DOES THE IMPLEMENTATION OF MALAYSIAN PRIVATE ENTITY REPORTING STANDARD (MPERS) FOR SMEs AN ADDED VALUE FOR FINANCIAL REPORTING IN MALAYSIA?

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ABSTRACT

The objective of the research is to analyze does the implementation of the MPERS for SMEs bring in value added to the financial reporting in Malaysia. The research used the descriptive analytical method to answer the questions and test the research hypotheses. By testing the hypothesis using the SPSS, the study used the theoretical aspect of the previous studies as the basis and analyzed the results of the applied study. A set of questionnaires using a sample of 118 respondents was distributed consists of accounting practitioners working in the financial departments of the SMEs in Malaysia. They are comprising of accountants, auditors, tax managers and financial controller. The results of the study designated that the implementation of the MPERS has many benefits in which directly improving the financial reporting quality, provide sufficiency information to the users and in the financial reports the level of disclosure and transparency will be increase. Thus, the study shows that all the SMEs shall adhere with the MPERS to enhance the financial reporting quality to gain investor confidence.

Keywords: Financial Reporting, SMEs, Malaysia, Disclosure.

INTRODUCTION

Small and Medium Enterprises (SMEs) in Malaysia have very momentous role in the development of economy. Malaysia economics fate does rely on the success of Small and Medium Enterprises (SMEs). SMEs is important because currently, over 7 million jobs provided by SMEs to 66.2% of Malaysia's workforce. From all business establishment in Malaysia, 98.5% are SMEs and in 2019, SMEs sector contributed 38.3% to overall nation's gross domestic product (GDP), 66.2% to overall employment in 2018 and 17.3% of total exports (SME Annual Report, 2018/2019).

MPERS implementations would typically relate with strengthen accounting quality and result in more value-added accounting information that is suitable for MPERS (Jamil & Rusli, 2021). The implementation of MPERS is that it enhances financial reporting quality. Nonetheless, the key problem raises in most previous literature is how this consistency can be operationalized and measured. The financial report must be relevance, timeless, understandability, comparability, and reliability to achieve high quality level of financial reporting. One study by Gajevszky (2015) stated, the focus is on transparent financial reporting and not deceptive financial reporting for users, not to mention the importance of accuracy and predictability as high-quality financial reporting measures.

The research objectives of the study are therefore divided into three: 1) to study the impact of the relationship between the implementation of MPERS in SMEs and the enhancement of the standard of financial reporting in Malaysia; 2) to demonstrate the impact of the relationship between the implementation of MPERS in SMEs and the adequacy of knowledge for users of financial reporting, and 3) to explore the impact of the relationship between the implementation of MPERS in SMEs and the improvement level of disclosure in the financial reports.

LITERATURE REVIEW

Malaysian Accounting Standards Board (MASB) has introduced the Malaysian Private Entities Reporting Standards (MPERS), as a new financial reporting framework for private entities, and has revised several standards for non-private entities. Starting on or after January 1st, 2016, all private entities will apply MPERS to their financial statements. MPERS is an IFRS for SMEs published in July 2009 by the International Accounting Standards Board (IASB), with the exception of the criteria for income tax and property development activities. To date, more than 80 countries have adopted or announced the IFRS for SMEs. One study by Aziz et al. (2019) stated that the transition to MPERS was initially faced with recognized problems or difficulties as a factor in the transition to major global taxation systems, Goods and Services Tax (GST), when the idea was introduced and shared globally in 2013.

MPERS is seen as improving the comparability and consistency of the financial statements of local SMEs companies. Aziz et al. (2019) and Jamil & Rusli (2021) published a paper in which they showed that through some customization of the Malaysian business environment, MPERS can ensure that the financial reports and disclosures of SMEs enterprises are reliable and comparable with those of multinational SMEs that have adopted IFRS for SMEs. Specifically, from January 1st, 2017, MPERS will be effective, focusing on private entities covering 35 sections. This is perceived to be like the simpler MFRS and is very different from PERS, so many accounting policy options are no longer available in MPERS.

