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A Comparative Study for the Impact of IFRS Convergence on Accounting Quality between Malaysian PLC and Chinese PLC

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Abstract: *The purpose of this research is to examines whether Malaysian PLC (fully converge to IFRS) could achieve better accounting quality as compare with Chinese PLC (non-fully converge to IFRS) or otherwise. And then further study on the relationship between the PLCs' characteristics with accounting quality. Full samples of both groups consist of 2510 PLC and 17570 observations. Group FC (Malaysian PLC) consist of 420 PLC with 2946 observations and Group NFC (Chinese PLC) consist of 2090 PLC with 14204 observations. This research used the Modified Jones model to estimate the absolute value of discretionary accruals (ABSDACC); a proxy for earnings management practice. Accounting quality decrease as earnings management practices in a PLC increase and vice versa. This research used OLS to test the hypotheses. Which includes earnings management (ABSDACC) as the dependent variable, and IFRS Convergence (CONVERGE) and some other variables (PLC's characteristics) as the independent variables. The result clearly stated that the nexus between CONVERGE (IFRS Convergence) and accounting quality is negative and statistically significant. Hence, Malaysian PLC with full convergence to IFRS practising a lower accounting quality as compare to Chinese PLC. Furthermore, there is a statistical significant negative correlation between the accounting quality with leverage (LEV), profitability (ROA), earnings growth (GROWTH), and prior-year loss (LAGLOSS). Variable firm's size (SIZE) is significantly positively associated with accounting quality. Percentage change in company shares (EISSUE) is significant but has no relation with accounting quality; while percentage change in company debts (DISSUE) also reported no relationship with accounting quality but insignificant. This study contributes to the literature by examining IFRS convergence in China and Malaysia are useful in evaluating whether fully converged to IFRS achieves its stated objective of fulfilling the financial reporting needs of emerging economies. And add to the literature by identifying the potential PLCs' specific characteristics that are associated with accounting quality.*

Keywords: IFRS Convergence, Earnings Management, Accounting Quality, Discretionary Accruals, OLS

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1. Introduction

In 2001, the International Accounting Standard Board (IASB) announced the development of International Financial Reporting Standards (IFRS) to bring consistency to accounting standards and practices, regardless of company or the country, in other words for achieving "Global Accounting Standards". The developed countries quickly reform, at this time, the emerging economic markets have not converged.

Since China's reform and opening up in 1978, the economy has been steadily rising. Especially in recent years, the speed of economic development has been advanced swiftly and vigorously. By the end of 2018, China's Gross Domestic Product (GDP) as a developing country has risen to second place in the world. However, the economic system in China is still not perfect which is the development of the production factor market lags behind, industry monopoly, regional blockade still exists, and social management and public service functions are weak. Employment pressure is high and social security is low, etc. (DeFond, Gao, Li, & Xia, 2014). As an emerging market, China's convergence with IFRS is to better integrate into the world economic system, but compared with many developed countries, it started very late. China announced the IFRS convergence on February 15, 2006, and on January 1, 2007, the Ministry of Finance (MOF) of China has issued a set of new Chinese Accounting Standard (CAS). CAS has shown a tendency to gradually move closer to IFRS (Zhao，2018). These standards cover almost all the subjects in line with the IFRS, except for some modifications made to adapt to China's unique environment (Isaboke & Chen et al. 2019). From the empirical research data analysis results of Zhao (2018), the convergence of CAS to IFRS has achieved remarkable results, but the convergence equivalence has not been completed, and the road of convergence still needs effort. Until 2020, although there is already about 90% convergence, the followings phenomena still exists:

1) China still lacks a conceptual framework for accounting standards.
2) The official provisions of CAS are relatively simple.
3) In formulating the mechanism, CAS is formulated by the Accounting Department of the Ministry of Finance. Because the economy is changing fast, whether CAS is more suitable than IFRS for the China-listed companies remain unknown.

