

MALAYSIAN ACCOUNTING REVIEW

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EARLY ADOPTION OF MASB 22 (SEGMENT REPORTING) BY MALAYSIAN LISTED COMPANIES

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Abstract

Listed companies in Malaysia have to adhere to a new standard of segment reporting (MASB 22) for their financial statements beginning on or after 1 January 2002. The reporting and disclosure requirements under MASB 22 are similar, in all material respects, to the requirements under the revised International Accounting Standard (IAS) 14. Anticipating that some Malaysian companies might adopt MASB 22 earlier, this study seeks to find out how pervasive is early adoption in Malaysia and the disclosure practices among the early adopters. Based on a sample of 32 early adopters, the findings show that less than half of the companies comply fully with the MASB 22 requirements. The most glaring disclosure deficiency is the failure to disaggregate non-cash expenses other than depreciation and amortisation by reportable segments. Other deficiencies include non-disclosure of capital expenditure and investment in equity method associates by reportable segments, and basis for inter-segment pricing.

INTRODUCTION

Segment reporting requires companies that market diverse products and services and/or operate in different geographical areas to report revenues, operating profits and identifiable assets by lines of business and by geographical segments. This is necessary to help users of financial statements to assess the differing sales and earnings growth rates, future prospects and risks of a diversified or multinational companies that may not be determined from the aggregated data.

In 1970, the US Securities and Exchange Commission (SEC) mandated publicly traded multi-segment companies to report segment revenues and income for those segments contributing 10 percent or more to consolidated revenues or income in their 10-K audited financial results. Subsequently, the Financial Accounting Standards Board (FASB) introduced segment reporting in 1976 via Statement of Financial Accounting Standards (SFAS) 14: Financial Reporting for Segments of a Business Enterprise. In 1981, the International Accounting Standards Committee (IASC) also imposed similar requirement through the issuance of International Accounting Standard (IAS) 14: Reporting Financial Information by Segment. IAS 14 requirements are similar to SFAS 14, though less detailed (McConnell and Pacter, 1995).

SFAS 14 requires certain information to be disclosed for operations in different industries, operations outside the US, export sales and major customers. For significant industry segments, SFAS 14 requires multi-segment companies to disclose revenues, operating profits, identifiable assets, depreciation and amortisation, capital expenditures, equity income of investees and investment in equity method investees. On the other hand, IAS 14 requires companies to disclose sales, profits and identifiable assets for industry and geographical segments with sales further distinguished between sales to external parties and inter-segment sales. In addition, IAS 14 requires that the inter-segment pricing basis for intragroup transactions be disclosed. IAS 14 also advocates that industry segmentation is usually based on groups of related products and services, or types of customer, whereas geographical segmentation is sometimes presented on the basis of the location of operations, sometimes on the basis of market and sometimes both.

Financial analysts, an important capital market intermediaries who receive and process information for investors, have long stressed the importance of segment reporting in making earnings forecasts, stock valuations and buy or sell recommendations. In 1993, the Association for Investment Management and Research (AIMR) issued a position paper that intimates the usefulness of segment information in assessing the risks and prospects of a diversified or multinational enterprise. The paper states:

It is vital, essential, fundamental, indispensable, and integral to the investment analysis process. Analysts need to know and understand how the various components of a multifaceted enterprise behave economically. One weak member of the group is analogous to a section of blight on a piece of fruit; it has the potential to spread rot over the entirety. Even in the absence of weakness, different segments will generate dissimilar streams of cash flows to which are attached disparate risks and which bring about unique values. Thus, without disaggregation, there is no sensible way to predict the overall amounts, timing, or risks of a complete enterprise's future cash flows.

Although there is little dispute over the usefulness of disaggregated financial data, in the same paper AIMR also criticised the extant SFAS 14 by stating that:

There is no disagreement among AIMR members that segment information is totally vital to their work. There also is general agreement among them that the current reporting standard, Financial Accounting Standard No. 14, is inadequate.

