



**UNIVERSITI PUTRA MALAYSIA**

**FINANCIAL REPORTING OF GOODWILL IMPAIRMENT OF  
MALAYSIAN LISTED COMPANIES**

**MAIZATUL AKHMAM BINTI AHMAD**

**GSM 2011 10**

**FINANCIAL REPORTING OF GOODWILL  
IMPAIRMENT OF MALAYSIAN LISTED  
COMPANIES**

By

**MAIZATUL AKHMAM BINTI AHMAD**

Thesis Submitted to the Graduate School of Management,  
Universiti Putra Malaysia, in Partial Fulfillment of the  
Requirement for the Degree of Master of Science

July 2011



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfillment of the requirement for the degree of Master of Science

**FINANCIAL REPORTING OF GOODWILL IMPAIRMENT OF  
MALAYSIAN LISTED COMPANIES**

By

MAIZATUL AKHMAM BINTI AHMAD

July 2011

Chair : Associate Professor Hashanah Binti Ismail

Faculty : Graduate School of Management

The introduction of FRS 136 *Impairment of Assets* in Malaysia presents an opportunity for this study to examine the association between the firms' compliance on goodwill impairment disclosure and firm characteristics. Drawing on agency theory, this study explores whether association exist between mandated disclosure for goodwill impairment test with company characteristics. In particular, the association tested between goodwill impairment disclosure and company characteristics (namely profitability, ownership, audit committee financial expertise, audit quality, size and leverage. This study measures the mandated compliance on goodwill impairment disclosure based on six categories of information required under paragraph 134 of FRS 136 *Impairment of Asset*. A

total disclosure score has been developed to measure the extent of goodwill impairment disclosure of each sample firm. Final sample of 116 firms listed on the Main Board of Bursa Malaysia with reported goodwill as an element of their asset in the Balance Sheet as at 31 December 2007 are used in this study. The relationship between goodwill impairment disclosure and the firm characteristics is analyzed using regression analysis. The results indicate that the companies in general do not fully disclose the requirement of paragraph 134 of FRS 136 as prescribed. On average, only 65.5% of the items required by the respective section under FRS 136 are disclosed by the companies, indicating that almost half of the required disclosures are not met.

In addition, the study finds no significant result between ownership status of the company, i.e., whether a company is Government Linked Company (GLC) or Non Government Linked Company (NGLC) and goodwill impairment disclosure. There is no significant result obtained in the presence of audit committee member with financial expertise and audit quality as Big 4 and non Big 4. However, the study finds that profitability and firm size are significantly associated with goodwill impairment disclosure. Further, the study also finds the quality of goodwill impairment disclosure among Malaysian firm is still low suggesting that compliance with goodwill impairment disclosure is problematic. The findings hope to provide some useful insights to users, preparers and standard setters into goodwill impairment disclosure in the annual reports.

Abstrak yang dikemukakan kepada Senate Universiti Putra Malaysia sebagai mematuhi sebahagian keperluan untuk Ijazah Master Sains

**LAPORAN KEWANGAN TENTANG PEMEROSOTAN NILAI NAMA  
BAIK SYARIKAT KE ATAS SYARIKAT-SYARIKAT TERSENARAI DI  
MALAYSIA**

Oleh

**MAIZATUL AKHMAM BINTI AHMAD**

Julai 2011

Pengerusi : Associate Professor Hashanah Binti Ismail

Fakulti : Sekolah Pengajian Siswazah Pengurusan

Pengenalan kepada FRS 136 Impairment of Assets (Pemerrosotan Aset) di Malaysia telah memberi peluang untuk kajian ini memeriksa penyatuan antara pematuhan firma ke atas pendedahan pemerrosotan nilai nama baik syarikat dan ciri-ciri firma. Bersandarkan kepada teori agensi, kajian ini meneroka sama ada adakah wujudnya penyatuan antara pendedahan yang diberi mandat oleh piawaian laporan kewangan untuk ujian kemerrosotan nama baik dan ciri-ciri syarikat.

Antara ciri-ciri syarikat yang di uji iaitu dari segi keuntungan syarikat, pemilikan syarikat berkaitan dengan kerajaan, kepakaran dari segi kewangan oleh jawatankuasa audit, kualiti audit, saiz syarikat dan penguasaan atau penuilan. Kajian ini mengukur pematuhan mandat bagi pendedahan kemerrosotan nilai nama baik

