



The impact of IFRS-based accounting standards on earnings management: evidence from Malaysia

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Abstract

This study aims to examine the consequences of International Financial Reporting Standards (IFRS) convergence in an emerging market. More specifically, we investigate whether the adoption of the new set of accounting standards in Malaysia is associated with lower earnings management. Using a sample of 3,340 firm-year observations across three reporting periods with different levels of IFRS adoption, we provide evidence that IFRS convergence improves earning quality. In particular, we find a significant decrease in the absolute value of discretionary accruals in the partial IFRS-convergence period (2007-2011), whereas this effect is restrictive after the complete IFRS-implementation.

Keywords: International Financial Reporting Standards (IFRS); Earnings Management; Malaysia.

1. Introduction

In the last decade, the widespread adoption of International Financial Reporting Standards (IFRS) constitutes a key change in the global financial reporting environment. This historical innovation has received much attention from both practitioners and academics.

One stream of literature examines the effects of the IFRS adoption and convergence on earnings quality (for example, Chen et al., 2010; Kabir et al., 2010; Zeghal et al., 2012; Pelucio-Grecco et al., 2014). Most of these studies focus on European and developed countries whilst research on emerging economies is very scarce.

This study aims to fill this gap and to provide empirical evidence on the earnings quality in Malaysia with the gradual alignment and adoption of IFRS over time.

Malaysia has a unique institutional environment for financial reporting, with a number of comparable characteristics to those of developed countries, but also some distinctive features of a developing country (Lau et al., 2016).

We conduct our analysis by examine data from 334 firms listed on the Bursa Malaysia throughout three reporting periods with different levels of IFRS convergence. We measure earnings management based on the Jones Model as modified by Kothari et al. (2005). Our results show that IFRS convergence enhances earnings quality, after controlling for firm-specific factors. In particular, we find a significant decrease in the absolute value of discretionary accruals in the partial IFRS-convergence period (2007-2011), whereas this effect is restrictive after achieving full convergence with the IFRS.

Our study contributes to accounting research in several ways. First, our findings extend the literature on the effect of IFRS on earnings quality. In particular, unlike previous studies that focus on developed economies including the US and European countries, we investigate the consequences of IFRS-convergence in

emerging markets, which have not been widely studied. Thus, addressing this question will be interesting given the substantial differences between developed and developing markets. In addition, our results could encourage regulators and standard setters in other emerging markets to move forward in adopting the standards (Wan Ismail et al., 2013). Second, we focus on Malaysia which is one of the largest emerging markets and has a significant influence on the world economy. Furthermore, the alignment of the financial reporting to IFRS was gradual in Malaysian market over time. To the best of our knowledge, few studies attempt to investigate the impact of IFRS on earnings quality in this context (Kwong, 2010; Wan Ismail et al., 2013). Therefore, our study examines more recent data and compares the earnings quality across three different reporting periods: the Pre-IFRS convergence (2003-2005), the partial-IFRS convergence (2007-2011) and the full-IFRS convergence (2013-2014).

The remainder of this paper is structured as follows. The next section discusses the development of financial reporting and IFRS convergence in Malaysia. The third section provides literature review and hypotheses development. Data collection and research methodology are described in the fourth section. Empirical findings and reported in the fifth section. Finally, we present main conclusions in the sixth section.

2. The development of financial reporting in Malaysia

To achieve the full convergence, Malaysia has gone through four periods of essential development:

In the Pre MASB adoption period, Malaysian companies must comply with the 1965 Act and reporting guidelines issued by the competent authorities such as listing requirements of Bursa Malaysia and disclosure rules of the Securities Commission (Kwong, 2010).

During this period, Malaysian companies have the choice to adopt national accounting standards issued by the Malaysian Accounting Certified Public Association (MACPA) and the Malaysian Institute of Accountants (MIA). The MACPA and MIA have published the international accounting standards (IAS) and the Malaysian Accounting Standards (MAS).

Prior the formation of MASB, the adoption of these standards by Malaysian companies was not obligatory as there were no organization that imposes them to meet these standards.

In the Post MASB adoption period, accounting in Malaysia has undergone a major evolution (Saleh et al., 2005), with the 1997 Financial Reporting Act (FRA, 1997). This law was made to follow the globalization of trade markets and the enormous development of the economy (Fadzly & Ahmad, 2004).

