



الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

THE EFFECTS OF ACCOUNTING
REGULATIONS ON DISCLOSURE PRACTICES
IN MALAYSIA: THE CASE OF SEGMENTAL
REPORTING

BY

NURUL ADILLAH BINTI YUSOF

INTERNATIONAL ISLAMIC UNIVERSITY
MALAYSIA

2007

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ON DISCLOSURE PRACTICES IN MALAYSIA: THE
CASE OF SEGMENTAL REPORTING

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NURUL ADILLAH BINTI YUSOF

A dissertation submitted in partial fulfillment of the
requirements for the degree of Master of Science in
Accounting

Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia

DECEMBER 2007

ABSTRACT

The objective of this research is to investigate the effects of local standard that is MASB 22 on disclosure practices among Malaysian companies. In particular, the research investigates whether the introduction of MASB 22 has resulted in greater level of disclosure and compliance rate with respect to segmental reporting in Malaysia. To attain such aim, the research considers whether the new requirements specified in MASB 22 lead to (1) greater number of line of business (LOB) and geographical segments reported by sample companies and (2) companies reporting more items of information about each primary and secondary segment. This paper further examines the extent to which sample companies provided voluntary disclosures for both primary and secondary segments under MASB 22 as compared to the extent of voluntary disclosures under the original IAS 14. Additionally, the research also investigates the level of compliance with MASB 22 for primary and secondary segments in 2003. The final sample of the study consists of top 53 companies listed on the main board of Bursa Malaysia chosen according to market capitalization in 2003. The findings indicate that MASB 22 has improved segment disclosure practices of sample companies. MASB 22 has resulted in greater number of line of business and geographical segments reported by sample companies. There is an overall increase in the number of items of information disclosed for primary and secondary segments after the introduction of MASB 22. Additionally, there is a substantial compliance with regards to mandatory requirements of MASB 22 by sample companies in 2003 for both primary and secondary segments. On a less positive note, voluntary disclosure practices with respect to reported segments are rarely practiced by sample companies in both 2000 and 2003. Nonetheless, for primary segments, the voluntary disclosures have improved in 2003 as compared to voluntary disclosures in 2000. Voluntary disclosures for secondary segments are limited in both years.

مُلخَص البَحْث

الهدف لهذه الدّراسة هو البَحْث عن تأثيرات المعيار المحلي (MASB 22) في تطبيق الإفشاء لدى شركات مالزية. وتركز الدراسة على فحص ما إذا كان مدخل (MASB 22) قد أسفر عن عدد كبير من الإفشاءات ونسب الاستجابة لتقرير قطاعي في مالزيا. ولتحقيق هذا الهدف، صُممَ استبيان على فحص ما إذا كانت المقتضيات الجديدة المخصوصة في (MASB 22) تؤدّي إلى (١) الزيادة في شُدفة تجاريّة (LOB) وشُدفة جعرافيّة تحقّقها الشركات (٢) تُقدّم الشركات معلومات أكثر لكل من شُدفة ابتدائيّة و شُدفة ثانويّة. وهذه الورقة تعمل أيضا على فحص مدى كميّة التقرير الاختياريّ لشُدفة ابتدائيّة وشُدفة ثانويّة تحت (MASB 22)، بالمقارنة مع التقرير تحت الأصل ألا وهو (IAS14). وبالإضافة إلى ذلك، تبحث الدراسة عن مستوى الاستجابة ل (MASB 22) لشُدفة ابتدائيّة وشُدفة ثانويّة في سنة ٢٠٠٣. وأنّ النموذج الأخير لهذه الدّراسة يحتوي على ثلاث وخمسين شركة المكتوبة في لوحة أساسية لسوق الأوراق المالية (بورصة مالزية)، وهي مختارة وفقا لسوق الرأسمالية في ٢٠٠٣. وتشير النتائج إلى أنّ (MASB 22) قد أدّى إلى الزيادة في تطبيق إفشاء شُدفة تجاريّة وشُدفة جعرافيّة للشركات. وهناك ازدياد إجماليّ في عدد المعلومات المكشوفة لكل من شُدفة ابتدائيّة و شُدفة ثانويّة بعد مدخل (MASB 22). وهناك أيضا استجابة عالية لمقتضيات إجباريّة (MASB 22) في ٢٠٠٣ لكل من شُدفة ابتدائيّة و شُدفة ثانويّة. وعلى عكس من ذلك، تقرير اختياريّ للشُدفات المحقوقة طُبّق نادرا في كل من ٢٠٠٠ و ٢٠٠٣. ومع ذلك، التقرير الاختياريّ لشُدفة ابتدائيّة قد تحسّن في ٢٠٠٣ و التقرير الاختياريّ لشُدفة ثانويّة قد حُدّد في كل السنّتين.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting

.....
Nazli Anum Mohd Ghazali
Supervisor

.....
Azliana Haryati Ibrahim
Co-supervisor

I certify that I have read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting

.....
Hafiz Majdi Ab. Rashid
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a partial fulfilment of the requirements for the degree of Master of Science in Accounting

.....
Nazli Anum Mohd Ghazali
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and accepted as partial fulfilment of the requirements for the degree of Master of Science in Accounting

.....
Jamil Osman
Dean, Kulliyah of Economics and
Management Sciences

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Nurul Adillah binti Yusof

Signature.....

Date.....

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**THE EFFECTS OF ACCOUNTING REGULATIONS ON DISCLOSURE
PRACTICES IN MALAYSIA: THE CASE OF SEGMENTAL
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ACKNOWLEDGEMENTS

In the name of Allah, the Most Compassionate and the Most Merciful. Praise be to Allah, Lord of the Universe and to His Messenger Muhammad PBUH.

A major research project like this is never the work of anyone alone. The contributions of many different people, in their different ways, have made this possible. I would like to extend my sincere appreciation especially to those who have assisted, guided and supported me along the way.

First and foremost, I would like to express my heartfelt gratitude and warm appreciation to my supervisor, Dr. Nazli Anum Mohd Ghazali, who has always had her door wide open when I have come with various problems that are related to my thesis. With her impressive knowledge and wide experience on the area of this research, she guided me on how to solve many problems raised during the process of completing the thesis. Thank you for your patience, guidance and understanding in helping me throughout the long process of completing this thesis.

Special thanks are also dedicated to my co-supervisor, Madam Azliana Haryati Ibrahim, who has contributed useful ideas and insights to be included in my thesis.

My sincere gratitude also goes to all my lecturers in IIUM who have taught me not only on the technical aspects of knowledge, but also on the practice of knowledge in a Muslim daily life. In addition, special thanks are also due to all my friends who were always there for me to give support and confidence.

Finally, I would like to express my deepest and special appreciation to my beloved father, Hj. Yusof bin Mohamed and my dearly loved mother, Hjh. Zaiton binti Che Wan for your love, support, guidance and help. I will be everlasting indebted to my siblings (Hayati, Alyani and Aina) and my brother in law (Ariff) who were always with me when I was in need of them. Thank you for your support and concern.

May Allah repay your kindness.

