Australian Journal of Basic and Applied Sciences, 6(7): 98-108, 2012
ISSN 1991-8178

The Benefits And Challenges Of Financial Reporting Standards In Malaysia: Accounting Practitioners' Perceptions

[1]Morni Hayati Jaafar Sidik, [2]Rahizah Abd Rahim

[1]Morni Hayati bt Jaafar Sidik and Rahizah bt Rahim are Lecturers at the Faculty of Accountancy and Management, University Tunku Abdul Rahman, Lot PT 21144, Jalan Sungai Long,Bandar Sugai Long, Cheras, 43000 Kajang, Selangor Darul Ehsan, Malaysia
[2]We are grateful for constructive comments by Amalina Ismail.

Abstract: The Malaysian financial reporting framework is keeping pace with the global development. Thus, from 1 January 2006, Malaysian companies are required to implement all the Financial Reporting Standards (FRS) issued by Malaysian Accounting Standards Board. The new FRS ensures that Malaysian accounting standards are aligned with the International Financial Reporting Standards (IFRS). In addition, Malaysia has set 1 January 2012 as the deadline for full convergence with IFRS which is applicable to all entities except private entities. The convergence with IFRS though challenging will place Malaysian companies and capital market on a level playing field with other international economies and markets. This paper explores the benefits and challenges of FRS in Malaysia from the perspectives of accounting practitioners using questionnaire survey. The findings of the study indicate that the majority of the accounting practitioners viewed that FRS has both benefits and challenges.

Key words: Financial Reporting Standards, Malaysia, Perceptions, Accounting Practitioners

INTRODUCTION

Currently, there is a worldwide trend for a move towards converging local accounting standards with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The standards are now used by various countries around the world, and emerging economies such as Korea, India and Canada have announced IFRS convergence by 2011 (Accountants Today, 2008). According to the survey by Deloitte Touche Tohmatsu (2010), more than one hundred countries around the world have either adopted or intend to adopt the IFRS for their domestic companies. As of December 2011, China on the other hand has substantially converged their national standards with IFRS (IFRS Foundation, 2012).

The European Union (EU) was the first group of industrialised nations to announce its intention to support convergence with the IFRS. The European Commission (EC), which is the EU's permanent civil service, announced in June 2002 that all listed companies are required to prepare consolidated financial statements in accordance with IFRS adopted from 1 January 2005. Besides that, countries such as Hong Kong, Singapore and Australia have also move towards IFRS platform from 1 January 2005.

On the other hand, Malaysian companies are required to implement all the Financial Reporting Standards (FRS) issued by Malaysian Accounting Standards Board (MASB) from 1 January 2006. The MASB is the sole authority body that deals with accounting standards in Malaysia. The decision to defer the implementation was to give Malaysia a grace period to learn from other countries' experiences (MASB, 2005). The move by MASB to adopt IFRS is a reflection of Malaysia's commitment to align with global accounting standards in order to converge to one common set of accounting standards for the entire developed world in this age of cross-border trading (Lazar, Tay and Othman, 2006). Malaysia has also set 1 January 2012 as the deadline for full convergence with IFRS. In conjunction with full convergence, MASB has issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework) in November 2011 which finalises MASB Exposure Draft 75 IFRS-compliant Financial Reporting Standards which was exposed in June 2011. The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 *Agriculture* (MFRS 141) and IC Interpretation 15 *Agreements for Construction of Real Estate* (IC 15), including its parent, significant investor and venturer (MASB, 2011). The convergence with IFRS though challenging will place Malaysian companies and capital market on a level playing field with other international economies and markets. In addition, the adoption of the MFRS Framework is a noteworthy achievement for the capital market as entities will be able to assert that their financial statements are in full compliance with IFRSs as it is a fully IFRS-compliant framework and equivalent to IFRSs.

Numerous studies have focused on harmonization and convergence of financial accounting information in advanced capital market such as Europe and Australia, addressing impediments to convergence and providing

Corresponding Authors: Morni Hayati Jaafar Sidik, Morni Hayati bt Jaafar Sidik and Rahizah bt Rahim are Lecturers at the Faculty of Accountancy and Management, University Tunku Abdul Rahman, Lot PT 21144, Jalan Sungai Long,Bandar Sugai Long, Cheras, 43000 Kajang, Selangor Darul Ehsan, Malaysia

the level of adoption of IFRS in the consolidated statements of listed European and Australian companies (Larson and Street, 2004; Jermakowicz, 2004, Jones and Higgins, 2006). However, less attention was given to the impacts of implementing IFRS in the developing countries. Among the available literature are studies in United Arab Emirates (Aljifri and Khasharmeh, 2006) and in Bahrain (Joshi, Bremser and Al-Ajmi, 2008). As noted by Joshi *et al*. (2008), more studies on developing countries are needed to provide a research base for policy and implementation decision.

Tan, Lazar and Othman (2007) commented that the transition to FRS represents one of the biggest challenges to Malaysia reporting entities. This is because adoption to FRS will mean adopting a new set of accounting standards (Cope and Clark, 2003). Apart from that, the preparer of the accounts or accountants will be the most affected as adoption to FRS will dramatically change the way in preparing the financial statements (Ravlic, 2005). However, Joshi *et al*. (2008) observed that there are still a few studies that have examined the judgement of professional accountants in interpreting and applying accounting standards.

