

Task IM-13.6c: Eigenkapitalveränderungsrechnung

(Statement of Changes in Equity along IFRSs)

ALDRUP AG is a company based on shares and applies the Company's act in Germany (AktG). ALDRUP AG has been established in 20X2 by a share issue of 100,000 ordinary shares at 1.00 EUR each. The share issue was at 1.05 EUR/share.

ALDRUP AG earned a profit after taxes as displayed in the table below:

Accounting period	Earnings after tax
20X2	(80,000.00)
20X3	100,000.00
20X4	(8,000.00)
20X5	100,000.00

Exhibit 1: Profit earned after income tax

The appropriation of profit is in every year: Dividend (to be paid in the next accounting period): 40 %, Reserves: 30 % and profit carried forward: 30 %. The percentages are linked to the distributable amount which is the annual surplus plus the profit carried forward from previous periods. § 150 AktG applies which requires deducting 5 % of the annual surplus in case capital reserves and legal reserves are below the mark of 10 % of the issued capital.

However, in 20X4 ALDRUP AG dissolved other earnings reserves in order to cover the loss less the (not more!). There were no changes regarding legal or capital reserves during that accounting period of 20X4.

On 1.07.20X4 ALDRUP AG issued 50,000 preference shares which are non-redeemable but cumulative. The dividend is fixed to be 8 % of the face value. However, in 20X4 no preference dividend is declared. The face value of the preference shares is 1.00 EUR/share. The issue price was 3.00 EUR/share.

As the preference shares are cumulative the dividend not declared in 20X4 will be declared a year later. Accordingly, the preference dividend amounts to 150 % of a normal preference dividend in 20X5.

Required: Prepare the statement of changes in equity ALDRUP AG along IFRSs for the year that ended on 31.12.20X5. It is necessary to provide information about the previous period for comparison purpose.

Solution (Lösung)

It is a save approach to make bookkeeping entries for all accounting periods: However, as the profit is given it is fine to just assume the profit has been recorded with a contra entry in the cash account. The full statement is not required for that reason, it doesn't bother to make debit and credit entries in the Cash/Bank account.

In 20X2:

(1) Share issue of ordinary shares.

DR Cash/Bank	105,000.00 EUR
CR Issued Capital	100,000.00 EUR
CR Capital Reserves	5,000.00 EUR

(2) ALDRUP AG makes a loss in 20X2. The loss is recorded with contra entry made in the Cash/Bank account.

DR P&L-20X2 Account	80,000.00 EUR
CR Cash/Bank	80,000.00 EUR

In the first year the profit is carried forward to the next accounting period 20X3.

In the next year the profit is 100,000.00 EUR.

(a) Recording the profit

DR Cash/Bank	100,000.00 EUR
CR P&L-20X3 Account	100,000.00 EUR

In 20X3 ALDRUP AG has to put 10 % of the profit less loss carried forward into the Legal Reserves account.

(b) Transfer to legal reserves: $(100,000 - 80,000) \times 10\% = 2,000.00$ EUR.

DR Retained Earnings	2,000.00 EUR
CR Legal Reserves	2,000.00 EUR

(c, d) Appropriation of the remaining profit is along the 40 : 30 : 30 ratio. Dividend is $40\% \times (100,000 - 80,000 - 2,000) = 7,200.00$ EUR. Earnings reserves will increase by $30\% (100,000 - 80,000 - 2,000) = 5,400.00$ EUR.

DR Retained Earnings	5,400.00 EUR
CR Earnings Reserves	5,400.00 EUR
DR Retained Earnings	7,200.00 EUR
CR Shareholder for Dividend	7,200.00 EUR

Bookkeeping entries in 20X4:

(A) Payment to shareholders (not required for solution):

DR Shareholders for Dividend	7,200.00 EUR
CR Cash/Bank	7,200.00 EUR

(B) Recording the loss of 35,000.00 EUR.

DR P&L-20X4 Account	35,000.00 EUR
CR Cash/Bank	35,000.00 EUR

(C) ALDRUP AG dissolves Earnings reserves to an extent of $8,000 - 5,400 = 2,600.00$ EUR.

DR Earnings Reserves	2,600.00 EUR
CR Retained Earnings	2,600.00 EUR

In that accounting period of 20X4 there is no appropriation of profit further.

(D) ALDRUP AG issues 50,000 preference shares at 3.00 EUR each: $50,000 \times 3 = 150,000.00$ EUR.

DR Cash/Bank	150,000.00 EUR
CR Issued Capital	50,000.00 EUR
CR Capital Reserves	100,000.00 EUR

Recording profit in 20X5:

(i) Profit recorded:

DR P&L-20X5	100,000.00 EUR
CR Cash/Bank	100,000.00 EUR

(ii) Because of the high capital reserves no crediting to the Legal Reserves is required. Before the appropriation of profit can take place ALDRUP AG has to declare a 150 %-preference dividend: $150\% \times 8\% \times 100,000 = 12,000.00$ EUR.

DR Retained Earnings	12,000.00 EUR
CR Shareholder for Dividend	12,000.00 EUR

(iii, iv) The dividend and the earnings reserves are based on the remaining amount of $100,000 - 12,000 = 88,000.00$ EUR. The ordinary dividend is $40\% \times 88,000 = 35,200.00$ EUR. The amount put into the Earnings Reserves account equals to: $30\% \times 88,000 = 26,400.00$ EUR.

