

**THE IMPLEMENTATION OF FRS 138 INTANGIBLE ASSETS AND
DISCLOSURE PRACTICES IN THE ANNUAL REPORTS OF MALAYSIAN
PUBLIC LISTED COMPANIES**

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ABSTRACT

The main objective of this study is to investigate on the mandatory and voluntary disclosure practices of the public listed companies in relation to the Malaysian Financial Reporting Standard (FRS) 138 *Intangible Assets*. Intangible assets are the main growth inducer in a knowledge economy and are becoming more important than the tangible assets. Unfortunately, the criteria and requirements set by FRS 138 resulting in many intangible assets go unrecognised. Consequently, public listed companies voluntarily provide additional intangibles-related information to educate their users of accounts and assist them in making accurate decision. However, due to the unavailability of a proper framework and guidelines on the voluntary disclosures, the type and amount of information provided vary amongst companies.

This study assists the accounts preparers in identifying and understanding the areas that they lack of knowledge and appreciation on the intangible assets, and simultaneously assists the national standard setter to curb non-compliance issues. For this purpose, two disclosure models were calculated using the scores from a self-construct compliance checklist. The first model assumes an item not disclosed in the annual report as not applicable to the company, whilst the second model regards non-disclosure as non-compliant. This study found that there is a significant difference in the implementation of FRS 138 and this was due to the element of uncertainty on how to treat non-disclosed items. This study thus supports the argument by users of accounts that an annual report fails to reflect what actually transpires within the public listed company.

Next, this study examines the types of information on intangibles that are normally disclosed voluntarily in the annual reports and finds out the amount of disclosures made for each type of intangibles by using thematic content analysis. It was found that companies are willing to provide their users of accounts with information beyond the requirement of FRS 138, but in general most information disclosed are historical in nature and might not contribute much in making decision for the future. This study concludes that a proper guideline is required to assist accounts preparers on the type of information to disclose and the frequency (amount) of disclosure needed so that users of account, especially the investors and analysts gain benefits from such disclosures, without exposing the public listed companies to possible threats from the competitors.

Finally, this study also examines the determinants that influence the extent of compliance with FRS 138. Independent variables comprise of corporate governance factors and company-specific factors. This study suggests that all corporate governance determinants are significant in explaining the implementation practice of FRS 138. As for company-specific factors, established companies with proven financial performance on the Main market of Bursa Malaysia disclose more information compared to young and sponsored companies from the ACE market.

ABSTRAK

Objektif utama kajian ini adalah untuk menyiasat mengenai amalan pendedahan mandatori dan sukarela daripada syarikat-syarikat awam yang disenaraikan berhubung dengan Piawaian Pelaporan Kewangan Malaysia (FRS) 138 *Aset Tidak Ketara*. Aset tidak ketara adalah pencetus pertumbuhan utama dalam ekonomi berasaskan pengetahuan dan adalah lebih penting daripada aset ketara. Malangnya, kriteria dan syarat yang ditetapkan oleh FRS 138 mengakibatkan banyak aset tidak ketara tidak dapat diiktiraf. Oleh itu, syarikat-syarikat senaraian awam secara sukarela mengemukakan maklumat tambahan mengenai aset tidak ketara yang berkaitan untuk mendidik pengguna maklumat akaun mereka dan membantu mereka membuat keputusan yang tepat. Walau bagaimanapun, disebabkan ketiadaan rangka kerja dan garis panduan yang ditetapkan mengenai pendedahan sukarela, jenis dan jumlah maklumat yang disediakan berbeza-beza di kalangan syarikat-syarikat.

Kajian ini membantu penyedia akaun bagi mengenalpasti dan memahami bidang-bidang yang mereka tidak mempunyai pengetahuan dan membantu mereka menghargai aset tidak ketara mereka, dan pada masa yang sama membantu penetap piawai kebangsaan dalam menangani isu-isu ketidakpatuhan. Bagi tujuan ini, dua model pendedahan telah dikira menggunakan skor dari senarai semak pematuhan yang dirangka sendiri. Model pertama menganggap perkara-perkara yang tidak dinyatakan dalam laporan tahunan adalah tidak berkaitan bagi syarikat tersebut, manakala model kedua menganggap ketiadaan pendedahan bermakna ia tidak mematuhi piawaian. Kajian ini mendapati bahawa terdapat perbezaan yang signifikan dalam pelaksanaan FRS 138 dan ini adalah disebabkan oleh unsur ketidakpastian tentang bagaimana untuk menangani perkara-perkara yang tidak didedahkan. Kajian ini sekali gus menyokong hujah oleh pengguna-

pengguna akaun bahawa laporan tahunan syarikat gagal mencerminkan apa yang sebenarnya terjadi di dalam syarikat senarai awam tersebut.