One of the major criticisms levelled against SFAS 14 is that the standard provides for great latitude in the definition of a reportable segment where segment identification depends to a considerable extent on the judgement of the management (Hayes and Lundholm, 1996). As a result of pressure from analysts, in June 1997, FASB issued a new segment reporting standard, SFAS 131: Disclosures about Segments of an Enterprise and Related Information, which is effective for periods beginning on or after 15 December 1997 (Botosan and Harris, 2000). Shortly after, the IASC followed suit by releasing a revised IAS 14: Segment Reporting in August 1997. SFAS 131 requires segments to be defined by a company's internal reporting classification rather than by grouping related or similar products or services. Under SFAS 131, either similar or dissimilar products may be combined in a single segment for external reporting purposes, provided they are similarly combined for internal reporting (Maines et al., 1997). Under this new "management approach" of defining segments, there would be greater consistency between segment data and information in other parts of the annual report including the management discussion and analysis (Ettredge et al., 2000). Apart from adhering to a new segment definition, companies in the United States are also required to make quarterly segment disclosures with the coming into force of SFAS 131.

Unlike SFAS 131, which identifies segments based on an enterprise's internal organisation structure and focuses on the information needs of the enterprise's decision makers (Emmanuel and Garrod, 2002), the revised IAS 14 advocates the risk-return basis for segment identification. The revised IAS 14 also presents major departures from the original IAS 14. Apart from giving emphasis on the concept of "differing risks and returns" rather than that of differing products/services and countries in defining segments, other differences include the adoption of two-tier segmentation, with either the business segment or the geographical segment as the dominant basis of segment reporting (primary) and the other secondary, differential information disclosure for primary segment (full disclosure) and secondary segment (less disclosure), consistent use of accounting policies across segments and standardised measure of segment results across companies.

In Malaysia, up until recently, companies listed on the Kuala Lumpur Stock Exchange (KLSE) were required to comply with the Malaysian Accounting Standards Board (MASB) approved original IAS 14. The revised IAS 14 which became effective for periods beginning on or after 1 July 1998 is not adopted in Malaysia (Tan Liong Tong, 2000). In addition, quarterly segment disclosures are also mandatory starting from the quarter ended July 1999 (Appendix 9B-05 item 14, Listing Requirements of the KLSE).¹ As for newly listed companies, they are also required to disclose segment information in their initial public offering (IPO) prospectuses (Guidelines on Contents of Prospectuses for IPOs, Securities Commission). And with the recent introduction of MASB 22: Segment Reporting, listed companies in Malaysia are now

¹ Furthermore, MASB 26: *Interim Financial Reporting* requires companies to provide explanatory notes on segment reporting in their interim financial statements covering periods beginning on or after 1 July 2002.

required to disclose segment data which, in all material respects, is similar to the requirements under the revised IAS 14 for the periods beginning on or after 1 January 2002.

Previous studies that survey the usefulness of segment disclosure include Mautz (1968), Buzby (1974), Firth (1979), Brown (1997) and Mande and Ortman (2002a). One of the earliest studies on segment disclosure by Mautz (1968) finds that segment information is desirable from the investor's point of view. Parallel to this, Buzby (1974) and Firth (1979) show that financial analysts consider segment reporting of sales revenue and income to be very important although, in practice, companies made very little such disclosure. A survey by Brown (1997) reveals that segment reporting is ranked as one of the three most useful corporate financial data items alongside the statement of income and the statement of cash flows. The AIMR Corporate Disclosure Survey published in 2000 indicates that 45 percent of financial analysts/portfolio managers perceive the provision of segment or disaggregated information to be extremely important in analysing and evaluating a company's performance. However, only ten percent of them view the quality of segment disclosure as excellent quality. More recently, studies by Mande and Ortman (2002a,b) conducted in 1999 among Japanese Chartered Financial Analysts shows that segment data are perceived as useful for predicting consolidated sales and net income. However, the adoption of Japanese segment reporting standards does not aid financial analysts in forecasting firm's performance.

