

**Distributability of Profits:
An Empirical Investigation of Current Practices in
Malaysia**

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ABSTRACT

In standardizing, as far as possible, our use of terminology we aim to move from the haphazard to the certain. Yet, despite the Accounting Standards, each of which contains a "definition" section, we never quite achieve the aim on defining the term "distributability of profit". The Malaysian Companies Act 1965 is silent on this issue. It merely states that profits must be declared from profits.

A review of developments in the distributability of dividends across the world in Europe, Australia, New Zealand, Asia and Middle East has broaden the scope of comparison to establish rules and practices of other countries internationally. In addition to it, the empirical work conducted in U.S on Capital Maintenance, creditors protection and agency cost has narrowed down the issues to be focused. The main issues to be focused on would be on the realization and capital maintenance concept. Realization here would mean as to whether the dividends declared are from realized or unrealized profits. However the difficulties encountered on the present law and practice should also be scrutinized.

The objective of the study is to explore the current practices in the distribution of dividends among Malaysian companies. Therefore it seeks to obtain evidence on the distribution of dividends by the Public listed companies and others to verify if there are situations that may warrant the closer scrutiny and actions by regulators especially where companies with negative earnings still declared dividends.

An exploratory study by way of secondary data's has been suggested due to the availability of data that are ready for use. A sample selection of eight hundred and twenty seven (827) listed companies, fifty (50) private limited companies with the largest paid up capital and companies sanctioned under section 176 has been analyzed based on the annual reports for the period 1991 to 2001. The

study used both the cross-sectional methodology and the binomial and chi-square tests where appropriate.

On the objectives set forth, it can be concluded that it is not common for Malaysian companies to declare dividends from negative earnings however it still warrants scrutiny by the relevant standard setters to evaluate the issue in depth. This is because the Companies Act 1965 states those dividends should be declared from profits. However, there were at least thirty (30) companies that declared dividend once for the period 1991to 2001, twenty five (25) companies that declared dividend twice, twenty (20) companies that declared dividend thrice and five (5) companies declare dividends at an average of 4,5,6,7and 10 times.

As a conclusion, Malaysian companies do declare dividend from negative earnings and that companies sanctioned under section 176 declare dividends whenever they make profits. The standard setters have to evaluate the situation in the light of this current study and make recommendation for changes to be made in the Companies Act.

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