STATEMENT OF CHANGES IN EQUITY

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Abstract

Changes in equity of the company between two balance sheet dates reflect an increase or a reduction in net assets, respectively of the wealth. Raising capital may occur when the unit encounters financial difficulties, but also when it is in a prosperous situation and wants to expand business. In both cases the company needs new money funds that prefer to obtain from the capital raise than from resort to loans. There are situations when equity changes are not generated directly by the company's activity, but only by transactions with shareholders (new capital contributions and dividend payments). The most common changes in equity are rooted in operational and financial activity, very rarely in extraordinary work. These influences appear in the profit and loss account, where revenues will increase equity and costs contribute to reduce equity.

Key words: equity, capital raise, shareholders, wealth, company

Under accounting rules of IASC the liabilities elements are defined separately for liabilities and equity. ICCA and FASB rules greatly align their elements of financial statements to the presentation given by the IASC accounting standards (liabilities followed by equity). The exceptions are that they have no defined structures such as "Reserves", "Suppliers", but elements with a high degree of generalization, as would be 'Owners investment’, ‘Distributions to landlords', 'Global benefit' (in the FASB rules), ‘Net benefit’ (the FASB accounting rules and ICCA). These national accounting rules, as well as the international ones, do not practically exclude other elements (Dănescu T., 2000).

In the accounting rules of IASC, respectively the paragraphs 60-64 of the "Framework for the preparation and presentation of financial statements”, the liabilities are current obligations whose future settlement will result in an outflow of economic benefits that expresses advantages, with origin in past events. It will not be recognized in the accounts when its size cannot be reliably measured [2]. Also, these rules relate to liabilities that may be assessed as the result of past transactions or events, recorded in documents such as purchase of goods, services (except those paid in advance or on delivery) and liabilities whose evaluation grade is highly estimative, but which involves a present obligation (provisions for risks and charges).

FASB rules define the debts or liabilities as elements making in the future that the unit not to have economic benefits, through transfers of assets or services to other units. The term of debts refers not only to legal obligations, but also to social and moral ones, and highlights the responsibility of the unit to pay, assign goods or services into the account of incurred debt.

Under the ICCA accounting rules 'liabilities are obligations of an entity as a result of past transactions or events, whose settlement will require the transfer or use of assets, services or other transfer of economic benefits’. One of the characteristics of liabilities is the responsible commitment to a third party representing an obligation from which there is no possibility of theft and resulting from a fact that occurred.

MATERIAL AND METHOD

In Romania, the term of liabilities include beyond debt also equity, as well as separate positions ‘Provisions for risks and charges’ and ‘Passive adjustments’.

Equity is seen as the IASC standards as ‘the residual interest in unit assets after deducting all its liabilities’ (art. 49 of the Framework for the preparation and presentation of financial statements). Thus, in a company, the undistributed earnings, the funds provided by shareholders, the net profit and the adjustments to maintain capital may be presented separately (the same vision being present in the FASB and ICCA accounting rules), in the view to serve the decisional needs of financial statements users, the owners having different rights to dividends and capital repayments.

Concerning the reserves consisting of results, whether legal, statutory or treasury, they provide protection against losses. Equity size depends also on the valuation of assets and liabilities. This does not mean that the equity amount includes market values of the unit, obtained from sales of assets, taking into account the ongoing concern.

The definition given to ‘equity’ element in the FASB and ICCA accounting rules do not essentially differ from that of international accounting standards. The term is also known as the ‘property owners’, resulting that the debt (domestic liabilities) have a privileged claim on the assets of the unit, for which reason the debts are placed in front of equity. Since the item ‘equity’ is not a carrier of maturity, as the liabilities are, the FASB regulations state that the company is required to pay dividends only when these ones are declared. In practice, there is not a clear separation between the time for payment of debts and that for the distribution of dividends.

RESULTS AND DISCUSSIONS

Equity includes contributions in the form of capital brought by owners, from the reinvested profits remaining at the disposal of the company (stocks, undistributed results, funds), as well as from the increased value of assets and liabilities due to external conditions, of market (differences from revaluation, regulated reserves, investment subsidies).

Equity, together with debts on medium and long term, is included in permanent capitals, which express all sources of stable, permanent financing of the company. Their size matters in the management of business, influencing the solvency and financial flexibility of the firm.

At the foundation, the social capital is established as a condition of the existence and operation of one company. Shareholders or holders of the shared capital are considered co-owners of society heritage. Tracking the emergence of new investments (through self-financing, while improving the company image to the lenders and strengthening the financial autonomy) is achieved through a capital increase, by new contributions, internal operations of capitalization of profits, of reserves, equity premiums, reserves from revaluation. When financial difficulties arise may be used the reduction of capital, through repayment to shareholders or associates a portion of the capital.

Units organized into autonomous companies use the structure ‘Company heritage’, a direct element of equity. The first issues, as well as the contributions and merger transactions generated by social capital increases will be included in ‘Premiums related to capital’ chapter. The adding value, resulted from assets revaluation (usually of tangible, financial and intangible assets for the operation of fusion), is revealed under the structure of ‘Revaluation reserves’. It is possible to use these last ones for increasing the social capital, but not for distribution of profits or bear losses.

Reserves are structures of previous profits, established for longer periods, according to statutory and legal provisions. They aim to provide legal protection (in Romania 20% of the social capital by capitalizing on 5% of annual yield) as well as the protection deemed necessary by the shareholders, through the legal status of the unit. The same will include the surplus on the disposal after costs were covered.