Seterusnya, kajian ini mengkaji jenis-jenis maklumat mengenai aset tidak ketara yang biasanya didedahkan secara sukarela dalam laporan tahunan syarikat dan mendapati jumlah pendedahan yang dibuat bagi setiap jenis aset tidak ketara tersebut dengan menggunakan analisis kandungan tema. Kajian ini mendapati bahawa syarikat-syarikat awam tersebut bersedia untuk melengkapkan pengguna akaun mereka dengan maklumat di luar keperluan FRS 138, tetapi secara umumnya maklumat yang paling kerap didedahkan adalah maklumat silam dan mungkin tidak banyak menyumbang dalam membuat keputusan untuk masa depan. Kajian ini menyimpulkan bahawa garis panduan yang betul diperlukan untuk membantu penyedia akaun mengenalpasti jenis maklumat yang perlu didedahkan dan kekerapan (jumlah) pendedahan yang diperlukan supaya pengguna akaun, terutamanya pelabur dan penganalisis mendapat manfaat daripada pendedahan tersebut, tanpa mendedahkan syarikat senarai awam tersebut kepada ancaman pesaing.

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LIST OF ABBREVIATIONS

AUDIT	External Auditors
BAFIA	Banking and Financial Institutions Act
BNM	Bank Negara Malaysia
CCM	Companies Commission of Malaysia
CDR	Compliance for Disclosure Requirement
CIFAR	Center for International Financial Accounting Research
CMP	Capital Market Master Plan
CMR	Compliance with Measurement and Recognition Requirement
COM	Compliance
CSRD	Corporate Social Responsibility Disclosure
DIRECT	Director Shareholding
DNI	Discernibility Index
FAMILY	Family Members as Directors
FASB	Financial Accounting Standard Boards
FRA	Financial Reporting Act
FRC	Chairman of Financial Reporting Council
FRF	Malaysian Financial Reporting Foundation
FRS	Financial Reporting Standard
FSMP	Financial Sector Master Plan
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Co-operation Council
GOVERN	Government Shareholding
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales

ICAI	Institute of Chartered Accountants in Ireland
ICAS	Institute of Chartered Accountants of Scotland
ICT	Information and Computer Technology
IFRS	International Financial Reporting Standard
INDEPD	Independence Non-Executive Director
IPO	Initial Public Offerings
IT	Information Technology
KLSE	Kuala Lumpur Stock Exchange
KPI	Key Performance Indicators
LEVRAg	Leverage
LIQUID	Liquidity
MACPA	Malaysian Association of Certified Public Accountants
MAS	Malaysian Accounting Standard
MASB	Malaysian Accounting Standards Board
MCCG	Malaysian Code of Corporate Governance
MDA	Management Discussion and Analysis
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MIA	Malaysian Institute of Accountants
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
MIM	Malaysian Institute of Management
MULTI	Multiple Directorship
NACRA	National Annual Corporate Report Awards
NAP	Compliance Not Applicable
NCM	Non-Compliance
NEP	New Economic Policy
NRD	National Research and Development
NST	New Straits Time

NVND	No Violation for Non-Disclosure
OAEB	Overseas Accountancy Examinations Advisory Board
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Linear Regression
PROFIT	Profitability
R & D	Research and Development
ROSC	Report on the Observance of Standards and Codes
S&T	Science and Technology
SC	Securities Commission
SDC	Software Development Costs
SECTOR	Industries
SIPS	Side Impact Protection System
SIZE	Size of Company
T & D	Standard and Poor's Transparency and Disclosure Score
TB	Technical Bulletins
UK	United Kingdom
VIF	Variance Inflation Factor
WLS	Weighted Least Square Regression