



ACCOUNTING BULLETIN

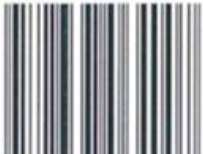
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The editorial board would like to express their heartfelt appreciation for the contributions made by the authors, co-authors and all who were involved in the publication of this bulletin.

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RECTOR'S MESSAGE



Congratulations to the Faculty of Accountancy of Universiti Teknologi MARA Kedah Branch (UiTM Kedah) on the success of the publication of the *Accounting Bulletin*. It must be satisfying to see the output of all the hard work in planning and preparing to publish the very first issue of this bulletin. I hope that this bulletin would provide an avenue for accounting staff to produce more academic materials and develop their skills in academic writing.

It is good to see that the university is involved actively in the dissemination of knowledge to the public. This is the spirit and attitude that should be demonstrated as we are all academicians. Furthermore, seeking and sharing of knowledge are vital and more initiatives should be undertaken to support this life-long learning process.

Again, well done to the Faculty of Accountancy of UiTM Kedah and those who were involved directly and indirectly the *Accounting Bulletin*. I wish the Faculty of Accountancy of UiTM Kedah all the best and hope that this bulletin will move forward and extend its wings in the future.

Associate Professor Dr. Shaiful Annuar Khalid

Rector
Universiti Teknologi MARA (UiTM) Kedah Branch



PREFACE

The *Accounting Bulletin* contains a collection of short articles covering various topics on accounting such as financial accounting, management accounting, taxation, accounting education and corporate governance. Some of the articles highlighted the current issues in accounting, current development of the related concept in accounting and its application in Malaysia.

The publication of this on-line bulletin is an effort by the Faculty of Accountancy, Universiti Teknologi MARA Kedah Branch (UiTM Kedah) to encourage the accounting academic staff to be involved in academic writing. The *Accounting Bulletin* provides a platform for the accounting academics to share and disseminate their academic knowledge to a larger audience. The experience gained in writing articles for this bulletin may help the accounting academics to improve their academic writing skill and they will be more confident to produce academic materials in the future.

I would like to express my appreciation to the Editorial Board and contributors of articles to the *Accounting Bulletin* that enabled this bulletin to publish its first volume. Also, on behalf of the Faculty of Accountancy, I would like to express my gratitude to the Management of UiTM Kedah for the endless support and encouragement.

Dr. Marzlin Marzuki

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Teaching And Learning Of Accounting Ethics Education

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The discussions on teaching and learning of ethics education have been well debated and received much attention by various interested parties. In fact, the phrase “ethics education” has a variety of interpretations. According to Dellaportas et al. (2005, p. 28), some refer to ethics education as instruction to obey the law, while for others it is about improving moral character. However, prior studies have reported mixed responses in relation to the issue of providing ethics education. Some have argued that ethics cannot be taught due to several reasons such as students’ morals or values may be fully developed (Baxter & Rarick, 1987) and firmly entrenched by family or religious institutions (Kultgen, 1988) by the time they enter college. This is because, ethics or morals are learned early in life and by the time students reach college, the students are either honest or not (Levin, 1989). Under this assumption, Levin (1989) believes that unethical behaviour may result from a failure in early learning to distinguish between right and wrong. Therefore, it is argued that teaching ethics at the university level is unlikely to influence students’ attitudinal changes (Kerr & Smith, 1995; Oddo, 1997; Shenkir, 1990).

However, supporters of ethics education have argued that ethics education is essential to the ethical development of individuals (Gibson, 2002; Procario-Foley & McLaughlin, 2003). Formal education is considered as one of the factors that changes an individual’s basic assumptions and perspectives on what is morally right or wrong (Rest, 1988). Furthermore, Bishop (1992) explains that a person’s value system is not static or permanent, but may be subject to great modification and refinement over time. Moreover, Josephson (1992) agrees that ethics education in college can be effective because, at that age, a student is considered a young adult and is generally more able to understand the nature of ethical dilemmas. In fact, Duska and Duska (2003, pp. 28-29) provide the general reasons to study ethics such as the moral beliefs one holds may be inadequate to face complex issues, ethics can provide possible solutions when a person faces conflicting ethical principles, ethical analysis can demonstrate the inadequacy of making ethical decisions when an individual holds inadequate beliefs or clings to inadequate values, ethics education provides an understanding as to whether and why individual opinions are worth holding onto, and ethics education helps to identify the basic ethical principles that can be applied to actions.

Furthermore, supporters of ethics education also claim that the goal of teaching ethics is not related to value-shaping, but to help well-intentioned students by introducing skills to deal effectively with ethical challenges (McDonald & Donleavy, 1995). In other words, the goal of teaching ethics should be to enable students to recognise ethical issues and to apply their own personal values to resolve the issues. Oddo (1997) argues that the stage of development of the students' values, or the likelihood that their values can be influenced, is irrelevant because the goal of teaching ethics is to apply values and not to change their personal values.

Furthermore, as accounting ethics education becomes critical, both the design and delivery of the course materials appear to be critical elements of an effective educational curriculum. But, researchers continue to argue that coverage of ethics in the curriculum are limited in most tertiary education institutions (Fisher, Swanson & Schmidt, 2007; Gaa & Thorne, 2004; Swanson, 2005). For example, Gaa and Thorne (2004) quote a study on the accounting curriculum by Pricewaterhouse Coopers (2003) which indicates that ethics is not a consistent and integrated part of the education of most accounting students. As such, this might affect accounting students' ability to obtain a sufficient level of training in ethics. In fact, Loeb (1988, p. 317) highlights the importance of providing a sufficient level of ethics teaching to accounting students such as students may benefit from ethics teaching in terms of their ability to better understand the composition of and the mechanisms for enforcing the various codes of ethics relating to accounting, comprehend the social control mechanisms to assure the conduct of accounting professional regulations, respond effectively to ethical dilemmas in accounting, and deal with the complex nature of ethical issues in accounting.

