

Malaysian Private Entities Reporting Standards - Benefits and Challenges to SMEs

Ahmad Saiful Azlin Puteh Salin

Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia.

DOI: 10.6007/IJARBSS/v7-i11/3567 URL: <http://dx.doi.org/10.6007/IJARBSS/v7-i11/3567>

Abstract

The International Accounting Standard Board (IASB) on 9th July 2009 had released the International Financial Reporting Standard (IFRS) to be adopted by Small Medium Enterprises (SMEs). It is expected that not less than 35 countries, including Malaysia will adopt this standard. However, Malaysia has adopted its own version of the standard called Malaysian Private Entities Reporting Standards (MPERS). This move has resulted in a mix response among market players including business owners, accounting bodies and also the government. The purpose of this paper is to discuss the benefits and adverse consequences together with the challenges of the adoption of the said standard for SMEs especially in Malaysia.

Keywords: IFRS, SMEs, MPERS, Financial Reporting Standard, Convergence, Malaysia

1.0 Introduction

The International Financial Reporting Standards, most popularly known as IFRSs are an enforceable and global accounting standards to be adopted by the publicly accountable organisation. The IFRSs was previously known as the International Accounting Standard (IAS). Due to the many scandals and frauds among corporate entities such as Enron, Parmalat, World.com and many more, there is a desperate requirement to have an accounting standard that is uniformly applied by the business enterprises all around the world. This will prevent, or at least the manipulation of financial statements and complexity that are out of the reach and radar from the relevant authorities and regulators.

IFRSs are developed and monitored by a non-profit accounting body called the International Accounting Standard Board (IASB) after taking over from the International Accounting Standard Committee (IASC) beginning 1 April 2001 (IASB 2015a). These standards are widely accepted by countries around the world except in the United States (US), as this country uses its own version of the accounting standard framework known as the Generally Accepted Accounting Principles (GAAP). As of 22nd August 2017, about 131 countries permitted or required IFRSs to be directly adopted for the domestic listed companies, while 23 countries did not (Deloitte, 2017).

Appreciating the importance and benefit of having such standard applications of the accounting standard among the big corporations listed on the stock exchange, the global

business community would like the same effort to be pushed for the non-listed companies. It is believed that about 99% of the companies established in the world come from this group. Furthermore, in the many developing countries including Malaysia, these non-listed companies are paramount importance in the growth and development of the economics. SMEs in Malaysia make up 99% of the total business establishment and contribute to 36.3% of the nation's Gross Domestic Product (GDP) in 2015 (National SME Development Council 2016), while in other developed countries like Japan, Germany and the United Kingdom (UK) more than half of their GDP is contributed by SME (Table 1) (National SME Development Council 2010). Thus, it is hoped that the benefit that will be enjoyed by the listed companies and their related parties of having financial reporting standards will be also shared by the non-listed companies.

Table 1: SME Contribution to GDP in Selected Countries

Countries	Japan	Germany	UK	Korea	Singapore	Thailand
Year	2007	2008	2008	2007	2007	2008
Contribution to GDP	53%	53%	51%	49%	49%	38%

Source: SME Annual Report 2009/10

The initial project of having an international standard for SMEs was originally recommended by IASC. When taken over by the IASB, more serious effort was taken in which the deliberations began in July 2003. A year after that, the discussion paper on *Preliminary Views on Accounting Standards for Small and Medium Size Entities* was published with the aim of getting feedbacks and preliminary views from academicians, practitioners and the public. To gain more insight, a field study was commissioned in June 2007. 116 companies in 20 countries participated in this study.

Realising that this effort was fruitful and would benefit the world communities, more presentations, discussions, consultations, public meetings and similar efforts with the industry players were conducted for a year. In April 2009, the IASB decided to change the name of the standard to International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), to link it with the IFRS adopted for the listed companies. However, this sometimes posed a confusion as the IFRS for SMEs actually was a standalone standard and was not linked to the IFRS for listed companies, except for the IFRS 39, the standard adopted for financial instrument. In July 2009, the full and comprehensive IFRS was published. All together, there were 35 sections issued with only about 240 pages of write up (IASB 2016) after 2015 amendments to the standards.

In Malaysia, IFRS for SMEs is adopted with the name of Malaysian Private Entities Reporting Standard (MPERS). However, there are certain differences and amendments with the original IFRS for SMEs in Section One of Private Entities, Section Nine of Consolidated and Separate Financial Statements and Section 34 of Specialized Activities. This amendments are needed to improve comparability of the standards with the financial statements of SMEs in other countries and to reduce the complexity of the standards so that it can easily apply by the

SMEs and thus, provide more relevant and useful information to the users of the financial reporting (Malaysian Accounting Standards Board, MASB 2016).

The private entities in Malaysia have three options to use or apply the accounting standard. They can choose to adopt Private Entity Reporting Standard (PERS), MPERS or the Malaysian Financial Reporting Standards (MFRSs). They have a choice of continuing with the existing Private Entity Reporting Standards (PERS) Framework, or apply the Malaysian Financial Reporting Standards (MFRSs) Framework (mandatory for non-private entities, except transitioning entities), or by 1 January 2016, mandatory migration to the new MPERS Framework

Those who choose to adopt PERS and MPERS need to adopt this standards beginning or after annual periods of 1 January 2016 while for MFRSs for annual periods beginning on or after 1 January 2012. Private entities in this context are described as a private company that incorporated under the Companies Act 1965. This entity or company is not under the laws jurisdiction enforce by the Securities Commission and Central Bank of Malaysia and not subsidiary or associate of or jointly controlled by an entity which is required to submit financial statement under the rules and regulations enforce by Securities Commission and Central Bank of Malaysia (MASB 2014).

