

Task IM-11.6: Eigenkapitalausweis nach IFRSs**(Equity Section Disclosure along IFRSs)**

DAHRENHORST AG is established on 2.01.20X2 by a share issue 80,000 ordinary shares at a face value 2.00 EUR/share. The issue price was 2.50 EUR/share.

During 20X2 DAHRENHORST AG earns a pretax profit of 96,000.00 EUR. The business has to apply the § 150 of the Company's act in Germany. Check whether it has to put 5 % of the earnings after taxes into the German legal reserves. The distributable amount is appropriated like 1 : 2 : 2 as profit carried forward : dividend : other earnings reserves.

During 20X3 DAHRENHORST AG makes a loss 58,000.00 EUR. In order to cover the loss DAHRENHORST dissolves as many reserves as possible and if possible to pay a dividend. On 3.07.20X3 DAHRENHORST issues 50,000 preference shares with a face value 2.00 EUR/share par value. The shares come with a 6 % dividend based on the face value which is paid in 20X4 for 20X3 according to the time of shares being outstanding. The appropriation of profit is at a ratio 1 : 2 : 2 again according to the previous year – if possible.

Required: Set up the equity section of the statement of financial position as at 31.12.20X3 and disclose figures for 20X2 as comparative information. (In order to keep the task simple assume all business activities were on cash)

DAHRENHORST AG wird am 2.01.20X2 mit einer Ausgabe von 80.000 Stammaktien gegründet, die einen Nennwert von 2,00 EUR/Aktie haben. Der Bezugskurs war 2,50 EUR/Aktie.

Während 20X2 hat DAHRENHORST AG einen Vorsteuergewinn von 96.000,00 EUR erwirtschaftet. Das Unternehmen muss § 150 AktG anwenden und entsprechend evtl. 5 % des Jahresergebnisses in die gesetzlich Rücklage einstellen. Der zur Ausschüttung verfügbare Betrag wird im Verhältnis 1 : 2 : 2 wie Gewinnvortrag : Dividende : sonstigen Gewinnrücklagen verwendet.

Während 20X3 hat DAHRENHORST AG einen Verlust von 58.000,00 EUR gemacht. Um den Verlust auszugleichen, plant DAHRENHORST AG so viel Rücklagen wie möglich aufzulösen und falls möglich noch eine Dividende auszuschütten. Am 3.07.20X3 hat DAHRENHORST AG 50.000 Vorzugsaktien mit einem Nennwert von 2,00 EUR/Aktie zum Nennwert ausgegeben. Die Aktien haben einen Dividendenanspruch von 6 % auf den Nennwert, der in 20X4 für 20X3 gezahlt werden soll entsprechend der Zeit, wie die Aktien ausstehend waren. Die Gewinnverwendung findet nach dem Verhältnis 1 : 2 : 2 wie im Vorjahr wieder statt – falls möglich.

Gefragt: Erstellen Sie den Eigenkapitalbereich der Bilanz zum 31.12.20X3 auf und zeigen Sie die Zahlen von 20X2 als Vergleichsinformation. (Um die Aufgabe einfach zu halten, können Sie annehmen, dass alle Geschäftsvorfälle bar stattfinden.)

Solution (Lösung)

Observe the bookkeeping entries below:

(1) Share issue 80,000 shares: $80,000 \cdot 2.50 = 200,000.00$ EUR.

DR Cash/Bank	200,000.00 EUR
CR Capital Reserves	40,000.00 EUR
CR Share Capital (ordinary)	160,000.00 EUR

Now, the company doesn't have to put any further amounts into the legal reserves anymore.

(2) Profit earned 96,000.00 EUR

DR P&L	96,000.00 EUR
CR ITL	28,800.00 EUR
CR R/E	67,200.00 EUR

() Profit distribution as below:

DR R/E	53,760.00 EUR
CR Earnings Reserves	26,880.00 EUR
CR Dividend/p	26,880.00 EUR

() In the next year dividend and income taxes are paid.

DR Dividend/p	26,880.00 EUR
CR Cash/Bank	26,880.00 EUR
DR Income Tax Liabilities	28,800.00 EUR
CR Cash/Bank	28,800.00 EUR

(3) Profit made -58,000.00 EUR

DR R/E	58,000.00 EUR
CR P&L	58,000.00 EUR

(4) Share issue of preference shares: $50,000 \cdot 2 = 100,000.00$ EUR.

DR Cash/Bank	100,000.00 EUR
CR Issued Capital	100,000.00 EUR

(5) In order to pay a dividend and to cover the loss other earnings reserves are to be dissolved fully at **26,880.00 EUR** at first.

