

---

# IFRS Adoption and Organisational Change - Evidence from Malaysia

By Nur Hidayah Laili\*  
Macquarie Graduate School of Management

---

## Abstract

*The adoption of IFRS in Malaysia has not changed all aspects of financial accounting and reporting. However, in regards to goodwill, the new accounting treatment represents one of the biggest challenges to Malaysian reporting entities as no such standard existed pre-IFRS adoption. The new standard requires more rigorous techniques and disclosure of goodwill impairment testing and significantly expanded disclosure requirements.*

*The purpose of this paper is to examine the extent to which organisational responses to the new reporting regime may have changed over time. This is done by analysing the quality and technical accuracy of the goodwill disclosures reported by these organisations together with an assessment of evidence of variation. The sample consists of 249 listed firms listed on Bursa Malaysia that disclosed the existence of goodwill in each of the first two years of Malaysia's new financial reporting regime. This examination of the response of firms to the new reporting regime provides significant insights for firms, auditors, financial analysts and regulators.*

*Key Words: Goodwill Accounting, Financial Reporting Standard, FRS 136, Impairment, Organisational Change in Malaysia.*

## 1. Introduction

The introduction of International Financial Reporting Standards (IFRS) in many countries around the world is one of the most significant regulatory changes in accounting history. The new reporting regime is aimed at increasing the quality and consistency of reporting standards. However, there is a higher degree of complexity surrounding the new standard in relation to conceptualisation, measurement and ultimately disclosure in financial statements.

In the area of financial reporting and financial reporting regulation, change is a focal point. Research on accounting practices and procedures partly examines the external factors that influenced changes to the new standard. They focus the factors associated with the tax system (Haw *et al.*, 2004), ownership structure (Burgstahler *et al.*, 2007), the political system (Leuz and Oberholzer-Gee, 2006), and capital market development (Ali and Hwang, 2000).

Nevertheless, there has generally been very little published research in accounting that has documented organizational responses to the changes in standards. This is an important issue since accounting developments affect not only the preparation of financial statements but also organizational structure (Burchell *et al.*, 1980). This is evident in the form of firm equity, asset portfolios (Schadewitz and Vieru, 2006), cost of capital (Leuz and Verrecchia, 2000) and net profit (Perramon and Amat, 2006).

Malaysia adopted the Financial Reporting Standards (FRS) regime in 2006. Starting from 1 January 2006, Malaysian companies were required to implement all the Financial Reporting Standards (FRSs<sup>1</sup>) issued by the Malaysian Accounting Standards Board (MASB) in the preparation and presentation of financial statements. While in certain respects the transition to FRS based reporting was not an enormous change, there are areas of reporting where this is unlikely to hold true.

Accounting and reporting for goodwill represents one of the biggest challenges to Malaysian reporting entities adopting the new regime. This is due to the fact that prior to the adoption of IFRS no standard relating to accounting for goodwill existed in Malaysia, and the new standard introduced a systematic and highly technical process for goodwill reporting and accounting, including an impairment testing based regime for reporting (Carlin *et al.*, 2008a).

Goodwill has become an increasingly significant component of the reported asset portfolio of large listed Malaysian firms (Carlin *et al.*, 2008a). Thus, careful scrutiny of the manner in which Malaysian companies have responded during the process of transition to a complex new reporting regime is of potential interest and has significant implications for a range of stakeholders including auditors, financial analysts, regulators and report users.

The research question of this paper focuses on how reporting organizations deal with the new requirement for goodwill accounting by examining the first two years of FRS based reporting. As such, using data drawn from a sample of 249 Malaysian listed firms in the Bursa Malaysia, this paper looks specifically at evidence relating to disclosure of goodwill under the requirements of FRS 136. The analysis of this study focuses on the quality and technical requirement of the goodwill disclosures by these organizations with an assessment of evidence of variation in the two year of FRS adoption.

The paper is set out as follows. Section 2 gives an overview of the existing literature and its implications for this study. Section 3 focuses on details regarding data and methodology employed. Section 4 discusses the results of study and finally, section 5 formulates conclusions and suggests potential further research into financial reporting and organisational change responses.

## 2. Relevant background literature

Accounting is often advanced to facilitate the decision making process; however, it has been argued that accounting should not be considered solely as a technical problem solving procedure (Dent, 1990). As a consequence, in understanding organizational responses to changes in accounting practice, both economic advantages and technical considerations should be examined (Hussein, 1981).

Previous study has acknowledged the ability of accounting to contribute to the construction and maintenance of organizational structure (e.g. Meyer, 1986). Accounting has an influence not only within the organizational benefit to stakeholders, but also other processes such as innovation and general organisational learning (March, 1987). The literature provides a source of a number of settings or situations in which this may be evident.

Acquisition accounting represents an appropriate example. Under US GAAP, the purchase method and the pooling-of-interests method were acceptable methods of accounting for business combinations prior to 2001. Under the purchase method, the acquiring company restates all identifiable assets and liabilities of the acquired company to their fair values, and records the gap between this sum and the fair value at purchase consideration as goodwill subsequently amortised against periodic earnings. The purchase method generally leads to lower earnings in post-acquisition periods. For many companies the absence of this earnings reduction is the appeal of pooling accounting. Under the pooling method, the parent recorded the acquisition of the target's net assets at book values and thus avoided recognition of amortization (Aboody *et al.*, 2000).

However, not all business combination transactions qualified for the application of the pooling method. Under *Accounting Principles Board ("APB") Opinion No. 16* there exist lists of criteria for all business combinations to qualify for pooling of interest accounting. Prior studies have found that firms are willing to pay a higher bid premium in pooling transactions and often incur substantial direct and opportunity costs to qualify for pooling method (Lys and Vincent, 1995). This causes acquirers to pay more for transactions than was necessary, in order to avoid lower earnings in post-acquisition periods (Moehrle *et al.*, 2000).

A further illustration concerns executive compensation. The proper accounting treatment of employee stock options has been a highly controversial matter and has attracted a great deal of attention on the part of regulatory bodies, accounting bodies and tax authorities. The issue relates to the treatment of options contracts for reporting purposes and the impact on investment decisions, project risk profiles, dividend policy, capital structure choice and the timing of information release to capital markets (Carlin & Ford, 2006).

A further significant change in world accounting regulation has been the introduction of IFRS hedge and derivative accounting. The implementation of derivative accounting has an impact on far more than the form and content of note form disclosures. According to Lins *et al.*, 2008, the new standard reduced speculative activities of organizations and affected the effectiveness of economic hedging strategies that use of non-linear strategies, a matter which has material consequences

for organisational residual risk profiles and ultimately, risk appetite.

The examples discussed above demonstrate that accounting practice has the ability to change the underlying structure and nature of organisations. Those changes will materially affect the way organizations classify, summarise analyse and account for the financial information. It also changes the type of information involved in fulfilling internal financial management functions and accountability.

Regarding the FRS rules on goodwill, Malaysia at last has an accounting standard on goodwill and the new accounting treatment represents one of the biggest challenges both from a preparer and an auditor perspective. Most organizations will be impacted by the highly prescriptive impairment testing rules prescribed by FRS 136 (Carlin *et al.*, 2008a). The requirement to perform an annual impairment test for goodwill, in addition to the requirement to test when there are indications of impairment represents a significant challenge. Organizations will need to deal with significantly expanded disclosure requirements in particular in relation to recoverable amounts and impairment testing, including information about key assumptions.

Recent empirical evidence on the level of compliance by Malaysian listed firms and auditors revealed that the rate of compliance with the provisions of FRS 136 were very poor. In addition, in some specific instances, extremely unusual patterns were evident in firm level data disclosures (Carlin *et al.*, 2008a; 2008b). However, these conclusions related to the year of FRS adoption by Malaysian firms with goodwill. This may possibly explain the higher rate of non compliance and poor disclosure quality since the organizations and their auditors lacked experience and had to deal with a very high degree of complexity and detail inherent in the standard.

Thus, this paper looks specifically at evidence relating to disclosure of goodwill under the requirement of FRS 136 beyond the first year of adoption. The data and methodology used to sustain the research reported in this paper is set out in section 3, below.

## 3. Data and methodology

All business combinations with an agreement date on or after 1 January 2006 are required to comply with FRS 136 *Impairment of Assets*. Thus, the first effective operative year for the standard was 2006. This study restricts the sample to firms with fiscal years ended 31 December 2006 to eliminate the effect of an early adoption that is permitted to firms with fiscal year ended other than 31 December 2006. This study extracted data for the period of 2006 to 2007 from Worldscope, Datastream and selected all Malaysian firms listed on the Bursa Malaysia. The final data for this study is comprised of a sample of 249 listed Malaysian corporations which reported goodwill as comprising an element of their asset base in their 2006 and 2007 consolidated financial statements with fiscal year ending 31 December in year 2006.