Based on these scenarios, this paper attempts to discuss some of the benefits and challenges of the company applying a proper financial standard which is universally accepted and globally recognized such as MPERS. It will contributes by highlighting to the prepares or SMEs, the users and the regulator on the obstacles and difficulties that experienced by all the stakeholders that affected by this implementations. In contrast, if the challenges can be overcome properly, the adoption of the standard will bring many invaluable benefits to the stakeholders.

The remainder of the paper is organized as follows. The next section will give an overall view of the SMEs in Malaysia. The third section will discuss the prior study on the international accounting standard with the emphasis on its cost and benefits. The fourth section will focus on the differences of the FRs adopted for SMEs and listed companies followed by the insights on the benefits of the FRs specifically for SMEs. The problems and challenges will be debated in section six. The last section is the conclusion.

2.0 SMEs in Malaysia

Like the other countries, SMEs are vital to the growth and development of the company. It plays a vital role not only in developing countries but also in developed economies (Chiao et al. 2006). These group of business is not only able to sustain the economic growth nationally, regionally and locally (Taylor and Murphy 2004) but is also more responsive to the market changes and more courageous to try new innovation (Storey 1994).

In Malaysia, 99% of the total business is approximately from the SMEs with a contribution around more than 36% to the Gross Domestic Product. It supplies 65.5% of the national employment in 2015 while SMEs' productivity growth of 6.1% is higher than national productivity growth of 5.0%. In terms of the sectorial review, the service sector dominates the SMEs contribution to GDP with 21.4% share, followed by the manufacturing of 7.9% and finally agriculture with 4.3% (SME Annual Report 2015/16).

To strengthen its expansion, the Malaysian government established a National SME Development Council in 2004 with the objective to coordinate and lead in the promotion development of SMEs. Chaired by the Prime Minister himself, the National SME Development Council was responsible to formulate policies and initiatives to enhance the efficiency and effectiveness of the SMEs. In overall, the SMEs consistently outperformed the overall GDP growth from 2006, although it contracted slightly to 0.2% due to the credit crunch and global financial crisis. Its contribution to GDP also increased to 32.7% in 2012 from 29.6% in 2006 (Table 2).

Table 2: Overall GDP Growth, value Added Growth and Contribution to GDP by SMEs

	2006	2007	2008	2009	2010	2011	2012
Overall GDP Growth	5.6%	6.3%	4.8%	-1.5%	7.4%	5.2%	5.6%
SME Value Added Growth	6.4%	10.0%	6.5%	0.2%	8.3%	7.1%	6.0%
Contribution to GDP	29.6%	30.7%	31.2%	31.7%	32.0%	32.5%	32.7%

Source : SME Annual Report 2013/14

Recognising its important as a backbone of the company, the SMEs have also become an important role in the New Economic Programme, an economic measures to drive Malaysia to become a fully developed country and a high income nation in 2020. There are 12 strategies divulged in which the SMEs play an important role in. More recently, the Ten Year SME Master plan was launched with the aim to advance the role and position of SMEs as a catalyst to the escalation and spearhead the expansion of the economy.

3.0 Prior Study on International Accounting Standard

The study on the uniformity of the accounting standard, well known as the international accounting harmonisation started as early as 1960. Barker and Barbu (2007) divided the trend of the study into three distinct phases, as per Table 3. Accounting uniformity and comparative studies have become the popular area of research until recently, and in the more recent period, the cost-benefits of accounting harmonisation has become more significant as this kind of study has a direct practical implication on the impacted stakeholders. It is interesting to note that this study does not include the sample of SMEs, as the adoption of standard for SMEs was just mooted in 2003 and the first released was made in 2006 while the publication of the standard was just prepared in 2009.

Table 3: International Accounting Research Trend

Initial Period 1965–1973	Intermediate Period 1974–1989	Mature Period 1990–2004
Accounting uniformity	Accounting uniformity	Accounting uniformity
Comparative studies	Comparative studies	Comparative studies
	Conceptual framework	Conceptual framework
	Factors of the environment	Factors of the environment
	Accounting directives	Accounting directives
Reflections on the international accounting harmonisation process		Comparisons of the value relevance of IAS versus US GAAP
		Measures of the extent of harmonisation
		Implementation of IAS/IFRS in different countries

The prior study on the benefit and advantage of uniformity in the adoption of a single accounting standard demonstrated mixed results. Arguably, reliable, transparent and comparable financial and non-financial information is importance to reduce the information gap between the company and its users (Nor et al., 2017; Salin et al., 2017; Ahmad et al., 2016; Asmuni et al., 2015; Hashim et al., 2014; Jaafar et al., 2014; Husnin et al., 2013; Jaggi and Low 2000; Gassen and Sellhorn 2006; Jermokowicz and Gornik-Tomaszewski 2006; Yu 2010).