Apart from studies examining the perceived usefulness of segment disclosure, there is also a vast literature that focused on other aspects of segment disclosure namely the voluntary disclosure of segment information and factors associated with such disclosure (Bradbury, 1992; McKinnon and Dalimunthe, 1993; Mitchell et al. 1995; Leuz, 1999) and the economic benefits of segment disclosure. On the usefulness, Baldwin (1984) and Swaminathan (1991) demonstrate that segment data improve the accuracy and consensus of analysts' earnings forecasts in the United States, which contrasts the recent finding in Japan, as mentioned in the preceding paragraph.

Prior surveys on segment reporting in Malaysia include Tan and Ngan (1991), Susela and Veerinderjeet (1992) and Low and Mazlina (2001). Tan and Ngan (1991) examine whether the extent of compliance has improved since IAS 14 was first introduced in Malaysia in 1987. The 1985 or 1986 and 1989 or 1990 annual reports of companies listed on the KLSE were reviewed for segment data. The result shows that when IAS 14 was first promulgated, only 37.5% of companies comply with the standard. However, compliance rate improves to 56.9% in 1989/1990. Susela and Veerinderjeet (1992) obtain similar results on the degree of compliance with IAS 14 by Malaysian companies. They document an improvement in compliance from 43.3% in 1987 to 52.5% in 1989. The latest study on segment disclosure by Malaysian companies by Low and Mazlina (2001) report that the proportion of companies that comply with IAS 14 in Malaysia improves further from about two-third for period 1994-1996 to three-quarter for period 1997-1999.

With MASB 22 came into force in 2002, we anticipate that some companies might voluntarily opt to apply MASB 22 earlier for their financial statements ended before 31 December 2002. Thus, this study documents how pervasive is early adoption among Malaysian companies listed on the KLSE and examines the disclosure practices among the early adopters. Previous studies that are similar to ours include Nichols and Street (1999) and Gray et al. (1999). Nichols and Street (1999) examine 14 US companies that adopt SFAS 131 prior to its effective

date, whilst Gray et al. (1999) review the disclosure practices of the revised IAS 14 early adopters in Europe.

Based on a sample of 32 early adopters (22 in the Main Board and 10 in the Second Board), our observations indicate that invariably all the companies choose business segment as the primary basis of reporting and nearly half comply fully with the MASB 22 requirements. The main non-compliance is with regards to the lack of disclosure of “significant” non-cash expenses other than depreciation and amortisation for each reportable segment. However, out of 15 companies in this category, 11 reported non-cash expenses other than depreciation and amortisation totalling less than RM1 million each in their consolidated cash flow statements and operating expenses notes to the income statements. Therefore, the non-disclosure of non-cash expenses in the segment report is perhaps due to their amounts are deemed insignificant.

Other non-compliance, albeit less frequently, involves the non-disclosure of the acquisition of segment assets (property, plant, equipment, and intangible assets) that are expected to be used during more than one period for each reportable segment (four cases), and depreciation and amortisation expense of segment assets for the period of each reportable segment (one case). Five companies do not disclose the basis of pricing inter-segment sales in the segment report, but mention them in the related party disclosures.

MASB 22 REQUIREMENT

The MASB 22 was issued in March 2001. This standard supersedes the original IAS 14 which has been operational in Malaysia since 1987. The MASB 22 became operative for financial statements covering periods beginning on or after 1 January 2002 and is applicable to enterprises whose equity or debt securities are publicly traded and to enterprises that are in the process of issuing equity or debt securities in public securities market.

MASB 22 establishes the principles for reporting financial information about the different types of products and services an enterprise produces and the different geographical areas in which it operates. This is to help users of financial statements to better understand the enterprise’s past performance, better assess the enterprise’s risks and returns and make more informed judgements about the enterprise as a whole.

MASB 22 requires that information should be reported for business segment and geographical segment. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or services or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and return that are different from those of components operating in other economic environments.

