

Task IM-13.12: Preparing a Statement of Changes in Equity

RIESENVELDT AG is a German company in the legal form of an Aktiengesellschaft (company based on 1.00-EUR-shares). As a consequence it has to apply the company's act in Germany AktG.

On 31.12.20X3, RIESENVELDT AT discloses the balance sheet as below which is before appropriation of profits for 20X3:

Riesenveldt AG's BALANCE SHEET as at 31.12.20X3			
Debit side	[EUR]	Credit side	[EUR]
A. Non-current assets		A. Equity	
I. Intangible assets		I. Issued capital	100,000.00
		II. Capital reserves	5,000.00
II. Tangible assets	80,000.00	III. Earnings reserves	25,200.00
III. Financial assets		IV. Profit/Loss carried forward	
		V. Annual surplus/loss	70,000.00
B. Current assets		B. Provisions	
I. Inventories	53,000.00	I. Provisions for pension funds	
II. Receivables and other assets		II. Tax provisions	30,000.00
III. Securities		III. Other provisions	
IV. Cash, cash on Bundesbank cash on banks, checks	97,200.00	C. Payables	
		D. Accruals on the credit side	
C. Accruals on debit side		E. Deferred taxes on the credit side	
D. Deferred taxes on the debit side			
E. Difference of asset offsetting on the asset side			
	230,200.00		230,200.00

Exhibit 1: Balance sheet based on German Handelsgesetzbuch

With regard to § 150 AktG, RIESELVELDT AG has not changed the percentage of 10 % for the German Legal Reserves account in its articles. The item A.II Capital Reserves account = **5,000.00 EUR** in the German balance sheet results from a share issue in previous years. The earnings reserves contain German Legal reserves as the company put 5% into the Legal Reserves account every year. So far, RIESENVELDT AG has never declared a dividend. Hence, the legal reserves are amounting to **1,260.00 EUR** before appropriation of profits.

For the fiscal year 20X3, RIESELVELDT AG declares a dividend of 0.45 EUR/share. The shares' face value is 1.00 EUR/share. The remaining amount is carried forward to the next Accounting period.

In 20X4, RIESELVELDT AG records a loss of 180,000.00 EUR. The company also issues 20,000 fresh ordinary shares at 3.30 EUR/share in the same year.

Required: Dissolve as many reserves as possible and prepare the disclosure of the equity section of RIESENVELDT AG's balance sheet along IAS 1 format (as required in preparation for group statements). Disclose the equity accounts in T-format. Do not declare a dividend for 20X4.

§ 150 AktG (Translation: Norton Rose Fulbright): (1) A legal reserve shall be created in the balance sheet of the annual financial statements to be prepared pursuant to §§ 242 and 264 of the Commercial Code. (2) The amount to be transferred to such reserve shall be one-twentieth of annual net profit, after deducting any loss carried forward from the previous year, until the legal reserve and the capital reserves pursuant to § 272 (2) sentences 1 to 3 of the Commercial Code in aggregate amount to one-tenth of the share capital or any higher percentage set by the articles. (3) If the legal reserve and the capital reserves pursuant to § 272 (2) sentence 1 to 3 of the Commercial Code in aggregate do not exceed one-tenth of the share capital or any higher percentage set by the articles, such reserves may be used only: 1. to offset an annual net loss to the extent such loss is not covered by profits carried forward from the previous year and cannot be offset by a transfer from other profit reserves; 2. to offset a loss carried forward from the previous year to the extent such loss is not covered by an annual net profit and cannot be offset by a transfer from other profit reserves. (4) 1 If the legal reserve and the capital reserves pursuant to § 272 (2) sentence 1 to 3 of the Commercial Code in aggregate exceed one-tenth of the share capital or any higher percentage set by the articles, such excess may be used: 1. to cover an annual net loss to the extent such loss is not covered by profits carried forward from the previous year; 2. to cover a loss carried forward from the previous year to the extent such loss is not covered by annual net profit; Norton Rose Fulbright – December 2016 77 German Stock Corporation Act 3. for an increase of the share capital from the corporation's reserves under §§ 207 to 220. 2 Such excess may not be used pursuant to Nos. 1 and 2 if at the same time transfers are made from profit reserves for the purpose of payment of dividends.

