FEATURES OF ACCOUNTING EQUITY CAPITAL COMPONENTS

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ABSTRACT

Equity capital is of great importance in ensuring the financial stability of commercial organizations. In particular, reserve and retained earnings, which are a component of equity capital, reflect the result of the company's financial and economic activities. The growth of equity capital indicates the efficiency of the company. Of course, in this case, the interests of the company's shareholders and creditors will be protected by their correct accounting. The article describes the features of accounting for reserve capital and retained earnings based on national and international standards.

INTRODUCTION

In the conditions of modernization of the economy, as the importance of financial resources, the production potential of the company, as well as the fulfillment of the tasks of financing the activities of the company. The financial stability of the company depends on the funds that are the result of its activity, the appropriateness of their structure, and the formation of fixed and circulating funds in accordance with the purpose. Also, reliable accounting information is an important factor in ensuring investment attractiveness and attracting investors. The purpose of accounting is to present financial statements prepared on the basis of reliable accounting information to investors, creditors and other interested parties. Assets, liabilities, equity, income, expenses, profits and losses of a business entity are considered important indicators for investors. In particular, among these indicators, equity capital and its elements are also important. In this article, the author describes the components of equity capital, added capital, reserve capital and retained earnings, features of the account.

LITERATURE REVIEW

Avlokulov A. asserts that capital, profit, income, cost, tax and turnover indicators reflect the overall financial profile and play a central role in strategic management and decision-making. In a wider horizon, financial indicators are classified as liquidity, operational, profitability, debt and market indicators. However, the overall profitability indicator has already become out of interest, as it cannot
provide the real scene of the company's financial position. Shareholders' focus mainly concentrated on the indicators how the company is working for covering their investments [3].

Papanastasopoulos, G., Thomakos, D. and Wang, T. notes that investors act as if the components of retained earnings (current operating accruals, non-current operating accruals and retained cash flows) have similar implications for future profitability, leading to an overvaluation of their differential persistence. It also appears that while they cannot distinguish between the distinct properties of distributed earnings, they correctly anticipate the persistence of net cash distributions to debt holders (net debt repayment) but underestimate the persistence of net cash distributions to equity holders (dividends minus net stock issues). Overall, the findings of the paper suggest that the accrual anomaly documented in the accounting literature and the anomaly on net stock issues documented in the finance literature could be a subset of a larger anomaly on retained earnings [4].

Kevin Keasey, Paul B. McGuinness note that a positive association between the fraction of equity retained by pre-listing owners and earnings growth. However, this association weakens somewhat beyond the first two accounting year-ends post-listing. Significantly, earnings appreciation appears markedly weaker for issuers going to market with a secondary offer component within their overall IPO [5].

Scientists have noted that equity capital components have a positive effect on the going concern, the level of investment attraction and the growth of the company's stock prices. For this purpose, the correct formation of financial information on the account of equity capital is an urgent issue.

ANALYSIS AND RESULTS.

According to the Law «On Accounting», the equity capital consists of authorized capital, added capital, reserve capital and retained earnings (Fig. 1).

Figure 1. Structure of equity capital

If we look at this picture, the structure of equity capital consists of authorized capital, added capital and retained earnings, as well as reserve capital. Added capital is generated from income or exchange rate difference when the authorized capital is initially formed.

Reserve capital is formed from adjustments from revaluation of long-term assets, reserve capital and the value of property received for free.

According to the international standards of financial reporting, the accounting of equity capital and its presentation in the financial statements are different compared to the national accounting standards. According to international standards, reserve capital includes reserves as a distributed part of net profit and as an adjustment for capital maintenance. To these, when the reserve is allocated from the net profit, the net profit accounting account is debited, and the reserve account is credited, we can cite as an example operations that provide for the transfer of a certain amount of the adjustment amount resulting

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from the revaluation of fixed assets to the reserves representing the adjustment to maintain capital to the net profit at the end of the reporting period.

In accordance with the international standard, according to the concept of capital maintenance, if the business entity has the same amount of capital at the end of the reporting period as at the beginning of the reporting period, it ensures the capital maintenance. Any amount in excess of the amount necessary to maintain the capital at the level of the state at the beginning of the reporting period is considered a profit for the business entity, that is, in this case, the entity is considered to have effectively organized financial and economic activities.

Reserve capital is formed in accordance with the requirements of legal documents or founding documents. In accordance with the Law «On Protection of Joint-Stock Companies and Shareholders' Rights», a reserve fund is established in the amount of not less than fifteen percent of the authorized capital of the company, provided for in the charter of the company. The company's reserve fund is formed through annual mandatory deductions from the net profit until it reaches the amount specified in the company's charter [1]. Also, according to this law, the company is given the right to form other funds. According to the Law «On Limited Liability and Additional Liability Companies», the company may create a reserve fund in the amount provided for in its charter, but not less than fifteen percent of its charter fund (charter capital) [2]. The reserve fund of the company is formed by making deductions from the net profit every year until it reaches the amount specified in the charter of the company.

Thus, the formation of a reserve fund is mandatory for joint-stock companies, and optional for limited liability companies. The purpose of creating funds specified in the charter is to reduce risks, stabilize the activity of the business entity, and protect the interests of owners and creditors. The use of reserve capital is used only for the purposes specified in the legislation and the charter, i.e. compensation for company losses, cancellation of corporate bonds of the company, payment of dividends on preferred shares and repurchase of the company's shares. Its use for other purposes is limited by law.

![Figure 2. Share of reserve capital of grain processing companies in equity capital, in percent](image)

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In this picture, the share of the reserve capital of «Dunyo-M» JSC, «Galla-Alteg» JSC, and «Toshkentdonmahsulotlari» JSC from 2018 to 2022 in equity capital was studied. If we look at the data of Figure 2, the share of reserve capital in equity capital in «Dunyo-M» JSC is kept at the same level. That is, the reserve capital was formed in proportion to the retained earnings. In the rest of the companies, in particular, in JSC «Galla-Alteg» JSC, «Toshkentdonmahsulotlari» JSC, the amount of reserve capital can be estimated as sufficient for the normal operation of the company.
In the international standards of financial reporting, property received for free is not included in the capital structure. According to them, the free property can be given under certain conditions, and its accounting is regulated on the basis of the National Accounting Standard No. 20 entitled «Accounting for State Grants and Disclosure of Information on State Assistance». In our national standards, property received for free is not recognized as income for accounting purposes. In our opinion, we think that it is necessary to remove the free property from the capital structure, aligning our national accounting system with the requirements of international standards.

In practice, the only source of reserve capital formation in business entities is deductions from net profit. 8500-«Reserve capital» accounting accounts are used to account for operations with reserve capital. The accounting entry for the formation of reserve capital is recorded after the annual general meeting of shareholders (participants) and on the basis of the minutes of the meeting or an extract from the minutes drawn up in the established order. However, the minutes of the meeting alone are not sufficient to record the accounting entry. Because it does not contain the requisites of initial accounting documents that are the basis for recording accounting records. In accordance with the Law «On Accounting», the initial accounting documents must contain the following mandatory details (Fig.):

Figure 3. Mandatory requisites of initial account documents. In order to fulfill the requirements established by the law, an accounting reference is prepared, which is considered an initial document, based on the minutes of the general annual meeting of shareholders, and on the basis of this document, the allocation from the net profit to the account of the reserve capital is credited to the account 8520- «Reserve capital (fund)» and 8710-«Retained earnings of the reporting period (unrecovered loss) » account is recorded with an accounting entry. The use of reserve capital is under the authority of the supervisory board of the company. When reserve capital is used to compensate for company losses, we debit account 8710-«Retained profit of the reporting period (unreimbursed loss) » and credit account 8520- «Reserve capital (fund)». If the amount of the damage is greater than the amount of the reserve capital, then the authorized body of the company must determine from what sources the remaining part of the damage will be covered. In this case, damages can be compensated from the accumulated profit of the company or from another item of equity capital.
provided by the legislation.

It should be noted that the organization of the analytical account of reserve capital in company is of great importance. In our opinion, companies should separately reflect the composition of accounts that allow analytical accounting of reserve capital in the accounting policy (Fig. 4).