Result brought forward is presented distinctly from the result of the reporting year and includes the part of the result whose distribution (for profit), and respectively financial coverage (for loss), has been postponed by AGA. Romanian legislators provided two distinct rows for the ‘Result brought forward’, one for undistributed profit, another for uncovered loss, versus a single row in the model as form of account of the 4th Directive of the European Economic Community.

The result of financial year contains the result determined by the activity of the reporting period and is reflected in the profit or loss. Unlike the result brought forward, the result of the financial year is expressing firstly the part of the result which was distributed in the case of financial profit as well as, respectively, that was covered in the case of a loss.

For highlighting the size of the distributed profit, there was introduced in the equity chapter the balance item ‘Profit distribution’, to rectify the correct size of the equity with the profits distributed in funds of obligations (manager quota).

Subsidies for investments represent allocation of funds from the State budget for the purchase of fixed assets or for covering the costs of the nature of investments. Included in this category are the immobilizations received free of charge and those in the addition to the inventory. In the French system, the subsidies for investments are treated as a tax problem that uses the deferred taxes. In Romania, there exists an intermediate solution for the capitalization of subsidies and for the undeductibility of the afferent immobilizations financed from subsidies. This way of recording in the balance sheet is required under the accounting rules of IASC, since the subsidies represent a means of financing for which no reimbursement is due.

If there is needed an effective management of subsidies, and in particular those who fund the productive investments, it must be done through the deductibility of income from subsidies by extra-accounting fiscal adjustments methods or tax deferred payment method, which does not mean an exemption from tax, but the extension of its payment.

In the balance sheet, one can assign the revenues carried out during the financial year, but which represent income of the future years, being charged before the performance takes place. For the present financial year exercise, they constitute a debt towards future exercises. As a result of historical cost principle application and of the independence principle of the year exercise, the latent profits of the conversions for currency exchanges afferent for receivables and payables in foreign currency are part of the structure of settlement accounts, and their knowledge is necessary for the correct information of external users. As such, they are part of the settlement of liabilities:

- Income recorded in advance concerns amounts or claims received in advance by the asset unit. They may come from rents, sales, subscriptions, insurances, installment loan sales, which although there were obtained in the current financial year are recorded in special accounts, later being spread over the periods of reference.

- Settlement of transactions under clarifying process consign to situations when certain operations may not be directly registered on spending chapter at the time of their appearance, because they require further analysis and explanations. Therefore, they are temporary recorded in a separate account to clarify them.

Statement of changes in equity is reflected in the interpretation of the structure of the 'statement of accumulated and retained earnings' of the North American practice (Feleagă N., Malciu L., 2002).

There were outlined two models on the variation of the equity. North American companies thus have a more comprehensive situation than the 'statement of accumulated and retained earnings', including columns for each element of the equity. Initial balance of each element is directly taken from the previous year balance sheet structures [4]. Issues arise concerning the effects of different types of transactions: the net result of the profit and loss account; details of the issuance of new shares; statements during the year in respect of dividends which may be different from the size of dividends paid; the purchase of own shares; the sale of own shares; unrealized gains or losses of investments available for sale; adjustments resulting from the conversion of foreign entities accounts. The situation is ending with the sheet structures at 31 December, as they appeared in the closing balance sheet.

Changes in equity of the company between two balance sheet dates reflect an increase or a reduction in net assets, respectively, of wealth. Raising capital may occur when the entity encounters a financial difficulty, but also when it is in a prosperous situation and wants to expand its business. In both cases, the company needs new money funds that it prefers to receive from the increase of capital than to borrow. There are situations when changing of equity is not generated directly from the activity of the company, but only from transactions with shareholders (new contribution to the capital and the payment of dividends) (Costuleanu Pahone C., 2008).

In the IASC conception, namely IASS 1, firms must submit a separate situation, in the context of the annual accounts, which reflects (Feleagă N., 2000):

- net profit or net loss of the year;
- losses and gains, expenses and revenues that have been directly affected by the capital and reserves, by virtue of a special rules, and the total of these items;
- the cumulative effect of changes in accounting methods and correction of fundamental errors in the reference method laid down in IAS 8 rule;
- capital transactions with owners and distributions to them;
- the balance of accumulated earnings or losses at the beginning and at the balance sheet date, as well as the changes during the interval;
- a reconciliation between the accounting value of each class of equity at the beginning and end of the interval, showing separately each change.

CONCLUSIONS

The most common changes in equity are rooted in operating and financial activities, very rarely in extraordinary work. These influences appear in the profit and loss account, where revenues will increase and losses will reduce equity.

By OMFP no. 94 the Romanian legislators enter the chapter 'Situation of equity variation', which must be drawn up only by operators who apply the harmonized accounting rules with the 4th Directive of the European Economic Community and the International Accounting Standards. Herein the information is structured into columns, the initial balances accounting for the first value of each column, and their final form totals balances (2001/2002, OMFP no. 94 for the approving of Accounting harmonized rules with the 4th Directive of the European Economic Community and the International Accounting).

There is also a 'simplified' model, presenting only those changes of the equity with gains or losses. If using this model, in the explicatory notes to be submitted there may exists a reconciliation of the totals of initial and final equity, of reserves and accumulated profits.

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