

# A Longitudinal Compliance Study of Goodwill Accounting In Malaysia

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*Prior to the adoption of an IFRS based reporting framework in Malaysia, no binding standard governing goodwill had ever reached the point of implementation. The requirement that this new standard be adopted as the basis for goodwill accounting and reporting represents a substantial challenge to Malaysian reporting entities and their auditors. They have to deal with a more rigorous technique of goodwill impairment testing and significant expended disclosure requirements in particular in relation to goodwill and its impairment. Focussing specifically on compliance and disclosure quality relating to the highly detailed requirements set out in FRS 136, this paper finds evidence that the quality of the responses by large listed Malaysian firms has indeed been mixed, with many firms producing financial reports that have failed to meet the mark of the new standard.*

Field of Research: Financial Reporting Standard

## 1. Introduction

The recently introduced International Financial Reporting Standard (IFRS) on goodwill are commonly regarded as some of the most controversial aspects of financial reporting (Wines *et al.*, 2007). One consequence of this has been the diversity of practice in relation to goodwill accounting and reporting (Hoogendoorn, 2006; Carlin & Finch, 2008a). Malaysia represents a good case in point. Prior to the adoption of an IFRS based reporting framework in that country, no binding standard governing goodwill had ever reached the point of implementation.

Whereas the lack of a binding standard relating to goodwill had resulted in considerable diversity in practice with the consequence of lower consistency, comparability and transparency, the provisions of FRS 136 – *Impairment of Assets* conceivably provide a basis upon which these types of challenges may be resolved with the consequence of higher reporting quality. In particular, the highly prescriptive disclosure requirements under the IFRS standard pertaining to the nature of goodwill impairment testing processes undertaken by reporting entities provides far greater transparency than has previously been the case (Sevin *et al.*, 2007).

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The achievement of transparency and quality benefits of any jurisdiction adopting new standards is contingent upon the degree of realized compliance post standard adoption. This is an empirical question rather than a fact which ought to be treated as given. As such, using data drawn from a sample of 275 firm in 2006 and 490 firms in 2007, this paper looks specifically at evidence related to disclosure of goodwill with a variety of the provisions under the requirement of FRS 136. The analysis of this study focuses on the quality of goodwill disclosures by these firms with an assessment of evidence of variation in the first two year of IFRS implementation in Malaysia. The paper is set out as follows. Section 2 comprises a review on goodwill accounting. Section 3 contains a review of the data and methodology employed for the purposes of the study. Section 4 contains a discussion of the results of study while section 5 sets out key conclusions and suggests some implications of this study for practice and potential further research.

## **2. Relevant Literature**

Accounting theorists have long debated and rarely agreed on the nature and accounting treatment of goodwill (More, 1891; Sands, 1963; Gynther, 1969; Carnegie & Gibson, 1987; Carnegie & Gibson, 1992). Consequently, the shift to the IFRS “capitalise and test for impairment” approach and its analogues in US GAAP should therefore not be seen as a transition to an inherently new or superior technology. This much has already been made clear in a growing body of literature critical of both the conceptual foundations and practical consequences of the IFRS and US GAAP goodwill impairment testing regimes. Watts (2003) represents an early and high profile example of some of the criticisms which have been levelled at this approach. He characterises the FASB’s decision to opt for an impairment testing based regime in SFAS142 as an error in judgement likely to leave open the pathway to aggressive earnings management and systematic asset value over statements.

Other commentators, including Massoud and Rayborn (2003) have expressed similar sentiments, and questioned the desirability of a reporting framework so reliant on subjective judgements without appropriate verification checks and balances. Others have asserted the existence of obvious technical flaws in the manner in which asset impairment standards have been drafted (Haswell & Langfield-Smith, 2008). Consistent with the concerns raised in these conceptual contributions, evidence is accumulating in the empirical literature of an array of problems associated with impairment testing regimes. Contributions to the literature by practitioners have also expressed strong concerns about the operation and effect of the impairment based regime for goodwill reporting, one author recently offering the view that the IFRS impairment framework is likely to yield misleading results at odds with any discernible thread of logic or principle (Lonergan, 2007).