The process of construction of the 249 firm research sample proceeded as follows. First, out of 1021<sup>2</sup> firms listed in Bursa Malaysia, 613 firms with no reported goodwill as an element of their asset base in their 2006 and 2007 consolidated financial statements were eliminated. A further 159 firms were eliminated as their fiscal year ended at dates other than 31

Sector	Total Goodwill (RM million)		Average Goodwill (RM million)		Goodwill as % Total Assets		% $\Delta$ in Goodwill
	2006	2007	2006	2007	2006	2007	$\Delta$
Aerospace, Automotive & Chemicals ( <i>n</i> =17)	993	932	58	55	12.48%	11.03%	-6.1%
Constructions ( <i>n</i> =22)	2,014	2,061	92	94	8.47%	8.42%	+2.3%
Consumer Products ( <i>n</i> =15)	702	792	47	53	3.32%	2.83%	+12.8%
Electrical & Electronic ( <i>n</i> =15)	453	522	30	35	8.36%	8.36%	+15.2%
Financials ( <i>n</i> =18)	10,995	12,684	611	705	1.80%	2.22%	+15.4%
Food & Beverage ( <i>n</i> =15)	356	351	24	23	4.12%	3.87%	-1.4%
Industrial Products ( <i>n</i> =19)	326	295	17	16	6.83%	5.55%	-9.5%
Machinery, Equipment and Metal Product ( <i>n</i> =17)	1,937	2,271	114	134	10.50%	5.27%	+17.2%
Miscellaneous ( <i>n</i> =22)	2,319	2,258	105	103	9.25%	8.64%	-2.6%
Plantation ( <i>n</i> =13)	276	1,165	21	90	1.90%	6.38%	+322.1%
Properties ( <i>n</i> =19)	505	487	27	26	3.75%	3.73%	-3.6%
Technology ( <i>n</i> =21)	251	274	12	13	13.40%	13.16%	+9.2%
Trading ( <i>n</i> =19)	398	1,668	21	88	0.95%	3.79%	+319.1%
Utilities, Oil & Gas and Transportation ( <i>n</i> =17)	7,634	8,072	449	475	14.86%	14.55%	+5.7%
<b>TOTAL (<i>n</i>=249)</b>	<b>29,159</b>	<b>33,832</b>	<b>117</b>	<b>135</b>	<b>3.44%</b>	<b>3.95%</b>	<b>+16.0%</b>

**Table 1: Overview of Research Sample**

December 2006. The final sample of 249 firms satisfies the selection criteria. The market capitalization of the 249 sample firms was RM 203,791 million at 2006 and RM 304,568 million at 2007<sup>3</sup>, which represented 25.83% and 27.09% respectively of total market capitalization of the Bursa Malaysia.<sup>4</sup>

To facilitate analysis of the final research sample, the 249 firms were divided into 14 groups based on the Worldscope DataStream's Industry Group Classification. In 2006, the firms included in the final sample have total goodwill of RM 29.16 billion, with a minimum goodwill balance of RM 0.002 million and a maximum goodwill balance of RM 6,826 million. The average goodwill per firm was RM 117 million. In 2007, total goodwill across the 249 sample firms comprised RM 33.82 billion with a minimum goodwill balance of RM 0.002 million and a maximum goodwill balance of RM 7,271 million. From Table 1 and Table 2, it can be seen that the total amount of goodwill increased in 2007 in comparison to 2006, providing that the data used for the purposes of analysis in this study is not affected by large outliers.

In implementing the new standard for asset impairment, organizations needed to deal with significantly expanded disclosure requirements in particular in relation to recoverable amounts, impairment and information about key assumptions adopted in the value simulation process. Therefore, in understanding organizational responses to changes in the new reporting regime and the extent to which organisational responses may have changed over time, the disclosure requirements under FRS 136 are of potential interest. The first issue relates to the role of cash generating units (henceforth CGUs) as the crucible within which the impairment testing process transpires.

Paragraph 80 of FRS 136 requires that for the purpose of impairment testing goodwill be allocated to each of the reporting entity's CGUs (or groups of cash generating entities) which

are expected to benefit from the goodwill. The cash-generating units represent 'the lowest level within the entity at which the goodwill is monitored for internal management purposes. This will tend to lessen the burden in preparing financial reports under the new regime. However, to avoid against inappropriate aggregation, Paragraph 80 specifies that the CGU should not be larger than a primary or secondary segment defined for the purpose of segment reporting.<sup>5</sup>

The process of allocation of goodwill to CGUs is important, because the number of CGUs to which goodwill is allocated for the purposes of impairment testing itself has the capacity to impact on the likelihood of an impairment loss being recognised. Therefore, the investigation process begins with comparing the number of reported controlled subsidiary entities, business segments and defined cash generating units for each of the companies in the sample. This is to appreciate the level of aggregation of CGUs by the firms in the sample and to have a better understanding of the characteristics of the goodwill reporting regime. An assessment is then made as to the completeness and quality of disclosures for goodwill at the CGU level by comparing each company's total goodwill balance with the total disclosed CGU goodwill allocation. If the total disclosed goodwill of the company is less than the total value of goodwill allocated to CGUs, the quality and completeness of disclosure is classified as lower, and vice versa.

The next issue to be investigated was the way in which the recoverable amount of CGU assets was estimated by sample firms. Paragraph 18 of FRS 136, defines recoverable amount as the higher of an asset's or a CGU's fair value less costs to sell and its value in use. This involves a selection of fair value or value in use and company is required to disclose which method has been adopted.



Sector	Avg. value of Goodwill (RM million)		Δ in Avg. Goodwill		Avg. Goodwill per CGU (RM million)		Δ in Avg. Goodwill per CGU	
	2006	2007	ΔRMM	Δ%	2006	2007	ΔRM	Δ%
Aerospace, Automotive & Chemicals ( <i>n</i> =17)	58	55	-3.0	-5.17%	124.1	84.7	-39.4	-31.74%
Constructions ( <i>n</i> =22)	92	94	2.0	+2.17%	134.3	108.5	-25.8	-19.21%
Consumer Products ( <i>n</i> =15)	47	53	6.0	+12.77%	33.4	30.5	-3.0	-8.88%
Electrical & Electronic ( <i>n</i> =15)	30	35	5.0	+16.67%	64.7	104.4	39.7	+61.32%
Financials ( <i>n</i> =18)	611	705	94	+15.38%	219.9	243.9	24.0	+10.92%
Food & Beverage ( <i>n</i> =15)	24	23	-1.0	-4.17%	27.4	25.1	-2.3	-8.45%
Industrial Products ( <i>n</i> =19)	17	16	-1.0	-5.88%	17.2	15.5	-1.6	-9.51%
Machinery, Equipment and Metal Product ( <i>n</i> =17)	114	134	20	+17.54%	101.9	119.5	17.6	+17.24%
Miscellaneous ( <i>n</i> =22)	105	103	-2.0	-1.90%	68.2	70.6	2.4	+3.46%
Plantation ( <i>n</i> =13)	21	90	69	328.57%	17.3	50.7	33.4	+193.64%
Properties ( <i>n</i> =19)	27	26	-1.0	-3.70%	25.3	28.6	3.4	+13.45%
Technology ( <i>n</i> =21)	12	13	1.0	+8.33%	20.9	21.1	0.2	+0.77%
Trading ( <i>n</i> =19)	21	88	67	+319.05%	39.8	75.8	36.0	+90.50%
Utilities, Oil & Gas and Transportation ( <i>n</i> =17)	449	475	26	+5.79%	424.1	351.0	-73.2	-17.25%
<b>TOTAL (<i>n</i>=249)</b>	<b>117</b>	<b>135</b>	<b>18</b>	<b>+15.38%</b>	<b>111.3</b>	<b>114.7</b>	<b>3.4</b>	<b>+3.05%</b>

**Table 2: Analysis of Average Goodwill by Sector**

Fair value less costs to sell is defined as the amount obtainable from the sale of an asset or a CGU in an arm's length transaction between knowledgeable, willing parties less the costs of disposal. That is, market value less selling costs. In Malaysia's case, not all assets are traded in an active and liquid market. Many assets are specialised in nature and therefore lack relevant active markets for the purposes of determining or benchmarking value (Fah, 2006).

In such cases, FRS 136 stipulates that adoption of a fair value approach to the determination of recoverable amount is not dependent on the existence of an active market for the assets in question, but also makes clear the need for some reasonable basis for making a reliable estimate of the amount obtainable from the disposal of assets in arm's length transactions between knowledgeable and willing parties as a prerequisite to the adoption of this method. However, the reliability of fair value is questionable where there are no active and liquid markets (Fah, 2006). Thus, paragraph 20 of FRS 136 provides that where it is not possible to estimate fair value due to lack of market evidence, the entity may use the asset's value in use as its recoverable amount.