In conclusion, the general view is that there is a need for ethics education that enables individuals to grow beyond the simplistic rules of right or wrong that were learned in childhood. This issue is relevant for accountants as they need to equip themselves with proper tools to disburse their responsibility in this increasingly complex and challenging environment. As such, accounting ethics education is seen to play a vital role in developing the awareness and decision-making capabilities of students, thus may contribute to better professional accounting standards in the future.

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What Is Moral Disengagement?

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The notion of moral disengagement was developed as an extension of the social cognitive theory. This theory helps to explain why certain people are able to engage in inhumane conduct without apparent distress (Bandura, 2002). The theory proposes eight interrelated moral disengagement mechanisms.

An individual would use: 1) a disengagement mechanism that results from a cognitive reconstruction of behaviour (moral justification, euphemistic labelling, and advantageous comparison); 2) a disengagement mechanism that obscures or minimizes an individual's active role in damaging behaviour (displacement of responsibility, diffusion of responsibility, and disregarding or distorting the consequences); 3) a disengagement mechanism that focuses on the favourable acts or traits of those whom the harm is being perpetuated (dehumanization and attribution of blame).

The first group of disengagement mechanisms (moral justification, euphemistic labelling and advantageous comparison) help individuals to justify their detrimental conducts as not immoral. The basic assumption in this mechanism is that individuals do not ordinarily engage in harmful conduct unless they have justified to themselves the morality of their actions. These three disengagement mechanisms involve cognitive reconstruction of the behaviour itself. Under these mechanisms, detrimental conduct is made personally and socially acceptable by displaying the conduct as morally justified. For example, through moral justification, hiring young children as labourers may be justified by portraying that the action is taken with the aim of providing those children with an alternative to other dangerous or degrading forms of employment. Bandura (1990) explained this strategy by referring to the action of killing others in wars. Soldiers are believed to have applied this strategy so that they are able to cognitively justify to themselves that killing others is a worthy action in order to pursue freedom, preserve peace or protect democracy.

Euphemistic labelling could take place by using technical language to label inhumane conduct. For instance, while doing business, lying to one's business competitors may be called strategic misrepresentation; and while engaging in wars, killing civilians may be referred to as collateral damage. In short, by using euphemistic language the detrimental action may appear benign.

Advantageous comparison involves comparing one's own behaviour to the more reprehensible behaviour of others to exonerate one's own conduct so that one's own behaviour then

appears as benevolent by comparison. In other words, the strategy helps one to cognitively restructure perceptions of reprehensible conduct to appear acceptable.

The second disengagement group (displacement of responsibility and diffusion of responsibility) helps to distribute blame across members of a group rather than placing blame on an individual. Individuals are more likely to disengage their moral controls if they can pass the responsibility of their actions to other parties or circumstances such as management orders or peer pressure. Under displacement of responsibility, a common remark that may be made by an employee in organization is 'I was made to do it by my boss'. As for the diffusion of responsibility, responsibility is diffused in a situation where many people are involved in the wrongdoing. Individual responsibility is reduced as many others are also involved in the reprehensible conduct. For instance, in organizations, diffusion of responsibility could be done through group decision making.

Finally, the last group (distortion of consequences, dehumanization and attribution of blame) results from minimising the outcomes of the deviant conduct or minimising the perception of distress that the conduct may cause to others. Disregarding or distorting the harmful consequences of one's actions can further weaken one's own moral control. Bandura (2002) further explained that harming others will be easier if the suffering is not visible and where the damaging actions are physically and temporarily distant from the injurious effects as these conditions may prevent self-censure to function as a self-restrainer.

The strength of moral self-censure also depends on how individuals treat the people they mistreat. Bandura (1990) claimed that dehumanization of the victim is a common strategy applied by soldiers to enable them to kill their enemy without feeling guilty. Self-censure for detrimental conduct could also be disengaged by attributing the blame to the victim. For instance, the tobacco industry has denied nicotine addiction as a factor, which caused the increased number of cigarettes consumed. One of the tobacco companies claimed that 'the choice of number of cigarettes smoked rests with the consumer and we do not directly influence the decision in either direction' (White, Bandura, & Bero, 2009, p.52).

According to Bandura (1991), it is possible to use multiple mechanisms of moral disengagement simultaneously. The use of multiple mechanisms will reduce the individual's self-censure drastically and therefore that individual will have a higher tendency to be involved in detrimental conduct. Executioners have been found to apply multiple moral disengagement mechanisms in performing their work (Osofsky, Bandura, & Zimbardo, 2005). It is worth to note that moral disengagement is a gradual process (Bandura 1990). Repeated reliance on the mechanisms might lead to repeated performance of the detrimental actions and finally increase the degree of tolerance for such behaviour.

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Why Are Malaysians Afraid Of Blowing The Whistle?

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Whistleblowing is defined as “the disclosure by organization members of an employer’s illegal, immoral, or illegitimate practices that are under control of their employers to persons or organizations who may be able to effect action” (Near & Miceli, 1985, p.4). In a way, whistleblowing could act as an effective internal control mechanism within organizations. Whistleblowing action is common in the Western countries; however, in Asia the whistleblowing action is sometimes regarded as unacceptable behaviour (Bond 1996).

Despite having the Whistleblower Protection Act 2010 (WPA 2010), Malaysia is still facing a low number of whistleblowing actions. Since 2012, the Malaysian Anti-Corruption Commission (MACC) revealed that out of a total of 8,953 complaints received, only 28 were from whistle-blowers (Wan Jan, 2017). The small number of whistleblowing complaints continues; in February this year, out of 17 complaints received by MACC, only 2 complaints came from whistle-blowers. Thus, generally, it appears that Malaysians are still hesitant to whistle blow.