Therefore, The purpose of this paper is to study the benefits and challenges of the FRS from the perspectives of Malaysia as a developing country. This study also aims to contribute to the existing literature in IFRS adoption and at the same time to serve as the preliminary basis for future research on the adoption of IFRS in Malaysia.

The remainder of this paper is structured as follows. The next section will discuss the literature review. The third section will explain the methodology used. The results and analysis are presented in the fourth section followed by a summary in the final section.

Literature Review:

Several researchers (Goodrich, 1982; Nobes, 1992) have found several reasons that caused international differences in financial reporting systems by various jurisdictions. Among them are different legal system, culture and funding sources. Due to these differences, various accounting practices and reporting for items such as goodwill, depreciation, pensions and leases are available. Thus, users and investors might find it difficult to compare the financial performance of companies in different countries around the world. Hence, a common set of accounting standard reporting is needed for a better standardised reporting. As noted by Lazar *et al*. (2006), a common set of reporting standards will allow more transparency, understandability, competitiveness and comparability of financial statements presented by various jurisdictions.

The need for global financial reporting language is also evident especially with the current explosion in the use of information and communication technology (ICT) which clearly revealed that nations around the world operate in a global village (Jacob and Madu, 2004). In addition, there has also been a rise in the number of regional trading blocks such as European Union (EU), NAFTA, etc. which has pushed the international trade to a higher level. Multinationals and transnational corporations are also expanding their strategic alliances to suppliers outside their home countries especially in the areas of e-commerce and e-procurement (Jacob and Madu, 2004).

Due to those factors, the International Accounting Standards Committee (IASC) restructured itself into IASB in 2001 (Georgiou, 2010) to take the challenge to produce a single set of global accounting standards known as IFRS by working together with the regulators and standard setters of other countries. Thus, IFRS receives input from literally hundreds of people with diverse expertise, from diverse jurisdictions (MASB, 2008).

The European Commission (EC), which is the EU’s permanent civil service, announced in June 2002 that all listed companies are required to prepare consolidated financial statements in accordance with IFRS adopted from 1 January 2005. Other countries such as Canada, Australia, Hong Kong and India are also working towards adoption of IFRS (Joshi *et al*., 2008). As for Malaysia, MASB announced that they plan to bring Malaysia to full convergence with IFRS by 1 January 2012 (MASB, 2008). This is a reflection of Malaysia’s commitment towards one global financial reporting language. In conjunction with full convergence, MASB has issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework) in November 2011. The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012 (MASB, 2011)

Delloitte and Touche (2003) conducted a survey based on 360 firms from 2400 largest companies in Spain. The results of the survey indicated that 81 per cent of the firms agree with IFRS adoption. Similarly, PricewaterhouseCoopers (2000) also found a strong support for IFRS based on a sample of 700 Chief Financial Officers (CFO) of listed companies in 16 countries.

According to Eichhorst *et al*. (2002), changing accounting standards may not sound like a strategic change, but it may change fundamentally the way that businesses are run, the way that business success is measured, and the information and records that companies need to maintain. The implementation of the FRS affects the business operations where the business organisations have to migrate from their existing accounting practices to a new set of standards (Cope and Clark, 2003). Accounting procedures and treatment, legal matters, information systems, human resources, taxation issues and investors relations are among the wide range of functions that are affected due to the convergence. Thus, the implementation of new FRS has significant impacts on the financial reporting and the corporation itself.

2.1 Benefits of Adopting the IFRS:

In Malaysia, starting from 1 January 2005, the MASB accounting standards was renamed FRS to reflect Malaysia's commitment to align with global accounting standards. However, companies in Malaysia are only required to implement all FRS in their financial statements starting from 1 January 2006.

Several prior studies from other countries have suggested that adoption of IFRS standards is usually related to several benefits. For example, Leuz and Verrecchia (2000) found out that in Germany the shift from local GAAP to IFRS reduces cost of capital. Leuz (2003), Hope, Kang and Zang (2005) suggested that potential long-term benefits of IFRS adoption may include lower cost of capital, positive valuation effect, increased shareholder base and trading volume.

According to the Chairman of MASB, Dato'Zainal Abidin Putih (MASB, 2004), the change to IASB standards would enhance the quality of reporting thus results in greater reporting transparency in Malaysia. A study by Barth, Landsman and Lang (2005) in USA found out that IFRS adoption increases firms' financial reporting quality.

Apart from that, Aljifri and Khasharmeh (2006) examined the suitability of the implementation of IFRS) based on questionnaire sent to preparers of major companies in United Arab Emirates (UAE). Their findings suggested that among the advantages of adoption of IFRS as stated by the respondents are "enhance comparability of financial statements", "improve the perception of accounting profession across the world" and "provide better information for government for economic planning". In Bahrain, Joshi *et al*. (2008) found that most of the respondents who are accountants and auditors perceived that by applying IFRS would lead to greater comparability of financial performance, followed by greater relevance, reliability and transparency of financial information of companies.

In addition, adopting IFRS is also improves access to foreign capital. El-Gazzar, Finn and Jacob (1999) suggested that firms voluntarily comply with IFRS in order to obtain greater exposure to new financial markets. Anticipation of improved communication with information users is also reported to be one of the motivations to use IFRS (Tarca, 2004). Finding based on Finnish data suggested that predecessor of IFRS, International Accounting Standards (IAS) help firms to supply information that meet foreign investor's information needs (Kinnunen, Niskanen and Kasanen, 2000).