All of these authors express concerns, for varying reasons, about the quality of the information product emanating from the impairment testing framework for goodwill measurement and reporting. Yet in expressing their concerns, these contributors to the literature appear to have neglected the question of compliance. That is, researchers appear to have assumed that preparers of financial statements systematically comply with the technical requirements of the accounting standards which embody the impairment testing framework and that the information quality deficiencies which are attributed to the operation of the framework result from factors

such as the opportunistic exercise of discretion. While not equating technical compliance with reporting standards and the quality or serviceability of the resulting disclosures, the degree to which firms adhere to the requirements of applicable standards must nonetheless be viewed as a matter which has the capacity to materially influence and in cases of non compliance detract from the decision usefulness of financial statements. Yet, as argued above, the compliance degree question has thus far been overlooked in the context of research on impairment testing, even though the impairment testing procedures mandated under IFRS are highly complex and represent a substantial compliance challenge. Consequently it is this matter which constitutes the principal focus of the research reported in this paper. Section 3 below sets out details of the methodology employed and data drawn upon for the purposes of investigating this question.

### **3. Methodology**

This paper focuses on the level of compliance and disclosure quality of goodwill in regards to the requirement of FRS 136 – *Impairment of Assets* by examining the first two years of IFRS based reporting. Within Malaysia, all business combinations with the agreement date are on or after 1 January 2006 are required to comply with FRS 136 *Impairment of Assets*. Thus, 2006 represents the first reporting period for Malaysian companies during it was mandatory to apply FRS 136. This study restricts the sample to firms with fiscal years ended December 31 in 2006 to eliminate the effect of an early adoption that is permitted to firms with fiscal year ended other than December, in a manner consistent with previous study by Vichitsarawong (2007).

The data for this study was selected from all Malaysia firms listed on the Bursa Malaysia. The final data for this study was drawn from a sample of 275 firms in 2006 and 490 firms in 2007 reported goodwill as comprising an element of their asset base in their 2006 and 2007 consolidated financial statements with fiscal year ended December 31 in year 2006. The process of construction the final research sample proceeded as follows. First, out of 1053 firms listed in Bursa Malaysia for 2006 and 2007, 555 firms in 2006 and 563 firms in 2007 were eliminated with no reported goodwill as comprising an element of their asset base in their 2006 and 2007 consolidated financial statements. A further 223 firms in 2006 were eliminated as the fiscal year ended other than December, 2006 and the final sample of 275 firms in 2006 and 490 firms in 2007 satisfies the selection criteria. The market capitalization of the 275 sample firms was RM RM240.3 million at 2006 and RM RM635.1 million at 2007, which represented 33.5% and 60.3% respectively of entire market capitalization of the Bursa Malaysia. To facilitate analysis of the final research sample, the 275 firms in 2006 and 490 firms in 2007 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 RM36.5 billion and the average goodwill per firm was \$146 million. In 2007, total goodwill across the 249 sample firms comprised RM 53.4 billion and the average goodwill per firm was \$109 million. These figures are shown in Table 1.