Recently, the chief executive officer of IDEAS (Institute of Democracy and Economic Affairs) states that the extremely low number of whistle-blowers in Malaysia for reporting wrongdoings could reflect several loop holes in the WPA 2010 (Wan Jan, 2017). In a similar vein, Leong (2017) posits three areas that could cause Malaysians to be unwilling to whistle blow. The areas are protections for whistle-blowers, independence of the Act and whistleblowing mechanism.

Currently, protection is only conferred to whistle-blowers who disclose the wrongdoings to the enforcement agency. Those who whistle blow to a non-enforcement agency will not be protected. Another issue of concern is that the disclosure of wrongdoing could be made provided that such disclosure is not specifically prohibited by any written law. This provision makes whistleblowing almost impossible because substantial amounts of government documents, information and data are classified as official secrets under the Official Secret Act (OSA). Thus, disclosing such information would likely expose a whistle-blower to the alleged breach of the OSA.

As for the case of independence, the current practice is that the Minister plays an important function in the workings and implementation of the Act. Therefore, the enforcement agencies are not totally free from ministerial interventions in performing their duties. Finally, although various forms of reporting of wrongdoings such as walk-in, email, letter, fax, call, or a text message are allowed, specialised and dedicated units in handling such reports are still in need, specifically to stimulate

confidence in the whistle-blowers. For instance, whistle-blowers should be informed on a regular basis about the investigation which resulted from their disclosures. Finally, the current reward awarded to the whistle-blowers may not compensate for the risk of whistleblowing. Thus, this may deter them from taking such actions.

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Tax Non-Compliance Among Corporate Taxpayers In Malaysia

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The pervasiveness of tax non-compliance remains a serious concern to most tax authorities around the world. The negative impact from tax non-compliance not only diminishes taxpayers' confidence in the tax system; but it can also affect economic and social development. For example, in the United States (US), the collapsed of Enron and the subsequent accounting and tax scandals of WorldCom and Tyco in the early 2000s caused tax authorities to suffer huge tax revenue loss due to unpaid income tax (Bloommberg-News, 2011). A brief report on the cost of tax evasion (a form of intentional tax non-compliance) worldwide by Murphy (2011) revealed that the US was ranked top in terms of tax revenue loss that carried a sum of USD337, 349 million, followed by Brazil (USD280, 111 million) and Italy (USD238, 723 million). As a result, the loss of tax revenue due to tax non-compliance has prompted tax authorities around the world to strengthen their tax audit and tax investigation.

Tax audit¹ is a core activity within the self-assessment system and its main objective is to encourage voluntary compliance with tax laws and regulations and to ensure that a higher tax compliance rate is achieved. Mason and Calvin (1978) argued that the fear of being apprehended in a tax audit and the perceived seriousness of the offence could be an effective deterrent for tax non-compliance. In Malaysia, although the tax authorities have initiated tax audit regularly, yet corporate tax non-compliance still persists. There are three indicators that signal the persistence of tax non-compliance among Malaysian corporate taxpayers. For instance, in 2016, 73,054 corporate tax audited cases were finalized by the IRBM as compared to 49,654 cases in 2015 (IRBM, 2016). In 2013, the former Malaysian Prime Minister, Datuk Seri Najib Razak publicly announced and labelled tax evaders as traitors (Bernama, 2013). Last but not least, according to Murphy (2011), Malaysia is ranked 44th in the world and 11th in the Asia region in terms of tax revenue loss due to intentional tax non-compliance. Murphy's (2011) finding is quite surprising as there are some developing countries in the Asia region such as Vietnam, Bangladesh and Cambodia that are ranked lower than Malaysia. Hence, it is reasonable to argue that corporate tax non-compliance is somewhat prevalent in Malaysia.

¹ There are two types of tax audit, namely (i) field audit, which is normally conducted at business premises; and (ii) desk audit which is carried out at tax authority's office.

In turn, an increase in the number of audited and resolved corporate tax cases gives rise to several concerns. Is the IRBM alarmed with the increase in the number of tax non-compliance cases? Is the increase in the number of tax non-compliance cases related to the low chances of being selected for a tax audit? Is the increase indirectly related with the aggressiveness of tax auditors in giving judgment and deriving a decision in handling the tax audit case? These concerns remain unanswered, and require further investigation.

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Bad Apples In A Barrel: Corruption In Organisations

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Corruption is a corrupted practice and can be defined as the giving, offering, receiving or soliciting, whether directly or indirectly, anything valuable to influence improperly the actions of another party (The World Bank Group, 2016). For instance, a supplier agrees to pay kickbacks to a government senior official through an agent it employs. This agent who is so called a “sub consultant” is given the task to perform "business development and marketing" services but without any deliverables and is actually connected to that senior government official who demands some "commission" from every bidder. This happens because the official has influence over the bidding evaluation process as he or she is in the bidding evaluation committee, thus is able to lead the award of the contract to any bidder who is willing to pay such “commission”. In these circumstances, the supplier tops up the kickback amount in the whole contract value, and pays for it from the funds it receives from the government’s financed project fund. Thus, this practice artificially inflates the project financing costs, and later the supplier recovers their costs through supplying less expensive and lower quality products.

Transparency International (2016) defined corruption as the abuse of power entrusted to a person, for the purpose of gaining personal benefits. Corruption can be separated into two distinguished classes: between 'true corrupt intent' and 'necessary corruption' (Transparency International, 2016). The true corrupt intent implies bribery or an action to obtain an illicit benefit whereas the necessary corruption occurs for the purpose of getting things done and to obtain a legally entitled service. Some main types of corruption could be extortion, embezzlement, bribery, and fraud.

