

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In this chapter, the study delves on what several scholars, authors, local organisations, international organisations, and researchers have articulated on International Financial Reporting Standard (IFRS) adoption, Malaysian Private Entities Reporting Standard (MPERS) adoption, quality of financial reporting, and Small and Medium Enterprise (SMEs). This chapter is aimed at reviewing what individuals and institutions have developed in terms of knowledge on the research topic, and specifically will review the details through empirical literature.

This chapter focuses on the literature review that is relevant for the study, particularly with regard to SMEs' use of MPERS and the quality of company financial reporting. There were seven (7) main sections in this chapter. The first section about the legislation and regulation of financial reporting of SMEs in Malaysia. Secondly, provides an overview of MPERS adoption in Malaysia. Thirdly, this chapter explains about SMEs in Malaysia. Fourthly, it represents MPERS on SMEs. Fifthly, it will focus on presenting about qualitative characteristics of financial reporting quality. Then, it focuses on the relationship between MPERS and financial reporting quality. Finally, it presents the gap of the study and the other section represents and theories. This chapter end with a summary.

2.2 Legislation and Regulation of Financial Reporting of SMEs in Malaysia

The International Accounting Standards (IAS) is the first or earliest international standard introduced by the International Accounting Standards Committee (IASC) and was established from 1973 to 2000. IAS is introduced to ensure businesses are manageable to be comparable to other businesses around the world, improve transparency and trust in financial reporting, and encourage worldwide trading and investment. Then in 2001, the IAS was a prior standard that was changed and replaced by International Financial Reporting Standards (IFRS), and, sometimes, IFRS is confused with the IAS. The International Accounting Standards Committee (IASC) has been replaced by the International Accounting Standards Board (IASB). On July 9, 2009, the IASB and the IFRS Foundation were issued and introduced as IFRS for Small and Medium Enterprises (SMEs). Not less than 35 countries, as well as Malaysia, are anticipated to follow the IFRS framework (Salin, 2017).

IAS's goal for IFRS is to set some guidelines so that financial statements can be comparable, consistent, and transparent around the world. This specifies a way to explain the performance of the company's financial statements, so it can be comprehensible and comparable worldwide (Palmer, 2020). They reflect a structured way in which businesses must handle and disclose their accounts, and classify types of transactions and other financial impact events. To create a general accounting language, IFRS was released in order to enable businesses and financial statements to be compatible and accurate for local and foreign businesses. In preparing financial statements, IFRS provides general guidelines and then sets a specific standard reporting for the industry.

For the largest business that has subsidiaries in different countries, it is important to have an international standard. By following the international standard, accounting practices can be simplified by allowing businesses to use only one reporting language. With this single standard, investors and auditors will be given a coherent view of finance. In contrast, the American Institute of Certified Public Accountants (AICPA) (2020) describes IFRS for SMEs as a completely altered and simplified version of IFRS to meet the requirement of private enterprise financial reporting users. It also aims to use a cost-benefit analysis to reduce the financial reporting load on private businesses. Full IFRS for SMEs and IFRS are declared by the IASB. Every three years, the IASB conducts a comprehensive review of IFRS for SMEs, to ensure that its terms remain relevant and up to date. IFRS for SMEs are intended for use by SMEs, which specifically businesses that issue general purpose financial statements to external users but do not have general accountability.

Companies registered in Malaysia are required to prepare statutory financial statements in accordance with the Financial Reporting Framework in Malaysia. This financial reporting framework is intended as a guide to ensure that each of the required features is met. In 1978, MIA and MICPA published accounting standards in Malaysia, which can be enforced under their code of ethics. In 1997, parliament introduced the Malaysian Accounting Standards Board (MASB) as an independent authority to introduce the accounting and financial reporting framework in Malaysia. Team (2016) stated that previously, SMEs refer to Private Entity Reporting Standards (PERS), which is seen as outdated because it has not had any updates since the previous IAS, which took place in 2003. In 2006, MASB introduced PERS to be adopted by private entities to report annual financial reporting without having to comply with the complicated international accounting

standards which are IFRS. PERS removes some of the less beneficial decision-making and burdensome disclosure requirements for private entities to comply with. The statements prepared must comply with the approved accounting standards set by MASB. This prescribed financial reporting framework applies to all companies registered in Malaysia. Foreign companies are not much different either. Foreign companies listed on the Malaysian Stock Exchange may prepare their financial statements or reports in accordance with internationally recognized accounting standards. For example, one of the internationally recognized standards is the IFRS.

For non-private entities, effective from 1st January 2012, the MFRS framework was introduced, which is an IFRS-compliant framework that increases the credibility and transparency of the financial reporting regime in Malaysia, enabling Malaysian companies to move towards a level playing field in the international arena. All non-private entities in Malaysia except Transitional Entities are required to use the MFRS framework issued by MASB.

Since PERS was introduced and adopted by private entities to provide financial reporting, in 2006, PERS has not been updated to incorporate the changes. In February 2014, MPERS was introduced by MASB and sets new accounting standards in Malaysia for the financial reporting framework of private entities. In May 2015, MPERS was revised based on IASB standards, namely IFRS for SMEs. All private entities, including SMEs, are required to adopt MPERS for annual periods beginning on or after 1st January 2016 to prepare their financial reporting. There is a 10-to-11-year gap between PERS and MPERS before MPERS is adopted by private entities (MASB, 2016).

To conclude, there are three types of accounting standards certified in Malaysia. Firstly, MFRS is a standard certified by MASB for entities, but not subject to private entities. Secondly is PERS which is the MASB-certified accounting standard for all private entities. However, this ruling has been withdrawn as of January 1st, 2016. Lastly, MPERS where replaces PERS and has been effective since January 1, 2016. With the implementation of the new MPERS, private entities can now choose between the existing PERS framework or using the MPERS in preparing their financial reports (MASB, 2014).

2.3 Malaysian Private Entities Reporting Standard (MPERS): An Overview

The latest private entities of financial reporting framework, known as Malaysian Private Entities Reporting Standard (MPERS) has been issued and introduced by the Malaysian Accounting Standards Board (MASB) and has revised other standards for non-private entities. Private entities must adopt the MPERS in their financial statements starting on or after January 1st, 2016. Apart from income tax and property development activity standards, MPERS according to the International Financial Reporting Standard for Small and Medium Enterprises (IFRS for SMEs) published by IASB in July 2009. Up to the present, more than 80 countries have adopted IFRS for SMEs or have reported to do so. According to Aziz et al. (2019) has stated that, the transfer to MPERS initially faced specific obstacles or challenges when the structure was implemented and presented in 2013 and internationally as a factor in the transition to major global taxation systems, goods and services taxation (GST).

