

THE IMPLICATION AND EFFECT OF EXPENSING EMPLOYEE STOCK OPTION SCHEME (ESOS) IN PROFIT AND LOSS ACCOUNT

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ABSTRACT

This study is motivated by the controversy surrounding the issue of accounting for Employee Stock Option Scheme (ESOS). Since there is no accounting standard in Malaysia but International Accounting Standards Board issued an Exposure Draft in 2002. The exposure draft recommends that ESOS be recognized as an expense in the profit and loss account, based on vesting date recognition and measurement fair value. Therefore, the most controversial issue is whether ESOS is an expense that should be recognized in determining net income. Thus, the researcher conducts a study to explore accounting treatment of ESOS. Meanwhile, the impact on reported earnings after expensing ESOS in the profit and loss account had been examined as well. The sample of this research should ideally be 40 Malaysian listed companies. The 40 sample firms selected from 4 industries (10 companies for each industry) which are finance, technology industry, industrial product industry and trading/ services industry. In order to conduct this research effectively, pair sample t-test had been conducted. This test is to find out the relationship before and after adopting the proposed accounting treatment of ESOS. Through statistical testing, the researcher concludes that in Malaysia, none of the sample firms adopted the proposed accounting treatment of ESOS. Besides that, most of the sample firms agree on adopting the proposed accounting treatment of ESOS. The findings of the study assist the professional accountant and MASB make sound decision before adopting the proposed accounting treatment of ESOS. It is very crucial for a company to establish a proper accounting treatment of share-based payment in Malaysian listed companies in order to present a truth and fairness of financial statement to shareholder.