Bribery is one of the most common types of corruption. Bribery can be defined as the offer or acceptance of anything valuable by a government or public official or employee, in exchange for influence or advantage. These bribes can be in whatever form of presents or payments of money and its equivalents, as an exchange for favourable treatment, such as awards of government contracts. Bribes may be in various forms, of materials or favours; from something huge and tangible, such as property and goods, to a range of privileges, services and favours. The intention of bribes is always for influencing, altering or changing the action of various individuals. It goes simultaneously with both political and public corruption. In the absence of any written agreement to necessarily prove that the crime is a bribery, a prosecutor, therefore, generally needs to display the existence of a corrupt intent. Frequently and in most cases, the person offering the bribe as well as the person accepting the

bribe can be charged with committing bribery. In the private sector, bribery may happen for instance, when a firm bribes the employees of its competitor's company for recruitment services. A bribe does not necessarily need to be harmful to the public interest to make it become illegal in taking such action.

What can be done to prevent corruption? One of the most important ways is that there must be great emphasis on education, which can be achieved through mandatory learning such as anti-corruption courses or anti-money laundering courses. In organisations, top management must lead by examples i.e., through displaying high integrity and honesty. In addition, high ethical culture, best control practices as well as great whistleblowing plans in place will provide effective mechanisms for preventing corruption.

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Another Way Of Learning Double Entry In Accounting: The Mnemonic Approach

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Introduction

Students typically associate accounting subjects with negative perceptions. When the word “accounting” is mentioned, students think it is a scary subject. As a beginner, learning accounting is considered very tough. Such a negative presumption towards learning accounting subjects is widespread.

As for an educator, it is very challenging nowadays to deliver especially accounting knowledge to the current generation who is widely exposed to social media; Facebook, Twitter, Instagram, WhatsApp, YouTube, etc. Today’s generation’s learning styles are mostly dependent on digital technology and they do not learn without the internet. Moreover, preparing towards Education 4.0 is more challenging as we acknowledge that innovation is a key driver towards Education 4.0.

Learning double entry is a basic accounting of bookkeeping. Double entry is beautiful, scientific and beguilingly simple as we know that many things are created in twos; day and night, man and woman, sky and earth, mountain and river, positive and negative ions, Ying and Yang and similarly every debit has its credit. A Quranic verse also shows everything is created in pairs (Surah Az-Zaariyaat)(51:49): “And of all things We created two mates; perhaps you will remember”. This indicates the beauty of the balance of life from the accounting view, this means keeping books and allowing businesses to record things properly.

History of Double Entry

The author of the first book on double entry accounting was published in 1494 by Luca Pacioli (Previts, Parker, & Coffman, 1990; Sangster & Scataglinibelghitar, 2010; Yamey, 1967). He is well-known as the “Father of Accounting” (Sangster & Scataglinibelghitar, 2010). He wrote the mathematical book titled ‘Summa de Arithmetica, Geometrica, Proportioni et Proportionalita’ which means ‘Everything about Arithmetic, Geometry and Proportions’ (Sangster & Scataglinibelghitar, 2010). Luca Pacioli described the use of journals and ledgers in accounting systems and warned that the accountant must not sleep until the debits are equaled to credits (Smith, 2018).

Luca Pacioli is also said to have described the method used by the merchants of Venice at that time. He is not considered as the inventor of double entry because even before Luca Pacioli published his book, the merchants of Venice had actually maintained this particular way of accounting records (Smith, 2018). Luca Pacioli wrote the text and Leonardo da Vinci, his friend, drew the practical illustrations to support and explain the text in the book (Murtinho, 2015). The book was divided into various sections and the one that talked about the double entry system was entitled as “Particularis de computis et scripturis” (Sangster & Scataglinibelghitar, 2010). It was further divided into many smaller chapters describing double entry, journals, trial balance, balance sheet, income statement and many tools and techniques subsequently adopted by many accountants and traders. This spillover effect of Luca Pacioli’s work has given a positive impact towards development of doing business and accounting record-keeping until today.

Concept of Double Entry Bookkeeping

Double entry is based on the dual concept which emphasizes that every business transaction requires the recording of two different accounts. One account is to be debited and another account is to be credited. The words debit and credit came from the old Italian “debito” and “credito” which came from the Latin “debitum”, (debt), and “creditum”, (trust), from “debeo” which means to owe and “credo” which means to trust (Hassapis & Cantzos, 2014). The terms debit and credit appear to have evolved from Pacioli's terms "Per" and "A." "Per" denoted a debtor, while "A" denoted a creditor (Peters & Emery, 1978).

Some have wondered why the ‘debit’ has the abbreviation ‘DR’ and ‘credit’ is abbreviated to ‘CR’. One theory asserts that the ‘DR’ and ‘CR’ came from the Latin past words of debitum and creditum which are "debere" (to owe) and "credere" (to entrust), respectively (Drucker., 1920).

The amount to be debited must be equal to the amount to be credited. This is to satisfy the accounting equation of $\text{Asset} = \text{Liability} + \text{Equity}$. This is also the basic accounting equation that functions as a tool to minimize errors when recording accounting data. The image of the balance scale (Figure 1) depicts the concept of double entry accounting whereby the left-hand side weigh must be equal to the right-hand side weigh and as far as the accounting record is concerned, the monetary value would be measured. Thus, the total amount of monetary value at the left-hand side (debit) must be equal to the total amount of monetary value at the right-hand side (credit).

Dual Aspect Concept



Figure 1: Visualization of double entry concept

Students and double entry accounting

Students struggle in learning double entry accounting as posited by Sangster (2010). Many students have difficulties in deciding whether to debit or credit an account (Sangster, Franklin, Alwis, Abdul-Rahim, & Stoner, 2014).

Before students decide to debit and credit an account, they have to understand the classification of accounts. The main classification of accounts comes from the basic accounting equation; $A=L+E$. Thus, the main categories of accounts are asset, liability and equity.