MASB (2016) released amendments to MPERS in October 2015, which are similar to the IFRS amendments for SMEs released in May 2015 by the IASB. The amendments

make some slight adjustment to the MPERS requirements, that include additional information or instructions on specifications, and conform to MFRSs with some standards. The amendments can be addressed for financial statements issued on or after January 1st,2016, with early adoption acceptable. However, there are some variations and changes to the initial IFRS for SMEs in Section One which represents Private Entities, Section Nine, which is known as Consolidated and Separate Financial Statements and Section 34 known as Specialised Activities. These changes are significant because it improves the comparability standard with the financial statements of SMEs in other countries and decreases their sophistication so that SMEs can easily implement it and provide users with more detailed and accessible information.

Beginning on or after 1st January 2016, financial statements based on the MPERS framework are valid, with early implementation allowed. As of 1st January 2016, when preparing their financial statements, all private entities, involving SMEs, were incorporating to use the MPERS. There are three choices for using or applying the accounting standard for Malaysian private entities. They could use the Private Entity Reporting Standard (PERS), or latest financial reporting framework MPERS, or the Malaysian Financial Reporting Standards (MFRS). They have the option of sticking with the existing PERS framework, implementing the MFRS framework (which is required for non-private entities excluding transitional businesses), or shifting to the new MPERS framework on January 1, 2016. A latest study by Jamil et al. (2020) reported that, for private entities in Malaysia, the MPERS specifications and guidelines would be appropriate. MPERS does not come with comprehensive implementation instructions in

certain complicated areas. For their accounting specifications, large private entities need to adhere to the MFRS standard guidelines.

One study by Salin (2017) stated those who choose to adopt PERS and MPERS must comply with these requirements beginning on or after January 1st, 2016, and ending on or after January 1st, 2012, for annual MFRS. Private entities now have the alternative of continuing with the existing PERS framework, or implementing the MFRS framework, or pursuing the compulsory migration to the latest MPERS standard by 1st January 2016. Since adaptation for the first-time adoption of MPERS is difficult, private entities must prepare ahead if they want to transfer to the MPERS or MFRS standard soon.

Furthermore, private entities who do not want to implement MPERS can adopt the MFRS framework. According to Team (2016), SMEs are referring to the PERS, which are deemed outdated based on previous standard which was International Accounting Standards (IAS) as of 2003. As compared to PERS by a study of Sia et al. (2018), MPERS restrict the application of accounting policy and can cause problems for businesses planning to transition to this framework. Businesses in the construction and property development industries, for example, would be affected by the new borrowing cost system because it must now be reported as an expense rather than capitalised.

There are few changes or impact from the adoption of MPERS. The concept of undue cost or effort exemption is one of the significant keys or impacts between MPERS and MFRS. According to Tan (2015), the original MASB (2014) issued numerous measurement exemptions based on undue cost or effort. The term "undue cost or effort" was, however, left undefined. The MASB (2015) amendment to the MPERS clarifies whether obtaining or deciding the information required to meet a requirement, both will

lead the undue costs or effort to be determined by the entity's specific circumstances and management's cost-benefit analysis. This requires consideration of how the lack of information will affect the economic decisions of those who will be using the financial statements. The exception is included in a study by Yeap (2017) in which report to assist first-time adoption companies is not consciously specified under MPERS. If compliance will result in undue management costs or effort, there is an exemption that allows an entity to avoid from complying with certain MPERS requirements. This is particular to the entity's circumstances, and it requires management judgement in evaluating the costs and benefits. If an asset or liability incurs undue costs or effort during the valuation process, MPERS has introduced the concept of undue cost or effort, which exempts it from applying the fair value approach (MIA, 2018).

There have also been significant changes in the concept of "fair value less cost to sell" measurement. In terms of the general criteria, MPERS does not specify how fair value should be measured for each type of asset or liability, particularly non-financial assets. In circumstances that lack clarification during the fair value measurement process, SMEs are therefore expected to apply professional judgment. In addition, MPERS does not provide guidance or define the types of markets to which SMEs are expected to deal in, and widely disseminated information provides preparation with a surfeit of choice, and their decisions could lead to erroneous and varied fair value measurements (MIA, 2018).

Then, in Section 13, under inventories, which is a costing method, last-in, first-out (LIFO) is disallowed, which is a significant key impact or change of MPERS. In MPERS, the last-in, first-out (LIFO) method for determining inventory costs is disallowed. If the result approximates cost, the standard cost method, retail price method, or most recent

purchase price can be used to measure inventory costs. The PERS allows the LIFO formula to measure inventory costs but cannot be used for MPERS and MFRS (Tan, 2015). Entities using the LIFO cost formula must recalculate inventory costs using a permissible cost formula (for example, first in, first out (FIFO), or weighted average) on the date of transition. This would go a long way toward making the transition to a non-LIFO inventory costing method in fiscal year 2016 go more smoothly, and it would significantly reduce the pain of recalculating inventory costs in the first year of MPERS adoption. If the carrying amount is not entirely recoverable, entities must be prepared to determine possible inventory impairment at each reporting period, starting on the date of transition.

In 2017, Prochazka published a paper in which the shift to MPERS will be challenging, as the process of adjustment will actually require retraining and relearning to get it accurate. Furthermore, it is important to agree on the implications of shifting to MPERS in order to keep up with market trends, which are not always as simple from the developer's viewpoint. Frequent changes in the conceptual context, according to Aziz et al. (2019), are challenging for developers to learn, adapt, change and become flexible.

In addition, another issue is the lack of qualification, which is caused by the fact that SMEs vary greatly in scale, thus limiting the ability to afford better accounting services. MPERS, on the other hand, would find it challenging to compare and may impact the accuracy of the financial reporting standard, with very little information and implementation guidelines. According to several studies, SMP services are currently used by SMEs for auditing and other employment purposes, but developers are extensively represented in the private sector and are not confined to accounting. This will increase the

demand for SMP services, which currently used by SMEs for auditing and other employment purposes (Ametorwo, 2016; Yasser et al., 2017; Accountants, 2017).

The questionnaire about MPERS adoption shown in Appendix 1 were developed from the MPERS framework and IFRS for SMEs framework. It was built from this framework because it wants to see the extent of MPERS had been adopted. In MPERS, presentation and disclosure, going concern, and consistency are the important elements of financial reporting. The details are explained as follows:

2.3.1 Presentation and disclosure

The purpose of MPERS is to provide a framework for the presentation of general-purpose financial reporting so that they may be compared to prior periods' financial statements as well as financial statements from other companies. To attain this purpose, this standard lays forth the overall considerations for financial statement presentation, structure standards, and minimum requirements for financial statement content. Other MASB standards deal with recognition, measurement, and disclosure of certain transactions and events (MASB, 2014). The timely release of all facts about a company that may influence an investor's decision is referred to as disclosure. It discloses both positive and bad news, data, and operational information that have an impact on company's operations.