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LIST OF ABBREVIATIONS

| | |
|----------|--|
| AIMR | Association for Investment Management and Research |
| AIRPORT | Malaysia Airports Holdings Berhad |
| ANOVA | Analysis of Variance |
| ASIATIC | Asiatic Development Berhad |
| ASTRO | Astro All Asia Networks Plc |
| BJTOTO | Berjaya Sports Toto Berhad |
| BKAWAN | Batu Kawan Berhad |
| BRAYA | Bandar Raya Developments Berhad |
| CN | Construction |
| CP | Consumer Products |
| DIGI | DIGI.COM Berhad |
| e.g. | (<i>exempligratia</i>); for example |
| EON | Edaran Otomobil Berhad |
| et al. | (<i>et alia</i>): and others |
| F&N | Fraser and Neave Holdings Berhad |
| FASB | Financial Accounting Standards Board |
| FFM | FFM Berhad |
| FRS 114 | Financial Reporting Standards 114 |
| GAMUDA | Gamuda Berhad |
| GENTING | Genting Berhad |
| GHOPE | Golden Hope Plantations Berhad |
| GUTHRIE | Guthrie Groups |
| H&L | Highlands and Lowlands Berhad |
| Hap Seng | Hap Seng Consolidated Berhad |
| HLIND | Hong Leong Industries Berhad |
| I&P | Island and Peninsular Berhad |
| i.e. | that is |
| IAS | International Accounting Standards |
| IAS 14 | International Accounting Standards No. 14 |
| IAS 14R | International Accounting Standards 14 Revised |
| IASC | International Accounting Standards Committee |
| IGB | IGB Corporation Berhad |
| IJM | IJM Corporation Berhad |
| IOICORP | IOI Corporation Berhad |
| IOIPROP | IOI Properties Berhad |
| IP | Industrial Products |
| IPC | Infrastructure Project Companies |
| JTIASA | Jaya Tiasa Holdings |
| KCT | Klang Container Terminal Berhad |
| KLK | Kuala Lumpur Kepong Berhad |
| KLSE | Kuala Lumpur Stock Exchange |
| KN | Kontena Nasional Berhad |
| KPM | Klang Port Management Sdn Bhd |
| Litrak | Lingkar Trans Kota Holdings Berhad |

| | |
|----------|---|
| LITRAK | Lingkar Trans Kota Holdings Berhad |
| LMCEMNT | Lafarge Malayan Cement Berhad |
| LOB | Line of Business |
| Magnum | Magnum Corporation Berhad |
| MALAKOF | Malakoff Berhad |
| MAS | Malaysian Airline System |
| MASB | Malaysian accounting Standards Board |
| MASB 22 | Malaysian accounting Standards Board 22 |
| MAXIS | Maxis Communication Berhad |
| MCEMENT | Malayan Cement Berhad |
| MISC | Malaysia International Shipping Corporation Berhad |
| MKLand | MK Land Holdings Berhad |
| MMCCORP | MMC Corporation Berhad |
| MNEs | Multinational Enterprises |
| MPHB | Multi-Purpose Holdings Berhad |
| MPI | Malayan Pacific Industries Berhad |
| N/A | Non-applicable |
| NCB | Northport Corporation Berhad |
| OECD | Organization for Economic Cooperation and Development |
| ORIENT | Oriental Holdings Berhad |
| OYL | O.Y.L. Industries Berhad |
| Petgas | Petronas Gas Berhad |
| PL | Plantations |
| PLUS | Plus Expressways Berhad |
| PPB | PPB Group Berhad |
| PPBoil | PPB Oil Palms Berhad |
| PR | Properties |
| PROTON | Proton Holdings Berhad |
| PSCI | PSC Industries Berhad |
| Ramatex | Ramatex Berhad |
| RESORTS | Resorts World Berhad |
| ROADBLD | Road Builder (M) Holdings Berhad |
| Sarawak | Sarawak Enterprise Corporation Berhad |
| SEC | Securities Exchange Commissions |
| SFAS 131 | Statement of Financial Accounting Standards No. 131 |
| SFAS 14 | Statement of Financial Accounting Standards No. 14 |
| SIME | Sime Darby Berhad |
| SIMEENG | Sime Engineering Services Berhad |
| Simepty | Sime UEP Properties Berhad |
| SPSETIA | SP Setia Berhad |
| SPSS | Statistical Package for the Social Sciences |
| SSAP 25 | Standard Accounting Practice No. 25 |
| Tanjong | Tanjong Public Limited Company |
| TECH | Technology |
| TELEKOM | Telekom Malaysia Berhad |
| TS | Trading/ Services |
| U.K. | United Kingdom |
| U.S. | United States of America |
| UMW | UMW Holdings |

| | |
|---------|--------------------------------|
| UNISEM | Unisem (M) Berhad |
| UTDPLT | United Plantations Berhad |
| YTL | YTL Corporation Berhad |
| YTLPOWR | YTL Power International Berhad |

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Reporting a firm's disaggregated data by segment has been a greatly debated issue over a number of years. Such disclosure assists users of financial reports in assessing the risk associated with each of the company's line of business (LOB) and / or geographical segment. This in turn may help users to better predict the company's performance in the future. The need for such disclosure seems to increase in importance as many companies recently, have expanded their businesses throughout the world. Hence, there is an evident need for disaggregating information in order to assist users in making better informed decisions. In response to this, accounting regulations relating to segmental reporting have been issued to provide guidance in the preparation of segment information.

