CHAPTER 12
Shareholders' Equity

1. Definition

- "*the residual interest [of the investors] in the assets of the enterprise after deducting all its liabilities*"

  follows directly from the B/S equation:

  ASSETS = EQUITY + LIABILITIES

  or

  EQUITY = ASSETS - LIABILITIES

- 2 ways of financing the firm:

  equity vs. *liabilities*

CHAPTER 12
Shareholders' Equity

2. Templates of the financial statements

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

CHAPTER 12
Shareholders' Equity

Due to a recent change in Belgian company law, a new category of companies without *capital* was introduced (being private companies).

2. Templates of the financial statem…

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

CHAPTER 12
Shareholders' Equity

For these companies, the phrase capital is replaced by *contribution* if the owners bring in money (which is also part of equity).

2. Templates of the financial statements

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

The main difference is that a contribution is far more flexible in terms of repayment to the owners.

2. Templates of the financial statements

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

CHAPTER 12
Shareholders' Equity

That is, if repayment does not endanger solvency and liquidity, the company is allowed to repay the contribution to the owners.

2. Templates of the financial statem…

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

Repaying capital to the onwers, on the other hand, is not that easy (i.e., implies many formalities, which imply large costs for the company).

2. Templates of the financial statem...

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

In what follows, we will focus on companies *with* capital (which is more in line with international practices).

2. Templates of the financial statements

- *limited companies*
  - capital → format with capital (see Toledo)
    - minimum capital is required
    - not flexible (formalities and high costs)
- *private companies*
  - contribution → format without capital (see Toledo)
    - no minimum is required
    - flexible (repayment subject to liquidity and solvency test)

CHAPTER 12

Shareholders' Equity

This slide denotes the account classes related to equity.

3. Chart of accounts

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

3. Chart of accounts

As you note, all equity accounts have 1 as the first digit.

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

CHAPTER 12
Shareholders' Equity

3. Chart of accounts

Capital (10) for firms with capital, contributions (11) for firms without capital.

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

CHAPTER 12
Shareholders' Equity

3. Chart of accounts

Account class 11 also includes 'share premium' which relates to companies with capital.

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

CHAPTER 12
Shareholders' Equity

3. Chart of accounts

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

A share premium also implies a contribution outside capital and will be discussed later on in this chapter.

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CHAPTER 12
Shareholders' Equity

3. Chart of accounts

Revaluation surpluses were already discussed earlier (see Chapter 9), so won't be discussed again.

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

3. Chart of accounts

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

Account classes 13 and 14 relate to profits (losses) kept wihin the company.

3. Chart of accounts

The difference between both account classes will be discussed later on in this chapter.

10 Capital

11 Contributions outside capital

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

3. Chart of accounts

10 Capital

11 Contributions outside ca

12 Revaluation surpluses

13 Reserves

14 Profit or loss carried forward

15 Investment grants

Investment grants (and the accounting treatment) are beyond the scope of this course.

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence management decision making (i.e., annual meeting of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares
- par value of a share

  par value = share capital / number of shares

CHAPTER 12
Shareholders' Equity

Share capital represents the contribution of the owners in the firm. Share capital is represented by shares.

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence management decision making (i.e., annual meeting of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

- par value of a share

  par value = share capital / number of shares

In return for their contribution, the owners get shares in the company (which then represents (part of) the share capital).

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence management decision making (i.e., annual meeting of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders in

  → represented by shares

Shareholders have certain rights (all proportional to the relative number of shares they own):

- influence management decision making (i.e., annual meeting of shareholders)
- receive dividends and/or eventual liquidation surplus
- first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders

  → represented by shares

  - influence management decision making (i.e., annual meeting of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

- par value of a share

  par value = share capital / number of shares

A share implies a vote on the annual meeting of shareholders.

The annual meeting of shareholders decides on important company issues by means of voting. So, by means of the votes attached to their shares, owners (being shareholders) are abe to influence management decision-making.

4. Share capital

- contribution of shareho…
  → represented by shares
  - influence management decision making (i.e., annual meeting of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares
- par value of a share
  par value = share capital / number of shares

4. Share capita…

If a dividend is paid, shareholders are entitled to part of the profit being paid out (in proportion to relative number of shares they own).

- con… …rm

  → r…

  - influen… …king (i.e., annual meeting of shareholders…
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence management decision … of shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

If the company stops doing business, first, the assets are sold.

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders in the firm
  → represented by shares
  - influence management decisi
    shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares
- par value of a share
  par value = share capital / number of shares

Next, the liabilities are settled (repaid) using the cash generated from selling the assets.

CHAPTER 12
Shareholders' Equity

3. Share capital

- contribution of shareholders i
  → represented by shares
  - influence management decision m
    shareholders)
  - receive dividends and/or eventual liquidation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

If any cash is left after settling the liabilities (which is then called the liquidiation surplus), this is paid out the shareholders.

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders i
  - → represented by share
    - influence management decision shareholders)
    - receive dividends and/or eventual liquidation surplus
    - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares
- par value of a share
  - par value = share capital / number of shares

Again, the liquidation surplus is divided proportionally among the shareholders based on the relative number of shares they own.

