AN EXAMINATION OF FRS136 BY MALAYSIAN SHA'RIAH COMPANIES

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The objective of the study is to investigate the compliance level and disclosure quality of FRS 136 by the top 20 Shari'ah-approved companies in Bursa Malaysia as at 2010. The weighted index is employed to differentiate the quality and importance of each mandatory disclosure under FRS 136. The weighted index was developed by constructing disclosure scoring sheets, obtaining companies' annual reports, completing scoring sheets for each firm by assigned weighting for the disclosure items and calculating disclosure weighted index. This study revealed that 13 out of 20 companies (65%) failed to comply with the most basic elements of the FRS 136 pertaining to goodwill impairment testing, especially in goodwill allocation and key assumptions used in determining the recoverable amount of CGU assets. This study suggests that the performance of the top 20 Shari'ah-approved companies must improve before Malaysian practice can attain a truly international standard.

INTRODUCTION

According to Choi & Meek (2004), the main purpose of issuing financial reporting standards is to increase comparability in financial reports produced by companies regardless of their country of origin. However, the possibility of standardised IFRS application across different jurisdictions has been questioned because of the differences in compliance and enforcement mechanisms and different cultural and institutional contexts (Ball, 2006; Nobes, 2006; Nobes & Parker, 2008; Soderstrom & Sun, 2007; Zeff, 2007). As a result, it formulates excuses for some firms to adopt the IFRS in entirety.

The recently-introduced International Financial Reporting Standard (IFRS) on goodwill is commonly regarded as one of the most controversial aspects of financial reporting. This study propounds that one consequence of this has been the diversity of practice in relation to goodwill accounting and reporting. Previous studies in different geographical samples which are listed on the US Securities and Exchange Commission (SEC), Australia Stock Exchange (ASX), FTSE Bursa Malaysia (BURSA) and Singapore Stock Exchange (SGX) proved that firms have had difficulty in fully complying with new financial reporting standards of impairment of goodwill (Carlin & Finch, 2010b; Carlin, Finch, & Khairi, 2010c; Carlin, Finch, & Laili, 2008b, 2009b; Sevin, Schroeder & Bhamornsiri, 2007). The new accounting treatment for goodwill is filled with subjectivity and ambiguity for financial reporting preparers and users, and potentially has a serious impact on financial reports. Therefore, while firms may be claiming full compliance with IFRS especially in impairment of goodwill standard, significant deviations still exist.

This, in turn, gives rise to questions about the extent to which top 20 Malaysian Shari'ah-approved companies have fared during the process of transition to a complex new reporting regime, and consequently, to the quality and consistency of reports produced pursuant to that new regime. With Malaysia advocating the goal of accounting harmonisation since 2006, it is interesting to analyse which firms were already anticipating FRS requirements, especially with respect to goodwill impairment disclosure under FRS 136. In order to attempt the objective of this study, the weighted index is chosen because this index is able to differentiate the quality and importance of each disclosure. However, this study does not attempt to convince financial reporting users that goodwill for impairment disclosures have superior usefulness in terms of information in investment decisions, but instead presents advice as well as provides useful information to them for better future valuation.

In investigating this theme, the remainder of this paper is structured as follows. Section 2 overviews the disclosure requirements of FRS 136. It outlines literature reviews of rankings, especially compliance and disclosure rankings discussed in Section 3. Section 4 presents the sample and methodology. The results and discussions are described in Section 5, while Section 6 contains some conclusions and implications for further research.

DISCLOSURE REQUIREMENTS OF FRS 136 – IMPAIRMENT OF ASSETS

The accounting standard for goodwill impairment under FRS 136 is effective from 1 January 2006. FRS 136 is applicable to goodwill acquired in a business combination for which the agreement date is on or after 1 January 2006. This standard eliminates goodwill amortisation, requiring instead that goodwill be evaluated for possible impairment. The shift from amortisation to periodic reviews puts a new and continuous responsibility on management to determine the value of goodwill, and places a new burden on auditors, regulatory bodies, and investors to evaluate management's determination (Hayn & Hughes, 2006).

Prior research has suggested that one great challenge faced by firms in the context of FRS 136 is the manner in which goodwill is allocated between CGUs for the purposes of impairment testing. Wines et al. (2007) conducted research in investigating the implications of the IFRS goodwill accounting treatment. They agreed that the first potential difficulty in implementing the goodwill accounting treatment involves identifying the CGUs. Further, Cearns (1999) found that the identification of an asset's CGU in impairment testing of goodwill is subjective, with the process open to abuse.