Under the 1997 Financial Reporting Act, the parliamentary law established the Financial Reporting Foundation (FRF) and the Malaysian Accounting Standards Board (MASB). These two represent the new outline for financial reporting in Malaysia.

The Financial Reporting Foundation (FRF) consists of 19 members appointed by the Ministry of Finance; it is a trustee body established to monitor the performance of MASB and it is considered as initial source view for MASB standards and the proposed statements (MASB, 2010).

The MASB is the sole body responsible of setting standards to all firms (Saudagaran, 2004); most of these standards are based on the International Accounting Standards (IAS). The MASB has also other functions: (1) publishing statements of financial reporting principles; (2) sponsoring and supporting the development of possible accounting standards; (3) leading such a public consultation as may be needed to define the contents of accounting principles and standards; (4) developing a conceptual framework to evaluate proposed accounting standards; (5) making such changes to the form and content of planned accounting standards as it considers essential, and (6) performing such other roles as the minister may suggest by order published in the Gazette (Wan Ismail et al., 2013).

If a company doesn't comply with approved accounting standards, there are some regulatory organizations with the authority to enforce the companies to obey and repair such offence; it may be done through penalties for enlisted companies.

In the partial IFRS convergence period, the MASB directed its efforts towards the adoption of IFRS and announced its adoption at the end of 2004. The new standards are called Financial Reporting Standard (FRS) in line with IFRS. The adoption of IFRS became effective from 1 January 2006. We find that MASB is slightly behind in the adoption of changes and challenges of the IFRS. We note that the MASB has launched its due diligence process after the IASB concluded its decisions.

Despite being close the FRS and the IFRS are different in some points. By comparing between IFRS and FRS standards, we find that IFRS includes IAS 38, 39 that are not adopted by Malaysia, while the FRS contained four local standards, to follow the specification of Malaysia, local standards FRS201₂₀₀₆ was related to the properties of development activities, FRS202₂₀₀₆ was interested in general insurance business, FRS203₂₀₀₆ was regarding insurance of commerce and FRS204₂₀₀₆ was focus on accounting for aquaculture and Islamic standard.

After the full IFRS convergence, the MASB issued a new accounting framework known as Malaysian Financial Reporting Standards (MFRS) on 19 November 2011.

From 1 January 2012, the full transition with IFRS has changed appointment and has tacked the form of MFRS instead of FRS; these new standards should be applied by all companies except for the Malaysian private companies.

The exception is that "private entities" have belonged on agriculture MFRS141 (MFRS141, equivalent to IAS 41 agriculture) and IC 15 agreements for the construction of real estate (IC 15 equivalent to IFRIC 15 agreements for the construction of real estate), including the transitional entities have allowed to defer the adoption of MFRS for annual periods beginning on or after 1 January 2013.

The MASB have explained why providing a transition period for both agriculture and construction real estate, and say that both agriculture and construction activities need to eliminate the potential changes that can change the current accounting treatments and wait for the new publication of the IASB on revenue recognition and carrier plants.

In the period between 2012 and 2013, there was a major change for accountants in Malaysia with a new framework and a new global model for consolidation and implementation of the declaration of fair value.

3. Literature review and hypotheses development

Literature compares between both developing countries and developed countries and shows that developing countries have a lower share capital (Gibson, 2003; Lins, 2003), the role of regulatory authorities is limited (Berghe, 2002) and ownership is more concentrated (Claessens et al., 2000; Shleifer & Vishny, 1997; Thillainathan, 1998).

To insist in these differences between developing countries and developed countries, Burgstahler et al. (2006) show that countries with strong legal systems have less earnings management. In addition, countries with low investor protection have generally more earnings management.

Therefore, emerging markets with weak investor protection could give managers more incentives to manipulate the performance of companies (Lin & Wu, 2014).

In addition, the accounting standards applied in the developing market are generally different from those of developed markets (Rashid & Islam, 2008).

However, the impact of IFRS adopting in developing (emerging) markets is more important than we find in the developed markets (Hofstede & Hofstede, 2004), so we can separate the developed countries and emergent countries.