**Table 1 – Overview of Research Sample**

Sector	No. of Companies		Total Goodwill (RM million)		Average Goodwill (RM million)		Goodwill as % Total Assets		% Δ in Average Goodwill
	2006	2007	2006	2007	2006	2007	2006	2007	
Automotive & Chemicals	19	17	1,043	932	61	55	12.7%	11.0%	-10.6%
Constructions	24	50	2,015	2,865	92	57	7.8%	5.1%	-37.4%
Consumer Products	17	37	702	1,421	47	38	3.3%	3.2%	-17.9%
Electrical & Electronic	19	30	463	615	31	21	8.3%	6.5%	-33.6%
Financials	23	33	14,395	14,659	800	444	1.7%	1.4%	-44.5%
Food & Beverage	19	29	427	1,413	28	49	3.6%	6.7%	71.2%
Industrial Products	19	45	326	764	17	17	6.8%	3.1%	-1.0%
Machinery and Equipment	19	32	1,949	3,077	115	96	10.4%	4.9%	-16.1%
Miscellaneous	23	43	2,573	4,478	117	104	7.6%	5.7%	-11.0%
Plantation	13	21	276	2,095	21	100	1.9%	4.8%	369.9%
Properties	19	41	505	788	27	19	3.7%	2.1%	-27.7%
Technology	21	33	251	540	12	16	13.4%	13.2%	36.9%
Trading	22	43	409	2,908	22	68	1.0%	3.4%	214.2%
Utilities and Transportation	18	36	11,121	16,886	654	469	16.7%	7.6%	-28.3%
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>36,455</b>	<b>53,441</b>	<b>146</b>	<b>109</b>	<b>3.3%</b>	<b>3.1%</b>	<b>-25.5%</b>

In order to fulfil the objective of this paper, key disclosure requirements under FRS 136 are of potential interest and can be investigated. Hence, a central starting point relates to the cash generating units to which goodwill acquired in a business combination is allocated and test for impairment. The allocation of goodwill to each CGU is a crucial process, as it reflects where any impairment loss will be ultimately recognized. 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 purpose. This will tend to lessen the burden in preparing the financial reporting 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.

Thus, the investigation process begins by comparing the number of reported controlled subsidiary entity, business segment and defined cash generating unit for each companies in the sample. This is to look at the level of aggregation of CGUs by those companies, and to have a better understanding on the characteristics of the goodwill reporting regime. Then, to assess the completeness and quality of disclosures for goodwill at the CGU level we compare 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 is the way to which the recoverable amount of CGU assets has been estimated. 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 disclosure which method has been adopted. 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. 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. Hence, a potential research interest here is to examine the selection method in determining the recoverable amount of CGUs, and the frequency of companies' selection for each method. Further, key assumptions such as discount rates, growth rates, forecast periods and terminal value periods are scrutinised in order to have more understanding on the operation of goodwill reporting regime. The disclosure pertaining to discount rates and growth rates made by companies in the sample is reported in section four.

To assess the quality of disclosure, it was necessary to develop taxonomy for both discount rates and growth rates. The taxonomy applied for discount rates required each company in the sample to allocate to one of four elements i.e 'multiple explicit discount rates', 'single explicit discount rates', and 'range of discount rate', and 'no effective disclosure'. Allocation of a company in the first category signified that the company is fully complied with the requirements of FRS 136 in relation to discount rate. The companies in this category have disclosed the details of the specific discount rates used to discount cash flow for the purpose of impairment testing for each of the CGU, and used multiple discount rate which reflect the risk characteristics of each CGU. It also indicate that the quality of disclose was adequate in giving useful insight for external analysts to rely on the process of impairment testing employed by the sample company.

Companies in the second category i.e. 'single explicit discount rate' indicated that the company disclose a single discount for each of the CGU. Meaning that the company allocate the same amount of discount rate for each CGU even though CGU risk levels were arguably different. In assessing the quality of compliance and disclosure, the company in this category is classified as lower than the companies in the first category. In the third category i.e. 'range of discount rates' companies that was been categorized under it still provide information regarding the process of impairment testing. However, companies under third category disclosed a range of discount rates used across a range of CGUs. This is questionable in term 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.

Finally, companies in fourth category i.e. 'no effective disclosure' provide inadequate disclosure regarding the discount rate, as a result it provide no meaningful information for external analysts relating to the impairment testing process. Therefore, companies in this category breach the requirement under FRS 136 and the quality of disclosure is classified as poor. Relating to the growth rate as required under FRS 136, the same methodology employed. Companies in the sample allocated their growth rate to four categories i.e. 'multiple growth rates and periods for each CGU', 'single growth rate and period for all CGUs', 'partial disclosure only' and 'no effective disclosure'. The results of the analysis are reported in section four.