The allocation of goodwill to CGU is a crucial process as the number of CGUs to which goodwill is allocated has the capacity to impact an impairment loss being recognised. The risk relating to allocating goodwill to CGUs is known as the CGU aggregation problem (Carlin & Finch, 2010a, 2010b; Carlin et al., 2009b), where too few CGUs are defined in the process of allocation of goodwill to CGUs. An inappropriate CGU aggregation carries with it the risk that impairment charges that should occur, do not, or at least are inappropriately delayed. This is important because various types of operations may have differing prospects of growth, rates of profitability and degrees of risk.

In addition, the test for impairment is a one-stage process wherein the recoverable amount of the CGU is calculated on the basis of the higher of (a) the fair value less costs to sell or (b) the value in use, and then compared to the carrying amount. In case the assessed value is less than the carrying cost, an appropriate charge is made to the profit and loss account. The FRS 136 requires detailed disclosures to be published in the firm's annual report regarding the annual impairment tests. These include the assumptions made for these tests (assumptions employed in estimating recoverable amount), and the sensitivity of the results of the impairment tests to changes in these assumptions. Radebaugh et al. (2006) stress that these disclosures are intended to give shareholders and financial analysts more information about acquisitions, their benefits to the acquiring firm and the effectiveness and reasonableness of impairment reviews.

In terms of assumptions used in determining recoverable amount through the discounted cash flow modeling, the selection of discount rates, growth rates and forecast periods are key factors contributing to the outcome of impairment assessment especially when using the value in use method. The cash flows are estimated with certain assumptions reflecting all financial variables. Most of the literature in finance, especially in discounted cash flow analysis, agreed that three key assumptions are important (Boyd, 2003; Stegink, Schauten, & Graaff, 2007). The importance of these three assumptions in accounting goodwill for impairment testing has been explored by Carlin and Finch (2008a) and Lonergan (2006). Both studies reveal that net present value estimates for recoverable amount can be highly sensitive even to small changes of those assumptions which reflect the value of firms.

Overall, under the new standard of accounting for goodwill impairment, goodwill on the accounting book is more challenging and less predictable. From the viewpoint of financial information providers, goodwill becomes a more risky asset in that its value can impair abruptly, due to accounting assumptions or market changes. On the other hand, from the financial report users' view, the process of charging goodwill to expenses becomes less transparent and more unpredictable in that the measurement and reporting are more subjective to management's assessment. The difficulties faced by the financial information providers as well as the financial statement users make accounting standards-setters think ahead to refurbish and also streamline enforcement when firms report the impairment of goodwill process in their annual report. The next section will present literature related to the study.

LITERATURE REVIEW

The financial disclosure level is not easily measured because the development and application of a disclosure index requires subjective assessments by the researcher applying the technique. Most of the literature, captured by an 'index', examines the quality of compliance and disclosure in accounting standards. Such disclosure indices, either weighted or un-weighted, have been used as research tools by a number of researchers including Singhvi and Desai (1971), Buzby (1974), Barrett (1976), Robbins and Austin (1986), Chow and Wong Boren (1987), Botosan (1997), Healy and Palepu (2000), and Guerreiro et al. (2008). The intention has often been to identify the motivation for the disclosure of voluntary items of information in corporate annual reports by testing relationships between various firm-specific variables drawn from agency theory and voluntary disclosure. The firm-specific variables of firms adopting IFRS are the independent variables whereas the voluntary adoption of IFRS is defined as a dummy dependent variable.

In most cases, attention has been given to the number of disclosures (whether an item in a pre-prepared checklist has been disclosed or not). Such items have been scored dichotomously (either 0 for non-disclosure as IFRS required, or 1 for disclosure as IFRS required). On the other hand, the studies of Yeoh (2005), Teodori and Veneziani (2007), Tsalavoutas et al., (2009) and Hodgdon et al., (2009; 2008) are to look into the level of compliance among the firms with mandatory disclosure requirements. It can be acknowledged that when we take a look at the previous research techniques applied (through their hypotheses tested and methodology used), the index is an important aspect of measuring the compliance and disclosure level.

However, this study does not seek to establish any contributory links between levels of disclosure and other firm-specific factors. The focus of this study is on assessing the compliance level and disclosure quality through requirements of the standard and how Malaysian Shari'ah-approved companies comply with the disclosure requirements of FRS 136.

