

67.1 An exercise on reading the Statement of Changes in Equity

Consider the sample Statement of Changes in Equity presented in Box 67.1, and explain as far as you can the significance of each figure in the statement.

BOX 67.1

Sample Presentation of the Statement of Changes in Equity

XYZ plc – Statement of Changes in Equity for the Year Ended 31 December 2050

	Share Capital £	Share Premium £	Other Reserves £	Currency Translation £	Retained Earnings £	Total £
Balance at 1 January 2050	363	180	570	145	761	2 019
Loss on currency translation				(89)		(89)
Gain on revaluation			26			26
Profit for period					549	549
Total Recognized Gains and Losses for the Period			26	(89)	549	486
Dividends					(172)	(172)
Issue of Share Capital	120	680				800
Balance at 31 December 2050	483	860	596	56	1 138	3 133

Response

This statement represents an analysis of how the total shareholders' claim on the company has changed in the course of the year.

Share Capital and **Share Premium** show the shareholders' claim on the company in respect of values they have paid in to the company, in exchange for the issue of shares. The statement shows that these claims increased by £800 during the year – i.e. that the company raised £800 from its shareholders. This was done by increasing the number of shares issued by about one third (the nominal value of shares issued increased by £120, from £363 to £483).

Other Reserves – gain on revaluation: the total shareholders' claim reported in the balance sheet also increased by £26 in respect of an unrealized increase in the value of an asset, which the company has decided to recognize in its accounts.

Currency translation: the company evidently holds some assets denominated in a depreciating foreign currency. As a result, foreign currency assets translated at one value in the opening balance sheet have been translated at a lower value in the closing balance sheet, resulting in a loss of £89. However, in previous years, similar movements in the opposite direction (assets denominated in an appreciating currency) meant that the firm started the year with accumulated gains of £145. It therefore ended the year with net accumulated gains on currency translation of £56.

Retained Earnings represents the shareholders' claim to realized extra value (extra net assets) accumulated as a result of successful operations. The statement shows that shareholders started with a claim to £761 of such extra net assets, that their claim was increased by profits of £549 made in the period, and decreased by the payment of a dividend of £172, leaving a final claim to £1 138 of extra net assets accumulated and kept in the company.