease) and FRS 2 (the problem of explaining the importance of providing for options even though it is not exercised)"

The Securities Commission, as a regulatory body, had also taken a few initiatives to prepare the business community regarding the switch over to FRSs. The SC spokesperson highlighted that:

“A forum was organized in October 2005 with MIA and MASB to create awareness and to highlight any problems. Directors of public listed companies were invited to attend this forum. Aside from the forum, in order to ensure that public listed companies are prepared for the switch over, directors were advised to send their staff for training, encourage to prepare pro forma accounts and basically, to get the systems ready. As far as the technical support is concerned, directors were advised to consult their respective auditors”

A representative of the Big 4 when interviewed claimed that the problem of readiness is not an issue at hand as Malaysian companies are not first time adopters since all Malaysian registered companies must comply with MASB; and our MASB are very much IFRS/IAS based. He said:

“What we are currently doing is adopting the standards for purpose of convergence. Thus our problems with adoption are less problematic compared to the European countries. Interpretations will be the same for companies audited by the same audit firm, throughout the world. The main problem is the subjective nature of the assumptions underlying the standards.”

MASB had also disseminated information through the local newspapers, conduct awareness seminars (not for the purpose of teaching), courses and also through the service providers, to run courses. MASB’s approach is to go to the ground level to find the behavioural and psychological aspect of the preparers. In view of these, a forum was organized in 2005 to brief the directors from public listed companies of the transition and to get their responses.

Representatives from the audit firms explained that they had been receiving a lot of information relating to the shift to FRS from their global counterparts in Europe and England. Preparation had already started long ago among the audit staff. There were many in-house training courses organised and partners and technical staff forged close contacts with standard setters through their participation in conferences in Europe, America and England. The dissemination of information was conducted, through monthly training, database, conferences, email, and meetings. New recruits (juniors, young graduates) were trained through e-learning while the senior staffs are required to update their knowledge either through in-house classroom learning or self learning, after which they have to sit for a test in which they have to pass to get accreditation to do FRS. If they fail to get the accreditation, they are not allowed to work on FRS projects.

In relation to the Board’s readiness, according to the Executive Director of MASB:

“The directors are slowly taking an interest in financial reporting. We are already late in adopting the FRSs, but perhaps it can work to our advantage as we can learn from companies in other countries. Moreover, our foreign companies would require us to be FRS compliant”
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When asked whether they faced any resistance from the directors, the SC spokesperson stated: “The directors were generally supportive. We placed strong emphasis on engaging with them to ensure they understood the rationale of the move towards convergence. Among others, we highlighted that with globalization and the need for foreign funds to be injected into our investment market, our accounts need conformity in application of standards with foreign companies in order to attract foreign investors.”

A representative from one of the Big 4 reiterated that directors should be the first group of management team to realise that adopting FRS is good for their companies. FRS places more emphasis on transparency and rely more extensively on the fair value concept which will help investors understand what the accounts show. Once the directors understand the benefits derived from adopting FRS, then they will be more willing to spend money and release their accountants to attend FRS courses.

For most companies, the momentum to be serious with the transition to FRS only picked up when MASB announced the move to implement FRS in Malaysia, beginning 2006 that serious preparation was being made to train and equip the company’s accounting staff. Whilst in Britain and many other European countries, Hong Kong, Australia and Singapore there has been much public discussion, in Malaysia there has not been much discussion perhaps because many in the accounting fraternity feels that the new standards are only slightly revised versions of existing standards.

Malaysian public listed companies should not take on an indifferent attitude as the Securities Commission would act on non-compliance of any public listed companies. The Securities Commission previously has taken the “education” approach to educate the people first. Sufficient notices and training has been made available to the respective parties concerned and the stance that Securities Commission will take now is a move toward enforcement.

The punishment melted out by Securities Commission for fraud however, is more severe as compared to non compliance, and perhaps to send home a stern warning to public listed companies, Securities Commission should increase the severity of the punishment for non compliance.

4.6 SIGNIFICANT CHANGES IN IMPLEMENTING THE NEW AND IMPROVED STANDARDS

The respondents were asked to indicate the significant recognition, measurement and presentation changes experienced by their companies in implementing the new and improved standards.

4.6.1 FRS 101 Presentation of Financial Statements

74.6% of the respondents agreed that there were changes to the classification of current and non-current items in the balance sheet. 55.2% stated that properties would be classified as investment property but (37.3%) mentioned that property, plant and equipment (PPE) would not be classified as assets held for disposal or disposal group. 35.8% disagreed that there may be items that could be classified as extraordinary items previously but which could not be classified as such now. However, 44.8% of the respondents did not find this as applicable in their companies.
4.6.2 FRS 102 Inventories

The respondents were asked about the changes of valuation method from LIFO to FIFO method and from LIFO to weighted average method. Similar result was obtained for both questions. More than half of the respondents (58.2%) said both changes were not applicable in their companies and 35.8% mentioned that valuation had changed from “FIFO to LIFO method” and from “weighted average to LIFO method” each respectively.

4.6.3 FRS 108 Accounting Policies, Changes In Accounting Estimates And Errors

When asked to indicate whether there is a policy change that cannot be applied retrospectively, majority of the respondents said this was not applicable to their companies. Only 22.4% agreed and 34.3% disagreed that policy change cannot be applied retrospectively. Respondents were also asked to indicate if there is correction of errors that cannot be applied retrospectively. A similar result was obtained where nearly half of the respondents (49.3%) stated this was not applicable to them and only 23.4% agreed while 34.3% disagreed on the statement.