Solution:

- (1) Legal reserves: $70,000 \times 5\% = \mathbf{3,500.00 \text{ EUR}}$
 (2) Dividend 20X3: $0.45 \times 100,000 = \mathbf{45,000.00 \text{ EUR}}$
 (3) Profit carried forward: $70,000 - 3,500 - 45,000 = \mathbf{21,500.00 \text{ EUR}}$
 (A) Fresh shares: $3.30 \times 20,000 = \mathbf{66,000.00 \text{ EUR}}$, premium therein: $2.3 \times 20,000 = \mathbf{46,000.00 \text{ EUR}}$
 (B) Dissolving earnings reserves: 23,940.00 EUR
 (C) Dissolving legal reserves, at full: 4,760.00 EUR (§150 AktG requires $120,000 \times 10\% = \mathbf{12,000.00 \text{ EUR}}$)
 (D) Dissolving capital reserves 39,000.00 EUR, 12,000.00 EUR remaining

RIESENVELDT AG's
STATEMENT of FINANCIAL POSITION
as at 31.12.20X4

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E		Share capital	120.000,00
Intangibles		Reserves	12.000,00
Financial assets		Retained earnings	(90.800,00)
<i>Current assets</i>		<i>Liabilities</i>	
Inventory		Interest bear liab	
Accounts receivables		Accounts payables	
Prepaid expenses		Provisions	
Cash/Bank		Tax liabilities	
Total assets		Total equity and liab.	

Exhibit 2: Balance sheet IAS 1 format

D		Issued capital		C	
		OV	100,000.00		
c/d	120,000.00	(A)	20,000.00		
	<u>120,000.00</u>		<u>120,000.00</u>		
		b/d	120,000.00		

D		Capital reserves		C	
(C)	39,000.00	OV	5,000.00		
c/d	12,000.00	(A)	46,000.00		
	<u>51,000.00</u>		<u>51,000.00</u>		
		b/d	12,000.00		

D		Earnings reserves		C	
(B)	<u>23,940.00</u>	OV	<u>23,940.00</u>		

D		Retained earnings R/E		C	
(1)	3,500.00	OV	70,000.00		
(2)	45,000.00				
c/d	21,500.00				
	<u>70,000.00</u>		<u>70,000.00</u>		
Loss	180,000.00	b/d	21,500.00		
		(B)	23,940.00		
		(C)	39,000.00		
		(D)	4,760.00		
		c/d	90,800.00		
	<u>180,000.00</u>		<u>180,000.00</u>		
b/d	90,800.00				

D		Dividend - 20X3		C	
C/B	<u>45,000.00</u>	(2)	<u>45,000.00</u>		

D		Legal reserves		C	
		OV	1,260.00		
c/d	4,760.00	(1)	3,500.00		
	<u>4,760.00</u>		<u>4,760.00</u>		
(D)	4,760.00	b/d	4,760.00		

Exhibit 3: Equity accounts

**Riesenveldt AG's
STATEMENT of CHANGES in EQUITY
as at 31.12.20X4**

	Share capital	Reserves	Retained earnings	total
	[EUR]	[EUR]	[EUR]	[EUR]
as at 1.01.20X3	100,000.00	30,200.00	70,000.00	200,200.00
Share issue				0.00
Add. to leg. reserves		3,500.00	(3,500.00)	0.00
Dividend 20X3			(45,000.00)	(45,000.00)
Additions to reserves				0.00
as at 31.12.20X3	100,000.00	33,700.00	21,500.00	155,200.00
Share issue	20,000.00	46,000.00		66,000.00
Profit 20X4			(180,000.00)	(180,000.00)
Dissolving reserves		(4,760.00)	4,760.00	0.00
Dissolving reserves		(39,000.00)	39,000.00	
Dissolving reserves		(23,940.00)	23,940.00	0.00
as at 31.12.20X4	120,000.00	12,000.00	(90,800.00)	41,200.00