The index used in this study is more complex, with particular attention on the weighted disclosure index, which also assesses the compliance level and quality of information disclosures required in accounting standards. Weights are attached to the disclosure items to portray their importance. Researchers such as Cerf (1961), Robbins and Austin (1986), Chow and Wong Boren (1987), Cooke and Wallace (1989), Wallace and Naser (1995), Hooke et al., (2002), Naser and Nuseibeh (2003), Cheung et al., (2010) and Kang and Gray (2011) usually assess the quality of disclosure by allocating weightings according to the importance of each item to its disclosure. Through allocating weightings for the important items, the user groups would be able to compare and rank the compliance level and disclosure quality among the studied firms.

A number of studies conducted through the weighting index in measuring the level of firms' compliance to disclosure requirements in the stated standards has continued to attract researchers.Hooke et al. (2002) empirically developed a disclosure index to assess the extent and the quality disclosure on information gaps in annual reports of the New Zealand electricity industry. The relative importance of index items is brought into account using a system of weights. Their studies decided to use a score of 5 as representative of standards disclosure. They consider a 5-point scale to provide sufficient range to allow the scorer to differentiate between varying degrees of detail and importance in the disclosures. Therefore, it appears that through using the weighted index to appraise the firm's compliance level, it enables group users to carefully monitor firm activities, assess their performance and also develop on-going understanding of their future direction.

Naser and Nuseibeh (2003) investigated the quality of information disclosed by a sample of non-financial Saudi firms listed on the Saudi Stock Exchange. They designed the disclosure index based on the three major areas which are mandatory, voluntary closely associated with mandatory and voluntary unrelated to mandatory, after taking into consideration financial reporting requirements in Saudi Arabia. Their studies employed weighted index in analysing the extent Saudi firms comply with the requirements of accounting standards which are expected to give a more objective index. The weight is apportioned based on the importance given to each item of disclosure by seven user groups. The five weighting points are given to items viewed as very important, four points for those viewed as important, two points for some importance and one point for little importance and ranks the sectors based on its mean and median. The disclosure index scored by each firm was then divided on the maximum score. By using the disclosure index, they successfully managed to measure the compliance level of studied firms.

To date, there is no theory of financial reporting for the preferred guidance of disclosure indices as a measure of quality compliance among the firms worldwide. Most researchers develop, adapt and modify existing indices to meet their own perceived needs as well as their objectives of research. It is believed that any endeavour to design and develop a universally 'best' disclosure index is unlikely to be meaningful unless such an agreement can be established. Consequently, this study propounds that the disclosure index developed is comprehensive enough to understand the compliance level of firms under the requirements of FRS 136. The data collection and methodology is explained in the next section.

DATA COLLECTION AND METHODOLOGY

Data Collection

The aim of this study is to examine the level of compliance and disclosure quality of accounting standards related to the goodwill impairment regime among the top 20 Shari'ah-approved companies in Bursa. The samples used in this paper are obtained primarily from the Worldscope DataStream Database. This study examines the selection of 20 Shari'ah-approved companies which released their 2010 annual reports as measured by market capitalisation. Year 2010 was chosen in this study because it is a year after the new amendment of FRS 136 by MASB. Details of the final research sample, the value of their goodwill balances and their total assets are set out in Table 1.

Table 1. Overview of Research Sample

No	Company Name	Goodwill (RM'000)	Total Assets (RM'000)
1	AIRASIA BERHAD	8,378	13,240,300
2	AXIATA GROUP BERHAD	7,314	38,100,966
3	BATU KAWAN BHD	12,194	3,261,310
4	IOI CORPORATION BERHAD	513,830	17,343,417
5	KNM GROUP BERHAD	798,974	3,524,152
6	KUALA LUMPUR KEPONG BHD	289,529	9,163,531
7	LAFARGE MALAYAN CEMENT BERHAD	1,205,889	4,124,362
8	MISC BERHAD	746,650	41,060,188
9	MMC CORPORATION BERHAD	2,043,263	36,018,544
10	NESTLE (MALAYSIA) BERHAD	61,024	1,778,681
11	ORIENTAL HOLDINGS BERHAD	31,866	5,511,524
12	PARKSON HOLDINGS BERHAD	1,244,386	6,738,500
13	PPB GROUP BERHAD	74,617	13,914,090
14	SAPURACREST PETROLEUM BERHAD	149,012	3,349,261
15	STAR PUBLICATIONS (MALAYSIA) BHD	54,386	1,363,703
16	TELEKOM MALAYSIA BERHAD	310	20,780,000
17	UMW HOLDINGS BERHAD	258,435	10,023,818
18	YTL POWER INTERNATIONAL BERHAD	6,148,646	33,918,933
19	IJM CORPORATION BERHAD	69,544	12,558,295
20	PROTON HOLDINGS BERHAD	29,008	7,505,152
	TOTAL	**13,672,638**	**283,278,727**