#### **4. Results and Discussion**

This paper focuses on the disclosure requirements for goodwill impairment pertaining to FRS 136 *Impairment of Assets*. Thus, the first issue to focus is on the allocation of goodwill disclosed in the balance sheet to CGUs as an element of impairment testing. In Table 2 below, it is apparent that there is an alarming high level of non compliance, however, the rate of compliance slightly increased from 43.3% in 2006 to 45.7% in 2007.

**Table 2 – CGU Allocation Compliance by Sector**

Sector	No. of Companies		Fully compliant (number of firms)		Non-compliant (number of firms)	
	2006	2007	2006	2007	2006	2007
Automotive & Chemicals	19	17	6 (5.0%)	7 (3.1%)	13 (8.3%)	10 (3.8%)
Constructions	24	50	9 (7.6%)	21 (9.4%)	15 (9.6%)	29 (10.9%)
Consumer Products	17	37	9 (7.6%)	21 (9.4%)	8 (5.1%)	16 (6.0%)
Electrical & Electronic	19	30	4 (3.4%)	9 (4.0%)	15 (9.6%)	21 (7.9%)
Financials	23	33	16 (13.4%)	21 (9.4%)	7 (4.5%)	12 (4.5%)
Food & Beverage	19	29	7 (5.9%)	12 (5.4%)	12 (7.7%)	17 (6.4%)
Industrial Products	19	45	8 (6.7%)	17 (7.6%)	11 (7.1%)	28 (10.5%)
Machinery and Equipment	19	32	8 (6.7%)	14 (6.3%)	11 (7.1%)	18 (6.8%)
Miscellaneous	23	43	16 (13.4%)	24 (10.7%)	7 (4.5%)	19 (7.1%)
Plantation	13	21	5 (4.2%)	12 (5.4%)	8 (5.1%)	9 (3.4%)
Properties	19	41	9 (7.6%)	20 (8.9%)	10 (6.4%)	21 (7.9%)
Technology	21	33	7 (5.9%)	11 (4.9%)	14 (9.0%)	22 (8.3%)
Trading	22	43	3 (2.5%)	17 (7.6%)	19 (12.2%)	26 (9.8%)
Utilities and Transportation	18	36	12 (10.1%)	18 (8.0%)	6(3.8%)	18 (6.8%)
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>119 (43.3%)</b>	<b>224 (45.7%)</b>	<b>156 (56.7%)</b>	<b>266 (54.29%)</b>

The second issue is to analyse the aggregation of goodwill to CGU and data pertaining to these matters is set out in Tables 3 and 4, below. First, subject to the number of CGUs disclosed for the purpose of impairment testing, firms failed to disclose the same rate of CGUs in the first year after the OFRS implementation (2007) compared to the year of IFRS implementation (2006). Second, the result reveal that the numbers of CGUs defined was lower than the number of defined business segments in the first year after the implementation of FRS (2007) compared to the year of FRS implementation (2006). As such, it can be interpreted that at the first year after the IFRS adoption, firms tended to avoid undesired impairment charges through the aggregation of CGUs.