4. Share capital

- contribution of shareholders in th
  → represented by sh
  - influence manageme
    shareholders)
  - receive dividends and/or eventual ation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

If new shares are issued (capital increase), shareholders have a first pass at acquiring the newly issued shares.

- par value of a share

  par value = share capital / number of shares

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence managemen
    shareholders)
  - receive dividends and/or eventua plus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

Shareholders have a pre-emptive right for the stake they already have in the company.

- par value of a share

  par value = share capital / number of shares

CHAPTER 12
Shareholders' Equity

4. Share capital

- contribution of sharehold
  → represented by s
  - influence managemen
    shareholders)
  - receive dividends and/or eventual l tion surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares
- par value of a share

  par value = share capital / number of shares

So, for example, a shareholder that owned 10% of the shares prior to the capital increase has a pre-emptive right to buy 10% of the newly issued shares (right, but no obligation).

CHAPTER 12
Shareholders' Equity

4. Share capital

- contribution of shareholders in the firm

  → represented by sha

  - influence manageme
    shareholders)
  - receive dividends and/or eventual ... dation surplus
  - first pass at acquiring additional shares (proportionally to the current holding) in case of a new issue of shares

  This right ensures that shareholders are able to maintain their stake in the company after the capital increase (if they want).

- par value of a share

  par value = share capital / number of shares

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CHAPTER 12
Shareholders' Equity

4. Share capital

- contribution of shareholders in the firm

  → represented by shares

  - influence mana… …eeting of shareholde…
  - receive di…
  - first pass at a… …o the current holding) in cas… …es

There are different value concepts related to shares. The *par value* of a share is defined as the amount of capital divided by the number of shares.

- par value of a share

  par value = share capital / number of shares

CHAPTER 12
Shareholders' Equity

- payment of share capital

→ Belgian chart of accounts

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

In the chart of accounts, three accounts related to capital can be found:

- payment of share capital

→ Belgian chart of accounts

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholde

Issued capital represents the amount of capital that the owners agreed on (and for which shares are issued).

- payment o

→ Belgian chart o ccounts

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareho

For example, upon formation of the company, it is agreed to start the company with a capital of 250 000 EUR, represented by 1 000 shares (and a par value (per share) of 250 EUR).

- payment

→ Belgian chart o ounts

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

- payment

250 000 EUR would then be the issued capital.

→ Belgian chart o… …ounts

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

<u>*NOTE*</u>

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholde

Uncalled capital relates to the fact that part of the issued capital might be ‘uncalled’, implying that shareholders are not required to pay that part of capital up (yet).

- payment

→ Belgian cha

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

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CHAPTER

Shareho

For example, the company might not need the full 250 000 EUR (issued capital) at start yet. So, the agreement among the shareholders could be that 60% of the shares has to be paid at start (and the rest will be paid later once the company actually needs the money).

- payment

→ Belgian chart

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

In this example, 60% of the capital would be 'called' and 40% would be 'uncalled'. The uncalled part appears on account 101 Uncalled capital (-).

- payme

→ Belgian

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

<u>*NOTE*</u>

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

- payment

→ Belg

100 Issu

101 Uncalled ca (-)

410 Called capital or contribution

Once the 40% is needed, the company will inform the shareholders and the 'uncalled' capital becomes 'called' capital.

<u>NOTE</u>

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12

Shareholders' E

- payment of sha

→ Belgian chart of ac nts

Account 100 and 101 are part of equity (account number starting in 1).

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

<u>NOTE</u>

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

- payment of shar

→ Belgian cha

100 Issued capital

101 Uncalled capital (-)

410 Called capital or contribution

Account 410 is a short-term receivable account (the company has a receivable upon its shareholders) and thus part of the assets.

<u>NOTE</u>

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

CHAPTER 12
Shareholders' Equity

- payment of share capital

  → Belgian chart of accounts

  100 Issued capital

  101 Uncalled capital (-)

  410 Called capital or co

Paid-in capital (capital actually being paid) is thus the difference between issued capital and uncalled capital.

NOTE

subscribed (or issued) capital (i.e., account 100) vs. paid-in (or contributed) capital (i.e., account 100 – account 101)

- example

<u>*01/07/19X5*</u>

Incorporation of company ABC with a subscribed (or issued) capital of 100 000,00 EUR. Initially, shareholders are required to pay up their shares for 80% (C/A extract no. X5/001). The remainder of subscribed capital (i.e., 20%) is therefore uncalled.

CHAPTER 12
Shareholders' Equity

- solution

Based on the bank statement, we record the folowing journal entry:

No.	Debit	Credit		Debit	Credit
1			01/07/19X5		
	5500		Credit institutions – C/A	80 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

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CHAPTER 12
Shareholders' Equity

- solution

Issued capital for an amount of 100 000 EUR. Capital is part of equity and we thus credit the account (increase of equity).

No.	Debit	Credit	[illegible]	[illegible]	Credit
1					
	5500		Credit insti[illegible]	[illegible]000,00	
	101		Uncalled capital ([illegible]	20 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

80% is paid up at start, being 80 000 EUR. The 80% is received on the bank account (and thus increase of assets).