This section is formed by two parts, the first part presents studies on IFRS adoption in developed countries and the second part presents studies on IFRS adoption in developing countries.

3.1. IFRS adoption in developed countries

We start by studies of the countries belonging to European Union; Watrin & Ullmann (2012) investigate on the effect of voluntary adoption of IFRS on earnings management by analyzing a large sample of Germany firms from 1994-2005 and find that voluntary adoption of IFRS doesn't reduce earnings management. In the same context, Liu et al. (2014) compare between US GAAP and IAS/IFRS firms and not find any difference in earnings management through accruals using sample of German listed firms from 1998-2004.

In the French context, Zeghal et al. (2011) are based on a sample of 353 French listed groups relating to pre-IFRS period 2003-2004 and post-IFRS period 2005-2006 and show the decrease in absolute value of discretionary accruals using Kothari et al. (2005) model. Similar conclusions are obtained by Sellami & Fakhfakh (2013) using a sample of 124 French listed groups relating to pre-IFRS period 1999-2004 and post-IFRS period 2006-2011 and show the decrease of absolute value of discretionary accruals using Dechow et al. (1998) model.

Chen et al. (2010) analyzing 15 European Union countries, over the pre-IFRS period 2000-2004 and post-IFRS period 2005-2007 and observe the reduce of the use of accruals in the period after the mandatory adoption of IFRS. More recently, Zeghal et al. (2012) choose a large sample of 1547 firms from 15 European Union over the pre-IFRS period 2001-2004 and post-IFRS period 2005-2008.

Similarly, Gray et al. (2015) use a sample of public listed firms in 14 member countries of the European Union and conclude that the tendency to engage in earnings management continues on post IFRS period.

In the American context, Chiu & Lee (2013) analyze a sample of 480 American companies during the Period 2005-2009 and find that the reconciliations with IFRS cause a decrease in the extent of the absolute value of discretionary accruals. The results show that the tendency to engage in earnings management continued on post-IFRS period.

Kabir (2010) pointed out that the adoption of IFRS is associated with an increase in absolute value of discretionary accruals using a sample of 118 New Zealanders companies.

3.2. IFRS adoption in developing countries

Today, there is little study relating to the effect of IFRS adoption on earnings management in an emergent market.

Zhou et al. (2009) are based on a sample of 913 Chinese companies relating to the period 2003-2006 and show a decrease in smoothing for companies that have adopted IAS by comparing with companies that have not adopted the IAS.

More recently, Pelucio-Grecco et al. (2014) have analyzed a sample of 317 Brazilian Publics companies relating to the period 2006-2011 and find a decrease in the extent of the absolute value of discretionary accruals before the adoption of IFRS using several models such as the Jones model (1991), the modified Jones model by Dechow et al. (1995), the modified Jones model by Teoh et al. (1998), the modified Jones model by Kothari et al. (2005) and KS polynomial model.

Using data from 2002 to 2009, Wan Ismail et al. (2013) examine the effect of the mandatory adoption of FRS in Malaysian companies on earnings management by estimation the discretionary accruals using the Jones model modified by Dechow et al. (1995) and find that IFRS convergence is associated with a decrease in earnings management.

Hypothesis 1: The level of accruals-based earnings management within Malaysian listed companies decreases as consequence of the convergence with IFRS.

Hypothesis 2: The level of accruals-based earnings management within Malaysian listed companies decreases in comparing between partial and total convergence with IFRS.

4. Research design

4.1. Sample selection and data

The initial sample consists of all firms, available in Datastream Advance database, listed on the Bursa Malaysia as of 2014.

Consistent with previous studies (Chen et al. 2010; Zeghal et al. 2012), we exclude financial institutions (SIC: 6000-6999) as they operate under different regulatory frameworks and thereby to ensure the homogeneity of the sample. We also drop firms with a fiscal year not ending on 31st December to simplify identification of the applied accounting standards and to avoid any bias. For the remaining firms, we check the coding for accounting standards, as proposed by Datastream Advance database, and we eliminate companies that have not adopted FRS in 2006. Table 1 summarizes the sample selection process.