DR Retained Earnings	35,200.00 EUR
CR Shareholder for Dividend	35,200.00 EUR
DR Retained Earnings	26,400.00 EUR
CR Earnings Reserves	26,400.00 EUR

Observe the accounts:

D Capital reserves C	
c/d	5,000.00
	<u>5,000.00</u>
	(1)
	<u>5,000.00</u>
	b/d
	<u>5,000.00</u>
c/d	105,000.00
	<u>105,000.00</u>
	(D)
	<u>100,000.00</u>
	<u>105,000.00</u>
	b/d
	<u>105,000.00</u>

D Issued capital (ordinary) C	
c/d	100,000.00
	<u>100,000.00</u>
	(1)
	<u>100,000.00</u>
	b/d
	<u>100,000.00</u>
c/d	150,000.00
	<u>150,000.00</u>
	(D)
	<u>50,000.00</u>
	<u>150,000.00</u>
	b/d
	<u>150,000.00</u>

D Cash/Bank C	
(1)	105,000.00
	<u>105,000.00</u>
	(2)
	<u>80,000.00</u>
	c/d
	<u>25,000.00</u>
	<u>105,000.00</u>
b/d	25,000.00
	<u>25,000.00</u>
(a)	100,000.00
	<u>125,000.00</u>
	c/d
	<u>125,000.00</u>
b/d	125,000.00
	<u>125,000.00</u>
(A)	7,200.00
	<u>7,200.00</u>
(D)	150,000.00
	<u>150,000.00</u>
	(B)
	<u>8,000.00</u>
	c/d
	<u>259,800.00</u>
	<u>275,000.00</u>
b/d	259,800.00
	<u>259,800.00</u>
(i)	100,000.00
	<u>100,000.00</u>
	c/d
	<u>359,800.00</u>
	<u>359,800.00</u>
b/d	359,800.00
	<u>359,800.00</u>

D Retained earnings R/E C	
P&L-X2	80,000.00
	<u>80,000.00</u>
	c/d
	<u>80,000.00</u>
b/d	80,000.00
	<u>80,000.00</u>
LegRes	2,000.00
	<u>2,000.00</u>
EarRes	5,400.00
	<u>5,400.00</u>
SH4D	7,200.00
	<u>7,200.00</u>
c/d	5,400.00
	<u>5,400.00</u>
	(100,000.00)
	<u>100,000.00</u>
R/E	8,000.00
	<u>8,000.00</u>
	b/d
	<u>5,400.00</u>
	(B)
	<u>2,600.00</u>
	<u>8,000.00</u>
SH4pD	12,000.00
	<u>12,000.00</u>
SH4oD	35,200.00
	<u>35,200.00</u>
EarRes	26,400.00
	<u>26,400.00</u>
c/d	26,400.00
	<u>26,400.00</u>
	(100,000.00)
	<u>100,000.00</u>
	b/d
	<u>26,400.00</u>

D P&L-20X2 C	
(2)	80,000.00
	<u>80,000.00</u>
b/d	80,000.00
	<u>80,000.00</u>
	c/d
	<u>80,000.00</u>
	R/E
	<u>80,000.00</u>

D P&L-20X3 C	
c/d	100,000.00
	<u>100,000.00</u>
	(a)
	<u>100,000.00</u>
R/E	100,000.00
	<u>100,000.00</u>
	b/d
	<u>100,000.00</u>

D Legal reserves LegRes C	
c/d	2,000.00
	<u>2,000.00</u>
	LegRes
	<u>2,000.00</u>
	b/d
	<u>2,000.00</u>

D Earnings Reserves EarRes C	
c/d	5,400.00
	<u>5,400.00</u>
	R/E
	<u>5,400.00</u>
(B)	2,600.00
	<u>2,600.00</u>
	b/d
	<u>5,400.00</u>
c/d	2,800.00
	<u>2,800.00</u>
	(5,400.00)
	<u>5,400.00</u>
	b/d
	<u>2,800.00</u>
c/d	29,400.00
	<u>29,400.00</u>
	EarRes
	<u>26,400.00</u>
	<u>29,200.00</u>
	b/d
	<u>29,400.00</u>

D Shareholder for dividend SH4D C	
(A)	7,200.00
	<u>7,200.00</u>
	SH4D
	<u>7,200.00</u>
	SH4pD
	<u>12,000.00</u>
c/d	47,200.00
	<u>47,200.00</u>
	SH4oD
	<u>35,200.00</u>
	<u>47,200.00</u>
	b/d
	<u>47,200.00</u>

D P&L-20X4 C	
(B)	8,000.00
	<u>8,000.00</u>
	c/d
	<u>8,000.00</u>
b/d	8,000.00
	<u>8,000.00</u>
	R/E
	<u>8,000.00</u>

D P&L-20X5 C	
c/d	100,000.00
	<u>100,000.00</u>
	(i)
	<u>100,000.00</u>
R/E	100,000.00
	<u>100,000.00</u>
	b/d
	<u>100,000.00</u>

Exhibit 3: Accounts

**Aldrup AG's
STATEMENT OF CHANGES IN EQUITY
for 20X4**

	Issued capital	Earnings reserves	Capital reserves	Retained Earnings	Total Shareholders' Equity
Equity as at 31.12.20X3	100,000.00	5,400.00	5,000.00	5,400.00	115,800.00
Profit 20X4				(8,000.00)	(8,000.00)
Dissolving earnings reserves		(2,600.00)		2,600.00	0.00
Issue of preference shares	50,000.00		100,000.00		150,000.00
Equity as at 31.12.20X4	150,000.00	2,800.00	105,000.00	0.00	257,800.00
Profit 20X5				100,000.00	100,000.00
Preference dividend				(12,000.00)	(12,000.00)
Appropriation of profit - Dividend				(35,200.00)	(35,200.00)
Appropriation of profit - EarRes		26,400.00		(26,400.00)	(26,400.00)
Equity as at 31.12.20X5	150,000.00	29,200.00	105,000.00	26,400.00	284,200.00

Exhibit 3: Statement of changes in equity