No.	Debit	Credit			Credit
1					
	5500		Credit institutions – C/A	80 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

20% is uncalled, being 20 000 EUR. Uncalled capital is an equity account with a minus (-), so follows the opposite logic in terms of debits and credits.

No.	Debit	Credi			it
1					
	5500		Credit institutions	80 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

You could look at it as a decrease of equity (deducted from issued capital to get paid-in capital).

No.	Debit	Credi			it
1					
	5500		Credit institutions	80 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- example *(continued)*

  01/07/19X7

  Due to a need for cash, the annual meeting of shareholders of ABC decides to call up the entire amount of uncalled capital.

CHAPTER 12
Shareholders' Equity

Based on this decision, we record the following journal entry:

- solution

No.	Debit	Credit		Debit	Credit
1			01/07/19X7		
	410		Called capital	20 000,00	
		101	@ Uncalled capital (-)		20 000,00
			Decision annual meeting shareholders		

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CHAPTER 12
Shareholders' Equity

- solution

The company records a short-term receivable on its shareholders (increase of assets).

No.	Debit	Credit		Debit	Credit
1			01/07/19X7		
	410		Called capital	20 000,00	
		101	@ Uncalled capital (-)		20 000,00
			Decision annual meeting shareholders		

CHAPTER 12
Shareholders' Equity

- solution

The uncalled capital becomes called, so account 101 should be closed (so, we credit the account).

No.	Debit	Credit		ebit	Credit
1					
	410		Called capita	20 000,00	
		101	@ Uncalled capital (-)		20 000,00
			Decision annual meeting shareholders		

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CHAPTER 12
Shareholders' Equity

In the T-accounts, we get:

- solution

D	100 Issued capital		C
		100 000,00	OB

D	101 Uncalled capital (-)		C
OB	20 000,00	20 000,00	(1)

D	410 Called capital		C
(1)	20 000,00		

CHAPTER 12
Shareholders' Equity

- solution

D	100 Issued capital		C
		100 000,00	OB

D	101 Uncalled capital (-)		C
OB	20 000,00	20 000,00	(1)

So, account 101 is closed (because the uncalled capital becomes called).

D	410 Called capital		C
(1)	20 000,00		

CHAPTER 12
Shareholders' Equity

- example *(continued)*

  01/08/19X7

  All shareholders paid up the called capital (C/A extract no. X7/123)

CHAPTER 12
Shareholders' Equity

Based on this bank statement, we record the following journal entry:

- solution

No.	Debit	Credit		Debit	Credit
2			01/08/19X7		
	5500		Credit institutions – C/A	20 000,00	
		410	@ Called capital		20 000,00
			C/A extract no. X7/123		

CHAPTER 12
Shareholders' Equity

- solution

The money is received
on the bank account (…)

No.	Debit	Credit		Debit	Credit
2			08/15X7		
	5500		Credit institutions – C/A	20 000,00	
		410	@ Called capital		20 000,00
			C/A extract no. X7/123		

CHAPTER 12
Shareholders' Equity

- solution

(…) and the receivable account is closed.

No.	Debit	Credit	[illegible]	Debit	Credit
2			[illegible]		
	5500		Credit institut[illegible] C/A	20 000,00	
		410	@ Called capital		20 000,00
			C/A extract no. X7/123		

CHAPTER 12
Shareholders' Equity

- not all shares are issued against cash (i.e., contribution in kind)

01/07/19X5

Incorporation of firm ABC with a subscribed capital of 100 000,00 EUR. There are two founders: one founder will bring in 50 000,00 EUR; the other founder will bring in a van worth 50 000,00 EUR. Initially, shareholders are required to pay up their shares for 80% (C/A extract no. X5/001). The remainder of subscribed capital (i.e., 20%) is therefore uncalled.

This info would then give rise to the following journal entry:

- solution

No.	Debit	Credit		Debit	Credit
1			01/07/19X5		
	5500		Credit institutions – C/A	40 000,00	
	101		Uncalled capital (-)	10 000,00	
	240		Vehicles – Cost of acquisition	50 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

The uncalled capital only relates to the contribution in cash.

No.	Debit	Credit			Credit
1			01/07/19X		
	5500		Credit institutions – C/A	40 000,00	
	101		Uncalled capital (-)	10 000,00	
	240		Vehicles – Cost of acquisition	50 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

That is, a contribution in kind is always for the full 100%. You can't bring in a van for 80%.

No.	Debit	Credit			Credit
1			01/07/19X5		
	5500		Credit institutions – C/A	40 000,00	
	101		Uncalled capital (-)	10 000,00	
	240		Vehicles – Cost of acquisition	50 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

CHAPTER 12
Shareholders' Equity

- solution

The agreed-on value for the van then determines its cost of acquisition in the accounts of the company.

No.	Debit	Credit			redit
1			01/07/1		
	5500		Credit institutions – C/A		
	101		Uncalled capital (-)	10 000,00	
	240		Vehicles – Cost of acquisition	50 000,00	
		100	@ Issued capital		100 000,00
			C/A extract no. X5/001		

5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a loss because of the capital increase – see textbook for a detailed discussion)*
- share premium = issue price of a share - par value of a share
    - issue price = intrinsic value of a share *(being total equity / number of shares)*
- always has to be paid up in full
- Belgian chart of accounts

    1100(10) Share premium

5. Share premium

- relates to a capital in… *…existing shareholders do not b… …ital increase – see textboo…*
- share premium = issue pr… …par value of a share
  - issue price = intrinsic value of a share *(being total equity / number of shares)*
- always has to be paid up in full
- Belgian chart of accounts

  1100(10) Share premium

> To ensure that existing shareholders do not bear a loss, the issue price is set equal to the intrinsic value of a share.

