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# FAKULTI PERAKAUNAN

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## The different presentation of the internal and external financial statements

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A business, may it be a sole trader, partnership, or corporation, needs to monitor its financial performance and financial condition. Most commonly, this is achieved through the preparation of the financial statements or referred in the Malaysian Financial Reporting Standards (MFRS) as general purpose financial statements. The MFRS is a financial reporting framework issued by the MASB for non-private entities in Malaysia. The MASB glossary defines the general purpose financial statements as “financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.” According to the Conceptual Framework of Financial reporting (2018), these users may be the internal users such as the owner(s)/existing investors, managers and employees; and the external users such as potential investors, lenders and other creditors, regulators, and members of the public.



All entities reporting in Malaysia must apply the suitable accounting standards issued by the MASB, which is the (1) Accounting Standards for Private Entities and (2) Accounting Standards for Entities Other than Private Entities. A private entity is defined by the standards as “a private company as per section 2 of the Companies Act 2016.” The focus is on the latter, specifically MFRS 101: Presentation of Financial Statements. There is no specific format for the presentation of the internal financial statements for the use of the internal users; however, the external financial statements presentation has to comply with the requirements of MFRS 101.

The preparation for the external financial statements will start with the internal statements. Figure 1 shows the flows of preparing the internal financial statements.

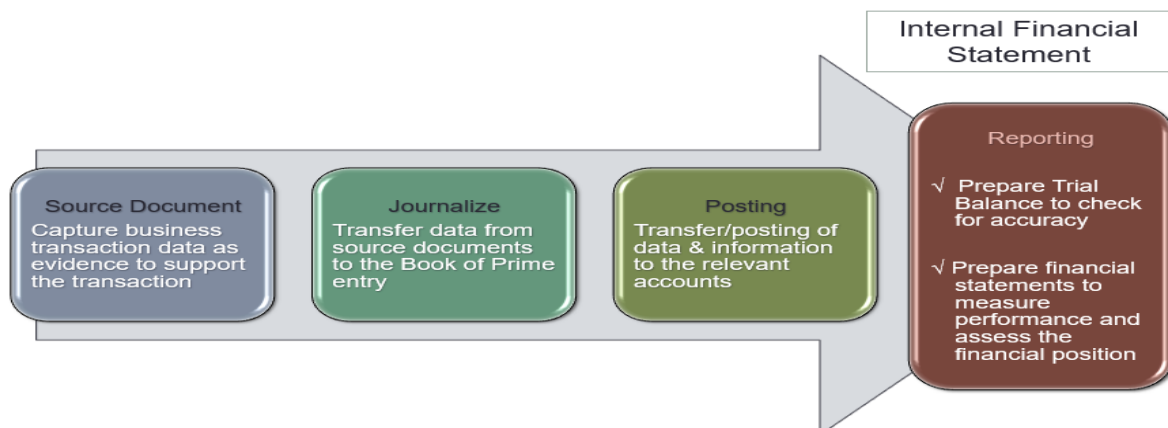


Figure 1: The accounting cycles.

Figure 2 depicts the change in the presentation of the trading statement. The external presentation does not have detailed calculations.

| Internal                   | External                  |
|----------------------------|---------------------------|
| <b>SALES</b>               | <b>SALES/TURNOVER</b>     |
| (-) Return inward          | <b>COST OF GOODS SOLD</b> |
| <b>NET SALES</b>           | <b>GROSS PROFIT</b>       |
| Less: <b>COST OF SALES</b> |                           |
| Beginning inventory        |                           |
| Purchases                  |                           |
| (+) Carriage inward        |                           |
| (-) Return outward         |                           |
| (-) Ending inventory       |                           |
| <b>GROSS PROFIT</b>        |                           |

Very summarized; only net totals are presented

Figure 2: Change in the format of presentation for the trading statement.