4.6.4 FRS 116 Property, Plant And Equipment (PPE)

The majority of the respondents (41.8%) agree that some assets might be classified as held for sale and 35.8% stated that dismantling, removal and restoration costs which were previously not recognized as assets are now being capitalized. Nonetheless, the highest percentage of respondents said there is no change in depreciation due to capitalizing the dismantling, removal and restoration cost. 64.2% claimed that components of PPE could be identified, however, only 52.2% mentioned that the carrying value of the components that were to be replaced could be determined. The majority of 71.6% stated that the residual value of the assets would be reviewed and the amount was not expected to change from the previous estimate. 71.6% agreed that residual value of assets would be reviewed and the amount was not expected to change from the previous estimate and 37.3% stated that there were idle assets, which were not depreciated but are now being depreciated. 52.7% stated that leased property are now split into land and building and 50.7% of the companies leased land under finance lease reclassified them into operating leases.

4.6.5 FRS 121 The Effects Of Changes In Foreign Exchange Rates

70.1% mentioned that this FRS was not applicable to their companies. Only 10.4% were aware that goodwill is now expressed in acquiree’s currency and translated at closing rate whilst 17.9% disagreed.

4.6.6 FRS 3 Business Combinations and FRS 127 Consolidated and Separate Financial Statements

When asked whether they were previously exempted from preparing consolidated financial statements but are required to do so now, more than half of the respondents (59.7%) said that this was not applicable to them. 28.4% of them disagreed and only 10.4% agreed. 62.7% said that their subsidiaries were previously excluded were now included due to long-term restriction criteria or to acquired with the view to sale. Beside respondents who said not applicable (59.7%),
only 4.5% claimed that legal parent is now to be treated as subsidiary in substance. The rest did not agree with the statement. Similar pattern of responses classification was found when the respondents were asked if there was classification of legal subsidiary as a parent (reverse acquisition) which are 64.2%; 31.3% and 3.0% respectively. Only 4.5% of the company had to reclassify business combinations previously classified as uniting of interest as acquisitions. In terms of intangibles, the highest percentage (41.8%) informed that remaining goodwill might be impaired. They were also asked whether the additional intangibles were recognized and whether intangibles recognized previously were derecognized. Nearly half of them said these were not applicable to them. A small percentage of 10.4% agreed that additional intangibles were recognized and only 14.9% claimed that intangibles recognized previously will continue to be recognized as intangible assets.

With regards to goodwill, the following is a comment received during one of the interviews with the audit firms:-

“No standard on the treatment. Previously most companies follow the benchmark and the recommended method of capitalization and amortization. Capitalized and not amortized do not jive with other standards. If every company is doing it consistently, then there will not be much of a problem now since companies are required to test for impairment”.

Regarding the question of merger accounting, another comment received:

“We hardly see any merger accounting in practice because of the many criteria, it is almost non existence. In practice hardly any situation will satisfy the merger criteria. To have merger method abolish actually makes no difference. The main problem now is the identification of the acquirer and the acquiree. Who is the real acquirer? This problem will always be there. From the theoretical viewpoint, it looks very simple to identify, but in practice the problem will always be there.”

4.6.7 FRS 128 Investments In Associates

FRS 128 was not applicable to the majority of the respondents as they did not have investments in associates. Previously 7.5% of companies that held investments in associates and did not apply equity accounting but have to do so now. Of that 4.5% of the companies did not apply equity accounting due to there being severe restriction on influence; 1.5% as the parent has no subsidiaries; and 1.5% because the investment was acquired for sale.

4.6.8 FRS 131 Interests In Joint Ventures

While previously, only the equity method was allowed, FRS 131 now allows two treatment for an investment in joint ventures; namely the proportionate and equity method of consolidation. When asked whether there is a change from equity method to proportionate method, 23.9% said there was no change to proportionate consolidation from equity method, 4.5% mentioned there is a change to proportionate method while 68.7% said it is not applicable to them.
4.6.9 **FRS 140 Investment Property**

FRS 140 allows a choice of either the cost model or fair value model for subsequent measurement of investment property. When asked about which model their company has adopted, 44.8% answered that their company has chosen the cost model and only 10.4% has selected the fair value model.

4.6.10 **FRS 2 Share Based Payment**

The standard on share-based payment is MASB’s first standard covering share options issued to employees by companies. The options will be considered as part of staff costs and will be expensed out in the income statement.

The respondents were asked if their company has granted shares or share options or other equity instruments after 31 December 2004 and before 31 December 2004 that are not vested as at 1 January 2006 for equity-settled share-based payment transactions. Companies which granted share options after 31 December 2004 was 22.4% and before 31 December 2004 was 32.8%. Only 20.9% of the companies had liability arising from share based payment as at 1 January 2006.

4.7 **FIRST TIME ADOPTERS**

FRS 1 requires retrospective application of FRSs in a company’s opening balance sheet. The company is required to recognize and/or derecognize assets and liabilities or reclassify its assets, liabilities or components of equity under FRSs (for example, if the company’s financial year end is 31 December 2006, then the opening balance sheet will be 1 January 2005).

First time adopters of Financial Reporting Standards or those applying FRS 1 (First Time Adoption of FRS) were asked to indicate both whether their companies recognize, derecognize or reclassify the items listed and how the action would change or affect on the carrying value, causing it to either be higher, lower or no change (refer Appendix for details).