5. Share premium

- relates to a capital increase *(i… …sure that existing shareholders do not be… …capital increase – see textbo…*
- share premium = issue … …ar value of a share
  - issue price = intrinsic value of a share *(being total equity / number of shares)*
- always has to be paid up in full
- Belgian chart of accounts

  1100(10) Share premium

To determine the intrinsic value of a share, total equity is being considered.

CHAPTER 12
Shareholders' Equity

5. Share premium

- relates to a capital increase *(i… …ure that existing shareholders do not be… …capital increase – see textbo…*
- share premium = issue … …ar value of a share
  - issue price = intrinsic value of a share *(being total equity / number of shares)*
- always has to be paid up in full
- Belgian chart of accounts

  1100(10) Share premium

That is, shareholders are the owners of total equity.

5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a l... of the capital increase – see textb...)*
- share premium = ... lue of a share
    - issue price = intrinsic va... tal equity / number of shares)*
- always has to be paid up in full
- Belgian chart of accounts

    1100(10) Share premium

Even if part of capital is uncalled upon the capital increase, the share premium has to be paid in full (i.e., for 100%).

5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a loss because of the capital increase – see textbook for a detailed discussion)*
- share premium = … par value of a share
  - issue price = … *quity / number of sha…*
- always has to be p…
- Belgian chart of accou…ts

  1100(10) Share premium

Two accounts are being mentioned in the chart of accounts related to a share premium, being:
1100 Share premium
1110 Share premium

5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a loss because of the capital increase – see textbook for a detailed discussion)*
- share premium = … par value of a share
  - issue price = … *quity / number of sha…*
- always has to be p…
- Belgian chart of accou…s

  1100(10) Share premium

> While the first account is to be found under the heading 110 *Available* (…), the second account is to be found under the heading 111 *Unavailable* (…)

CHAPTER 12
Shareholders' Equity

5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a loss because of the capital increase – see textbook for a detailed discussion)*
- share premium = i… par value of a share
  - issue price = … *…uity / number of sha…*
- always has to be p…
- Belgian chart of accou…

  1100(10) Share premium

This distinction (available vs. unavailable) relates to the company's articles of association (and is beyond the scope of this course – cf. company law in BBA2).

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5. Share premium

- relates to a capital increase *(i.e., to ensure that existing shareholders do not bear a loss because of the capital increase – see textbook for a detailed discussion)*
- share premium = issue price of a share - par value of a share
    - issue price = intrinsic v … *ing total equity / number of sha…*
- always has to …
- Belgian chart of acco…

    1100(10) Share premium

When solving an exercise, you are free to opt for one of both accounts.

CHAPTER 12
Shareholders' Equity

- example

30/06/20X5

Due to a need for cash, ABC decides to increase its capital by issuing 1 000 new shares. Before the capital increase, equity of ABC looks as follows:

Capital (2 000 shares)	*200 000,00 EUR*
Reserves	*50 000,00 EUR*
Profit carried forward	*20 000,00 EUR*

Shareholders are required to pay up their shares for 80 percent.

- solution
  - *par value* of a share = 100,00 EUR

    (i.e., 200 000,00 EUR / 2 000 shares)
  - *intrinsic value* of a share = 135,00 EUR

    (i.e., 270 000,00 EUR / 2 000 shares)

→ new shares will be **issued at 135,00 EUR** per share, which is split as follows:

- **capital** (account 100): **100,00 EUR** *(being the par value)*
- **share premium** (account 1110): **35,00 EUR** *(being the issue price minus the par value)*

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Shareholders' Equity

Par value is capital divided by number of shares.

- solution
  - *par value* of a share = 100,00 EUR

    (i.e., 200 000,00 EUR / 2 000 shares)
  - *intrinsic value* of a share = 135,00 EUR

    (i.e., 270 000,00 EUR / 2 000 shares)

→ new shares will be **issued at 135,00 EUR** per share, which is split as follows:

- **capital** (account 100): **100,00 EUR** *(being the par value)*
- **share premium** (account 1110): **35,00 EUR** *(being the issue price minus the par value)*

- solution
  - *par value* of a share = 100,00 EU
    (i.e., 200 000,00 EUR / 2 000
  - *intrinsic value* of a share = 135,00 EUR
    (i.e., 270 000,00 EUR / 2 000 shares)

Intrinsic value is total equity divided by number of shares.

→ new shares will be **issued at 135,00 EUR** per share, which is split as follows:

- **capital** (account 100): **100,00 EUR** *(being the par value)*
- **share premium** (account 1110): **35,00 EUR** *(being the issue price minus the par value)*

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- solution
  - *par value* of a share = 100,00 EUR

    (i.e., 200 000,00 EUR / 2
  - *intrinsic value* of a share = 135

    (i.e., 270 000,00 EUR / 2 0

To ensure that exisiting shareholders do not bear a loss because of the capital increase, the *issue price* is set equal to *intrinsic value*.