As a developing country like China, Malaysia has convergence with IFRS in 2008. In 2008, Malaysian Accounting Standards Board (MASB) announced that Malaysian Accounting Standards (MAS) will be consistent with IFRS, and on November 19, 2011, it released the framework of Malaysian Financial Reporting Standards (MFRS) in line with IFRS. The formation of a good accounting framework has a better guiding effect on the Malaysian accounting market. Malaysia is a country with a special colonial history. Based on this background and the reform of corporate governance, it has greatly affected the practice of financial reporting in Malaysia, these environmental factors have a certain degree of influence on the development of accounting. Since 2005, Malaysia has been making efforts to integrate its accounting standards with IFRS. But unlike other Asian countries, in Malaysia, politics is dominated by Malays, while business is dominated by Malaysian Chinese; this combination is a unique research environment for researchers. In Malaysia, family-controlled companies dominate, but evidence shows that companies with family-controlled boards are negatively correlated with company value, and companies with higher governance quality will show a higher level of disclosure (Abdullah, Evans, Fraser, & Tsalavoutas, 2015).

In recent years, because of the difference in the convergence process, various countries have converged to IFRS, but because of the different national conditions of each country, the convergence has produced different progress in different countries. The behaviour of some managers using their professional judgments for earnings management is not universal. Since earnings management (low accounting quality) will affect investors' investment decisions to a large extent, investors will also be more concerned about earnings management behaviours. Under this situation, domestic and foreign researchers have conducted a lot of research to study the impact of IFRS convergence on accounting quality. Difference countries found different results. Many of these previous findings yielded inconclusive results, As compared with China, Malaysia started IFRS convergence slightly late, but fully converged to IFRS in 2012 which was earlier than China. CAS is still gradually merging with IFRS. Developing countries might have different PLCs' specific characteristic associated with accounting quality as compared to developed countries. Hence, this research is to investigate whether Malaysian PLC (Fully-Converged with IFRS) may have a higher accounting quality as compare with Chinese PLC (Non-Fully Converged with IFRS) after Malaysian PLC fully converges with IFRS in 2012. And then further study on the relationship between the PLCs' characteristics with accounting quality after IFRS convergence.

This study contributes to the literature in two ways. First examining IFRS convergence in China and Malaysia are useful in evaluating whether fully converged to IFRS achieves its stated objective of fulfilling the financial reporting needs of emerging economies. Second, this study will add to the literature by identifying the potential PLCs' specific characteristics that are associated with accounting quality.

2. Literature Review

2.1 Accounting Quality

Hilton and O'Brien (2009) pointed out that the measurement of fair value in a company largely depends on the judgment of the management and needs the decision-making of the management. When managers (agents) obtain company information, the information owned by the manager is not equal to that of shareholders (principals), Managers may take advantage to reduce the reliability of information (Ramanna & Watts, 2012), resulting in a conflict of interest. Managers can convey information by making credible decisions, that is, by signalling (Leland & Pyle, 1977), if the managers take independent judgment on the principal-agent problem between different capital providers (Smith & Warner, 1979) and the separation of company risk-taking, decision-making and control (Fama & Jensen, 1983), these will produce conflicts. Managers can use discretion in fair value accounting to provide private information reliably. Such earnings management will get positive results. So it is assumed that agency theory is an important theoretical basis for the study of earnings management.

According to the research of Callao and Jarne (2010), the application of accounting standards can inhibit the misrepresentation of accounting information. There are many discussions about the flexibility of accounting standards and the tendency of financial statements to be manipulated. With different results (JeanJean & Stolowy, 2008), some authors believe that IFRS can repair the differences caused by the differences in accounting regulations in different countries (Ball & Wu, 2003; Dao, 2005). Other researchers believe that IFRS, contrary to the disclosure required by local accounting standards, aggravates information asymmetry (Healy & Palepu, 2001). Some researchers believe that IFRS can effectively improve information asymmetry, but the improvement of accounting information quality is not significant (Kao & Wei, 2014).

2.2 Impact of Convergence with IFRS on Accounting Quality

The goal of IFRS is to establish a high-quality, transparent and comparable financial statement through a unified accounting standard. Therefore, the empirical study on the effect of IFRS in different countries should not be the same from the perspective of a large number of countries.

Some research from different countries and regions on the impact of the adoption of IFRS on accounting information, earnings and value relevance draw different conclusions (Bartov et al., 2005; Bagaeva, 2009).

According to Ewert and Wagenhofer (2005) model, strict accounting standards will be determined by the changes between the reported earnings and the value relevance, to improve the earnings quality of the company. Therefore they concluded that a high-quality financial report will usually curb the emergence of earnings management and increased accounting quality. It was supported by Navarro and Guijarro (2014), who also concluded that the convergence to IFRS reduces earnings management. In other non-emerging markets, such as the study of Brazil and France found that earnings management decreased or did not increase after the convergence toward IFRS (Pelucio-Grecco et al., 2014).