**Table 3 – Analysis of Business Segments and CGUs by Sector**

Sector	No. of Companies		Avg. no. of Business Segments		Avg. no. of CGUs		Ratio of CGUs to Business Segments		Δ in Ratio
	2006	2007	2006	2007	2006	2007	2006	2007	Δ
Automotive & Chemicals	19	17	2.7	2.8	1.3	1.6	0.15 : 1	0.23 : 1	53.33%
Constructions	24	50	3.0	3.3	1.7	1.8	0.21 : 1	0.23 : 1	9.52%
Consumer Products	17	37	3.4	3.0	2.3	1.9	0.36 : 1	0.38 : 1	5.56%
Electrical & Electronic	19	30	3.1	2.7	2.0	1.2	0.14 : 1	0.13 : 1	-7.14%
Financials	23	33	5.7	4.9	3.9	3.6	0.48 : 1	0.44 : 1	-8.33%
Food & Beverage	19	29	2.2	2.6	1.9	1.6	0.31 : 1	0.28 : 1	-9.68%
Industrial Products	19	45	2.8	2.8	2.4	2.0	0.36 : 1	0.28 : 1	-22.22%
Machinery and Equipment	19	32	2.6	2.8	2.6	2.1	0.43 : 1	0.33 : 1	-23.26%
Miscellaneous	23	43	2.4	2.9	2.1	1.9	0.61 : 1	0.39 : 1	-36.07%
Plantation	13	21	2.8	3.2	3.2	2.5	0.43 : 1	0.44 : 1	2.33%
Properties	19	41	3.6	3.5	2.0	1.7	0.29 : 1	0.25 : 1	-16.00%
Technology	21	33	1.7	1.7	1.5	1.7	0.33 : 1	0.36 : 1	9.09%
Trading	22	43	3.7	3.5	3.3	2.4	0.12 : 1	0.27 : 1	125.00%
Utilities and Transportation	18	36	3.2	2.9	1.7	2.1	0.37 : 1	0.35 : 1	-5.71%
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>3.1</b>	<b>3.06</b>	<b>2.3</b>	<b>1.99</b>	<b>0.33 : 1</b>	<b>0.31 : 1</b>	<b>-6.06%</b>

**Table 4 – Business Segments and CGU Aggregation by Segment**

Sector	No. of Companies		No. CGUs > No. Segments		No. CGUs = No. Segments		No. CGUs < No. Segments		No effective disclosure	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Automotive & Chemicals	19	17	-	2	-	-	6	5	13	10
Constructions	24	50	-	-	1	5	8	17	15	28
Consumer Products	17	37	1	4	1	4	7	14	8	15
Electrical & Electronic	19	30	-	-	1	3	3	6	15	21
Financials	23	33	2	4	2	-	12	17	7	12
Food & Beverage	19	29	1	4	3	1	3	8	12	16
Industrial Products	19	45	2	4	3	4	3	10	11	27
Machinery and Equipment	19	32	3	3	1	2	4	9	11	18
Miscellaneous	23	43	4	6	3	6	9	13	7	18
Plantation	13	21	3	3	2	3	-	6	8	9
Properties	19	41	1	-	-	1	9	20	9	20
Technology	21	33	2	4	3	5	3	3	13	21
Trading	22	43	2	-	1	10	-	7	19	26
Utilities and Transportation	18	36	-	3	3	5	9	10	6	18
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>21</b>	<b>37</b>	<b>24</b>	<b>49</b>	<b>76</b>	<b>145</b>	<b>154</b>	<b>259</b>
			<b>7.60%</b>	<b>7.50%</b>	<b>8.70%</b>	<b>10%</b>	<b>27.60%</b>	<b>29.60%</b>	<b>56%</b>	<b>52.90%</b>

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 5 below) indicated that the value in use method dominates the method employed to determine recoverable amount of CGUs on Malaysia for firms in the 2006 and 2007 with 48.4% and 61%, respectively.

**Table 5 Method Employed to Determine Recoverable Amount**

Sector	No. of Companies		Fair Value method		Value in Use method		Mixed Method		Method not disclosed	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Automotive & Chemicals	19	17	1		6	13			12	4
Constructions	24	50			11	28			13	22
Consumer Products	17	37			10	28	1	1	6	8
Electrical & Electronic	19	30	1		6	16			12	14
Financials	23	33	2	1	15	22	1	3	5	7
Food & Beverage	19	29	1	1	10	19			8	9
Industrial Products	19	45			7	25	3	3	9	17
Machinery and Equipment	19	32			11	18			8	14
Miscellaneous	23	43		1	18	33	1	1	4	8
Plantation	13	21			7	16			6	5
Properties	19	41	1	5	5	15	2	2	11	19
Technology	21	33			10	19		2	11	12
Trading	22	43			6	22	1	3	15	18
Utilities and Transportation	18	36			11	25			7	11
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>6</b>	<b>8</b>	<b>133</b>	<b>299</b>	<b>9</b>	<b>15</b>	<b>127</b>	<b>168</b>
			<b>2.2%</b>	<b>1.6%</b>	<b>48.4%</b>	<b>61%</b>	<b>3.3%</b>	<b>3.1%</b>	<b>46.2%</b>	<b>34.3%</b>