→ new shares will be **issued at 135,00 EUR** per share, which is split as follows:

- **capital** (account 100): **100,00 EUR** *(being the par value)*
- **share premium** (account 1110): **35,00 EUR** *(being the issue price minus the par value)*

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Shareholders' Equity

The capital increase gives rise to the following journal entry:

- solution *(continued)*

No.	Debit	Credit		Debit	Credit
1			30/06/20X5		
	5500		Credit institutions – C/A	115 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

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Shareholders' Equity

- solution *(continued)*

No.	Debit	Credit			[illegible]
1			30/06/20X5		
	5500		Credit institutions – C/A	[illegible]	
	101		Uncalled capital (-)	[illegible]	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

1 000 new shares x 100 EUR par value per share

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Shareholders' Equity

- solution *(continued)*

No.	Debit	Credit			Credit
1			30/06/20X5		
	5500		Credit institutions – C/A		
	101		Uncalled capital (-)		
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

1 000 new shares
x 35 EUR share
premium per share

CHAPTER 12
Shareholders' Equity

- solution *(continued)*

No.	Debit	Credit			
1			30/06/20X5		
	5500		Credit institutions – C/A		
	101		Uncalled capital (-)		
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

Share premium is part of equity, so we credit the account (increase of equity).

CHAPTER 12
Shareholders' Equity

- solution *(continued)*

Uncalled *capital* only relates to the capital (and thus not share premium) part of the capital increase.

No.	Debit	Credit			Credit
1			30/06/…		
	5500		Credit institutions – C/A	115 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

- solution *(continued)*

No.	Debit	Credit			
1					
	5500		Credit institutions – C/A	[illegible]	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

So, 20% of the par value (being 100 EUR) x 1 000 shares.

CHAPTER 12
Shareholders' Equity

- solution *(continued)*

On the bank account, we get 80% of the par value (per share) as well as the share premium (in full).

No.	Debit	Credit			Credit
1			30/06/20X		
	5500		Credit institutions – C/A	115 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

CHAPTER 12
Shareholders' Equity

- solution *(continued)*

So, [80 EUR (80% par value) + 35 EUR (share premium)] x 1 000 shares

No.	Debit	Credit			Credit
1			30/06/20X		
	5500		Credit institutions – C/A	115 000,00	
	101		Uncalled capital (-)	20 000,00	
		100	@ Issued capital		100 000,00
		1110	Unaivailable contributions (…) – Share premium		35 000,00
			C/A extract no. …		

6. Profit appropriation

- decision of the annual meeting of shareholders
- two options:
  - retain (part of the) profit in the business; and/or
  - distribute (part of the) profit to shareholders (i.e., dividends)

At the end of the accounting period, the company makes either a profit or loss.

6. Profit appropriation

- decision of the annual meeting of shareholders
- two options:
  - retain (part of the) profit in the business; and/or
  - distribute (part of the) profit to shareholders (i.e., dividends)

Profit appropriation relates to what is done with this profit (or loss).

6. Profit appropriation

- decision of the annual meeting of shareholders
- two options:
  - retain (part of the) profit in the business; and/or
  - distribute (part of the) profit to shareholders (i.e., dividends)

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Shareholders' Equity

- impact on both the B/S and the I/S
  - I/S: after profit appropriation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

CHAPTER 12
Shareholders' Equity

Profit (or loss) appropriation affects both the balance sheet and income statement.

- impact on both the B/S and the I/S
  - I/S: after profit appropriation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

CHAPTER 12
Shareholders' Equity

After profit (loss) appropriation, the income statement should fall to zero.

- impact on both the B/S and the I/S
  - I/S: after profit appropriation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

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Shareholders' Equity

In the chart of accounts, 69- and 79-accounts relate to the effect of profit (or loss) appropriation on the income statement.

- impact on both the B/S and the I/S
  - I/S: after profit appropriation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

The logic on whether to use 69- or 79- accounts is explained on this slide.

- impact on both the B/S and the I/S
  - I/S: after profit appropriation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

CHAPTER 12
Shareholde

If the company deals with a profit, its revenues are larger than its expenses.

- impact on b… /S
  - I/S: after profit ap…priation, the I/S should fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

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Shareholders' Equity

To make the income statement fall to zero (which should be the case after dealing with the profit), the company should increase its expenses.

- impact on both the B/S and the
  - I/S: after profit appropriation, the I/S shou all to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 account**s
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

CHAPTER 12
Shareholders' Equity

Thus, appropriation of a profit is dealt with in the income statement using 69-accounts (to increase expenses).

- impact on both the B/S and the
  - I/S: after profit appropriation, the I/S shou fall to zero
    - **profit** → revenues > expenses → increase expenses (in order to make the I/S fall to zero) by debiting one or more **69 accounts**
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 accounts**

CHAPTER 12
Shareholders' Equity

- impact on both the B/S and the I/S
  - I/S: after pr… hould fall to zero
    - **profit** → reve… expenses (in order to make the I/S fall to zero) by debiti… **69 accounts**
    - **loss** → revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 accounts**

Similar logic in case of a loss.

