FAR-1 — FINANCIAL ACCOUNTING & REPORTING 1

Topic: STATEMENT OF CHANGES IN EQUITY

1 TOPIC OVERVIEW

WHAT IS IT?
One of the 5 components of a complete set of financial statements [IAS 1:10] — it reconciles the opening and closing balance of every component of equity for the period.

WHY IMPORTANT?
Tells shareholders exactly how owners' wealth changed during the year and why — through profit, OCI, share transactions, dividends, and reserve transfers.

CORE PRINCIPLE
Equity = residual interest in assets after deducting all liabilities. Every equity movement must be classified into the correct column (share capital, premium, retained earnings, revaluation surplus, etc.) and correctly split between profit/loss, OCI, and owner transactions.

2 COMPONENTS OF EQUITY

Category	Includes
Share capital	Ordinary share capital; preference share capital (irredeemable only — redeemable preference shares are a liability)
Capital (non-distributable) reserves	Share premium; revaluation surplus
Revenue (distributable) reserves	Retained earnings; general reserves; other specific reserves from retained earnings (e.g. dividend equalization reserve)

Dividend: distribution of a company's earnings (realised profits) to shareholders, determined by the board and approved by the board or shareholders.

3 SHARE CAPITAL — TWO TYPES

ORDINARY SHARE CAPITAL
Entitles the holder to part-ownership, voting rights, AGM attendance, dividends, and bonus shares. Most companies issue only this type.

PREFERENCE SHARE CAPITAL
Preference over ordinary shareholders for dividends and capital repayment on liquidation; dividends often fixed. **Only irredeemable** preference shares are equity — redeemable preference shares are usually a liability.

4 CAPITAL RESERVES (NOT DISTRIBUTABLE)

SHARE PREMIUM
Excess of issue price over par value (e.g. Rs.10 par share issued at Rs.12 → Rs.2 premium). Per Companies Act 2017 (s.81) may be used to: write off preliminary/share-issue expenses; provide for premium on redemption of redeemable preference shares; issue bonus shares.

REVALUATION SURPLUS
Arises from upward revaluation of a non-current asset; non-distributable (unrealised profit); may diminish if a previously up-revalued asset is later devalued. Transferred to retained earnings on **disposal** of the asset and/or via **incremental depreciation**.

5 REVENUE RESERVES (DISTRIBUTABLE)

RETAINED EARNINGS
Profits/gains less expenses/losses kept in the business — not paid as dividend or transferred elsewhere. A **debit balance** indicates accumulated losses.

GENERAL RESERVES
Set aside from profit for future needs (contingencies, working capital, future losses); transferred from retained earnings with board approval.

DIVIDEND EQUALIZATION RESERVE
Specific reserve from retained earnings to keep dividends stable despite earnings fluctuations.

EQUITY TRANSACTIONS — SHARE & BONUS ISSUES

6 ISSUE OF SHARES FOR CONSIDERATION [RIGHT ISSUE]

Right issue = shares issued to existing shareholders in proportion to their holding, usually above par but at a discount to market price.

Share issue case	Journal entry	
At par value	Dr Bank	*Cr Share capital*
Above par (at premium)	Dr Bank	*Cr Share capital + Cr Share premium*
Below par (at discount)	Dr Bank + Dr Share premium/Retained earnings*	*Cr Share capital*
Transaction costs on issue	Dr Share premium/Retained earnings*	*Cr Bank/accrual*

*Discount and transaction costs are **never charged to profit or loss**. Share premium is debited first; retained earnings only if share premium has no or insufficient balance.

WORKED CHECK [Examples 01–03]

20% right issue at par + Rs.1m issue cost → Dr Bank/Cr Share capital [amount×20%]; Dr Retained earnings/Cr Bank [Rs.1m] (no share premium balance existed). 1-for-4 right issue @ Rs.150 (par Rs.100) + Rs.5m issue cost → Dr Bank [full proceeds]/Cr Share capital [shares×100]/Cr Share premium [shares×50]; then Dr Share premium/Cr Bank [Rs.5m] (share premium account absorbs the cost).