Paragraph 6 of FRS 136 defines value in use as the present value of the future cash flows expected to be derived from an asset or CGU. It is likely that in most circumstances recoverable value will be determined by reference to value in use. In the Malaysian scenario, the absence of an active and liquid market for assets and CGU valuation drives firms to adopt the value in use method so as to determine the recoverable amount of assets and CGUs. Hence, the potential research interest here was to examine the selection method in determining the recoverable amount of CGUs. The frequency of companies' selection is reported in section four.

Paragraph 134 (d) of FRS 136, states that the disclosure requirement if the unit's (group of units') recoverable amount

is based on value in use includes;

- i. a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
- ii. a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information
- iii. the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.
- iv. the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.
- v. the discount rate(s) applied to the cash flow projections.

The key assumptions such as discount rates, growth rates, forecast periods and terminal value periods have been scrutinised in order to develop understanding of the operation of the goodwill reporting regime. The disclosure pertaining

to discount rates and growth rates made by companies in the sample is reported in section four.

Carlin *et al.*, 2007, suggested that to assess the quality of disclosure it is necessary to develop a taxonomy for both discount rates and growth rates. This taxonomy allocated firm disclosures to one of four categories, i.e. 'multiple explicit discount rates', 'single explicit discount rates', and 'range of discount rates', and 'no effective disclosure', in that order of relative informativeness.

Allocation of a company in the first category signified that the company fully complied with the requirements of FRS 136 in relation to discount rate. The companies in this category disclosed the details of the specific discount rates used to discount cashflow for the purpose of impairment testing for each CGU, and used multiple discount rates which reflected the risk characteristics of each CGU. This information is potentially highly informative in its character.

Companies in the second category i.e. 'single explicit discount rate' employed a single standardised discount for all their defined CGUs. This meant that the company allocated the same discount rate for each CGU even though CGU risk levels were arguably different. These companies complied less fully with the requirements of the standard than firms in the first category – and provided information less decision useful in its character.

In the third category i.e. 'range of discount rates' companies disclosed a range of discount rates used across a range of CGUs. This is questionable in terms of fulfilling the requirements under FRS 136 and thus, the quality of disclosure for this category is classified as lower than the two above categories. Arguably, this information was of comparatively less use than the previous categories in informing decisions.

Finally, companies in fourth category i.e. 'no effective disclosure' provided inadequate disclosure regarding the discount rate, and therefore provided no meaningful information

for external analysts relating to the impairment testing process. Companies in this category clearly breached the requirements stipulated by FRS 136.

Essentially the same taxonomic approach was adopted as a basis for categorising and analysing growth rate disclosures. Companies in the sample were classified as falling into four categories i.e. 'multiple explicit growth rates' for each CGU, 'range of growth rates', 'single growth rate' and 'no effective disclosure'.

Since the objective of this paper is to look at the extent to which organisational responses to the new reporting regime may have changed over time, the results of the procedures described above were examined for evidence of inter temporal variation. The results of the analytical procedures employed for the purposes of the study are reported in section 4, below.

#### 4. Results and discussion

Previous single period studies on the disclosure compliance of 36 companies listed in 100 FTSE Bursa Malaysia have reported a surprisingly high rate of non compliance with the requirement of FRS 136. In 2007, the rate of compliance increased to 50.60% from 45.38% in 2006. However, this degree of variation in compliance provides at best weak evidence of systematic change among reporting entities in the second year of FRS adoption – and still suggests the existence of substantial practice deficiencies.

The second issue for analysis relates to what has been termed the CGU aggregation problem. Prior studies on the compliance level of disclosure pertaining to FRS 136 have compared the number of CGUs defined by firms with the number of business segments they disclosed in satisfaction of their segment reporting requirements and calculate the ratio of CGUs to defined business segments. These studies reported that the disclosure by firms in the year of FRS adoption suggested a possibility that goodwill was being monitored at a higher level than the defined business segment, consistent

Sector	Fully compliant (number of firms)		Non-compliant (number of firms)	
	2006	2007	2006	2007
Aerospace, Automotive & Chemicals ( <i>n</i> =17)	6	7	11	10
Constructions ( <i>n</i> =22)	9	10	13	12
Consumer Products ( <i>n</i> =15)	9	10	6	5
Electrical & Electronic ( <i>n</i> =15)	3	3	12	12
Financials ( <i>n</i> =18)	13	13	5	5
Food & Beverage ( <i>n</i> =15)	7	8	8	7
Industrial Products ( <i>n</i> =19)	8	8	11	11
Machinery, Equipment and Metal Product ( <i>n</i> =17)	7	8	10	9
Miscellaneous ( <i>n</i> =22)	16	15	6	7
Plantation ( <i>n</i> =13)	5	8	8	5
Properties ( <i>n</i> =19)	9	9	10	10
Technology ( <i>n</i> =21)	7	7	14	14
Trading ( <i>n</i> =19)	3	8	16	11
Utilities, Oil & Gas and Transportation ( <i>n</i> =17)	11	12	6	5
<b>TOTAL (<i>n</i>=249)</b>	<b>113</b>	<b>126</b>	<b>136</b>	<b>123</b>

**Table 3: CGU Allocation Compliance by Sector**

with a higher risk of inappropriate of CGU aggregation. This in turn heightens the risk that impairment losses may not be subject to recognition even where material value degradation has occurred. Data pertaining to these matters is set out in Tables 4 and 5, below.

The data suggests very little meaningful structural change – and supports the inference that even beyond the first year of adoption, CGU aggregation likely remains a problem.

The next issue of disclosure for goodwill impairment

testing was related to the choice of method employed in estimating the recoverable amount of CGU assets and determined whether goodwill impairment had occurred. Table 6 (below) shows that the value in use method represented the dominant method employed to determine recoverable amount of CGUs for firms in the first year after FRS adoption. This result is consistent with previous studies of Malaysian firms reporting subject to IFRS – as well as studies of firms from other regional jurisdictions – for example, Australia (Carlin and Finch, 2007).

Sector	No. CGUs > No. Segments		No. CGUs = No. Segments		No. CGUs < No. Segments		No effective disclosures	
	2006	2007	2006	2007	2006	2007	2006	2007
Aerospace, Automotive & Chemicals ( <i>n</i> =17)	-	1	-	-	6	6	11	10
Constructions ( <i>n</i> =22)	-	-	1	4	8	6	13	12
Consumer Products ( <i>n</i> =15)	1	2	1	2	7	6	6	5
Electrical & Electronic ( <i>n</i> =15)	-	-	1	1	2	2	12	12
Financials ( <i>n</i> =18)	1	3	2	-	10	9	5	6
Food & Beverage ( <i>n</i> =15)	1	1	3	4	3	3	8	7
Industrial Products ( <i>n</i> =19)	2	2	3	1	3	5	11	11
Machinery, Equipment and Metal Product ( <i>n</i> =17)	3	2	1	2	3	5	10	8
Miscellaneous ( <i>n</i> =22)	6	5	3	4	7	6	6	7
Plantation ( <i>n</i> =13)	3	3	2	2	-	3	8	5
Properties ( <i>n</i> =19)	-	-	1	-	9	10	9	9
Technology ( <i>n</i> =21)	2	3	3	2	3	3	13	13
Trading ( <i>n</i> =19)	2	-	1	4	-	4	16	11
Utilities, Oil & Gas and Transportation ( <i>n</i> =17)	-	2	2	3	9	7	6	5
<b>TOTAL (<i>n</i>=249)</b>	<b>21</b>	<b>24</b>	<b>24</b>	<b>29</b>	<b>70</b>	<b>75</b>	<b>134</b>	<b>121</b>

Table 4: Business Segments and CGU Aggregation by Segment

Sector	Avg. no. of business segments		Avg. no. of CGUs		Ratio of CGUs to Business Segments		Δ in Ratio
	2006	2007	2006	2007	2006	2007	Δ
Aerospace, Automotive & Chemicals ( <i>n</i> =17)	2.76	2.82	1.33	1.57	0.48 : 1	0.56 : 1	+15.5%
Constructions ( <i>n</i> =22)	3.00	2.91	1.67	1.90	0.56 : 1	0.65 : 1	+17.3%
Consumer Products ( <i>n</i> =15)	3.40	3.00	2.33	2.60	0.69 : 1	0.87 : 1	+26.5%
Electrical & Electronic ( <i>n</i> =15)	3.13	3.07	2.33	1.67	0.74 : 1	0.54 : 1	-26.9%
Financials ( <i>n</i> =18)	5.67	5.56	3.85	4.00	0.68 : 1	0.72 : 1	+6.0%
Food & Beverage ( <i>n</i> =15)	2.27	2.27	1.86	1.75	0.82 : 1	0.77 : 1	-5.9%
Industrial Products ( <i>n</i> =19)	2.79	2.89	2.38	2.38	0.85 : 1	0.82 : 1	-3.5%
Machinery, Equipment and Metal Product ( <i>n</i> =17)	2.53	2.65	2.71	2.38	1.07 : 1	0.90 : 1	-16.2%
Miscellaneous ( <i>n</i> =22)	2.36	2.50	2.13	2.13	0.90 : 1	0.85 : 1	-5.6%
Plantation ( <i>n</i> =13)	2.85	3.08	3.20	2.88	1.12 : 1	0.94 : 1	+16.7%
Properties ( <i>n</i> =19)	3.58	3.53	2.00	1.70	0.56 : 1	0.48 : 1	-13.8%
Technology ( <i>n</i> =21)	1.71	1.76	1.50	1.63	0.88 : 1	0.93 : 1	+5.6%
Trading ( <i>n</i> =19)	3.89	4.00	3.33	2.75	0.86 : 1	0.69 : 1	+19.7%
Utilities, Oil & Gas and Transportation ( <i>n</i> =17)	3.18	2.82	1.64	1.92	0.52 : 1	0.68 : 1	+32.0%
<b>TOTAL (<i>n</i>=249)</b>	<b>3.07</b>	<b>3.05</b>	<b>2.28</b>	<b>2.30</b>	<b>0.74 : 1</b>	<b>0.75 : 1</b>	<b>+1.5%</b>

