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The Impact of Malaysian Private Entity Reporting Standard (MPERS) Adoption on the Value Relevance and Timeliness of Financial Reporting by Small and Medium Enterprises (Smes): A Conceptual Framework

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Abstract
Malaysia has introduced the latest framework of financial report for private entities, which is the Malaysian Private Entity Reporting Standard (MPERS), and for the capital market, it is a very important pillar. This enables the entity to verify its financial statements adhere to all International Financial Reporting Standards (IFRS). MPERS can enable the concentration and comparison of local and foreign enterprises with some adaption to the Malaysian business climate. As a result, the purpose of this study is to analyze the conceptual framework for the impact of the MPERS on the financial reporting quality, relevance, and timeliness of Malaysian Small and Medium Enterprises (SMEs). Furthermore, it will identify the MPERS relationship and the financial reporting quality regarding relevance and value of timeliness. As a result, it will help relevant parties to understand the importance of relevance and timeliness in financial reporting and identify appropriate strategies to educate and add knowledge to accounting practitioners. The findings of this study can attract the interest of relevant parties to set standards and SMEs in Malaysia and other countries.
Keywords: Malaysian Private Entity Reporting Standard (MPERS), Relevance, Timeliness, Small and Medium Enterprises (SMEs), Malaysia

Introduction

In February 2014, Malaysian Private Entity Reporting Standards (MPERS) had been introduced and established by the Malaysian Accounting Standards Board (MASB) for private entities and it set new accountability standards of financial reporting in Malaysia. MPERS is accordance and evolved from the IASB's International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs). All private entities, as well as SMEs, for annual periods starting of beginning on or after January 1st, 2016, are obligated to use MPERS in the preparing and producing of business financial statements (MASB, 2014). The implementation has generated a wide range of perceptions amid market players consist of accounting practitioners, owner of the business, governments, and accounting bodies.

MPERS only applies to private entities. A private entity defined it when the company registered under the Companies Act 2016 (formerly recognized as Companies Act 1965) is not compulsory by the Bank Negara Malaysia or Securities Commission to create or make financial statements in compliance with Malaysian law. A private entity is also not a subsidiary, or jointly operated by, or associate of, an entity that is compulsory to make or prepare financial statements in accordance with the laws administered by the Bank Negara Malaysia or Securities Commission. Private enterprises that do not want to adopt MPERS can instead use and adopt the Malaysian Financial Reporting Standards (MFRS) for their financial report. All private entities that implement either the MFRS or the MPERS standard must ensure that the standard is fully implemented (PWC, 2015).

Currently, SMEs have an option of continuing to apply either the existing framework Private Entity Reporting Standards (PERS), adopting the Malaysian Financial Reporting Standards (MFRS) framework (which is obligatory for all non-private entities except transitional entities), or migrating to the latest MPERS framework, which will be mandatory starting January 1st, 2016 (Jamil and Rusli, 2021). MPERS was the first to adopt the requirements, SMEs should plan ahead in case businesses require to transition to MPERS or MFRS at some point in the future. MPERS is viewed as a business opportunity because it is based on global accounting standards, specifically IFRS for SMEs. MPERS can enable the concentration and comparison of local and foreign business with some adaption to the Malaysian business climate.

MPERS implementation is a critical step in preparing private entities or SMEs for internationalization. Through internationalization, SMEs will be able to generate chances and face major challenges It is critical and essential for Malaysian SMEs to use an international language for financing reporting that is not only updated as well as adaptable to 73 other countries around the world (MASB, 2014). Malaysia's SMEs have performed exceptionally well, surpassing the overall economy. SMEs are important because currently, SMEs employ more than 7 million Malaysians to 66.2 percent of the workforce in 2018. SME Annual Report, 2018/2019 had reported that 98.5 percent of Malaysia's business establishments are SMEs, which represented 38.3 percent of the country's GDP and 17.3 percent of total exports in 2019.

Financial statements have to provide some qualitative characteristics in order to be beneficial to business stakeholders. Financial reporting quality is divided into two categories which are known as fundamental qualitative characteristics and characteristics of enhancing qualitative. Relevance is one of the most fundamental qualitative features. Financial information is considered relevant if it has the ability to influence consumer decisions. MPERS reflects information with relevant qualities as it can affect users' economic decisions by assisting them in evaluating previous, current, or upcoming events, or by correcting or certifying their previous assessments (MASB, 2014). Enhancing qualitative characteristics is linked to timeliness. According to MASB 2014, timeliness necessitates preparing the specifics through the decision's time frame. If in reporting data, there is an unnecessarily significant problem or delay, it can lose its value. Management would have to stabilize the relative advantages of timely reporting and accurate information delivery.