syarikat berdasarkan kepada enam kategori maklumat yang dikehendaki di bawah perenggan 134, FRS 136 (Impairment of Assets) Pemerosotan Aset. Jumlah skor telah dibangunkan untuk mengukur tahap pendedahan kemerosotan nilai nama baik syarikat bagi setiap sampel firma. Sampel akhir adalah terdiri daripada 116 syarikat yang tersenarai di Papan Utama Bursa Malaysia dengan mengambil kira nama baik syarikat sebagai elemen di dalam aset syarikat yang tersenarai di dalam Kunci Kira-kira pada 31 Disember 2007. Hubungan di antara pendedahan kemerosotan nilai nama baik syarikat dan ciri-ciri firma dianalisis dengan menggunakan analisis regresi. Keputusan menunjukkan bahawa syarikat-syarikat secara umumnya tidak mendedahkan sepenuhnya sebagaimana yang ditetapkan di bawah perenggan 134, FRS 136 (Impairment of Assets) Pemerosotan Aset. Rata-rata, hanya 65.5% daripada perkara yang diperlukan di dalam perenggan 134, FRS 136 (Impairment of Assets) Pemerosotan Aset dinyatakan oleh syarikat, ini menunjukkan bahawa hampir separuh daripada pendedahan yang dikehendaki adalah tidak dipenuhi.

Di samping itu, kajian mendapati tiada keputusan yang signifikan antara status pemilikan syarikat iaitu, sama ada syarikat berkaitan kerajaan (SBK) atau syarikat tidak berkaitan dengan kerajaan (SBBK) dengan pendedahan kemerosotan nama baik syarikat. Tiada hasil yang signifikan diperolehi dalam kehadiran ahli jawatankuasa audit yang mempunyai kepakaran kewangan dan juga kualiti audit sebagai 4 syarikat audit terbesar dan bukan 4 syarikat audit terbesar. . Walau bagaimanapun, kajian mendapati bahawa hubungan yang signifikan di antara

pendedahan kemerosotan nilai nama baik syarikat dan keuntungan sesebuah syarikat dan saiz firma. Selain daripada itu, kajian ini juga mendapati kualiti pendedahan kemerosotan nilai nama baik syarikat di kalangan firma di Malaysia adalah masih lagi rendah, kajian mencadangkan bahawa pematuhan kepada pendedahan pematuhan kemerosotan nilai nama baik syarikat adalah bermasalah. Penemuan daripada kajian ini diharapkan dapat memberikan pandangan-pandangan yang berguna kepada pengguna laporan tahunan, penyedia laporan kewangan dan penetap standard ke atas pendedahan kemerosotan nilai nama baik syarikat di dalam laporan tahunan.

## ACKNOWLEDGEMENT

All praises and thanks to Allah Subhanawataala, The Most Gracious and The Most Merciful for bestowing me with the strength and patience in accomplishing this study.

I wish to express my heartiest gratitude to my thesis supervisor Associate Professor Hashanah binti Ismail and supervisory committee member Dr Nur Ashikin binti Muhd Saat for their co-ordinated effort, willingness, consistent guidance and support in the preparation of this thesis..

My thanks also goes to my friends for their inexhaustible support and collaboration in accomplishing this study. My sincere gratitude goes to my colleagues from the Accounting Department, Kolej Poly-Tech Mara for their continuous advice and help during my study in the university.

Finally, my warm thanks go to my husband, my sons, parents and family who have continuously given me the strength and encouragement, by giving love and endless support throughout the implementation of this study.



I certify that a Thesis Examination Committee has met on 29 July 2011 to conduct the final examination of Maizatul Akhmam binti Ahmad on her Master Science thesis entitled “ Financial Reporting of Goodwill Impairment of Malaysian Listed Companies” in accordance with Universities and University Colleges act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science degree. Member of the Examination Committee are as follows:

**Prof. Dr. Foong Soon Yau**

Deputy Dean  
Graduate School of Management  
Universiti Putra Malaysia  
Serdang, Selangor  
(Chairman)

**Dr. Zaleha Abdul Shukor**

School of Accounting  
Faculty of Economics and Business  
Universiti Kebangsaan Malaysia  
43400 UPM Bangi  
Selangor  
(External Examiner)