Particularly, a more definite research in the context of IFRS also attracts various inconclusive findings. Either voluntary or mandatory, disclosure quality will improve as a result of the IFRS adoption (Daske and Gerbhardt 2006) that not only is benefitted by the company but also by the country. A study on 132 developing economies suggested that the country that adopted the IFRS standard experienced a gain on foreign aid and import penetration (Judge et al. 2010) while the analysis conducted by Barth, Landsman and Lang (2008) on the organisation from 21 countries indicated fewer earnings management, better timely loss recognition and more value relevance of accounting information. Other than that, internationalisation was able to reduce the cost of capital of the business (Leuz and Verrecchia 2000; Daske et al. 2008), superior transparency (Coppens et al. 2007), better comparability (Jermokowicz and Gornik-Tomaszewski 2006; Armstrong et al. 2010; Covrig et al. 2007), higher market liquidity and equity valuation (Daske et al. 2008), more efficient investment decision (Choi and Meek 2005) and superior value relevance (Leuz and Verrecchia 2000; Barth et al. 2005; Bartov et al. 2005).

In contrast, the major setback of the accounting harmonisation included excessive compliance cost (for example Haller 2003; Buchanan 2003; Jermakowicz and Gornik-Toaszewski

2006; Coppens et al. 2007) by which it became severe for small sized companies (Evans et al. 2005) as they needed outside expertise to abide to the requirements (Coppens et al. 2007), as well as increased the volatility of profits and values of the balance sheet items (Jermakowicz and Gornik-Tomaszewski 2006; Coppens et al. 2007) and became non-supportive of the local authority as the international standard was not consistent with the country's own tax and law requirements (Larson and Street 2004; Radebaugh et al. 2006; Coppens et al. 2007). The study carried out by Cuijpers and Buijink (2005) and Daske (2006) as well could not conclude the benefit of the cost of capital while Christensen et al. (2007) posited that a reduction in the cost of capital was only visible for the company that voluntarily opted to comply. Larson and Street (2004) also demonstrated that obstacles like insufficient guidance and limited knowledge on certain complex transactions could reduce the success of the accounting convergence.

A more specific study of the FRSS for SMEs more or less addressed similar issues, albeit limited research and little focus on this segment of business. Baldarelli et al. (2007) for example found that SMEs in Italy and Croatia could not adopt IFRS in total and required compatibility with other influential factors such as institution, economy, culture and environment. Meanwhile, others found that cost and complexity were the major hindrance for SMEs, such as in Canada (Maingot and Zeghal 2006), the UK (Fearnly and Hines 2007), Romania (Albu and Albu 2010), Czech Republic (Nerudova and Bohusova 2008; Bohusova, 2011), and the US (Herman 2010) in terms of adopting other versions of accounting standards for small entities. Dang-duc (2011) finds that SMEs in Vietnam do not perceived the benefits and improvement of decision making process of adopting the international accounting standard. Aboagye-Otchere and Agbeibor (2012) conclude that small businesses in Ghana have limited international structures and activities which do not result in a need for internationally comparable financial reporting information. Moreover, almost 70% or 19 of the 27 issues addressed by the standard were found to be irrelevant to small businesses in Ghana. Pasekova et al. (2010) observe that SMEs in Czech Republic and Ukraine use accounting just for tax calculation and not decision making. Thus, IFRS applications are viewed as excessive burden in administration as compared to revenue obtained.

4.0 Differences of IFRS for SMEs and Listed Companies

The major differences between the standard for SMEs and for listed entities are that the standard for SMEs are simpler, easy to understand and not complicated (IASB 2015b). The detailed differences are explained as follows:

4.1 Omission of Non-relevant Standard

SMEs, generally are businesses that are not traded in the stock exchange and do not have public accountability. In Malaysia, the business entities will fall under the SMEs category if they meet the definition based on the number of employees and sales turnover.

Due to this, some of the standards that are relevant to the listed companies such as the standards that relate to market valuation on shares will be dropped. This include the

requirements to state the Earnings per Share (EPS) ratio in the company's financial statement because to calculate this ratio, the market value of the share is to used and this is certainly not applicable for SMEs.

Besides, this type of enterprise is not subjected to the stock exchange's laws and regulations. In Malaysia, SMEs are excluded from the Bursa Malaysia Listing Requirement and are not under the monitoring of the Securities Commission. Therefore, standards that require companies to comply with these regulatory bodies' requirements such as Interim Financial Reporting and Segmental Reporting are eliminated. The Interim Financial Reporting is a standard which requires the company to announce or submit a quarterly unaudited financial statement to the security exchange administrator while the Segmental Reporting is a standard that requires the company to report its financial performance by segments such as products, countries, subsidiaries and others.

4.2 Disallowable of Many Options

There are many options available in IFRS for listed companies. However, some of these options are prohibited to be chosen by the preparer because better and easy options are available in MPERS. This is a good move as it will discourage diversity that makes comparison of financial statement difficult. There are about five categories of the complicated option removed in the MPERS. For example, to measure investment property, the preparer will decide based on circumstances and not based on either cost or fair value models that attract lengthy calculation and highly subjective judgments. The other categories include financial instrument (available-for-sale, held-to-maturity and fair value), the revaluation model for property, plant and equipment, proportionate consolidation for investments in jointly-controlled entities for intangible assets and finally various options for government grants.