The following is the structure of this paper: part 1 introduces the working paper; section 2 briefly explains the background of MPERS in Malaysia. The SMEs background in Malaysia is covered in Section 3. The fundamental qualitative, relevance, and timeliness aspects are discussed in Section 4. The hypotheses will be discussed in Section 5. Section 6 puts the paper to a conclusion.

Financial Reporting in Malaysia – An Overview

From 1978 until 1996, the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institution of Accountants (MIA) published accounting standards that are enforceable under their codes of ethics. Under the Financial Reporting Act (FRA), the Malaysian Accounting Standards Board (MASB) was founded in 1997 as an independent institution to develop or establish and adopt the standard for accounting and financial reporting in Malaysia.

The main responsibility of MASB is to create standards for accounting and financial reporting that can be used to the financial statements of private companies for broad purposes. Currently, Private Entity Reporting Standards (PERS) have been referenced by SME companies which are considered outdated as they have not undergone changes as based on previous IASs that took place in 2003 (Team, 2016). Private companies can use PERS to represent annual financial statements without having to adhere to rigorous international accounting standards. PERS eliminates certain disclosure rules that are ineffective for decision-making and difficult to implement for private entities A private entity can only be treated as a private entity if it is a private entity for the entire calendar year or during the annual period is private entity. Furthermore, business facing to the public such as charitable, social, and other public facing activities do not enable the use of PERS, instead, these entities should apply Financial Reporting Standards (FRS).

In February 2014, the MASB announced for all private entities which are effectively established new requirements standards for financial reporting standards in Malaysia which known as Malaysian Private Entity Reporting Standards (MPERS). In May 2015, MPERS was developed based on International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs) that was created and announced by IASB.

Malaysian Private Entity Reporting Standard (MPERS) as a new Private Entity's Financial Reporting Standard in Malaysia

The Malaysian Private Entity Reporting Standards (MPERS) were introduced for private entities and published by the Malaysian Accounting Standards Board (MASB) as latest and new framework for financial report that also amend a number of non -private entity standards. All private entities must use the MPERS to prepare their financial statements starting January 1st, 2016 or later. The International Financial Reporting Standards for Small and Medium Enterprises are used as a reference where it is a word-for-word version of drafting the MPERS, where IFRS for SMEs was published and introduced in July 2009, by the International Accounting Standards Board (IASB) with exceptions in terms of- conditions for property expansion operations (SMEs) as well as income tax. Until now, the IFRS for SMEs have been adopted by more than 80 countries or announced plans to implement these standards.

In February 2014, Malaysian Accounting Standards Board (MASB) introduced and has published the Malaysian Private Entities Reporting Standard (MPERS), marking a significant milestone in Malaysian private entities for financial reporting. The new and latest financial reporting framework, which is the MPERS framework with beginning on or after January 1, 2016, with early implementation allowed, is definitely for financial statements.

All private entities, as well as SMEs, were expected to use the MPERS when preparing their financial statements as of January 1st, 2016. The accounting standard may be used or implemented in three ways by Malaysian private entities. The business can report their financial reporting using Malaysian Financial Reporting Standards (MFRS) or Private Entity Reporting Standard (PERS) or else the latest standard, Malaysian Private Entities Reporting Standard (MPERS). They can either stick with the current PERS framework, adopt the MFRS framework (which is compulsory for non-private entities but not transitional entities), or move to the latest MPERS Framework by January 1st, 2016. For annual MFRS, those who choose to implement PERS and MPERS must meet these guidelines starting on or after January 1st, 2016, and ending on or after January 1st, 2012, (Salin, 2017). Private entities must plan and prepare ahead of time if the business expects to shift to the MPERS or MFRS platform in the forthcoming because the requirements for the first implementation of MPERS are retroactive.

MPERS adoption will be represented by presentation and disclosure, going concerned, and consistency. Presentation and disclosure are the final financial statement assertions. This is the statement that a company's financial statements contain all required information and disclosures and that the information presented in the statements is accurate and easy to understand. The consistency principle states that if an accounting principle or method is adopted, it should be followed consistently in subsequent accounting periods so that the results reported are comparable from period to period. Companies may, however, alter an accounting concept or procedure if the new version increases the usefulness of the financial results published. The entity's management must examine the entity's capability to keep on as a going concern when preparing financial statements under the MPERS framework. An entity will be considered as a going concern when management plan to terminate or liquidate operations, or when there is no feasible alternative. In determining either the going concern assumption is applicable, management evaluates entirely relevant information regarding the forthcoming, including but not restricted to twelve months from the reporting period (MASB, 2016).