Bhattacharjee and Islam (2009) highlighted the vulnerability of small investors which has been a long time established problem and has been a big impediment for the stock market development in Bangladesh. IFRS adoption which improves financial reporting quality helps the small investors to compete better with informed professionals and hence reduces their trading risk.

The Chairman of the oversight body of the MASB, the Financial Reporting Foundation, Datuk Ali Tan Sri Abdul Kadir, also said that Malaysia move to fully converge with IFRSs in 2012 is a landmark achievement where Malaysian must equip themselves with adequate IFRS knowledge so as to position themselves in the global market environment (MASB, 2011).

In addition, during the recent Accountants in Business Symposium organised in March 2012, Mohammad Faiz Mohammad Azmi, Chairman of MASB cited credibility on the global stage is a key driver for convergence by referring to Korea where the Korean companies which were experiencing rapid expansion found they lacked international credibility until Korea decided to adopt international standards. Mohammad Faiz also added that Malaysia decided to take the same route and there are medium and long-term benefits especially when Malaysia is expanding regionally. Extra training for local staff is not needed, if everything is already conforming to internationally accepted standards and those who understand and implement these accounting standards would in terms of career, almost immediately attain international marketability (Accountants Today, 2012). Based on the literature above, the prior research supports the view that the adoption of IFRS is beneficial.

2.2 Challenges of Adopting the IFRS:

According to PricewaterhouseCoopers Senior Executive Director and Corporate Reporting Leader, Ng Mi Li (PWC Alert, 2005), the new FRS would result in greater volatility of company results. This is due to the adoption of fair-value accounting in business combinations, share-based payments, assets held for sale and equity and debt investments in the new FRS regime. Thus, it will introduce significant volatility in the balance sheet and also in earnings.

Apart from that, Ng Mi Li (PWC Alert, 2005) also stated that new FRS would also result in changes in the presentation of financial statements. This is because new FRS will bring new rules on the recognition and valuation of assets. Besides, certain 'off balance sheet' items like derivatives, leases and asset-backed securitisation will be brought onto the balance sheet.

The introduction of new FRS may involve higher costs. Jermakowicz and Tomaszewski (2006) examined the implementation of IFRS by European Union (EU) companies based on questionnaires sent to EU-listed companies in 2004. The findings from 112 respondents indicated the following: (1) majority of the respondents have adopted IFRS for more than just consolidation purposes; (2) the process of adoption to IFRS is costly, complex and burdensome; (3) companies do not expect to lower their cost of capital by implementing IFRS; (4) respondents tend to agree with the benefits and costs of transition; (5) companies expect increased volatility in financial results; (6) the complexity of IFRS as well as lack of implementation guidance and uniform interpretation are key challenges in convergence; and (7) majority of the respondents would not adopt IFRS if not required by the EU Regulation. The results of the questionnaire were confirmed by several personal interviews with finance and accounting executives of EU publicly traded companies.

In another study conducted in Belgium by the Belgian Commission of Banking, Finance and Insurance (CBFA~~3~~, 2004 as cited in Veerle, 2005) a survey of 73 listed Belgian companies, examined the difficulties and costs in relation to convergence with IFRS. Although a majority of the firms (62 per cent) stated that they have no problems in obtaining the necessary data to report under IFRS, the respondents find it costly to implement IFRS and the estimated costs of convergence for the BEL-20 companies range between 600 thousand and 6.2 million Euro. Moreover, only 22 per cent of the respondents stated that the value added of IFRS financial statements is positive for the majority of users of financial statements.

In addition, the relative implementation cost will be even larger for smaller companies. As there are fewer potential users of the financial information disclosed by small firms, this would result in fewer potential benefits and higher accounting costs per users (Bollen, 1995). The notion of applying IFRS across the board to all companies irrespective of their size (in terms of market capitalisation and turnover) might appear to be the right solution for investors, but could also be difficult to implement and enforce, especially in the case of smaller non-listed companies (Blewitt, 2005 as cited in Lazar, *et al*., 2006).

Another challenge in adopting IFRS is the complex nature of some of the IFRS. Larson and Street (2004) reported, based on the data collected by the largest international accounting firms during their 2002 convergence survey, one of the most significant impediments to convergence appeared to be the complicated nature of particular IFRS. In another study, Jermakowicz (2004) who examined the adoption of IFRS by BEL-20 companies in Belgium found that 75 percent of the respondents agree some of the IFRS are difficult. Among the standards that are complex in nature are standards related to hedge accounting (IAS39) and impairment tests (IAS 36).

In Spain, Navarro-Garcia and Bastida (2010) found out that their respondents, preparers of 63 Spanish listed firms, perceived IFRS to be a high quality regulation but it is significantly different from Spanish standard, troublesome and failed to meet a cost-benefit trade-off in some cases. Thus, applying IFRS could lead to less compliance, and therefore lower quality financial reports would be produced.

The convergence with IFRS though past literatures highlighted the benefits of convergence no doubt represents one of the biggest challenges to the business reporting entities.

Research Methodology:

3.1 Sample and Data Collection:

A survey by means of questionnaire was carried out to collect the view of the accounting practitioners in Malaysia. We collected the opinions of accounting practitioners as they are the frontline of the accounting practice (Cheung *et al*., 1995) and play an important role in the preparation and verification of disclosures in the annual report (Jenkins and Krawczyk, 2001). Therefore, they should be more sensitive to the benefits and challenges of FRS in Malaysia.