4.3 Simplification of Recognition and Measurement

Some of the principles of the recognition and measurement that are in full IFRS for the listed companies are simplified for MPERS to allow easy and fast preparation of the financial statement. For example, the amortisation of intangible assets in listed companies must be annually reviewed. Similar requirements are also applied for the property, plant and equipment in determining the residual value, useful life and depreciation methods. However, for SMEs, this particular review is only made if the preparer foresees that the financial items may change after the most recent review. There are no capitalisation of borrowing and research and development cost for SMEs as compared to the listed companies. There are some tests compulsory to be conducted before these costs can be either capitalised or expensed off in the financial statement.

4.4 Fewer Disclosures

The financial statement of the SMEs is not expected to be as thick as that of the listed companies. In Malaysia, for example, the consistent winner of the National Accounting and Reporting Awards (NACRA), which is Public Bank Berhad, had its financial statement dragged

into an approximately 450 pages for its 2009 Annual Report. However, for SMEs, the disclosure is possibly 90% lower than that of the normal listed companies' disclosure. There are more than 3000 items in the disclosure checklist for listed companies while for MPERS, there are roughly only 300 checklist items disclosed.

5.0 Benefits of MPERS

There many benefits of the MPERS if it is implemented by the SMEs. Some of the merits expected from the adoption of global accounting standard by these private entities include the following:

5.1 Uniformity

The commons sets of the accounting standard for SMEs such as MPERS will ultimately benefit the users of the financial statement as they can easily compare one company with another company. Moreover, the SMEs can compare their positions and statements with their peers and competitors, the performance of the industry as a whole as well as conduct trend and forecast analysis more accurately. The users such as prospective investors, suppliers, customers, lenders and financial institutions can easily perform analysis and decision making on their analysis objectives. It is also less hectic when making judgments as the elements of subjectivity, diversities and too many options on recognition, measurements and disclosures have been removed

5.2 Reputation and Confidence

The other benefit of the MPERS is it will boost the confidence in SMEs as the financial statements have been prepared based on a high quality of standard prepared by IASB, a well credible board which is respected by the world communities. The reliability of the financial statement is enhanced while the reputation will increase as it complies with internationally accepted accounting standard. Furthermore, if this financial statement is audited by the third party like public accountant firms, it will boost the truthfulness of the accounting figures and information. Hence, reliable and truthful financial statements protect the interest and increase the confidence of its readers (Husnin et al., 2016; Jais et al., 2016).

5.3 Cost Reduction

The company is also able to save and reduce costs involved in preparing and maintaining the standards on a national basis such as MPERS. Based on the survey conducted by Deloitte (2017) on 175 countries, 23 countries did not permit non-listed companies to adopt IFRS for listed companies, 25 countries permitted, 10 countries permitted only for some, 96 countries permitted for all and no information on the basis of preparation for 21 countries. When the company was required to adopt the IFRS for listed companies, the cost was substantial as there were more requirements with more standards to be complied with. The company needed to bear a higher cost to hire knowledgeable accountants or if not, hire consultants or expert outsourcers to prepare its financial statement.

5.4 Present Fairly Statement of Comprehensive Income, Statement of Financial Position and Operating Cash Flow

By complying with international standards, the company will actually present its financial statements in a more representative manner and be widely accepted by the global business community. There will be less room for manipulation, window dressing and creative accounting. The company is at the risky position if the employee has a poor work ethics which may abused their position to produce misleading financial statements (Salin and Ismail, 2015; Salin et al., 2015). Many cases of corporate scandals and collapse provide evidence that moral misconducts among the employees may contribute to the financial disaster of the company (Khadijah et al., 2015; Manan et al., 2013). Thus, by having proper financial statements that are prepared from the prescribed standard will increased the internal control of the company and hence, decrease the opportunity for fraud, intentional misstatement and manipulation of accounting figures (Rahim et al., 2017; Omar et al., 2016; Zakaria et al., 2016). Every treatment and transaction must be justified according to the FRSS. Even if the company is involved in such scandals, it will be discovered soon and fast as compared to before.

5.5 Jump-start For Compliance with Full IFRS

Complying with the small version of IFRS like MPERS will prepare the company to adopt a bigger or fuller version of the IFRS. In other words, by adopting the MPERS, the SMEs that have a vision to be a bigger entity such as to be listed on the stock exchange will be ready to adopt the more difficult and complicated IFRS for listed companies. A smooth transition will be expected as the company already has the resources such as expert preparers, information system and technology, invested capital and dedicated department in-charge of financial statement matters. All the problems with the compliance of MPERS would have been tackled and solved before the company faces more obstacles in complying with the IFRS as listed companies.

5.6 Internationalisation

There are many reasons for internationalisation. Apart from the saturated market, SMEs can increase the revenue and profit ultimately by expanding overseas. The advancement of information and communication technologies (ICTs) make this effort easier because ICTs changes not only people's lives, but also the way businesses firms and public organisations operate (Suhaimi et al., 2016; Saibon et al., 2016; Salin and Abidin, 2011). A few large countries offer tremendous opportunities for SMEs such as China, India, Russia and other large economic blocks such as African, South American and European countries. Previous studies have found that some factors of internationalisation for SMEs included firm characteristics, industry factor, external influence and motivation. In Malaysia particularly, Senik et al. (2010) found that networking was the most important factor the SMEs went global. Networking develops the understanding of foreign markets. Arguably, compliance with MPERS will make the process easier especially in understanding the current state of the potential alliances, business partners and competitors. As a starting point, SMEs will forecast the prospective income generated at that particular country. MPERS compliance can also be exploited as a kick start to go international. The company can show its seriousness to become a global player with MPERS.

