

Aufgabe QR-11.2: Interpretation der Eigenkapitalsituation und Erstellen eines Statements of Changes in Equity

(Deriving Information from Equity Section and Statement of Changes in Equity)

You are the Accountant with MACHEON Ltd. and you are responsible for mergers and acquisitions. MACHEON Ltd is going to buy 40% of the shares of YAKSU EVENT Ltd. a management agency. Your boss, Mr. Edward KIM, gives you the equity section of YAKSU EVENT's balance sheet as at 31.12.20X4 and asks you to write a one page report on that company explaining its equity situation and what happened during the last accounting period to the business. YAKSU EVENT prepares financial statements along IFRSs and there is a 30% income tax rate to be considered. Additionally, he asks you to prepare a Statement of Changes in Equity.

What you know about YAKSU EVENT is that there was a share issue of preference shares par value on 1.07.20X4. Additionally, you know that the appropriation of profit in 20X4 was 50% to reserves, the remaining amount is carried forward to next the accounting period. Appropriation is related to earnings available for distribution.

See below the equity section along IAS 1.

YAKSU EVENT's BALANCE SHEET as at 31.12.20X4

	20X4	20X3
	[KRW 10 ³]	[KRW 10 ³]
...		
Capital		
ISSUED CAPITAL		
Ordinary Share Capital		
- 2.300 Ordinary Shares at 20,000.00 KRW each,		
in 20X3: 1.500		
Preference Share Capital		
- 6.000 7% Preference Shares at 10,000.00 KRW each,		
in 20X3: 3.000.		
RESERVES		
Capital Reserves	9.600,00	0,00
Other Earnings Reserves	1.038.425,00	1.000.000,00
Revaluation Reserves	21.000,00	
RETAINED EARNINGS	38.425,00	0,00
<i>Total of Shareholder's Equity</i>	<u>1.213.450,00</u>	<u>1.060.000,00</u>

Exhibit 1: Equity section

Lösung: (Solution)

MACHEON Ltd.

Seoul, 1.05.20X5

From: Dr. Berkau, Accounting department

To: Edward KIM, CFO

Dear Edward,

I have checked the equity section of YAKSU EVENT Ltd. properly. As required, I do not provide my opinion about the business but report on the conclusions derived from the balance sheet as at year ended 20X4.

(1) Issued capital.

YAKSU EVENT is a share based company. At the beginning of the accounting period 20X4, there were 4,500 shares outstanding: 3,000 shares are preference shares and were originally issued par value. I took that information from the capital reserves account that shows nil for the comparative figures (20X3). The other shares are ordinary shares. They were issued par value as well because of the share premium account as at the beginning of the accounting period.

During 20X4, YAKSU EVENT issued fresh shares. I know the preference share issue was par value, so capital reserves are related to the issue of ordinary shares. They issued 800 fresh shares at an issue price 32,000.00 KRW each. The issue price contains a share premium 12,000.00 KRW/share. For that reason they were obliged to increase capital reserves by $12,000 \cdot 800 = \mathbf{9,600,000.00 \text{ KRW}}$.

(2) Reserves

The total amount for reserves is 1,069,025,000.00 KRW. YAKSU EVENT recognised 3 sorts of reserves in their balance sheet at 31.12.20X4:

(a) Capital reserves: 9,600,000.00 KRW.

(b) Earnings reserves: 1,038,425,000.00 KRW

(c) Revaluation reserves: 21,000,000.00 KRW

About (a) Capital reserves: They result from the share premium included in the issue price of ordinary shares, see my explanation above.

About (b) Earnings reserves: At the beginning of the accounting period 20X4, earnings reserves were 1,000,000,000.00 KRW. The increase of earnings reserves is caused by YAKSU EVENT's appropriation of profit. I know that they split earnings available for distribution at a ratio of 50:50. So, earnings available for distribution have been $2 \cdot 38,425,000 = \mathbf{76,850,000.00 \text{ KRW}}$. To compute profit, I added the preference dividend. The fresh shares were issued in the middle of accounting period so they count at 50%. In total, I arrived at 4,500 shares to be considered. The face value for each preference share is 10,000.00 KRW. For that reason, the preference dividend amounts to $4,500 \cdot 7\% \cdot 10,000 = \mathbf{3,150,000.00 \text{ KRW}}$. From the figures computed below, I can tell you how much was YAKSU EVENT's earnings after taxes:

$76,850,000 + 3,150,000 = 80,000,000.00 \text{ KRW}$. So YAKSU EVENT made a pretax profit of 80,000,000 / 70% = **114,285,714.30 KRW** in 20X4.

About (c) Revaluation reserves: Obviously YAKSU EVENT ran a revaluation during 20X4. They recognised a revaluation reserve of 21,000,000.00 KRW. The amount represents the net amount, because they had to show a provision for deferred taxes in accordance with IAS 12. So, the total of revaluation was $21,000,000 / 70\% = 30,000,000.00 \text{ KRW}$. From the balance sheet, we do not know whether revaluation was higher and depreciation is to be considered because we have no information about the date of revaluation, but we know that the balancing figure of revaluation in the P, P, E account under consideration of accumulated depreciation has to be 30,000,000.00 KRW.

(3) Retained earnings

The retained earnings resulted from the profit in 20X4. 50% of earnings available have not yet been declared as a dividend. The business is going to carry forward this amount to the next accounting period. They only paid a preference dividend.

To provide a better overview, I prepared a statement of changes in equity for you. You will find this statement attached to my report. In case of any questions or if you need further information about my conclusions, please feel free to call me or send an email.

Best regards,



Dr. C. Berkau

(on behalf of the Accounting department)

attached:

YAKSU EVENT's SCE

YAKSU EVENT's STATEMENT OF CHANGES IN EQUITY for 20X4

	Issued Capital [KRW 10 ³]	Capital reserves [KRW 10 ³]	Earnings Reserves [KRW 10 ³]	Revaluation Reserves [KRW 10 ³]	Retained Earnings [KRW 10 ³]	Total Shareholders' Equity [KRW 10 ³]
Equity as at 1.01.20X4	60.000,00	0,00	1.000.000,00	0,00	0,00	1.060.000,00
Issue of ordinary shares	16.000,00	9.600,00				25.600,00
Issue of preference shares	30.000,00					30.000,00
Revaluation of PPE				21.000,00		21.000,00
Profit 20X4					80.000,00	80.000,00
Preference Dividend					(3.150,00)	(3.150,00)
Appropriation of Profit			38.425,00		(38.425,00)	0,00
Equity as at 31.12.20X4	106.000,00	9.600,00	1.038.425,00	21.000,00	38.425,00	1.213.450,00

Exhibit 2: Statement of changes in equity