4.7.1 **First Time Adopters at Company Level**

The significant changes in FRS 116 requires companies to identify components parts of property, plant and equipment, to recognise dismantling, removal and restoration cost as part of initial cost. Findings revealed that 20.9% of the companies will derecognise some of the property, plant and equipment and 35.8 % will recognise as property, plant and equipment that were not previously recognised. 18% will recognise dismantling costs and components of property, plant and equipment, while 7.5 % will derecognise them. Despite a high percentage of companies recognising dismantling, removal and restoration costs they do not expect to see any significant change in the carrying value.

FRS 117 requires leases of land and building to be split into separate leases of land and building. Lease on land is operating lease unless the title passes on to the lessee. Only 6% reported that they will reclassify land as operating lease.
FRS 140 defines investment property as “land or building” held by the owner to earn rentals or for capital appreciation or both. 7.5% of the respondents will recognise investment property with another 7.5% which will derecognise them. 16.4% indicated that there will not be any changes in the carrying value.

FRS 139 requires derivatives to be recognised and 9% will recognise derivatives when FRS 139 is enforce.

FRS 138 deals with intangible assets and in specific for research and development expenditure. The standard requires intangibles to be expensed to income standard unless they satisfy the capitalisation criteria. 20.9% of the respondents will recognise intangibles while only 3% will derecognise them.

As for income taxes, 11.9% will recognise deferred tax assets while only 1.5 % will derecognise with 17.9% indicating that there will not be any changes in the carrying value. 13.4% will recognise deferred tax liability with 17.9% indicating that there will be no change in the carrying value.

FRS 132 requires a compound instrument to be split between equity and liability component. Only 7.5% indicated that they have compound instruments and of that 1.5% will reclassify them into the liability and equity component.

FRS 137 requires provisions and contingencies to be recognised only if the company has a present obligation (legal or constructive) as a result of a past event. 4.5%of the respondents will recognise provision for warrantees, 4.5% for decommissioning, 4.5% for environmental clean-up and 7.5% for contingent liabilities.

4.7.2 First Time Adopters at Group Level

This section was to be completed by the respondent only if the company is a parent entity.

When asked whether the parent was previously exempted from preparing consolidated financial statements, 1.5% indicated yes, while 26.9% said no.

FRS 127 allows non consolidation of subsidiary if control is lost and all business combinations must be consolidated using the purchase method. 22.4% indicated that subsidiaries previously not consolidated are now being consolidated not because subsidiary was acquired with a view to sale neither was it because control was impaired. 17.9% indicated they had to reclassify business combinations previously classified using uniting of interest method.

As for the treatment of associates, 6% indicated that associates that were not equity accounted are now equity accounted due to influence was severely restricted (1.5%) associate was acquired for sale (3%) parent had no subsidiary (1.5%) while 4.5% indicated that joint ventures are consolidated proportionately while previously they were equity accounted.

10.4% indicated that the group will not apply FRS 3 retrospectively as it will take the optional exemption available under FRS 1.
7.5% indicated that the company has foreign operations and the cumulative translation differences on net investment in foreign operations were not previously classified as a separate component. On transition to FRSs, 13.4% of the company is able to determine the cumulative amount of the translation differences. Of this, 9% is taking the optional exemption and setting the cumulative translation difference at zero.

4.8 INTERIM REPORTS

As public companies are required to submit quarterly reports, a survey of the notes accompanying the interim reports was conducted, to further investigate on the extent of adoption of FRSs in Malaysian public listed companies and its impact on the changes in accounting policies as a result of adopting FRSs. Also, as the sample size used in the above analysis was fairly small, it was felt that perhaps a survey of the notes accompanying the interim reports could shed further light on the impact of the adoption of FRS.

Interim reports of “Malaysian Top 30 Corporates” based on the ratings conducted by Standard & Poor’s Ratings Services and Rating Agency Malaysia Bhd in June 2005 was surveyed via the internet. The selection of the companies by Standard & Poor was based on the companies’ business and financial profiles and are having both a global perspective and in depth knowledge of the domestic operating environment. These companies are either key players in major industrial sectors or active participants in the international or domestic bond markets, and have adequate financial disclosure. Only companies which have posted their quarter 1 and quarter 2 in 2006, together with the accompanying notes to the reports will be used in this survey. Of the 30 companies (see Appendix) the full reports of only 28 companies were posted and can be retrieved from the internet as at 15th November 2006.

4.8.1 Findings and Discussion

All of the 28 companies were listed on the Main Board. The sectors covered include trading (13) construction (3), consumer (4), industrial products (2), plantation (3), infrastructure (2) and technology (1).

The 28 companies are also in the sample size when the questionnaires were sent out in March 2006. Of these only 8 out of the 28 companies have returned the questionnaires and their responses are included in the analysis.

Of the 28 companies, only one company is incorporated in England and is registered in Malaysia as a foreign company under the Companies Act 1965. This company has already applied IFRS in 2005 in line with its holding company.

4.8.2 Early Adoption

MASB issued a total of 21 new/revised FRS of which 18 are applicable to financial statements for annual periods beginning on or before 1.1.2006 and 3 have been deferred. The 3 FRS that have been deferred are FRS 117, 124 and 139. FRS 117 and 124 are effective from 1 October 2006. A survey of the interim reports of the 28 companies revealed that 3 companies have opted for early adoption of FRS 117 and 2 companies FRS 124.
4.8.3 Significant Standards

The standard which has the highest impact on the group’s accounting policies is FRS 101 (57%) followed by FRS 3 (46%). FRS 116 and FRS 138 affected 43% of the companies. The standard with the least impact are FRS 119 and FRS 131 (see table 11).