This can give extra motivation to become the front runner in winning the global market and becoming the market leader, not the follower. Making financial statement at par with the international standard will also attract endorsements by other international organisations in terms of collaboration and cooperation in doing business.

5.7 Access to New Capital

Compliance with MPERS can also attract new ventures and shareholders from global players. In Malaysia, although tremendous financing access are offered by the government, its agencies and financial institutions such as special funds for SMEs, guarantee schemes, credit bureau and crisis funds, notably is not enough to finance the long term growth and development of the SMEs. The stimulus package to assist the SMEs due to the financial crisis in 2007 worth RM15.6 billion was still not adequate as the beneficiaries involved more than hundred thousand companies. Thus, it is recommended for the SMEs to be independent and initiate themselves to search for new capitals and partners. Furthermore, there is a tendency for certain banks which are reluctant to lend money to SMEs because of their small size, volatility and less experienced in conducting business (Camino and Cardone 1999). In addition, apart from the monetary capital, effort must be executed to explore non-monetary capital such as bring in quality technology, scientific knowledge and know-how. This kind of capital perhaps is equally important to SMEs when participating in international trading.

5.8 Easy Entrance to Larger Market

For companies that operate in developing countries such as in Malaysia, the market growth and business expansion may be limited and nearly saturated. With the citizens approximately only 31 million, business players should foresee other countries as new treasures to be caught up in selling their products. Thus, by complying with the internationally accepted standard, the companies have a higher chance of extending their businesses, forming business alliances, setting up a branch or creating any kind of business strategy overseas. They will face fewer problems when filling in any accounting related documents, communicating with potential business partners and regulators such as the Inland Revenue and company commissions.

6.0 Problems and Challenges

This new effort from IASB is not perfect and attracts many problems and challenges that need to be resolved by the SMEs such as follows:

6.1 Principles vs rules

When the IASB first announced the convergence of the financial reporting standards projects with the objective of all countries in the world just using one common language of financial statement, the first issues that needed to be dealt by the company was if the standard would be applied on the principal-based or rules based approach. The principal-based approach means that the spirit of the standard will be utmost important in applying the financial standard. In short, the preparer needs to read "*between the lines*" and disclose based on what the company thinks "*best for the users*". Unfortunately, this financial statement may be

prepared as needed and required by the shareholders that hold the highest interest in the company.

Conversely, the rules-based approach will pick up on the line to line compliance of the financial standard. If MPERS make up on the spirit of the law, then the estimation and judgment of some transactions will be in the hands of the company. It then will wipe out the benefits of uniformity and comparability discussed in the previous section. If it is implemented based on the rules-based approach, then it will encourage the company on the “*box-ticking*” minded, leaving some measurement and recognition not at best representing the financial performance and position of the company.

6.2 Local variants, Requirements and Needs

In some countries, the financial statement has been prepared in accordance to comply and be compatible with the other regulations such as tax laws and regulation. Thus, the introduction of the MPERS will carry no meaning as these countries will not accept the standard, indirectly. Even if they accept the standard, too many changes and modifications need to be made by the government, thus making the financial statement inconsistent with the other countries. A study conducted by Larson and Street (2004) on the IFRS for listed companies convergence in 17 European countries found that some of the barriers of the implementation on uniformity in the accounting standards were the non-availability of standards based on the local language and accounting that was driven by the taxation requirement. As expected, similar problems will also be faced during the implementation of MPERS.

6.3 Accountant For SMEs

There must be a supply of the accountant that has a sound knowledge on the IFRS and MPERS. Employing a full time preparer in the long run will benefit the company as the knowledge and unique features of the company will be nurtured in the hands of the internal staff and prevent the secrecy and jewel of the companies lost to external people if they hire a part time accountant. Outsourcing the work of preparing the financial statements is costly in the long run and at the same time possibly risk companies to lose its confidential information to its competitors. In the first few years of its implementation, there will possibly be a scarce supply of SMEs accountants to cater to the demand of the task in the market. Capacity and capability building in human capital and resources may become a problem for the small entities.

6.4 Compliance Cost

The company that adopts this standard must ensure that its financial statement at all times comply with the standard; thus a mechanism must be created to ensure this compliance. New mechanisms such as auditing, internal audit and internal control mean more money will be spent out of the company’s pocket. Many business players believe that by having the standard, more rules and regulations will follow after this. The best bet is a possible requirement for the financial statement to be audited by the licensed public accounting firm. Majority of the participants of the survey conducted by ACCA in 2008 indicated that their current audit fees

would increase with the adoption of the IFRS (ACCA 2008). Compliance with the standard is said to be useless and incomplete if it does not receive third party assurance. The reliability of the company will be at stake if the conformity of the financial statement that is free from biasness, error and fraud are missing (Salin et al., 2011).

6.5 Other Reporting and Non-financial Disclosure Requirements

Contributions to the SMEs have argued that there will be more reporting requirements in the future from the public, stakeholders and regulators once the MPERS are fully implemented. For listed companies, in addition to the financial statement that is compulsory to be prepared, the company also is highly encouraged to prepare other types of reporting such as statement on corporate governance, corporate social reporting, chairman and chief executive’s statement, management analysis and discussion statement and many other narrative reporting. Thus, it is believed that similar demands will be pushed for SMEs to have all these kinds of reporting.