Convergence with IFRS and Accounting Quality in China

In recent years, there have been many related studies on China's convergence to IFRS. Many articles generally found that the convergence of CAS to IFRS is necessary and have a positive impact, such as Wang et al. (2017) pointed out that China's approach to convergence uses a gradual convergence approach that begins with relatively easy standards and then completes the relatively difficult standards. The root cause of convergence is to make accounting standards better suited to the needs of market economy development. Xiao et al. (2017) found that convergence should adapt to the development of the country and refer to the actual accounting situation in China so that to make the revised accounting standards develop towards the favorable side of the Chinese economy

In 2018, IFRS 9 - Financial Instruments, is fully forced in China. The new standard has had a major impact on China’s insurance industry. This impact is mainly reflected in financial statements, financial systems, and the operating model of insurance companies. In addition, the impact of the IFRS 17 - insurance contract on the income statement was also studied in the article on changes in the insurance industry. By comparing the insurance company's income statement before and after the use of IFRS 17， Chen et al. (2019) analyze the specific changes of the related subject found that there were inflated cases in some subjects under the previous standards. Under the adjustment of IFRS 17, the operating income has a significant decline compared with the previous standard. This makes the insurance company's final financial statements much clearer and more transparent, meanwhile promotes the basic business structure of life insurance companies to the protection type. To cope with the impact of this change on the company's income statement, the insurance company is bound to optimize its internal structure by providing more guaranteed products and services (Zhou 2018). It also makes the company's operating income more in line with the principle of accrual basis.

However, Hou et al. (2014) claimed that after the convergence of IFRS in China, the reflection of management's discretion leads to the increase of earnings management and the decrease of accounting conservatism. Wu and Liu (2014) also supported that the level of earnings management of non-financial listed companies in the A-share capital market in China did not decline, but increased significantly.

Convergence with IFRS and Accounting Quality in Malaysia

For studies in Malaysia, Reported by Wan Adibah Wan Ismail et al. (2013) convergence to IFRS is related to the accounting quality. They studied this relationship among 4,010 observations over three years, they separated the period into before convergence periods and after convergence periods. With the convergence to IFRS, firms presented a better accounting quality. A decrease in earnings management practice was found in the period after convergence periods. Fourati and Ghorbel (2017) further studied a sample of 3,340 firm-year observations and found that earnings management practices were reduced in the partial convergence period. However, the effect became restrictive after full convergence to IFRS, Because the construction industry covers multiple accounting periods, its special financial reporting standards make researchers choose to research construction companies under the main board of Bursa Malaysia. In the construction industry, a large number of current assets are needed to operate, resulting in a large number of accruals. After adopting IFRS, the Malaysian construction industry issued MFRS 111, which shows that there is a significant relationship between management and earnings management levels of construction companies a few years after the adoption of IFRS. The level of earnings management reported by Malaysian construction companies has indeed decreased, and the adoption of international accounting standards and corporate governance practices have improved the company's accounting quality (Abdullah et al., 2018).

2.3 Hypotheses

Based on the above-mentioned discussions, we hypotheses the followings.

H_1: Malaysian PLC (Fully-Converged with IFRS) have a higher accounting quality as compare with Chinese PLC (Non-Fully Converged with IFRS)
H_2: There is a relationship between SIZE and accounting quality
H_3: There is a relationship between LEVERAGE and accounting quality
H_4: There is a relationship between ROA and accounting quality
H_5: There is a relationship between GROWTH and accounting quality
H_6: There is a relationship between LAGLOSS and accounting quality
H_7: There is a relationship between DISSUE and accounting quality
H_8: There is a relationship between EISSUE and accounting quality

3. Discussion and Conclusion

3.1 Sample Selection and Data Collection

This study focuses on the comparison of the quality of consolidated financial statements of PLC in China and Malaysia after Malaysia fully convergence with IFRS. The data consists of annual observations, and cover the period from 2013 to 2019. The sample period selected provides a focus on Malaysia achieved full convergence with IFRS by 1st January 2012. While until 2019, although the convergence of CAS to IFRS in China has achieved remarkable results, the convergence equivalence has not been completed. The financial data will be gathered from the Bloomberg database.