In Malaysia, two accounting standards have been issued with regards to segment reporting. The first accounting standard regulating segmental reporting in Malaysia was the original version of International Accounting Standard No. 14 (IAS 14) which was approved by Malaysian regulators in 1987. Malaysian Accounting Standard Board (MASB) Approved Accounting Standard IAS 14 was applied to enterprises whose securities were publicly traded and to other economically significant entities¹, including subsidiaries (IAS 14, paragraph 2). The second standard regulating segmental reporting in Malaysia was Malaysian Accounting Standards

¹ Economically significant entities were defined as "those whose levels of revenues, profits, assets or employment are significant in the countries in which their major operations are conducted" (IAS 14, paragraph 2).

Board 22 (MASB 22) which was issued by the standard setter in 2001. This new standard became effective in 2002. MASB 22 applies to enterprises whose equity or debt securities are publicly traded, including enterprises in the process of issuing equity or debt securities in public securities market, but not to other economically significant entities (MASB 22, paragraph 4). As firms begin to report under the new requirements, there is a need to empirically investigate the strengths and weaknesses or stated otherwise, the impact of the new standards on corporate disclosures.

1.1 MOTIVATIONS OF THE STUDY

Many standards [i.e. International Accounting Standards No.14 (IAS 14), Statement of Standard Accounting Practice No.25 (SSAP 25), Statement of Financial Accounting Standards No. 131 (SFAS 131), Statement of Financial Accounting Standards No. 14 (SFAS 14), etc.] have been issued and revised worldwide in response to the need for disaggregating segmental information. In the local scene, before the issuance of MASB 22², companies had to adhere to IAS 14³ where they were required to disclose segmental information. When such standard was introduced in the late 1985, the level of segment disclosure was very low (Tan, 1997). According to him, this might be due to several reasons. Among the reasons were companies not ready to disclose such information, activities in the segment were difficult to be identified and grouped, the management accounts were unreliable to be segregated under IAS 14 and the costs of congregating the information were more than the benefits of disclosing such

² MASB 22 was superseded by Financial Reporting Standards 114 (FRS 114) on 1st January 2006. However, FRS 114 is very similar in all materials respects to MASB 22 (Ng, 2006).

³ The IAS 14 namely 'Reporting Financial Information by Segments' was introduced in Malaysia in the late 1985. It was approved by The Malaysian Association of Certified Public Accountants (MACPA) and The Malaysian Institute of Accountants (MIA) in 1987 and became effective in that year (Low and Mazlina, 2001). Segment reporting disclosures by Malaysian companies in the earlier years (i.e. before 1987) was on the voluntary basis (Low and Mazlina, 2001).

information. In fact, the compliance rate was continued to be low after IAS 14 became effective in Malaysia in the year of 1987. According to Tan and Ngan's study (as cited in Wan Nordin, Noriah, Nor Asma and Hasnah, 2003), the extent of compliance by Malaysian public companies listed on Kuala Lumpur Stock Exchange (KLSE) was still low after IAS 14 became effective in 1987. Tan and Ngan (as cited in Wan Nordin et al., 2003) reviewed the 1989/1990 annual reports of public companies listed on KLSE for segment data. The result revealed that only 56.9 percent of companies complied with the standard in 1989/1990.