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Shareholders' Equi

- impact on both
  - I/S: after profit app   ero
    - **profit →** revenues > expense   (in order to make the I/S fall to zero) by debiting one or m **69 account**s
    - **loss →** revenues < expenses → increase revenues (in order to make the I/S fall to zero) by crediting one or more **79 account**s

Thus, appropriation of a loss is dealt with in the income statement using 79-accounts (to increase revenues).

CHAPTER 12
Shareholders' Equity

- B/S: increase of ST liabilities *(i.e., in case of dividends)* or equity *(i.e., in case (part of the) profit is kept within the firm)*
  - dividends

    Belgian chart of accounts

    471 Dividends for the current accounting year
  - reserves and/or retained earnings

    if profits are kept within the firm, two possibilities occur:

    - reserves: specific allocation *(i.e., the profit remains there until the shareholders decide otherwise)*
    - retained earnings: no specific allocation *(i.e., the profit is temporarily included under equity, as a retained profit, but will be included in next year's profit appropriation again)*

CHAPTER 12
Shareholders' Equity

The next slides deal with the impact of profit (or loss) appropriation on the balance sheet.

- B/S: increase of ST liabilities *(i.e., in case of dividends)* or equity *(i.e., in case (part of the) profit is kept within the firm)*
  - dividends

    Belgian chart of accounts

    471 Dividends for the current accounting year
  - reserves and/or retained earnings

    if profits are kept within the firm, two possibilities occur:

    - reserves: specific allocation *(i.e., the profit remains there until the shareholders decide otherwise)*
    - retained earnings: no specific allocation *(i.e., the profit is temporarily included under equity, as a retained profit, but will be included in next year's profit appropriation again)*

CHAPTER 12
Shareholders' Equity

Short-term liability account that denotes the obligation of the company to pay the dividend to its shareholders.

- B/S: increase of ST … or equity *(i.e., in case (part of t…)*
  - dividends

    Belgian chart of accounts

    471 Dividends for the current accounting year
  - reserves and/or retained earnings

    if profits are kept within the firm, two possibilities occur:

    - reserves: specific allocation *(i.e., the profit remains there until the shareholders decide otherwise)*
    - retained earnings: no specific allocation *(i.e., the profit is temporarily included under equity, as a retained profit, but will be included in next year's profit appropriation again)*

CHAPTER 12
Shareholders' Equity

- B/S: increase of ST liabilities *(i* … r equity *(i.e., in case (part of the) p* …
  - dividends

    Belgian chart of accounts

    471 Dividends for the current …
  - reserves and/or retained earnings

    if profits are kept within the firm, two possibilities occur:

    - reserves: specific allocation *(i.e., the profit remains there until the shareholders decide otherwise)*
    - retained earnings: no specific allocation *(i.e., the profit is temporarily included under equity, as a retained profit, but will be included in next year's profit appropriation again)*

Reserves and retained earnings imply that profits are kept within the firm and are thus part of equity.

CHAPTER 12
Shareholders' Equity

- B/S: increase of ST liabilities *(i* … r equity *(i.e., in case (part of the) p* …
  - dividends

    Belgian chart of accounts

    471 Dividends for the current …
  - reserves and/or retained earnings

    if profits are kept within the firm, two possibilities occur:

    - reserves: specific allocation *(i.e., the profit remains there until the shareholders decide otherwise)*
    - retained earnings: no specific allocation *(i.e., the profit is temporarily included under equity, as a retained profit, but will be included in next year's profit appropriation again)*

That is, instead of receiving a dividend, shareholders decide to reinvest the profit in the firm.

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Shareholders' Equity

- reserves – Belgian chart of accounts

130 Legal reserve

[legal obligation: 5% of the profit of the current accounting period (i.e., after subtracting retained losses) until the legal reserve equals 10% of capital]

131 Reserves not available for distribution

[the annual meeting needs more than an ordinary majority to use this reserve]

132 Untaxed reserves

[gains temporarily exempted from taxes (e.g., gain on realization of TFA)]

133 Reserves available for distribution

[an ordinary majority suffices to use this reserve]

CHAPTER 12
Shareholders' Equity

This slide denotes the different types of reserves to be found in the chart of accounts.

- reserves – Belgian chart of accounts

130 Legal reserve

[legal obligation: 5% of the profit of the current accounting period (i.e., after subtracting retained losses) until the legal reserve equals 10% of capital]

131 Reserves not available for distribution

[the annual meeting needs more than an ordinary majority to use this reserve]

132 Untaxed reserves

[gains temporarily exempted from taxes (e.g., gain on realization of TFA)]

133 Reserves available for distribution

[an ordinary majority suffices to use this reserve]

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Shareholders' E

The legal reserve is aimed at improving the solvency of the company (to better protect its creditors).