The data from China of this research begins with all A-share companies listed on the Shanghai stock exchange and Shenzhen stock exchanges. We focus on the A-share market because it is the main investment channel through which foreign institutional investors invest in China and because its total market capitalization is twenty times larger than that of the B-share market. While Malaysian PLCs data referred to PLC listed on the main market of Bursa Malaysia. This study will exclude firm-year observations with missing data and delete observations with negative book values. These PLCs were further filtered to exclude financial and insurance institutions. Then, divide them into two groups, Malaysian PLC (Fully-Converged to IFRS (FC)), and Chinese PLC (Non-Fully Converged to IFRS (NFC)) respectively. Full samples from both groups consist of 2510 PLC and 17570 observations. Group FC consist of 420 PLC with 2946 observations and Group NFC consist of 2090 PLC with 14204 observations.

3.2 Model Specification

3.2.1 Dependent variable (DV)

To achieve the purpose of this research, this research will develop a model to test the impact of IFRS convergence on the accounting quality of both countries. Accounting quality decrease as earnings management increase and vice versa. Earnings management will be the dependent variable and various independent variables in the process of China and Malaysia convergence with IFRS, and earnings management is proxy through, absolute discretionary accruals (ABSDACC). Although there are three mainstream pricing models for earnings management. However, Dechow and Schrand (2009) discovered that more than 70% of companies involved in earnings manipulation announced by the Securities and Exchange Commission （SEC） were income-based earnings management, therefore by using modified Jones model to calculate ABSDACC for each year from 2013 to 2019. First, estimate the total accruals for each observation base on the formula of TACC = NI (net income) – CFO (operating cash flow). Next, compute the degree of non-discretionary accruals (NDACC) for every observation and follow the equation stated below:

$$\frac{NDACC_t}{A_{t-1}} = \hat{\alpha}_1 \frac{1}{A_{t-1}} + \hat{\alpha}_2 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \hat{\alpha}_3 \frac{PPE_t}{A_{t-1}} \tag{1}$$

Where NDACCt = non-discretionary accruals in year t; At–1= total assets in year t–1; ΔREVt = change in revenue in year t; ΔRECt = change in accounts receivable in year t; and PPEt = gross property, plant, and equipment in year t; $\alpha 1$; $\alpha 2$; and $\alpha 3$ = Parameters to be estimated, namely alphas; εt = Residuals in year t.

Discretionary accrual (DACC) can be calculated by taking total accrual (TACC) minus non-discretionary accruals (NDACC). Which is:

DACC = TACC – NDACC

All the variables are divided by the previous year (t-1) total assets to solve for heteroscedasticity problem. Therefore, the estimation of DACC is the error term in the regression equation i.e. εit. To compute DACC, the total accrual for every observation has to be computed, as stated above. Then the degree of NDACC for every observation can be formed by selecting co-efficient estimates ($\alpha 1$; $\alpha 2$; and $\alpha 3$) as stated in equation 1.

3.2.2 Independent Variable (IV)

IFRS Convergence (CONVERGE)

A dummy variable is used as a measurement of IFRS convergence. The dummy variable was coded as “1” for the Malaysian PLC (Fully-converged with IFRS) and “0” for the Chinese PLC (Non-fully-converged with IFRS).

Malaysian PLC (Fully-Converged with IFRS) = 1

Chinese PLC (Non-Fully-Converged with IFRS) = 0

Company Size (SIZE)

The bigger size of the companies the higher the tendency for companies to practice earnings management (Burgstahler & Dichev, 1997). However, Warfield et al. (1995) found that the larger the company size the lower the degree of earnings management practice. Therefore, the impact of company size on the degree of earnings management practise is ambiguous. Company size will be measured by:

SIZE = Natural Log of total assets

Capital structure (Leverage (LEV))

According to Groppelli and Nikbakht (2006), a company finance their assets by issuing debt is called debt financing and it may increase the company financial leverage. And this company is therefore known as a levered company. The higher the leverage of the company the higher the tendency for the company to practice earnings management. Rossi (2007), and Singh and Upneja (2008) discovered that leverage is being employed as a proxy of financial distress. Leverage is the degree to which an investor or business is utilizing borrowed money. Firms with a higher degree of leverage face higher chances of being the default. Therefore, have a higher probability to incur financial problems. Consequently, high leveraged firms have more incentives to practice earnings management. Many previous researchers have chosen different indicators to represent the company financial leverage, According to Ross et al.(2013), leverage can be measure by total debt ratio, total debt-to-equity ratio, and equity multiplier ratio. Therefore, this research chooses the total debt ratio with the formula:

LEV = Total Liabilities / Total Assets

Profitability (Return on assets (ROA))

Earnings management practice and profitability have a negative correlation. (Freeman et al, 1982). It is supported by Gay et al. (2011), companies declared high profitability may be less likely to face financial distress problems. Thus, there is no reason against the use of earnings management. According to Hessayri and Saihi (2015), ROA is a measure of a firm's financial performance (profitability). The formula that is frequently used is:

ROA = Net profit / Total Assets

Earnings Growth (GROWTH)

Kuo et al. (2014) discovered that a high growth company is positively associated with earnings management practice. The market may have high expectations of high growth companies, which caused the companies to have a higher tendency to manipulate the data of financial reports (Skinner & Sloan, 2002).

GROWTH = Δ Earnings before Interest and Tax (ΔEBIT)

Prior Year Loss (LAGLOSS)

This is a risk variable to measure the profitability in the previous period. If companies reported a loss in the last year period, companies have less incentive to use earnings management and vice versa (Francis and Yu, 2009). It is expected a negative association with earnings management practice. A dummy variable is used as a measurement of LAGLOSS dummy variable was coded as:

If in the period t-1 net profit takes a negative value = 1

If in the period t-1 net profit is non-negative = 0

Change in Company Debt (DISSUE)
The relationship between corporate debts and earnings management will be positive. Watt and Zimmerman (1990) supported that companies using more debt may have more incentive to practise earnings management. It may be measured by:

DISSUE = Δ Total Liabilities

Change in Company Shares (EISSUE)
Based on the model developed by Barth et al. (2008), this research included the percentage change in ordinary shares outstanding in the model. And it is expected a positive association with earnings management practice. It is measure by:

EISSUE = Δ Ordinary shares outstanding

Table 1: Summary of the proxy variables, symbols and their expected relationship with earnings management practice

Variables	Proxy	Symbol	Relationship with DV
Earnings management (Dependent variable)	Absolute Value of Discretionary Accruals	ABSDACC	--
IFRS Convergence	Dummy Variables	CONVERGE	Positive/ Negative
Company Size	Natural Log of Total Assets	SIZE	Positive/ Negative
Capital structure	Leverage	LEV	Positive
Profitability	Return on Assets	ROA	Negative
Growth	ΔEBIT	GROWTH	Positive
Prior year loss (Risk)	Dummy Variables	LAGLOSS	Negative
Change in Company Debt	Δ Total Liabilities	DISSUE	Positive
Changes in Company Shares	Δ Ordinary Shares Outstanding	EISSUE	Positive

3.2.3 Regression Model
Based on the above equation and methods, ABSDACC can be calculated by taking TACC-NDACC. Within the test framework of hypotheses, this research explores the different effects of the convergence to IFRS on accounting quality in China PLC and Malaysian PLC. By following the model of Malofeeva (2018), the final regression model has been developed as follows:

$$ABSDACCit = \beta_0 + \beta_1 CONVERGEit + \beta_2\, SIZE_{it} + \beta_3\, LEV_{it} + \beta_4\, ROA_{it} + \beta_5\, GROWTH_{it} + \beta_6\, LAGLOSS_{it} + \beta_7\, DISSUE_{it} + \beta_8\, EISSUE_{it} + \varepsilon_{it}$$

Where:
ABSDACC = absolute value of discretionary accruals
β 0 = constant
β 1 – β8 = coefficient
CONVERGE = a dummy variable with a value of 1 if Malaysian PLC (Fully-Converged with IFRS) and 0 if Chinese PLC (Non-Fully Converged with IFRS)
SIZE = company Size
LEV = leverage
ROA = profitability
GROWTH = percentage change in earnings before interest and tax
LAGLOSS = a dummy variable with a value of 1 if a company reports a net loss in the previous year, and 0 otherwise
DISSUE = percentage change in company debt
EISSUE = percentage change in company shares
ε = Error Term