Table 1: Sample Selection Process

Publicly traded firms in Datastream	1060
Less: Financial institutions	200
Less: Firms with a fiscal year not ending 31 December and firms not satisfying the selection criteria	418
Less: Firms with missing data	108
Total sample	334

Our data are collected from 2002 to 2014. We exclude both transition years (2006 and 2012) to remove the adoption years' effects. Therefore, our period is divided into three sub-periods in order to reflect the situation before and after the application of IFRS: the pre-IFRS period (2003-2005), the post-FRS period (2007-2011) and the post-MFRS period (2013-2014). Following prior research (Lang et al. 2006; Chen et al. 2010; Zeghal et al. 2012), all vari-

ables are winsorized at the top and bottom 1 percent to control for potential outliers.

The final sample comprises 3,340 firm-year observations from the 334 firms across ten years. Table 2 outlines the distribution of our sample by industry.

Table 2: Sample Distribution by Industry

Industry	SIC codes	Number of Firms	Percentage of Firms
Agriculture, Forestry and Fishing	01-09	33	9.88
Mining	10-14	7	2.10
Construction	15-17	36	10.78
Manufacturing	20-39	185	55.39
Utilities	40-49	29	8.68
Wholesale trade	50-51	12	3.59
Services	70-89	32	9.58
Total		334	100.00

4.2. Model specification

In order to analyze the effect of IFRS-convergence on earnings management, we estimate the following regression expressed in Equation (1):

$$|DAC_{it}| = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 GROWTH_{it} + \alpha_5 CFO_{it} + \alpha_6 EISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 LOSS_{it} + \alpha_9 AUD + \varepsilon_{it} \quad (1)$$

The detailed definitions of the variables are provided in Table 3.

4.2.1. Dependent variable

To measure the level of earnings management, the Jones (1991) Model, as modified by Kothari et al. (2005) is applied in this study. This model, which includes return on assets (ROA), is widely used in the international literature and is shown in Equation (2):

$$TAC_{it}/TA_{it-1} = \beta_0 (1/TA_{it-1}) + \beta_1 [(\Delta REV_{it} - \Delta AR_{it})/TA_{it-1}] + \beta_2 (PPE_{it}/TA_{it-1}) + \beta_3 ROA_{it} + \varepsilon_{it} \quad (2)$$

where TAC_{it} is the total accruals for firm i in year t , computed as the difference between net income before extraordinary items and cash-flow from operations; TA_{it-1} is total assets for firm i in year $t-1$; ΔREV_{it} is the change in revenues for company i ; ΔAR_{it} is the change in net receivables for firm i ; PPE_{it} is the gross property, plant, and equipment for firm i in year t ; ROA_{it} is the return on assets for firm i in year t and ε_{it} is the error term.

The non-discretionary accruals are estimated as follows:

$$NDAC_{it} = a_1 (1/TA_{it-1}) + a_2 [(\Delta REV_{it} - \Delta AR_{it})/TA_{it-1}] + a_3 (PPE_{it}/TA_{it-1}) + a_4 ROA_{it} \quad (3)$$

$NDAC_{it}$ is the estimated non-discretionary accruals for firm in year t and the definitions of other variables are the same as for equation (2). The estimates of the industry-specific parameters a_1 , a_2 , a_3 , and a_4 are generated using the model expressed in Eq 2 for each two-digit SIC-year grouping.

To assess the magnitude of earnings management, we use the absolute value of discretionary accruals, computed as the difference between total accruals and estimated non-discretionary accruals. A higher level indicates a lower accounting quality.

4.2.2. Independent variable

To test whether the IFRS convergence decreases the magnitude of discretionary accruals, we use an indicator variable (IFRS), coded as 0 for the years prior to the IFRS-convergence (2003-2005), 1 when companies lodge their financial statements for the years post-IFRS partial convergence (2007-2011) and 2 for the post full IFRS-convergence period, i.e 2013 onwards.