<table>
<thead>
<tr>
<th>FRS</th>
<th>No of companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>9</td>
<td>32%</td>
</tr>
<tr>
<td>3</td>
<td>13</td>
<td>46%</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
<td>21%</td>
</tr>
<tr>
<td>116</td>
<td>12</td>
<td>43%</td>
</tr>
<tr>
<td>138</td>
<td>12</td>
<td>43%</td>
</tr>
<tr>
<td>140</td>
<td>6</td>
<td>21%</td>
</tr>
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<td>101</td>
<td>16</td>
<td>57%</td>
</tr>
<tr>
<td>121</td>
<td>6</td>
<td>21%</td>
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<td>120</td>
<td>3</td>
<td>10.5%</td>
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<td>201</td>
<td>4</td>
<td>14%</td>
</tr>
<tr>
<td>128</td>
<td>2</td>
<td>7%</td>
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<tr>
<td>136</td>
<td>7</td>
<td>25%</td>
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<td>119</td>
<td>1</td>
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</tr>
<tr>
<td>127</td>
<td>3</td>
<td>10.5%</td>
</tr>
<tr>
<td>131</td>
<td>1</td>
<td>3.5%</td>
</tr>
<tr>
<td>112</td>
<td>2</td>
<td>7%</td>
</tr>
</tbody>
</table>

The adoption of FRS 101 has affected the presentation of minority interest share of results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statements, minority are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the company and minority interests. Only 6% of the companies reported a lower profit before tax as a result of the reclassification. For example UEM World Berhad quotes, “This has resulted in lower profit before tax in the previous year corresponding period as share of associates’ taxation and minority interests of RM8.2 million and RM0.9 million respectively have been reclassified to offset against the share of associates’ profit”.

The adoption of FRS 3 requires companies, which previously amortised positive goodwill arising from acquisition, now has to assess goodwill for impairment at each balance sheet date. Negative goodwill from acquisition, which previously was shown as reserve on consolidation or write off against positive goodwill, now has to be transferred to retained earnings. 5 out of the 13 companies reported a reduction in the amortisation charges while one company with negative goodwill now has to transfer the amount to its opening accumulated figure, which in the case of this company are accumulated losses.
This will have the effect of reducing the company’s losses.

The revised FRS 116 requires major inspection costs and dismantling costs to be capitalised and depreciated accordingly over its remaining useful lives. Only two out of the 12 companies affected by FRS 116 reported a decrease in profits whilst another 2 companies reported a lower expense as a result of the reclassification of property, plant and equipment.

FRS 138 requires intangible assets with indefinite lives to be tested for impairment annually. 6 out of the 12 companies affected by FRS 138 have reclassified their intangible assets while another 2 companies reported that their amortisation charges have decreased for the quarter.

As for FRS 131, only one company reported that joint ventures previously consolidated, are now equity accounted for as joint ventures in accordance with the definition of joint ventures is FRS 131. To quote the notes to the accounts of Proton Holdings “companies in which the group has majority equity interest but have joint venture arrangements, have been previously consolidated. These companies have now been equity accounted for, in order to comply with FRS 131.”

The principle underlying FRS 119 is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable and is to be disclosed in the statement of changes in equity as a distinct component of actuarial gains or losses. Once recognised in equity, the actuarial gains or losses cannot be recycled to the income statement. Only one company reported it has reflected the requirements of FRS 119.
CHAPTER 5

CONCLUSION

MASB and the professional accounting bodies are aware that accountants, analysts, investors, and managers play a critical role in a successful transition from MASBs to FRSs. Much publicity about the transition has been made through the media, conferences, seminars and dissemination of information by audit firms to their clients and the public at large. The academics also cannot remain ignorant and be left behind in this migration as they are the educators of future accountants.

The purpose of this paper is to investigate the impact of FRS on Malaysian public listed companies’ financial statements and their reporting practices. Subject to the limitations of the study it was found that 76.1% of the companies had adopted FRSs fully beginning 2006 with 11.9% will be applying FRS 1 in 2006. In a study on the EU companies by PricewaterhouseCoopers (2003) it was found that only 34% of the respondents would be adopting IFRS when it will become mandatory in 2005. These results are surprising considering that in PricewaterhouseCoopers (2002) 81% of respondents indicated that they wanted the freedom to adopt IFRS before 2005.

The migration to FRSs will have an effect on the overall behaviour across the organization, and staff training is important to ensure that a smooth transition takes place. Only 19.4% of the companies conducted briefings for their staff. This low percentage could be compounded by the response that 43.3% of the staff is not competent to prepare FRSs financial statement. 56.7% of the respondents agreed that there are sufficient training programs organized by professional bodies and 46.3% of the respondents indicated that the company has continuous training programs. Training whether conducted in-house or sending staff for training costs money and time and top management must first be convinced of the importance and value of FRSs financial statements before they are willing to release time and money for the purpose of staff training.