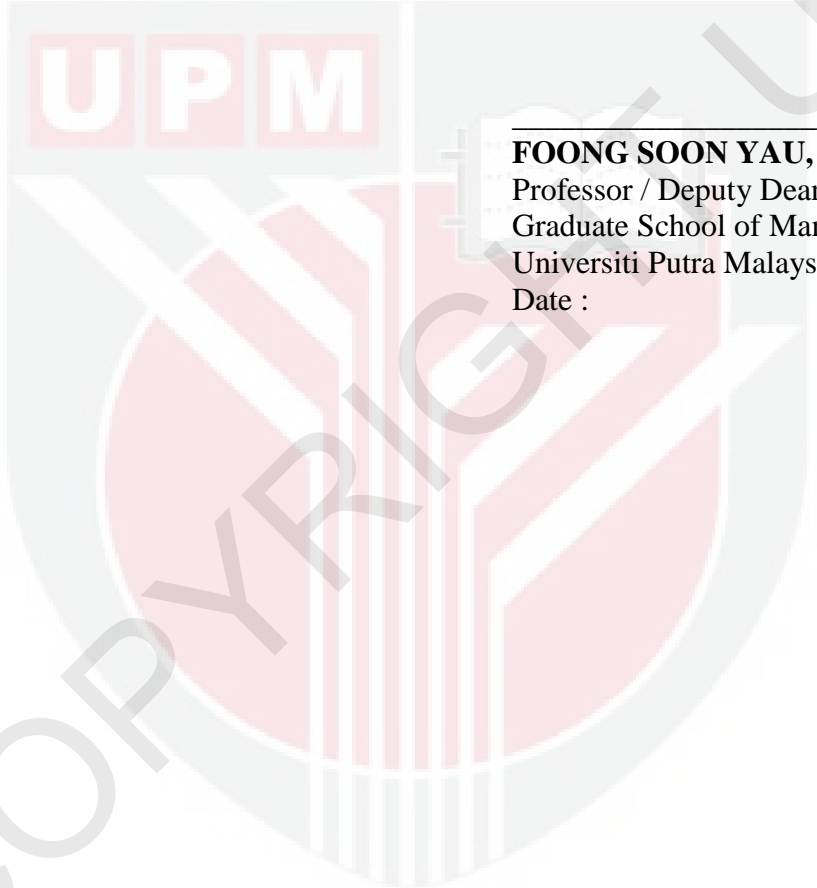
**Assoc. Prof. Dr. Nor Aziah Abu Kasim**

Department of Accounting and Finance  
Faculty of Economics and Management  
University Putra Malaysia  
43400 UPM Serdang  
Selangor  
(Internal Examiner)

**Dr. Mazlina Mustafa**

Department of Accounting and Finance  
Faculty of Economics and Management  
Universiti Putra Malaysia  
43400 UPM, Serdang  
Selangor Darul Ehsan  
(Internal Examiner)

**Assoc. Prof. Hashanah Ismail**  
Department of Accounting and Finance  
Faculty of Economics and Management  
Universiti Putra Malaysia  
43400 UPM Serdang  
Selangor  
(Representative Of Supervisory Committee/Observer)

The logo of Universiti Putra Malaysia (UPM) is a shield-shaped emblem. At the top, the letters 'UPM' are written in white on a red rectangular background. Below this, the shield is divided into several sections: a central vertical section with red and white stripes, and two side sections with red and white geometric patterns. The entire logo is overlaid with a large, semi-transparent watermark that reads 'COPYRIGHT UPM'.

**FOONG SOON YAU, PhD**  
Professor / Deputy Dean  
Graduate School of Management  
Universiti Putra Malaysia  
Date :

This thesis submitted to the Senate of Universiti Putra Malaysia has been accepted as partial fulfillment of the requirement for the degree of Master of Science. The members of the Supervisory Committee are as follows:

**HASHANAH BINTI ISMAIL**

Department of Accounting and Finance  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Chairman)

**NOR ASHIKIN BINTI MOHD SAAT**

Department of Accounting and Finance  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Member)

---

**ARFAH SALLEH, PhD, FCPA (Aust)**

Professor/Dean  
Graduate School of Management  
Universiti Putra Malaysia

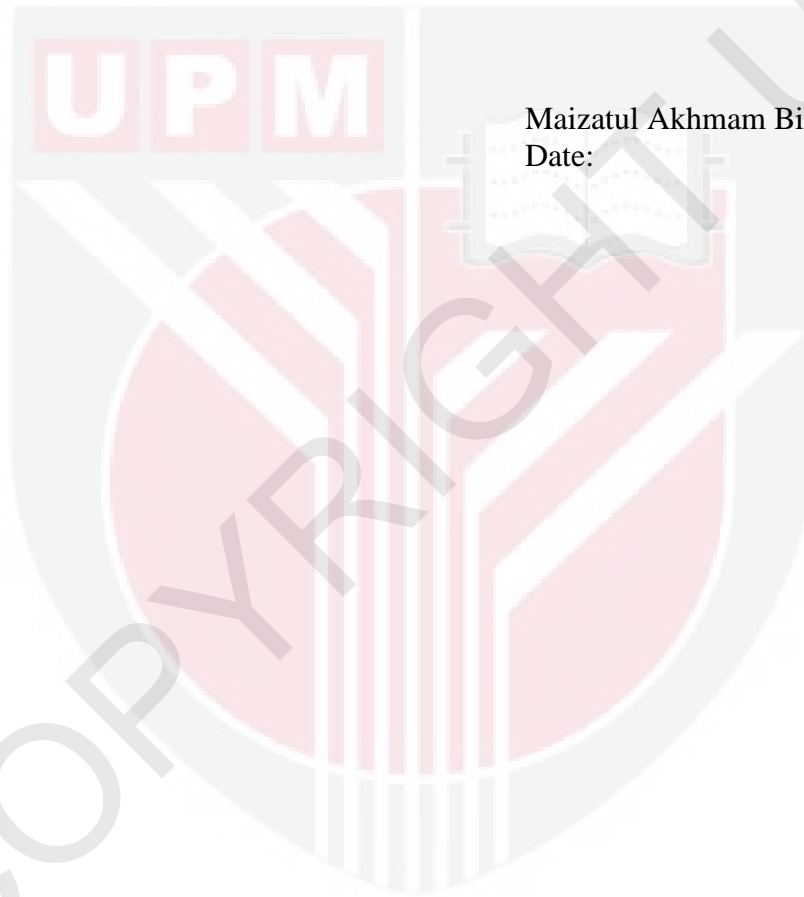
Date:

## DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citation, which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or any other institutions.

Maizatul Akhmam Binti Ahmad

Date:



## LIST OF TABLES

1. Table 3.1: Summary of sample selection procedure
2. Table 3.2: Variable definitions
3. Table 3.3: Components of compliance level with FRS 136 (paragraph 134) disclosure index
4. Table 4.1: Percentage of firms disclosing goodwill impairment under FRS 136
5. Table 4.2: Percentage of score by section under FRS 136 paragraph 134
6. Table 4.3: Business segments and CGU aggregation by sector
7. Table 4.4: Discount rates disclosures
8. Table 4.5: Growth rates disclosures
9. Table 4.6: Descriptive statistics
10. Table 4.7: Correlation matrix
11. Table 4.8: Results of regression analysis of the association between the compliance level and disclosure with goodwill impairment and firm characteristics (n=116)

## LIST OF FIGURES

1. Figure 2.1: History of goodwill reporting in Malaysia
2. Figure 3.1: Conceptual framework of determinants for goodwill impairment compliance with FRS 136.



## TABLE OF CONTENTS

	<b>Pages</b>
<b>ABSTRACT</b>	<b>ii</b>
<b>ABSTRAK</b>	<b>iv</b>
<b>ACKNOWLEDGMENT</b>	<b>vii</b>
<b>APPROVAL</b>	<b>viii</b>
<b>DECLARATION</b>	<b>xi</b>
<b>LIST OF TABLES</b>	<b>xii</b>
<b>LIST OF FIGURES</b>	<b>xiii</b>
<b>CHAPTER</b>	
<b>1 INTRODUCTION</b>	
1.0 Background of Study	1
1.1 Problem Statement	2
1.2 Objective of Study	7
1.3 Significance of the Study	7
1.4 Chapter Organization	10
<b>2 LITERATURE REVIEW</b>	
2.0 Introduction	11
2.1 Overview of Goodwill Reporting in Malaysia	11
2.2 Goodwill Accounting in Malaysia	15

2.3	Goodwill Accounting in Different Countries	22
2.4	Theory Used	27
2.4.1	Agency Theory	27
2.5	Company Characteristics	33
2.5.1	Government-Linked Company	33
2.5.2	Profitability	35
2.5.3	Audit Committee Financial Expertise	37
2.5.4	Audit Quality	39
2.6	Chapter Summary	42
<b>3</b>	<b>RESEARCH METHODOLOGY</b>	
3.0	Introduction	44
3.1	Conceptual Framework	44
3.2	Sample Selection	46
3.3	Method of Data Collection	48
3.4	Explanatory Variables	49
3.5	Development of Hypotheses	
3.5	Dependent Variable	50
3.5.1	Measurement of Compliance Level	
	With FRS 136	50
3.6	Independent Variables	
3.6.1	Government-Linked Company	54
3.6.2	Profitability	55



3.6.3	Audit Committee Financial Expertise	55
3.6.4	Audit Quality	56
3.6.5	Control Variables	57
3.6.6	Quality of Disclosure	59
3.7	Statistical Analysis	61
3.8	Chapter Summary	62
<b>4</b>	<b>ANALYSIS AND FINDINGS</b>	
4.0	Introduction	63
4.1	Results and Discussion	63
4.1.1	Goodwill Impairment Disclosure	63
4.1.2	Goodwill Quality Disclosure	69
4.1.3	Descriptive Statistics	76
4.2	Correlation Matrix	77
4.3	Multiple Regression Results	78
4.4	Chapter Summary	82
<b>5</b>	<b>CONCLUSION AND RECOMMENDATION</b>	
5.0	Introduction	83
5.1	Compliance with FRS 136	83
5.2	Limitations of the Study and Recommendations for Future Research	85
	<b>REFERENCES</b>	91