



ACCOUNTING FOR REVALUATION IN MALAYSIA:
AN ASSOCIATION OF ITS PRACTICES
WITH STOCK WEALTH

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TABLE OF CONTENTS

	Page
Letter of Approval	iii
Letter of Submission	v
Acknowledgement	vii
List of Tables	x
List of Figures	xi
Abstract	xii
CHAPTER 1 : INTRODUCTION	
1.1 Introduction	1
1.2 The Sources Of Generally Accepted Accounting Principles (GAAP) On Accounting For Revaluation In Malaysia	1
1.3 Focal Issues	9
1.4 Significance of The Study	12
1.5 Objectives of The Study	12
1.6 Summary and Outline of The Research	13
CHAPTER 2 : LITERATURE REVIEW	
2.1 Introduction	15
2.2 Definitions Of Revaluation	15
2.3 Trade-Off Between Relevance And Reliability	16
2.4 Timing For Assets Revaluation	18
2.5 Global Perspective On Revaluation Of Assets	21
2.6 Motivation For Assets Revaluation	23
2.7 The Violation Of Assets Revaluation	26
2.8 Financial Effects Of Assets Revaluation	28
2.9 Method Of Revaluation	29

ABSTRACT

This research investigates the relationship of revaluation surplus and stock wealth as well as the determinants of revaluation practices in Malaysia. The sample comprises 100 companies listed on Kuala Lumpur Stock Exchange during the period 1998-2001. Results from ordinary least square regression (OLS) support the alternate hypothesis where revaluation surplus is associated with the stock wealth. The findings from logit regression reveal that revaluation practices are associated with higher earnings, larger size companies, lower dividend, lower liquidity and lower risk companies. It is hoped that this study, which is conducted in an economically and culturally different context from all existing studies, can contribute toward the current literature on revaluation practices.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

An asset revaluation refers to the restatement of the asset's book value (carrying amount) to approximate some current value. In Malaysia, the Malaysian Companies Act 1965 allows the revaluation of assets. The basic mechanism of revaluation by no means involves the cash inflow to the company. Revaluation only involves the double entry; that is a debit to the asset account and a credit to the asset revaluation reserve account. The practices of revaluation of fixed assets are common among Malaysian companies. The same situations can be found in the United Kingdom, Australia and New Zealand. However, revaluation upward is not allowed in the United States and Canada.

1.2 THE SOURCES OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) ON ACCOUNTING FOR REVALUATION IN MALAYSIA

In Malaysia, there are several sources of GAAP in relation to revaluation of fixed assets. None of these provisions are mandatory except for the requirements of the Malaysian Companies Act 1965. The Malaysian Companies Act 1965 provides a broad framework on accounting for revaluation in Malaysia. Other sources like the Kuala Lumpur Stock Exchange (KLSE) Listing requirements, Securities Commissions (SC) Guidelines and Malaysian Accounting Standard Board (MASB) Standards provide detailed provisions and rules that companies must follow if they choose to revalue their fixed assets.