For the purpose of this study, we limit the definition of accounting practitioners as individual who works in accounting related job and is a member of Malaysian Institute of Accountants (MIA). The Malaysian Institute of Accountants (MIA) is a statutory body responsible to regulate the accountancy profession in Malaysia. It is the sole organisation in Malaysia with the right to determine whether or not a person is qualified to be recognised as an accountant by virtue of the power provided by the Accountants Act, 1967. Thus, accountants that have registered with MIA were selected as the survey population. Currently, the MIA has nearly 22,000 accounting practitioners who registered under them.

The accountants list from the MIA Membership Directory, however, is kept confidential by the MIA. Thus, we have less control on the selection process of the respondents as also shown in Abu Bakar and Ahmad's (2009) study. For that reason, time constraints and to suit this exploratory study, a total of 200 accounting practitioners in Klang Valley were selected based on convenience basis. Roscoe (1975) recommended that sample size larger than 30 and less than 500 are appropriate for most research.

3.2 Survey Instruments:

Beattie *et al*. (1999) suggested that questionnaire survey is the best survey vehicle to measure perceptions, and in this study opinion from the accountants. Therefore, this study utilised questionnaire survey to collect the information from the respondents.

The questionnaire was developed after identifying several issues from the literature review. At the same time, questionnaire of ACCA (2004) was also replicated with some changes to suit this study. It was then pre-tested on 2 accounting lecturers. Based on their recommendations, some amendments were made on the questionnaire to improve its clarity.

The questionnaire consisted of four sections. The first section gathered demographic information such as gender, years of working experiences, qualifications, sectors and positions of the respondents. This is to be in line with other studies (Jones and Higgins, 2006; Aljifri and Khasharmeh, 2006; Joshi *et al*., 2008). The second section covered the general opinion on the FRS. The third section asked the respondents' views on the benefits of the FRS and the fourth section asked the respondents' views on the challenges of FRS. A five point Likert scale is used for an answer option statement for the last two sections ranging from "1" for "totally disagree" to "5" for "totally agree".

The survey was carried out between months of January to March 2007. Ten research assistants delivered the questionnaires personally to the respondents. Respondents were left to complete the questionnaire. Of the 200 questionnaires distributed, a total of 174 questionnaires were returned. Fifteen of the completed questionnaires were unusable, leaving a total of 159 usable replies.

RESULTS AND DISCUSSIONS

4.1 Sample characteristic

This section will present the background of the survey respondents as well as the findings of the study. The summary of the sample characteristics are as shown in Table 1. In total, male represents 61.01 % and female 38.99 %. Years of working experience are divided into three categories: less than 5 years, 5 to 10 years and more than 10 years. More than 50 percent of the respondents have more than 10 years of experience while 35.22 % have working experience between 5 to 10 years. Therefore, most of the respondents are currently holding the position of senior management (50.94%). According to Jones and Higgins (2006), the accounting background and qualifications of respondents are needed to reduce the likelihood of respondents' error and to provide a level of assurance that the respondents have sufficient accounting knowledge, expertise and experience to competently answer the research question. Based on the results as shown in Table 1, the respondents possessed the needed exposure and experience in dealing with the issues of IFRS adoption. This finding is similar to Joshi *et al*. (2008) study.

Table 1: Summary of Sample Characteristics

Characteristics of Respondents	Percentage
Gender	
Male	61.01
Female	38.99
Years of Working Experience	
Less than 5 years	6.92
5 – 10 years	35.22
More than 10 years	57.86
Highest qualification	
Diploma	0.63
Bachelor degree	16.98
Masters	9.43
PhD	0.63
Professional	71.7
Others	0.63
Sectors	
Public Practice	47.80
Industry and Commerce	44.03
Public sectors	8.18
Position	
Executive level	22.01
Mid-level Manager	27.04
Senior Management	50.94

The academic qualification of the respondents ranged from diploma to PhD as well as professional accounting qualification and others. Most of the respondents obtained professional qualification (71.7%) followed by the Bachelor degree of 16.98%.

The working sectors are divided into three categories: Public Practice, Public Sector and Industry and Commerce. Majority of the respondents work in public practice (47.80%) and in industry and commerce sectors (44.03%).

4.2 General perceptions on the FRS:

Table 2 shows the general perceptions of the accounting practitioners on the FRS. Nearly 94% of the respondents agreed with the introduction of FRS. The result reflects that the majority of the accounting practitioners support the move made by the MASB to implement new accounting standards known as FRS in Malaysia. This initial findings revealed that majority of the accounting practitioners involved in the survey believed that the changeover to the new accounting standards are beneficial to Malaysia. This is in line with PricewaterhouseCooper (2000) and Delloitte and Touche (2003) studies.

Table 2: General perceptions on the FRS

Statements		Percentage
Agreement with the introduction of FRS		
	Yes	93.71
	No	6.29
Knowledge level on the requirements of FRS		
	Well understood	25.79
	Moderately understood	67.92
	Little understood	6.29
	Not at all	0.00
Agreement on the application of FRS by all entities other than private entity		
	Yes	70.44
	No	22.64
	Not sure	6.92

In terms of knowledge level on the requirements of FRS, 67.92% of the respondents said they are ‘moderately understood’ while 25.79% indicated that they are ‘well understood’. This indicates that the majority of the respondents felt that their grasp of FRS were not that strong.