2.3.2 Going concerned

Management should evaluate an entity's capacity to continue as a going concern when preparing financial statements. Unless management intends to liquidate or

discontinue trading, or has no practical alternative, financial statements should be prepared on a going concern basis. When management is aware of material uncertainties relating to events or conditions that could put the company's ability to continue as a going concern in risk, those uncertainties should be reported. When financial statements are not prepared on a going concern basis, the fact, as well as the basis on which the financial statements were prepared and the reason why the business is not regarded a going concern, should be declared (MASB, 2020).

2.3.3 Consistency

Consistency in accounting means that a entities financial statements are prepared using the same accounting principles, methods, practices, and procedures from one accounting period to the next. This helps financial statement users to make relevant year-to-year comparisons.

MPERS gives the most flexibility when it comes to accounting for associate investments. An investor can choose to account for associate investments using (a) the cost model, (b) the equity approach, or (c) the fair value model as an accounting policy. Furthermore, because any associates quoted by an entity using the cost model must be measured using the fair value model, consistency in measurement is not necessary. MPERS does not require the implementation of a consistent accounting policy. The measurement model that was previously subjected to an accounting policy option between the cost model and the fair value model must now be subjected to MFRS (Tan, 2014).

2.4 Small and Medium Enterprises (SMEs)

Based to the most recent information from the Department of Statistics' Malaysia (DOSM), Statistical Business Register Malaysia (SBRM), Small and medium enterprises (SMEs) in Malaysia represent 97.2 percent or 1,151,339 of total business establishments in 2020. The services sector has regularly accounted for more than 80 percent of all SMEs, with 85.5 percent contribution (or 984,643 SMEs) in 2020. With a 7.4 percent contribution, the construction industry overtook agriculture as the second largest contributor of the year (85,637). Meanwhile, manufacturing accounted for 5.1 percent of SMEs (58,439), agriculture for 1.7 percent (19,130), and mining and quarrying for the remaining 0.3 percent (3,490). Micro enterprises accounted the highest percentage for 78.4 percent (903,174) of all SMEs. From 2015 to 2020, there was an increase of 209,504 micro enterprises, with an average annual growth rate of 5.4 percent. Small businesses accounted for 20.0 percent (229,876) of all SME establishments, while medium businesses accounted for 1.6 percent (18,289).

The explanation and definition of SMEs were reviewed in 2013, in light of the significant changes in the economy since 2005, including price inflation, structural changes, and shifting market trends, and a revised SME definition was authorised at the 14th NSDC meeting in July 2013. Services, manufacturing, agriculture, construction, and mining and quarrying are all included in the definition. The following are two factors used to determine the definition on a "OR" basis: sales turnover and the number of full-time employees (SME Corp. Malaysia, 2013).

- SMEs in the manufacturing sector are classified as businesses with a sales turnover of less than RM50 million or not more than 200 full-time employees.
- SMEs in the services and other sectors are defined as businesses with a sales turnover of less than RM20 million or less than 75 full-time employees.

Detailed definitions of each category, namely micro, small, and medium, are given below:

Table 2.1: Definition by Size of Operation

Manufacturing	Category	Services and Other Sectors
Sales turnover: RM15 million ≤ RM50 million or Employees: From 75 to ≤ 200	MEDIUM	Sales turnover: RM3 million ≤ RM20 million or Employees: From 30 to ≤ 75
Sales turnover: RM300,000 ≤ RM15 million or Employees: From 5 to < 75	SMALL	Sales turnover: RM300,000 ≤ RM3 million or Employees: From 5 to < 30
Sales turnover: < RM300,000 or Employees: < 5	MICRO	Sales turnover: < RM300,000 or Employees: < 5

Sources: SME Corp. Malaysia (2013)

All SMEs must be registered with Suruhanjaya Syarikat Malaysia (SSM) or other similar bodies under the new definition. It does, however, exclude the following:

- Entities that are listed on the main board and are open to the public; and
- Subsidiaries of: Main board publicly listed companies; Multinational corporations (MNCs); Government-linked corporations (GLCs); State-owned enterprises; and Syarikat Menteri Kewangan Diperbadankan (MKDs)

However, if the business fits one specific qualifying requirement among the various sizes of operations, the smaller size will be applicable. According to one of Chiao et al. (2006)'s studies, SMEs are crucial to a company's development and growth. Not only in developing countries, but also in developed economies, it is important.

2.5 Malaysian Private Entity Reporting Standard (MPERS) Adoption for Small and Medium Enterprises (SMEs)

SMEs play a crucial part in the Malaysia economic growth. Malaysia has become one of the world's most open economies as a result of its recent trend of rapid economic development and industrial growth. Thus, in economic development, SMEs are important and shall not be oversimplified, as they contribute significantly to global trade and growth of the economics (Pais and Bonito, 2018).

Malaysia introduces IFRS for SMEs under the Malaysian Private Entities Reporting Standard (MPERS). The MASB has updated various non-private entity standards as well as the most recent financial reporting standard for private entities, known as MPERS. The obligations for private entity reporting came to an end with the launch and will no longer be in place as of January 1, 2016. On January 1st, 2016, SME's will start a smooth transition to the Malaysian Private Entities Reporting Standard (MPERS) (MASB, 2014). Beginning on or after January 1st, 2016, all private entities must use the MPERS to prepare financial reporting. With the exceptions of income tax and property development activities, the MPERS is a word-for-word IFRS for SMEs introduced by the IASB in July 2009. To date, over 80 countries have implemented or announced plans to adopt the IFRS for SMEs. Apart

from property development standards for those involved, the MPERS is identical to the IFRS for SMEs introduced by the IASB.

MPERS is seen as being capable of enhancing the accuracy and comparability of local SME firms' financial statements. In 2019, Aziz et al. published a paper in which they focus on the readiness and challenges of the MPERS. From the finding, only got an 18percent response rate. The finding indicates that level of readiness toward MPERS in Malaysia is in favour of the implementation of MPERS. In fact, the accountants or auditors were personally in favour of MPERS adoption and understood the necessity of adopting it for future implementation. Regarding challenges, the majority highlighted the importance of acquiring the necessary professional training in order to meet the newly introduced standard. It also stated that MPERS should certify financial reports and statements from SMEs as compliant and comparable to those from foreign SMEs who adopted IFRS for SMEs for their reports with a little adaptation to the Malaysian business environment. Particularly, MPERS was applicable with an emphasis on private entities, covering 35 parts from 1st January 2016. This is considered to be similar to the simpler MFRS, although it differs from PERS in such accounting policy decisions that are no longer applicable in MPERS.