Furthermore, the basic accounting classifications can be expanded in the equity part whereby we subtract drawing and expenses from capital and add to revenues: $\text{Asset (A)} = \text{Liability (L)} + \text{Capital (C)} - \text{Drawing (D)} - \text{Expenses (E)} + \text{Revenues (R)}$. To simplify, the accounting equation is rearranged as follows: $A+D+E= C+L+R$

Basic accounting equation

A	=	L	+	E
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Expanded accounting equation

A	=	L	+	C	-	D	+	R	-	E
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Rearranged expanded accounting equation

A	+	D	+	E	=	C	+	L	+	R
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Mnemonic Approach

Carrithers (1951) emphasizes students' ability to reason intelligently and apply the skill and technique of 'know why' and 'know how' in learning bookkeeping. Realizing the importance of the 'know why' and 'know how' techniques in applying double entry, the mnemonic approach has been integrated in learning the topic. The ADE=CoLoR has been formed as an educational tool to understand and remember the group of accounts (ADE group and CoLoR group). The arrangement of all letters is done to create words that represent the best to-be-remembered information.

CATEGORY	CATEGORY
A	C
D	L
E	R

For Category ADE, 'DE' at the back would represent Debit when this category account has increased while Category CLR or pronounce it as CoLoR, letters C and R would represent Credit when this category account has increased as shown in Table 1. As for the decreasing situation incurred for the account, the opposite entry will take place.

Table 1: Adapted Rule of Double Entry

Category	Effect	Entry
A D E	↑	DEBIT
C L R	↑	CREDIT

Yin (2012), Laing (2010), Seay and McAlum (2010) give an overview of the effects of the implementation of mnemonic devices in economic study and first year elementary accounting, and auditing courses in their studies. Research indicates that students respond favourably to the use of mnemonic learning strategies (Mastropieri, Sweda & Scruggs, 2000; Yin, 2012). Laing (2010) has shown that using a mnemonic device would improve learning in elementary accounting.

Conclusion

The mnemonic approach serves as a motivating incentive and element that would change the perception of students towards the accounting field. Given the wide use of accounting learning tools, this approach would serve as an important contribution to the accounting education literature.

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Budget Update: Relief For Lifestyle

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In budget speech 2017, the government introduced a new lifestyle relief in order to inculcate good reading habits, nurture healthy lifestyles, and enhance usage of computers and internet. It is actually not new lifestyle relief, but comprehensive reliefs which combine a few tax reliefs into one, allowing taxpayers to claim annual assessments. It is a combination of the existing tax relief for reading materials such as books, magazines, journals but excluded newspapers and banned reading materials up to RM1, 000 a year for oneself, spouse or child; personal computer up to RM3,000 to be claimable once over a three-year period, and sports equipment for sports activities as defined under the Sports Development Act 1997 up to RM300 a year with a limit of up to RM2,500. Total sum of the reliefs must not exceed RM2, 500.

As a result, the scope of the lifestyle relief is expanded to include purchases of printed daily newspapers which before this are not deductible, purchases of a smartphone or tablet, internet subscriptions which before this was granted from YA 2010 until YA 2012 for payment of monthly broadband internet subscription and gymnasium membership fees for oneself, spouse or child. This new lifestyle relief also provides flexibility for taxpayers to claim all the above tax reliefs depending on their lifestyle. The relief is available to a taxpayer who incurred such expenses on himself or herself, spouse and children. The above measures were due to take effect from 1 January 2017 and tax filed in 2018.



In order to claim the lifestyle relief, it must be supported by receipts issued in respect of the purchase or payment. Taxpayers are required to retain documentary evidence to support the claim of tax reliefs in the event of a tax audit. If a taxpayer is audited, the absence of documentary evidence could attract penalties of up to 100 percent of the tax under-charged. The taxpayers should keep proper record of documents at least for seven years.

The advantage of the new relief is, it offers more flexibility because it allows a slightly larger group of taxpayers to benefit from it. The new lifestyle tax relief does offer more flexibility because it includes more items. Meaning that, for taxpayers who do not take full advantage of reliefs such as reading materials, they can now make use of the reliefs in other ways by claiming other categories. However, the drawback is, for taxpayers who actually spend their money on all the categories, the

limit of RM2, 500 really does not make a big impact on their deduction. Many taxpayers feel that the amount is too low.

Lifestyle relief has five categories:

1. Books, journal, magazines, printed newspapers or other similar publications.
2. Personal computer, smartphone or tablet.
3. Sports equipment for any sports activity (excludes motorised 2-wheel bicycles but includes racquets and balls, treadmill, exercise bike and air walker; not eligible for purchases of clothing and shoes.)
4. Gym membership.
5. Monthly bills for internet subscription (under individual’s name).

YEAR OF ASSESSMENT 2016	YEAR OF ASSESSMENT 2017 ONWARDS
	

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MFRS 116 : A Short Note To Educators

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The aim of this article is to briefly explain the objective, the definition and the recognition criteria of MFRS 116 *Property, Plant and Equipment*. This Standard came into effect on 1 January 2012. It is equivalent to International Accounting Standard 116 (IAS 16) *Property, Plant and Equipment* as issued and amended by the IASB, including the effective and issuance dates. Entities that comply with MFRS 116 will simultaneously be in compliance with IAS 16.

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment. This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity;
- (c) the recognition and measurement of exploration and evaluation assets; or
- (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

Property, plant and equipment are defined as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. A class of property, plant and equipment is a grouping of assets of a similar nature and used in an entity's operations. The following are examples of separate classes: (a)

land; (b) land and buildings; (c) machinery; (d) ships; (e) aircraft; (f) motor vehicles; (g) furniture and fixtures; and (h) office equipment.

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimation of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- (a) costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition; and
- (f) professional fees.

Examples of costs that are not costs of an item of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customers (including costs of staff training); and
- (d) administration and other general overhead costs.