4.2.3. Control variables

Consistent with prior related research, we consider the following factors as control variables: firm size (SIZE) is computed as the natural logarithm of end-of-year total assets; financial leverage (LEV) is measured as the ratio of long-term debt to total assets; sales growth rate (GROWTH) is calculated as the sales in year t minus sales in year $t-1$ and scaled by sales in year $t-1$; Cash-flows from operations (CFO) is computed as cash-flow from operating

activities scaled by year-end total assets; increase in equity (EISSUE) represents the annual percentage change in common stock for firm i in year t ; turnover (TURN) is the ratio of sales to total assets; negative income (LOSS) is coded 1 if the firm reported negative income before extraordinary items during the year, 0 otherwise and firm's auditor (AUD) is a dummy variable taking the value one if the firm is audited by one of the large international accounting firms (BIG 4) and zero otherwise.

Table 3: Variable Definitions and Sources

Variable	Measure	Definition	Source
DEPENDENT VARIABLE			
Earnings quality			
Magnitude of earnings management	DAC	Absolute value of discretionary accruals estimated in the cross-sectional Kothari (2005) model	Datastream (2015)
INDEPENDENT VARIABLE			
Mandatory IFRS adoption	IFRS	An indicator taking the value 1 for the partial IFRS-convergence (2007-2011), 2 for the full IFRS-convergence (2013-2014) and zero for the Pre-IFRS convergence observations.	Datastream (2015)
CONTROL VARIABLES			
	SIZE	The natural logarithm of end-of-year total assets	Datastream (2015)
	LEV	The end-of-year total liabilities divided by end-of-year book value of equity	Datastream (2015)
	GROWTH	Sales growth rate, defined as the sales in year t minus sales in year $t-1$ and scaled by sales in year $t-1$	Datastream (2015)
	CFO	Cash flow from operating activities scaled by year-end total assets	Datastream (2015)
	EISSUE	The annual percentage change in common stock for firm i year t	Datastream (2015)
	TURN	The sales divided by lagged total assets for firm i year t	Datastream (2015)
	LOSS	Dummy variable equals 1 if the firm reported negative income before extraordinary items during the year; 0 otherwise	Datastream (2015)
	AUD	Dummy variable taking the value one if the firm's auditor is one of the large international accounting firms and zero otherwise	Datastream (2015)

5. Empirical results

5.1. Descriptive statistics

Table 4 presents descriptive statistics related to the level of accruals-based earnings management, respectively, for the full sample and by industry. Accordingly, the mean (median) of the absolute value of discretionary accruals is 0.158 (0.124) for the final sample, which is close to the mean (median) for the industrial sector representing over 50% of our sample's companies.

Table 5 provides descriptive statistics of key variables in our model across the three reporting periods: pre-IFRS convergence (2003-2005), post-partial IFRS convergence (2007-2011) and post-full IFRS convergence (2013-2014).

In terms of the test variables, descriptive statistics show that there is a significant decrease in the extent of earnings management after the IFRS convergence. In fact, the mean and the median of the absolute value of discretionary accruals in the Pre-IFRS period are significantly higher than those for both the post IFRS-convergence reporting periods.

As shown in Table 5, descriptive statistics relating to control variables suggest that there is a significant increase in size and asset turnover and a significant decrease in growth and change in common stocks after the IFRS-convergence.

5.2. Correlations

Table 6 reports the Pearson correlation between the variables used in the model. The correlation matrix indicates that the values of any pairs of independent variables are well below the critical value of 0.8. Thus, there is no evidence that multicollinearity is problematic in this study.

5.3. Multivariate analysis

To examine the effect of IFRS convergence on earnings management, we specified our model estimated on panel data using Stata software. The panel data have two dimensions: one for the space (companies) and one for time (period of 10 years), these two dimensions are indicated by the index i and t respectively.

Table 7 shows the results of the regression of the effect of IFRS convergence on the magnitude of discretionary accruals using the Kothari et al. (2005) model. The regressions were estimated primarily based on IFRS convergence and secondly based on control variables such as the company size, leverage, the growth opportunities, cash flow from operations, annual percentage change in common stocks, turnover, negative income and firm's auditor.

The regression results of our model show that IFRS variable has a significant effect on the magnitude of discretionary accruals. According to theoretical expectations, we find a negative coefficient of -0.0102 and significant at the 10% level (-2.76), suggesting that the transition to IFRS can improve the quality of accounting results by limiting management results by discretionary accruals.