According to Aziz et al. (2016), micro-enterprises make up the most of SMEs and Small and Medium Practices (SMPs), contributing for 90.5 percent of the country's revenue. As a result, in order for businesses to become more sustainable, the emphasis on cash flow and operations must be broadened and expanded to include other issues like financial statements. A latest study by Jamil et al. (2020) reported about insights from accounting practitioners in Malaysia about MPERS adoption for SMEs. A total of 176

respondents took part in the survey who had exposure to MPERS. The results contribute to issues among practitioners, and it is clear that more actions need to be taken, particularly by the regulator or standard-setter, to lessen the conflicting decisions made by professional accountants when interpreting the standard. The financial reporting regulatory standard for SMEs is complicated, especially because SMEs comprise the majority of Malaysia's GDP. The possibility of reducing the reporting burden could highlight the strengths of a significant sector for Malaysia's economy. As a result, MPERS implementation is one potential path to simplification that should be considered.

A private entity that adopts MPERS early will see a significant improvement in terms of bringing its financial reporting up to date with current global financial reporting, as well as other advantages such as simplified treatments and presentation, accounting policy options, and fewer rule-based requirements. MPERS provides cost models available if a private entity prefers those (Jamil et al., 2020). One study by Team (2016) stated that the MPERS is therefore introduced with the goal of allowing small and medium-sized businesses to place main significant on financial reporting and disclosure in order to differentiate between local and global markets. In line with global best practices, the new framework adopted will help SMEs and SMPs to handle their company better.

SMEs are having some difficulties implementing the MPERS, while knowing its benefits, according to Jamil and Rusli (2021), who released the study on SMEs. These are just a few of the issues, all of which contribute to higher expenses and efforts. Other difficulties include the complexity of standards, which causes technical difficulties, MPERS ambiguity due to technical language and terms, as well as a lack of suitable resources to refer to. According to Jamil et al. (2020), there are a number of problems with

the MPERS' implementation, including inaccuracies, a lack of certainty, a lack of guidance, a high level of ambiguity, and other problems with utilising professional judgement while using the MPERS. Accounting professionals believe that MPERS for SMEs does not offer enough guidelines to enable them to apply their professional judgement.

With the adoption of MPERS, private entities will have more robust financial reporting, that will improve their quality, transparency, and comparability internationally, as well as their access to finance locally and internationally. With the benefit of hindsight, accountants may use MPERS to unlock value in the entity if it decides to go public. Compliance with MPERS has a lot of potential benefits for SMEs and SMPs. Since the MPERS framework requires complete transparency, adoption of this standard would improve private entity transparency while also improving investors and bankers' confidence. Accounting professionals assume that MPERS for SMEs does not present sufficient guidance to assist them in exercising their professional judgments.

2.6 Financial Reporting Quality

Financial reporting is an essential way of reporting financial information to parties outside the organisation. Syahputra and Saraswati (2020) reported that, a third-party audit of the financial statements is needed to improve the quality of financial information reported by management. Both management and users of external financial information have an asymmetrical piece of information and a potential conflict of interest. It is for a financial statement to help users; so, financial statements should contain a high level of information value and usable information for decision-making.

In previous study that focused on both financial and non-financial information that is beneficial for making decision, it was included in financial reports that establishing the quality of financial reporting (Akeju and Babatunde, 2017). These qualitative features boost the facilitation of the evaluation of the importance of financial results, which would also lead to a high standard of quality. To meet this criterion, according to Gajevszky (2015), financial reports must be comparable, faithfully represented, timely, understandable, and verifiable. Accordingly, the emphasis is on transparent financial reporting and not manipulating users, as well as the significant of consistency and predictability as a higher quality of financial reporting measure.

The International Financial Accounting Standard Board (IASB), the International Federation of Accountants (IFAC), and the International Accounting Standard Board (IASB) have all released conceptual measurements of financial report qualitative characteristics. This calculation primarily gives a systematic approach for evaluating the entire spectrum of qualitative features in a financial report. According to the literature, IFAC (2015) stated the qualitative characteristics as many dimensions that have been accepted by all of this. When deciding on financial reporting standards, qualitative characteristics or qualities such as the concept of contextual relevance, faithful representation, comparability, understandability, and timeliness are frequently examined.

Therefore, in 2016 MPERS financial statements, MASB stated the qualitative characteristics of information including understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost. Only five (5) qualitative characteristics will be discussed in this study including relevance, timeliness, comparability, understandability, and

reliability. These five qualitative characteristics were chosen from similarities in IFRS (IFAC, 2015) and MPERS (MASB 2016). Faithful representation only in IFRS, but not in MPERS. Reliability in MPERS was chosen based on a study from Cheung et al (2010), which mentioned that, reliability is assessed based on the quality of faithful, verifiable, and neutral information. By selecting these five characteristics, the quality of financial reporting can be seen as the similarities or differences between MPERS and IFRS. The five (5) qualitative characteristics are further explained as below:

2.6.1 Relevance

Relevance is linked to the phrase's usefulness and materiality. BPP (2014) discovered in a study of financial reporting quality that relevance reflects users' decision-making abilities. Relevant data can significantly change a user's decision-making process. The information's relevance is influenced by its structure and materiality. According to Ezelibe et al. (2017), information is only useful if it is relevant to user-focused issues. It can make a difference in decision making whether information has confirmatory, predictive, or both significances.

The information prepared in financial statements, according to Herath and Albarqi (2017), must be relevant to users' decision-making needs. Financial report information is stated to be of high quality since users will be impacted by it when making economic decisions. This information can be useful since it enables users to assess, correct, and verify current and historical events. As MASB (2016) points out, information is relevant because it can support users in making better economic decisions by assisting them in analysing past, current, and future events, as well as verifying or correcting earlier assessments.

According to a recent study by Syahputra and Saraswati (2020), information is relevant if: (a) the direct value of the information enables the user to assert or correct their expectations in the past; (b) predictive value and the information, based on past results and current events, helps users predict future times; (c) information is delivered in a timely manner to influence and benefit decision-making; and (d) complete, with government financial account information, including all accounting information that can impact decision-making by observing existing constraints.

In the questionnaire, there are five (5) questions about the relevance that build based on the previous study in MPERS, IFRS, relevance qualitative characteristic, and also from MPERS framework such as from Mwambu H. E. (2018), MASB (2014), Herath and Albarqi (2017), and Syahputra and Saraswati (2020). The questions about relevance are determined in the terms of annual report disclose, predictive value, opportunities and risk, non-financial business, and feedback information.