6.6 Definition for SMEs

MPERS has been targeted to the SMEs that do not have public accountable entities. It is a responsibility of the government of the respective countries to decide the type of businesses that should adopt the requirement. The definitions given by IASB for SMEs include the non-publicly accountable entities such the corporation in which their shares are not publicly traded and they are not a financial institution. The other entities that may adopt this standard include the company that is fairly large in terms of its size and value, subsidiary of a listed company if the subsidiary is a non-listed company and a public utility. As the list is not exhaustive, now it becomes a heavy task for the government and regulator to define the SMEs that suit the country’s local economic, business and environment. Thorough evaluation and analysis should be performed so that none of the business groups and entities are excluded thus making this compliance with the standard not fair and applicable only to the certain group of companies. Lobbying from certain groups is expected to battle for their own benefits although those benefits may be against national interest.

In the Malaysian context, the company will fall under the category of SMEs based on the annual sales turnover or the number of full time employees as shown in Table 4.

Table 4: Class of SMEs

	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing	Sales turnover < RM300,000 OR employees < 5	Sales turnover RM300,000 to < RM15 million OR employees 5 < 75	Sales turnover RM15 to ≤ RM50 million OR employees 75 ≤ 200
Services and Others		Sales turnover RM300,000 to < RM3 million OR employees 5 < 30	Sales turnover RM3 to ≤ RM20 million OR employees 30 ≤ 75

Source: SME Annual Report 2015/16, 2016

6.7 Education to the Owners of Companies and Universities

The other challenge is the additional task for the universities or learning institutions to introduce another accounting related paper. This gives more burden to the students as they need to understand and differentiate the accounting standard applied to the SMEs and the public companies. For the learning institutions that conduct entrepreneurship programmes as part of their certification, MPERS shall be introduced as part of the subject so that the graduates produced will not be left behind in the market. Again, it makes it harder for the students especially those without any business and accounting background to get closer with the knowledge.

7.0 Conclusions

The main objective of this paper was to discuss and throw out some ideas of the possible benefits and problems of implementing MPERS, on top of highlighting the major differences between the two standards. The market, especially the owners of the SMEs does not have ample time to make the necessary preparations before the adoption becomes mandatory and to prevent heavy fines and penalties for any incompliance. It is hoped that more benefits and solutions to the problems will be highlighted and recommended not only by IASB but also professional and regulatory bodies especially in Malaysia such as Malaysian Institute of Accountant (MIA) in helping the SMEs prevent uncertainty in adhering to this new regulation

Corresponding Author

Ahmad Saiful Azlin Puteh Salin, Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400 Tapah Road, Perak, Malaysia. Email: ahmad577@perak.uitm.edu.my/ saifulazlin@yahoo.com

References

- Aboagye-Otchere, F., and Agbeibor, J. (2012). The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMES): Suitability for small businesses in Ghana. *Journal of Financial Reporting and Accounting*, 10(2), 190 – 214.
- ACCA (2008). *International Financial Reporting Standard for Small and Medium Sized Entities - Review of Field Testing Results Carried out by ACCA in UK in Early 2008*. London: ACCA
- Ahmad, N.M.N.N., Nawawi, A., and Salin, A.S.A.P. (2016). The relationship between human capital characteristics and directors' remuneration of Malaysian public listed companies. *International Journal of Business and Society*, 17(2), 347-364.
- Albu, C.N., and Albu, N. (2010). The context of the possible IFRS for SMEs implementation in Romania – An exploratory study. *Accounting and Management Information Systems*, 9(1), 45-71.

- Armstrong, C., Barth, M., Jagolinzer, A., and Riedl, E. (2010). Market reaction to the adoption of IFRS in Europe. *The Accounting Review*, 85(1), 31-61.
- Asmuni, A.I.H, Nawawi, A., and Salin, A.S.A.P. (2015). Ownership structure and auditor's ethnicity of Malaysian public listed companies. *Pertanika Journal of Social Science and Humanities*, 23(3), 603-622.
- Baldarelli, M.G., Demartini, P., and Monsja-Skare, L. (2007). Application of accounting standards in small and medium enterprises in Italy and Croatia: Challenges of international harmonization. [Ekonomika Istrazivanja](#), 20(1), 8-25.
- Barth, M.E., Landsman, W., and Lang, M.H. (2008). International accounting standards and accounting quality. *Journal of Accounting Research*, 4(3), 467-498.
- Bartov, E., Goldberg, S.R., and Kim, M. (2005). Comparative value relevance among German, U.S., and international accounting standards: A German stock market perspective. *Journal of Accounting, Auditing and Finance*, 20(2), 95-119.
- Barker, C.R., and Barbu, E.M. (2007). Trend in research on international accounting harmonization. *The International Journal of Accounting*, 42, 272-304.
- Bohusova, H. (2011). The implementation of the IFRS for SME in the EU. [Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis](#), 59(2), 43-50.
- Buchanan, R. F. (2003). International accounting harmonization: Developing a single world standard. *Business Horizon (May-June)*, 61-70.
- Camino, D., and Cardone, C. (1999). The valuation and cost of credit insurance scheme for SMEs: The role of the loan guarantees associations. *International Small Business Journal*, 17(4), 13-31.
- Chiao, Y. C. Yang, K. P., and Yu, C. M. J. (2006). Performance, internationalization, and firm-specific advantages of SMEs in a newly-industrialized economy. *Small Business Economics*, 26(5), 475-492.
- Choi, F. D. S., and Meek, G. K. (2005). *International Accounting* (5th ed.). New Jersey: Prentice Hall.
- Christensen, H.B., Lee, E., and Walker, M. (2007). Cross-sectional variation in the economic consequences of international accounting harmonization: The case of mandatory IFRS adoption in the UK. *The International Journal of Accounting*, 42, 341-379.