For the control variables, we find in the one hand that the coefficient of the growth opportunities (GROWTH) is positive 0.0094 and significant at the 1% level ($Z=3.63$) and the annual percentage change in common stocks (EISSUE) is positive 0.0288 and significant at the 1% level ($Z=5.94$), also we find that turnover (TURN) is positive 0.0708 and significant at the 1% level ($Z=13.04$). In the other hand, we find that the coefficient cash flow from operations (CFO) is negative -0.4566 and significant at 1% level ($Z=-23.33$). For the others control variables such as the company size (SIZE), leverage (LEV), negative income (LOSS) and firm's auditor (AUD) the regression wasn't significant.

According to our theoretical expectations, we found that the convergence with IFRS is associated with a decrease in earnings management, where we can finally say that our hypothesis is confirmed.

Table 4: Descriptive Statistics Relating to Variables Used in Analyses

	Full sample	Industries with SIC codes						
	N=334	(01-09)	(10-14)	(15-17)	(20-39)	(40-49)	(50-51)	(70-89)
DAC								
Mean	0.158	0.113	0.267	0.091	0.159	0.213	0.127	0.217
Std. Dev	0.132	0.081	0.194	0.086	0.124	0.163	0.103	0.169
Median	0.124	0.096	0.214	0.069	0.129	0.170	0.102	0.170
Min	0.002	0.002	0.013	0.002	0.002	0.002	0.002	0.002
Max	0.659	0.471	0.659	0.659	0.659	0.659	0.518	0.659

NOTES: This table presents descriptive statistics for accruals-based earnings management proxy by industry for the period of 2003-2014. Both transitions years 2006 and 2012 are excluded to remove the effect of IFRS-convergence.

Table 5: Descriptive Statistics Relating to Variables Used in Analyses

	(2003-2005)						(2007-2011)					(2013-2014)						
	N	Mean	Q1	Q2	Q3	Std.dev	N	Mean	Q1	Q2	Q3	Std.dev	N	Mean	Q1	Q2	Q3	Std.dev
Test Variables																		
DAC	1002	0.161	0.065	0.132	0.234	0.141	1670	0.141***	0.045	0.115***	0.210	0.146	668	0.143	0.051	0.113	0.205	0.141
DAC	1002	0.169	0.071	0.134	0.237	0.132	1670	0.154***	0.057	0.119***	0.212	0.133	668	0.153	0.059	0.115	0.206	0.131
Control Variables																		
SIZE	1002	12.423	11.524	12.271	13.299	1.320	1670	12.560***	11.557	12.429***	13.446	1.479	668	12.822	11.657	12.713	13.872	1.541
LEV	1002	0.069	0.000	0.022	0.095	0.103	1670	0.068	0.000	0.026	0.099	0.097	668	0.068	0.000	0.025	0.099	0.96
GROWTH	1002	0.240	-0.040	0.086	0.244	0.798	1670	0.129***	-0.089	0.063***	0.226	0.575	668	0.112	-0.067	0.037	0.152	0.546
CFO	1002	0.055	-0.003	0.043	0.098	0.107	1670	0.067	0.012	0.061	0.117	0.103	668	0.053	0.005	0.053	0.110	0.107
EISSUE	1002	0.147	0.000	0.000	0.032	0.459	1670	0.048***	0.000	0.000***	0.000	0.251	668	0.061	0.000	0.000	0.000	0.343
TURN	1002	0.734	0.388	0.652	0.951	0.489	1670	0.811**	0.051	0.113**	0.205	0.578	668	0.768	0.382	0.668	0.979	0.578
LOSS	1002	0.005	0.000	0.000	0.000	0.067	1670	0.007	0.000	0.000	0.000	0.085	668	0.008	0.000	0.000	0.000	0.087
AUD	1002	0.449	0.000	0.000	1.000	0.498	1670	0.410	0.000	0.000	1.000	0.493	668	0.411	0.000	0.000	1.000	0.492

NOTES: *, **, and *** indicate that the means of the years are significantly different between the pre- and post-adoption periods, using a two-tailed t-test (Wilcoxon rank sum test) at the 0.10, 0.05 and 0.01 levels respectively. The pre-adoption period (2003-2005), the partial-convergence period (2007-2011) and the full-convergence (2013-2014). All variable definitions are presented in Table 3.