As mentioned earlier, MASB 22 was issued by the standard setter in Malaysia on March 2001 and it became effective on 1st January 2002. MASB 22 superseded the previous standard which was MASB Approved Accounting Standard IAS 14, Reporting Financial Information by Segment ('the original version of IAS 14'). This new standard was issued to better satisfy the information needs of financial statement users as the original version of IAS 14 provides only general guidelines to identify industry and geographical segments as well as requires less segment information disclosures. Several major changes were made after the issuance of the original version of IAS 14 and those changes have been incorporated in MASB 22.

The aforementioned factors have driven the researcher to undertake this research whereby the researcher is motivated to investigate the effects of MASB 22 on segment disclosure practices among Malaysian public listed companies. More specifically, the researcher would like to investigate whether the introduction of MASB 22 has resulted in an increase in the level of disclosure and compliance rate with respect to segmental reporting in Malaysia.

1.2 AIMS OF THE STUDY

MASB 22 provides clearer guidance for defining and identifying reportable business and geographical segments as well as requires additional segment information disclosures as compared to the original version of IAS 14. The current research addresses the original version of IAS 14 and MASB 22 LOB and geographic disclosures of sample companies in Malaysia. Specifically, this research considers whether the major changes in requirements specified by MASB 22 from the original version of IAS 14 resulted in (1) greater number of segments reported by sample companies and (2) companies reporting more items of information about each primary and secondary segment. Additionally, (3) this research examines the extent to which sample companies provided voluntary segment disclosures under MASB 22 as compared to the original version of IAS 14. Finally, (4) this study also investigates companies' compliance with mandatory requirements of MASB 22.

1.3 RESEARCH QUESTIONS

The research questions of this study are as follows:

Research Question 1: Has the number of LOB segments reported by companies changed with the implementation of MASB 22?

Research Question 2: Has the number of geographical segments reported by companies changed with the implementation of MASB 22?

Research Question 3: What specific items are disclosed for primary segments? Are sample companies reporting more items of

information about each segment and to what extent do these include voluntary disclosures?

Research Question 4: What specific items are disclosed for secondary segments? Are sample companies reporting more items of information about each segment and to what extent do these include voluntary disclosures?

Research Question 5: Are sample companies disclosing the items required by MASB 22?

1.4 METHODOLOGY AND METHOD

In analyzing the data, each of the selected companies' annual reports was scrutinized and analyzed. The comparison on the number of segments reported and the extent of disclosure of sample companies before the issuance of MASB 22 (i.e. during the adoption of the original IAS 14) and after the implementation of MASB 22 was conducted. Years chosen for comparisons were the year 2000 that represented the time when companies were still adhering to the original IAS 14 and the year 2003 that represented the time when companies were already bound by the requirements of MASB 22.

Each segment reported either LOB or geographical segment by sample companies in 2000 and 2003 was given a score of one (1). Zero (0) score was given if no segment was reported by sample companies. A comparison was then made between the number of segments reported by sample companies in 2000 and 2003. Paired sample t-tests (parametric test) and Wilcoxon sign rank tests (non-parametric test) were used to determine whether there is statistically significant difference between the number of segments reported by sample companies in 2000 and 2003.

However, companies with any increase or decrease in the number of segments reported in 2003 that were due to the expansion of or downsizing in the business were eliminated.⁴ This is to ensure that the impact on the number of segments reported was solely due to MASB 22.

In order to examine the extent of segment disclosure in 2000 and 2003, four disclosure checklists were constructed. These checklists consisted of lists of mandatory and voluntary items of segment information for each primary and secondary reporting format. Since MASB 22 requires more information to be reported by companies than the original IAS 14, the researcher constructed mandatory disclosure checklists based on the requirements of MASB 22 to compare the level of mandatory disclosure between the two years. Voluntary disclosure checklists were constructed based on voluntary disclosure checklists developed by Street and Nichols (2002) who examined the extent to which IAS companies provided voluntary segment disclosures under the original IAS 14 and IAS 14R (IAS 14 Revised). The study by Street and Nichols (2002) was referred by the researcher to develop voluntary disclosure checklists in this study because the requirements of MASB 22 are similar in all material respects to the requirements of IAS 14R.

