

**POSITIVE ACCOUNTING THEORY:
EFFECT OF ACCOUNTING DECISION
ON
EARNINGS BASED BONUS SCHEME OF MANAGERS**

**A PAPER SUBMITTED TO THE MARA INSTITUTE OF TECHNOLOGY
IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE
ADVANCED DIPLOMA IN ACCOUNTANCY**

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DATE : 10TH OCTOBER 1992**

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ACKNOWLEDGEMENTS

I wish to express my sincere appreciation and indebtedness to my advisor Pn. Jagjit Kaur whose suggestions and constant encouragement provided me the impetus to complete this project paper.

Special thanks and gratitudes are conveyed to Personnel Officer of Bank Islam Malaysia Bhd. and Accounts Manager of VSL Engineering (M) Sdn. Bhd. for their assistance and cooperation in carrying out the project paper.

My acknowledgement also goes to my parents and all my friends for their support which had enabled me to complete this project paper.

CHAPTER ONE

INTRODUCTION

Earnings-based bonus scheme is a popular method of rewarding corporate executives in most of the largest US manufacturing corporation. The bonus plan is largely based on accounting earnings. Is it popular in Malaysia ? The feedback received from the Annual Asian Executive Corporation Survey shows that forty-five percent of the respondents mentioned would prefer to be paid with bonus and thirty-six percent opting for more benefits.

Bonuses and incentives are two ways in which performance can be rewarded. In a reward management system, bonus scheme provides a basis for paying for performance which is related to the achievement of defined objectives, targets and standards of performance. These scheme could clear a relationship between performance and pay, provide a most direct form of financial motivation available by linking rewards to accomplishments, reinforce and develop corporate culture which is biased to action, attract

people who are confident in their own abilities and improve salary competitiveness for high quality executives.

Executives bonus scheme is closely tied to a searching review of corporate plans and objectives. It is essential to know where the enterprise is planning to go and how it measures success before deciding how executives should be rewarded for their performance. A good scheme will ensure that executives concentrate on business priorities.

Effective compensation decision require a knowledge of both current theory regarding compensation and specific practices. We have to analyse the development and explicitly link theory and practice. Therefore, theory and research can suggest practical improvement.

The term ¹ Accounting Theory includes concepts that have evolved in response to practical needs such as realization and objectivity, models, hypotheses and

¹ Wolk,I, Francis,JR and Tearney,MG, Accounting Theory. A Conceptual and Institutional , Kent Publishing Company, 1984, p 1.