- Coppens, C., Van-Wymeersch, K., Van-Hecke, A., Engels, L., De Lembre, E., De Beelde, I., Verhoeve, J., and Van De Velde, G. (2007). An Investigation into the Attitude of Belgian SMEs Towards the Implementation of IAS/ IFRS. Paper presented at the *Annual Conference of the European Accounting Association* in Lisbon, 25-27 April 2007.
- Covrig, V., DeFond, M., and Hung, M. (2007). Home bias, foreign mutual fund holdings and the voluntary adoption of international accounting standards. *Journal of Accounting Research*, 45, 41–70.
- Cuijpers, R., and Buijink, W. (2005). Voluntary adoption of non-local GAAP in the European Union: A study of determinants and consequences. *European Accounting Review*, 14(3), 487–524.
- Dang-Duc, S. (2011). Compliance with accounting standards by SMEs in transitional economies: Evidence from Vietnam. *Journal of Applied Accounting Research*, 13(2), 96 – 107.
- Daske, H. (2006). Economic benefits of adopting IFRS or US-GAAP—Have the expected costs of equity capital really decreased? *Journal of Business Finance and Accounting*, 33(3-4), 329–373.
- Daske, H., and Gebhardt, G. (2006). International financial reporting standards and experts' perceptions of disclosure quality. *ABACUS*, 42(3-4), 461-498.
- Daske, H., Hail, Z., Leuz, C., and Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research*, 46(5), 1085 – 1142.
- Deloitte. (2017). *Use of IFRSs by Jurisdictions*. <http://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs> (accessed 22 August 2017).
- Evans, L., Gebhardt, G., Hoogendoorn, M., Marton, J., Di Pietra, R., Mora, A., Thinggård, F., Vehmanen, P., and Wagenhofer, A. (2007). Problems and opportunities of an international financial reporting standard for small and medium-sized entities, The EAA FRCS's comment on the IASB's Discussion Paper. *Accounting in Europe*, 2(1), 23-45.
- Fearnly, S., and Hines, T. (2007). How IFRS has destabilised financial reporting for UK Non-listed entities. *Journal of Financial Regulation and Compliance*, 15(4), 394-408.
- Gassen, J., and Sellhorn, T. (2006). Applying IFRS in Germany: Determinants and Consequences. <http://ssrn.com/abstract=906802> (accessed 12 April 2015).

- Haller (2008). Does size influence attitudes of preparers of financial statements towards financial accounting – The case of the ED-IFRS for SMEs. Paper presented at the *Annual Conference of the European Accounting Association in Rotterdam*.
- Haller, A. (2002). Financial accounting developments in the European Union: Past events and future prospects. *European Accounting Review*, 11(1), 153-190.
- Hashim, M.F., Nawawi, A., and Salin, A.S.A.P. (2014). Determinants of strategic information disclosure – Malaysian evidence. *International Journal of Business and Society*, 15(3), 547-572.
- Herman, N. (2010). IFRS for SMEs: Not for private American companies. *The CPA Journal*, 80(12), 11-12.
- Husnin, A.I., Nawawi, A., and Salin, A.S.A.P. (2013). Corporate governance structure and its relationship with audit fee – Evidence from Malaysian public listed companies. *Asian Social Science*, 9(15), 305-317.
- Husnin, A.I., Nawawi, A., and Salin, A.S.A.P. (2016). Corporate governance and auditor quality – Malaysian evidence. *Asian Review of Accounting*, 24(2), 202 – 230.
- IASB (2015a). Project History. <http://www.ifrs.org/IFRS-for-SMEs/history/Pages/History.asp> (accessed 16 May 2015).
- IASB (2015b). Who We Are and What We Do - Revised 2015". <http://www.ifrs.org/The-organisation/Documents/2015/Who-We-Are-January-2015.pdf> (accessed 16 May 2015).
- IASB (2016). IFRS for SMEs Fact Sheet. <http://www.ifrs.org/-/media/feature/groups/smes/major-documents/sme-fact-sheet-dec-16.pdf> (accessed 22 August 2017).
- Jaafar, M.Y., Nawawi, A., and Salin, A.S.A.P. (2014). Directors' remuneration disclosure and firm characteristics – Malaysian evidence. *International Journal of Economics and Management*, 8(2), 269-293
- Jaggi, B., and Low, P.Y. (2000). Impact of culture, market forces, and legal system on financial disclosures. *The International Journal of Accounting*, 35(4), 495-519.
- Jais, K.M., Nawawi, A., and Salin, A.S.A.P. (2016). Reduction of audit quality by auditors of small and medium size audit firms in Malaysia: A case of premature sign-off of audit documents. *Journal of Accounting, Business & Management*, 23(2), 1-12.