The presentation of the income statement in Figure 3 below is very concise and adopts the analysis of expense by function.

| Internal                           | External                         |
|------------------------------------|----------------------------------|
| <b>Gross Profit</b> xx             | <b>Gross profit</b> xx           |
| Add:                               | Other operating income xx        |
| Rental income xx                   | Total operating income xx        |
| Dividend income xx                 | Administrative expenses (xx)     |
| Interest income xx                 | Distribution expenses (xx)       |
| Total operating income xx          | Other costs (xx)                 |
| Less: Operating expenses           | Profit from operation xxx        |
| <b>Administrative expenses</b>     | Finance costs (xx)               |
| Office salary x                    | Investment income xx             |
| Depreciation – build x             | Profit before tax xxx            |
| Dep – mv * x                       | Taxation (xx)                    |
| Electricity * x (total) xx         | Profit after tax xx              |
| <b>Selling &amp; distribution</b>  | Other comprehensive income: xx   |
| Salesmen commission x              | Total comprehensive income xx    |
| Bad debt ** x                      | Earnings per share <u>RMx.xx</u> |
| Dep – MV * x (total) xx            |                                  |
| Electricity * x                    |                                  |
| <b>Finance costs</b>               |                                  |
| Interest loan/debenture (total) xx |                                  |
| Profit before tax xxx              |                                  |

Figure 3: The format of presentation for the statement profit or loss

| Analysis of Expense Nature                                    | RM |
|---|----|
| Revenue   | x  |
| Other Income  | x  |
| Changes in inventories of finished goods and work in progress | x  |
| Raw materials and consumables used                            | x  |
| Employee benefits expense                                     | x  |

Figure 4: Analysis of expense by nature

The other presentation of expenses is by nature of expense as presented in Figure 4 (MFRS 101, paragraph 102).

There are more similarities than differences in the presentation of the statement of financial position as shown in Figure 5. The difference will be in the presentation of the non-current assets and the shareholders' equity. The presentation of the current assets and current liabilities of both internal and external statements is the same.

| Internal                        |            | External                      |     |
|---------------------------------|------------|-------------------------------|-----|
| <b>Non current assets</b>       |            | <b>Non Current assets</b>     |     |
| Land (cost)                     | xxx        | Property, plant and equipment | xxx |
| Building (cost) xxx             |            | Intangibles                   | xxx |
| Less: Acc Dep (xx)              | xxx        | Investments                   | xxx |
| Plant and equip. xx             |            |                               |     |
| Less: Acc Dep (xx)              | xxx        |                               |     |
| <b>Total carrying value</b>     | <b>xxx</b> |                               |     |
| Patent xx                       |            |                               |     |
| Trademark xx                    |            |                               |     |
| Development cost xx             | xxx        |                               |     |
| Quoted investment xx            |            |                               |     |
| Unquoted investment xx          | xxx        |                               |     |
| <b>Total non current assets</b> | <b>xxx</b> |                               |     |

| Internal                                 |                  | External             |           |
|--|------------------|----------------------|-----------|
| <b>Share Capital:</b>                    |                  | <b>Share Capital</b> |           |
| xx million units of ordinary shares      | x.xxx.xxx        |                      | x.xxx.xxx |
| xx million units of r% preference shares | x.xxx.xxx        |                      |           |
| <b>Total Issued and paid up capital</b>  | <b>x.xxx.xxx</b> |                      |           |
| <b>Reserves:</b>                         |                  | <b>Reserves</b>      |           |
| Retained Profit/Earnings                 | xxx.xxx          |                      | xxx.xxx   |
| General Reserves                         | xxx.xxx          |                      |           |
| <b>Total Reserves</b>                    | <b>xxx.xxx</b>   |                      |           |

The total are transferred; details will be in the [note to the accounts](#)

Figure 5: The format of presentation for the statement of financial position

Other statements that will complete the external financial statements are the statement of changes in equity, statement of cash flows and the notes to the accounts. The preparation and presentation of all these statements are governed by several MFRSs.

**References**

Malaysian Accounting Standard Board, Malaysian Financial Reporting Standards. Retrieved from <https://www.masb.org.my/>