Table 6: Pearson Correlation Matrix

Variable	IFRS	SIZE	LEV	GROWTH	CFO	EISSUE	TURN	LOSS	AUD
IFRS	1.0000								
SIZE	0.0920*** (0.0000)	1.0000							
LEV	-0.0041 (0.8159)	0.3369*** (0.0000)	1.0000						
GROWTH	-0.0723*** (0.0000)	-0.0066 (0.7082)	0.0010 (0.9537)	1.0000					
CFO	0.0005 (0.9795)	0.1643*** (0.0000)	-0.0503*** (0.0044)	0.0898*** (0.0000)	1.0000				
EISSUE	-0.0453*** (0.0008)	0.0007 (0.9663)	-0.0020 (0.9108)	0.2107*** (0.0000)	0.0495*** (0.0052)	1.0000			
TURN	0.0955*** (0.0000)	-0.0183 (0.3003)	-0.1680*** (0.0000)	0.0926*** (0.0000)	0.1626*** (0.0000)	-0.0014 (0.9345)	1.0000		
LOSS	0.0136 (0.4401)	-0.0414** (0.0191)	-0.0142 (0.4206)	-0.0545*** (0.0020)	-0.0640*** (0.0003)	-0.0140 (0.4279)	-0.0091 (0.6083)	1.0000	
AUD	-0.0284 (0.1261)	0.4611*** (0.0000)	0.1192*** (0.0000)	-0.0097 (0.6018)	0.1527*** (0.0000)	-0.0049 (0.7938)	0.1165*** (0.0000)	-0.0152 (0.4143)	1.0000

NOTES: This table reports Pearson correlations for independent and control variables for the final sample of 334 firms over the period 2003-2014. *, **, *** indicate significance at the 10%, 5% and 1% levels, respectively. P-values are in parenthesis. All variable definitions are presented in Table 3.

Table 7: Impact of the IFRS Convergence on Accruals-Based Earnings Management

Model 1: $ DAC _{i,t} = \alpha_0 + \alpha_1 POST_IFRS_{i,t} + \sum \alpha_j * Control_{i,t} + \varepsilon_{i,t}$		
Variables	Coefficients	Z (P> z)
IFRS	-0.0102	-2.76 (0.006)
SIZE	0.0012	0.42 (0.674)
LEV	0.0279	1.15 (0.250)
GROWTH	0.0094	3.63 (0.000)
CFO	-0.4566	-23.33 (0.000)
EISSUE	0.0288	5.94 (0.000)
TURN	0.0708	13.04 (0.000)
LOSS	-0.0231	-1.21 (0.228)
AUD	0.0088	0.99 (0.320)

Wald chi 2(15) = 774.76 Prob> chi2 = 0.000
Number of observations = 3,340

NOTES: This table provides the regression results of the impact of the mandatory adoption of IFRS on accrual-based earnings management. *, **, and *** indicates significance at the 10%, 5% and 1% levels, respectively.

6. Conclusion

In this study, we investigate whether the transition to IFRS improves the earnings quality of Malaysian companies. Specifically, we examine the level of earnings management across three differ-

ent reporting periods: the Pre-IFRS convergence (2003-2005), the partial-IFRS convergence (2007-2011) and the full-IFRS convergence (2013-2014).

Our empirical tests were conducted on a sample of 334 firms listed on the Bursa Malaysia. By focusing on a single country

study, we keep the institutional framework constant which allows us to observe directly whether IFRS standards were drivers of earnings quality (Guenther et al., 2009).

Our results corroborate that IFRS adoption is associated with higher quality of reported earnings. In particular, we find a significant decrease in the absolute value of discretionary accruals in the partial-IFRS convergence period (2007-2011), whereas this effect is restrictive after the complete IFRS- implementation.

Our results are of significant benefit for local standard setters since Malaysia has gradually adopted the IFRS for corporate reporting and achieved full convergence with the IFRS in 2012. Our study also sheds some valuable light on the benefits of IFRS for others emerging countries that have similar characteristics and that are in the process of adopting international accounting standards.

Further research can use other attributes of earnings quality such as earnings conservatism, predictability, comparability, persistence and timeliness. Additionally, future studies might address the additional costs for the new IFRS adopters in emerging markets.

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