FRSs are principle based standards and could be open to subjective interpretation. 93.7% of the respondents agreed that they need more guidance in terms of examples on the application of the standards. When asked whether the time frame given between the exposure draft and the implementation due date for adoption of FRSs was adequate, 53.7% indicated that it was not. MASB cannot be held responsible for this as it has send out the exposure drafts for feedback and has received almost nil response.

When the respondents were asked to indicate the significant recognition, measurement and presentation changes experienced by their companies, 74.6% indicated that there will be changes to the classification of current and non current items in their companies’ balance sheets. 52.2% stated that properties previously classified under property, plant and equipment will now be classified as investment property. It is interesting to note that from the internet survey of the quarterly reports of 28 companies, 11% of the companies indicated an increase in profits because of the reclassification as the amount of depreciation reduces.

Of the respondents 44.8% indicated that their company adopted the cost model compared to 10.4% which opted for the fair value model when valuing investment property. The fair value model requires that the fair value of the investment property reflect the actual market state and circumstances as of the balance sheet date and preferably an independent valuer be engaged to determine the fair value. This could incur additional cost as firms are required to engage external
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professional valuers to determine the fair value of the investment properties. The asset is not depreciated and any fluctuations in value are transferred to the income statement. This may cause volatility in earnings and therefore it is not surprising that most companies opted for the cost model.

Companies which have granted share options after 31 December 2004 that are not vested as at 1 January 2006 for equity settled share-based payment transactions were 22.4% and companies that has granted share options before 31 December were 32.8%. Prior to 1 January 2006, no staff cost was recognized in the income statement for share options granted. With the adoption of FRS 2, the fair value of employee services rendered in exchange for the grant of the share options is recognized as an expense in the income statement over the vesting period even before the options are being exercised. This will create volatility in earnings and may not go well with companies as well as investors. Thus in future, there is a possibility that we may see even lesser options being offered by companies.

For first time adopters of FRS at the company level there will be not be a significant effect on the assets and liabilities recognised in the balance sheet. For example only 9% will recognize property while 11.9% will derecognize them; 13.4% will recognize plant and 13.4% will also recognize equipment. 9% will recognize dismantling costs and 6% indicated that this will cause a higher carrying value.

The number of first time adopters that are parent companies is insignificant. The findings disclose that 1.5% will now consolidate subsidiaries which were not consolidated previously because it was acquired for sale and 1.5% will now consolidate the subsidiaries whose control was being impaired (not lost). FRS 127 allows non consolidation only if parent has lost control of subsidiary. Only 1.5% indicated that they had to reclassify business combinations previously classified as uniting of interests.

Besides the questionnaire survey, interviews were also conducted with the respective parties involved, that is the audit firms and the regulators in the country. We only managed to interview the partners from three big 4 audit firms and 2 from the non big 4 audit firms after several efforts have been made to secure the appointments. These interviews were held on an informal basis and proved to be very useful as we were able to gather much insight into the preparations that were made by these bodies, in terms of transferring information and training to the parties concerned.

To complement the findings of the study, the interim reports together with the notes accompanying the reports were surveyed through the internet to investigate as to which of the FRS will have principal effects of changes in accounting policies resulting from the adoption of the new/revised FRSs. The findings revealed that 16 out of the 28 companies investigated indicated FRS101, followed by FRS 116 (12 companies) and FRS 138 (12 companies). The FRS which will have the least effects on the companies accounting policies was FRS119 and FRS 131.

The results of this study are subject to several limitations. The main limitation of the study is poor response rate despite efforts being made to personally deliver the questionnaire to the company after phone calls made failed to get the company to return the completed questionnaire. The poor response rate could be due to the fact that the questionnaire requires the respondent to have some knowledge of FRS. The questionnaires were sent out in March 2006 and the accountant could be busy, trying to familiarize the staff with FRS and thus were not willing to participate in the research.

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Next, the questionnaire could be too wordy and lengthy to answer. Even though this was not raised up during the pilot study, we felt that this could be a contributing factor to the low response rate.

The limitation of this study suggests direction for future research. Firstly, as this is the first year of implementation of FRSs, the FRSs annual reports are not as yet available. A better result could be generated through a study of the annual reports of the companies as these are easily available, rather than through questionnaires where we have to wait for the relevant person to response. Another area of research is to look at the response of the investors to the use of FRS. The investors should be able to understand more of the financial statements because of the greater transparency of the accounts. Furthermore, FRS compliant financial statements are more forward looking as it uses measures like fair values. An interesting area of future research would be to look at the impact of specific FRS on the reported earnings of the companies.

In conclusion, with the rapid rate of growth in commerce and industry and the world becoming borderless, the accounting profession is heading in the right direction towards adopting a global set of accounting standards. Some countries like the European Union will encounter more difficulties during the adoption process; while some countries like Malaysia are more fortunate as our standards are very much aligned to the international standards. Countries that chose to delay on the adoption have the advantage of learning from the mistakes of countries which have adopted early. On the other hand these countries may lose out on their foreign investment as investors would prefer to invest in companies that follow the same standards for analysis and decision making purposes.
REFERENCES


Implementing International Reporting Standards (IFRS) in Russia. 25 Recommendations to facilitate the transition to IFRS. Issued by the Russian Corporate Governance Roundtable.


