

## THE PERCEIVED IMPORTANCE OF SELECTED DISCLOSURE ITEMS TO ACCOUNTANTS IN MALAYSIA

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### Abstract

This study examines the perception of one user group (i.e. accountants) in Malaysia regarding the importance of selected items of information that may appear in annual corporate reports by using mail questionnaire. The evidence of this study indicates that the respondents perceive 53 items (95%) as 'important' to 'very very important' category and only three items are regarded as 'less important'. They also place greater importance to items of a 'forward-looking' nature and information that is beyond the statutory requirements. A comparison with three other studies conducted in developing countries reveal that only five items are ranked among the top ten items between any two countries. The evidence on Malaysia is relevant to other developing countries and beyond.

**Keywords:** Perception; Accountants; Disclosure items; Consensus; Questionnaire; Malaysia

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### 1. Introduction

The objective of this study is to examine the perception of one user group (i.e. accountants) in Malaysia regarding the importance of selected items of information that may appear in annual corporate reports. There are several motivations for conducting this study. Firstly, external users of financial reports have been the focus of a number of surveys (e.g., Abu-Nasr & Rutherford, 1995; Firth, 1978; Vergoossen, 1993) but the majority of the surveys were conducted in developed countries with sophisticated capital markets (e.g., Chow & Wong-Boren, 1987; Wallace, 1988). As such, there are *a priori* reasons to suppose that the conclusions derived from such surveys may not be generalizable to developing countries or to an emerging industrialised country such as Malaysia. Secondly, prior studies so far have concentrated on the users' perception but very few studies have been conducted on the preparers' side for example, accountants, who may be regarded as having a 'dual-role' with respect to the nature of their profession. On the one hand they are regarded as the producer of accounting information (e.g., in preparing published annual reports), and on the other hand, they also act as the ordinary shareholders who will be using the annual reports as a basis for making their personal investment decision. In addition, relatively few studies have been conducted specifically towards the use and perceived importance of annual reports by accountants, as a preparer group, be it in the developed countries or even to a lesser extent in developing and less-

developed countries. The need for research to identify the needs of the main or specific user group(s) of corporate annual reports is recognised as an important gap in our understanding of the accounting environment in Malaysia. As such, this study tries to fill the gap in the accounting literature and also serves as a preliminary study which could serve as a basis for further research regarding this specific group in Malaysia. This study would contribute to public accounting by providing regulatory or policy-making bodies (such as the Malaysian Accounting Standards Board and the Kuala Lumpur Stock Exchange) the input to identify possible inadequacy of information currently being provided in annual reports or, on the contrary, to identify unwanted or unimportant information contained in such reports.

The remainder of this paper is organized as follows. Section 2 presents a brief overview of the Malaysian financial reporting environment, while Section 3 provides a review of the literature on the perceived needs of different user groups of financial reports. Section 4 and 5 provides evidence on the needs of a specific user group in the contemporary Malaysian environment to enrich the stock of knowledge on perception of this user group across the world. Lastly, Section 6 provides the summary and draws the conclusions to the study.

### 2. Financial Reporting Environment in Malaysia

Malaysia is the particular focus of the present study due to its growing economic importance. Malaysia

was named as among the top ten economies (seventh place) in the United Nations Conference on Trade and Development (Unctad) list of countries that 'defied' the downturn in 2002 with foreign direct investment totalling US\$3.2 billion; an increase of 478% from 2001 (US\$550 million) (The Star, 2003). As a member of the ASEAN countries (Association of South East Asian Nations), Malaysia was ranked first place in terms of GDP growth rate in 2005, making it the fastest growing economy in the region (The Star, 2005)<sup>1</sup>. It is estimated to achieve a GDP growth rate of 5.3% and 5.5% in 2005 and 2006, respectively (New Straits Time, 2006). Moreover, Malaysia was also grouped among the top ten countries (eighth place) by the International Monetary Fund and World Bank as one of the fastest growing economies in the developing countries (Prasad et al., 2003). Besides, in terms of the country's overall competitiveness, it was ranked fourth place in the World Competitiveness Year Book 2003 (The Star, 2003).<sup>2</sup>

In the financial reporting environment, the sources and status of accounting principles and disclosures required of Malaysian companies may be described under two headings: mandatory; and voluntary or advisory. Those sources which are mandatory include: i) Legal requirements contained in the Malaysian Companies Act, 1965 and any rules laid down by other Acts or regulatory bodies such as Companies Regulation 1966 and Companies (Winding-up) Rules; ii) International Financial Reporting Standards [IFRS, previously known as International Accounting Standards (IAS)] issued by the International Accounting Standards Board which are later reviewed and/or adopted by the Malaysian Accounting Standards Board (MASB) as approved MASB Standards; iii) MASB Standards (apart from ii above) issued by the Malaysian Accounting Standards Board for private entities known as Private Entity Reporting Standards; and iv) Bursa Malaysia or Kuala Lumpur Stock Exchange (KLSE) Listing Requirements. These requirements relate respectively to listed companies whose shares are dealt in either the main board or in the second board.