Table 5: Analysis of Business Segments and CGUs by Sector

Sector	Fair Value method		Value in Use method		Mixed Method		Method not disclosed	
	2006	2007	2006	2007	2006	2007	2006	2007
Aerospace, Automotive & Chemicals ( <i>n=17</i> )	-	-	6	13	-	-	11	4
Constructions ( <i>n=22</i> )	-	-	11	15	-	-	11	7
Consumer Products ( <i>n=15</i> )	-	-	10	12	1	1	4	2
Electrical & Electronic ( <i>n=15</i> )	-	-	6	8	-	-	9	7
Financials ( <i>n=18</i> )	1	-	12	12	1	2	4	4
Food & Beverage ( <i>n=15</i> )	1	1	9	12	-	-	5	2
Industrial Products ( <i>n=19</i> )	-	-	7	10	3	3	9	6
Machinery, Equipment and Metal Product ( <i>n=17</i> )	-	-	10	11	-	-	7	6
Miscellaneous ( <i>n=22</i> )	-	-	17	19	1	-	4	3
Plantation ( <i>n=13</i> )	-	-	7	10	-	-	6	3
Properties ( <i>n=19</i> )	1	1	5	6	2	2	11	10
Technology ( <i>n=21</i> )	-	-	10	15	-	-	11	6
Trading ( <i>n=19</i> )	-	-	6	10	1	2	12	7
Utilities, Oil & Gas and Transportation ( <i>n=17</i> )	-	-	10	14	-	-	7	3
<b>TOTAL (<i>n=249</i>)</b>	<b>3</b>	<b>2</b>	<b>126</b>	<b>167</b>	<b>9</b>	<b>10</b>	<b>111</b>	<b>70</b>

Table 6: Method Employed to Determine Recoverable Amount

Sector	Multiple Explicit Discount Rates for each CGU		Single Explicit Discount Rates		Range of Discount Rates		No effective disclosure	
	2006	2007	2006	2007	2006	2007	2006	2007
Aerospace, Automotive & Chemicals ( <i>06n=6</i> ) ( <i>07n=13</i> )	-	2	3	7	1	-	2	4
Constructions ( <i>06n=11</i> ) ( <i>07n=15</i> )	-	1	7	11	1	1	3	2
Consumer Products ( <i>06n=11</i> ) ( <i>07n=13</i> )	2	2	6	8	3	3	-	-
Electrical & Electronic ( <i>06n=6</i> ) ( <i>07n=8</i> )	-	-	2	4	-	-	4	4
Financials ( <i>06n=13</i> ) ( <i>07n=14</i> )	6	7	3	5	-	-	4	2
Food & Beverage ( <i>06n=9</i> ) ( <i>07n=12</i> )	1	1	4	5	-	-	4	6
Industrial Products ( <i>06n=10</i> ) ( <i>07n=13</i> )	1	-	7	11	-	-	2	2
Machinery, Equipment and Metal Product ( <i>06n=10</i> ) ( <i>07n=11</i> )	2	3	3	4	2	1	3	3
Miscellaneous ( <i>06n=18</i> ) ( <i>07n=19</i> )	2	1	11	12	-	-	5	6
Plantation ( <i>06n=7</i> ) ( <i>07n=10</i> )	1	1	4	6	-	-	2	3
Properties ( <i>06n=7</i> ) ( <i>07n=8</i> )	2	1	2	4	1	-	2	3
Technology ( <i>06n=10</i> ) ( <i>07n=15</i> )	-	-	6	9	1	2	3	4
Trading ( <i>06n=7</i> ) ( <i>07n=12</i> )	-	1	4	5	1	2	2	4
Utilities, Oil & Gas and Transportation ( <i>06n=10</i> ) ( <i>07n=14</i> )	2	2	5	9	-	-	3	3
<b>TOTAL ((<i>2006 n=135</i>, <i>2007 n=177</i>))</b>	<b>19</b>	<b>22</b>	<b>67</b>	<b>100</b>	<b>10</b>	<b>9</b>	<b>39</b>	<b>46</b>

Table 7: Discount Rate Methodology (Value in Use and Mixed Method Firms Only)

Sector	Minimum Pre-tax Discount Rate		Δ in Min		Maximum Pre-tax Discount rate		Δ in Max	
	2006	2007	Δ bps	Δ %	2006	2007	Δ bps	Δ %
Aerospace, Automotive & Chemicals (06n=6) (07n=13)	6.50%	6.50%	-	-	12.00%	12.00%	-	-
Constructions (06n=11) (07n=15)	5.19%	4.55%	-64	-12.33%	13.60%	13.60%	-	-
Consumer Products (06n=11) (07n=13)	2.40%	2.40%	-	-	31.50%	32.00%	50	+1.59%
Electrical & Electronic (06n=6) (07n=8)	8.00%	7.00%	-100	-12.50%	15.00%	15.00%	-	-
Financials (06n=13) (07n=14)	4.00%	4.00%	-	-	13.60%	30.3%	1670	+122.79%
Food & Beverage (06n=9) (07n=12)	4.10%	3.62%	-48	-11.71%	10.00%	10.00%	-	-
Industrial Products (06n=10) (07n=13)	3.70%	5.00%	130	+35.14%	23.00%	14.79%	-821	-35.70%
Machinery, Equipment and Metal Product (06n=10) (07n=11)	3.70%	3.80%	10	+2.70%	15.00%	14.00%	-100	-6.67%
Miscellaneous (06n=18) (07n=19)	5.00%	5.72%	72	+14.40%	12.07%	12.00%	-7	-0.58%
Plantation (06n=7) (07n=10)	5.03%	3.85%	-118	-23.46%	9.20%	12.00%	280	+30.43%
Properties (06n=7) (07n=8)	5.00%	5.00%	-	-	15.00%	15.00%	-	-
Technology (06n=10) (07n=15)	5.00%	5.00%	-	-	15.00%	15.73%	73	+4.87%
Trading (06n=7) (07n=12)	5.00%	4.92%	-8	-1.60%	14.00%	27.90%	1390	+99.29%
Utilities, Oil & Gas and Transportation (06n=10) (07n=14)	6.25%	6.25%	-	-	18.50%	16.30%	-220	-11.89%
<b>TOTAL ((2006 n=135, 2007 n=177))</b>	<b>2.40%</b>	<b>2.40%</b>	<b>-</b>	<b>-</b>	<b>31.5%</b>	<b>32.00%</b>	<b>50</b>	<b>+1.59%</b>

Table 8: Discount Rate Disclosures (Value in Use and Mixed Method Firms Only)

Sector	Multiple Explicit Growth Rates for each CGU		Single Explicit Growth Rates		Range of Growth Rates		No effective disclosure	
	2006	2007	2006	2007	2006	2007	2006	2007
Aerospace, Automotive & Chemicals (06n=6) (07n=13)	1	1	-	2	-	-	5	10
Constructions (06n=11) (07n=15)	-	-	3	5	1	1	7	9
Consumer Products (06n=11) (07n=13)	1	1	4	4	2	3	4	5
Electrical & Electronic (06n=6) (07n=8)	-	-	-	-	-	1	6	7
Financials (06n=13) (07n=14)	1	2	3	4	-	1	9	7
Food & Beverage (06n=9) (07n=12)	-	-	2	2	-	-	7	10
Industrial Products (06n=10) (07n=13)	2	3	1	1	2	3	5	6
Machinery, Equipment and Metal Product (06n=10) (07n=11)	-	1	2	2	1	-	7	8
Miscellaneous (06n=18) (07n=19)	3	2	4	4	1	1	10	12
Plantation (06n=7) (07n=10)	1	1	2	3	-	1	4	5
Properties (06n=7) (07n=8)	-	-	3	3	1	-	3	5
Technology (06n=10) (07n=15)	-	1	7	9	-	-	3	5
Trading (06n=7) (07n=12)	-	-	3	5	-	2	4	5
Utilities, Oil & Gas and Transportation (06n=10) (07n=14)	2	3	4	6	-	1	4	4
<b>TOTAL ((2006 n=135, 2007 n=177))</b>	<b>11</b>	<b>15</b>	<b>38</b>	<b>50</b>	<b>8</b>	<b>14</b>	<b>78</b>	<b>98</b>