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PW Alert Issue No. 5 July 1997


The Star 20th August 2005 – Star Biz page 5
The Star 19th September 2005 – Star Biz page 13
The Star 8th October 2005 – Biz Week page 7

U.S Securities and exchange Commission : Speech by SEC Commissioner: Remarks Before the Institute for International Bankers Annual Conference


Malaysian Accountancy Research And Education Foundation
APPENDIX 1

ADOPTION OF FINANCIAL REPORTING STANDARDS (FRSs): IMPACT ON MALAYSIAN COMPANIES

Dear Sir/Madam

The Malaysian Institute of Accountant’s Research Foundation is sponsoring a group of lecturers from the Faculty of Accountancy, UiTM Shah Alam to undertake research on the implications of the transition to FRS’s on the reporting practices of Malaysian companies. The objectives of this research are to determine the number of companies which have actually adopted the new FRSs and to explore the extent of its adoption. The reasons for delays or postponement to the adoption, issues and problems during the implementation of the new FRSs will also be identified. For this research to be successful, help from the financial controller or the chief accountant in your company is required.

This questionnaire has been sent to Malaysian companies listed on the Bursa Saham and it is extremely important that you are also included in the study if the results are to accurately represent the opinions of Malaysian companies. The enclosed easy to complete questionnaires will take about 20 minutes. We are interested in your immediate reaction. There is no “right” answer. Your first response is usually the best. Once completed, please return the completed questionnaire by using the stamped, self-addressed envelope that is provided in this package. This survey is conducted anonymously and to ensure that anonymity and confidentiality is maintained, please ensure that the completed questionnaire is returned using the envelope provided.

We would like to assure you that only aggregated results are given in any report and/or paper resulting from this study. Your organisation will have no way of knowing how you have responded. Your help and participation in this research is greatly appreciated. Thank you very much and we look forward to hearing from you at your earliest convenience.

Yours truly,

Associate Professor Tan Lay Leng
Associate Professor Jane Lazar
Dr Radiah Othman
Faculty of Accountancy, UiTM Shah Alam
APPENDIX 2

FIRST TIME ADOPTION OF FINANCIAL REPORTING STANDARDS (FRSs) IN YOUR ORGANISATION

Various companies have adopted or are in the process of adopting International Financial Reporting Standards (IFRS). Most companies in Malaysia would have been applying the standards issued by MASB. However, as part of MASB’s convergence effort to those of the IFRSs it has issued FRS 1: First Time Adoption of Financial Reporting Standards (FRS1). This standard is generally applicable to those companies that did not adopt MASB standards and are adopting the Financial Reporting Standards (FRSs) for the first time. Beside FRS 1, MASB has issued a number of new standards and improvements to existing standards. For companies that are switching to FRSs, FRS 1 gives guidelines to the application of the FRSs.

Which of the following situations apply to your company? Please CIRCLE the appropriate column.

| My company has prepared its current year’s financial statements using accounting standards that are other than those issued by MASB. | YES | NO |
| My company has applied the accounting and reporting standards issued by MASB in its current year’s financial statements. | YES | NO |
| My company is adopting FRS fully from 2006 | YES | NO |
| My company will be applying FRS 1 First Time Adoption of FRS from 2006. | YES | NO |
| My company will be preparing interim financial statements. If yes, will the company be applying FRSs in preparing and presenting interim financial statements? | YES | NO |
PART 1

IMPLEMENTATION ISSUES AND PROBLEMS

Transition to FRSs encompasses not only technical adjustments, but real behavioural change across the organisation.

Please circle the extent of your agreement to the following statements.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. My staff involved in preparing financial statements have adequate knowledge and skills in applying FRSs.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>2. My company has conducted briefings for financial analysts and investors on the impact of FRSs on the company's financial statements.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>3. My company has a continuous training and development plan on the implementation of the new standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>4. There were sufficient training programmes run by various professional bodies to help companies that do not have specialist skills/lack of expertise.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>5. The internal management reporting system in my company has been aligned with the requirements of the new standards (operational issues have been addressed).</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>6. MASB should issue more rules-based financial reporting standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>7. There should be more guidance to the application of the standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>8. There should be more examples given in the standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly Agree</td>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>---</td>
<td>----------------</td>
<td>------------------</td>
</tr>
<tr>
<td>9. Financial reporting standards should be tailor-made for the local environment yet complying with the international standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>10. Inadequate time was given between the exposure draft and finalisation of standards to allow dissemination of knowledge to relevant parties.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>11. Inadequate time (between release date and implementation date) given to companies to understand implications of new and approved standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>12. The investing community needs a prescribed single set of standards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>13. The consultation process between MASB, investing community, regulators, companies and businesses was adequate.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>14. My company actively participated in the consultation process e.g: giving feedback on the exposure drafts.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>15. FRS 39 (Financial Instruments: Recognition and Measurement) will be the most difficult to apply.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>16. The new FRS 2 – Share based payment will affect the company’s policies on bonus plan, remuneration, share option schemes.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>17. MASB has issued too many new standards simultaneously.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
PART 2
SIGNIFICANT CHANGES IN IMPLEMENTING THE NEW AND IMPROVED STANDARDS

In implementing the new and improved standards, please indicate (TICK) the significant recognition, measurement and presentation changes experienced by your company.

Please leave this column blank.