4.2. Instruments to Measure Compliance: The Disclosure Index (Weighted Index)

The purpose of the disclosure index is to produce a rank of disclosure levels among firms based on the amount of requirements disclosure in their annual reports. The selection of items included in the index was guided by the standard itself (disclosure requirement of FRS 136). The level of mandatory compliance with FRS 136 was measured by a self-constructed compliance index which is consistent with prior compliance studies (e.g. Bradbury & Hooks, 2005; Cheung et al., 2010; Hooks et al., 2002; Kang & Gray, 2011; Naser & Nuseibeh, 2003; Wallace & Naser, 1995). The initial step in constructing the index was to develop a checklist and was based on the disclosure requirements of FRS 136.

The annual reports of sample firms were reviewed and an assessment of the amount of disclosure was recorded on a 0 to 2 scale based on the importance of the disclosure. This approach is believed to present a better measure of the importance of disclosure than a simple binary (0 and 1) score of the firm disclosure or non-disclosure of an item. Then, a disclosure index was developed and used to capture the mandatory disclosure and compliance level for each firm in the sample. The disclosure index consists of all information that firms have to disclose in their annual report. The disclosure index has been widely employed by previous researchers to measure the extent of disclosure on requirements of accounting standards. The procedure to measure the extent of disclosure (i.e. to create the disclosure index) is summarised as follows:

(i) Development of a Disclosure-Scoring Sheet

The important step in developing a disclosure index is the selection of items to be included on a disclosure-scoring sheet. As this study is concerned with the measurement of a firm's level of compliance and disclosure quality with the goodwill impairment requirements, the disclosure scoring sheet was designed on the basis of reviewing the FRS 136 requirements. We examine the notes to the accounts of the firm's annual report in developing this index. The scoring sheet was constructed in a way that would permit this study to calculate compliance scores under the weighted method.

To fulfill the objective of this study, there are five important paragraphs in FRS 136 (2009). *First*, the disclosure requirement under paragraph 134(a) of FRS 136 requires the entity to disclose the carrying amount of goodwill allocated to the cash-generating units (CGUs) to which goodwill acquired in a business combination is allocated and tested for impairment.

Second, Paragraph 80(a) of FRS 136 requires that cash-generating units (CGUs) represent 'the lowest level within the entity at which the goodwill is monitored for internal management purpose. This will tend to lessen the burden in preparing the financial reporting under the new regime. However, to avoid against inappropriate aggregation, Paragraph 80(b) of FRS 136 states that the CGU should not be larger than an operating segment as defined by paragraph 5 of FRS 8 – *Operating Segments* before aggregation.

Third, Paragraph 90 of FRS 136 requires that cash generating units to which goodwill has been allocated should be tested for impairment annually, and whenever there is an indication that the goodwill may be impaired, by comparing the carrying amount of the goodwill with the recoverable amount of the goodwill.

Fourth, under Paragraph 134(c) of FRS 136, an entity shall disclose the basis on which the CGUs' recoverable amount has been determined (i.e. value in use or fair value less costs to sell). Fair value less costs to sell is defined as the amount obtainable from the sale of an asset or a CGU in an arm's length transaction between knowledgeable, willing parties less the costs of disposal. That is, market value less selling costs. On the other hand, Paragraph 6 of FRS 136 defines value in use as the present value of the future cash flows expected to be derived from an asset or CGU.

Fifth, Paragraph 134(d) of FRS 136 states that if the unit's (group of units') recoverable amount is based on value in use, an entity shall disclose the following:

i. a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;

ii. a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;

iii. the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;

iv. the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated;

v. the discount rate(s) applied to the cash flow projections.

Under paragraph 134 (e), if the unit's (group of units') recoverable amount is based on fair value less costs to sell, an entity shall disclose the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be presented:

(i) A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(or values) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

(iii) the period over which management has projected cash flows.