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MASB-MFRS 116 Property, Plant and Equipment

Integrated Reporting: One Report for a Sustainable Strategy

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Today, news is easily spread through social media networks and the internet. Consequently, stakeholders such as investors and governments as well as society are increasingly demanding for organizations to provide them with transparent reporting about their activities and be accountable to the stakeholders (Abeysekera, 2013). Although organisations have already begun to be accountable and started to provide reports to the stakeholders, such initiatives seem to not truly reflect the organizations' long-term objectives and often provide separate reports like annual reports and sustainability reports which are seen as unconnected activities which the organizations undertake (Abeysekera, 2013). Thus, organizations should provide one report that integrates all the activities which they undertake. "One Report" refers to companies which provide reports that are beyond separate reports for both their financial and non-financial information such as sustainability or corporate social responsibility. Additionally, "One Report" illustrates how integrated reporting can increase the value of the companies and stakeholders as well as contribute to a sustainable society (Eccles & Krzus, 2010).

Integrated reporting is a new stage in corporate reporting development which is a combination of both financial and non-financial information while providing an organization with the ability in creating and maintaining value of the organization in the short, medium and long term. The emergence of integrated reporting is due to the investors' need in having a more complete picture of the value of the company and additional information in financial statements (Kuzina, 2014). Akash and Kamble (2013) define integrated reporting as a process to communicate information about an organization's economic and non-economic activities to its stakeholders besides providing the ability to the organization in discovering the causes of its success and failures in conducting business. Navi (2014) defines integrated reporting as the linkages between strategy, financial performance, economics, governance and the social and environmental contexts in which an organization operates. The International Integrated Reporting Committee (IIRC) states that integrated reporting:

"brings together the material information about an organization's strategy, governance, performance and prospects, reflect the commercial, social and environmental context within which it

operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and most importantly: shows the connectivity between them; and explains how they affect the ability of an organization to create and sustain value in the short, medium and long term” (IIRC, 2011, p.6).

Some of the insights generated by IIRC are similar to prior studies in the context of what integrated reporting is meant to achieve. For example, Westerfors and Vesterberg (2011) state that integrated reporting may improve investors’ analyses as it allows better access to Environmental, Social and Governance (ESG) information and provides greater transparency of the company activities as well as the impact towards the environment and also society. In a similar manner, Akash and Kamble (2013) suggest that, integrated reporting provides detailed information both financial and non-financial of the organization which shows the overall picture of the organization; shows the direction of the business organization in different business activities as well as determines the right direction for the business; provides opportunity for the organization in improving the interactions between internal and external stakeholders; provides information about economic, environmental and social related aspects of the organization; and provides information about sustainability vision and direction of activities for the company.

In addition, Krzus (2011) has suggested four crucial benefits of integrated reporting, which corrects fundamental problems in current reporting, including greater clarity, better decisions and deeper engagement as well as lower reputational risk. Eccles and Saltzman (2011) also have identified three classes of benefits including internal benefits such as greater engagement with key stakeholders, better internal resource allocation decisions and lower reputational risk; external market benefits such as meeting mainstream investors’ needs relating to ESG information, and appearing on sustainability indices as well as ensuring that data vendors were accurately reported in the company’s non-financial information; and managing regulatory risks such as responding to requests from stock exchanges and being prepared for global regulation.

Even though integrated reporting has promised a lot of advantages, it has its limitations. Navi (2014) points out several limitations in adopting integrated reporting which include: closing non-financial books on time; lacking the understanding between financial and non-financial performance; getting investors’ attention regarding non-financial information; disclosing information that is focused and must be relevant to a company and its business value; and demonstrating the link between business’s priorities and the decision making process as set out in the report. In addition to this, Akash and Kamble (2013) also point out several limitations in adopting integrated reporting and these

include: resistance to change due to the complaint that integrated reporting imposes burden on existing reporting requirements; ensuring individuals involved in reporting and the governance structures understand what integrated reporting is, how it differs from traditional reporting and what their roles are; lack of adequate regulation in ensuring effective presentation of integrated reporting; no guarantee that integrated reporting is helpful in ensuring proper business decisions; and lack of interest by business communities in changing their existing system. Some companies are hesitant in providing sensitive information and this includes details on their value drivers and strategies (Adams and Simnett, 2011).

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The History Of Corporate Governance And Control In Malaysia

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Attention to corporate governance has emerged in Malaysia since the introduction of the Companies Act 1965 and was subject to progressive development long before the 1997 economic crisis. The 1965 Act describes the roles and responsibilities of directors and managers to keep proper accounting records (Abdullah & Mohd Nasir, 2004). Subsequently, the Securities Industries Act (SIA) 1983 and the Securities Commission Act (SCA) 1993 provided a legislative and regulatory framework for the Malaysian capital market. These last two Acts prohibited artificial trading and market rigging, thereby effectively regulating the operations of securities dealers (Liew, 2007).

The Securities Commission was established in March 1993 as a watchdog to improve the legal and regulatory framework governing the capital market. In the same year, the Bursa Malaysia Listing Requirements were revised to require all listed firms to set up audit committees of at least three people, comprising a majority of independent directors. This requirement was intended to improve the standards of corporate disclosure in Malaysia (Wan Hussin & Ibrahim, 2003).

To enhance the accountability of directors and to promote good corporate ethics, the Companies Commission of Malaysia, formerly known as the Registrar of Companies, introduced the Code of Ethics for Directors in 1996. In the same year, the Securities Commission moved from a merit-based system to disclosure-based regulation, which ensured high-quality financial reporting by promoting improved standards of disclosure, due diligence, corporate governance and accountability among the directors of public firms. Under the new system, the role of the Securities Commission shifted from evaluating the relative merits of the issuer and its securities to regulating the disclosure of quality information (Che Haat, 2006). The final implementation phase of disclosure-based regulation would require all listed firms, among other requirements, to: (1) publish financial statements on a quarterly basis within two months of each financial quarter (these statements include an income statement, a balance sheet, a cash flow statement and explanatory notes); (2) furnish annual audited accounts, and auditors' and directors' reports within four months from the end of the financial year; and (3) make immediate public disclosure of all material information of a financial and non-financial nature concerning its affairs (Nathan, Lin, & Fong, 2000).

