Statement of changes in equity –
defining element in assessing the financial position of company

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Abstract – At the beginning of the accounting reform, state ownership was prevalent, and just started the process of privatization, and mass movements in capital structure is not considered meaningful information for users, acets type of information was not presented separately and in detail in the annual financial statements.

Key-words – changes in equity, statement gains and losses, financial statements;

1 Introduction

In the broadest sense, capital is one of the inputs can be defined as a wealth used for production. Capital are all means of production, created by previous work, whose tenure given the opportunity to obtain work product of others to form a corporation.

The concept of capital is at least three main understandings:

- An understanding that economic capital is an economic category expresses all material esources accumulated and reproducible, which in combination with other production factors participate in the development of new economic goods in order to realize a profit.

- In that capacity is known and it takes formal names of: real capital, technical or physical capital, investment goods, capital goods, supplies instrumental capital equipment. After how the different components of real capital involved in production, is consumed and replaced, in practice it meets one of the forms: fixed capital and circulating capital and fixed capital, variable and regularly.

- A sense that financial capital is the resource which, while producing benefits (profits). Investment is positive and negative relationship with consumption.

- A legal sense that capital is a right, a relationship between the individual or whole group of individuals and goods including: money, car, equipment, buildings, raw materials, land, securities, debts, so total assets.

According reflects the legal, financial and accounting implications with broad category economic capital is an interpretation "Senso Lato, including:

♣ equity;
♣ public property;
♣ debt capital borrowed and assimilated, medium and long term.

Correlated with the latter sense "in terms of financial – accounting capital held by the members or shareholders (economic) represent components of patrimonial liability to finance a sustainable manner asset ownership.

2 Factors causing changes in equity

In view of the IASC accounting conceptual framework, the attention component enjoys "equity" which "is the right of shareholders (residual interest) in company assets, after
deducting all its liabilities. The requirement to draw up a statement of changes in equity for the first time appeared IAS1 (issued in 1997) for financial statements for the year 1998. At that time, practice and GAAP financial reporting rules already provided this AUC, while the Fourth Directive does not specify the need for compiling such a situation. IAS1 "Presentation of Financial Statements", explicitly states the necessity of compiling a complete set of financial statements to reflect circumstances or all changes in equity or changes in equity other than those arising from capital transactions with owners distributions to owners.

An entity shall present a statement of changes in equity arising propriu actual situation:

♣ Profit or loss for the period (a)

♣ Each item of income and expense for the period as required by other standard or interpretation, is recognized directly in equity, and all these elements, (b)

♣ Total revenue and expenditure for the period (calculated as the sum of a and b) detailing separately the amounts attributable to the parent and minority interests;

♣ For each component of equity, the effect of policy changes accounting errors and correlations IAS8 recognized under "Accounting Policies, Changes in Accounting Estimates and Errors";

A statement of changes in equity that comprises only those elements will be called a statement of recognized income and expenses. An entity will also be the statement of changes in equity or in the notes:

♣ amounts of transactions with shareholders that manifest in their capacity as shareholders, showing separate distributions made to shareholders;

♣ The balance of retained earnings (ie accumulated profit or loss (e)) to beginning of the period and the balance sheet date, and carry out modifications during the period;

♣ A reconciliation between the carrying amount of each class and each paid up capital reserve at the beginning and end of the period, separately disclosing each change. This second version is close by its contents, what the American accounts, means "economic statement (Statement of comprehensive income). With this situation, internal and external users receive the information needed extensive analysis of the concept of performance and changes in equity statement added or deducted, as appropriate, to net income for the year, gains and losses, income and expenses that were directly affected capital. Appropriate, for example, the differences (positive or negative) from the revaluation of fixed assets and foreign currency accounting entities used by the parent. In doing so, reach a global concept of product, named most often, the economic result. The indicator represented by this concept, performance becomes an extended dimension of interpretation, called economic performance.

According to international standard IAS 1, companies can report "State of variation equity" in two variants (Figures 1 and 2)

Fig.1. Statement of changes in equity (IASB version I)

<table>
<thead>
<tr>
<th>ELEMENTS</th>
<th>Capital</th>
<th>Share premium</th>
<th>Revaluation differences</th>
<th>Conversion differences</th>
<th>Benefits accrued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balances 31. XII. N-2</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>(x)</td>
<td>x</td>
</tr>
<tr>
<td>Effect of changes in accounting methods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(x)</td>
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<tr>
<td>Adjusted balances</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>(x)</td>
<td>x</td>
</tr>
<tr>
<td>The added value of re buildings</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minus the value of the shareholdings</td>
<td></td>
<td></td>
<td></td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Translation differences</td>
<td></td>
<td></td>
<td></td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Total income and expenses not affecting profit and loss</td>
<td></td>
<td></td>
<td>x</td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Net benefit</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(x)</td>
<td></td>
</tr>
<tr>
<td>Capital gains</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances 31.XII.N-1</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>(x)</td>
<td>x</td>
</tr>
<tr>
<td>Minus the value of real estate revaluation</td>
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<td></td>
<td></td>
<td>(x)</td>
<td></td>
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<tr>
<td>The added value of re shareholdings</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Translation differences</td>
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<td>(x)</td>
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<td>Total income and expenses not affecting profit and loss</td>
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<tr>
<td>Net benefit</td>
<td>x</td>
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<tr>
<td>Dividends</td>
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<td>(x)</td>
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<tr>
<td>Capital gains</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances 31.XII.N</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>
Changes in the entity's equity between two balance sheet dates reflect the increase or decrease in net assets during the period. Except for changes resulting from transactions with shareholders that manifest in their capacity as shareholders (such as equity contributions, equity repurchase instruments which had been the entity and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the revenues and expenses, including gains and total losses generated by the entity during that period (whether those items of income and expenses are recognized in profit or loss or directly as changes in equity).