(iv) the growth rate used to extrapolate cash flow projections.

(v) the discount rate(s) applied to the cash flow projections.

(ii) Scoring the Disclosure Items

Our index identified criteria for two levels of importance: extreme importance and importance depending on the degree of detail given for each item. Scores (value) were then allocated ranging from 2 (extreme importance) and 1 (importance). If the firm had not disclosed an item that was applicable to it, a 0 was recorded. The weights for a particular firm were calculated by summing the integral values assigned to the firm and then dividing the total by the number of required disclosures through the FRS 136. A mean (disclosure index) was used to summarise the firms' scores because it gave equal weight to each of the firms.

The investigation process begins firstly, by comparing each firm's total goodwill balance with the total disclosed CGU goodwill allocation. If the total disclosed goodwill of the firm is less than the total value of goodwill allocated to CGUs, the quality and completeness of disclosure is classified as lower, and vice versa. Thus, firms score a full mark of 2 if they successfully disclose an allocation of goodwill into CGU into their annual report, otherwise it will mark 0. 1 mark is given for the firm with ostensibly compliant (95% of allocating goodwill to CGU).

The next step is comparing the number of CGUs and business segments for firms in the industry-by-industry basis. The important aspect in this process is to look at the level of aggregation of CGUs by those firms. As previously discussed, this disclosure requirement is a very important aspect of impairment testing for firms to solve the inappropriate CGU aggregation issue. We believe that this particular disclosure is extremely important and therefore, firms will score 2 if their disclosure is required in the standard, and 0 for non-disclosure item.

The following step in scoring the disclosure item is score 1 for firms that have been allocated the goodwill to be tested for impairment annually, and whenever there is an indication that the goodwill may be impaired, by comparing the carrying amount of the goodwill with the recoverable amount of the goodwill, and 0 for firms that have not tested for impairment annually. In addition, the same weighting scoring is also given for firms that disclose methods used in estimating the recoverable amount either using value in use or fair value or a combination of both.

A further aspect that needs more attention in assessing the quality of FRS 136 requirements is on inspection of key assumptions that the recoverable amount of CGU assets has been estimated. Recoverable amount is defined as the higher of an asset's or a CGU's fair value less costs to sell and its value in use" (FRS 136, para 6). Fair value less costs to sell is defined as 'the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal' while value in use is defined as the present value of the future cash flows expected to be derived from an asset or CGU (FRS 136 para 6). This involves a selection of fair value or value in use and the company is required to disclose which method has been adopted.

As earlier elucidated, the key assumptions used in determining recoverable amount such as discount rate, growth rate and forecasting period are extremely important for users in understanding the operation of the goodwill impairment testing regime. Therefore, a score of 2 is given to this particular disclosure item compared to other key assumptions in 134(i) and (ii). In cases where firms do not disclose any of the key assumptions used in determining the recoverable amount, they will score 0. For the requirements on fair value method, the scoring of 2 is given if firms used observable market price to calculate its fair value. However, if the firms did not use observable market price, a score of 1 is given when the reporting entity uses its own data and realistic assumptions to develop unobservable inputs.

(iii) Creation of Disclosure Index

The disclosure index is a ratio computed by dividing the total actual score for each firm by the total maximum score that particular firm is expected to earn. However, firms are not penalised for not disclosing the information as required in the standard. The disclosure index score is measured using the equation below:

$$DI = \frac{\text{Firm's total actual score}}{\text{Firm's total maximum score}}$$

(iv) Firm's Rank Based on Degree of Compliance
The degree of compliance on disclosure requirements among the firms studied was based on Kantudu (2005). The research sample is grouped into four categories which are: strongly comply (80%-100%), semi-strongly comply (60%-79%), weakly comply (40%-69%) and finally non-compliance (0%-39%) as shown in Table 2.

Table 2. Grading Compliance System with Requirement of FRS 136 in Malaysia

Ranking	Percentage	Form	General Remarks
1	80% – 100%	Strongly Comply	Excellent
2	60% – 79%	Semi-strongly Comply	Good
3	40% – 69%	Weakly Comply	Poor
4	0% – 39%	Non-compliance	Extremely Poor

4.3. Reliability and Validity of the Disclosure Index

Prior research reveals that a disclosure index is a useful research tool. However, a firm's compliance level and disclosure quality is not easily measured because the development and application of a disclosure index requires subjective assessments by the researcher applying the technique. As a result, it is important to assess the reliability and validity of the resulting measure.