Aziz et al. (2019) reported most SMEs and small and medium enterprises (SMPs) are micro-enterprises (i.e., approximately 90.5%) and most of the country's revenue comes from these organizations. Therefore, it is necessary to expanded and broadened the emphasis on cash flow and operations in order to expand the emphasis on other issues, such as financial statements, in order to improve the competitiveness of enterprises. A recent study by Jamil et al. (2020) reported that the financial reporting regulatory framework for SMEs is very complex, particularly for SMEs that represent the largest GDP in Malaysia. The benefit of important sectors to the Malaysian economy can be illustrated by the opportunity to reduce the reporting burden. Therefore, the implementation of MPERS is a probable way to simplify and should be evaluated. At the same time, one study by Team (2016) examined the MPERS, with the aim of enabling SMEs to attach importance to financial reporting and disclosure in order to differentiate them from national and global markets. The new standards adopted would allow SMEs and SMPs to better manage their enterprises according to global best practices.

For any debate about the global setting of financial reporting, regulations and accounting standards, the concept of quality is crucial. One of the generally advanced reasons for adopting MPERS is that it improves the quality of financial reports, but the main threat found in most previous literature is how to be operationalized and evaluated this quality. The transition to MPERS will be challenging because of the urgent need for retraining and relearning to make it right (Prochazka, 2017). After all, it is also important to keep up to date with business trends (not so easy from a developer's perspective) by agreeing on the advantages of adopting MPERS. Moreover, the continuous shift in the conceptual framework is also a challenge for developers who need to learn to remain involved and flexible. In addition, the shortage of talents is another challenge because the size of SMEs varies greatly, which limits the ability to seek higher quality accounting services. In contrast, for comparison purposes, MPERS rarely provides detailed information and application guidelines, which will make it very difficult and may jeopardize the advantages of the financial reporting (i.e. comparability) framework. Nonetheless, developers with private enterprise roles are broadly described in positive aspects and not limited to accounting, which may greatly promote the SMPs service market that SMEs have reserved for auditing and other work (Accountants, 2017; Ametorwo, 2016; Yasser et al., 2017).

In a study which set out to determine financial information quality, Vitolla et al. (2020) found that regardless of economic conditions, the quality of financial information is important in the decision-making process. In addition, international organizations such as the World Bank and the International Monetary Fund may be interested in this discovery, whose mission is to help developing and transition economies and improve the living conditions of their citizens (Sy et al., 2017). More efficient investment may lead to better capital and resource allocation and may lead to greater social welfare. In addition, the survey results are also related to the IASB and MASB, which are currently formulating a set of unified accounting standards for all countries including emerging markets. These accounting standards are called IFRS and MPERS, respectively.

According to Albitar et al. (2020), this is a challenging time for those involved in the financial reporting process, considering the changing economic conditions brought by Covid-19 and the new standards adopted in preparing their financial statements MPERS framework. The board of directors is responsible for drafting financial statements in accordance with the 1965 Company Law, and the audit committee plays a vital role in the financial reporting process. By monitoring compliance with financial reports and other legislation, the audit committee should aim to achieve the best governance. At the same time, to enhance the credibility of financial statements, the role of auditors is crucial. According to the approved auditing standards, auditors can conduct audits and should be able to reasonably guarantee that the financial statements are free of material misstatements. For those participating in the financial reporting process, it should not be a burden to comply with financial reporting standards. They should work together to improve the quality of financial reports based on their respective responsibilities and provide users with comprehensive and credible information about the entity’s finances. Members must continue to maintain the financial reporting quality (Garcia Sanchez et al., 2020).

In conclusion, the latest literature provides different results on the adoption of IFRS on a global scale. The purpose of some countries following IFRS is to create comparability, transparency, and tax incentives for other countries. However, no research on the added value of the quality of financial reports implemented by MPERS has been found. The effective adoption of MPERS in various countries depends on its law enforcement supervision mechanism. This may indicate that the adoption of MPERS in countries with weak regulatory frameworks and enforcement mechanisms cannot improve the quality of their financial reports.