- Jermakowicz, E., and Gornik-Tomaszewski (2006). Implementing IFRS from the perspective of EU publicly traded companies. *Journal of International Accounting Auditing & Taxation*, 15(2), 170-196.
- Khadijah, A.S., Kamaludin, N., and Salin, A.S.A.P. (2015). Islamic work ethics (IWE) practice among employees of banking sectors. *Middle-East Journal of Scientific Research*, 23(5), 924-931.
- Larson, R.K., and Street, D. (2004). Convergence with IFRS in an expanding Europe: Progress and obstacles identified by large accounting firms' survey. *Journal of International Accounting, Auditing and Taxation*, 13(2), 89–119.
- Leuz, C., and Verrecchia, R.E. (2000). The economic consequences of increased disclosure. *Journal of Accounting Research*, 38, 91–124.
- Maingot, M., and Zeghal, D. (2006). Financial reporting of small business entities in Canada. *Journal of Small Business Management*, 44(4), 513-530.
- Manan, S.K.A., Kamaludin, N. and Salin, A.S.A.P. (2013). Islamic work ethics and organizational commitment: Evidence from employees of banking institutions in Malaysia. *Pertanika Journal of Social Science and Humanities*, 21(4), 1471-1489.
- MASB (2016). *Malaysian Private Entities Reporting Standard*.
- National SME Development Council (2010). *SME Annual Report 2009/10*. Kuala Lumpur
- National SME Development Council (2012). *SME Annual Report 2011/12*. Kuala Lumpur
- National SME Development Council (2016). *SME Annual Report 2015/16*. Kuala Lumpur
- Nerudova, D., and Bohusova, H. (2008). The empirical study of the SMEs position in the process of IFRS for SME application in the Czech Republic. *Economics and Management*, 18, 163-169.
- Nor, N.H.M., Nawawi, A., and Salin, A.S.A.P. (2017). The influence of board independence, board size and managerial ownership on firm investment efficiency. *Pertanika Journal of Social Science and Humanities*, 25(3), 1039-1058.
- Omar, M., Nawawi, A., and Salin, A.S.A.P. (2016). The causes, impact and prevention of employee fraud: A case study of an automotive company. *Journal of Financial Crime*, 23(4), 1012-1027.

- Paseková, M., Müllerová, L., Strouhal, J., and Číževská, L. (2010). IFRS for SMEs: Challenge for emerging countries? Case of Czech Republic and Ukraine. *World Academy of Science, Engineering and Technology*, 66, 1691-1694.
- Radebaugh, L.H., Gray, S.J., and Black, E.L. (2006). *International Accounting and Multinational Enterprises (6th ed.)*. New York: John Wiley & Sons, Inc.
- Rahim, S.A.A., Nawawi, A., and Salin, A.S.A.P. (2017). Internal control weaknesses in a cooperative body: Malaysian experience. *International Journal Management Practice*, 10(2), 131-151.
- Saibon, N.A., Nawawi, A., and Salin, A.S.A.P. (2016). E-filing acceptance by the individual taxpayers – A preliminary analysis. *Journal of Administrative Science*, 13(2), 1-14.
- Salin, A.S.A.P., and Abidin, Z.Z. (2011). Information and communication technologies and local governance trend—A case study of a smart city in Malaysia. In *International Conference on Business and Economics Research, Kuala Lumpur, Malaysia*.
- Salin, A.S.A.P., and Ismail, Z. (2015). Ethics practices of Malaysian public listed companies - Empirical evidence. Paper presented at the *10th Annual London Business Research Conference, 10 - 11 August 2015, Imperial College, London*.
- Salin, A.S.A.P., Kamaluddin, N., and Manan, S.K.A. (2011). Unstoppable fraud, scandals and manipulation - An urgent call for an Islamic-based code of ethics. In *2011 International Conference on Sociality and Economics Development. Singapore*.
- Salin, A.S.A.P., Kamaludin, N., Ab Manan, S.K., and Ghafar, M.S.A. (2012). Directors' Islamic code of ethics. *World Academy of Science, Engineering and Technology, International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*, 6(4), 560-562.
- Salin, A.S.A.P., Manan, S.K.A., Kamaluddin, N., and Nawawi, A. (2017). The role of Islamic ethics to prevent corporate fraud. *International Journal of Business and Society*, 18(S1), 113-128.
- Senik, Z.C., Isa, R.M., Scott-Lad, B., and Entrekin, L. (2010). Influential factors for SME internationalization: Evidence from Malaysia. *International Journal of Economics and Management*, 4(2), 285-304.
- Storey, D. (1994). *Understanding the Small Business Sector*. London: Routledge.

Suhaimi, N.S.A., Nawawi, A., and Salin, A.S.A.P. (2016). Impact of enterprise resource planning on management control system and accountants' role. *International Journal of Economics and Management*, 10(1), 93-108

Taylor, M., and Murphy, A. (2004). SMEs and e-business. *Journal of Small Business and Enterprise Development*, 11(3), 280-289.

Yu, G. (2010). Accounting Standards and International Portfolio Holdings: Analysis of Cross Border Holdings Following Mandatory Adoption of IFRS. *Working Paper*, University of Michigan, US.

Zakaria, K.M., Nawawi, A., & Salin, A.S.A.P (2016). Internal controls and fraud – empirical evidence from oil and gas company. *Journal of Financial Crime*, 23(4), 1154-1168