Given the high rate of adoption of value in use, the next frame of analysis is to investigate the input variables adopted to estimate the recoverable amount of each CGU. These findings are summarized in Table 6 and Table 7. A number of suggestions can be made from analysis. Firstly, 62.5% of firms in 2006 and 53.3% of firm in 2007 provide no information which enables a financial statement user to meaningfully quantify the discount rate used as part of the cash flow projections. Even the while this percentage has decreased; still it is high considering this requirement under FRS 136 is extremely basic. Thus, a large percentage of organizations listed on Bursa Malaysia failed to fulfil the basic requirement in both years. Second, as shown in Table 6, there is a significant variation in firm disclosing multiple explicit and single explicit discount rates, which increased by 33.8% in 2006

to 43.3% in 2007. We believe this improves the quality of disclosure pertaining to FRS 136 and provides a useful insight for external analysts to rely on the process of impairment testing employed by the sample company. Third, it is evident in Table 6 that the slight increase in maximum discount rates used to discount forecast cash flows for the purpose of impairment testing. The maximum discount rate was 31.5% in 2006 and 32% in 2007. Fourth, similar to the disclosure of discount rates, the growth rates disclosure experienced an increase in the multiple explicit and single explicit growth rates by 20 % in 2006 and 23.1% in 2007, see Table 7.

**Table 6 – Discount Rate Analysis**

Sector	No. of Companies		Multiple Explicit Discount Rates		Single Explicit Discount Rates		Range of Discount Rates		No effective disclosure		Minimum Pre-tax Discount Rate		Maximum Pre-tax Discount rate	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Automotive & Chemicals	19	17		2	3	7	1		15	8	6.5%	6.50%	12.0%	12.0%
Constructions	24	50		1	7	22	1	1	16	26	5.2%	4.50%	13.6%	13.0%
Consumer Products	17	37	2	2	6	17	3	3	6	15	2.4%	2.40%	31.5%	32.0%
Electrical & Electronic	19	30			3	8			16	22	8.0%	6%	15.0%	15.0%
Financials	23	33	7	8	4	12		2	12	11	4.0%	3.40%	13.6%	30.3%
Food & Beverage	19	29	1	1	4	11			14	17	4.1%	3%	10.0%	10.3%
Industrial Products	19	45	1		7	21			11	24	3.7%	3.50%	23.0%	14.8%
Machinery and Equipment	19	32	2	4	4	8	2	2	11	18	3.7%	3.80%	16.0%	20.0%
Miscellaneous	23	43	2	1	12	16		3	9	23	5.0%	5.81%	16.0%	12.6%
Plantation	13	21	1	1	4	9		1	8	10	5.0%	3.85%	9.2%	10.3%
Properties	19	41	2	1	2	11	1		14	29	5.0%	3.30%	15.0%	15.0%
Technology	21	33			6	14	1	2	14	17	5.0%	5%	15.0%	16.0%
Trading	22	43		2	4	12	1	3	17	26	5.0%	4.92%	14.0%	27.9%
Utilities and Transportation	18	36	3	3	6	18			9	15	6.3%	6%	19.7%	16.3%
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>21</b>	<b>26</b>	<b>72</b>	<b>186</b>	<b>10</b>	<b>17</b>	<b>172</b>	<b>261</b>	<b>2.4%</b>	<b>2.40%</b>	<b>31.5%</b>	<b>32.0%</b>
			<b>7.60%</b>	<b>5.30%</b>	<b>26.20%</b>	<b>38%</b>	<b>3.60%</b>	<b>3.50%</b>	<b>62.50%</b>	<b>53.30%</b>				

