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Changes of Stockholders' Equity – Image of the Enterprise Value

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Abstract: *By the annual financial statements, accounting provides managers with the necessary information for an effective management of the enterprise, and to external users, the possibility of knowing its economic and financial situation. The variation situation of equity reviews the changes in the accounts of funds during the year. The situation includes a presentation of the opening and closing balance for the registered capital, capital premiums, each reserve, the result carried forward and the result for the financial year and their changes, with an indication of: the amount at the beginning of the financial year; the amounts transferred to or from account during the year; the nature, source or destination of any such transfers; the remaining amount at the end of the financial year.*

Keywords: *changes of shareholders' equity, financial statements, shareholders*

Introduction

The purpose of accounting consists in producing financial statements whose aim is to provide information that would give a true and fair view of the financial position, performance, change of financial position, equity changes, useful to a wide range users in making decisions (managers, investors, employees, creditors, lenders, financial commercial customers, the State, the public).

The financial statements also presents the results of the management of resources, task entrusted to the management of entities. To achieve this objective, the financial statements provide information about:

- (a) assets;
- (b) debts;
- (c) equity;
- (d) income and expenses, including gains and losses;
- (e) other changes in equity; and
- (f) cash flows of the entity.

1. Considerations Regarding the Financial Statements in Romania

In Romania, the drawing up and filing of the annual financial statements and annual accounts reporting shall be carried out by the entities subject to the following regulations:

a) Accounting regulations relating to the annual financial statements and consolidated annual financial statements¹;

Entities that apply the Accounting Rules regarding the annual financial statements and consolidated annual financial statements, approved by order of the Minister of public finances no. 1802/2014 with subsequent amendments and additions may be present in either of the following situations:

- Entities that on the balance sheet date do not exceed the limits of at least two of the following three size criteria set out in section 9 paragraph (2) of the Accounting Regulations approved by the order the Minister of Public Finances no. 1802/2014, as amended and supplemented, namely:
 - a) Total assets: 1,500,000 lei;
 - b) Net turnover: 3,000,000 lei;

¹ Regulations transpose partially the provisions of the Directive 2013/34/UE of the European Parliament and Council concerning annual financial statements consolidated financial statements and related reports of different types of enterprises, of modification of the Directive 2006/43/CE of the European Parliament and Council and of abrogation of the Directives 78/660/CEE and 83/349/CEE of the Council, published in the Official Journal of the European Union no. L 182 from 29th June 2013.

- c) average number of employees during the financial year: 10, draw up annual financial statements that comprise:
 - 1. abridged balance sheet (code 10);
 - 2. short profit and loss account (code 20).
- entities that on the balance sheet date do not fall within the category of micro entities and that do not exceed the limits of at least two of the following three size criteria set out in section 9 paragraph (3) of the accounting regulations approved by order of the Minister of public finances no. 1802/2014, as amended and supplemented, namely::
 - a) total assets: 17,500,000 lei;
 - b) net turnover: 35,000,000 lei;
 - c) average number of employees during the financial year: 50,
 draw up annual financial statements that comprise:
 - 1. abridged balance sheet (code 10);
 - 2. profit and loss account (code 20);
 - 3. explanatory notes to the annual financial statements.

Optionally, they may draw up ***the situation of equity changes*** and/or cash-flow situation. These will be accompanied by form “Informative Data” (code 30) and the form “The situation of fixed assets” (Code 40).

- entities that on the balance sheet date exceed the limits are of at least two of the following three size criteria set out in section 9 paragraph (4) of the accounting regulations approved by the order of the Minister of public finances no. 1802/2014, as amended and supplemented, namely:
 - a) total assets: 17.500.000 lei;
 - b) net turnover: 35.000.000 lei;
 - c) average number of employees during the financial year: 50, 50, and public interest entities shall draw up annual financial statements that comprise:
 - 1. balance sheet (code 10);
 - 2. profit and loss account (cod 20);
 - 3. ***situation of equity changes***;
 - 4. situation of cash flows;
 - 5. explanatory notes for annual financial statements.

These will be accompanied by form “Informative Data” (code 30) and the form “The situation of fixed assets” (Code 40).

b) Accounting regulations in accordance with international standards of financial reporting, applicable to companies whose securities are admitted to trading on a regulated market.

According to art. 28 paragraph. (3) of the Accounting Law no. 82/1991 republished, with subsequent amendments and completions, for legal entities from Romania which apply international standards of financial reporting (IFRS), the financial statements have components foreseen by these standards.

A complete set of financial statements contains:

- (a) a balance sheet;
- (b) a statement of revenue and expenditure;
- (c) a statement of equity changes that would reflect:
- (d) a statement of cash flows;
- (e) notes containing a summary of significant accounting policies and other explanatory notes.