2.6.2 Timeliness

In a study of quality financial reporting, Beest et al. (2009) and Herath and Albarqi (2017) reported that, timeliness clarifies information as needs to be made accessible to user's decision making before it loses their powerful and good influence. The period between the end of the year and the issuance period of the auditor's report is used to classify timeliness when determining the quality of reporting in an annual report. It took the auditor a long time to sign the report after the fiscal year ended.

Based to MASB 2016, within the decision timeframe, timeliness requires presenting the details. If information is reported with an unreasonably long delay, it may lose its

relevance. The relative benefits of timely reporting and reliable information delivery will have to be assessed by management. The major aspect in maintaining a balance between relevance and reliability is how to appropriately satisfy the user's needs in making economic decisions.

Timeliness question in the questionnaire is based on prior study timeliness qualitative characteristic, IFRS, MPERS, and also from framework MPERS from Beest et al. (2009), Zandi and Abdullah (2019), Gajevszky (2015), MASB (2014), and Herath and Albarqi (2017). The question that represents timeliness is about decision-makers, decision time frame, timely reporting, balance sheet date, and undue delay.

2.6.3 Comparability

Herath and Albarqi (2017) stated comparability as the view in which financial statements can be compared to determine an entity's financial position, cash flow, and performance. If information can be compared to relevant information from other entities as well as information from the same entity for a different time period or date, it is comparable. Users can compare businesses over time and within the same timeframe using this comparison. One study by Syahputra and Saraswati (2020) presents that, the information involve in the financial statements are of greater use in comparison with the financial statements of the previous year or other reporting entities in general.

According to MASB (2016), Users must be able to compare an entity's financial statements over time and from other entities in order to analyse their financial position, performance, and cash flows in order to determine trends in cash flow and financial position performance. As a result, the financial effects of business transactions and other

occurrences and circumstances for that entity must be measured and reported consistently within and across businesses, throughout time. Users should be aware of the accounting standards that are utilised to prepare financial statements, as well as any policy changes and their effects.

Questionnaire development in Section B for comparability shown in Appendix 1 was built from Syahputra and Saraswati (2020), Mwambu H. E. (2018), MASB (2014), and also Herath and Albarqi (2017). It was based on previous MPERS study, IFRS, comparability qualitative characteristic, as well as the MPERS framework. The questions are about accounting policy, the entity's previous accounting period, accounting results, information in the annual report, and financial index.

2.6.4 Understandability

One of the important qualities of information, according to Herath and Albarqi (2017), is the ability to understand financial reports. Effective communication is what leads to a high level of understandability. As a result, the higher the financial reporting quality, the better the users' understanding of the information. The principle of delivering financial information in such a way that users can understand it easily is known as understandability. Adhering to a reasonable degree of understanding will prohibit a business from distorting financial information in order to deceive financial statement users. Recent studies clarify that, users should understand the details contained in financial statements and express them in specific terms and ways towards the limits of consumer understanding (Syahputra and Saraswati, 2020).

Users can understand their needs when annual reports are well structured. Users with a general understanding of business and economic activities, as well as a willingness to review the information with reasonable care, should be capable to understand the financial statement information. Nonetheless, the requirement for understandability may prevent relevant information from being excluded on the basis that it is too difficult to comprehend for some users (MASB, 2016).

The construction of the questionnaire about financial reporting quality for comparability was based on prior MPERS studies, IFRS, the qualitative characteristic of understandability, and the MPERS framework. The prior studies including Mwambu H. E. (2018), Herath and Albarqi (2017), Syahputra and Saraswati (2020), MASB (2014). The questions are about annual report organised, disclose of financial statement, notes of financial statement, language and technical terms, and comprehensive glory.

2.6.5 Reliability

Another significant factor in financial reporting quality is reliability. In a study on financial reporting quality, Tontiset and Kaiwinit (2015) found that financial reporting reliability is defined as the accuracy with which published financial statements are prepared to provide users with valuable information when making economic decisions. Financial reporting's quality and reliability must be based on information in order to be useful. When the information that users rely on is free of biases and information inaccuracies, this level of quality is achieved. Cheung et al. (2010) discovered that the criteria of faithful, verifiable, and neutral information are used to assess the quality of financial reporting.

According to Romney and Steinbart (2017), reliability includes honesty, verification, and impartiality.

MASB (2016) stated that the financial statements need to include reliable information. Faithful information represents what it is either deliberate to represent or can fairly be expected to represent when it is free of material error and bias. If financial statements are meant to influence decision-making or judgement by selecting or presenting information in order to achieve a predefined goal or result, they are not bias-free.

One study found that reliable information had the following qualities: (a) truthful presentation; the data reveals honest transactions and other events that are intended to be exhibited or can reasonably be assumed to be provided. When the information in the reviewed financial statement is evaluated by a different party more than once, the results are always less transparent; (b) verifiability; (c) neutrality; the information is directed at reaching general needs and does not ultimately result in having met the needs of a particular party (Syahputra and Saraswati, 2020).

There are five (5) questions about reliability in the questionnaire from MASB (2014), Syahputra and Saraswati (2020), Tontiset and Kaiwinit (2015), and Mwambu H. E. (2018), which are based on a previous study in MPERS, IFRS, reliability qualitative characteristics, and the MPERS framework. The questions about reliability include about reported regularly, free from bias, free error, information complete, and manipulation.