7 ISSUE OF SHARES FOR NO CONSIDERATION [BONUS ISSUE]

Bonus issue (scrip/capitalization issue) = free additional shares in proportion to existing holding, always at **par value**, no cash inflow. Converts reserves (share premium and/or retained earnings) into share capital — an alternative to paying cash dividends.

Bonus issue — general journal entry		
Dr Share premium / Retained earnings*	✓	
Cr Share capital		✓

*If the bonus issue is made **as a dividend** → debit retained earnings. If made **other than as dividend** → commonly utilise the share premium balance first.

WORKED CHECK [Examples 04–05]

1-for-5 bonus issue (share premium Rs.300m available) → **Dr Share premium / Cr Share capital** [600×1/5=Rs.120m]. A 20% **bonus dividend** declared → **Dr Retained earnings / Cr Share capital** [600×20%=Rs.120m] — same mechanics, different source reserve because it's explicitly a dividend.

8 CALCULATION ROADMAP — SHARE TRANSACTIONS

1. Identify type: right issue, bonus issue, or dividend
2. Compute shares/amount using the ratio given
3. Split proceeds: par value vs premium
4. Charge costs/discount to premium (or RE)
5. Journal entry
6. Update SOCE column(s)

DIVIDENDS & TRANSFERS BETWEEN RESERVES

9 DIVIDENDS — RECOGNITION & TYPES

A dividend is recognised only when it is **declared** (approved by the relevant authority) — usually paid within a few days of declaration.

Type	Rule
Interim dividend	Declared during the year by directors; recognised **immediately** — no further approval needed (often with half-yearly accounts).
Final dividend	Calculated after year-end based on annual profit; proposed by directors but must be **declared by shareholders** in the following year's meeting — so final dividend for 2022 is recognised in **2023**. Shareholders may accept, reject, or reduce — never increase — the proposed amount.

Dividend journal entries		
Cash dividend: Dr Retained earnings	✓	
Cr Dividend payable / Bank		✓
Bonus dividend: Dr Retained earnings	✓	
Cr Share capital		✓

CUMULATIVE PREFERENCE DIVIDEND

Must be provided for regardless of whether declared or not — unpaid amounts carry forward and are paid before any ordinary dividend.

NON-CUMULATIVE PREFERENCE DIVIDEND

Accounted for only to the extent actually declared for the period.

WORKED CHECK [Examples 06–07]

Final bonus dividend 20% recognised in the year it's declared by shareholders (25 Apr) → Dr RE/Cr Share capital [600×20%]; interim cash dividend 12% recognised on declaration by directors (17 Aug), applied to the **enlarged** share capital after the bonus issue → Dr RE/Cr Dividend payable [(600+120)×12%]. Cumulative 12% preference dividend, unpaid → still **Dr RE/Cr Dividend payable** [400×12%=Rs.48m], even though undeclared and unpaid.

10 TRANSFERS BETWEEN RESERVES

Event	Journal entry	
Incremental depreciation on revalued asset	Dr Revaluation surplus	*Cr Retained earnings*
Disposal of revalued asset	Dr Revaluation surplus	*Cr Retained earnings*
Transfer to general reserve	Dr Retained earnings	*Cr General reserve*

WORKED CHECK [Example 08]

Land disposed, carrying amount (revalued) Rs.85m vs cost Rs.36m → **Dr Revaluation surplus / Cr Retained earnings Rs.49m** (85−36, the full remaining surplus on that asset). Motor vehicles revalued (surplus Rs.50m, 5-yr life) → yearly incremental depreciation transfer **Dr Revaluation surplus / Cr Retained earnings Rs.10m** (50/5). Board approves 20% of Rs.75m profit to general reserve → **Dr Retained earnings / Cr General reserve Rs.15m**.

SOCE STRUCTURE, DISCLOSURE & QUICK RECAP

11 PURPOSE & INFORMATION TO BE PRESENTED [IAS 1:106, 106A, 107]

SOCE shows the opening and closing equity balances and reconciles what caused the change — helping shareholders see the effect of operations and other factors on their invested wealth.