A business segment or geographical should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and (1) its total revenue (including inter-segment revenue) is 10% or more of the total revenue of all segments, or (2) its segment operating profit (loss) is 10% or more of the combined profit (loss) of all segments in profit

(loss), or (3) its assets are 10% or more than the total assets of all segments. If total revenue from external customers for reportable segments combined is less than 75% of the total, then additional reportable segments should be identified until the 75% threshold is reached. If a segment revenue from sales to external customers is 10% or more of total enterprise revenue, a disclosure of revenue is required for that segment although it earns a majority of its revenue from sales to other segments. In addition, an internally reported segment may be designated as a reportable segment despite not meeting all the thresholds above, in line with the “management approach” of segment definition.

MASB 22 provides two bases of segment reporting formats that are the primary reporting format and the secondary reporting format. Whether a business segment or geographical segment must be reported using primary or secondary format depends on the dominant source and nature of an enterprise’s risks and return. If enterprise’s risks and rates of return are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segment, with secondary information reported geographically. Similarly, if the enterprise’s risks and return are affected predominantly by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information should be geographical segment, with secondary information reported for business segment. A matrix presentation (both business and geographical segments are regarded as primary format) is also permitted if an enterprise’s risks and rates of return are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates.

In the primary reporting format, more information has to be disclosed than the secondary reporting format. For primary basis of segment reporting, mandatory items to be disclosed are revenue (distinguishing between sales to outside customers and sales between segments), result (segment revenue minus segment expense), identifiable assets, liabilities, cost of property, plant, equipment, and intangible assets acquired during the period, depreciation and amortisation expense, other non-cash expenses, share of profit or loss in associates, investment in associates and basis for inter-segment pricing. For secondary basis of segment reporting, the minimum disclosures are revenue, assets and cost of property, plant, equipment, and intangible assets acquired during the period. Appendix 1 highlights the mandatory items to be disclosed in the primary segment reporting.

METHODOLOGY

Early adopters are mainly identified by searching the 2001 and 2002 annual reports and annual audited accounts (excluding financial statements ended 31 December 2002) in the KLSE LINK database (<http://www.klse.com.my/announcements>) for phrases unique to MASB 22 such as “primary reporting”, “segment liabilities”, “masb 22”, “standard 22” and “standard no 22”. The searches were conducted in November 2002 and April 2003. Upon detailed inspection of the relevant annual reports or annual audited accounts of the “hit” companies, we find that some of these documents, although they contained the above phrases, are not related to MASB 22 adoption. For example Fututech Berhad (formerly Ulbon) in its annual report 2001 disclosed in Note 2 (a): Significant Accounting Policies:

The promulgated standards MASB 19: Events After the Balance Sheet Date, MASB 20: Provisions, Contingent Liabilities and Contingent Assets, MASB 21: Business

Combinations, MASB 22: Segment Reporting, MASB 23: Impairment of Assets and MASB 24: Financial Instruments: Disclosure and Presentation have been adopted prior to their effective dates.

However, under Note 31: Segmental Information, the annual report states:

No segmental reporting is prepared as the Group's activities are carried out primarily in Malaysia and the Group's operations are substantially in the manufacturing sector only.

Eliminating the inappropriate "hits", our initial search using the KLSE LINK database managed to identify 30 different companies that adopted MASB 22 prior to its effective date.² We also identified two additional MASB 22 early adopters via other source. It is a puzzle to us why both companies, Hock Seng Lee and Paramount, are not captured by the KLSE LINK search although both their annual reports/audited accounts contained the phrase "segment liabilities". The analysis that follows is based on a sample of 32 early adopters of MASB 22.