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>YES</th>
<th>NO</th>
<th>NOT APPLICABLE (NA)</th>
<th>CHANGE IN CARRYING VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS 101 Presentation of Financial Statements</td>
<td></td>
<td></td>
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<tr>
<td>There will be changes to the classification of current and non-current items in the balance sheet.</td>
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<tr>
<td>Property(ies) will be reclassified as Investment Property.</td>
<td></td>
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<tr>
<td>There will be property, plant or equipment that will be classified as asset(s) held for disposal or disposal group.</td>
<td></td>
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<tr>
<td>There may be items that could be classified as extraordinary item previously but which cannot be classified as such.</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>FRS 102 Inventories</td>
<td></td>
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</tr>
<tr>
<td>Valuation method changed from LIFO to FIFO method.</td>
<td></td>
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<tr>
<td>Valuation method changed from LIFO to weighted average method.</td>
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</tr>
<tr>
<td>FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td></td>
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<tr>
<td>There is policy change that cannot be applied retrospectively.</td>
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<tr>
<td>There is correction of errors that cannot be applied retrospectively.</td>
<td></td>
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</tr>
</tbody>
</table>
Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>YES</th>
<th>NO</th>
<th>NOT APPLICABLE (NA)</th>
<th>CHANGE IN CARRYING VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FRS 116 Property, Plant and Equipment</strong></td>
<td></td>
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<tr>
<td>Some assets may be classified as held for sale.</td>
<td></td>
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<tr>
<td>Dismantling, removal and restoration which were previously not recognised as assets are being capitalised.</td>
<td></td>
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<tr>
<td>There is an increase in depreciation expense due to capitalising the dismantling, removal and restoration costs.</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Components of property, plant and equipment can be identified.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The carrying value of the components that are to be replaced could be determined.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Residual value of assets will be reviewed and the amount is not expected to change from the previous estimate.</td>
<td></td>
<td></td>
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<tr>
<td>There are idle assets, which were not depreciated but are now to be depreciated.</td>
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<tr>
<td>Leased property are now split into land and building.</td>
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<tr>
<td>Leases of land from finance lease reclassified as operating leases.</td>
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<tr>
<td><strong>FRS 121 The Effects of Changes in Foreign Exchange Rates</strong></td>
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<tr>
<td>Goodwill is now expressed in acquiree’s currency and translated at closing rate.</td>
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</tbody>
</table>
### Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>YES</th>
<th>NO</th>
<th>NOT APPLICABLE (NA)</th>
<th>CHANGE IN CARRYING VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FRS 3 Business Combinations and FRS 127 Consolidated Financial Statements and Accounting for Investments in Subsidiaries</strong></td>
<td></td>
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<tr>
<td>Previously exempted from preparing consolidated but now are required to do so now.</td>
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<tr>
<td>Subsidiaries previously excluded from consolidated accounts are now included due to:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>a. Long-term restriction criteria</td>
<td></td>
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<tr>
<td>b. Acquired with the view to sale</td>
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</tr>
<tr>
<td>Legal parent is now to be treated as subsidiary in substance.</td>
<td></td>
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<tr>
<td>The company has to reclassify business combinations previously classified as uniting of interest as acquisitions.</td>
<td></td>
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<tr>
<td>There was classification of legal subsidiary (ies) as a parent i.e. reverse acquisition.</td>
<td></td>
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<tr>
<td>Goodwill remaining might be impaired.</td>
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<tr>
<td>Additional intangibles were recognised.</td>
<td></td>
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<tr>
<td>Intangibles recognised previously are derecognised.</td>
<td></td>
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<tr>
<td><strong>FRS 128 Accounting for Investments in Associates</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Equity method now applied to associates which were not previously equity accounted:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Influence was severely restricted</td>
<td></td>
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<tr>
<td>b. Parent had no subsidiaries.</td>
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</tr>
<tr>
<td>c. Acquired for sale</td>
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<td></td>
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</tbody>
</table>
### Adoption of Financial Reporting Standards (FRSs): Impact on Malaysian Companies

**STANDARD** | YES | NO | NOT APPLICABLE (NA) | CHANGE IN CARRYING VALUE
---|---|---|---|---

| **FRS 131 Financial Reporting of Interests in Joint Ventures** | | | |  
| --- | --- | --- | --- | ---  
| There is a change to proportionate consolidation from equity method. | | | |  

| **FRS 140 Investment Property** | | | |  
| --- | --- | --- | --- | ---  
| Choice of Model  
| a. Cost model | | | |  
| b. Fair value Model | | | |  

| **FRS 2 Share Based Payment** | | | |  
| --- | --- | --- | --- | ---  
| The company has granted shares or share options or other equity instruments **after** 31 December 2004 that are not vested as at 1 January 2006 for equity-settled share-based payment transactions. | | | |  
| The company has granted shares or share options or other equity instruments **before** 31 December 2004. | | | |  
| The company has liabilities arising from share-based payment transactions as at 1 January 2006. | | | |  

---
**PART 3**

**SECTION A: COMPANY LEVEL**

Part 3 (comprising sections A and B) is to be answered if your company is a **FIRST TIME ADOPTER OF FRSs** or is applying FRS 1 First Time Adoption of FRSs. If not, please go to PART 4.

FRS 1 requires retrospective application of FRSs in a company's opening balance sheet. The company is required to recognise and/or derecognise assets and liabilities or reclassify its assets, liabilities or components of equity under FRSs (for example, if the company’s financial year end is 31 December 2006, then the opening balance sheet will be 1 January 2005).

Please **TICK** in the box that indicates both whether your company recognises, derecognises or reclassifies the item and how the action changes the carrying value (higher, lower or no change).