Those sources which are voluntary or advisory in nature include Technical Releases, Issuance of Interpretations, Statement of Principles and numerous Exposure Drafts issued by the MASB that can be regarded as opinions on best current practice and thus form part of generally accepted accounting principles (GAAP). The basic legal requirements relating to accounts, audit and financial statements of enterprises incorporated in Malaysia are to be found in Sections 167 to 175, and Schedule 9 of the Malaysian Companies Act 1965. Under sections 167-171. With regard to the preparation of accounts, the Act clearly states that the items to be presented in the profit and loss account and the balance sheet shall comply with the requirements of the Ninth Schedule of the Companies Act which lay down the specific items of information to be disclosed in the financial statement, but without prescribing the manner of how it should

be presented.

Colonial ties have significantly influenced the structure of accounting regulation in Malaysia. This is not surprising since its entire Constitution is based on that of Great Britain, while in the area of company law, it is substantially influenced by that of Australian. Prior to the Companies Act, 1965, the main companies legislation was the Companies Ordinance of 1940, being modelled on the 1929 English legislation. The Companies Act, 1965 was also based on the Australian Uniform Companies Act 1961, which was in turn adapted from the UK Companies Act, 1907, 1929, 1947 and 1948 (Walton, 1986, p. 353; Craig and Dega, 1996, p. 245). The Malaysian Companies Act, 1965 adopted the UK 1948 Act with regard to preparation of consolidated accounts, but follow the Victorian 1961 Act with greater details regarding with disclosure items in the profit and loss account and the balance sheet.

In addition to the requirements imposed by provisions in the Companies Act 1965 and the approved accounting standards by the MASB, the KLSE<sup>3</sup> also plays an important role in shaping the amount of information to be shown in corporate reports. With respect to corporate disclosure policy, the KLSE requires every listed company to comply with the requirements contained in the Companies Act 1965 as well as the approved accounting standards issued by the MASB.

The formal recognition by the government on the important role of accounting for national development was made public through the creation of The Accountants Act of 1967 (revised in 1972 and amended in 1986), tabled by the Parliament to regulate the accounting profession in Malaysia. One of the core provision of this Act (Section 6) is the formation of the MIA which was entrusted to supervise the accounting profession in Malaysia. The Act clearly states that MIA's major duty is to assure that the accounting profession maintained the 'highest level of expertise and professional competence' through its members.

Prior to the establishment of MIA, another accounting body known as the Malaysian Association of Certified Public Accountants (MACPA) was formed in 1958 by a group of accountants under Section 15(1) of the Companies Ordinance 1940-1946. Prior to 1980s, Malaysia has no accounting principles and practices of its own. In order to fill that vacuum, the MACPA had taken a bold approach by wholly adopting the standards and guidelines issued by the Accounting Standards Committee of the UK. When the IASC was formally established, the MACPA merely adopted the ready made international accounting standards because it believed that it was better to use the same standards rather than wasting time and resources in developing its own accounting standards (Phenix, 1986a, p. 19). Therefore, it was not surprising to see that many accounting researchers such as Nair and Frank (1980) and Nobes and Parker (1991) described Malaysia financial reporting

practises as being influenced to a considerable extent by practices in the UK.

Another regulatory body which regulate the capital market in Malaysia is the KLSE. Unlike the previous regulatory bodies which were mandated by Governmental authority, the KLSE is a self-regulatory body (SRB) with its own Memorandum and Articles of Association. It also maintains a set of rules governing the conduct of its members in securities dealings. It is responsible for monitoring the market place and also enforcing its Listing Requirements which set out the criteria for listing, disclosure requirements and standards to be maintained by public listed companies.

Securities regulation in Malaysia, like other regulations in existence in a particular country developed as a local or national activity and evolved over a period of years to accommodate local conditions, practices and needs in the context of the political, cultural and social environment. In order to avoid competition, duplication and jurisdictional confusion among regulators, the Securities Commission (SC) was established in March 1993 with the coming into force of the Securities Commission Act 1993 (SCA, 1993). The SC serves two main functions - as an approving body and as a policing body. It is responsible for promoting Kuala Lumpur as a key financial centre in the region and to encourage the development of securities and financial futures markets in the country and to ensure orderly development of these markets.

In 1997 a significant event took place that brought a significant impact on the development of accounting standards in Malaysia. The Financial Reporting Act 1997 (the Act) was enacted in July 1997 which laid down the new financial reporting framework. Two bodies were established under the Act; the Financial Reporting Foundation (FRF) and the MASB. The FRF acts as the trustee body that monitors the operations, performance, funding and financial matters of the MASB and also represent the initial source of views for MASB's proposed standards and pronouncements. The MASB itself acts as an independent authoritative body to develop and issue accounting and financial reporting standards in Malaysia. To date, the Board has adopted 38 Financial Reporting Standards (FRS) to be complied by public listed companies and issued 33 MASB Standards (including one Islamic Accounting Standard for Islamic Financial Institutions) for private entities, twelve issuance of interpretations, two technical releases, two statement of principles, four exposure drafts, five draft statement of principles and one discussion paper.