MUST BE PRESENTED (IN THE STATEMENT)

- Total comprehensive income for the period
- Effects of retrospective application/restatement (IAS 8) per component
- For each component: reconciliation of opening→closing, separately showing profit/loss, OCI, and transactions with owners (contributions vs distributions)

STATEMENT OR NOTES

- Analysis of other comprehensive income by item
- Dividends recognised as distributions to owners, and dividends per share

Typical line items appearing in the SOCE: right issue of shares; bonus issue of shares/dividend; interim & final cash dividend; profit or loss for the period; OCI; transfers between reserves.

12 SOCE SPECIMEN FORMAT [Source specimen pattern]

Ordinary SC	Preference SC	Share premium	Retained earnings	Revaluation surplus	Total
200	60	30	50	40	380
Effect of change in accounting policy / correction of error → adjust opening Retained earnings (covered later under IAS 8)					
40	*Right issue*	22	—	—	62
Transaction costs	—	(3)	—	—	(3)
12	*Bonus dividend*	—	(12)	—	—
Profit for the year			40	—	40
Other comprehensive income				20	20
Transfer (incremental dep.)			6	(6)	—
Preference dividend 10%			(3)	—	(3)
252	**60**	**49**	**74**	**54**	**489**

Each column reconciles independently opening→closing; the Total column always equals the sum of all columns in that row. Retrospective adjustments (accounting policy change / error correction) restate the **opening** balance before current-year movements are added.

13 FINANCIAL STATEMENT IMPACT

STATEMENT OF PROFIT OR LOSS / OCI

- Profit for the year flows into retained earnings column
- OCI (e.g. revaluation gains) flows into revaluation surplus column

STATEMENT OF FINANCIAL POSITION

- Closing equity balances (each column) agree exactly to the SFP equity section
- Dividend payable — current liability until paid

! ⚠ EXAM TRAPS — COMMON MISTAKES

- Charging share issue **discounts or transaction costs to profit or loss** — they are never expensed; they reduce share premium (or retained earnings if premium is insufficient).
- Treating **redeemable** preference shares as equity — only irredeemable preference shares belong in equity.
- Forgetting that a **final dividend** for one year is recognised in the **following** year, when shareholders actually declare it — not in the year the profit was earned.
- Ignoring **cumulative preference dividends** that were never declared — they must still be provided for.
- Applying a bonus issue percentage to the **original** share capital when a bonus issue happened earlier in the same year — the dividend/right issue base should reflect the enlarged capital where relevant.
- Confusing a **bonus issue as capitalization** (uses share premium first) with a **bonus dividend** (always debits retained earnings) — same credit (share capital), different debit account.
- Recognising a revaluation surplus transfer to retained earnings **through profit or loss** — it is a direct reserve-to-reserve transfer, never through P&L.
- Forgetting to split **current vs total comprehensive income** correctly between the profit/loss row and the OCI row in the SOCE.
- Mixing up **capital reserves** (non-distributable: share premium, revaluation surplus) with **revenue reserves** (distributable: retained earnings, general reserve).
- Forgetting that shareholders can only **reduce or reject** a directors' proposed final dividend — never increase it.

14 QUICK DECISION TREE — ANSWERING ANY SOCE QUESTION

1 Question given → 2 Identify transaction type (issue, dividend, transfer, P&L/OCI) → 3 Apply the matching rule → 4 Calculate the amount → 5 Journal entry → ✔ Post to correct SOCE column

STATEMENT OF CHANGES IN EQUITY IN 60 SECONDS

Equity = assets − liabilities: share capital + capital reserves (premium, revaluation surplus) + revenue reserves (RE, general reserve).

Right issue at premium: Dr Bank / Cr Share capital + Cr Share premium.

Discount/issue costs: Dr Share premium (or RE) — never P&L.

Bonus issue: Dr Share premium/RE / Cr Share capital, always at par, no cash.

Dividend recognised only when declared: interim = immediate; final = following year on shareholder approval.

Cumulative preference dividend: provide for it even if undeclared.

Reserve transfers: incremental dep. & disposal → Dr Reval. surplus/Cr RE; general reserve → Dr RE/Cr General reserve.

SOCE reconciles opening→closing per column: P&L, OCI, and owner transactions shown separately.

Disclose: total comprehensive income, retrospective adjustments, dividends & DPS (statement or notes).