Table 9: Growth Rate Methodology (Value in Use and Mixed Method Firms Only)



Sector	Minimum Terminal Value Growth Rate		$\Delta$ in Minimum Terminal Value Growth Rate	Maximum Terminal Value Growth Rate		$\Delta$ in Max Terminal Value Growth Rate
	2006	2007	$\Delta$ bps	2006	2007	$\Delta$ bps
Aerospace, Automotive & Chemicals (06n=6) (07n=13)	35.00%	33.00%	-200	50.00%	62.00%	+1200
Constructions (06n=11) (07n=15)	1.00%	1.00%	-	8.00%	19.00%	+1100
Consumer Products (06n=11) (07n=13)	1.51%	1.50%	-1	7.65%	12.40%	+475
Electrical & Electronic (06n=6) (07n=8)	-	-	-	-	-	-
Financials (06n=13) (07n=14)	0.00%	0.00%	-	5.55%	6.70%	+115
Food & Beverage (06n=9) (07n=12)	0.00%	0.00%	-	5.00%	5.00%	-
Industrial Products (06n=10) (07n=13)	0.00%	0.00%	-	39.00%	29.00%	-1000
Machinery, Equipment and Metal Product (06n=10) (07n=11)	4.00%	2.00%	-200	10.00%	4.00%	-600
Miscellaneous (06n=18) (07n=19)	1.50%	0.00%	-150	40.80%	15.00%	-2580
Plantation (06n=7) (07n=10)	5.00%	5.00%	-	7.00%	20.00%	+1300
Properties (06n=7) (07n=8)	0.00%	0.00%	-	10.00%	5.00%	-500
Technology (06n=10) (07n=15)	6.00%	12.00%	+600	15.00%	28.00%	+1300
Trading (06n=7) (07n=12)	2.90%	3.00%	+10	5.00%	5.00%	-
Utilities, Oil & Gas and Transportation (06n=10) (07n=14)	1.50%	1.50%	-	7.00%	62.00%	+5500
<b>TOTAL ((2006 n=135, 2007 n=177))</b>	<b>0.00%</b>	<b>0.00%</b>	<b>-</b>	<b>50.00%</b>	<b>62.00%</b>	<b>+1200</b>

**Table 10: Growth Rate Disclosures (Value in Use and Mixed Method Firms Only)**

In the Malaysian scenario, the reliability of using a fair value method in estimating the recoverable amount of CGUs is questionable since there are limited active and liquid markets (Fah, 2006). This could be an explanation as to why value in use was the dominant method elected as the basis for CGU recoverable amount estimation. Hence, the next issue to be investigated was the degree to which firms using this approach complied with the resulting disclosure obligations in relation to the matters of assumed discount and growth rates pursuant to FRS 136.

Prior studies (e.g. Carlin *et al.*, 2008a) have concluded that firm disclosures in relation to these matters have exhibited a range of deficiencies including;

1. The explicit disclosure of discount rates among firms in the sample was inadequate when compared against the requirements of the standard
2. The same discount rate had been employed for every CGU within the firm, which did not reflect an appropriate portion of discount rate.
3. The value of the discount rate employed for estimating the recoverable amount of CGUs by some of the firms appeared unusually low
4. Inconsistent and inadequate disclosures in relation to assumed growth rates.

Tables 7 through 10 provide evidence on these matters. There is little evidence of material change in the CGU reporting or impairment testing processes adopted by firms in the research sample between first and second year of FRS adoption.

A number of observations can be made from the above data. First, approximately a quarter of sample firms in both the first and second year of FRS adoption provide no information which enables a financial statement user to meaningfully quantify the discount rate used as part of the impairment testing process. This requirement is a basic disclosure requirement of FRS 136, however many large listed organizations in Bursa Malaysia failed to fulfil the requirement either in the year or the first year of FRS adoption.

Second, as shown in Table 7, there is a significant variation in firm disclosures of the multiple explicit and single explicit discount rates, which increased by 16% and 49%, respectively. This improved the quality of disclosure pertaining to FRS 136 and suggests a degree of improvement in compliance, transparency and decision usefulness (in this domain) in the second year of adoption vis a vis the first.

Third, Table 8 evidences increases in maximum discount rates used to discount cashflow for the purpose of impairment testing. Nonetheless, there is no evidence of significant variation in the selection of discount rates between the first and second year of FRS adoption. Prior work by Carlin and Finch (2008c) on the discount rates adopted by Australian reporting entities in their first year of IFRS adoption revealed a downward bias in applied discount rates which potentially avoided the recognition of impairment charges and had a material impact on the financial statements.

Fourth, similar to the disclosure of discount rates, the disclosure of growth rates experienced an increase in the multiple explicit and single explicit growth rates by 36 % and 32% respectively (see Table 9). This is also consistent with

a degree of improvement in practice in the second year of adoption when compared to the initial adoption year.

## 5. Conclusion

The International Accounting Standards Board plans to produce a single set of high-quality global reporting standards to eliminate incomparability. The new implementation is aimed at achieving convergence in the world of accounting. Starting from 1 January 2006, Malaysian firms were required to implement all the Financial reporting Standards (FRSs<sup>6</sup>) issued by MASB in the preparation and presentation of financial statements. The new / revised standards are in line with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The decision to adopt IFRS and with it a standard specifically bearing on the question of goodwill reporting, FRS 136 - *Impairment of Assets*, introduced a formal requirement that goodwill acquired in a business combination no longer be amortized but rather subjected to systematic impairment testing (FRS 136, para. 55). Pursuant to this new treatment, the carrying amount of goodwill must be written down to the extent of any impairment and the impairment loss recognized in the calculation of profit (FRS 136, para. 60).

The prior lack of a compulsory standard relating to goodwill in Malaysia had resulted in considerable diversity in practice with the consequence of lower consistency, comparability and transparency. The provisions of FRS 136 provide a basis upon which these types of challenges may be resolved with the consequence of higher reporting quality. Consequently, with the higher degree of complexity in relation to the new reporting regime, it is possible to produce insight into organizational responses to accounting change.

Prior research on the efficacy of the new reporting framework has focussed on the level of compliance and quality of disclosures in relation to IFRS based reporting. The results demonstrated a higher rate of non-compliance and poor quality of disclosure among firms in the year of IFRS adoption. The explanation of this could likely be that these studies drew upon data only pertaining to the first year of adoption, thus preparers and their auditors lacked experience since the new FRS 136 introduced a very high degree of complexity and detail.

Thus, in this study which examined the same problem as the precursor studies, the data were expanded and include multi-year datasets from the firms listed in Bursa Malaysia. The results show an increased in the number of companies in compliance with the disclosure requirement of FRS 136. An improvement is evident in terms of the discount rate and growth rate disclosure and as a consequence, the reporting quality has changed. The similar pattern between disclosed discount rate and the growth rate revealed that this is possibly a transient year of adoption phenomenon.

The results presented in this research provide further insight into the compliance level and quality of disclosure and individual organisational responses to accounting change. There are several issues being highlighted in relation to some companies which failed to comply with the new goodwill reporting regime. This should represent a matter of concern for policy makers and regulators alike.

## APPENDIX A

	<b>BURSA Code</b>	<b>Firm Name</b>	<b>2006 Goodwill (RM million)</b>	<b>2007 Goodwill (RM million)</b>
<b>Financial Sector</b>				
1	L:AFIN	AFFIN HOLDINGS BHD	989.74	989.74
2	L:MBAS	ALLIANZ MALAYSIA	4.99	333.53
3	L:COMS	BUMIPUTRA-COMMERCE	4,503.69	4,474.12
4	L:BURS	BURSA MALAYSIA BHD	44.72	44.72
5	L:CEMS	CAHYA MATA SARAWAK	1,037.15	61.71
6	L:KEDA	EON CAPITAL BHD	137.93	96.45
7	L:KENA	K & N KENANGA	17.61	17.61
8	L:SHAH	KUMPULAN PERANGSANG	161.02	131.60
9	L:MAIM	MALAYAN UNITED INDS	79.31	218.16
10	L:MBFH	MBF HOLDINGS BERHAD	25.22	25.22
11	L:MPUR	MULTI-PURPOSE HLDGS	547.64	800.44
12	L:ARUS	NAIM INDAH CORP BHD	0.42	8.94
13	L:OSHM	OSK HOLDINGS	195.41	196.76
14	L:PACB	PACIFICMAS BHD	10.24	10.24
15	L:KARA	PAN MALAYSIA CAPITAL BERHAD	1.58	1.58
16	L:PBOM	PUBLIC BANK BHD	2,064.54	1,983.96
17	L:RHBC	RHB CAPITAL BERHAD	1,167.51	3,283.95
18	L:STUD	SOUTH MALAYSIA	6.21	5.20
<i>(n=18)</i>		<b>Sub-total Financial</b>	<b>10,995</b>	<b>12,684</b>
<b>Non-Financial Sector</b>				
<b>Aerospace, Automotive &amp; Chemicals</b>				
1	L:AUVE	AV VENTURES CORP	0.25	0.25
2	L:BKOO	BOON KOON GROUP	1.80	1.38
3	L:BSAI	BSA INTERNATIONAL	5.87	5.50
4	L:CMCO	CHEMICAL FIRM	191.16	191.16
5	L:DELL	DELLOYD VENTURES BHD	11.73	11.73
6	L:EPMA	EP MANUFACTURING	91.16	91.16
7	L:GESH	GE-SHEN CORP BHD	2.17	2.17
8	L:GODW	GOODWAY INTEGRATED	6.00	6.15
9	L:HIRO	HIROTAKO HLDGS BHD	2.44	2.44
10	L:GANZ	INTEGRAX BHD	128.03	128.03
11	L:KOSS	KOSSAN RUBBER	0.86	0.86
12	L:LUBB	LBI CAPITAL BHD	1.83	1.84
13	L:PTBH	PLASTRADE TECH BHD	1.79	1.79
14	L:SCOM	SCOMI GROUP BHD	547.14	485.74
15	L:SERS	SERSOL TECH BHD	0.17	0.27
16	L:SMIS	SMIS CORPORATION BHD	0.71	1.50
17	L:TRCH	TRACOMA HOLDINGS BHD	0.29	0.29
<i>(n=17)</i>		<b>Sub-total</b>	<b>993</b>	<b>932</b>

BURSA Code	Firm Name	2006 Goodwill (RM million)	2007 Goodwill (RM million)
<b>Constructions</b>			
18	L:AHM AHMAD ZAKI RES	3.75	3.75
19	L:CIMA CEMENT INDUSTRIES	66.69	66.69
20	L:SUNW DOLOMITE CORPORATION	12.26	10.61
21	L:KENH KEN HOLDINGS BERHAD	0.54	0.18
22	L:KIMI KIM HIN INDUSTRY BHD	10.63	10.63
23	L:MACE LAFARGE MALAYAN	1,188.43	1,188.43
24	L:LCLC LCL CORPORATION BHD	0.66	2.55
25	L:LDAN LEBAR DAUN BERHAD	11.80	11.80
26	L:TIMB LEWEKO RESOURCES BHD	2.69	2.69
27	L:LOHL LOH & LOH CORP	0.19	0.19
28	L:GELF MAXTRAL INDUSTRY BHD	98.01	98.43
29	L:MIHO MINPLY HOLDINGS	0.01	1.69
30	L:MITR MITRAJAYA HOLDINGS	4.04	3.29
31	L:MQTE MQ TECHNOLOGY BHD	0.96	0.96
32	L:LAMC PRINSIPTEK CORP BHD	8.26	8.26
33	L:SEAC SEACERA TILES BHD	3.50	3.50
34	L:SENT SPK-SENTOSA CORP	18.50	22.02
35	L:UEMB UEM BUILDERS BHD -	80.34	80.34
36	L:RENO UEM WORLD BHD	474.11	516.92
37	L:VTIB VTI VINTAGE BERHAD	24.63	24.63
38	L:WHIT WHITE HORSE BERHAD	0.68	0.68
39	L:ZECO ZECON BERHAD	3.52	3.18
(n=22)	<b>Sub-total</b>	<b>2,014</b>	<b>2,061</b>
<b>Consumer Products</b>			
40	L:APPI APP INDUSTRIES BHD	2.66	2.66
41	L:ROTM BRITISH AMER TOBACCO	411.62	411.62
42	L:DEBH DEGEM BHD	7.89	7.89
43	L:EKOW EKOWOOD INTN'L BHD	0.13	0.13
44	L:EMIC EMICO HOLDINGS BHD	0.62	0.55
45	L:GOPH GOLDEN PHAROS BERHAD	0.19	0.19
46	L:LIH LII HEN INDUSTRIES	0.18	0.18
47	L:GEAH MAXBIZ CORPORATION	65.61	40.84
48	L:MWEH MWE HOLDINGS BERHAD	18.78	16.48
49	L:NHFH NEW HOONG FATT	31.23	31.23
50	L:ORNH ORIENTAL HOLDINGS	26.68	31.87
51	L:PARN PARAGON UNION BERHAD	1.77	0.98
52	L:PNSL PELIKAN INT'L CORP	81.03	117.37
53	L:PERL PPB GROUP BHD	33.32	73.03
54	L:UMWH UMW HOLDINGS BERHAD	20.13	56.98
(n=15)	<b>Sub-total</b>	<b>702</b>	<b>792</b>



ASX Code	Firm Name	2006 Goodwill (RM million)	2007 Goodwill (RM million)	
<b>Electrical &amp; Electronic</b>				
55	L:AUIB	AIC CORPORATION BHD	5.71	5.09
56	L:ASSU	ASTRAL SUPREME BHD	22.69	22.69
57	L:PPAS	COMPUGATES HLDGS	115.68	115.68
58	L:DATS	CUSCAPI BERHAD	8.60	8.60
59	L:DTCB	DUFU TECHNOLOGY CORP	0.03	0.03
60	L:EFFI	EFFICIENT E-SOL BHD	1.58	1.58
61	L:JOTE	JOTECH HOLDINGS	7.68	1.94
62	L:KHHO	KHIND HOLDINGS	1.43	1.95
63	L:LINE	LINEAR CORP BHD	2.20	0.09
64	L:LIB	LUSTER INDUSTRIES	6.97	8.97
65	L:MUHI	MUHIBBAH ENGINEERING	0.57	0.57
66	L:PIEI	P.I.E. INDUSTRIAL	1.72	1.72
67	L:PILE	PILECON ENGINEERING	9.28	9.28
68	L:BELL	SCOMI ENGINEERING	213.78	218.51
69	L:UNIS	UNISEM (M) BERHAD	54.95	123.51
(n=15)	<b>Sub-total</b>	<b>453</b>	<b>520</b>	
<b>Food &amp; Beverage</b>				
70	L:EFUT	ECOFUTURE BERHAD	2.03	2.03
71	L:EMIV	EMIVEST BHD	4.02	4.02
72	L:SINM	FARM'S BEST BHD	13.74	11.54
73	L:HUNZ	HUNZA CONSOLIDATION	0.20	0.20
74	L:HUSI	HUP SENG INDUSTRIES	13.23	13.23
75	L:MAME	MAMEE-DOUBLE DECKER	0.17	0.17
76	L:NEST	NESTLE (MALAYSIA)	61.02	61.02
77	L:PACE	PAN MALAYSIA CORP	58.21	58.21
78	L:BRID	PREMIUM NUTRIENTS	27.23	27.23
79	L:PINW	PW CONSOLIDATED BHD	4.94	5.17
80	L:AYAM	QSR BRANDS BERHAD	50.61	50.61
81	L:REXI	REX INDUSTRY BERHAD	12.62	12.62
82	L:SIND	SINDORA BERHAD	14.44	14.31
83	L:TWIN	TRADEWINDS (M) BHD	88.14	87.28
84	L:YEEL	YEE LEE CORPORATION	5.01	3.64
(n=15)	<b>Sub-total</b>	<b>356</b>	<b>351</b>	
<b>Industrial Products</b>				
85	L:ABRI	ABRIC BHD	6.26	10.09
86	L:ADVS	ADVANCE SYNERGY BHD	103.54	103.54
87	L:CBIP	CB IND PRODUCT HLDGS	9.95	10.13
88	L:COAS	COASTAL CONTRACTS	5.88	5.88
89	L:EKIB	EMAS KIARA IND BHD	3.19	3.19
90	L:ENGL	ENGLOTECHS HOLDING	0.77	0.77
91	L:EVEB	EVERGREEN FIBREBOARD	12.86	13.53
92	L:FIP	FURNIWEB INDUSTRIAL	1.92	1.92
93	L:JILI	GEFUNG HOLDINGS BHD	68.02	61.88
94	L:TAIP	GUNUNG CAPITAL BHD	0.66	0.66
95	L:HEVE	HEVEABOARD BERHAD	2.95	2.95
96	L:HILI	HIL INDUSTRIES BHD	0.85	4.93
97	L:LATE	LATEXX PARTNERS	20.36	20.36