- reserves – Belg

130 Legal reserve

[legal obligation: 5% of the profit of the current accounting period (i.e., after subtracting retained losses) until the legal reserve equals 10% of capital]

131 Reserves not available for distribution

[the annual meeting needs more than an ordinary majority to use this reserve]

132 Untaxed reserves

[gains temporarily exempted from taxes (e.g., gain on realization of TFA)]

133 Reserves available for distribution

[an ordinary majority suffices to use this reserve]

CHAPTER 12
Shareholders' Equity

- retained earnings – Belgian chart of accounts

    140 Profit carried forward

    141 Loss carried forward (-)

CHAPTER 12
Shareholders' Equity

An example to illustrate the idea/logic:

- example 1

31/12/20X5

During 20X5 (ABC's first year of operation), ABC made a profit of 100 000,00 EUR. The profit will be appropriated as follows:

5%	*will be added to the legal reserve*
10%	*will be added to the reserves available for distribution*
35%	*will be carried over to the next period*
50%	*will be paid out as dividends*

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CHAPTER 12
Shareholders' Equity

- example 1

<u>31/12/20X5</u>

During 20X5 (ABC's first year of op
profit of 100 000,00 EUR. The profit wi
follows:

This is an obligation, so should even not be stated explicitly (you should know yourself).

5%	*will be added to the legal reserve*
10%	*will be added to the reserves available for distribution*
35%	*will be carried over to the next period*
50%	*will be paid out as dividends*

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Shareholders' Equity

- solution

This decision gives rise to the following journal entry:

No.	Debit	Credit		Debit	Credit
1			31/12/20X5		
	6920		Increase in legal reserve	5 000,00	
	6921		Increase in other reserves	10 000,00	
	693		Profit to be carried forward	35 000,00	
	694		Dividends	50 000,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

CHAPTER 12
Shareholders' Equity

- solution

Impact on the income statement.

No.	Debit	Credit			Credit
1			31/12/20X5		
	6920		Increase in legal reserve	5 000,00	
	6921		Increase in other reserves	10 000,00	
	693		Profit to be carried forward	35 000,00	
	694		Dividends	50 000,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

CHAPTER 12
Shareholders' Equity

- solution

We are using 69-accounts, because we are dealing with a profit.

No.	Debit	Credit			Credit
1			31/12/20X5		
	6920		Increase in legal reserve	5 000,00	
	6921		Increase in other reserves	10 000,00	
	693		Profit to be carried forward	35 000,00	
	694		Dividends	50 000,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

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CHAPTER 12
Shareholders' Equity

- solution

The appropriate 69-account(s) should be selected from the chart of accounts.

No.	Debit	Credit			Credit
1			31/12/20X5		
	6920		Increase in legal reserve	5 000,00	
	6921		Increase in other reserves	10 000,00	
	693		Profit to be carried forward	35 000,00	
	694		Dividends	50 000,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

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Shareholders' Equity

- solution

No.	Debit	Credit		Debit	Credit
1			31/12/20X5		
	6920		Increase in legal reserve		
	6921		Increase in other reserves		
	693		Profit to be carried forward		
	694		Dividends	0 000,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

Impact on the balance sheet.

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Shareholders' Equity

- solution

No.	Debit	Credit		Debit	Credit
1			31/12/20X5		
	6920		Increase in legal reserve		
	6921		Increase in other reserves		
	693		Profit to be carried forward		
	694		Dividends	50 [illegible]00,00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

Increase of equity (1-accounts) and liabilities (4-account).

CHAPTER 12
Shareholders' Equity

- solution

No.	Debit	Credit			
1			31/12/20X5		
	6920		Increase in legal reserve		
	6921		Increase in other reserves		
	693		Profit to be carried forward	[illegible]	
	694		Dividends	50 [illegible],00	
		130	@ Legal reserve		5 000,00
		133	Reserves available for distribution		10 000,00
		140	Profit carried forward		35 000,00
		471	Dividends for the current accounting year		50 000,00
			Profit appropriation 20X5		

So, half the profit ends up under equity and the other half will be paid out as a dividend.

- example 1 *(continued)*

<u>31/12/20X6</u>

During 20X6 (ABC's second year of operation), ABC made a profit of 80 000,00 EUR. The profit will be appropriated as follows:

5%   will be added to the legal reserve

the rest will be carried over to the next accounting period

- solution

  ABC still has a retained profit related to 20X5. We first have to take this retained profit in the current accounting period:

No.	Debit	Credit		Debit	Credit
1			31/12/20X6		
	140		Profit carried forward	35 000,00	
		790	@ Retained profits of the previous accounting years		35 000,00
			Retained profit 20X5		

That is, last year, we decided to move this part of the profit to 20X6.

- solution

  ABC still has a retained profit related to 20X5. We first have to take this retained profit in the current accounting period:

No.	Debit	Credit		Debit	Credit
1			31/12/20X6		
	140		Profit carried forward	35 000,00	
		790	@ Retained profits of the previous accounting years		35 000,00
			Retained profit 20X5		

CHAPTER 12
Shareholders' Equity

- solution

ABC still has a … first have to take this retai… iod:

So, we close account 140 and increase revenues in the current accounting period (using a 79-account).

No.	Debit	Credit		Debit	Credit
1			31/1 … 0X6		
	140		Profit carried forward	35 000,00	
		790	@ Retained profits of the previous accounting years		35 000,00
			Retained profit 20X5		

CHAPTER 12
Shareholders' Equity

- solution *(continued)*

  Accordingly, the profit to be appropriated in the current accounting period equals 115 000,00 EUR (i.e., 80 000,00 EUR *(profit 20X6)* + 35 000,00 EUR *(retained profit)*). The obligation regarding the legal reserve only relates to the profit of the current accounting period (→ 80 000,00 EUR x 5% = 4 000,00 EUR).