**Table 7 – Growth Rate Analysis**

Sector	No. of Companies		Multiple Explicit Growth Rates		Single Explicit Growth Rates		Range of Growth Rates		No effective disclosure		Minimum Terminal Value Growth Rate		Maximum Terminal Value Growth Rate	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Automotive & Chemicals	19	17	1	1		2			18	14	35.0%	5.0%	50.0%	8.0%
Constructions	24	50		1	3	10	1	3	20	36	1.0%	0.0%	10.0%	50.0%
Consumer Products	17	37	1	2	4	8	2	5	10	22	0.0%	0.0%	15.3%	49.0%
Electrical & Electronic	19	30				2		1	19	27	NA	0.0%	NA	25.0%
Financials	23	33	1	2	5	8		4	17	19	0.0%	0.0%	20.0%	58.0%
Food & Beverage	19	29			2	5			17	24	0.0%	0.0%	5.0%	20.0%
Industrial Products	19	45	2	3	1	5	2	4	14	33	0.0%	0.0%	39.0%	30.0%
Machinery and Equipment	19	32		2	3	3	1		15	27	4.0%	2.0%	10.0%	30.0%
Miscellaneous	23	43	3	3	5	8	1	2	14	30	0.0%	0.0%	40.8%	47.3%
Plantation	13	21	1	1	2	6		1	10	13	5.0%	0.0%	7.0%	20.0%
Properties	19	41		1	3	5	1	1	15	34	0.0%	0.0%	10.0%	23.2%
Technology	21	33		1	7	10			14	22	5.0%	0.0%	15.0%	30.0%
Trading	22	43		1	3	9		3	19	30	0.0%	0.0%	5.0%	26.0%
Utilities and Transportation	18	36	4	4	4	10		2	10	20	0.0%	0.0%	24.0%	24.0%
<b>TOTAL</b>	<b>275</b>	<b>490</b>	<b>13</b>	<b>22</b>	<b>42</b>	<b>91</b>	<b>8</b>	<b>26</b>	<b>212</b>	<b>351</b>	<b>0%</b>	<b>0%</b>	<b>50%</b>	<b>58%</b>
			<b>4.70%</b>	<b>4.50%</b>	<b>15.30%</b>	<b>18.60%</b>	<b>2.90%</b>	<b>5.30%</b>	<b>77.10%</b>	<b>71.60%</b>				

## 5. Conclusion

The results of this study found an alarming high rate of non-compliance and poor quality of disclosure quality among firms on the year of IFRS implementation (Carlin *et al.*, 2008). The explanation of this would likely to be that these studies drew upon data only pertaining to the first year of IFRS implementation, thus prepares and their auditors were lack of experience since the new FRS 136 introduced a very high degree of complexity and detail. Thus, in this study, the data were expanded and include a multi-year datasets from the whole firms listed in Bursa Malaysia, which examined the same problem as the precursor studies (Carlin & Finch, 2007; Carlin *et al.*, 2007; Carlin & Finch, 2008b). While the results shown a slight increase in the number of companies complying with the disclosure requirement of FRS 136, the level of non compliance is still significant and undermines the reliability of financial statements.

One possible explanation from the above results is, the first few years of the transition may not represent the level of compliance and disclosure quality in regards to the IFRS reporting based. Given more years of financial statement data, it may be possible to look at the pattern of disclosure on the key assumption used for the purpose of impairment testing. The total impacts of FRS 136 on companies' financial reports will likely take years to fully unfold. This study is limited by the short two-year observation period. Future research will be able to determine if the conclusions of this study hold up over time. The results presented in this research also provide further insight into the compliance and quality of disclosure in relation to the new standard. However, several issues remain to be considering in developing more complete understanding of the causes that some companies failed in complying with the new goodwill reporting regime. Further study of compliance level and quality of disclosure relation to the provision of FRS 136 would be of benefit in determining whether disclosures are improved as companies gain experience in understanding its requirements and regulatory enforcement tightens u

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