### **3. Related Studies**

The main output of a firm's financial accounting system is its annual report. It consists of the chairman's statement, the director's report, the financial statements, footnotes, the auditor's report,

and various other supplemental disclosures. Annual report not only serves as a valued means of communication between an enterprise and its various stakeholders but also signifies corporate accountability, and corporate governance. Furthermore, the modern corporate annual report uses the tools of management, marketing and communication theory to construct a picture of the organisation (Stanton and Stanton, 2002). Although information regarding a company can be obtained from various other sources, one of the most important and valued sources is the annual report (Hines, 1982; Vergoossen, 1993). However, since there are various user groups of annual reports, one user group may perceive an item of information differently from another. This is because each user group has different information needs to fulfil their purposes. As the user groups are not homogeneous, annual reports have to be tailored in such a way that they are capable of meeting the various needs of users for decision-making purposes. Due to the ever growing needs for more comprehensive and specific disclosure of information, various studies have been carried out relating to the disclosure of accounting information and the perceived needs of various user groups for such information. Besides, research evidence also suggests that as information technology grows at a faster and faster pace, more alternative information will be available to users of corporate reports. As such, companies' resistance to additional financial reporting and disclosure is expected to diminish in the future (Chang, 2002). A selected number of studies will be reviewed to see what constitutes the body of empirical research on the perceived needs of external users, and to expand the literature on the needs of a specific user group in Malaysia. Previous studies have provided evidences on the varying degree of 'consensus' among various user groups regarding the importance of various items of information contained in annual reports. The findings of these studies suggest that there is a different disclosure need between two or more different user groups, indicating little or no consensus on perceived information needs [Chandra (1974); Benjamin & Stanga (1977); Chandra and Greenball (1977); Chenhall & Juchau (1977); Baker, Chenhall, Haslem & Juchau (1977); Firth (1978); Wallace (1988); Tong et al. (1990); Karim (1995), and Mirshekary and Saudagaran (2005)].

These studies have concentrated on the main user groups such as investors, financial analysts, auditors, bank loan officers, and stock exchange officers, but relatively few researches have been conducted on the dual purpose group who may be a user as well as a preparer of annual reports such as accountants and finance directors. Only six studies have so far included the accountants as one of the main users of the annual reports to compare their information needs. Three of the studies were conducted in developed countries (2-USA and 1-UK) and the other four in developing countries (1-Bangladesh, 1-Malaysia, 1-

Nigeria, and 1-Iran). As such, this study seeks to expand the previous studies by looking at the perception of a specific user group (i.e. accountants) in one of the new newly industrialised countries in South East Asia - Malaysia. The following paragraphs provide a review of the relevant studies which employed the accountant group as one of the major users of corporate reports.

Chandra (1974) examined whether preparers (the public accountants) and users (security analysts) have any consensus about the value of information included in corporate annual reports. Questionnaires containing 58 items of information were mailed to the two groups. He segregated the accountants into two sub-groups namely as preparers and users of annual reports. He found that there was no consensus (31-40%) between the accountants (as users or preparers) and the financial analysts in valuing the information items. However, there was a strong consensus between the two accountant groups (98%), placed a dual role as preparers and users of information.

Firth (1978) made one of the most comprehensive attempts to measure the information needs of UK users of corporate annual reports. Questionnaires containing 75 items of information were sent to four groups of users namely, financial directors, auditors, financial analysts, and loan officers. The main findings of the study were firstly, that finance directors and auditors were in substantial agreement regarding the importance of 52 items (or 69% of the weightings were statistically similar); secondly, the financial analysts and bank loan officers were in substantial agreement for 61 items (81%), thirdly, the finance directors and financial analysts differed significantly on 42 items (56%), fourthly, the finance directors and loan officers disagreed significantly on 49 items (65%), and finally, the auditors and financial analysts disagreed on 46 items (61%). Overall, there were substantial differences between the preparers of accounts (represented by the finance directors and auditors) and users of accounts (represented by the financial analysts and bank loan officers).

Robbins (1984) examined the existence of consensus between users and preparers of municipal annual reports regarding the importance of information to users' decision models. Municipal bond analysts were selected as the user group and municipal finance officers were selected as the preparer group. He developed a questionnaire containing 36 items and asked the respondents to rate each item based on how important they believed it to be when evaluating the financial condition of cities issuing bonds. Two null hypotheses were tested: a) no significant difference exists between the two sets of perceptions; b) no significant relationship exists between rankings of items by the two groups. The first hypothesis was tested by using pair-wise comparison of mean scores. They found significant differences for 20 (56%) of the 36 items. The mean responses for analysts were higher than that for finance officers, suggesting that preparers of

municipal annual reports were underestimating the value of financial information to external users. The second hypothesis was tested using the Spearman's rank correlation procedure. A correlation coefficient of 0.77 indicates that there is a high level of agreement between the users and preparers regarding the relative importance of all the 36 items. The results suggested that analysts and finance officers have similar perceptions of the relative importance of items to users' decision models.

Firer and Meth (1986) complemented and extended the previous studies to the South African environment and set out to examine the information needs of South African external users of corporate reports. Two groups of users were examined, namely financial directors and investment analysts. Using 49 voluntary information items, they found that the investment analysts valued 38 items as 'important' in making investment decision as compared with 26 items valued by the financial directors. They compared the ranking given by the two groups using the Spearman's rank correlation coefficient and the value obtained was 0.75, indicating a high level of agreement between the two user groups. Two items regarded as the most important items to both groups were 'discussions of the firm's past results' and 'major factors influencing next year's results'.

Apart from the aforementioned studies, two studies which used similar approach in measuring the perceived needs of different user groups in developing countries will be reviewed in this section. The first is the study by Wallace (1988) on Nigeria. The second study was carried out by Karim (1995) on Bangladesh. The studies by Wallace and Karim are chosen because their approaches are relatively similar to the current study in terms of using relatively similar number of items of information for capturing the perceived needs of users of corporate reports.

A Malaysian study using accountant as the user group was conducted by Ismail (1983). Using a survey questionnaire containing 114 items of information, he randomly selected a total of 100 accountants working in seven different business sectors. Respondents were asked to rate the items according to a 5-point Likert scale from 1 (very unimportant) to 5 (very important). Using mean score and coefficient of variation, he found that 10 items were considered 'very important', 42 items as 'moderately important', 47 items as 'less important', 12 items as 'neutral' and 3 items as 'very unimportant'. In other words, 52 items (45.6%) belonged to the category 'moderate to very important' items. Out of that, 26 items belonged to profit and loss account and the remaining items belonged to the balance sheet items. The three 'unimportant' items were related to pension, donations to charity or political bodies, and accounting methods for advertising. His overall conclusion was that the items considered important were items that are traditionally disclosed in financial statements. It implies that the respondents were very rigid in their adherence to

conventions and they may have not been exposed to or were not able to appreciate the importance of items that could be disclosed (and were being disclosed in other countries) for the benefit of users. His study is already 17 years old and it is worthwhile to look at the current attitude of the accountants' group whether they still demonstrate the same type of mentality.

Wallace (1988) studied user preferences for particular items of information that may appear in annual reports of companies. He examined the perceived needs of six user groups (i.e. accountants, managers, financial analysts, civil servants, investors, and other professional groups) in Nigeria using a questionnaire containing 102 items of information. The respondents were required to rate the items according to their perceived importance using a five-point Likert scale. He found a weak consensus (homogeneity) between the accountant user-group and each of the other five user groups (excluding financial analysts) with consensus percentage ranging from 49% to 71%. The degree of agreement between accountants and financial analysts was quite high (84%). There was also a high degree of consensus between the non-accountant user groups: civil servants and financial analysts (92%), civil servants and professional corporate managers (92%), financial analysts and managers (93%) managers and investors (96%) and other professionals and investors (96%).

A second study on disclosure in developing country was carried out by Karim (1995) in Bangladesh. The study involved the distribution of questionnaires to 650 respondents comprising six user groups: bankers, accountants, stockbrokers, academician, tax officers and financial analysts. The questionnaire deals with the importance attached by users to 113 items of information normally appearing in annual reports of Bangladeshi companies. Respondents were asked to rate each item on a five-point-scale depending on their view of the importance of the items. He found that significant differences did exist among users for 94 out of 113 items, suggesting that all respondents had significantly different perceptions about the importance of 94 items in the annual reports. Using two-group comparison, he found that bankers and academicians disagreed on only 11 items. A moderate degree of agreement (64%) was also found between accountants and financial analysts.

A third study on disclosure in developing country was done by Tong (1990) in Malaysia focusing on one user group. The study involved the distribution of questionnaires to 35 investment analysts using a list of 25 voluntary disclosure items. Respondents were asked to rate each item on a five-point-scale depending on their view of the importance of the items. He found that the items receiving the first five rankings were future economic outlook of company, future economic outlook of industry, profit forecast for the next year, historical summary of operating data, and schedule of payment for long-term debt.