Seventy percent of the respondents agreed that FRS should be applied by all entities other than private entities, while 22.64% disagree and the remaining respondents are ‘not sure’. In Malaysia, starting from 22 February 2006, MASB announced that there will be two-tiers of accounting standards which are FRS and Private Entities Reporting Standards (PERS). FRS is applied to the public-listed companies while PERS is applied for private entities as defined under Company Act 1965. This indicates that the majority of the accounting practitioners agreed that Malaysian should have different type of accounting standards. Even though the Chairman of MASB, Dato’Zainal Abidin Putih (2004) argued that the change to IASB standards would enhance the quality of reporting thus results in greater reporting transparency in Malaysia, majority of the accounting practitioners involved in the survey felt that compliance with FRS might burden the privately-owned companies which is consistent with the findings of Bollen (1995) and Blewitt (2005). To address the issue of burdening the privately-owned companies, IASB has initiated SME’s (small medium entity) standards project in 1998 and 11 years down the road issued the IFRSs for SMEs in July 2009 which tailored for the needs and capabilities of smaller businesses.

Figure 1 illustrates the source of reference that accounting practitioners will refer to when they need technical guidance. Majority of them will refer to the professional bodies and also by attending CPE trainings. As all of the respondents are member of professional bodies, it is best for them to attend seminars and trainings conducted by the professional bodies which possess the technical expertise as the bodies have been actively involved with the MASB’s working group in coming out with the new FRSs in Malaysia.

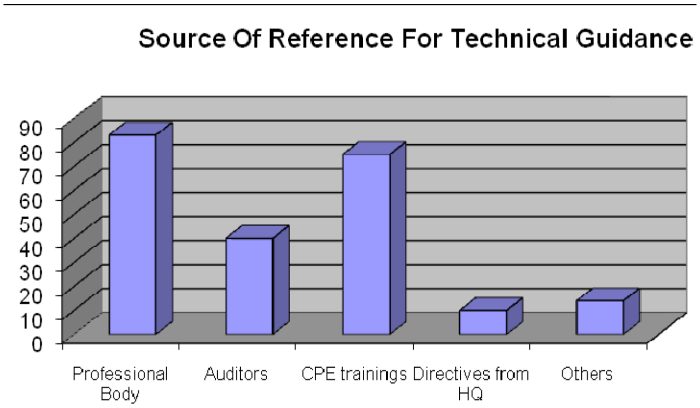

Fig. 1: Source of Reference for Technical Guidance

Table 3 shows the areas in which the respondents felt will be affected most by the new FRS. The respondents were allowed to tick more than one area. Result shows that the respondents felt that disclosure, impairment, intangibles and goodwill are among the most affected area with the new FRSs. The results are as expected given that the new FRS has significant impact on Presentation of Financial Statements (FRS 101) and goodwill on business combination (FRS 3) which should now be tested for impairment instead of amortisation. In addition companies may elect to use fair values in intangible assets under the new FRS 138 and FRS 138 also requires intangible assets with indefinite lives to be tested for impairment annually. The results are in line with the comment made by PricewaterhouseCoopers Senior Executive Director and Corporate Reporting Leader, Ng Mi Li in 2005.

Table 3: Areas Affected Most by the New FRS

Areas Affected	Frequency
Goodwill	67
Intangibles	79
Impairment	83
Foreign Exchange	48
Derivatives	60
Disclosures	102
Lease	33
Non Current Assets	35
Deferred Taxation	31
Others	9

4.3 Benefits of FRS:

Table 4 shows the results of the respondents' perceptions on the benefits of adopting the FRS. A few statements were set in the questionnaire with regards to the benefits of FRS and the respondents were required to rate their perceptions based on five point Likert scale ranging from "1" for "totally disagree" to "5" for "totally agree". Average mean is used to measure the perceptions of our respondents on each statement with regards to the benefits of FRS. We conclude that mean average which is more than 3.5 shows that majority of the respondents are agreeable with the given statement on the benefits of the FRS.

Table 4: Benefits of FRS

Benefits of FRS	Mean
Better comparability with other business	3.89
Greater reporting transparency	3.96
An improvement in the perceptions of Malaysian published accounts	3.88
Harmonisation of reporting	3.56
Improving access to foreign capital	3.71
Better valuations criteria	3.62

In average, majority of the respondents agree that adoption of FRS will improve the comparability level between companies as the financial statements are prepared using a better standard. This is being shown from the mean average of 3.89. On the other hand, majority of the respondents also believe that the adoption of FRS will lead to greater reporting transparency as the mean average obtained from the analysis is 3.96. The improved communication through higher level of disclosure will definitely lead to greater transparency and the finding seems to be in line with Tarca (2004) which anticipated that one of the motivations to use IFRS was an improved communication with information users.

As Malaysian companies' published accounts are being widely used by the users of the financial statements whether for investment purposes or for any other reasons that may deem fit, majority of the respondents also believe that the perceptions' of the users of the published accounts will improve if FRS is being adopted by the preparers in preparing the financial statements. This is being shown by mean average of 3.88. This finding seems to be consistent with Bhattacharjee and Islam (2009) which found out that IFRS adoption which improves financial reporting quality helps the small investors in Bangladesh to compete better with informed professionals and hence reduces their trading risk.