For each of these companies that are early adopters of MASB 22, we hand collected information on board of exchange (Main or Second Board), auditor, whether segment reporting appears in the earlier or later parts of the notes to the financial statements, segment (business or geographical or both) used as primary reporting format, number of business and geographical segments and the disclosure of mandatory items for primary reporting format (see Appendix 1). For mandatory items which are not disclosed in the segment reporting, we checked whether disclosures of these items are made in the consolidated financial statements. The accounting treatments for the mandatory items are then coded as follows: (A) allocated to segments, (U) disclosed in aggregate in segment report without allocating to segments i.e. unallocated, (NA) not applicable (since the items are also not disclosed elsewhere in the consolidated financial statements, and (ND) not disclosed in segment report although they are disclosed elsewhere in the consolidated financial statements. For ND items, we further hand collected information on their amounts to gauge the materiality, albeit arbitrarily. Companies with at least one item designated with "ND" are deemed not complying fully with MASB 22 disclosures (i.e. partial early adopters). For partial early adopters in 2001, we further investigated whether the disclosure deficiencies persist or are rectified in the subsequent financial statements ended 31 December 2002 when MASB 22 became mandatory.

FINDINGS

Table 1 displays information about the 32 sample companies and their compliance with the primary segment reporting format requirements. As mentioned earlier, there are 22 companies in the Main Board and 10 in the Second Board. Column 3 of Table 1 shows that MTD Capital is the first company that voluntarily adopts MASB 22 for its financial statements ended 31 March 2001. Nineteen companies adopt MASB 22 for their financial statements ended 31 December 2001 and 12 companies adopt MASB 22 for their financial statements ended between 31 January and 30 September 2002. Twenty four of these companies (or 75 percent) are audited by the Big-Four (Arthur Andersen (seven), Ernst & Young (seven), KPMG (six) and PricewaterhouseCoopers (four) and eight by six other auditors.

² We exclude Amtel as its financial year ended 30 November 2002 is very near the effective date of MASB 22, invariably financial year ended 31 December 2002.

Table 1
Early Adopters of MASB 22 and the Disclosures of Mandatory Items in the Primary Segment Report

company	board	fye	auditor	note	bus	geog	FULL	REV	RES	ASSET	LIAB	CAPEX	DEP/ AM	NON CASH	ASS- RES	ASS- INV	BASIS FOR INTER-CO PRICING
Audrey	2	Dec-01	ey	30	3	4	yes	A	A	A	A	A	A	A	NA	NA	market price
Batu Kawan	1	Sept-02	ey	28	2	3	yes	A	A	A	A	A	A	A	A	A	NA
CCK	2	June-02	other	31	3	1	no	A	A	A	A	ND	A	ND/NS	U	U	NA
DKLS	1	Dec-01	aa	34	5	2	no	A	A	A	A	A	A	ND/NS	A	A	TNMD
Europlus	1	Mac-02	other	6	3	2	no	A	A	A	A	A	A	ND/NS	U	U	arm's length*
Fiamma	1	Sept-02	kpmg	25	3	1	no	A	A	A	A	ND	A	A	U	A	arm's length
Fraser & Neave	1	Sept-02	ey	8	4	*	no	A	A	A	A	A	A	ND	ND	ND	commercial
Guthrie Ropel	1	Dec-01	ey	4	3	2	yes	A	A	A	A	A	A	A	A	A	NA
Highlands	1	Dec-01	kpmg	2	4	2	yes	A	A	A	A	A	A	A	A	A	terms mutually agreed
Hing Yiap	2	June-02	other	30	2	2	yes	A	A	A	A	A	A	A	NA	NA	commercial
Hock Seng Lee	1	Dec-01	kpmg	19	2	1	no	A	A	A	A	ND	A	NA	NA	NA	NA
IJM	1	Dec-01	pwc	12	6	8	yes	A	A	A	A	A	A	A	A	A	arm's length
Khind	2	Dec-01	kpmg	24	1	2	no	A	A	A	A	A	ND	ND/NS	NA	NA	negotiated terms
KL Kepong	1	Sept-02	kpmg	31	6	**	yes	A	A	A	A	A	A	A	A	A	market price
Kossan	2	Dec-01	other	22	3	1	yes	A	A	A	A	A	A	A	A	A	NA
Kump. Belton	2	Dec-01	other	27	3	2	yes	A	A	A	A	A	A	A	NA	NA	market price
Kump. Guthrie	1	Dec-01	ey	6	5	***	yes	A	A	A	A	A	A	A	A	A	market price
Lityan	1	Dec-01	pwc	27	3	2	no	A	A	A	A	A	A	ND	U	U	arm's length
MTD Capital	1	Mac-01	other	31	5	1	yes	A	A	A	A	A	A	NA	A	A	TNMD
Nexnews	1	Dec-01	other	5	2	1	no	A	A	A	A	A	A	ND/NS	NA	NA	NA
Pacificmas	1	Dec-01	aa	42	5	1	no	A	A	A	A	A	A	ND/NS	U	U	TNMD
Pancaran Ikrab	2	Dec-01	aa	33	4	1	no	A	A	A	A	ND	A	ND/NS	NA	NA	TNMD
Paramount	1	Dec-01	aa	33	5	3	no	A	A	A	A	A	A	ND/NS	A	U	TNMD*
Perak Corp	2	Dec-01	aa	38	5	1	yes	A	A	A	A	A	A	A	U	A	negotiated terms
Propel	1	Dec-01	ey	25	3	1	no	A	A	A	A	A	A	A/U	A	ND	terms mutually agreed*
Rohas-Euco	1	Dec-01	pwc	3	4	2	no	A	A	A	A	A	A	ND	A	A	arm's length
Sime Darby	1	June-02	pwc	31	7	7	yes	A	A	A	A	A	A	A	A	A	arm's length
Sunrise	1	June-02	ey	30	5	3	no	A	A	A	A	A	A	ND/NS	A	A	terms mutually agreed*
Super Ent	2	Mac-02	kpmg	19	5	2	no	A	A	A	A	A	A	ND/NS	U	U	negotiated terms
TA Enterprise	1	Jan-02	aa	47	6	8	yes	A	A	A	A	A	A	A	A	A	TNMD
Watta	2	June-02	other	5	3	1	no	A	A	A	A	A	A	ND/NS	NA	NA	TNMD*
Wembley Ind	1	Dec-01	aa	28	3	1	yes	nil	A	A	A	NA	A	A	NA	NA	TNMD