IAS1, requires that all items of income and expense recognized in a period are included in profit or loss unless another Standard or an Interpretation requires otherwise. Other standards, require some gains and losses (such as revaluation increases and decreases and certain foreign exchange losses or gains from the revaluation of financial assets available for sale and related amounts of current and deferred taxes) to be recognized directly as changes in equity. Whereas it is important to consider all factors when assessing loss of earnings and financial position of an entity changes between two balance sheet dates, IAS1, require the situation changes in equity showing total income and expenses of an entity, including those recognized directly in equity. IAS8 "Accounting Policies, Changes in Accounting Estimates and Errors" requires retrospective adjustments to effect changes in accounting policies, as far as possible, unless the transitional provisions in another Standard or an Interpretation require otherwise. IAS8 also requires that restatements to correct errors are made retrospectively as far as possible. And retrospective restatement adjustments are made to balance of retained earnings, unless a different standard or an interpretation requires retrospective adjustment of another component of equity.

### 3. Versions of the painting approach

**Changes in equity**

It is appreciated that the result of profit and loss do not show the full performance of the company. It imposes a new requirement to present a primary financial statement those gains and losses currently not presented in the income statement. Reached in the theoretical concept of comprehensive income for the year based on the relationship:

\[
\text{Overall result of the exercise} = \text{Result of profit and loss} + / - \text{Adjustments to maintain capital} + / - \text{Other changes in equity recognized in profit or loss.}
\]

Adjustments to maintain equity consists of capital gains and revaluation or adjustment minusvalorile value of assets and liabilities that result in increases or reductions in capital. Although these increases or decreases meet the definition of income and expenditure are not included in the income statement under certain concepts related to maintaining the level of capital or revaluation reserves.

For more complete definition of the performance equation can be used:

Performance (overall result) company:

\[
= \text{Profit / loss for the period recognized in profit or loss} + / - \text{Veniturile/cheltuielile, Gains / losses recognized directly in equity (capital gains / minus value revaluation gains / losses from foreign exchange conversion foreign entity's financial statements).} + / - \text{Profit / loss from the effects of changes in accounting policies}
\]
+ / - Profit / loss from the effects of correction of fundamental errors.

Comprehensive income includes all changes in equity that occur during a period except those coming from capital gains and distributions to shareholders concerns. Information on the overall result may be presented (when not made one of two situations above) and the balance by creating a separate line in equity.

In Romania, the situation changes in equity was not originally chosen as a distinctive feature of financial statements, since neither the Fourth European Directive did not provide presentation, preparation and publication, but then later OMF nr.94/2001 nr.1752 Gazette / 2005 governed this document mandatory IFRS reporting in the spirit of Rule 1.

Although IFRS 1 does not require a specific format in the annexes to the standard proposed two alternatives to address changes in equity panel:

<table>
<thead>
<tr>
<th>Version I</th>
<th>Variant II</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Changes in equity)</td>
<td>(Statement of recognized gains and losses)</td>
</tr>
</tbody>
</table>
| This is the form of a picture matrix. Each line has one issue that led to changes in equity: | This situation presents:
| - Changes in accounting policies; | - Gains and losses recognized directly in equity (surplus / deficit revaluation foreign exchange);
| - Surplus / deficit from the revaluation of assets; | - Profit / net loss for the period;
| - Exchange differences; | - The effect of changes in accounting policy.
| - Changes resulting from transactions with shareholders (Issue of shares, dividend distribution, repurchase); | Notes will present a reconciliation of the balances of each class of share capital, retained earnings, bonuses and each reserve at the beginning and each period, separately disclosing each movement.
| - Gains / losses recognized in profit or loss. | This variant form of model approaches British painting all gains and losses recognized "(The Statement of Total Recognised gain and

Companies will have to submit additional or statement of changes in equity or in the notes, information on capital transactions with owners and distributions to them.

4 Conclusion

Statement of changes in equity is an important document changes are detailed in its net assets (equity) and its elements between the beginning and end. Capital maintenance concept is the bridge between the concepts of capital and profit, without which the latter can be assessed. Profit is the maximum amount that a company can distribute during the year, conditions in which the end it will be as rich as early. In other words, is there a capital maintenance where capital is the same at the beginning and end. Any value that exceeds that required to maintain capital at the beginning of the period is considered as income.

References: