

UNIVERSITI TEKNOLOGI MARA

**FRS ADOPTION, REVISED MCCG
AND FIRM-SPECIFIC EFFECTS ON
EARNINGS MANAGEMENT**

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requirements for the degree of
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CANDIDATE'S DECLARATION


I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This topic has not been submitted to any other academic institution or non-academic institution for any other degree or qualification.

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ABSTRACT

Studies on earnings management (EM) in Malaysia are still deficient with limited inferences made on influences of accounting standards and revised governance framework on EM. This study address the question on whether adoption of Financial Reporting Standards (FRS) in Malaysia and the revision made to the Malaysian code on Corporate Governance (MCCG) in 2007 are associated with lower earnings management in Malaysian listed firms. This study adds on to prior literatures; to examine the direct association between firm-specific effects (i.e. size, profitability and leverage) and earnings management and observe the 'moderating' effect of FRS on the association. The data are a sample of 430 firm-year observations listed on Bursa Malaysia relate to the period 2005-2010. For purpose of analysis, two regression models are used in this study. Results of the study on the first model correspond to most previous findings suggesting that IFRS and good governance structure help reduce earnings management. This study also found that firms with low profitability and high leverage influence higher earnings management. Model 2 present results when the interaction variables are included in the regression analysis. Model 2 however indicates a non-significant association between adoption of FRS and earnings management. With regards to the interaction effect, the result is only positive and significant on profitability variable implying that FRS restrains firms with low profitability to engage in earnings management. The study demonstrates for policy makers and regulators in and out of Malaysia on significance of choices of accounting standards and quality of corporate governance (CG) in restraining EM. Also, the study alerts firms to be cautious on how firm-specific effects could influence EM and to consider the relationship of choice of accounting standards with firm-specific effects.

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