Each part of the financial statements reflects a certain picture of economic transactions and events in the context of the current financial year, as follows:

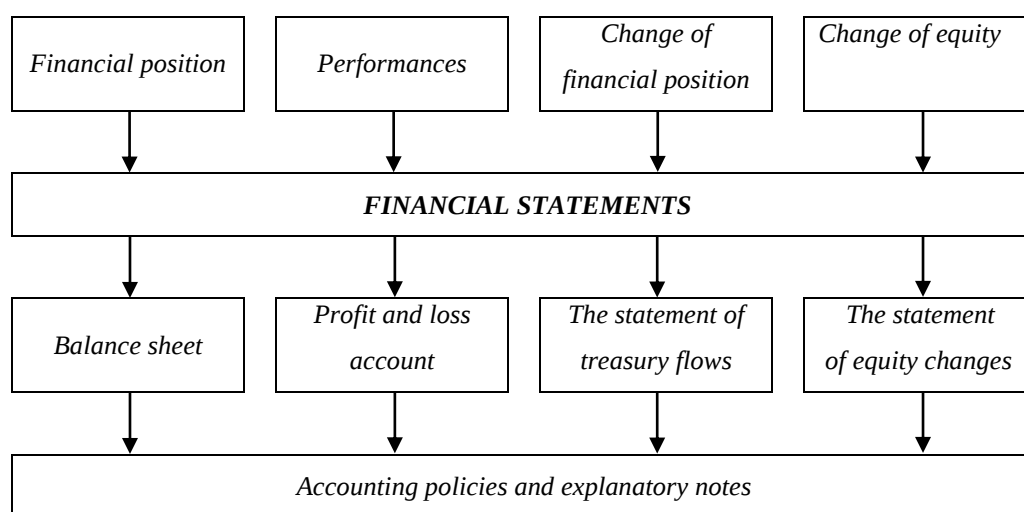


Figure no. 1 The normalization of accounting

- *The balance sheet, as image of the financial position*, reflects the ability of the enterprise to adapt to environmental changes by using controlled economic resources (assets), the structure of financing (equity and debt), and with the help of economic and financial indicators of liquidity and charge. The information about controlled assets are useful to predict the ability of the company to generate cash flow, and about the financial structure, for anticipating the needs of lending and distribution of future cash flows between the partners of the company.

- *The profit and loss account, as image of the enterprise performances*, reflects the ability of the company to generate profit. The information is useful for anticipating the ability of the company to generate cash flows (revenues) through the use of existing resources (costs), as well as the degree of efficiency in the use of new resources (profit or loss).

- *The statement of cash flows, as image of the financial health of the enterprise*, reflects the ability of the company to generate and use the cash flows from operating activities, investing and financing.

- *The statement of equity changes, as the image of the enterprise value*, reflecting the ability of the company to generate elements of equity (share capital, capital premium, reserves, the result brought forward, the outcome of the financial year).

2. The Statement of Equity Change

The statement of equity change includes the variation of structural elements of equity and reserves (net wealth of shareholders) between the time of the beginning and the end of the financial year and reflects the ability of maintaining capital and the result of the financial year from an economic entity.

Except for changes resulting from transactions with shareholders in their capacity as shareholders (such as equity contributions, redemption of the entity's equity instruments and dividends) and transactions costs are directly related to such transactions, the global change of equity during a period means the total amount of revenue and expenditure including gains and losses generated by the activities of the entities during that period (regardless of whether those items of income and expense are recognized in the profit and loss account or, directly, of equity).

This situation of synthesis aims to reflect, with a sufficient degree of precision, all transactions that, over time, resulted in a net increase or reduction of capital to shareholders. [1, 30]

IAS 1 calls for the submission of a specific performance situation that reflects either all changes of equity, or changes of equity, other than those arising from capital transactions with owners and distributions to shareholders.

The first model for presenting performance considers the reflection of all transactions that take the form of gains or losses and which is recorded directly to equity without ever crossing the profit and loss account. [2, 33; 3, 149-150] Such a model is called the statement of recognised gains and losses, comprising the following elements:

- a) the profit or loss of the period;
- b) each item of income and expense, as is required by other standards or interpretations, which is recognised directly in equity, and the total of these items;
- c) total revenue and expenditure of the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to the shareholders of the parent company and minority interests;
- d) for each component of equity, the effect of accounting policy changes and error corrections, recognised in accordance with IAS 8 standard *“Accounting policies, changes in accounting estimates and errors”*.