PROBLEM STATEMENT

MPERS has been introduced to contribute to the reliable, comparable financial information locally and at international level over the financial reporting quality system. Hence, by providing a standard that are being accepted globally will enable the users to make rational and informed decisions. The main objective of the general financial statements is to contribute the reporting entity with information that is useful to investors, lenders, and other creditors in the entity's decision-making on the provision of resources (MASB, 2014).

Financial reporting quality point out to financial reports which, without the intention of misinform, attempting to confuse or manipulating users, produce financial and non-financial information that is complete and transparent. Previous studies have reported that the financial reporting standard is a broad term that not only refers to financial information, but also to other non-financial information that is useful for decision-making (Herath & Albarqi, 2017). Therefore, the entities of financial reporting quality are important as it affects decisions taken that affect its level of performance in turn. However, it remains uncertain either the objectives of the adoption of MPERS have been accomplished, especially regarding the qualitative characteristics of the financial reports (Osasere & Ilaboya, 2018).

Therefore, it is very significant for the researchers to identify the problem and the usefulness of MPERS implementation on the financial reporting environment of SMEs in Malaysia as the establishment of the standard is merely to enhance the information quality and contribute adequate information to user besides increasing the level of disclosure of the items. Hence, the research questions of the study include 1) Is there any significant relationship between the implementation of MPERS for SMEs and the increase of quality of financial reporting? 2) Is there any significant relationship between the implementation of MPERS for SMEs and the sufficiency of information to the users of financial report? and 3) Is there any significant relationship between the implementation of MPERS for SMEs and the improve level of disclosure level in the financial reports?

The study is significant as this is to reflect the benefits and value added of the MPERS implementation in the financial reporting environment. Furthermore, this study should be the interest of regulators and standard setters in ensuring that the implementation of the MPERS bring in greater benefits to the users of financial reports.

RESEARCH METHODOLOGY

The study used a descriptive approach as based on the literature it is an appropriate method to study human and social phenomena. In addition, the data collection was based on both primary and secondary data. The primary data consists of a questionnaire prepared specifically for the research objective of achieving the required information, and the questionnaire was analyzed using the SPSS statistical program. The hypotheses testing has been conducted to obtain the results. Meanwhile, for the secondary sources comprises of books, publicly available information in websites and periodic information in annual reports.

The sample of the study include around 118 accounting practitioners in the SMEs business. Specifically, they are comprising of accountants, auditors, managers, financial controllers, and tax executives. Initially, the questionnaire was distributed to 120 employees working for SMEs in Malaysia and the questionnaire was answered by only 118 respondents. A five Likert scale anchored scale, which is from (1) which stand for "*Strongly Disagree*", (2) Slightly Disagree, (3) Neutral, (4) "*Slightly Agree*", (5) "*Strongly Agree*" was utilized to elicit participants' response. Table 1 indicates the respondents distribution following their positions, year of experience and qualifications.

Table 1
RESPONDENTS DISTRIBUTIONS

Positions	**Observations**	**Percentage**
Financial Manager	22	18.6
Accountant	33	27.9
Auditor	25	21.2
Financial Controller	20	16.9
Tax executives	18	15.2
Specialization		
Accounting	67	56.8

Management	33	27.9
Finance and Banking	18	15.2
Qualifications		
Diploma	34	28.8
Bachelor	41	34.7
Postgraduate	20	16.9
Professional Qualifications	23	19.5

From Table 1, the sample of respondents have various specialization and position in which they are playing different role when it comes to the implementation of the standard. Hence, with their own expertise, this selection of respondents is suitable for the study to answer the questionnaire. The different level of education that comprises of diploma, bachelor, post graduate and professional accounting qualifications indicate the ability and understandability of the respondents to understand the technical and a non-technical component of the MPERS standard in which the accounting information quality presented in the financial reports is directly affected.