In this study, the initial disclosure checklist was evaluated by the other two authors through a similar approach by Tsalavoutas et al., (2009), Camfferman and Cooke (2002), and Cooke (1992). This process is important in measuring the content validity and reliability of the items in the disclosure checklist, which basically needs some evaluation and feedback by a group of experts. The other two authors also make comments and refine the research instrument (disclosure weighted index) to ensure the reliability and accuracy of the disclosure index.

Therefore, for the purposes of this study, the disclosure requirements regulated in the FRS 136 is assumed to be a "high quality, valid and reliable" disclosure standard since it is based on the standard issued by the IASB. According to Hassan (2004), this assumption is reasonable because of the extensive nature of disclosure requirements of accounting standards designed to overcome the lack of guidance with regards to recognition and measurement. Therefore, firms have to pay attention to when to report the goodwill impairment in their annual report by ensuring that they disclose all the requirements of the standard.

5. DATA ANALYSIS

The degree of compliance and the extent of firm disclosure will be used as a proxy of quality. A higher degree of compliance and more firm disclosure is significantly viewed as better quality and provides more information usefulness to users. This relationship is proven in this section, through the results of this analysis. The findings set out in Table 3 clearly illustrate the degree of compliance and disclosure as measured through the weighted index (mean scores). Meanwhile, the range distribution of firms is demonstrated in Table 4.

Table 3 shows there are different levels of compliance with the requirements of FRS 136 among the top 20 Shari'ah approved companies in Bursa for 2010. Seven firms which are KNM Group Berhad, MMC Corporation Berhad, NESTLE (MALAYSIA) Berhad, PPB Group Berhad, Sapuracrest Petroleum Berhad, STAR Publications (MALAYSIA) Berhad and Telekom Malaysia Berhad were fully compliant with the disclosures requirement mandated under FRS 136. These firms employed the value in use method in determining the recoverable amount of goodwill. In other words, these firms had disclosed all the required information in their annual report and this assisted the user groups in assessing the firm's financial performance. Consequently, these firms are transparent and fair in providing detailed information at each level of operations.

In comparison, both LAFARGE Malayan Cement Berhad and Parkson Holdings Berhad are ranked 90th because they fail to comply with the requirements of FRS 136. We found that, although those firms have stated their goodwill amount in the balance sheet, a detailed disclosure on impairment testing process is not provided in any paragraph of their notes to the account. Therefore, the rate of compliance with the provisions of FRS 136 for these firms was poor. This result strongly signals that the standard's requirements are difficult and highly complex to implement, although several amendments have been made to the standard. Investors face difficulty in their future investment decisions because these firms did not offer transparency and information usefulness in the impairment testing process.

A further analysis is done by examining the analytical results relative to each firm for identification of the 10 requirements as described in the disclosure index checklist. Our analysis found two general gaps between the requirements of the standard and the availability of information in the firm's financial report. The first general gap between the compliance level and disclosure quality among the firms is related to allocation of goodwill to CGU. We believe that goodwill allocation is difficult and complex in the impairment testing process. Our analysis showed that Kuala Lumpur Kepong Berhad did not comply with this requirement as they failed to provide any meaningful information related to basic allocation of goodwill to CGU. This result corresponds with the previous reported by Carlin et al., (2008); Wines et al., (2007); Lonergan (2007); Carlin et al, (2007) and Cearns (1999) which mentioned that the requirement of standard on allocation of goodwill is very difficult to implement.

Furthermore, 15 out of 20 firms (75%) failed to fulfill the requirement of the standard in paragraph 80(b), which stated that the CGU or group of CGUs should not be larger than the operating segment. This study reported that the disclosure by firms suggested a possibility that goodwill was being monitored at a higher level than the defined operating segment, consistent with a higher risk of inappropriate CGU aggregation. This in turn heightens the risk that impairment losses may not be subject to recognition even where material value degradation has occurred. The results are consistent with the previous studies by Carlin and Finch (2010a); Wines et al., (2007); Lonergan (2007); and Cearns (1999).