			<b>2006</b>	<b>2007</b>
<b>ASX Code</b>	<b>Firm Name</b>		<b>Goodwill (RM million)</b>	<b>Goodwill (RM million)</b>
98	L:ORNA	ORNAPAPER BHD	1.63	1.63
99	L:PERI	PERISAI PETROLEUM	22.47	0.04
100	L:PPHB	PUBLIC PACKAGES HLDG	0.68	0.68
101	L:RUBB	RUBBEREX CORP	2.79	2.79
102	L:VCBH	VERSATILE CREATIVE	29.77	18.77
103	L:ASKI	WAWASAN TKH	31.59	30.83
<i>(n=19)</i>		<b>Sub-total</b>	<b>326</b>	<b>295</b>
<b>Machinery, Equipment and Metal Product</b>				
104	L:BIGS	B.I.G. INDUSTRIES	0.84	0.84
105	L:CANO	CAN-ONE BERHAD	1.71	1.71
106	L:CHOO	CHOO BEE METAL IND	1.38	1.38
107	L:CNAS	CN ASIA CORP	0.14	0.14
108	L:FAFV	FAVELLE FAVCO BERHAD	0.57	0.57
109	L:GOLS	GOLSTA SYNERGY BHD	1.33	1.33
110	L:HOW	HO WAH GENTING BHD	0.29	0.29
111	L:KNMG	KNM GROUP BHD	4.23	6.67
112	L:LYSA	LYSAGHT GALVANIZED	0.01	0.01
113	L:METD	METROD (MALAYSIA)	24.50	24.50
114	L:MMCM	MMC CORPORATION BHD	1,713.88	2,052.99
115	L:PMBT	PMB TECH BERHAD	0.79	0.79
116	L:PMET	PRESS METAL BERHAD	12.33	13.48
117	L:PRES	PRESTAR RESOURCES	1.83	1.68
118	L:SOST	SOUTHERN STEEL BHD	48.99	48.99
119	L:PDIH	WAH SEONG CORP	122.59	114.00
120	L:YUNG	YUNG KONG	1.44	1.44
<i>(n=17)</i>		<b>Sub-total</b>	<b>1,937</b>	<b>2,271</b>
<b>Miscellaneous</b>				
121	L:DKSH	DKSH HOLDINGS	3.60	3.60
122	L:EDEN	EDEN INC. BERHAD	4.21	4.21
123	L:FITT	FITTERS DIVERSIFIED	14.99	15.11
124	L:INTU	INTI UNIVERSAL	26.51	25.66
125	L:JOBS	JOBSTREET CORP BHD	2.81	2.65
126	L:KPJH	KPJ HEALTHCARE BHD	100.52	100.47
127	L:MBMR	MBM RESOURCES BERHAD	12.88	13.55
128	L:MTOB	MEASAT GLOBAL BHD	1,186.59	1,186.59
129	L:MMOD	M-MODE BERHAD	5.12	5.12
130	L:MVMU	NV MULTI	6.74	8.28
131	L:OCON	OCB BERHAD	61.22	61.22
132	L:PEPE	PETRA PERDANA BERHAD	25.46	22.92
133	L:PHAR	PHARMANIAGA BERHAD	31.62	31.62
134	L:PICO	PROGRESSIVE IMPACT	13.70	13.70
135	L:PUNC	PUNCAK NIAGA HLDGS	185.81	185.81
136	L:HABO	SCOMI MARINE BHD	452.24	424.06
137	L:SYST	SEG INTERNATIONAL	29.81	29.81
138	L:SURI	SURIA CAPITAL HLDGS	4.49	4.49
139	L:SYMP	SYMPHONY HOUSE BHD	105.71	108.91
140	L:TEXC	TEX CYCLE TECH	0.58	0.58
141	L:PERN	TRADEWINDS CORP BHD	39.65	5.47
142	L:TRIU	TRIUMPHAL ASSOCIATES	4.46	4.46
<i>(n=22)</i>		<b>Sub-total</b>	<b>2,319</b>	<b>2,258</b>

			<b>2006</b>	<b>2007</b>
<b>ASX Code</b>	<b>Firm Name</b>		<b>Goodwill (RM million)</b>	<b>Goodwill (RM million)</b>
	<b>Plantation</b>			
143	L:BLDP	BLD PLANTATION BHD	0.07	0.07
144	L:BOUS	BOUSTEAD HOLDINGS	107.95	972.28
145	L:ETHB	ENG TEKNOLOGI HLDGS	28.55	28.12
146	L:SPOR	HARN LEN CORP BHD	7.62	7.62
147	L:KRET	KRETAM HOLDINGS BHD	9.03	9.03
148	L:MHCP	MHC PLANTATIONS BHD	18.90	16.93
149	L:NPCR	NPC RESOURCES BHD	4.28	4.38
150	L:SOPS	SARAWAK OIL PALMS	1.53	1.53
151	L:TAAN	TA ANN HOLDINGS BHD	4.01	12.40
152	L:UPHD	TH GROUP BERHAD	40.88	27.88
153	L:TRAD	TRADEWINDS PLANT	21.70	21.70
154	L:TSHR	TSH RESOURCES BERHAD	23.30	34.81
155	L:WTKB	WTK HOLDINGS BHD	8.64	28.23
<i>(n=13)</i>		<b>Sub-total</b>	<b>276</b>	<b>1,165</b>
	<b>Properties</b>			
156	L:AMRE	A & M REALTY BERHAD	18.81	20.50
157	L:ASAS	ASAS DUNIA BERHAD	1.44	1.44
158	L:BINK	BINAIK EQUITY BHD	0.51	0.51
159	L:SELC	BOUSTEAD PROPERTIES	4.36	17.07
160	L:BRIT	BRITE-TECH BHD	5.42	5.42
161	L:DAMA	DAMANSARA REALTY BHD	0.11	0.63
162	L:DJCP	DIJAYA CORPORATION	3.34	3.34
163	L:GREA	ENCORP BERHAD	153.21	140.88
164	L:FARL	FARLIM GROUP	16.70	15.68
165	L:ARMI	FURQAN BUSINESS ORG	3.10	3.10
166	L:BRIS	KUMPULAN HARTANAH	211.20	149.70
167	L:INST	LBS BINA GROUP BHD	47.46	91.54
168	L:LIEN	LIEN HOE CORPORATION	5.56	4.33
169	L:MEDI	MEDA INCORPORATED	0.81	0.81
170	L:MUTD	MUI PROPERTIES BHD	5.02	5.02
171	L:MULT	MULTI-USAGE HOLDINGS	7.40	7.40
172	L:PASD	PASDEC HOLDINGS	1.94	0.82
173	L:PKIM	PK RESOURCES BERHAD	0.84	0.84
174	L:YNHA	YNH PROPERTY BHD	17.62	17.62
<i>(n=19)</i>		<b>Sub-total</b>	<b>505</b>	<b>487</b>
	<b>Technology</b>			
175	L:ASDI	ASDION BERHAD	0.04	0.03
176	L:CBST	CBS TECHNOLOGY BHD	1.51	1.51
177	L:DIST	DIS TECH HLDGS BHD	0.03	1.64
178	L:EBWO	EBWORX BERHAD	8.71	9.01
179	L:ELSF	ELSOFT RESR BHD	0.05	0.05
180	L:EXTO	EXTOL MSC BHD	2.03	3.51
181	L:FAST	FAST TRACK SOL HLDGS	1.94	1.75
182	L:GHLS	GHL SYSTEMS BERHAD	1.87	1.91
183	L:GRAF	GRAND-FLO SOL BHD	13.59	10.35
184	L:HDPY	H-DISPLAYS (MSC) BHD	5.93	5.93
185	L:HEIT	HEITECH PADU BERHAD	12.34	12.34
186	L:INSB	INS BIOSCIENCE BHD	3.64	3.64
187	L:INTE	INTELLIGENT EDGE TEC	0.04	0.04

