

IAS/IFRS - EQUITY

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EQUITY

- There is no IAS/IFRS for Equity
 - Requirements for measurement and disclosures:
 - a) IAS 1 – Presentation of Financial Statements
 - b) IAS 8 – Accounting Policy, Changes in Accounting Estimates and Errors
 - c) IAS 16 – Property, Plant and Equipment
 - d) IAS 21 – The effects of changes in foreign exchange rates
 - e) IAS 38 – Intangible assets
 - f) IAS 32 a 39 – Financial Instruments
- IFRS for SME – Section 2 and Section 6**

- **Equity is defined in the Conceptual Framework = residual value of assets after deduction of liabilities;**
- Structure of Equity differs:
 - a) According to company's legal form
 - b) According to company's policy

Equity of Joint-Stock Company

- Ordinary Shares
- Share Premium
- Revaluation Surplus
- Reserves
- Exchange Rate differences
- Retained Earnings

Share Capital

- Nominal Value
- = an equity instrument that is subordinate to all other classes of equity instruments
- Common for joint-stock companies
- Recorded in commercial register
- Lots of disclosures requirements

Structure of Share Capital

- Authorised shares
- Issued Shares
- Outstanding Shares
- Ordinary Shares
- Treasury Shares
- Preferred Shares
- Employees Shares, ...

Authorised Share Capital = the maximum value of securities that a company can legally issue.

Issued Shares = the total of a company's shares that are held by shareholders.

Outstanding shares = are those issued shares which are not treasury shares.

Treasury shares = are those issued shares which are held by the issuing company itself, the usual result of a buyback.

Ordinary shares = Any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the company.

Preferred shares = capital stock which provides a specific dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of a liquidation.

Increasing of share capital

- Joint-Stock Company can increase share capital in accordance with legislation by these way:
 - 1) Issuing of new share,
 - 2) Issuing of convertible bonds,
 - 3) Transfer from retained earnings

Decreasing of share capital

- Not under the limit given by national legislation,
- Way of decreasing of share capital:
 - a) A Buyback of treasure shares
 - b) Destroying of treasure shares
 - c) Decreasing of nominal value of ordinary shares
 - d) A buyback of interim certificates

Dilution of share capital

- The amount of ordinary shares stay the same however the number of shares is higher with lower nominal value.
- How this work: shareholders receive new shares without paying them.
- The lower nominal value causes the lower market value.
- Intention: retain shares' market value on low level, so they are accessible for employees and investors

Treasury share

They can be owned by:

- a) issuing company
- b) subsidiary company

Why companies buyback and hold treasury shares:

- a) lower dividends
- b) decreasing of share capital
- c) selling shares to its employees
- d) prevent the decrease of share value

Recording of treasury share

- Treasury shares decrease equity:
 - BS / Assets – credit of cash
 - BS / Liabilities – debit of equity

From selling, issuing, buyback or destroy of treasury shares can not be recognize profit or loss!!!

Valuation of treasury shares

a) Nominal value

- Preferred solution according to IAS/IFRS
- In case the price of treasury shares differ from nominal value - changes in equity

a) Purchase cost

- More common solution

Share Premium

- This value is obtained during issuing of new shares – difference between nominal value and issuing value.
- It represent access to whole equity for new shareholders, mainly to retained earnings.
- Share premium prevent dillution of share capital.

Revaluation Surplus

- According to IAS 16 and IAS 38 can be used a revaluation model for assets – differences in case of higher fair value are recognised as a part of revaluation surplus. There are given special disclosure requirements.
- Revaluation surplus can be recognised also according to IAS 39 and IAS 40.

Reserves

a) **Obligatory**

- Given by national legislation
- In the Czech Republic – reserve fund, ...

b) **Voluntary**

- They are based on company decision.

IAS 21 – The effects of changes in foreign exchange rates

- IAS 21 recognises:
 - 1) **Functional currency** – is the currency of the primary economic environment in which the entity operates.
 - 2) **Presentation currency** – is the currency in which the financial statements are presented.

Translation of transaction by current rate method

- All net assets should be translated at the closing rate.
- **Part of equity** should be translated at historic rate.
- **The income statement** must be translated at average rate (given from actual rate).
- Exchange differences are recorded as a separate item of equity.

Retained Earnings

The percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity on the balance sheet:

Retained earnings can be corrected in conformity with IAS 8:

- A) error of correction related to prior accounting period
- B) impacts of changes in accounting policy (x not in accounting estimates)

Dividends

- In case that at balance sheet they were proposed but not agreed – they are recognised as part of equity.
- In case that dividends were proposed and agreed after balance sheet date but before the date that the financial statements are authorized – IAS 10 must be followed.

Disclosure requirements

According to IAS 1:

- For each class of capital:
 - * authorized and full paid shares,
 - * authorized and not full paid shares,
 - * rights, preferences and limits connected with equity
 - * treasury shares

Disclosures requirements

- IAS 1:
- „In case of a company without share capital, then should be similar information disclosed for each class of equity.“

Statement of changes in equity

a) **Form given in IAS/IFRS**

- in the first line are stated classes of equity
- in columns are stated changes in them

b) **Other possible form (in ČR)**

- in the first line are stated changes in them
- in columns are stated classes of equity

Section 6 – IFRS for SMEs – Statement of Changes in Equity

- Requirements for presentation
 - a) Statement of changes in equity, or
 - b) Statement of total comprehensive income

It can be present only statement of retained earnings instead of statement of total comprehensive income if the only changes are: comprehensive income, dividends, correction of errors.

Thank you for your attention

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