

I0000030898



**EMPIRICAL STUDY ON THE RELATIONSHIP BETWEEN
INCOME SMOOTHING AND SHAREHOLDERS WEALTH
AMONG MALAYSIAN LISTED COMPANIES**

FOTOSTAT TIDAK DIBENARKAN

RUSLAINA HAJI YUSOFF

**THIS IS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE DEGREE OF
MASTER OF ACCOUNTANCY**

**UNIVERSITI TEKNOLOGI MARA
2001**

ACKNOWLEDGEMENTS

Praise to Allah Al-Mighty for giving me the strength and patience to complete this project paper within the period given.

The completion of this project paper would not be possible without the help from a lot of people. I am especially grateful to my advisor, Dr Rashidah Abdul Rahman, for her wonderful and thoughtful comments, suggestions, guidance and constant encouragement. Her enlightenment and encouragement are greatly appreciated.

My thanks also go to Professor Dr. Ibrahim Kamal Abd. Rahman, Dean of Accountancy for giving his support in completing this paper.

My hearty thanks also go to Associate Prof. Dr. Normah Omar for her Research Methodology lecture and for helping me to extend my knowledge in this subject.

I would like to thank Associate Prof. Dr. Isahak Kassim for helping me in analyzing the data.

Finally, I wish to express my deepest gratitude to my beloved husband, Shariful Amran Abd. Rahman, who helped me throughout the completion of the project. Without his support, assistance and patience, my dissertation would have been a difficult journey.

ABSTRACT

This research was carried out to identify the income smoothing and non-smoothing companies listed in the KLSE first board using Eckel's Index (1981) and to examine the *relationship between the income smoothing and shareholder wealth (companies' share price)*. 298 listed companies have been selected as samples in the current study. Income before extraordinary items (EI), pretax income (PI) and net income (NI) are used as an income measurement in Eckel's Index. Based on descriptive statistic, it was found that there are more smoothing than non-smoothing companies, based on all three income measurement.

Based on t-test and Wilcoxon sign-rank test, the results indicated that there is no significant difference between cumulative abnormal return for smoothing and non-smoothing companies at any income measurement (EI, PI and NI). Furthermore, when size (measured by market equity) is examined between smoothing and non-smoothing companies, it was found that income smoothing does not depend on the size of the company. Further test indicates that there is no significant difference between cumulative abnormal return of large and small companies.

Based on the results obtained from ANOVA, it showed that there is no significant difference of cumulative abnormal return between groups when income before extraordinary items and pretax income was used as income measurement in detecting the presence of income smoothing. However, there was a difference in cumulative abnormal return between industries when net income was being used as an income measurement. The univariate regression confirms the earlier result that there is no significant relationship between cumulative abnormal returns, income smoothing, firm size and industry. Thus, the result in the current study provides evidence that there is more smoothing than non-smoothing companies. However, investors in Malaysia during the study period (1994 - 1999) seem to ignore the smooth income streams. Thus, improvement in shareholders wealth is not the motivation for smoothing in Malaysia.

TABLE OF CONTENTS

	PAGE
Acknowledgements	i
Abstract	ii
List of Tables	v
 CHAPTER ONE: INTRODUCTION	
1.1 Introduction	1
1.2 Problem Statement	3
1.3 Objectives of the Study	4
1.4 Significance of the Study	5
1.5 Chapter Organizational	5
 CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction	6
2.2 General Overview of Income Smoothing	6
2.3 Types of Income Smoothing	7
2.4 Instruments of Income Smoothing	9
2.5 Reasons for Income Smoothing	11
2.6 Factors Affecting Income Smoothing	15
2.7 Summary of the Chapter	16
 CHAPTER THREE: RESEARCH METHODOLOGY	
3.1 Introduction	17
3.2 Hypotheses	17
3.3 Methodology	19

3.3.1	The Income Smoothing Measure	19
3.3.2	Abnormal Return	21
3.3.3	Size	23
3.4	Sample and Data Selection	23
3.5	Statistical Method	24
3.6	Problems and Limitations	25

CHAPTER FOUR: FINDINGS AND ANALYSIS

4.1	Introduction	27
4.2	Descriptive Statistics	
4.2.1	Full Sample and Final Sample	27
4.2.2	Mean of Full and Final Sample	32
4.3	Inferential Statistics	
4.3.1	Size of the Companies	34
4.3.2	Cumulative Abnormal Return (CAR) of Smoothing and Non-smoothing Companies	38
4.4	Other Analyses	
4.4.1	Mean CAR of Large Companies	41
4.4.2	Mean CAR of Small Companies	43
4.4.3	Mean CAR Between Large and Small Companies	45
4.4.4	Industry Group	46
4.5	Univariate Regression	47

CHAPTER FIVE: CONCLUSIONS

5.1	Conclusions	48
5.2	Future Research	51

REFERENCES

APPENDIX