3.3 Results and Discussion

3.3.1 Descriptive Analysis

Two groups being formed, there are Fully-Converged PLC (FC) in Malaysia, and Non-Fully Converged PLC (NFC) in China respectively. The total of both groups showed the descriptive statistics for the full sample of 2510 PLC and 17570 observations. Group FC consist of 420 PLC with 2946 observations and Group NFC consist of 2090 PLC with 14204 observations. Table 2 presented the comparison of the mean and standard deviation between PLC with full convergence to IFRS (Malaysian PLC) and PLC without full convergence to IFRS (Chinese PLC). From the results shown in Table 2, the PLCs in FC groups are characterized by smaller size, lower leverage, higher profitability, lower negative earnings growth and more frequent prior-year loss cases. The mean value of percentage changes in total liabilities of the NFC group is higher than the FC group with a standard deviation much higher than the mean. It can be concluded that there is more variability in its mean. While looking at percentage changes in shares of PLC, the FC group have a higher mean value than the NFC group. Table 2 also indicate that both groups also have a positive absolute value of discretionary accruals (ABSDACC) a proxy for earnings management practice, meaning that both groups are practising earning management after IFRS convergence. The mean value of (ABSDACC) for the FC group is higher (0.2211) as compared to the NFC group (0.0856). This result was consistent with the previous studies by Callao and Jarne. (2010) and Hou et al. (2014) that convergence to IFRS increase incentive to use earnings management, consequently reduced accounting quality.

Table 2: Descriptive Statistics

	Mean		Standard Deviation	
	Fully converged PLC in Malaysia (FC)	Non-Fully converged PLC in China (NFC)	Fully converged PLC in Malaysia (FC)	Non-Fully converged PLC in China (NFC)
ABSDACC	0.2211	0.0856	0.2893	0.3777
SIZE	6.3132	8.5386	1.4843	1.3630
LEV	0.3733	0.4512	0.1890	0.3794

ROA	3.1976	1.9018	17.2244	1.9018
GROWTH	-0.0882	-0.1575	10.2799	19.0409
LAGLOSS	0.2400	0.1100	0.4280	0.3120
DISSUE	26.5629	63.2657	329.4383	2922.8209
EIISUE	0.4099	0.0640	18.4110	0.4919

Table 3: Pearson Correlation Coefficients

	ABSDACC	CONVERGE	SIZE	LEV	ROA	GROWTH	LAGLOSS	DISSUE	EISSUE
ABSDACC	1								
CONVERGE	0.138**	1							
SIZE	-0.174**	-0.515**	1						
LEV	0.038**	-0.082**	0.222**	1					
ROA	0.011	0.015	0.037**	-0.749**	1				
GROWTH	0.003	0.001	0.016*	0.003	0	1			
LAGLOSS	0.123**	0.146**	-0.210**	0.120**	-0.207**	-0.031**	1		
DISSUE	0.564**	-0.005	0	0	0.003	-0.031**	-0.005	1	
EISSUE	0.013**	0.017*	-0.014	0.005	-0.005	0.001	0.018*	0.002	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Notes: ABSDACC is the absolute value of discretionary accruals; CONVERGE a dummy variable with a value of 1 if Malaysian PLC (Full-Converged with IFRS) and 0 if Chinese PLC (Non-Fully Converged with IFRS); SIZE the natural logarithm of total assets; LEV is the total liabilities divided by total assets; ROA the net profit divided by total assets; GROWTH the percentage change in earnings before interest and tax; LAGLOSS a dummy variable with a value of 1 if company reported a net loss in previous year, and 0 otherwise; DISSUE the percentage change in company debt; EISSUE the percentage change in company shares.

3.3.2 Pearson Correlation Coefficients

The Pearson correlation coefficients between the dependent and the independent variables were analysed in Table 3. The results presented in Table 3 showed that ROA was highly correlated with LEV (0.749). It may be because most of the profitable PLC are used more leverage to magnify their return. There was a moderate correlation between SIZE with CONVERGE (-0.515) and DISSUE with ABSDACC (0.564). Other than that, the correlations were weak or no relationship between these variables. From Table 3, results showed that IFRS convergence has a positive correlation with the ABSDACC (earnings management practice) and all the independent variables, except for SIZE, LEV and DISSUE. The ABSDACC (earnings management practice) are also positively correlated with the independent variables except for SIZE.