Table 2.2: Summary of Studies on Financial Reporting Quality

Author & Year	Aim & Objective	Finding & Conclusion
Akeju and Babatunde (2017)	The study of quality financial reporting and corporate governance in Nigeria.	Positive relationship in Nigeria between corporate governance mechanisms and the financial reporting quality.
Gajevscky (2015)	To investigate the quality of financial reporting individual financial statements of entities listed.	The consistency of financial statements and the performance and cash flows of businesses have a clear connection.
IFAC (2015)	To establish principles for the presentation financial instruments.	It refers to the classification, from the perspective of the issuer, of financial instruments into financial assets, financial liabilities, and equity instruments.
Ezelibe et al. (2017)	Study of the quality of quoted companies in Nigeria in corporate governance and financial reporting.	Timeliness is measure of the transparency and financial reporting quality. Minimise timeliness to the barest minimum and to achieve the goal of making financial statements readily available for timely decisions.
Beest et al. (2009)	To develop and test a compound measurement tool to evaluate the financial reporting quality.	Reliable approach to measuring the financial reporting quality is supported by empirical findings. Quality evaluation is robust in terms of the effect of various weightings on both fundamental and enhanced qualitative features.
Herath and Albarqi (2017)	To review the quality of financial reporting and the measurement of it.	The finding of this study provides a comparative analysis of financial reporting quality influences and measures. It also discusses some gaps in the literature and offers recommendations for future studies.
Tontiset and Kaiwinit (2015)	To assess the degree of effectiveness of the internal control system for Thailand's listed companies.	Successful accounting information from the results of the study has three dimensions, namely effective planning, efficient controlling, and promoting decision and communication.
Cheung et al. (2010)	By reviewing how to improve the qualitative characteristics of significance, reliability, comparability, and understandability between 1961 and 2004 in Australia.	The outcome shows that relevance was the dominant element in the 1960s and 1970s, but more recently, it has been challenged by reliability, which is now just as essential. Comparability emerged as a secondary aspect of quality in the late 1980s with the pursuit of international harmonisation of accounting standards and the globalisation of global markets. At the same time, understandability also emerged as a lesser factor, with early debates centring on "everyday language"
Romney and Steinbart (2017)	Providing an overview of accounting as an information system.	A company needs to take the right steps by using the strategic mode so that the company does not collapse from the enormous makeover it can get from the strategic mode. Making sure that a business has a contingency plan in place will also help ensure that the business will not fail if there is a disaster of any sort.
Syahputra and Saraswati (2020)	Identity and analyse of the impact on the financial reporting quality of environmental uncertainty and external pressure.	The quality of financial reporting was improved by external pressures. External pressure, in the form of legislation or regulation. Environmental uncertainty improves the quality of financial reporting.

Mwambu H. E. (2018)	To ascertain the relationship between IFRS and financial reporting quality by SMEs.	Financial reporting quality have a positive linear relationship with MPERS adoption. Faithful representation, comparability and relevance stood out.
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Sources: Compilation of prior literature by the author

2.7 MPERS Adoption and Financial Reporting Quality

The concept of quality was essential to an understanding of a global framework for financial reporting, regulation, and accounting standards. One of the most frequent reasons stated for MPERS adoption is to improve quality financial reporting. But the question of how this quality can be operationalised and measured is the main challenge found in most previous literature.

According to MASB (2016), presentation of information is not enforced by MPERS framework when MPERS framework does not deal with the presentation by a private entity of the segment information, earnings per share or interim financial reports. An entity that making these disclosures shall outline the basis on which the information is prepared and published. The objective of financial reporting is to provide information on the company's financial position, financial performance, and cash flows to a wide range of users who are making economic decisions. As a result, in order to ensure compliance, financial statement preparers should strive to provide users with valuable information.

MASB (2016) also examined the consistency of presentation demonstrated, in which an entity must keep the presentation and classification of items in financial statements consistent from one period to the next, until it is clear that another presentation is required due to a significant change in the nature of the entity's operations, or an examination of its financial statements or classification would be more suitable, given that the selection and implementation requirements for accounting policies in accounting

policies, estimates and errors, or the MPERS framework needs a change in the presentation. Comparative amounts must be reclassified by the entity when changes to the presentation or classification of financial statement are made unless the reclassification is not necessary. When comparative quantities are reclassified, the entity must disclose the reason for the reclassification, as well as the purpose of the reclassification, the value of each item or class of items reclassified, and the value of each item or class of items reclassified.

In 2016, the MASB stated that, by using this MPERS framework, an entity's management will determine the entity's ability to continue to be a going concern in the preparation of financial statements. An entity is a going concern if management intends to liquidate or discontinue operating, or if there is no other viable option. Management considers all available future information, which is at least twelve months from the reporting date but not limited to, in determining whether the current concern assumption is appropriate. An essential concept in the preparation of financial statements is the assumption of going concern. Under the assumption of current concern, a company is usually shown to remain in operation for the near future with neither the intention nor the need under the laws or regulations to liquidate, stop trading or seek creditor protection. In order to reassure themselves that the assumption of the current concern is used as the basis for preparation, management and managers are required.

Considering the imperative need for retraining and relearning during the switchover process to MPERS, the transition will be difficult (Prochazka, 2017). In fact, it is important to stay current with market changes that are difficult for users to understand in addition to agreeing on the advantages of switching to MPERS. Additionally, because SMEs range in size, a talent shortage seems to be a concern. This limits the opportunity to seek for better

accounting services. In contrast, MPERS would be challenging to compare and could undermine the financial reporting structure due to its lack of detail and implementation guidelines. The market services for SMP, which SMEs still utilise for audits and other duties, on the other hand, are frequently marketed in a positive light and are not confined to accounting. This may considerably boost the market services for SMP (Ametorwo, 2016; Accountants, 2017; Yasser et al., 2017). One study by Jamil and Rusli (2021) examines the implementation of MPERS on SMEs and how entities perceive the implementation. The questionnaire was answered by 55 respondents from SMEs and the SMEs' experiences may lead respondents to have a favourable opinion of MPERS. The results indicate that although a majority of respondents said they understood financial accounting standards, they had trouble compiling financial statements in accordance with MPERS guidelines. They added that they had misunderstood the technical phrases used in the MPERS due to the complexity of the standard. They did, however, agree that the standard was created with the purpose of improving the quality of financial reporting.

To be considered of high quality, financial statements adopting MPERS must fulfil many criteria. The quality of financial information is important to various user groups and business process members because the quality of the information determines the viability of future strategic decisions. Due to the intensive development of a systematic approach to the analysis and solution of the problem of evaluating the financial reporting quality and the widespread implementation of quality management systems, practical significance indicators, requirements, and parameters of financial information are gaining increasing weight. The role of management is enhanced in the preparation of high-quality reporting. Therefore, many companies are forced to create new departments (such as internal control)

and look at the structure and functionality of existing units in order to ensure quality reporting control (Renkas et al., 2015).

In one study, Beest et al. (2009) analyse the development and testing of a compound measurement tool to evaluate the quality of financial reports in terms of the underlying fundamental qualitative qualities (relevance and faithful representation) and the enhancing qualitative characteristics (understandability, comparability, verifiability and timeliness). The concept that the compound measuring tool utilised in this study is a valid method of evaluating the quality of financial reports is supported by the empirical study results. Additional research reveals that the quality assessment is robust to the impact of varying qualitative characteristic weightings, both for the fundamental and enhancing characteristics.

Several studies have found that the relevance, understandability, representation of faith, and comparability are true measures of quality financial reporting, based to the factor analysis (Al-Dmour et al., 2017; FASB, 2013; and Beest et al., 2009). The previous study indicates that in predicting non-financial performance, the qualitative characteristics of the financial reporting quality are relevant. One study by Al-Dmour et al. (2017) reported that, the strength of financial reporting quality could interpret the variation in non-financial performance. The most essential qualitative characteristics of the financial reporting quality that are closely correlated with non-financial performance were relevance, representation of faith, and understandability. Theoretically, the standard of financial reporting was used as a theoretical basis in several studies' conceptual models. It was reported that financial reporting quality is a major factor influencing financial business performance (Beuselinck and Manigart, 2007; Beest et al., 2009; FASB, 2013). In addition, the study provides

empirical evidence that their size and business experience may be related to differences in financial reporting quality among Jordan's listed companies, rather than their business types. This conclusion is supported by numerous studies (Chalaki et al., 2012; Huang et al., 2012).