			<b>2006</b>	<b>2007</b>
<b>ASX Code</b>	<b>Firm Name</b>		<b>Goodwill (RM million)</b>	<b>Goodwill (RM million)</b>
188	L:IRIS	IRIS CORPORATION	134.13	134.13
189	L:ISSC	ISS CONSULTING	0.80	15.64
190	L:KOTB	K-ONE TECHNOLOGY BHD	0.02	5.55
191	L:MICR	MICROLINK SOL BHD	2.82	2.82
192	L:PACO	PATIMAS COMPUTERS	50.56	52.13
193	L:SMRT	SMR TECHNOLOGIES BHD	6.63	6.64
194	L:TMSH	THE MEDIA SHOPPE BERHAD	3.14	3.14
195	L:YGLC	YGL CONVERGENCE BHD	1.24	2.27
<i>(n=21)</i>		<b>Sub-total</b>	<b>251</b>	<b>274</b>
		<b>Trading</b>		
196	L:AMWA	AMWAY (MALAYSIA)	4.78	4.78
197	L:CNIB	CNI HOLDINGS BERHAD	0.00	0.00
198	L:GENT	GENTING BERHAD	91.40	1,246.20
199	L:HAIS	HAISAN RESOURCES BHD	3.10	7.98
200	L:KAMD	KAMDAR GROUP (M) BHD	0.43	0.43
201	L:KHOG	KFC HOLDINGS BERHAD	42.76	42.76
202	L:HAIM	KPS CONSORTIUM BHD	43.15	43.15
203	L:MAGU	MAGNUM CORPORATION	30.70	97.99
204	L:SEID	MANGIUM INDUSTRIES	2.46	2.46
205	L:MECH	MECHMAR CORPORATION	3.43	3.43
206	L:MEGA	MEGA FIRST CORP	7.79	10.03
207	L:MULP	MULPHA INTERNATIONAL	13.09	12.69
208	L:KINK	OPUS GROUP BERHAD	50.48	90.70
209	L:ANAK	PERAK CORP BHD	23.81	23.81
210	L:PSB	PULAI SPRINGS BHD	3.80	3.80
211	L:STAR	STAR PUBLICATIONS	25.28	21.93
212	L:TEXT	TEXCHEM RESOURCES	49.75	51.37
213	L:INGR	UNIMECH GROUP BHD	1.24	3.40
214	L:WARI	WARISAN TC	0.61	0.61
<i>(n=19)</i>		<b>Sub-total</b>	<b>398</b>	<b>1,668</b>
		<b>Utilities, Oil &amp; Gas, Transportation</b>		
215	L:LELO	CENTURY LOGISTICS	3.73	3.73
216	L:CCPP	EASTERN PACIFIC	9.66	14.40
217	L:FRON	FRONTKEN CORP BHD	2.84	2.81
218	L:GPAC	GREEN PACKET BERHAD	19.98	11.88
219	L:INLO	INTEGRATED LOGISTICS	0.10	0.12
220	L:KONS	KONSORTIUM LOGISTIK	11.69	10.91
221	L:MESB	MESB BERHAD	24.66	24.66
222	L:MTCH	MTOUCHE TECH BHD	2.92	1.64
223	L:KECT	NCB HOLDINGS BHD	1.29	1.29
224	L:NEPL	NEPLINE BERHAD	0.77	0.82
225	L:ABAR	OILCORP BHD	68.71	75.40
226	L:AAGC	SAAG CONSOLIDATED	1.05	1.05
227	L:SALC	SALCON BERHAD	11.24	3.68
228	L:GINV	SUMATEC RESOURCES	55.60	54.49
229	L:TKOM	TELEKOM MALAYSIA BHD	6,826.10	7,271.10
230	L:TIDO	TIME DOTCOM BHD	591.40	591.40
231	L:TIME	TIME ENGINEERING BHD	2.24	2.24
<i>(n=17)</i>		<b>Sub-total</b>	<b>7,634</b>	<b>8,072</b>
<i>(n=231)</i>		<b>Sub-total Non-Financial</b>	<b>18,164</b>	<b>21,146</b>
<i>(n=249)</i>		<b>Grand Total</b>	<b>29,159</b>	<b>33,829</b>



\* **Author contact details:**

Nur Hidayah Laili  
 Macquarie Graduate School of Management  
 Macquarie University  
 North Ryde NSW 2109  
 AUSTRALIA

**Notes**

- 1 Malaysian Accounting Standards Board (MASB) standards are now called FRSs. In 2005, MASB renamed and renumbered the MASBs as FRSs and the numbers coincide closely with the numbering of IASs and IFRSs.
- 2 636 firms from the Main Board, 222 firms from the Second Board and 122 firms from the MESDQ market, (list updated as at 18 November 2008).
- 3 Source: Worldscope, Datastream
- 4 Source: Worldscope, Datastream
- 5 Pursuant to FRS 114 – *Segment Reporting*.
- 6 MASB standards are now called FRSs. In 2005, MASB renamed and renumbered the MASBs as FRSs and the numbers coincide closely with the numbering of IASs and IFRSs.

**References**

- (2005). All Aboard The FRS Boat. *Accountants Today*. December: 20-23.
- Aboody, D., R. Kasznik, *et al.* (2000). "Purchase versus Pooling in Stock-for-Stock Acquisitions: Why Do Firms Care?" Working Paper - September.
- Ali, A. and L.-S. Hwang (2000). "Country-specific factors related to financial reporting and the value relevance of accounting data." *Journal of Accounting Research* 38(1): 1-21.
- Armstrong, C. S., M. E. Barth, *et al.* (2008). "Market Reaction to the Adoption of IFRS in Europe." Working Paper 09-032.
- Asami, Y. (2006). "The Changes of Accounting Standards and Structural Reform in Japanese companies." *Public Policy Review* 2(1): 233-282.
- Burchell, S., C. Clubb, *et al.* (1980). "The Roles of Accounting in Organizations and Society." *Accounting, Organizations and Society*. 5(1): 5-27.
- Burgstahler, D. C., L. Hail, *et al.* (2007). "The importance of reporting incentives: earnings management in European private and public firms." *The Accounting Review*, forthcoming.
- Carlin, T. M. and N. Finch (2007). "Early Impressions of Australia's Brave New World of Impairment Testing." MGSM Working Paper 2007-1.
- Carlin, T. M. and N. Finch (2008c). "Discount Rates in Disarray: Evidence on Flawed Goodwill Impairment Testing." MGSM Working Paper 2008-11.
- Carlin, T. M., N. Finch, *et al.* (2008a). "The impact of an enforceable Standard in Malaysia, Assessing the Compliance of Disclosures for Large First Time Adopters Under FRS-136." MGSM Working Paper 2008-12.
- Carlin, T. M., N. Finch, *et al.* (2008b). "Questioning the Big 4 Audit Quality Assumption: New Evidence from Malaysia." MGSM Working Paper 2008-9.
- Carlin, T. M. and G. Ford (2006). "A Governance Perspective on Executive Options Plans – Reflections on Some Australian Empirical Evidence." *Australian Accounting Review* 16(1): 75-84.
- Cooper, D. J. and M. J. Sherer (1984). "The value of corporate accounting reports: Arguments for a political economy of accounting." *Accounting, Organizations and Society*, 9(3-4): 207-232.
- Daske, H., L. Hail, *et al.* (2008). "Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences." The University of Chicago Graduate School of Business Working Paper No.12.
- Dent, J. F. (1990). "Strategy, organization and control: Some possibilities for accounting research." *Accounting, Organizations and Society*. 15(1-2): 3-25.
- Fah, F. Y. (2006). "Understanding Fair Value Accounting." *New Straits Times Kuala Lumpur, Malaysia*.
- Haw, I.-M., B. Hu, *et al.* (2004). "Ultimate ownership, income management, and legal and extra-legal institutions." *Journal of Accounting Research* 42(2): 423-62.

- Hopwood, A. G. (1987). "The archeology of accounting systems." *Accounting, Organizations and Society*. 12(3): 207-234.
- Hussein, M. E. (1981). "The innovative process in financial accounting standards setting." *Accounting, Organizations and Society*. 6(1): 27-37.
- Leuz, C. and F. Oberholzer-Gee (2006). "Political relationships, global financing, and corporate transparency: evidence from Indonesia." *Journal of Financial Economics* 81(12): 411-39.
- Leuz, C. and R. E. Verrecchia (2000). "The economic consequences of increased disclosure." *Journal of Accounting Research* 38: 91-124.
- Lins, K. V., H. Servaes, *et al.*(2008). "Does Derivative Accounting Affect Risk Management? International Survey Evidence." London Business School Working Paper.
- Lys, T. and L. Vincentb (1995). "An analysis of value destruction in AT&T's acquisition of NCR." *Journal of Financial Economics* 39: 353-378.
- March, J. G. (1987). "Ambiguity and accounting: The elusive link between information and decision making." *Accounting, Organizations and Society*, 12(2): 153-168.
- Meyer, J. W. (1986). "Social Environments and Organizational Accounting." *Accounting Organizations and Society* 11(4/5): 345-356.
- Moehrle, S. R., J. A. Reynolds-Moehrle, *et al.*(2000). "Everyone Out of the Pool." *Journal of Accountancy* May: 41-45.
- Perramon, J. and O. Amat (2006). "IFRS Introduction And Its Effect On Listed Companies In Spain." <http://ssrn.com/abstract=1002516>.
- Schadewitz, H. and M. Vieru (2006). "Relevance and Sufficiency of Pre-reporting: Transition of Finnish Small and Medium-sized Listed Companies to IFRS." Working paper.
- Soderstrom, N. S. and K. J. Sun "IFRS Adoption and Accounting Quality: A Review."