Table 4: The Results of the Regression

Dependent Variable: ABSDACC

	Coefficients	Std. Error	t-statistic	p-value
(Constant)	0.326***	0.014	23.211	0.000
CONVERGE	0.044***	0.007	6.411	0.000
SIZE	-0.043***	0.002	-24.781	0.000
LEV	0.232***	0.010	23.072	0.000
ROA	0.002***	0.000	21.351	0.000
GROWTH	0.001***	0.000	4.299	0.000

LAGLOSS	0.105***	0.007	15.488	0.000
DISSUE	0.000	0.000	1.128	0.259
EISSUE	0.000***	0.000	95.008	0.000
R-squared	0.380			

*** denotes significance at the 1% level.

Notes: ABSDACC is the absolute value of discretionary accruals; CONVERGE a dummy variable with a value of 1 if Malaysian PLC (Full-Converged with IFRS) and 0 if Chinese PLC (Non-Fully Converged with IFRS); SIZE the natural logarithm of total assets; LEV is the total liabilities divided by total assets; ROA the net profit divided by total assets; GROWTH the percentage change in earnings before interest and tax; LAGLOSS a dummy variable with a value of 1 if the company reported a net loss in the previous year, and 0 otherwise; DISSUE the percentage change in company debt; EISSUE the percentage change in company shares.

3.3.3 Regression Analysis

Table 4 presented the results for testing Model (2). From the results shown in Table 4, this model is statistically significant and with an R-square of 0.38. According to Cohen (1992), R-square value 0.12 or below indicate low, between 0.13 to 0.25 values indicate medium, 0.26 or above values indicate high effect size. Therefore, this model contains good predictive power.

Model (2) trying to test Hypothesis 1 on whether the fully-converged group (Malaysian PLC) show a higher accounting quality as compare to the non-fully converged group (Chinese PLC) after Malaysia achieved full convergence with IFRS. As stated in Table 4, it can be found that the IFRS convergence (CONVERGE) has a significant at 1% confidence intervals and positive coefficient (0.044, p-value 0.000) showing that Malaysian PLC with full convergence to IFRS practising a higher earning management activities (ABSDACC) therefore lower accounting quality as compare to Chinese PLC (non-fully converge).

Furthermore, there is a statistically significant positive correlation between the ABSDACCC with LEV (0.232), ROA (0.002), GROWTH (0.001), LAGLOSS (0.105). All are significant at 1% confident intervals. According to Table 5, the result showed a positive relationship between ABSDACC and LEVIit is consistent with the prediction. Higher leverage PLC has a higher incentive to use earnings management strategies. ROA has a significant low positive correlation with ABSDACC, which contradicts with prediction. It may be due to some of the profit-making PLC tend to practice income smoothing strategy to reduce the volatility of income and share price and to maintain their good reputation and image. The results also confirmed that the relationship between ABSDACC with GROWTH is positive which is consistent with the market expectation whereby higher growth PLC have a higher degree of misstating the accounting figure. The coefficient of LAGLOSS is positive, it is not consistent with the prediction. PLC that announced negative net income (loss) in the prior-year period are more desperate to improve their financial performance and position therefore they tend to manipulate their accounting report figure to make it more favourable. SIZE variable is negatively associated with ABSDACC (-0.043) with the p-value of 0.000 which is significant at a 1% confidence interval. The negative correlation between ABSDACC with SIZE demonstrated that bigger PLC has less tendency to practice earnings management as compare to smaller PLC. EISSUE (0.000) is significant at a 1% confident interval and DISSUE also (0.000) but insignificant. Both also reported no relationship with ABSDACC.

Table 5: Summary of the Statistical Results

Dependent Variable: ABSDACC

Independent Variable (IV)	Predicted signs between IV and earnings management	Relationship between IV and earnings management	Relationship between IV and accounting quality	Significance Level
CONVERGE	+/-	Positive	Negative	1%
SIZE	+/-	Negative	Positive	1%
LEV	+	Positive	Negative	1%
ROA	-	Positive	Negative	1%
GROWTH	+	Positive	Negative	1%
LAGLOSS	-	Positive	Negative	1%
DISSUE	+	No relation	No relation	-
EISSUE	+	No relation	No relation	1%

3.4 Summary and Conclusion

Since many current studies reported an increase in the propensity to lower the accounting quality due to IFRS convergence, the practical significance lies in the fact that these results should be taken into consideration by investors in making decisions based on IFRS reporting; the existing and potential investors should consider for the risk of disclosing inadequate information in such statements. According to Capkun et al. (2012) and Doukakis (2014), much research reported in the literature regarding this practice is mixed and inconclusive. This may be due to the different economies studied or the methodology used. Many research more focus on the developed economies; and less focus on emerging economies (Ahmed et al., 2013; Barth et al., 2008; Capkun et al., 2012).