Validity and Consistency Test

The study used a set of questionnaires to achieve its objectives. The questionnaire was developed based on the theoretical of relevant variables and existing literature. Therefore, the questionnaire was tested to test the validity and consistency of the research. Table 2 shows the validity of the questionnaire by running the Pearson correlation coefficient between the total score of each field and the total score of the questionnaire.

Table 2
PEARSON CORRELATION COEFFICIENT

Items		Pearson correlation coefficient
1	There is significant relationship between the implementation of MPERS for SMEs and the increase of financial reporting quality	0.725**
2	There is significant relationship between the implementation of MPERS for SMEs and the sufficiency of information to the users of financial report	0.781**
3	There is significant relationship between the implementation of MPERS for SMEs and the improve level of disclosure level in the financial reports	0.810**

** indicate the significance of the correlation coefficient at level 0.01

The results in Table 2 show the Pearson correlation, highlighting the internal consistency of the variables. The highest correlation coefficient is 0.810, which is significant at the 0.01 level.

In addition n, the Cronbach Alpha correlation coefficient of each field in the list was researched and tested. According to the results, it is shown that all the questionnaires are valid because the range of Cronbach Alpha is 0.756 to 0.884. The results show that all the structural values of composite reliability in the model are greater than 0.70. Therefore, this shows that the questionnaire has an acceptable degree of validity and consistency, which can ensure the application of the research (Santos, 1999) (Table 3).

Table 3
CORRELATION COEFFICIENT OF CRONBACH ALPHA

Number	Variables	Items Number	Cronbach Alpha coefficients
1	There is significant relationship between the implementation of MPERS for SMEs and the increase of financial reporting quality	7	0.884
2	There is significant relationship between the implementation of MPERS for SMEs and the sufficiency of information to the users of financial report	8	0.756
3	There is significant relationship between the implementation of MPERS for SMEs and the improve level of disclosure level in the financial reports	6	0.834

ANALYSIS AND DISCUSSION

Hypotheses Testing

The study used a simple linear regression model to test on the hypotheses. There are three hypotheses developed in the study:

H1: There is significant relationship between the implementation of MPERS for SMEs and the increase of financial reporting quality.

H2: There is significant relationship between the implementation of MPERS for SMEs and the sufficiency of information to the users of financial reports.

H3: There is significant relationship between the implementation of MPERS for SMEs and the improve level of disclosure level in the financial report.

In analyzing the hypotheses, this paper constructed the following regression equation:

$$MPERS = \beta 0 + \beta 1FRQ + \beta 2INFO + \beta 3DISCLOSURE + \varepsilon it$$

Where MPERS= implementation of MPERS, FRQ= the increase of financial reporting quality, INFO= sufficiency of the information in financial reports, DISCLOSURE= level of disclosure and ε = error term.

Table 4
ANALYSIS OF LINEAR REGRESSION

Model	Unstandardized Coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
Constant		0.429		5.037	0.000
FRQ	0.489	0.089	0.381	5.506	0.000**
INFO	0.527	0.099	0.371	5.340	0.000**
DISCLOSURE	0.410	0.141	0.213	2.911	0.004**

****** indicates the significance level at 0.01

The results in Table 4 show the significance of the simple linear regression model implemented by MPERS on the relationship between FRQ, INFO and DISCLOSURE. As shown in the coefficient results, all three main predictors show significance when p-value <0.05. All critical ratios (t values) were significantly 0.05 or 0.01, respectively (Table 5).