The Asian economic crisis began in July 1997. The value of the Malaysian currency, Ringgit Malaysia (MYR), dropped from MYR 2.50 per USD to, at one point, MYR 4.80 per USD. The Bursa

Malaysia composite index fell from approximately 1300 to nearly 400 points in a few short weeks. Interest rates increased to more than 12% during the crisis. These problems started with the speculative short-selling of Malaysian currency, which was followed by high capital outflows from the country. In December 1997, to control these problems, the Malaysian government imposed capital controls including pegging the Malaysian Ringgit at 3.80 to the US dollar. Other measures included restricting the trading of Malaysian stocks outside Malaysia, introducing a punitive tax for holding Malaysian stocks for less than one year and making unofficial trading of the ringgit illegal.

The financial crisis also caused a massive loss of foreign investors' confidence in the Malaysian capital market, and this was exacerbated by poor corporate governance. Rajan and Zingales (1998) argue that investors ignored weaknesses in East Asian firms when the economy was doing well, but quickly pulled out once the crisis began because they believed the region lacked adequate institutional protection for their investments. Furthermore, expropriation of minority shareholders became worse during that period. In addition, Johnson, Boone, Breach, and Friedman (2000) argue that in countries with weak corporate governance, the financial crisis resulted in more expropriation of wealth by managers, and thus caused a larger fall in asset prices.

United Engineers Malaysia (UEM), a blue chip firm in Malaysia, provides an example of the expropriation of minority shareholders interests during the financial crisis. In November 1997, UEM acquired 32.6% of Renong, its financially troubled parent. The minority shareholders were horrified and saw this transaction as a bailout of Renong at an inflated price. UEM's stock price fell 38.24% on the day the transaction was announced (Foon, 1997, p. 62). The controversy surrounding this transaction, which was undertaken without proper disclosure and prior shareholder approval, led to a significant loss in investors' confidence in the Malaysian stock market (Abdul Rahman, 2006).

The impact of the financial crisis, in particular the reduced investors' confidence in the Malaysian capital market, provided a strong impetus for regulators to introduce reforms to enhance the protection of investors. The reforms targeted two main areas: corporate governance and financial reporting. Corporate governance reforms, among others, are crucial to: (1) strengthening the protection of minority shareholders' rights; (2) enhancing the transparency and accountability of directors; (3) strengthening regulatory enforcement; and (4) promoting training and education at all levels in corporations.

The reforms started with the establishment of the High Level Finance Committee on Corporate Governance by the Ministry of Finance in March 1998, followed by a series of regulatory changes through the Securities Commission, Bursa Malaysia, and the Companies Commission of Malaysia. This included the establishment of the Malaysian Institute of Corporate Governance, and the Minority Shareholder Watchdog Committee.

The High Level Finance Committee on Corporate Governance, comprising government and industry representatives, carried out detailed investigations to identify and address weaknesses relating to the 1997 financial crisis. Bursa Malaysia and PriceWaterhouseCoopers (PWC), on the

other hand, conducted a survey on corporate governance of public listed firms and then made recommendations for corporate governance best practices in Malaysia. The result was the Report on Corporate Governance, 1999, which highlighted the importance of boards of directors as corporate governance mechanisms to protect and enhance shareholders' wealth. The report aimed to improve corporate disclosure, promote good corporate governance practices in Malaysia, and to re-establish investors' confidence in the Malaysian capital market (Finance Committee on Corporate Governance, 1999). Following the recommendations proposed by the Finance Committee on Corporate Governance (FCCG), the High Level Finance Committee on Corporate Governance introduced the Malaysian Code on Corporate Governance (MCCG) in March 2000.

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The Malaysian Code Of Corporate Governance: An Effort To Improve The Quality Of Financial Reporting

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Several initiatives were taken by the policy makers and regulators to improve the quality of financial reporting by Malaysian companies. One of the initiatives was to strengthen the corporate governance of Malaysian public listed companies by introducing a code of corporate governance. The Malaysian Code on Corporate Governance was drafted in 1999 and introduced in March 2000. The code was then revised in 2007 to include additional recommendations relating to the board of directors and audit committees. The code was basically issued to serve as a guideline to enhance corporate governance practices among public listed companies in Malaysia.

The Malaysian Code of Corporate governance was based on the recommendations of the Cadbury Report (1992) and the Hampel Report (1998) in the United Kingdom. The code sets out the principles and best practices on corporate governance to improve the monitoring function of the board of directors, audit committee, and the external audit. This includes the essential criteria for the structure and operational process of the monitoring units, such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use of board committees, their mandates and their activities.

As illustrated in Figure 1, the Malaysian Code on Corporate Governance consists of three main components. Part 1 sets out broad principles of good corporate governance that are flexible and adaptable to varying circumstances of individual companies. It proposes the application of 13 broad principles that are related to the board of directors, shareholders, internal control, financial reporting, auditors and directors' remuneration. Under Bursa Malaysia listing requirements, companies are required to include in their annual report a narrative statement of how they apply the principles to their particular circumstances. Part 2 provides a set of guidelines and best practices to assist companies in adopting adequate corporate governance instruments. It contains 33 provisions that include matters relating to the construction of an effective board, the number of non-executive directors, board structure and procedures, relationship of the board to management, establishment of board committees and the relationship between the board and shareholders. The compliance with best practices in Part 2 is voluntary. However, under Bursa Malaysia listing requirements, companies are

required to disclose their level of compliance with best practices and explain any circumstances justifying departure from such best practices in their annual reports. Part 3 sets out the principles and best practices for other corporate participants such as investors and auditors with the aim of improving their role in corporate governance. The recommendations in Part 3 are purely voluntary. In addition to the three main sections in the code, explanatory notes to Parts 1, 2 and 3 are provided in Part 4. The section also includes “mere best practices” in addition to the recommendations in earlier sections. The mere best practices are completely voluntary, and companies are not required to state or explain any departure from the recommendations.

