

### 3. Methodology

#### Reporting Practices

Our analysis is restricted to a review of the financial disclosures (and where relevant, accounting treatment) examined in Rahman (1998);<sup>3</sup> and inclusion of additional disclosures contained in International Accounting Standards issued since the end of 1997<sup>4</sup> and in force as at December 2001. We have included disclosures required by four new international standards within this period, i.e. IAS 35, 36, 38 and 39. Each has implications for improving the understanding of the financial performance and condition of companies in general, and for those in the Asian region in particular. IAS 35 “Discontinuing Operations” and IAS 36 “Impairment of Assets” improve the transparency of financial statements for companies potentially subject to financial distress. Furthermore, IAS 38 “Intangible Assets” is likely to highlight deficiencies in capacity to support debt especially for a firm in financial distress. Finally, IAS 39 extends the disclosure requirements for financial assets and liabilities carried at fair values, supplementing disclosures already contained in IAS 32 “Financial Instruments: Disclosure and Presentation”.

#### Information Collection and Coding

The survey form prepared to collect information for each country is reproduced in Appendix A. In completing the survey instrument, each item is coded ‘Present’, ‘Absent’ or ‘Not Applicable’. Distinguishing between ‘absent’ and ‘not applicable’ is problematic yet important when determining the levels of compliance with a particular item. Consider how compliance rates will vary using two alternative assumptions: first, a reporting requirement applies equally to all sample companies; second, a reporting requirement does not apply to a particular company.

Using IAS 14 Segment Reporting for demonstration purposes and applying the first assumption, the researcher would code an item as ‘absent’ (shown in the table below as “Absent’ treated as non-compliance”) where there is either no segment reporting information or primary and secondary segment reporting information is not provided. Applying the second assumption, an explicit statement that the company operates in a single geographic segment or in a single business segment, the researcher would code the item(s) as “not applicable” (shown below as “Allowance for Not applicable”).

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<sup>3</sup> Although IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” is post-Rahman the requirements on contingent liabilities were transferred from IAS 10 and studied by Rahman.

<sup>4</sup> This is the closing date used by Rahman.

## Alternative assumptions in coding compliance for segment information

<i>Segment Information</i>	<i>'Absent' treated as non-compliance</i>	<i>Allowance for not applicable</i>	<i>Rahman (1998)</i>
Industry* segments described	78	85	30
Geographical segments described	44	48	7
Sales revenues of each of the segments, amount disclosed	77	84	30
Operating results of each of the segments, amount disclosed	70	76	30
Segment assets employed, amount disclosed	74	81	27
Inter-segment sales, amount disclosed	25	27	11

Obviously, overall compliance based on the first assumption will be biased downward relative to the second assumption. In this study, the maintained assumption of universal applicability is relaxed if information contained in the audited statements warrants coding as 'not applicable'. Empirically, in this example under either assumption the level of compliance with reporting segment information has more than doubled since Rahman (1998). Nevertheless, in the light of judgement exercised in the coding process, care should be exercised in drawing conclusions about the status of financial reporting in 2001 in the East Asian region.

### Sampling

In selecting companies for inclusion in the survey we have restricted our sample to the twenty largest (by market capitalisation) listed corporations<sup>5</sup> in each of the five East Asian countries examined by Rahman (Indonesia, Korea, Malaysia, Philippines and Thailand). Furthermore, companies are only included in the sample where English translation financial statements for 2001 are available. The final sample consists of 73 companies<sup>6</sup>. Table 1 lists the companies in alphabetical order by country. Also, we limit our analysis to the audited financial statements and the notes thereto. This limitation is consistent with the reporting of financial information contained in accounting standards.<sup>7</sup> However, some disclosures such as firm policy on interest rate, credit, foreign currency and financial derivatives and other risk factors may be contained elsewhere in the annual report. Likewise, information on business or geographic segments to support audited disclosures may be contained in management discussion and analysis.

<sup>5</sup> Unlike Rahman, banks and other financial institutions are excluded because financial institutions typically are subject to industry specific regulation, which is problematic when attributing compliance to IASs. That is, banks may face additional or different requirements. Furthermore, there is likely to be differential applicability of selected accounting standards across a sample of corporations and banks. For example, financial instruments and derivative financial instruments would be expected to dominate financial reporting issues facing the banking sector.

<sup>6</sup> Note, Rahman' sample consisted of 39 companies (Indonesia 5, Malaysia 7, Philippines 14, Korea 3 and Thailand 10) and 34 banks for a total of 73 entities.

<sup>7</sup> IAS 1 "Presentation of Financial Statements" paragraph 45 states

International Accounting Standards apply only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using International Accounting Standards from other information, which may be useful to users, but is not the subject of Standards.