A recent study in Malaysia by Zandi and Abdullah (2019) reported that, based on the requirements and descriptive review of the Bursa Malaysia, only nine companies contributing for 8.8 percent of the total, submit on time and within the statutory requirement (timely submission), while the remaining 93 companies compensate for 91.2 percent (late submission) and failure to reach the statutory deadline. Cormier et al. (2009) published a paper in which Malaysian businesses only submit during the required enforcement time because they are concerned about the negative effects of not adhering to societal values. According to previous reports, auditors may face difficulties in timely issuing audited financial statements for their publicly listed company due to the convergence of IFRS and MFRS (Ahmad et al., 2016). Under the full convergence of MPERS, the participation of specialist auditors from each industry tends to be able to reduce the audit report lag and, as a result, enhance the timeliness of financial reporting in Malaysia (MASB, 2016).

In a study that aimed at determining the quality of financial information, Ebrahimi et al. (2016) found the importance of financial information quality in decision-making process, irrespective of economic status. Moreover, the findings may be of interest to international organisations such as the World Bank and the IMF, whose missions are to aid developing and transitional economies and to improve their citizens' living conditions. More efficient investments are more likely to result in efficient capital and resource distribution, as well as improve social welfare. Furthermore, the results are relevant to the

IASB and MASB, which currently developing IFRS and MPERS, a uniform set of accounting framework for all countries, including emerging markets.

These are difficult times for those involved in the financial reporting process, given the ever-changing economic conditions as a result of Covid-19, as well as the adoption of a new standard when preparing financial statements (the MPERS framework). Under the Companies Act of 2016, the Board of Directors is responsible for preparing financial statements, and the Audit Committee plays an essential role in the financial reporting process. The Audit Committee should aim for optimum governance by controlling compliance with financial statements and other regulations. Meanwhile, the role of auditors is critical in improving the reliability of financial statements. An auditor must adhere to authorised auditing standards and be able to provide reasonable assurance that the financial statements are error-free. Financial reporting standards should not be a burden for individuals engaged. In accordance with their respective responsibilities, they should collaborate to improve the quality of financial reporting and provide users with comprehensive and reliable information about financial entities. It's critical that members keep company financial reporting to a high standard.

According to MASB (2016), qualitative characteristics of information in financial statements are necessary for the purpose of being useful to a business stakeholder. Relevance signifies the information contained in the financial statements must be relevant to users in process for decision making. Understandability means that the information in the financial reporting should be presented in such a way that it can be understood by users with a basic understanding of business and economic activity, as well as accounting, and who are ready to do a thorough analysis of the information. Others qualitative

characteristics include comparability. It means that users can compare financial statements of entities over time to recognise patterns in its financial position and performance. Meanwhile, reliability refers to information that is free of errors and biases and adequately describes what it appears to be or what it might reasonably be assumed to represent. There is also timeliness, which entails presenting the information during the decision-making timeframe.

In Malaysia, Yacoob and Ahmad (2011) stated that, timeliness was decreasing after the implement of IFRS, which meant that companies were late in issuing financial statements. In other word, the companies were bogged down with more requirements for disclosure and reporting, that taking a bit longer. In Indonesia, Yurisandi and Paspitasari (2015) found that when comparing the quality of financial reporting during the pre and post introduction of IFRS, the overall financial reporting quality increased. Relevance, faithful representation, understandability, and comparability were factors in financial reporting quality, but timeliness remained unchanged. Relevance and faithful representation were further noted to have the biggest change after IFRS adoption. From the previous study of IFRS, it considers as important to MPERS because the two standards are quite similar, and the result of this study can be compared with IFRS standard.

One of the most outstanding studies is from Yurisandi and Paspitasari (2015), who found that after IFRS implementation, overall quality financial reporting increased. In particular, the qualities of financial reporting components are relevance, faithful representation, understandability, and comparability, but there was no timeliness change. It was further noted that after IFRS adoption relevance and faithful representation had the biggest change. It can be conveyed that, MPERS adoption also will increase financial

reporting quality based on IFRS adoption result because MPERS is based on IFRS framework. From the above-mentioned reports, it can be noted that they did it for large companies. Therefore, the researcher studies the adoption of MPERS and the financial reporting quality of SMEs at these premises and ascertains the link and its impact.

Finally, the latest study on the global adoption of IFRS provides mixed results. Several countries use the IFRS to provide comparability, transparency, and tax benefits for others. Despite this, no research on the relation between qualitative financial reporting quality and the MPERS framework has been found. The effectiveness of MPERS adoption in countries is determined by the enforcement mechanisms. This may demonstrate that implementing MPERS in countries with a poor regulatory structure and compliance mechanisms would not increase financial reporting quality.

Table 2.3: Variable Definition and Measurement

Independent variables		
Variables	Definition	Prior literature review
Presentation and disclosure	Presentation and disclosure emphasis on the final financial statements is presentation and disclosure. This is an assertion that the company statement contains all relevant information and disclosures and that the information provided in the statement is fair and easy to understand.	MASB (2014), MIA (2018)
Going concern	Prediction accuracy is an accounting term for a business that has the resources required to continue to function indefinitely before it otherwise provides facts. The term also applies to the ability of a company to produce sufficient money to survive or to prevent bankruptcy.	MASB (2014),
Consistency	The accounting consistency principle states that, in order to report similar events or transactions from one financial period to another, companies should use the same accounting policies and methods.	MASB (2014)
Dependent Variables		
Relevance	Financial statements must provide information that is relevant to users' decision-making needs.	BPP (2014), MASB (2014), Ezelibe et al. (2017), Herath and Albarqi (2017),

		Syahputra and Saraswati (2020)
Timeliness	The term "timeliness" refers to presenting information within the decision's time frame.	MASB (2014), Herath and Albarqi (2017) and Beest et al. (2009)
Understandability	The information in the financial statements must be presented in a way that users can understand.	MASB (2014), Herath and Albarqi (2017), Syahputra and Saraswati (2020)
Comparability	Users should be able to compare financial statements from different entities over time to spot trends in their financial information and performance.	MASB (2014), Herath and Albarqi (2017), Syahputra and Saraswati (2020)
Reliability	Information is reliable when it is free of material error and bias and accurately describes what it purports to represent or may fairly be presumed to represent.	Cheung et al. (2010), MASB (2014), Romney and Steinbart (2017), Tontiset and Kaiwinit (2015), Syahputra and Saraswati (2020)