Small and Medium Enterprises (SMEs) in Malaysia

A business in any of the representative sectors is classified as a SMEs by the Small and Medium Industries Development Corporation (SMIDEC) based upon the number of turnovers of annual sales or full-time employees. There is no official definition in Malaysia for SMEs. SMEs are defined by each company according to their own criteria, which are usually depend on the number of full-time employees and also turnover of annual sales. SME Corp. Malaysia (2013) reports that if a business meets one of two specific statutory requirements, it is categorized as a small business: full-time employees or sales turnover, no matter which one is lesser or lower.

Based on the size of the business, the latest of Malaysian SMEs definition is as follows:

1. Manufacturing Sector

MICRO	SMALL	MEDIUM
Full-time employees of less than 5 or sales turnover lower than RM300,000	Full-time employees from 5 to not exceeding 75 or sales turnover from RM300,000 to not exceeding RM15 million	Full-time employees from 75 to less than 200 or sales turnover from RM15 million to lower than RM50 million

Table 1: Manufacturing

2. Services and Other Sectors

MICRO	SMALL	MEDIUM
Full-time employees of lesser than 5 or sales turnover not exceeding RM300,000	Full-time employees from 5 to lesser than 30 or sales turnover from RM300,000 to lower than RM3 million	Full-time employees from 30 to not exceeding 75 or sales turnover from RM3 million to lesser than RM20 million

Table 2: Services and Other Sectors

Moreover, if the company meets at least one particular qualifying requirement for all sizes of operations, the smaller size would be eligible.

Qualitative Characteristic of Quality Financial Reporting

In a study which set out the determined quality of financial reporting, which can be used for financial reporting to make decisions that include non-financial information and also financial information (Akeju & Babatunde, 2017). A key element in determining the financial reporting quality, according to the IASB is closely related to the objective faithfulness and information quality stated in a business financial statement. To assess the financial reporting quality, such qualitative aspects make it assessable that will help to enhance the company financial reporting quality. Gajevszky (2015) highlights the financial report must be a comparable, faithful representation, verifiable, timely, and understandable to achieve this standard. The priority is therefore on transparent financial reporting to users, rather than misleading financial reporting, as well as the significance of efficiency and predictability as indicators of higher quality of company financial reporting. The higher the use of financial reporting information, the higher the quality of financial reporting and contrariwise. The quality of the financial reports is decided by the factor of the accounting standard and their subsequent implementation regulatory, management's accounting system, and management's judgement and estimates when using substitutes.

The International Accounting Standard Board (IASB), Financial Accounting Standard Board (FASB), and the International Federation of Accountants (IFAC) have all established the qualitative characteristic of conceptual measurement for companies' financial reporting. This calculation primarily provides a systematic viewpoint for the evaluation of the full spectrum of the financial report's qualitative features. In 2015, IFAC report that to define the qualitative attributes according to the literature, various dimensions have been adopted by all of this. As a result, qualitative characteristics or attributes, in particularly contextual relevance definition, faithful representation, comparability, timeliness, and understandability, are viewed as elements of potential qualitative determining financial reporting quality.

Hence, in 2014, MASB reported the characteristics of qualitative information in MPERS financial statements involve relevance, understandability, reliability, substance over form, materiality, completeness, prudence, timelessness, comparability, and cost-benefit balance. Relevance was chosen because is a fundamental qualitative characteristic and the most crucial and definitive of contented in financial reporting. Relevance is significant because accounting information's qualitative characteristics must be available in order for it to be useful in decision-making. Timeliness has also been chosen because timeliness is one of the enhancing qualitative characteristics. One of the qualitative characteristics of financial data that determines its usefulness is its timeliness. According to business financial report requirements, one of the most essential aspects of relevant decision-making for information is timeliness. Generally, if the information is not accessible when it should be, but is nonetheless made later accessible that it is no longer useful for future activity, it is irrelevant operationally (Ohaka & Akani, 2017). Here, relevance and timeliness further explanation:

Relevance

The usefulness and materiality of a term are closely related to its relevance. In an analysis of financial reporting quality, BPP (2014) found that relevance reflects the users' ability to make decisions in an analysis of financial reporting quality. Relevant information can make a significant difference in how a user makes a decision. The relevance of information is influenced by the materiality and composition. One study by Ezelibe et al (2017) reported information is only useful if it refers to user-focused problems. When information has predictive, confirmatory, or both meaning, it can help users make better decisions.

