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The Structure of Equity Capital in Accordance with IFRS in a Market Economy

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Abstract. This research article comprehensively examines the structure and classification of equity capital in accordance with International Financial Reporting Standards (IFRS) within a modern market economy, clarifying both its theoretical foundations and practical implications. The subject of this study focuses on the financial components, measurement criteria, and reporting disclosure requirements of equity capital in market-driven economic systems. Based on the study's primary findings and a thorough analysis of the nature, characteristics, and economic content of equity capital, a detailed description and breakdown of each capital type are systematically provided. Furthermore, the paper investigates the critical role of corporate equity in ensuring financial stability, evaluating investment attractiveness, and minimizing financial risks for enterprises. The practical part of the research highlights the specific challenges faced by companies when transitioning to IFRS-compliant equity reporting. Ultimately, the results and strategic conclusions of this study offer valuable recommendations for improving accounting policies, enhancing financial transparency, and optimizing capital management structures in contemporary organizations.

Key words: capital, equity, corporation, profit, shares, dividends.

The development of market relations has influenced the emergence of a number of new economic accounting objects. One of these is enterprise capital and, in particular, the enterprise's equity. Equity is an organization's resources—its assets minus the liabilities associated with those assets.

The main difference between corporate accounting and accounting at the individual enterprise and product level is the accounting of capital. On a corporation's balance sheet, equity is reflected in the "Shareholders' Equity" section, which includes the following items:

1. Share capital

   a) advanced capital
   b) reinvested profits

2. Preferred shares

3. Common shares

4. Capital contributions in excess of the par value of common shares. This division of capital into shares in corporations differs from its division in the balance sheets of individual entrepreneurs and companies.

The corporate section "Share Capital" consists of two parts:

1) Advanced capital
2) Reinvested profits

Advance capital prevents stock investments in the corporation. [1]

Reinvested earnings are the portion of profits received from commercial activities that is reinvested in enterprises not distributed among shareholders. The items grouped under "Advanced Capital" in the balance sheet contain significant information about a corporation's shares.

The unit of ownership in a corporation is a share. A shareholder receives a section certificate certifying their shareholding in the corporation's shares. They can dispose of their ownership as they see fit, but to transfer ownership of a share to another, the certificate must be signed and submitted to the corporation's secretary.

Issued shares are shares that have been continued or sold in another way.

Circulating shares are those shares that have been issued and are outstanding. Shares will not be circulating if they have been repurchased by the corporation or returned to shareholders.[2]

A corporation can issue two types of shares: common and preferred. If only one type of share is issued, it is called common. The aggregate of these shares is called residual capital. This means that in the event of liquidation, all creditors and preferred shareholders have their claims on the corporation's assets satisfied, and only then are the claims of common shareholders considered. In most cases, only common shares grant their holders voting rights, and therefore only common shareholders have the ability to control the corporation's activities.

Dividends are the portion of profits that are distributed among shares. Profits are usually distributed in cash proportional to the number of shares. The board of directors is responsible for declaring dividends. Dividends may be paid at the end of a quarter, half-year, or at another time as determined by the board of directors.

In most states, the board may declare dividends up to an amount equal to reinvested earnings. When dividends are declared, the corporation is essentially paying out the capital invested by the shareholders. Such dividends, called liquidating dividends, are typically paid upon the cessation of operations. However, the presence of a significant amount of profit does not in itself entitle the corporation to distribute dividends, as the corporation may not have cash or other easily distributable forms. In such a case, the corporation would have to borrow to pay the dividends, something the board of directors tries to avoid [4] .

Shareholders should strive to implement a dividend policy that maximizes shareholder wealth. Anyone would agree that if a company lacks sufficiently profitable investment opportunities, it should distribute excess funds among its shareholders. A company is not obligated to pay out its entire utilized balance in every period. In reality, it will want stability and an absolute dividend payout . But over the long term, the total value of net income and senior securities backed by capital growth will correspond to the value of the transformed investment opportunities. To pay higher dividends, a company must believe in shareholder wealth.

In contrast to the effective tax impact studies, the results of financial signaling studies consistently support the hypothesis of a declared dividend effect, with dividend growth predicting an increase in the dividend yield of equity. Therefore, dividends appear to be beneficial to management. Liquidation is the primary criterion for many dividend payment decisions, as dividends represent an outflow of funds. The higher the cash balance and total cash flow, the greater the ability to pay dividends. A growing and highly profitable company may not be liquid, as disruptions can be related to working capital. Since management typically seeks to maintain liquidation reserves to ensure flexibility and protection from uncertainty, it is reluctant to risk reducing these reserves for the sake of paying higher dividends. Liquidation is determined by its individual decision and the decision on a financially determined source of funds to cover this need.

If a company pays higher dividends, it may eventually face the need to increase capital by selling its shares. Under these circumstances, the company's controlling stake may be diluted if its holders are unable or non-shareholders to subscribe for new shares. These shareholders may prefer a low dividend yield and the financing of investment needs from private equity. Such a dividend policy will not maximize overall shareholder wealth, but it may align with the interests of investors as a monitoring body. If competitors or private individuals are closely monitoring the company, low dividends may play into their hands. Competitors may be able to convince shareholders that the company does not maximize their wealth. Furthermore, the fact that they, as competitors, can perform this task better. Consequently, the risk of losing their controlling stake may increase the dividend yield to the benefit of their shareholders. In addition to the dividend yield, stability is another characteristic of the dividend that attracts interest. By stability, we mean the consistency of the relationship between dividends and the line. All other things being equal, stock prices will be higher if it provides a stable dividend over a period of time.

The first date is the official announcement by the board of directors of the intention to pay dividends. The second date is when certain shares are designated as entitled to receive dividends. The third date is the actual dividend payment to shareholders. At the end of the reporting period, the "declared dividends" account is credited and the "dividend expense" account is debited.

Reinvested profits are thus used to cover the larger amount of dividends declared in a given reporting period. Some companies pay dividends infrequently. This happens when either no profit is made or the profit is used to expand production. In the latter case, the capital is returned to the investor.

A joint-stock company pays dividends as follows: the company's net worth remains at the company's disposal after all taxes have been paid, and other purposes are distributed among shareholders in the form of dividends. A decision regarding the company's net worth must be made by the general meeting of shareholders. Before such a decision is made, the executive body must submit to the general meeting of shareholders a certified annual report, balance sheet, and profit and loss account of the company, approved by the board of directors and the audit committee, for approval. [3]

Dividends may be paid if;

1) The authorized capital is fully paid.
2) The amount of the company's net assets after the payment of dividends will be no less than or equal to the sum of the authorized capital and reserve capital.
3) The dividend payment will not reduce the authorized capital.
4) The payment of a dividend will not affect the company's ability to repay debt as it falls due.

If dividends are due, they are paid on preferred shares in accordance with the terms of issue and the number of shares. However, dividends on preferred shares cannot be paid if doing so would infringe on the rights of shareholders.

The initial board of directors is determined by the memorandum of association for a period lasting until the company's first general meeting. If the board of directors is not elected in accordance with the memorandum of association, a board of directors must be elected within one month of the company's incorporation, and a shareholders' meeting must be held within that month.

The board of directors has the authority to act on behalf of the company. It oversees the management board and performs other functions in accordance with the charter. A candidate for a management change is nominated by two or more major shareholders, or by any member of the board of directors, and must be elected by the general meeting of shareholders.

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