As for harmonisation of reporting, mean average of 3.56 indicates that the adoption of FRS will lead to greater level of harmonisation in reporting. From the mean average of 3.71, the respondents also viewed that FRS will enable the companies in Malaysia to have better access to foreign capital. This is due to the fact that foreign investors will have higher level of confidence in Malaysian companies' accounts as the financial statements being prepared is based on FRS which is similar to IFRS which has been widely adopted in foreign countries. Our finding on better access to foreign capital seems to be consistent with the finding of E-Gazzar, Finn and Jacob (1999) which suggested that firms voluntarily comply with IFRS in order to obtain greater exposure to new financial markets. With mean average of 3.62, majority of the respondents also viewed that FRS has better valuations criteria which will lead to improve usage of the financial statements.

4.4 Challenges of FRS:

Besides looking at the benefits of FRS, this study also looked at the challenges faced by the practitioners in adopting the FRS as presented in Table 5. A few statements were set in the questionnaire with regards to the challenges of FRS and the respondents were required to rate their perceptions based on five point Likert scale ranging from "1" for "totally disagree" to "5" for "totally agree". Average mean is used to measure the perceptions of our respondents on each statement with regards to the challenges of FRS. We conclude that mean average which is more than 3.5 shows that majority of the respondents are agreeable with the given statement on the challenges of FRS.

Table 5: Challenges of FRS

Challenges of FRS	Mean
Increased volatility in earnings	3.48
Complex nature of accounting standard	4.06
Loss of accounting innovation in Malaysia	3.09
Changes in the presentation of financial statements	3.97
Higher financial cost to implement the accounting standard :	
1. Need to engage external specialist	4.14
2. Need to upgrade the systems	3.92
3. Incur extra cost in auditing fees	4.12
4. Incur extra cost in training staffs	4.26

Mean average of 3.48 was obtained on the statement where FRS increased volatility in earnings. The results showed that the respondents seemed to have mixed reaction on the statement as the mean average is below 3.5. From Table 6 on reaction on increased volatility in earnings, we can see that 13.84% of the respondents disagree with the statement, 32.70% has neutral view whereas 42.77% and 10.06% agree and strongly agree respectively with the statement, thus confirming the mixed reaction of the respondents on the statement. The above finding where the changeover to FRS will lead to greater volatility in company's results is in line with the comment made by PricewaterhouseCoopers Senior Executive Director and Corporate Reporting leader, Ng Mi Li in 2005 where the adoption of fair value accounting will introduce significant volatility in the balance sheet and also in earnings.

Table 6: Challenges of FRS: Increased volatility in earnings

Statements	Percentage
Strongly disagree	0.63
Disagree	13.84
Neutral	32.70
Agree	42.77
Strongly agree	10.06
	100.00

The respondents also seemed to have mixed reaction towards the statement where FRS will lead to loss of accounting innovation in Malaysia as the mean average is 3.09 (refer Table 5). The mixed reaction is reflected in Table 7 where 42.77% of the respondents were neutral, 24.53% of the respondents disagree while 29.56% agree that the new FRS will lead to loss of accounting innovation in Malaysia. The professionals seemed to have mixed reaction due to the fact that FRS has just been introduced in Malaysia in 2006 and thus the respondents were not able to gauge the impact within short span of time.

Table 7: Challenges of FRS: Loss of accounting innovation in Malaysia

Statement	Percentage
Strongly disagree	0.63
Disagree	24.53
Neutral	42.77
Agree	29.56
Strongly agree	2.52
	100.00

Majority of the respondents strongly perceived that accounting standard is getting more complex with the introduction of the FRS with mean average of 4.06 as presented in Table 5. With the complex nature of the FRS, it may not be easy for the practitioners to digest the new standards. Among the most difficult and complicated standard is FRS 139 Financial Instruments: Recognition and Measurement which application has been mandated on the 1 January 2010.

As for the changes in the presentation of financial statements, mean average of 3.97 (refer Table 5) shows that majority of the respondents were agreeable that the new introduction of FRS will lead to higher challenges in preparing and presenting the financial statements. It is very normal for the majority of respondents to have this perception as they have been very comfortable with the previous MASB standards in preparing the financial statements. Changes are normally perceived to lead to greater challenges.

Majority of the respondents viewed that introduction of the FRS will lead to higher financial cost where the mean average on the statement where external specialist need to be engaged is 4.14, mean average of 3.92 on the need to upgrade the system, mean average of 4.12 on the need to incur extra cost in auditing fees and the highest mean average of 4.26 on the need to send the staffs for training (refer Table 5). In the new FRS regime, the use of fair values which may require engagement of external specialist are mandated on equity and debt investments, derivatives, share based payments, business combinations and assets held for sale.

Therefore, from the list of all the challenges highlighted to the respondents, the biggest challenges faced by the respondents on the introduction of FRS is extra cost that need to be incurred to ensure smooth transition from MASB to FRS from engaging external specialist, upgrading the system, higher audit fees to higher costs on staffs training. The finding seemed to be consistent with the finding of Jermakowicz and Tomaszewski (2006) which majority of the respondents in EU companies found that the adoption of the IFRS is costly and complex. The finding seemed to also be consistent with CBFA (2004) where majority of the 73 listed Belgian companies surveyed find it costly to implement IFRS.

Based on the findings of this research, the respondents were in the view that the migration towards the FRSs brought substantial benefits to the business organisation especially with regards to the investors relation where the adoption of FRS leads to greater reporting transparency where the financial performance of the Malaysian public listed companies (plcs) are now more comparable within the plcs in Malaysia themselves as well as the companies in the foreign capital market. The investors especially the foreigners' confidence is definitely higher as the accounts are prepared according to the common accounting language. With Malaysia aiming to become a develop nation by year 2020, we need a lot of foreign investments to help to spur and boost our economy. The convergence with the IFRSs is one of the important moves made by the government to ensure that the status of develop nation is achievable.

On the other hand, even though the convergence project brings a lot of benefits to the business organisations in particular and the country in general, sacrifices need to be made by the business organisations especially on the additional costs to ensure compliance. Among the extra costs that need to be incurred by them are upgrading the accounting systems to ensure smooth compliance, staffs trainings to ensure competence, engagement of external specialist for fair value measurement and higher audit fees as the financial statements are now thicker with higher level of disclosures.

As majority of the respondents felt that their grasps on the new FRS are not that strong, further initiatives need to be taken by these professionals to ensure that their knowledge on the FRS are further strengthened. The accountants should work closely with the professional bodies in highlighting to the bodies their needs of training. The board of directors also play a very important role here to ensure full compliance with the FRS where the members of the board should also undergo trainings as they are responsible for their organisation's financial statements. In addition, MASB being the owner of the FRSs should also be sharing more information through workshops and seminars to ensure that the preparers of financial statements are ready for full convergence in 2012.

As mentioned by Thong Foo Vung, Partner of KPMG Malaysia during the recent Accountants in Business Symposium in March 2012, as IFRS always has new requirements, the accountants have to keep updating, and it definitely is not an easy task. He suggested the practitioners to read and pay attention to the drafts issued by MASB, and give feedback before a draft became a standard. In addition, he urged for "a stronger voice at IASB" where MASB should play a greater role in the IFRS standard setting process (Accountants Today, 2012).

On the other hand, the academicians also play a vital role in ensuring that the future accountants are equipped with right knowledge and exposure for the job market. Accounting syllabus needs to be updated to ensure future graduates have better understanding on the FRS. Academicians also need to be more exposed towards the changes in the FRS by attending more workshops and seminars organised by the professional bodies and the regulators. Apart from that, it will also be good for the academicians to do industrial training so that they will have hands on experience on the FRS and share their knowledge with the students.

Conclusions:

The information provided in the survey gives a snapshot view of the accounting practitioners' on the new set of FRS. This research seems to support previous results reported in the literature. The survey results reveal that the accounting practitioners in Malaysia acknowledge the benefits and challenges of the implementation of FRS.

However, the limitations of this study must also be considered. The major limitation relates to the sample. With only 159 respondents from MIA, this sample size might limit the external validity of the findings. Thus, it is suggested that the future research to include other accounting practitioners who are non-MIA members and to conduct personal interviews to get the expertise views on the implementation of FRS.

In addition, with Malaysia 2012 deadline on full convergence with IFRS, research can also be done on the preparation of the practitioners towards the full convergence and the post-convergence issues and challenges.

REFERENCES

Accountants Today, 2012. Post-convergence, what next?, May/June, 8-11.

Accountant Today, 2008. Full Convergence with IFRS in 2012, October, 22-23.

Abu Bakar, B. & S. Ahmad, 2009. Auditor independence: Malaysian accountants' perceptions, *International Journal of Business and Management*, 4(12): 129-141.

ACCA, 2004. Burdens and Benefits, The transition to international accounting standards 2005, retrieved on 25 July 2006, from www.accaglobal.com/pdfs/miscellaneous/aus_survey

Aljifri, K & H. Khasharmeh, 2006. An investigation into the suitability of the international accounting standards to the United Arab Emirates environment. *International Business Review*, 15: 505-526.

Barth, Mary E., Landsman, R. Wayne & H. Lang, Mark, 2005. International Accounting Standards and accounting quality, retrieved on 2 April 2007, from http://ssrn.com/abstract=688041

Barth, M.E., W.R. Landsman, & M.H. Lang, 2008. International Accounting Standards and Accounting Quality. Journal of Accounting Research, 46(3): 467-498.

Beattie, V., R. Brandt, & S. Fearnley, 1999. Perceptions of auditor independence: UK evidence. *Journal of International Accounting, Auditing & Taxation*, 8(1): 67-107.

Bhattacharjee, S. & M.Z. Islam, 2009. Problems of adoption and application of International Financial Reporting Standards (IFRS) in Bangladesh. International Journal of Business and Management, 4(12): 165-175.

Blewitt, A., 2005. The Star 19 September 2006.

Bollen, L., 1995. Financial reporting regulation for small and medium sized private firms, Unpublished doctorate thesis Rijksuniversiteit Limburg, Maastricht.

CBFA, 2004. Commissie voor het Bank-, Financie- en Assurantiewezen, De resultaten van de IAS/IFRS-enquête uitgevoerd door de CBFA bij Belgische beursgenoteerde ondernemingen, Studies en documenten, Juni, 26: 44.

Cheung, D., A. Mak, B. Cheung, And S. Kan, 1995. The Strategic Development of Self-Assessment in Hong Kong Tax System, Akauntan Nasional, October, 24-32.

Cope, A. & C. Clarke, 2003. Financial Reporting: IFRS Conversion – Managing the people impact, *Accountanc*y: London, September, 132: 1321.

Deloitte Touche Tohmatsu, 2010. retrieved on 30 September 2010, from http://www.iasplus.com/standard/ifrs01.htm.