Figure 1: Summary Content of the Malaysian Code on Corporate Governance

PART 1 Broad Principles of Corporate Governance for Publicly Listed Companies	PART 2 Best Practices of Corporate Governance for Publicly Listed Companies	PART 3 Principles and Best Practices for Other Corporate Participants
<ul style="list-style-type: none"> •The board of directors •Board balance •Supply of information •Appointment to the board •Re-election of the board •Dialogue between companies and investors •The annual general meeting •Internal control •Financial reporting •Relationship with auditors •Level and makeup of directors' remuneration •Remuneration procedure •Disclosure 	<ul style="list-style-type: none"> •Six principal responsibilities of the board •Separation between chairman and chief executive officer •Board balance •Board meetings and procedure •Supply of information to the board of directors by company secretary •Establishment of board committees, such as audit committee, nomination committee and remuneration committee •Relationship of the board to management •The audit committee size, financial literacy, meetings, duties and responsibilities •The relationship between the board and shareholders 	<ul style="list-style-type: none"> •Institutional shareholders' responsibility to vote •Constructive communication between institutional investors and companies management and board •Evaluation of governance disclosures by institutional investors •The role and responsibility of external auditors

Source: Malaysian Code on Corporate Governance (Revised, 2007)

Under the Malaysian Code on Corporate Governance, the role, composition and structure of the board of directors are viewed as the most important elements for effective corporate governance. The board is responsible for reviewing and approving a strategic plan and to oversee the business operations, while directly monitoring and evaluating the management’s performance and to ensure the integrity of accounting and financial reporting systems. A well balanced and effective board would take the lead role in establishing best corporate governance practices. According to the code, a well-balanced board has a good mixture of executive directors and non-executive directors, including

independent directors. The revised code specifically recommends that independent non-executive directors should make up at least one-third of the members of a board. This is to ensure that any decision made by the board is independent and not dominated by an individual or a small group of individuals. In view of that, the code also recommends the separation of responsibilities between the chairman and the CEO. Moreover, the code also specifies that non-executive directors should have the necessary skills and experience and be a person of calibre and credibility so as to bring independent judgment to the board.

The Malaysian Code on Corporate Governance recommends the establishment of the audit, remuneration, nomination, risk management and corporate governance committees by the board of directors. The nomination committee is responsible for proposing new nominees for the board and assessing performance of the directors on an ongoing basis. It should comprise of non-executive directors, with a majority of independent directors. Under the Bursa Malaysia listing requirements, all directors are subject to retirement and re-election at least once every three years. The audit committee should meet the following requirements: (1) must be composed of not fewer than three members (all must be non-executive directors); (2) a majority of the audit committee members must be independent directors; and (3) at least one member of the audit committee must be a member of the Malaysian Institute of Accountants (MIA) or possesses sufficient accounting experience and qualification, or deemed to be “financially literate”. A member of the audit committee is financially literate if he/she has the ability to read and understand financial statements, analyze financial statements and ask pertinent questions about the company’s operations against internal controls and risk factors, and understand and interpret the application of approved accounting standards (Bursa Malaysia, 2009).

Initially, compliance with the all principles and best practices recommended in the Malaysian Code on Corporate Governance was completely voluntary. Disclosure of compliance with the code was made mandatory by Bursa Malaysia after the revision of its listing requirements in January 2001. The revised Bursa Malaysia listing requirements are more demanding on public listed companies to enhance Malaysia’s corporate governance regime (Yatim, Kent, & Clarkson, 2006). All publicly listed companies are required to include a Statement of Corporate Governance in their annual reports, starting from 1 July 2001. In the statement, the companies are obliged to disclose their level of compliance with the code’s recommendation of best practices and explain any departure from the code in their annual reports.

Bursa Malaysia has also taken another initiative to promote good corporate governance practices among publicly listed companies. The stock exchange requires all directors to undergo continuous training, such as the Mandatory Accreditation Programme and the Continuing Education Programme to improve their capabilities in performing their duties as directors and influence

corporate thinking on issues related to corporate governance. The training of directors is set as a condition for continued listing and is required to be disclosed in annual reports, starting from 31 December 2005.

On 29 April 2012, the Malaysian Securities Commission released the Malaysian Code of Corporate Governance 2012 (MCCG2012), which supersedes the previous code. The new code was made effective from 31 December 2012. There are several improvements made to the existing code as MCCG2012 puts more emphasis on strengthening the board structure and composition as well as self and market discipline. Among the new recommendations introduced in MCCG2012 are that the board should (1) formalise ethical standards and ensure its compliance, (2) ensure that its strategy promotes sustainability, (3) formalise, make a periodic review, and make public its board charter, (4) undertake annual assessment of independent directors, (5) ensure that the tenure of independent directors do not exceed a period of nine years, or else have to seek for shareholders' approval, (6) ensure that majority of the board are independent directors, but not the chairman, (7) set out expectations on time commitment on its member, (8) ensure that board members have continuing education programmes, (9) ensure that company has appropriate corporate disclosure policy and procedures, (10) encourage company to invest in information technology, and (11) encourage poll voting.

A more recent update on the Malaysian code of corporate governance is the release of Code on Corporate Governance 2017 (MCCG2017) that took effect on the 26 April 2017, which supersedes the 2012 code. MCCG 2017 introduces substantial changes and recommendations especially in terms of the composition of board of directors, two-tier voting process, board gender diversity, transparency in directors' remuneration, the independence of audit committee, establishment of risk management committee, and shareholders' participation at general meetings.

References

Yatim, P., Kent, P., & Clarkson, P. (2006). Governance structures, ethnicity, and audit fees of Malaysian listed firms. *Managerial Auditing Journal*, 21(7), 757-782.