A sample company that reported each item of segment information was given a score of 1. The measurement was 0 for each company that did not report an item of information in the segment report but the disclosure for the item was made in the consolidated financial statements. However, for an item of information that is not disclosed by a company in the segment report and it did not also report the item in the consolidated financial statements, the case is labeled as non-applicable (N/A). The

⁴ The details on how the researcher determined whether the increase or decrease in the number of segments reported by sample companies in 2003 was due to the expansion of or downsizing of business is discussed in Section 4.4.2.

researcher then compared the number of sample companies that reported each item of information available in the disclosure checklists between the year of 2000 and 2003. The comparison was made between mandatory disclosures reported by sample companies in 2000 and 2003 for both primary and secondary segments. The comparison was also made between voluntary disclosures disclosed by sample companies in 2000 and 2003 for both primary and secondary segments. A basic descriptive statistic, percentages, were used to indicate whether there is a difference between the number of sample companies reporting each mandatory and voluntary items of segment information for both primary and secondary segments before and after the introduction of MASB 22.

Percentages were also used to analyze the level of disclosure compliance by sample companies to MASB 22 in 2003.

1.5 CONTRIBUTIONS OF THE STUDY

The contributions of this study are three-fold. First, it will provide the standard setter with current disclosure practices with respect to segmental information disclosure in Malaysia. Such findings therefore will enable the standard setter to revise the standard accordingly if necessary.

Second, the study will provide findings on the effects of the local standard that is MASB 22 on segment disclosure practices amongst Malaysian public listed companies. The study will also provide findings on the extent of voluntary segment disclosures of public listed companies in Malaysia in 2000 and 2003. It will provide the adherence rate of Malaysian companies to MASB 22. These findings may enrich the body of knowledge of extant literature pertaining to segmental information disclosure by providing some new evidences from the Malaysian context.

Finally, the findings of the study on the extent of voluntary segment disclosures amongst Malaysian companies provide a basic research for other researchers to explore more issues that are related. For example, future researchers may extend this study by examining the association between factors that might influence the extent of voluntary disclosures with the level of voluntary segment disclosures of Malaysian public listed companies.

1.6 OUTLINE OF THE STUDY

The dissertation consists of six chapters. Chapter 1 is the introduction where the researcher discusses the background, motivations and aims of the study. This chapter also discusses the research questions, provides a brief explanation on methods used in the study as well as explaining the contributions of the study. In addition, the structure of the study that gives a picture on the overall overview of the organization of the research is outlined in this chapter.

Chapter 2 discusses the conceptual and regulatory framework of segmental reporting. The chapter provides the definition and discusses the need for segment information. Besides, criticisms on the original IAS 14 as well as the requirements of MASB 22 are discussed in detail. It focuses on the major changes made in MASB 22 over the original IAS 14 requirements which are examined in this study.

Chapter 3 highlights numerous prior empirical studies related to segment reporting. The chapter reviews past studies which examined the usefulness of disaggregated information, the importance of segment reporting standards and the effects of standards on segment reporting practices. The chapter also provides previous literature relating to segment voluntary practices both locally and

internationally. Finally, this chapter reviews past studies that examined the compliance rate to segment reporting standards.

Chapter 4 explains the research methodology of the study. Sample selection and data collection are explained in this chapter. The chapter also describes differences between the requirements of original IAS 14 and the requirements of MASB 22 tested in the study. A lengthy discussion on how to construct disclosure checklists for the purpose of examining segment disclosures of sample companies in 2000 and 2003 is provided. Scoring approaches used in the study are then provided in detail and statistical techniques applied in analyzing the data are also discussed in this chapter.

Chapter 5 provides an in-depth analysis on the findings of the study. The analysis of results is presented in three sub-sections, namely results on the (i) number of segments reported, (ii) amount of information reported including both mandatory and voluntary disclosures and (iii) compliance rate to MASB 22. Discussions on findings are also provided.

Finally, chapter 6 concludes the study. The findings are summarized according to the research objectives outlined in chapter 1. The chapter also elaborates on the implications as well as the limitations of the study with some suggestions for future research with regards to segmental reporting.