The second model for the presentation of performance is the *Statement of equity changes*, comprising, in addition to the elements of recognised gains and losses, the following:

- a) capital transactions with shareholders and distributions to them;
- b) balance of carried forward results (i.e. profit or loss cumulated) at the beginning of the period and at the balance sheet date, and changes during the period;
- c) a reconciliation between the accounting value of each class of share capital paid and reservations at the beginning and end of the period, featuring distinctly each change.

If an organisation opts for the statement of recognised gains and losses, then the three elements described above will be presented in the notes.

Through this situation of reconciliation between the accounting value of each class of equity at the beginning and end of the period and changes over the period, users benefit from the information necessary for an extensive analysis of value to the enterprise.

Below there are some patterns of situations of statements of equity changes of certain entities in Romania.

Table no. 1 The Consolidated Situation of Equity Changes On 31st December 2015 At S.C. Omv Petrom S.A. And Its Subsidiaries (million lei)

	Registered capital	Reported result	Reserves from covering instruments against risks	Reserves from exchange rate differences form abroad operations	Other reserves	Own shares	OMV Petrom shareholders	Minority interest	Equity
Balance on the 1st January 2015	5,664.41	21,341.07	-	(72.76)	108.87	(0.02)	27,041.57	(36.29)	27,005.28
Net loss of the year	-	(675. 99)	-	-	-	-	(675. 99)	(13.66)	(689.65)
Global result of the year	-	29.03	11.94	(171. 93)	142.92	-	11.96	(5.07)	6.89
Total global result of the year	-	(646.96)	11.94	(171. 93)	142.92	-	(664.03)	(18.73)	(682.76)
Distributed dividends	-	(634.41)	-	-	-	-	(634.41)	(0.09)	(634. 50)
Other changes	-	0,10	-	-	(0.10)	-	-	0,01	0.01
Balance on 31st December 2015	5,664.41	20,059.80	11.94	(244.69)	251.69	(0.02)	25,743.13	(55.10)	25,688.03

Table no. 2 The Individual Situation of Equity Changes
S.C. Aerostar S.A. Bacău (on 31st December 2015, amounts in thousands lei)

	<i>Capital social</i>	<i>Reserves</i>	<i>Other equity elements</i>	<i>Reported result</i>	<i>Result of the period</i>	<i>Total equity</i>
Global result						
A. Balance on 1st of January 2015	48.729	13.829	6.524	57.295	16.422	142.799
Profit of the period					52.268	52.268
Other elements of the global result						
Tax profit deferred and recognised according to equity	-	-	3.360	84	-	3.444
The allocation of the profit of the year 2014 to the destinations decided by shareholders in AGM from April 2015	-	-	-	16.422	(16.422)	-
Net legal reserve	-	18.073	-	-	(21.517)	(3.444)
Other gains	-	-	-	4	-	4
Total global result afferent to the period	-	18.073	3.360	16.510	14.329	52.272
Statutory reserves		2.869		(2.869)		
Payment dividends afferent to the year 2014				(13.552)		(13.552)
B. Balance on 31st December 2015	48.729	34.771	9.884	57.384	30.751	181.519
C. Equity changes	0	20.942	3.360	89	14.329	38.720

Table no. 3 The Statement of Equity Change On 31st December 2015 at
S.C. Hidroconstrucția S.A.

No.	Element	Balance at the beginning of the year	Growth		Reductions		Balance at the end of the financial year
			Total out of which:	By transfer	Total out of which:	By transfer	
0.	1.	2.	3.	4.	5.	6.	7.
1.	Subscribed capital	133.786.440	-	-	-	-	133.786.440
2.	Reserves from re-evaluation	169.930.579	-	-	3.049.078	3.049.078	163.762.076
			3.119.424				
3.	Legal reserves	26.757.288	-	-	-	-	26.757.288
4.	Other reserves	218.659.016	-	-	152.849.539	152.849.539	65.809.477
5.	Own shares	-	-	-	-	-	-
6.	Reported result profit (Balance C)	19.165.016	-	-	-	-	19.165.016
7.	Reported result from the correction of accounting errors (Balance C)	-	-	-	2.881.730	-	-2.881.730
8.	Reported result representing the	14.249.125	3.049.078	3.049.078	-	-	17.298.203

	surplus from re-evaluation reserves (Balance C)						
9.	Profit of the financial year (Balance C)	-152.849.539	6.158.066	-	-152.849.539	-152.849.539	6.158.066
10.	Allocation of profit	-	-	-	-	-	-
	TOTAL EQUITY	429.697.925	6.087.720	3.049.078	5.930.808	3.049.078	429.854.837

Conclusions

An uptrend in the fields of economic activity, of the financial balance and economic-financial performances, it represents strengths in support of an increase in equity of the enterprise, and the dynamics of equity in a reference period means the predictability of the basic objective of the enterprise, namely increasing its value to ensure financial autonomy in the conditions of market economy.

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