No.	Debit	Credit		Debit	Credit
2			31/12/20X6		
	6920		Increase in legal reserve	4 000,00	
	693		Profit to be carried forward	111 000,00	
		130	@ Legal reserve		4 000,00
		140	Profit carried forward		111 000,00
			Profit appropriation 20X6		

Another example, now involving a loss:

- example 2

  31/12/20X5

  During 20X5 (ABC's first year of operation), ABC made a loss of 100 000,00 EUR. The entire loss will be carried over to the next accounting period.

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Shareholders' Equity

- example 2

  31/12/20X5

  During 20X5 (ABC's first year of operation), ABC made a loss of 100 000,00 EUR. The entire loss will be carried over to the next accounting period.

- solution

No.	Debit	Credit		Debit	Credit
1			31/12/20X5		
	141		Loss carried forward (-)	100 000,00	
		793	@ Losses to be carried forward		100 000,00
			Loss appropriation 20X5		

CHAPTER 12
Shareholders' Equity

- example 2

  31/12/20X5

  During 20X5 (ABC's first year of operation), ABC made a loss of 100 000,00 EUR. The c… …arried over to the next accounting perio…

- solution

Impact on the balance sheet (decrease of equity – equity account with minus).

No.	Debit	Credit			Credit
1			31/12/20X5		
	141		Loss carried forward (-)	100 000,00	
		793	@ Losses to be carried forward		100 000,00
			Loss appropriation 20X5		

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Shareholders' Equity

- example 2

  <u>31/12/20X5</u>

  During 20X5 (ABC's first year of operation), ABC made a loss of 100 000,00 EUR. The entire loss will be carried over to the next accounting period.

- solution

Impact on the income statement (79-account because we are dealing with a loss).

No.	Debit	Credit			Credit
1			31/12/20X5		
	141		Loss carried forward (-)	100 000,00	
		793	@ Losses to be carried forward		100 000,00
			Loss appropriation 20X5		

- example 2 *(continued)*

  <u>31/12/20X6</u>

  During 20X6 (ABC's second year of operation), ABC made a loss of 50 000,00 EUR. Due to the fact that shareholders wish to turn over a new leaf, they decide to bear all losses.

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- example 2 *(continued)*

  <u>31/12/20X6</u>

  During 20X6 (ABC's second year of operation), ABC made a loss of 50 000,00 EUR. Due to the fact that shareholders wish to turn over a new leaf, they decide to bear all losses.

- solution

  ABC still has a retained loss related to 20X5. We first have to take this retained loss in the current accounting period:

No.	Debit	Credit		Debit	Credit
1			31/12/20X6		
	690		Retained losses of the previous accounting year	100 000,00	
		141	@ Loss carried forward (-)		100 000,00
			Retained loss 20X5		

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- example 2 *(continued)*

  <u>31/12/20X6</u>

  During 20X6 (ABC's second year of operation), ABC made a loss of 50 000,00 EUR. Due to the fact that shareholders wish to turn over a new leaf, they decide to bear all losses.

- solution

  ABC still has … st have to take this retain… iod:

So, we close account 141 and increase expenses in the current accounting period (using a 69-account).

No.	Debit	Credit		Debit	Credit
1			31/12/20X6		
	690		Retained losses of the previous accounting year	100 000,00	
		141	@ Loss carried forward (-)		100 000,00
			Retained loss 20X5		

- solution *(continued)*

  Accordingly, the loss to be appropriated in the current accounting period equals 150 000,00 EUR (i.e., 50 000,00 EUR *(loss 20X6)* + 100 000,00 EUR *(retained loss)*).

No.	Debit	Credit		Debit	Credit
2			31/12/20X6		
	416		Other amounts receivable	150 000,00	
		794	@ Contribution of shareholders for the loss		150 000,00
			Loss appropriation 20X6		

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- solution *(continued)*

Accordi… …opriated in the current
acc… …0 EUR (i.e., 50 000,00
EU… …*ained loss)*).

No specific receivable account for this in the chart of accounts, so we use account 416 *Other* amounts receivable.

No.	Debit	Cre…		Debit	Credit
2			31/12/20X6		
	416		Other amounts receivable	150 000,00	
		794	@ Contribution of shareholders for the loss		150 000,00
			Loss appropriation 20X6		

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- solution *(continued)*

  Accordingly, the loss to be appropriated in the current accounting period equals 150 000,00 EUR (i.e., 50 000,00 EUR [illegible] EUR *(retained loss)*).

That is, the company has a receivable on its shareholders.

No.	Debit	C[illegible]	[illegible]	Debit	Credit
2			31/12/20X6		
	416		Other amounts receivable	150 000,00	
		794	@ Contribution of shareholders for the loss		150 000,00
			Loss appropriation 20X6		

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7. Learning objectives

using the Belgian chart of accounts, you should be able to account for:

- the formation of *capital*;
- a *capital increase* (including a *share premium*), and
- *profit (or loss) appropriation*.