![Diagram of Reserve Capital Accounts](image)

**Figure 4. Plan of working accounts for organization of analytical accounting of reserve capital in joint-stock companies**

In our opinion, the use of this working account allows for the correct and reliable formation of accounting information, that is, confirmation that the reserves are used for the specified purposes in accordance with the law.

Information on reserve capital is reflected in line 430 of the balance sheet of Form 1 of the financial reporting forms at the beginning of the reporting period and at the end of the reporting period. In this line, the inflation reserves formed during the revaluation of long-term assets, the reserve formed at the expense of deductions from the net profit, and the value of property received for free are recorded in summary. Also, in this line, in accordance with the «Rules for filling out financial reporting forms», the amounts of tax credits for the payment of customs duties, budget taxes and mandatory payments are reflected, provided that the funds freed up as a result of exemption from taxation are directed to the performance of targeted tasks in accordance with the procedure established by law. In this case, when the funds freed from tax benefits are directed to the purchase of fixed assets, intangible assets, tangible assets, repayment of loans and debts, reconstruction and modernization of fixed assets, account 8840-«Targeted tax benefits» is debited and account 8530 «Property obtained for free» is credited.

Retained earnings play an important role in equity. The company determines its financial results by comparing income and expenses for the reporting period. If the income exceeds expenses, it means that the company ended the accounting period with a profit, if the income is less than the expenses, it means that the accounting period ended with a loss. For accounting purposes, retained earnings is an indicator that is determined as a positive financial result at the end of the year by comparing the income...
and expenses incurred during the year. Retained earnings also include the accumulated net profit of previous years left over from payments made by the company for indemnification and other purposes. The word «retained earnings», which is an important item of accounting, refers to the fact that the company has not distributed profits to shareholders as dividends.

In our opinion, we can also interpret the retained profit as a surplus of profit, and it reflects a reserve that is reinvested in the business by the decision of the company's management. Ensuring the company's year-on-year increase in retained earnings is an important factor in evaluating the efficiency of their activities. Figure 5.

![Figure 5](image-url)

Figure 5. The dynamics of the share of retained earnings of grain processing companies in equity capital , in percent.

Figure 5 analyzed the growth dynamics of the share of retained earnings of grain processing companies in the structure of equity capital. According to him, the best indicator belongs to «Galla-Alteg» JSC, in 2018-2022, the share of retained earnings in the structure of equity capital of the company increased from 47.1 percent to 82.5 percent. So, it indicates the growth of the company's retained earnings during 2018-2022. The share of retained earnings of «Dunyo-M» JSC in equity capital did not undergo large fluctuations, that is, it kept between 50-60 percent. The share of retained earnings of JSC «Toshkentdonmahsulotlari» decreased from 74.5% to 42.9%. The main reason for this is that the share of reserve capital in the company's equity capital increased from 20.1 percent to 53.9 percent in 2018-2022.

CONCLUSION.

1. Taking into account the introduction of international financial reporting standards, it is necessary to revise the composition of reserve capital, which is a equity capital component. In particular, in our opinion, it is appropriate to remove the line of property obtained for free from the composition of equity capital and reflect it in the composition of liabilities. Because in accordance with the international financial reporting standards, it is noted that the property is transferred to the company under certain conditions, and it is required to be separately reflected in the liabilities.

2. It should be noted that the aim of using the reserve capital are clearly defined in the legislation. In this case, a separate worker in the accounting policy of the company for the purposes of

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compensation for losses, withdrawal of the company's corporate bonds from circulation, payment of dividends on preferred shares and repurchase of the company's shares for the purposes of correct formation of the analytical account according to the scheme 8510—«Reserve capital» intended for keeping the account of the reserve capital. By approving the account of accounts, the appropriateness and reliable reflection of financial information is ensured.

3. We believe that the company should determine the amount of retained earnings and allocations from it to reserve capital at the end of the reporting year in its charter and analyze their dynamic changes in the structure of equity capital. Through the analysis, control of the provision of the concept of preservation of equity capital is carried out, that is, the difference between the amount of equity capital at the end of the reporting year and the amount of equity capital at the beginning of the reporting year indicates that the company ended the reporting year with a profit.

REFERENCES: