

Improvement of the accounting of formation of share capital

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Abstract: This article describes the procedure for organizing the share capital account. As a result of the conducted research, suggestions for improving the share capital calculation based on international standards have been developed.

Keywords: equity, share capital, international standards of financial reporting, fair value

INTRODUCTION.

Equity is the basis of financial stability of a joint-stock company, its amount and growth rate represent the efficiency of financial and economic activity. Information on equity is important in making management decisions. Such information supply is obtained from reliable accounts and reports formed within the accounting system of the joint-stock company.

LITERATURE ANALYSIS

It is worth noting that a number of scholars have considered research on equity accounting in their work.

Vasiliki Athanasakou, Florian Eugster, Thomas Schleicher, Martin Walker said that, "From a theoretical perspective, annual report narratives could have a beneficial, none, or even a harmful effect on the cost of equity. A beneficial effect arises when narratives are successful in reducing information risk and, if this risk is priced, then the cost of capital should decline" [1].

According to Slovak researchers, "based on our research we can conclude that the best way how to calculate the opportunity cost of equity is calculation by Build-up model. This method reflected not only external risks but also internal risks of companies which is very important factor. However, the big disadvantage of this model is that quantification is based on the subjective assessment of the analyst as well as the fact that risk additional charges are often estimated only according to the financial statements" [2].

A group of Economist scientists concluded that "the impact of voluntary disclosure actions on the cost of equity financing has always been an interesting topic in the financial-accounting literature, which can be classified to theoretical and empirical. From a theoretical point of view, a negative association between quality of corporate reporting and cost of equity financing is observed, particularly emphasizing on disclosure's ability to influence stock market liquidity and estimation risk. Empirical support for the suggested association is also presented by a growing body of studies, trying to quantify the relationship between cost of equity and quality of corporate disclosures" [3].

According to another group of scientists, "the empirical analysis generates a number of key findings. First, it finds a statistically negative association between accruals quality and the cost of equity, suggesting that firms with higher levels of accrual quality (lower levels of earnings management) enjoy lower financing costs, while firms with poor accrual quality suffer from higher costs of finance" [4].

F.Ochilov concluded that "equity capital and liabilities are the source of asset formation. Equity capital is formed at the expense of the company's own resources" [5].

However, the issues of improvement of the share capital calculation based on the requirements of international standards were not covered in detail in the conducted researches.

ANALYSIS AND RESULTS

The inclusion of money, securities, other items valued in money or property rights or other rights transferred to another person as a contribution to the share capital of the participating company is reflected in the accounting balance sheet of the company in the order of the increase of assets, as well as the increase of equity in the passive part.

The share capital of a joint-stock company performs three functions:

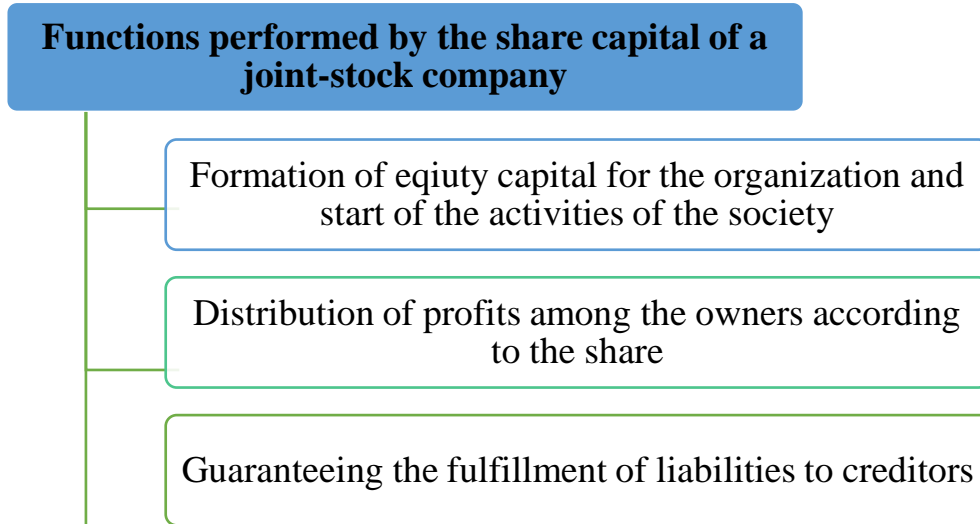


Figure 1. Functions performed by the share capital of a joint-stock company¹

The amount of the share capital registered in the founding documents reflects the total investments (shares) of the participants of the company and is reflected in the accounting in 8300-“Accounts for the share capital”. The balance of 8300-“Accounts for the share capital” corresponds to the amount of the share capital specified in the founding document of the company and does not depend on whether or not contributions were made by the participants during the reporting period.

The debts of the participants, the operations carried out by them, are not reflected in the accounting until the newly established society is registered with the state, that is, until the information about it is entered into the single state register of business entities. On the date of the state registration of the society, the first accounting entry reflecting the transaction on the sum of the total investments (shares) of the participants is made in accordance with the founding documents. In this case, the accounts for the share capital are credited, and the accounts of founders debts for shares in the share capital are debited. In our opinion, in this case, there is an issue that deserves special attention, that is, the contribution of the participants to the share capital of the company based on the founding agreement can be carried out according to their wishes. The founders also have the right to actually implement or not increase this desire, for various reasons. Based on this, we believe that it is appropriate that the contributions made by the participants are reflected in the capital accounting schedule as a contra-passive account of "unpaid capital". Another reason to come to this opinion is explained by the fact that the presentation of debt of participants in the balance sheet as receivables in the structure of assets can mislead users of financial statements. In accounting, we consider it appropriate to debit the "unpaid capital" account and credit the accounts accounting for the share capital when the company passes the state register. Contributions to the share capital by participants in the form of money, tangible and intangible assets are included, in accordance with the supporting

¹ Made by author

documents, the relevant accounts are debited and the unpaid capital account is credited, reflected in the relevant elements of the financial statement.

Legislation stipulates that when the investments included in the share capital are included as an asset in a form other than money, they should be reflected in accounting at the price agreed upon between the founders. In our opinion, there is an aspect that should be paid special attention in this case. If we take into account that the components of equity are indicators that affect the financial independence and financial stability of the organization, the value of non-monetary property included as a share in the share capital is of great importance. In international standards of financial reporting, it is required to reflect the value of assets in accounting, in most cases, at fair value.

If a real estate object is included as a contribution to the share capital, the property right to it must be registered in accordance with the law. In accordance with our national legislation, from the date of transfer of property rights to a real estate object, the society begins to own it and reflects it in accounting. If we look at the international practice, it is reflected in the accounting from the day when the control over the real estate object and the economic benefits from it belong to the society. Therefore, in accordance with the international standard, priority is given to the priority of content over form, rather than the legal aspect of the transaction.

In joint-stock companies, the share capital can be formed in the following order:

by increasing the nominal value of shares at the expense of the company's property, that is, the added capital, retained earnings;

by placing additional shares.

It should be noted that increasing the share capital of the company is the authority of the general meeting of its shareholders, but this authority may also be given to the supervisory board by the decision of the general meeting. If the company decides to increase the share capital, its new amount will be reflected in the accounting after the state registration of the amendment to the founding documents.

The amount of the share capital of a joint-stock company can be reduced in the following order:

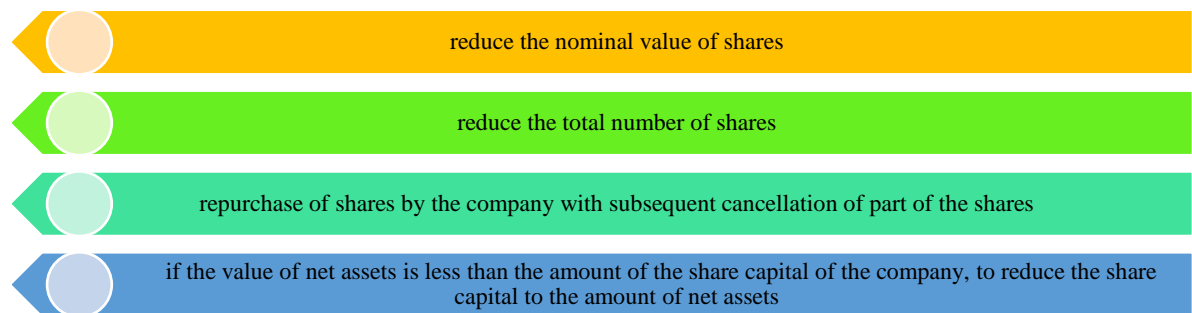


Figure 2. Cases in which the amount of the share capital of a joint-stock company is reduced²

If the general meeting of shareholders of the company makes a decision to reduce the amount of the share capital by partially paying their shares to the founders, on the date of the state registration of the amendment to the founding documents, the accounts accounting for the share capital are debited in accounting, and the accounts of debts for the shares of the outgoing founders are credited. When the liability incurred by the amount reduced by the share capital is extinguished, the account of debts to the departing founders is debited and the accounts for cash are credited

² Made by author

accordingly. Reduction of the nominal value of the share without payment to the founders of the amount of the share capital, the accounts accounting for the share capital are debited in the accounts for the date of state registration of the changes in the founding documents, and the retained earnings (unreimbursed loss) scheme is credited. Such operation is carried out in order to coordinate the amount of the share capital of the company to the amount of net assets. Reduction of the share capital by extinguishing the shares belonging to the company, changes in the founding documents are reflected in the accounting as of the date of state registration. In this case, the shares are bought at a higher or lower price than the nominal value. So, if the company buys its shares at a price lower than the nominal value, the accounts accounting for the share capital are debited, the account of the purchased equity shares is credited, the difference between the amounts is formalized by crediting the account of other income of financial activity. If the company buys its shares at a price higher than the nominal value, the accounts accounting for the share capital are debited, the account of purchased equity shares is credited, the difference between the amounts is formalized by debiting the account of other expenses of financial activity.

CONCLUSION

1. The main purpose of accounting is to provide information for external and internal users in making rational management decisions. Equity is considered one of the main objects of accounting, and represents the extent to which their assets are productive for the founders of the enterprise.

2. In the structure of equity, the share capital occupies the main share. It shows to what extent the shares of capital institutions of this type are formed. Wide use of international standards of financial reporting is appropriate for the correct organization of the share capital account in accounting.

3. International standards of financial reporting play an important role in the formation of uniquely identified financial indicators for all countries. The reliability and transparency of information in financial reports prepared based on the requirements of international standards is high and serves to increase the investment attractiveness of enterprises.

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