Table 5
MODEL SUMMARY AND ANOVA

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	6.841	3	2.280	13.117	0.000[b]
	Residual	30.772	177	0.174		
	Total	37.613	180			
a. Dependent Variable: MPERS						
b. Predictors: (Constant), FRQ, INFO, DISCLOSURE						

Table 6
COEFFICIENTS

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	3.195	0.261		12.236	0.000
	FRQ	0.184	0.067	0.237	2.757	0.006
	INFO	0.142	0.061	0.201	2.306	0.022
	DISCLOSURE	0.042	0.038	0.081	1.124	0.043
	R-square	0.45				
	F-statistic	53.356**				
a. Dependent Variable: MPERS						

On the other hand, the study tested the regression between FRQ, INFO, and DISCLOSURE to test the robustness of the analysis Table 6. According to the results, the three variables FRQ, INFO and DISCLOSURE all have a significant relationship with MPERS, where FRQ is 0.006, INFO is 0.022, and DISCLOSURE is 0.043. Based on the above assumptions, this assumption can be accepted. For the first half of the year, the relationship between the implementation of MPERS by SMEs and the improvement of financial reporting quality is positive and important. This is consistent with the findings of Iatridis (2010) on the value relevance of IFRS is based on financial statement information. In this report, the implementation of the standard has narrowed the scope of earnings management, leading to more value-related accounting measures. For H2, this assumption can also be accepted because there is a significant statistical relationship between the implementation of MPERS by SMEs and the sufficient information obtained by users of financial statements. MPERS can provide users with sufficient information, and the new standard provides users with greater transparency so that they can make more informed decisions (Tong, 2014). Similarly, for H3, this assumption is acceptable because there is a significant relationship between the implementation of MPERS by SMEs and the increase in the level of disclosure in financial reports. This is important to ensure that MPERS can increase the level of disclosure in financial reports, because more information is needed to enable users to make informed decisions. The value of R-squared is 45%, which determines the explanatory power of the model. Therefore, the survey results show that the implementation of MPERS can increase the value of financial reports by reducing information asymmetry and manipulating returns, which indirectly leads to increased disclosure, so it is very useful for helping investors make fair judgments (Table 7).

Table 7
SUMMARY OF HYPOTHESIS

Hypothesis	Result
a) H1: There is significant relationship between the implementation of MPERS for SMEs and the increase of financial reporting quality.	Accepted
b) H2: There is significant relationship between the implementation of MPERS for SMEs and the sufficiency of information to the users of financial reports.	Accepted
c) H3: There is significant relationship between the implementation of MPERS for SMEs and the improve level of disclosure level in the financial report	Accepted

CONCLUSION

The main objective of the study is to explore whether MPERS implementation has an added value to the financial reporting quality, sufficiency of information and level of disclosure to the SMEs financial report. To provide insight, the current study has run a survey for SMEs in Malaysia within the accounting practitioners. Based on the finding it indicates, all the three variables have significant and positive relationship with the MPERS implementation. The implementation of MPERS has many advantages and benefits as it has become the factor to attract more investment either from domestic or foreign shareholders to increase the growth of SMEs. Hence, with this empirical evidence, it shows that MPERS has fulfilling the need of the users of financial statements of the SMEs. With the implementation of MPERS, it is believed that the degree of confidence and transparency of financial reporting for SMEs in Malaysia has improved. This research has brought significant implications to the practitioners, regulators, and standard setters are working on the ongoing development of the accounting system for SMEs in Malaysia in order to prepare higher financial reporting quality and to take account of the needs of financial information users.

However, there is a need to highlight the limitations of this study. According to Jamil et al. (2020), there are 98.5 per cent business establishments in Malaysia are comprises of SMEs. The number of respondents participating in the current study therefore does not reflect the actual situation of the implementation of MPERS in Malaysia. Future research on the interview process may be explored to gain an in-depth analysis of the actual implementation of MPERS.

Acknowledgement

This study is funded by the Malaysian Ministry of Education for FRGS Funding with Code: FRGS/1/2018/SS01/USIM/02/3 and Universiti Sains Islam Malaysia (USIM) with Code: USIM/FRGS/FEM/055002/51518 (Benchmarking Malaysian Private Entity Reporting Standard in Malaysia in Achieving High Income Nation).

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