<table>
<thead>
<tr>
<th>Item</th>
<th>Recognise</th>
<th>Derecognise</th>
<th>Reclassify</th>
<th>Changes (if applicable) on carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Higher</td>
</tr>
<tr>
<td>1</td>
<td>Property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Plant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Assets held for disposal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Dismantling, removal and restoration costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Components of property, plant and equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Finance Leases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Land reclassified as operating lease</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Investment property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Derivatives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Intangibles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Deferred tax assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Development expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Share options to employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Deferred tax liability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Liability portion of convertible financial instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Lease creditor</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>18</td>
<td>Provision for warranties</td>
<td></td>
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</tr>
<tr>
<td>19</td>
<td>Provision for decommissioning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Provision for environmental cleanup</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Malaysian Accountancy Research And Education Foundation**
### Adoption of Financial Reporting Standards (FRSs) : Impact on Malaysian Companies

<table>
<thead>
<tr>
<th></th>
<th>Recognise</th>
<th>Derecognise</th>
<th>Reclassify</th>
<th>Changes (if applicable) on carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Higher</td>
</tr>
<tr>
<td>21</td>
<td>Contingent liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Others –specify</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## SECTION B: GROUP LEVEL

This section is to be filled in by the **PARENT ENTITY** as it relates to the group financial statements. Please **TICK** in the box that best describes the action(s) taken by your company.

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>NOT APPLICABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parent was previously exempted for preparing consolidated financial statements.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Subsidiary (ies) previously excluded from being consolidated are now consolidated</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>If yes, the reason was due to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Subsidiary was acquired with view to sale.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii. Control being impaired (not lost).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The company had to reclassify business combinations previously classified as uniting of interest as acquisitions.</td>
<td></td>
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<tr>
<td>4</td>
<td>Legal parent is now treated as subsidiary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Associate(s) that were not equity accounted are equity accounted due to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Influence was severely restricted</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>ii. Associate was acquired for sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>iii. Parent had no subsidiary</td>
<td></td>
<td></td>
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<tr>
<td>6</td>
<td>Joint venture(s) are consolidated proportionately while previously were equity accounted.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>The group will not apply FRS 3 retrospectively as it will take the optional exemption allowed under FRS 1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>The company has foreign operation(s) and the cumulative translation differences on net investment in foreign operations were not previously classified as a separate component.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>On transition to FRSs the company is able to determine the cumulative amount of the translation differences.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>The group is taking the optional exemption and setting the cumulative translation difference [mentioned in (8) above] at zero.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART 4

RESPONDENT PROFILE

1. Your highest level of education (please tick):
   - [ ] PhD
   - [ ] Master’s Degree
   - [ ] Bachelor’s Degree
   - [ ] Diploma
   - [ ] Professional Qualification
   - [ ] STPM and Lower

2. Please state your position or title in the company: ______________________

3. Years of service in accounting and reporting:
   a. In this organisation _______________
   b. In previous organisation _______________

4. Year(s) and month(s) in current position or title: _______ year(s) _____ month(s)

Thank You For Your Time And Participation. Your Cooperation And Contribution To This Study Is Greatly Appreciated. Information provided will be held in strictest confidence

If you would like to receive a summary report of the findings of the study, please provide an e-mail address for contact purposes.

E-mail address:

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APPENDIX 3

1. ASTRO All Asia Network public listed company
2. British American Tobacco (M) Bhd
3. DiGi.Com Bhd
4. Genting Bhd
5. Golden Hope Plantations Bhd
6. IOI Corp Bhd
7. Kumpulan Guthrie Bhd
8. Lafarge Malayan Cement Bhd
9. Malakoff Bhd
10. Malaysian Airports Holdings Bhd
11. Malaysia International Shipping Corp Bhd (MISC Bhd)
12. Malaysia Airline System Bhd
13. Malaysian Pacific Industries Bhd
14. Maxis Communications Bhd
15. MMC Corp Bhd
16. Nestle (M) Bhd
17. O.Y.L. Industries Bhd
18. Petronas Dagangan Bhd
19. Projek Lebuhraya Utara-Selatan Bhd (PLUS)
20. Proton Holdings Bhd
21. Ranhill Bhd
22. Sime Darby
23. Telekom Malaysia Bhd
24. Tenaga Nasional Bhd
25. Titan Chemicals Corp Bhd
26. UEM World Bhd
27. YTL Corp Bhd
28. YTL Power International Bhd
APPENDIX 4

21st August 2006

TO WHOM IT MAY CONCERNED

…………………………. are full time students of University Technology Mara, pursuing a course in ACCA.

The Malaysian Institute of Accountant’s Research Foundation (MAREF) is sponsoring a group of lecturers from the Faculty of Accountancy, University Technology Mara, to conduct a research on “The Adoption of FRSs – Impact on Malaysian Public Listed Companies”. This research is conducted via a mail survey. Questionnaires have been sent to all companies listed on the Main and Second Board of Bursa Malaysia in March 2006. As to date, the response of questionnaires returned is not encouraging.

In order to increase the response rate, the lecturers have asked the research assistants to personally deliver the questionnaire to your company. It will be greatly appreciated if your financial controller or any relevant personnel can spare a few minutes to answer the questionnaire and returned it to the research assistant. Your help and assistance in this research is highly appreciated and urgently needed in order for the research to achieve some meaningful results.

Thank you

Yours sincerely

PROF DR IBRAHIM KAMAL ABDUL RAHMAN
Dean,
Faculty of Accountancy
University Technology Mara,
Shah Alam