The second general gap is on the assumptions used in determining the recoverable amount and this study focuses on firms using the value in use method. As discussed in an earlier section, the three key assumptions are the discount rate, the growth rate and the period for projected cash flow, which are very important in determining the recoverable amount of CGUs. These factors have a strong relationship in influencing the discounted cash flow model in valuing a firm's performance. Most of the firms, especially firms with multiple numbers of CGUs, failed to provide enough information related to these key assumptions and created difficulty among the user groups in assessing the firms' potential performance. For example, LaFarge Malayan Cement Berhad and Parkson Holdings Berhad allocated goodwill to two CGUs, but the management of these firms failed to provide any meaningful information related to key assumptions used in determining the recoverable amount of its two CGUs. Similar scenarios occurred with MISC Berhad and Kuala Lumpur Kepong Berhad. Consequently, these firms were ranked low among the top 20 Shari'ah firms based on the calculation of weighted disclosure index.

Likewise with Oriental Holdings Berhad and Proton Holdings Berhad, which ranked 15th and 16th respectively. Although they claimed to employ the value in use method in determining the recoverable amount, these firms failed to disclose details on key assumptions used, namely growth rate and period forecasting. As a result, the level of compliance and disclosure quality among the firms' purported success in FRS 136 implementation is questionable.

Table 3: Weighted Index for Top 20 Shari'ah Approved Companies in Malaysia

No	Company Name	Weighted Index	Ranking
1	KNM GROUP BERHAD	100.00%	1
2	MMC CORPORATION BERHAD	100.00%	1
3	NESTLE (MALAYSIA) BERHAD	100.00%	1
4	PPB GROUP BERHAD	100.00%	1
5	SAPURACREST PETROLEUM BERHAD	100.00%	1
6	STAR PUBLICATIONS (MALAYSIA) BHD	100.00%	1
7	TELEKOM MALAYSIA BERHAD	100.00%	1
8	AIRASIA BERHAD	84.62%	8
9	AXIATA GROUP BERHAD	84.62%	8
10	BATU KAWAN BHD	84.62%	8
11	IOI CORPORATION BERHAD	76.92%	8
12	UMW HOLDINGS BERHAD	76.92%	12
13	YTL POWER INTERNATIONAL BERHAD	76.92%	12
14	IJM CORPORATION BERHAD	76.92%	12
15	PROTON HOLDINGS BERHAD	69.23%	15
16	ORIENTAL HOLDINGS BERHAD	53.85%	16
17	KUALA LUMPUR KEPONG BHD	46.15%	17
18	MISC BERHAD	38.46%	18
19	LAFARGE MALAYAN CEMENT BERHAD	30.77%	19
20	PARKSON HOLDINGS BERHAD	30.77%	19

The range of firm distribution among the 20 top Shari'ah-approved companies in Bursa Malaysia are demonstrated in Table 4 below. Results from our grading and assessment indicates that half of the sample fall between 80%–100%, which indicates that 55% of the total research sample is strongly compliant. In comparison, four firms are categorised into the poor to extremely poor compliance category (less than 50%). We believe this scenario may be inadequate, because we recognise that the top 20 Shari'ah-approved companies are able to comply with all disclosure requirements in FRS 136 and assume that Malaysia is an advanced and economically significant economy and capital market in the heart of Asia, with a highly-skilled professional workforce and strong institutional and financial infrastructure to support quality financial reporting.

Table 4: Range of Firm Distribution

Weighted Index - Range (%)	No. of Firms	%
Between 90 and 100	7	35
Between 80 and 89	4	20
Between 70 and 79	3	15
Between 60 and 69	1	5
Between 50 and 59	1	5
Less than 50	4	20

6. CONCLUSIONS AND RECOMMENDATIONS

This study sets out to offer proof of several important questions relating to the quality of information disclosed in the goodwill impairment process under the new requirements of FRS 136 (2009). The study investigated the compliance level and disclosure quality of the new requirement of FRS 136 by top 20 Shari'ah-approved companies for the financial year 2010, which is a year after the amendment of FRS 136. The results revealed that the compliance level and disclosure quality of FRS 136 is still lacking in its implementation and that the real situations in the Malaysian jurisdiction where we expect the compliance level and disclosure quality are high. This deficiency may result in a decrease in the ability of external analysts to completely self-assess firm performance, especially on the identification and valuation of CGUs, and the numerous assumptions to be made in estimating the CGUs recoverable amount.

Our results should be of interest to practitioners in the area of accounting standard setting and regulation, as we argue that the adoption of the new requirement of goodwill impairment testing, unaccompanied by full compliance of the disclosure requirements, limits the effectiveness of the standard. The issue of compliance continues to be a contentious one, indicating that rigorous interpretation and application of the standard is required.

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