A fourth study on perceptions of user groups in

developing country was carried out by Mirshekary and Saudagaran (2005) in Iran. The study surveyed seven user groups: bank loan officers, auditors (accountants), stockbrokers, academician, tax officers, institutional investors, and bank investment officers. The questionnaire deals with the importance attached by users to 81 items of information normally appearing in annual reports of Iranian companies. Respondents were asked to rate each item on a five-point-scale depending on their view of the importance of the items. They found that there were significant differences between user-groups on about 79% of items, and there was a weak level of consensus among bank loan officers, auditors, and tax officers on 45 information items.

## 4. Research Methodology

### 4.1 Construction of the Questionnaire

Studies which attempted to determine the degree of consensus between various user groups normally use survey questionnaire or interview method with the purpose of identifying the degree of importance the users may attach to the information items and thereby trying to assess their information needs. Some studies have merely focused on examining the perceived importance of the items to one or more user groups in order to compare the similarities or dissimilarities in their information needs, while some other studies extended the perception scores obtained in measuring the disclosure levels of companies.

In the current study, the postal questionnaire survey was selected because the purpose of this study was to investigate the perception of the accountants regarding the degree of importance (on a 5 points Likert scale) they attach to items of information which are or should be disclosed in annual reports of companies. Using this type of survey a large number of the population can be reached easily, and since the questions are identical to all respondents, the findings are to a large extent generalizable.

The major task in the research design will be the development of a list of information items that could be disclosed in the annual reports of quoted companies. In order to avoid bias and to provide a comprehensive list of information items, the item to be selected must meet one or more of the following criteria:

1. The item is covered in previous research studies and is relevant to a developing country and to the average user groups.
2. The item is statutorily required for disclosure under the Malaysian Companies Act, 1965.
3. The item is a desirable disclosure in terms of the relevant accounting standards issued or approved by the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA), the regulation of the KLSE, or any other rules applicable in the country.<sup>4</sup>
4. The item is of a specific nature that relates to

the country's requirements in regulating business enterprises.

This approach will provide an all-inclusive list rather than an exclusive list meant for a particular user group only. This is because the focus of this research is on 'general purpose' financial reports in which the reports should serve the needs of all users.

Basically there are two groups of disclosure items. One group originates from research studies conducted in some developed countries (e.g. Cooke, 1989 and 1992). The other group of items come from a review of some selected articles published on developing countries (e.g. Wallace, 1988; Ahmed and Nicholls, 1994; Hossain et al., 1994; and Karim, 1995), and the set of annual reports issued by Malaysian companies which have won the NACRA (National Annual Corporate Reports Award) awards for excellence in corporate reporting. The final list of 56 items (see Table 1, column 2) has integrated all the items in previous studies, deleting items which are regarded inapplicable to Malaysia, and adding some items which are peculiar to developing countries. The items can be further summarised into the following categories: 16 items are classified as profit and loss statement items; 14 balance sheet items; 5 notes to accounts items; 3 directors' report items; and 18 'other statements' items.

#### 4.2 Questionnaire Administration

There are several reasons for choosing the accountant group for this study. Accountants are regarded as professional people who have the expertise in analysing the annual reports. The effective use of a communication medium like the annual report requires a level of decoding skill which is usually possessed by those having sufficient accounting and/or finance background and who, in effect, function as investor opinion leaders. In other words, the ordinary investors who do not have any accounting background would seek the advice of accountants for the purpose of making an investment decision, for example whether to buy, hold or sell shares of a particular company. As such, the accountant group not only represents the interest of the preparers of annual reports but also plays an important role in determining the direction and flow of investible funds and the process by which shares are sold. One hundred and fifty questionnaires were distributed to the respondents in December 1996. The reason for delaying the publication of this research paper is because there were some sensitive questions that respondents were required to answer at the time of the survey. As time passed on and new accounting regulations were introduced, the issues were no more considered sensitive. The list of accounting firms provided by the MIA showed that in Kuala Lumpur alone, the total number of accounting firms was 374. The Big-6 firms were scrutinised from this list and five copies of the questionnaires were sent to the Public Relation Officer of each firm, totalling thirty.

For the remaining 120 questionnaires, the random table was used to choose the accounting firms for the sample. In the first stage, only 51 respondents replied. Two follow-up procedures were made by phone calls and reminder letters. This resulted in 17 replies. However, from the 68 replies, 13 respondents did not answer a major portion of the questionnaire and their questionnaires were therefore dropped from the sample. As such, a total of 55 useable replies were obtained from the accounting firms, which represented a response rate of 37%.

#### 4.3 Non-Response Bias

The main problem of the questionnaire approach has been the tendency to obtain a low response rate resulting from non-response bias. The presence of nonresponse bias may indicate that the viewpoints of nonrespondents would have been significantly different from those who responded, thus affecting the validity of the results of the research. As Courtis (1992) pointed out that the 'response and non-response survey bias can be reduced through various techniques, but the complete elimination of bias is never certain.' Since the current study is based on data obtained by means of a written inquiry, the findings might be biased towards those accountants who use the annual reports more intensively. Presumably these accountants are more willing to respond to the questionnaire. Oppenheim (1992) suggested that if one assumes that late respondents represent nonrespondents, it is possible to detect whether there is any nonresponse bias in a sample. This can be done by comparing one or more 'variables of interest' for the  $k$  respondents of the last  $m$  weeks with those of a random sample of  $k$  respondents taken from the earlier weeks to examine if there is any significant difference between the two sets. In order to carry out the test, 10 respondents each were chosen randomly from the early reply sample and from the late reply sample respectively. A Mann-Whitney test was carried out to identify any significant difference ( $p \leq 0.05$ ) in the mean scores between the two sets of responses for all 54 items that represent the perception of users regarding the disclosure of selected information items in annual reports. The test showed that there was no significant difference in the mean scores for all the items. This indicated that the viewpoints of the nonrespondents would not have been significantly different from that of the respondents. Questionnaires were used to request information on the perceptions of the respondents on selected items of information. These items (composed of both mandatory and voluntary disclosure items) were listed in a disorderly manner (without classifying them as mandatory or voluntary) so as to remove any possible bias which could have resulted if they were labelled as such. Respondents were requested to indicate the degree of importance they attached to each item of information based on a 5-point Likert scale. The ordinal scales were then transformed into metric for computational purposes

by using '5' to indicate the item as 'very-very important' moving down to '1' for items considered 'not at all important'. An analysis was done on the responses to indicate the overall ranking of the items of information in their order of importance.

The arithmetic mean was calculated for each item to see how users perceived the importance of their inclusion in the annual reports and the ranking of each item based on the mean scores is presented in Table 1.

## 5. Results of Analysis

**Table 1.** Mean Importance of Disclosure Items

Rank	Items of Information	Mean score	Std. Dev.	Nature of Item
1	Amount and sources of revenue for the period	4.519	0.666	M
2	Turnover/sales for the period	4.473	0.634	M
3	Earnings per share for the period	4.291	0.737	M
4	Long-term and current liabilities (including its composition) at the end of the period	4.236	0.719	M
5	Comparative income statement: 2 years	4.218	0.937	M
6	Comparative balance sheet: 2 years	4.200	0.970	M
7	Total current assets including its composition at the end of the period	4.127	0.862	M
7	Dividends paid and proposed	4.127	0.896	M
9	Contingent liabilities	4.055	0.826	M
10	Amount of each subsidiary's earnings and parent company's share of each amount	3.982	0.782	M
11	Discussion of factors affecting future business of the company	3.927	0.940	V

Mean Importance of Disclosure Items (Ctd.)

Rank	Items of Information	Mean score	Std. Dev.	Nature of Item
11	Amount of extra-ordinary gains and losses reported for the period	3.927	0.858	M
13	Particulars of any contracts (during the period) in which a director was materially interested	3.891	0.875	M
14	Number of authorised and issued share capital	3.873	0.963	M
15	Amount and breakdown of expenses for the period	3.855	0.911	M
16	Income from investment	3.836	0.764	M
16	Method used in the recognition of revenue	3.836	0.918	M
16	Number of shares in the company owned by each directors	3.836	0.996	M
19	Directors' emoluments	3.800	01.10	M
20	Income tax expense for the period	3.782	0.854	M
20	Basic policies and objectives of management	3.782	0.854	V
22	Reserves (and its classification)	3.764	0.838	M
22	List of financial ratios	3.764	0.902	V
24	Disclosure of accounting policies regarding various items	3.745	0.947	M
25	Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period	3.709	0.854	M
26	Amount of depreciation for the period	3.704	0.861	M
27	Income from acquisitions	3.691	0.814	M
28	Provision for taxation	3.636	0.778	M
29	Report of audit committee	3.618	0.892	M
29	Cash flow projections for the next two to five years	3.618	0.892	V
31	Amount and classification of fixed assets by major items at the end of the period	3.582	1.01	M

32	Half yearly financial statements	3.546	0.919	V
33	Amount and breakdown of inventory/stocks reported under major categories at the end of the period	3.491	1.03	M
33	List of directors	3.491	0.960	M
35	Expenditures not yet written off	3.473	0.858	M

**Table 1.** Mean Importance of Disclosure Items (Ctd.)

Rank	Items of Information	Mean score	Std. Dev.	Nature of Item
36	Methods used in computing earnings per share.	3.455	0.978	M
36	Accounting method for translating foreign currencies	3.455	0.812	M
38	Change in dividend	3.436	0.898	V
39	Comparative income statement: More than 2 years	3.370	1.15	V
40	Provision for pension and retirement benefits	3.364	0.778	M
41	Profit or loss on disposal of fixed assets	3.352	0.805	M
42	Amount and breakdown of intangible assets	3.327	0.963	M
43	Comparative balance sheet: More than 2 years	3.309	1.20	V
44	Compounded rate of growth of earnings per share for the last five to ten years	3.291	0.936	V
45	Breakdown of income by location, operating division, product line or customer group	3.273	1.01	M
45	Breakdown of investment by location, operating division, product line or customer group	3.273	0.849	V
47	Analysis of shareholdings	3.236	0.962	V
47	Methods used in computing depreciation	3.236	0.922	M
49	Amount of accumulated depreciation on fixed assets at the end of the period	3.200	0.890	M
50	Breakdown of sales by location, operating division, product line or customer group	3.182	1.00	M
50	Quarterly financial statements	3.182	0.945	V
52	Particulars relating to human resources	3.109	0.896	V
53	Details regarding product or service contribution	3.073	0.858	V
54	Price level adjusted corporate reports as supplementary statements	2.873	1.07	V
55	Discussion of physical resources and environmental contribution	2.836	0.938	V
56	Particulars relating to community involvement	2.745	0.886	V

M=Mandatory (39 items); V=Voluntary (17 items)

The overall mean scores show that the item 'amount and sources of revenue' (4.519) is perceived to be the most important information followed by 'turnover or sales' (4.473); 'earnings per share' (4.291); long-term and current liabilities (4.236); and comparative income statement (4.218).

The four least important items having scores below than 3.00 are 'discussion of physical resources and environmental contribution' (2.836), and 'particulars relating to community involvement' (2.745). However, one should be careful in interpreting the difference in the ranking of the items on the basis of mean scores because the difference between the mean scores is quite small, for instance, the difference between the items ranked 1 and 2 is 0.046 and means are imperfect measures of ordinal

data.

An analysis of the results in the third column of the Table reveals that there are 27 items having a score between 4.00 and 5.00, 25 items between 3.00 and 4.00, and the remaining 4 items have mean scores between 2.00 and 3.00. This indicates that the respondents consider none of the items as 'not at all important'. Items having scores between 4.00 and 5.00 are perceived to be very-very important to the respondents.

Table 1 also indicates that the respondents perceived the profit and loss statement and balance sheet as the two most important parts of a company's annual report. This is noticeable by looking at each element that constitutes both the statements. Six out of the first ten items in Table 1 (items number 1, 2, 3,



5, 7 and 10), namely amount and sources of revenue, turnover/sales, earnings per share, comparative income statement, dividend paid and proposed, and amount of each subsidiary's earnings and its parent company's share all appear in the profit and loss statement. It seems that respondents place great importance on a detailed disclosure of every revenue item in the profit and loss statement. For example, turnover or sales that forms the major revenue item in most companies is ranked in second place after 'other sources of revenue'. The third ranked item, earning per share also constitutes an important indicator of a company's overall corporate performance, which again depends upon the respective revenue items. The ranking of subsidiaries' earnings in the tenth place further enhances the importance of revenue items, which signify the great importance placed by respondents on after-tax profit of a company attributable to its shareholders. On the other hand, items ranked fourth, sixth, seventh and ninth places, namely long-term and current liabilities, comparative balance sheet, composition of current assets, and contingent liabilities represent the major items in the balance sheet. Again, in this case, the respondents viewed these items as highly important and they require a detail breakdown of each of the items.

It is also interesting to note that all the first twenty items (except 'discussion of factors affecting future business of companies') are mandatory in nature. This indicates that the respondents placed great importance on compliance with regulatory requirements. This finding supports previous study by Ismail (1983) that Malaysian accountants were very rigid in their adherence to conventions. It also indicated that the accountants have not been exposed to or were not able to appreciate the importance of items that could be disclosed (as disclosed in other countries) for the benefit of the users. For instance, only one voluntary item namely 'discussion of factors affecting future business of companies' was considered very important by the respondents (ranked eleventh). Eleven of the above items belong to the profit and loss statement, five to the balance sheet, two items are classified under the directors' report, and one item each is classified under the 'notes to accounts' and 'other statements' respectively.

The items having mean scores between 3.00 and 4.00 can be further categorised into mandatory (30 items) and voluntary (14 items) items as tabulated in Table 1. The fourteen voluntary items are basic policies and objectives of management (3.782 ranked 20); list of financial ratios (3.764 ranked 22); cash flow projections (3.618 ranked 29); half yearly financial statements (3.546 ranked 32); change in dividend (3.436 ranked 38), comparative income statement (more than 2 years) with mean score 3.370, ranked 39; comparative balance sheet (more than 2 years), with mean score 3.309, ranked 43; compounded rate of growth of earnings per share (3.291 ranked 44); breakdown of investment by location, operating division, product line or customer

group (3.273 ranked 45), analysis of shareholdings (3.236 ranked 47), quarterly financial statements (3.182 ranked 50); particulars relating to human resources (3.109 ranked 52); and details regarding product or service contribution (3.073 ranked 53). This indicates that the respondents also placed great interest on forward-looking information, which could affect companies' performance besides the regular mandatory items. For example, the high ranking given to items such as 'basic policies and objectives of management' and 'cash flow projections' means that the information is of utmost importance to them because they would like to see any changes in companies' policies by the top management and how the company is planning to use its cash resources. As these items are voluntary in nature, it may not appear in the annual reports. However, the items have an important implication for companies in the sense that if companies want to be more user oriented, the items should be disclosed in their annual reports for the benefit of the users.

The next category of item having mean scores between 2.00 and 3.00, suggesting a portion of respondents considering these items as less important, consists of 3 voluntary items. One of the items, namely price level adjusted corporate reports was deemed less important due to the irrelevancy of the item in the Malaysian context. The issue of inflation accounting which was proposed by the International Accounting Standard Committee (IASC) in 1976 (later known as IAS 6) for member countries was not adopted by the Malaysian accounting bodies. The other two items namely 'discussion of physical resources and environmental contribution' and 'particulars relating to community involvement' could be considered as social responsibility information. The low rankings of these items might reflect the level of awareness of the respondents on items that could be considered important by other user groups such as environmentalists, consumer bodies, non-governmental bodies etc.

The significance of the findings of this study can only be known if it can be compared with the results of other studies using the same user group.<sup>5</sup> Three previous studies that employed accountants have been chosen as comparison with the current study. The first study was conducted by Karim (1995) in Bangladesh, the second study by Wallace (1988) in Nigeria, and the third study by Mirshekary and Saudagaran (2005) in Iran. In terms of the number of accountants employed as the sample of respondents, there were 148 respondents in Wallace's study, 71 in Karim's study and this study consists of 55. The reason for choosing these two prior studies has been that they employed relatively the same items of information (although not identical) with the one used in the present study. Wallace (1988) employed 109 items of information, Karim employed 113 items, whereas Mirshekary and Saudagaran employed 81 items as compared with only 56 items used in the present study. After a scrutiny of the items used in all the four

studies, only five items were found identical between any two studies and ranked among the top ten items in each of the studies, namely, amount and sources of revenue for the period, comparative income statement: 2 years, comparative balance sheet: 2 years, total current assets including its composition, and long-term and current liabilities including its composition.

## 5. Summary and Conclusion

This study provides an insight into the perception of one user group in Malaysia. The results showed that the accountant group perceived 53 items (95%) as 'important' to 'very very important' and only three items were regarded as 'less important'. Although mandatory items were viewed as more important than other voluntary items, the accountant group also placed great importance on items of a 'forward-looking' nature and information which was beyond the statutory requirements such as cash flow projections for the next two to five years, list of financial ratios, and comparative financial statements for more than two years. A comparison with three other studies done in developing countries revealed that only five disclosure items were ranked among the top ten items in all the four studies. The possible limitation of this study is that the number of disclosure items included in the sample has been relatively small (56 items) as compared with the other three studies conducted in developing countries. As such, it may not have captured other items which could be considered useful by the respondents. It is recommended that future research could increase the number of items to include other items deemed relevant to the general users as a whole. The findings regarding the degree of importance attached to different disclosure items by accountants in the four different countries might warrant further research into this area in other developing as well as developed countries, especially in determining and refining the type and number of disclosure items.

## Endnotes

<sup>1</sup>ASEAN is an economic alliance of seven South East Asian nations namely, Malaysia, Singapore, Indonesia, Brunei Darussalam, Vietnam, Thailand, and Philippines. Due to the financial crisis in 1997, Malaysia suffered a negative GDP growth of 7.4% in 1998 (from a positive growth rate of 7.3% in 1997) and then recovered with a positive growth rate of 6.1%, 8.3%, 0.3%, 4.4%, 5.4%, and 7.1% in 1999, 2000, 2001, 2002, 2003, and 2004 respectively.

<sup>2</sup>The competitive edge was based on several factors such as political stability, a business-friendly Government, educated and trainable workforce, abundance of natural resources and strong economic management (Star, 2003).

<sup>4</sup>KLSE was formerly established in 1973 as the Kuala Lumpur Stock Exchange Berhad (under the Securities

Industry Act, 1973) but later was taken over by a new company called the KLSE (under the Securities Industry Act, 1983).

<sup>4</sup>The Malaysian Accounting Standard Boards (MASB) was not mentioned here since this study was conducted at the end of 1996 and completed in March 1997, i.e. before the establishment of MASB. As such, the nature of the disclosure items selected might have changed after the establishment of MASB in July 1997. Some of the items considered as 'voluntary' during the period of study (e.g. analysis of shareholdings and half-yearly financial statements) have become 'mandatory' after July 1997.

<sup>5</sup>Initially, it was the author's intention to compare the results of the present study with a prior study conducted by Ismail (1983) since both studies employ the same user group in Malaysia. However, this was unachievable because Ismail did not provide the mean score for each items ranked by the respondents but he simply gave the mean scores for 'groups' of items within the financial statements.

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