Column 2 shows the board of exchange where 1 is Main Board and 2 is Second Board. Column 3 (fye) is the financial year end. Column 4 is the company's external auditor where aa is Arthur Andersen, ey is Ernst & Young and pwc is PricewaterhouseCoopers. Column 5 indicates the note to the account that contains the segment disclosure. Columns 6 and 7 show the number of business and geographical segments respectively (*Fraser & Neave has five geographical markets and three asset locations, **KL Kepong has 11 geographical markets and seven asset locations and ***Kumpulan Guthrie has nine geographical markets and four asset locations). Column 8 indicates whether the company complies fully with the primary basis of segment disclosure. Columns 9 to 18 indicate how the mandatory items (see Appendix 1 for details) are disclosed in the primary segment reporting where A indicates allocated to segments, U disclosed but unallocated to segments, NA not applicable, ND not disclosed and NS not significant (based on an arbitrary monetary amount of less than RM1 million). In the last column which relates to intragroup transactions, TNMD denotes that the terms are not materially different from transactions with unrelated parties and asterisk indicates the inter-co pricing basis is disclosed in the related party disclosure rather than segment disclosure.

Column 5 of Table 1 indicates that most of the segment disclosures appear at the later part of the notes to the financial statements. Although not reported in Table 1 all the sample companies except Khind and Kumpulan Belton adopt the business segment as the primary reporting format. Kumpulan Belton elects the matrix presentation (both business and geographical segments are regarded as primary segment) whilst Khind, which operates only in a single business segment, adopts the geographical segment as the primary reporting format. Columns 6 and 7 of Table 1 show that the sample companies have, on average, four business segments, and 22 of them (about 70 percent) have not more than two geographical segments. Four companies in the sample (IJM, Kuala Lumpur Kepong, Sime Darby and TA Enterprise) have at least six business segments and eight geographical markets.