El-Gazzar, S.M., P.M. Finn, & R. Jacob, 1999. An empirical investigation of multinational firms' compliance with International Accounting Standards. *The International Journal of Accounting*, 34(2), 239-248.

Full convergence with IFRS in 2010 (2008), Accountants Today, October, 22-23.

Goodrich, P.S., 1982. A typology of international accounting principles and policies, *AUTA Review*, 14: 37-61.

Hope, O., J. Jin, & T. Kang, 2006. Empirical evidence on jurisdictions that adopt IFRS. Journal of International Accounting Research, 5: 1-20.

IFRS Foundation, 2012. The move towards global standards, retrieved on 5 August 2012, from http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm

Jacob, R.A., & C.N. Madu, 2004. Are we approaching a universal accounting language in five years? *Foresight.*, 6(6): 356-63.

Jenkins, J.G., & K. Krawczyk, 2001. The influence of non-audit services on perceptions of auditor independence. Journal of Applied Business Research, 17(3): 73-78.

Jermakowicz, E., 2004. Effects of adoption of International Financial Reporting Standards in Belgium: The evidence from BEL-20 companies. *Accounting in Europe, 1, September,* pp: 51-70.

Jermakowicz, Eva K., & Sylwia Gornik-Tomaszewski, 2006. Implementing International Financial Reporting Standards from the perspective of European publicly traded companies. *Journal of International Accounting, Auditing and Taxation*. 15(2):

Jones, S., & A.D. Higgins, 2006. Australia's switch to international financial reporting standards: a perspective from account preparers. Accounting & Finance, 46, 629–652. doi: 10.1111/j.1467-629X.2006.00186.x

Joshi, P.L., W.G. Bremser, & J. Al-Ajmi, 2008. Perceptions of accounting professionals in the adoption and implementation of a single set of global accounting standards: Evidence from Bahrain. *Advances in Accounting*, 24: 41-48.

Kang, T., O-K. Hope, & J. Jin, 2005. Empirical evidence on jurisdictions that adopt IFRS. *Journal of International Accounting Research.*

Kinnunen, J., J. Niskanen, & E. Kasanen, 2000. To whom are IAS earnings informative? Domestic versus foreign shareholders' perspectives. The European Accounting Review, 9: 499-517.

Larson, R.K. & D.L. Street, 2004. Convergence with IFRS in an expanding Europe: Progess and obstacles identified by large accounting firms' survey. *Journal of Accounting, Auditing & Taxation,* 13(2): 89-119.

Lazar, J., L.L. Tay, & R. Othman, 2006. Adoption of International Financial Reporting Standards an overview. *Accountants Today*, June, 18-21.

Leuz, C., 2003 IAS versus US GAAP: Information Assymmetry-Based Evidence from Germany's Trading Market, Journal of Accounting Research, 41(3): 445-472.

Leuz C., & R. Verrechia, 2000. The economic consequences of increased disclosure. Journal of Accounting Research, 38: 91-124.

MASB, 2004. MASB unveils new name for Accounting Standards, retrieved on 2 July 2007, from http://www.masb.org.my/index.php?option=com_content&view=article&id=581:new-name-acc-standards&catid=40:press-release-2004&Itemid=37.

MASB, 2005 FRS: New financial reporting standards can spur economy, retrieved on 2 July 2007 from http://www.masb.org.my/index.php?option=com_content&view=article&id=681:ifrs&catid=45:headlines-2005&Itemid=38

MASB, 2008 Malaysia's Convergence with IFRS in 2012, retrieved on 30 August 2010, from http://www.masb.org.my/index.php?option=com_content&view=article&id=1239:malaysias-convergence-with-ifrs-in-2012&catid=24:press-release-2008&Itemid=37

MASB, 2011. MASB issues internationally compliant accounting framework and new FRSs, retrieved on 5 August 2012, from http://www.masb.org.my/index.php?option=com_content&view=article&id=1659:masb-issues-internationally-compliant-accounting-framework-and-new-frss-19-november-2011&catid=66:press-release-2011&Itemid=37

Nobes, C.W., 1992. International classification of financial reporting (2nd ed).London: Routledge.

Navarro-Garcia, J.C. and F. Bastida, 2010. An empirical insight on Spanish listed companies' perceptions of International Financial Reporting Standards, Journal of International Accounting, Auditing and Taxation, 19(2): 110-120.

PWC Alert (2005) Issue No. 45

Tan L.L., J. Lazar, & R. Othman, 2007. Adoption of Financial Reporting standards (FRSs): Impact on Malaysian Companies. Retrieved on 30 September 2009, from http://www.maref.org.my/research/completed_research_doc/Tan_Lay_Leng-ADOPTION-OF-FINANCIAL-REPORTING-STANDARDS.pdf

Ravlic, T., 2005. "Devil's in the detail", Retrieved on 25 July 2007, from http://www.cpaaustralia.com.au/cps/rde/xchg/cpa/hs.xsl/724_9909_ENA_html.htm

Roscoe, J.T., 1975. *Fundamental Research Statistics for the Behavioural Sciences*, 2nd edition. New York: Holt Rinehart & Winston.

Tarca, A., 2004. International convergence of accounting practices: Choosing between IAS and US GAAP. Journal of International Financial Management and Accounting, 15(1): 60-91.

Veerle, V., 2005. The current state of accounting harmonization: impediments to and benefits for harmonization. Working Paper, Ghent University, Belgium.