DR Other Earnings Reserves	26,880.00 EUR
CR R/E	26,880.00 EUR

(6) Dissolving capital reserves (and/or legal reserves) in order to cover the loss is only possible to the extent of the difference between 10 % of the issued capital (or as stated in the memorandum of incorporation) and the total of legal and capital reserves. This amount equals to $(160,000 + 100,000) \times 10\% - 40,000 = 14,000.00 \text{ EUR}$. § 150 IV AktG.

Dissolving further reserves is not possible § 150 III AktG as the dissolving is limited to the difference on $40,000 - 26,000 = 14,000.00 \text{ EUR}$.

DR Capital Reserves	14,000.00 EUR
CR R/E	14,000.00 EUR

Observe the accounts below:

D	Cash/Bank	C
(1)	200.000,00	
(2)	96.000,00	c/d 296.000,00
	296.000,00	296.000,00
b/d	296.000,00	ITL 28.800,00
(4)	100.000,00	Div/p 26.880,00
		(3) 58.000,00
		c/d 282.320,00
	396.000,00	396.000,00
b/d	282.320,00	

D	SCap-ord	C
c/d	160.000,00	(1) 160.000,00
		b/d 160.000,00

D	Cap Res	C
c/d	40.000,00	(1) 40.000,00
(6)	14.000,00	b/d 40.000,00
c/d	26.000,00	
	40.000,00	40.000,00
		b/d 26.000,00

D	P&L-20X2	C
ITL	28.800,00	(2) 96.000,00
R/E	67.200,00	
	96.000,00	96.000,00

D	R/E	C
Div/p	26.880,00	P&L2 67.200,00
EarnR	26.880,00	
c/d	13.440,00	
	67.200,00	67.200,00
P&L3	58.000,00	b/d 13.440,00
		(5) 26.880,00
		(6) 14.000,00
		c/d 3.680,00
	58.000,00	58.000,00
b/d	3.680,00	

D	P&L-20X3	C
(3)	58.000,00	R/E 58.000,00

D	Div/p	C
c/d	26.880,00	R/E 26.880,00
Bank	26.880,00	b/d 26.880,00

D	Other Earnings Re:	C
c/d	26.880,00	R/E 26.880,00
(5)	26.880,00	b/d 26.880,00

D	ITL	C
c/d	28.800,00	P&L2 28.800,00
Bank	28.800,00	b/d 28.800,00

D	SCap - pref	C
c/d	100.000,00	(4) 100.000,00

Exhibit 1: Accounts

Dahrenhorst AG's SFP as at 31.12.20X4

	20X3	20X2
	[EUR]	[EUR]
...		
Capital		
ISSUED CAPITAL		
Ordinary Share Capital		
- 80,000 Ordinary Shares at 2.00 EUR each	160,000.00	160,000.00
Preference Share Capital		
- 50,000 6% Preference Shares at 2.00 EUR each, in 20X2: nil.	100,000.00	0.00
RESERVES		
Capital Reserves (Share Premium)	26,000.00	40,000.00
Other Earnings Reserves	0.00	26,880.00
German legal reserves		0.00
Revaluation Reserves		
RETAINED EARNINGS	<u>-3,680.00</u>	<u>13,440.00</u>
<i>Total of Shareholder's Equity</i>	<i>282,320.00</i>	<i>240,320.00</i>

Exhibit 2: Equity section

Equity increases by $282,320 - 240,320 = 42,000.00$ EUR as you can observe in the equity section's sum. Dissolving capital reserves for paying a dividend is not allowed. Hence, no further dividend is payable to ordinary shareholders. The preference dividend doesn't require dissolving capital reserves. It does not fall under appropriation of profits either as the preference dividend is deducted from the earnings before the distributable amount is calculated.

The company could pay a dividend to ordinary shareholders if earnings reserves would be higher. In that case the dissolving of capital reserves is not allowed.

See below the statement of changes in equity:

Dahrenhorst 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				0,00
Share issue	160.000,00	40.000,00		200.000,00
Profit 20X3			67.200,00	67.200,00
Dividend 20X3			(26.880,00)	(26.880,00)
Additions to reserves		26.880,00	(26.880,00)	0,00
as at 31.12.20X3	160.000,00	66.880,00	13.440,00	240.320,00
Share issue	100.000,00			100.000,00
Profit 20X4			(58.000,00)	(58.000,00)
Diss Earnings reserves		(26.880,00)	26.880,00	0,00
Diss Cap reserves		(14.000,00)	14.000,00	0,00
as at 31.12.20X4	260.000,00	26.000,00	(3.680,00)	282.320,00

Exhibit 3: Statement of changes in equity