Columns 8 to 18 of Table 1 indicate the disclosures of mandatory items in the primary segment reports. Fifteen companies comply fully with the primary segment reporting format disclosures. All the sample companies disclose revenue, operating profits, assets and liabilities by primary segments and reconcile the four primary items of information with the aggregated information in the consolidated financial statements.

Four companies do not disclose capital expenditures by segments i.e. CCK Consolidated, Fiamma, Hock Seng Lee and Pancaran Ikrab.³ Khind incurred depreciation and amortisation expense totalling RM3.1 million but this expense was not disclosed in the primary (geographical) segment analysis.⁴

Nearly half of the companies in the sample do not disclose separately non-cash expenses other than depreciation and amortisation in the primary segment reports although these expenses appear in the consolidated cash flow statements and in the notes that accompany the consolidated income statements. Among the companies that disclose non-cash expenses other than depreciation and amortisation in the segment reports, these expenses mostly consist of allowance for doubtful debts, bad debts write-off, provision for retirement benefits, inventories write-off, property, plant and equipment write-off, development expenditure write-off, unrealised loss on forex and allowance for diminution in value of investment.

Fraser & Neave (audited by Ernst & Young) made allowances/provisions for obsolete inventories, inventories write-off, doubtful debts, properties, plant and equipment write off and retirement benefits in excess of RM22 million but these significant non-cash expenses were not shown in the segment report. Lityan (audited by PricewaterhouseCoopers) made an allowance of RM64 million for doubtful debts and RM6.7 million for slow moving inventories and wrote off RM6.6 million bad debts but these significant non-cash expenses were not shown in the segment disclosure which violates Para 62 of MASE 22.⁵ Projek Penyelenggaraan Lebuh raya or Propel (audited by Ernst & Young) made allowances of RM28.5 million for disputed billings and RM4.2 million for doubtful debts but it is not clear whether these significant non-cash expenses were allocated to reportable segments.⁶ Rohas-

³ Hock Seng Lee subsequently made good the disclosure deficiency in the financial statements ended 31 December 2002.

⁴ Khind subsequently made good the disclosure deficiency in the financial statements ended 31 December 2002.

⁵ This anomaly was subsequently rectified in the financial statements ended 31 December 2002.

⁶ The only non-cash expense other than depreciation and amortisation disclosed in the segment report is property, plant and equipment write-off - merely RM0.1 million. However, there is a charge of RM4.3 million against operating profits that is not allocated to individual segments and appears under "elimination" in the segment report.

Euco (audited by PricewaterhouseCoopers) made an allowance of slightly over RM1 million for diminution in quoted investments but did not show this non-cash expense in the segment report.⁷ The other eleven companies that do not disclose non-cash expenses other than depreciation and amortisation may have a valid reason for not disclosing these items in the segment reports as their total amount is less than RM1 million for each company, therefore they are considered insignificant.

There is also diversity in the disclosure of share of profits in associates and investment in associates.⁸ Out of 23 companies that have associated companies, thirteen companies allocate the profits from and investment in associates to reportable segments and five companies disclose both the share of profits in associates and investment in associates in aggregate without allocating to reportable segments. Fraser & Neave although has an associate with accumulated losses of RM731,000 but its share of the losses in this associate is restricted to the cost of investment of RM1, and thus not shown in the segment disclosures. Paramount and Projek Penyelenggaraan Lebuhraya or Propel allocate the share of profits of associates to reportable segments but not the investment in associates, contrary to Para 67 of MASB 22.⁹

Column 18 of Table 1 shows that out of 26 companies that had inter-segment sales, 21 companies disclose in the segment reports that the basis for inter-segment pricing is generally based on terms that are not materially different from transactions with unrelated parties. Five companies mention the pricing basis for intragroup transactions in the related party disclosure rather than segment reports.