This study focuses on emerging economies; Malaysia and China, to examines whether Malaysian PLC (fully converge to IFRS) could achieve better accounting quality as compare with Chinese PLC (non-fully converge to IFRS) or otherwise. Full samples of both groups consist of 2510 PLC and 17570 observations. Group FC consist of 420 PLC with 2946 observations and Group NFC consist of 2090 PLC with 14204 observations. This research used of the Modified Jones model to estimate ABSDACC as a proxy for earnings management practice. Accounting quality decrease as earnings management increase and vice versa. To achieve the purpose of this research, this research developed a model to test the hypotheses.
Base on Table 5, a summary of the results, it became clear that the nexus between ABSDACC (earnings management practices) and CONVERGE (IFRS Convergence) is positive and statistically significant. . Hence, the result for the first research objective is the Malaysian PLC with full convergence to IFRS practising a lower accounting quality as compare to Chinese PLC (non-fully converge). This result is not consistent with Ewert and Wagenhofer (2005), Navarro and Guijarro (2014) and Pelucio-Grecco et al. (2014). However, it is consistent with Callao and Jarne. (2010), and Kousay (2019). According to Kousay (2019), Principle-based standards provide space for managers to use professional judgment in financial reporting, which has a positive effect on earnings management. Furthermore, transparency disclosure motivated PLC to manipulate the accounting reports to make them more favourable.

Based on PLCs' characteristics variables used in the regression, from table 5, the result showed that firms' size (SIZE) is statistically significant negatively related to earnings management. Therefore, a bigger PLC may achieve a higher accounting quality. This is consistent with the finding by Warfield et al. (1995). This means that bigger PLC finds it difficult to manipulate earnings. It may be due to big PLC usually appoint large audit firms like Big Four firms and they are monitored closely by the financial analysts and public. As refer to Table 5, variables leverage (LEV), earnings growth (GROWTH), profitability (ROA) and prior year loss (LAGLOSS) are significantly positively correlated with earnings management (ABSDACC). Hence, consistent with Rossi (2007), and Singh and Upneja (2008) higher leveraged PLC have a higher probability to incur financial problems, lower accounting quality and more incentives to practice earnings management. High growth PLC has lower accounting quality, which is consistent with Kuo et al. (2014) and Skinner and Sloan (2002). The market may have high expectations on high growth PLC. Therefore, high growth PLC has a higher tendency to manipulate the data of accounting reports to look favourable. The result for variable profitability (ROA) contradicts with prediction. Inconsistent with the finding from Freeman et al. (1982) and Gay et al. (2011). It may be due to some of the profit-making PLC tend to practice income smoothing strategy to reduce the volatility of income and share price and to maintain their good reputation and image. Similarly, the result from the variable prior-year loss (LAGLOSS) is not consistent with the prediction. It is inconsistent with Francis and Yu (2009). PLC that announced a net loss in the prior-year period are more desperate to improve their financial performance and position therefore they tend to manipulate their accounting report figure to make it more favourable. Hence, these PLC are having lower accounting quality. Considering the relationship between and percentage change in company shares (EISSUE) with earnings management on the capability of PLC to obtain fund in capital markets. Variable EISSUE is significant but has no relation with accounting quality. This is inconsistent with Barth et al. (2008), while variable percentage change in company debts (DISSUE) is insignificant and has no relation with earnings management. Which is also not align with the literature. Inconsistent with the finding from Watt and Zimmerman (1990). It is implied that the management of the PLC does not manipulate accounting profit to affect the prices of shares and the opportunity of raising long-term capital from capital markets.

3.5 Limitation

The first limitation is this research only focus on accruals-based earnings management and ignored real earnings management due to real earnings management is difficult to measure. Therefore, the result may be different when real earnings management is included. The second limitation is this research considers only one method which is the Modified Jones Model to estimate the accrued-based earnings management. It is better to apply the more alternative model.

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