Sources: Compilation of prior literature by the author

2.8 The Gap: Financial Reporting Quality and MPERS Adoption Among SMEs

There is few research on MPERS, but none is related to MPERS and the financial reporting quality by SMEs in Malaysia. Most prior literature performed in Malaysia on MPERS such as Jamil et al. (2020), Aziz et al. (2019) and Salin (2017) are focusing on the compliance factor of MPERS by SMEs, MPERS: insights from accounting practitioners investigated MPERS: benefits and challenges to SMEs and the readiness and challenges of MPERS. Research by Jamil and Rusli (2021) looked at how SMEs were implementing MPERS. 55 SMEs took part in this study by responding to the questionnaire. The study examined how SMEs are using MPERS and how they are reacting to it. According to the results, SMEs have few problems in implementing the MPERS even when entities are aware of the advantages of doing so. The standard's complexity, causes technical difficulties, many misunderstood MPERS because of the technical terms and language, and

there were not enough resources available, which increased costs and efforts. The results do not indicate the quality of financial reporting. MPERS was just being implemented by private entities on 1st January 2016, so there are not many studies about MPERS.

There is also a gap between the existing framework, namely PERS and the new framework, MPERS in terms of studies and research. One study by Jamil et al. (2020) state that PERS was not been updated to incorporate changes since 2006. Users need to understand what the differences are between PERS, MPERS and MFRS, to determine which framework is more appropriate to implement. The business itself or their auditors will do a gap analysis. This research will determine the differences between existing accounting policies and new accounting policies. Companies need to monitor the modification of accounting standards on an ongoing basis.

Moreover, previous studies have examined on qualitative characteristics of the quality financial reporting by either looking from the aspects of decision-making process and business performance such as from Al-Dmour et al. (2017), Beuselink and Manigard (2017), Ebrahimi et al. (2016), FASB (2013) and, Beest et al. (2009). The qualitative characteristics play a crucial role in business performance and decision making. Herath and Albarqi (2017) performed study about the literature review of financial reporting quality. The purpose of the study is to review recent literature on the subject of factors affecting and evaluations of financial reporting. This study goes into greater detail about each financial reporting quality indicator and provides users with useful information about the various aspects of financial reporting quality.

Previous study basically focuses on the IFRS adoption for SMEs and the relationship between the relationship between IFRS implementation and the quality of financial

reporting by SMEs. For instance, Mwambu (2018) investigate the IFRS adoption by SMEs in relation to quality financial reporting. The study was able to reach an 81percent response rate. The results do support the link between quality financial reporting and IFRS adoption. It shows that every unit increase in IFRS adoption will improve financial reporting quality. Because of Y-Intercept value is negative, the findings show quality financial reporting will be worse off if entities not adopted IFRS. The indicator used for financial reporting quality includes relevance, faithful representation, comparability, understandability, and reliability. But the study focuses on IFRS standards, and it does not support Malaysia's standards (MPERS adoption). On the other hand, Yacoob and Ahmad (2011) examined whether implementation of IFRS is relation with a decrease in timeliness due to company being late in issuing financial reporting. One of the qualitative characteristics of financial reporting quality is timeliness.

Although the existing literature based on western countries shows a lot of evidence on the relationship between financial standards and reporting quality, it is still relevant to the IFRS framework. Emerging financial standards such as MPERS have no evidence measuring the relationship of reporting quality and MPERS among SMEs. Furthermore, existing studies on the quality financial reporting are more focused on listed companies than SMEs. Therefore, by considering this, the researcher is motivated to perform a comprehensive analysis on the previous researchers to fill the gap. This study will focus on SMEs and able to fill the existing gaps. There is little about the adoption of MPERS by SMEs and there is no research about the relationship between MPERS framework and the quality financial reporting in Malaysia. This is why the research need to be conducted.

2.9 Theories

There are two theories that are drawn upon by this study, namely equity theory and enterprise theory. The theory of equity is found to be relevant to the study since it demonstrates that the purpose of financial reporting would be to prepare financial statement about the reporting entity that is effective and helpful in decision making of the entity's provision of resources to lenders, existing and potential creditors, as well as existing and potential investors. From this, it will reflect the financial reporting quality about the decision making. This theory is used to explain the basis of the view of financial statements as an effective mechanism to help users monitor company behaviour to make decisions. These decisions include the selling, purchasing, or holding of equity, debt instruments, and the issuance or settlement of loans and other forms of credit. The purpose of financial reporting is again on useful decisions which is an implication to the principle of residual equity. Although an equity theory-based approach will concentrate on assessing operating performance and consider the financial position statement to be secondary to the financial performance statement (Mourik, 2014). The financial reporting and decision-making relationship are reflected by the financial reporting qualitative characteristics, which represent the interest of the users as the higher quality financial reporting will provide useful information for relevant and faithfully reflects of the economic realities of the company's business activities during the reporting period, as well as the financial condition of the company at the closing of the period.

On the other hand, enterprise theory describes accounting as a social institution which operated for the benefit of many interested groups as a social theory, that is, the business (Troberg and Ekholm, 1995). 'Assets = Investors Input Contributions' is the

accounting equation describing the enterprise theory. Stockholders have legal rights as owners, in which their rights are subsidiary to the organisation and its sustainability from the enterprise point of view. Not only stockholders and creditors, but also several other groups and the general public will have the responsibility for proper reporting (Troberg, 1995). From an enterprise theory accounting point of view, responsibility for accurate reporting applies not only to shareholders and investors but also to many other entities and accounting practitioners. In this broad concept of corporate responsibility, the most relevant revenue concept is the value-added concept. The overall value-added of a company is the market value of goods and services produced by the company minus the value of goods and services acquired through transfers from other firms (Nandwani, 2016). Studies show enterprise theory can occur in the implementation of accurate reporting and produce high-quality financial reporting in various organisations.

2.10 Chapter Summary

This chapter has mainly discussed of the literature on the adoption of MPERS by SMEs. However, for MPERS and the quality of financial reporting for SMEs, this has yet to be studied, and this study will provide an overview of the relationship between MPERS and the financial reporting quality by SMEs.

By considering the opinions of scholarly groups, this study will seek to narrow the gap by seeking to draw conclusive statements on the financial reporting quality for SMEs, which is enhanced by the adoption of MPERS through local Malaysian contexts. It should be noted that most studies have been done on the quality of financial reporting of medium

and large entities, so that the context of SMEs is still covered. Thus, there are more reasons for researchers to focus on this research study.