CONCLUSION

The Asian Roundtable on Corporate Governance has identified that one of the business reporting disclosure shortcomings is insufficient segment disclosure by companies.¹⁰ The recent introduction of MASB 22 in Malaysia, which is almost identical to the revised IAS 14, is expected to enhance the quality of segment reporting. It is therefore timely to examine the disclosure practices by companies that voluntarily opted to apply MASB 22 prior to its effective date and highlight any disclosure shortcomings. We identify 32 early adopters of MASB 22 and scrutinise their segment disclosures. Although the initiative taken to adopt MASB 22 prior to its effective date is laudable, our observations indicate that more than half of these

7 This disclosure deficiency was rectified in its financial statements ended 31 December 2002. In addition, Rohas-Euco also separately disclosed allowance for doubtful debts and write back of allowance for doubtful debts in the 2002 segment disclosures which were not disclosed in the 2001 segment disclosures.

8 Earlier in an article "Disclosure Deficiencies" in The Edge Malaysia (13 January 2003), we report that Highlands & Lowlands does not disclose share of profits in associates and investment in associates by segments. We made this observation based on Highlands and Lowlands' incomplete annual audited account that was available online then from the KLSE LINK database. In April 2003, after realising that part of the segment table is missing, we notified the KLSE who immediately inserted the missing page in the segment report. Accordingly, in this paper we reclassify Highlands and Lowlands as fully complying with MASB 22.

9 Paramount and 1 Propel subsequently rectified the disclosure deficiencies in their financial statements ended 31 December 2002. In the case of Propel, the share of profits of associates which was inadvertently misallocated to "other operations" segment in 2001 was re-allocated to "infrastructure and maintenance" segment in 2002.

10 Other shortcomings include insufficient disclosure on related party transactions, contingent liabilities and failure to use mark to market accountings. For full details, please see the OECD White Paper on Corporate Governance in Asia (2003) available at <http://www.oecd.org>.

early adopters have not adhered completely to MASB 22 disclosure requirements, particularly with respect to providing segmented data on non-cash expenses other than depreciation and amortisation. Other anomalies in the segment disclosure notes include lack of disclosure on capital expenditure by reportable segments, investment in equity method associates and basis for inter-company pricing. For some of the companies that show slackness in segment disclosures, we further investigate whether the disclosure deficiencies persist or are rectified when MASB became mandatory. Generally, the partial early adopters subsequently addressed the disclosure anomalies in their financial statements ended 31 December 2002 when MASB 22 became mandatory. To conclude, we suggest that for companies not disclosing non-cash expenses other than depreciation and amortisation, it is best practice to make a clear negative statement that there was no significant non-cash expenses for years under review as exemplified by MTD Capital (audited by Khoo Wong and Chan).

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Appendix 1

Mandatory Disclosures for Primary Segment Reporting Based on MASB 22	Variable
1. An enterprise should disclose segment revenue for each reportable segment. Segment revenue from sales to external customers and segment revenue from transactions with other segments should be separately reported.	REV
2. An enterprise should disclose segment result for each reportable segment.	RES
3. An enterprise should disclose the total carrying amount of segment assets for each reportable segment.	ASSET
4. An enterprise should disclose segment liabilities for each reportable segment.	LIAB
5. An enterprise should disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) for each reportable segment. While this sometimes is referred to as capital additions or capital expenditure, the measurement required by this principle should be on an accrual basis, not a cash basis.	CAPEX
6. An enterprise should disclose the total amount of expense included in segment result for depreciation and amortisation of segment assets for the period of each reportable segment.	DEP/AM
7. An enterprise should disclose, for each reportable segment, the total amount of significant non-cash expenses, other than depreciation and amortisation, that were included in segment expense and, therefore, deducted in measuring segment result.	NONCASH
8. An enterprise should disclose, for each reportable segment, the aggregate of the enterprise's share of the net profit or loss of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment.	ASS-RES
9. If an enterprise's aggregate share of the net profit or loss of associates, joint ventures, or other investments accounted for under the equity method is disclosed by reportable segment, the aggregate investments in those associates and joint ventures should also be disclosed by reportable segment.	ASS-INV
10. The basis of pricing inter-segment transfers should be disclosed.	BASIS