According to Herath & Albarqi (2017) who published a paper in which they described the data must be relevance in the financial statements to users' needs for decision-making. When information contained in financial reports has an impact on users' economic decisions, it is said to be of relevant quality. This information is also valuable because it allows users to assess, correct, and verify current and previous events. According to MASB (2014), information has relevance because it may influence users' economic decisions by supporting users in valuating and accessing prior, current, or forthcoming, or by verifying or correcting previous assessments.

Timeliness

Timeliness in an analysis of financial reporting quality, indicating that data must be made obtainable to making decision before it lose their strong and positive impact (Beest et al., 2009; Herath and Albarqi, 2017). When evaluating the annual report about the quality of reporting, the time period in-between the year end and the report from auditor issuance date is used to classify timeliness. The auditor will take a long time to sign and verify the report following the fiscal year end.

As reported by MASB 2014, timeliness necessitates providing specifics through the decision's time frame. Whether there is an unnecessarily long deferment in interpreting the data, relevance will be lost. Management would have to weigh the relative advantages of timely reporting and accurate information delivery. How to properly satisfy the user's needs in making economic decisions is the key consideration in maintaining a balance between relevance and reliability.

Hypotheses Development and Conceptual Framework

H1: SMEs has an impact on the value relevance of financial reporting by MPERS adoption

H2: SMEs has an impact on the value timeliness of financial reporting by the adoption of MPERS

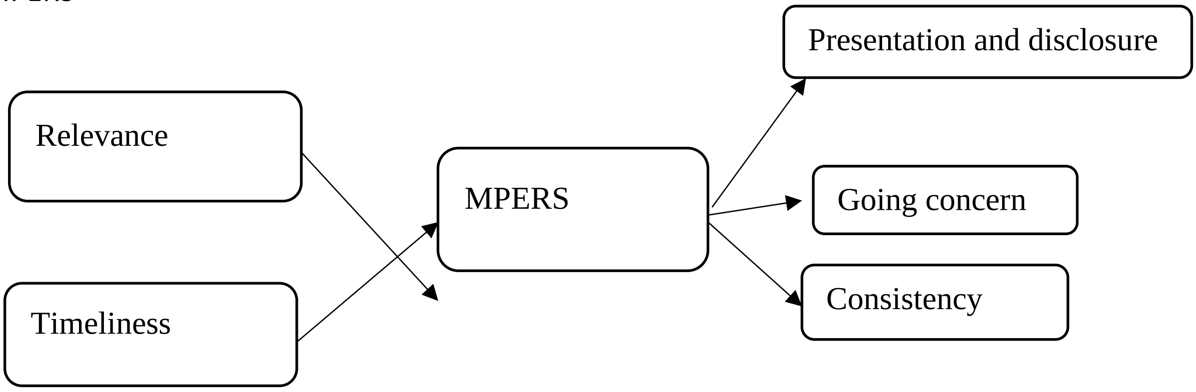

Figure 1: Conceptual frameworks

Conclusion

MPERS was introduced to enhance the harmony of reporting standards to SMEs and also to replace PERS which has not been updated for a long time. MPERS play an important role for SMEs when preparing and developing the financial statements. On the other hand, for the country's economic growth, SMEs play a very important role. Across Malaysia, there are 907,065 SME establishments divided into several sectors. This study was conducted to observe the effect of the adoption of the Malaysian Private Entity Reporting Standards (MPERS) on the value of relevance and timeliness by Malaysian Small and Medium Enterprises (SMEs). This study will reveal that the financial reporting prepared by private entities in Malaysia has improved or unchanging significantly of quality following the MPERS adoption for financial statements in term of preparing, developing and presenting. The quality of financial reporting provided by this report will help users, such as accounting practitioners in making decisions. The study will also reveal the financial reporting quality will improve with the adoption of MPERS. With the enhancement in the value relevance and timeliness of the financial reporting after adopting MPERS, users will be certain of advantageous information for decision making. Improved financial reporting that presents precise quality financial reports on a timely basis is critical for the development of private entities.

Contribution

This research is different from previous studies. From the perspective of the literature, this study is expected to makes a significant contribution to improving one's knowledge of the impact of the MASB new standard, MPERS, on current financial reporting practices, as well as the relationship between MPERS and the value relevance and timeliness of financial reporting by SMEs in Malaysia.

In terms of policy, this study is expected to generate a framework based on quantitative financial reporting quality characteristic such as value relevance and timeliness in relation to MPERS by SMEs. The results could then be used to see whether MPERS adoption has an impact on the value relevance and timeliness of financial reporting for SMEs. It is important to provide higher quality financial reporting to influence users in enhancing market efficiency and making decisions. It can be explained simply: the higher the quality of financial reporting, the higher the benefits to users and investors of financial reporting.

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