This IFRS Supplement provides expanded discussions of accounting guidance under International Financial Reporting Standards (IFRS) for the topics in Intermediate Accounting. The discussions are organized according to the chapters in Intermediate Accounting (13th or 14th Editions) and therefore can be used to supplement the U.S. GAAP requirements as presented in the textbook. Assignment material is provided for each supplement chapter, which can be used to assess and reinforce student understanding of IFRS.

**EQUITY**

Equity is the residual interest in the assets of the company after deducting all liabilities. Equity is often referred to as shareholders’ equity, stockholders’ equity, or corporate capital. Equity is often subclassified on the statement of financial position into the following categories (as discussed in Chapter 5).

1. Share capital.
2. Share premium.
3. Retained earnings.
4. Accumulated other comprehensive income.
5. Treasury shares.
6. Non-controlling interest (minority interest).

Such classifications help financial statement users to better understand the legal or other restrictions related to the ability of the company to pay dividends or otherwise use its equity for certain defined purposes.

Companies often make a distinction between contributed capital (paid-in capital) and earned capital. Contributed capital (paid-in capital) is the total amount paid in on capital shares—the amount provided by shareholders to the corporation for use in the business. Contributed capital includes items such as the par value of all outstanding shares and premiums less discounts on issuance. Earned capital is the capital that develops from profitable operations. It consists of all undistributed income that remains invested in the company. Retained earnings represents the earned capital of the company.

As indicated above, equity is a residual interest and therefore its value is derived from the amount of the corporations’ assets and liabilities. Only in unusual cases will a company’s equity equal the total fair value of its shares. For example, BMW (DEU) recently had total equity of €20,265 million and a market capitalization of €21,160 million. BMW’s equity represents the net contributions from shareholders (from both majority and minority shareholders) plus retained earnings and accumulated other comprehensive income. As a residual interest, its equity has no existence apart from the assets and liabilities of BMW—equity equals net assets. Equity is not a claim to specific assets but a claim against a portion of the total assets. Its amount is not specified or fixed; it depends on BMW’s profitability. Equity grows if it is profitable. It shrinks, or may disappear entirely, if BMW loses money.

This is particularly advantageous whenever issuing shares for property items such as tangible or intangible fixed assets.

A major disadvantage of no-par shares is that some countries levy a high tax on these issues. In addition, in some countries the total issue price for no-par shares may be considered legal capital, which could reduce the flexibility in paying dividends.

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**U.S. GAAP PERSPECTIVE**

Both IFRS and U.S. GAAP use the term retained earnings. However, IFRS relies on the term reserve as a dumping ground for other types of equity transactions, such as other comprehensive income items, as well as transactions related to convertible bonds and share-option contracts (discussed in Chapter 16). U.S. GAAP relies on the account Accumulated Other Comprehensive Income (Loss).
Corporations sell no-par shares, like par value shares, for whatever price they will bring. However, unlike par value shares, corporations issue them without a premium or a discount. The exact amount received represents the credit to ordinary or preference shares. For example, Video Electronics Corporation is organized with 10,000 ordinary shares authorized without par value. Video Electronics makes only a memorandum entry for the authorization, inasmuch as no amount is involved. If Video Electronics then issues 500 shares for cash at €10 per share, it makes the following entry:

\[
\begin{array}{c|c|c|c}
\text{Cash} & 5,000 & \text{Share Capital—Ordinary} & 5,000 \\
\end{array}
\]

If it issues another 500 shares for €11 per share, Video Electronics makes this entry:

\[
\begin{array}{c|c|c|c}
\text{Cash} & 5,500 & \text{Share Capital—Ordinary} & 5,500 \\
\end{array}
\]

**True no-par shares should be carried in the accounts at issue price without any share premium reported.** But some countries require that no-par shares have a stated value. The stated value is a minimum value below which a company cannot issue it. Thus, instead of being no-par shares, such stated-value shares become, in effect, shares with a very low par value. It thus is open to all the criticism and abuses that first encouraged the development of no-par shares.

If no-par shares have a stated value of €5 per share but sell for €11, all such amounts in excess of €5 are recorded as share premium, which in many jurisdictions is fully or partially available for dividends. Thus, no-par value shares, with a low stated value, permit a new corporation to commence its operations with share premium that may exceed its stated capital. For example, if a company issued 1,000 of the shares with a €5 stated value at €15 per share for cash, it makes the following entry.

\[
\begin{array}{c|c|c|c|c}
\text{Cash} & 15,000 & \text{Share Capital—Ordinary} & 5,000 & \text{Share Premium—Ordinary} & 10,000 \\
\end{array}
\]

Most corporations account for no-par shares with a stated value as if they were par value shares with par equal to the stated value.

**Accounting for and Reporting Preference Shares**

The accounting for preference shares at issuance is similar to that for ordinary shares. A corporation allocates proceeds between the par value of the preference shares and share premium. To illustrate, assume that Bishop Co. issues 10,000 shares of £10 par value preference shares for £12 cash per share. Bishop records the issuance as follows:

\[
\begin{array}{c|c|c|c|c}
\text{Cash} & 120,000 & \text{Share Capital—Preference} & 100,000 & \text{Share Premium—Preference} & 20,000 \\
\end{array}
\]

Thus, Bishop maintains separate accounts for these different classes of shares.

Corporations consider convertible preference shares as a part of equity. In addition, when exercising convertible preference shares, there is no theoretical justification for recognition of a gain or loss. A company recognizes no gain or loss when dealing with shareholders in their capacity as business owners. Instead, the company employs the book value method: debit Share Capital—Preference, along with any related Share Premium—Preference; credit Share Capital—Ordinary and Share Premium—Ordinary (if an excess exists).

Preference shares generally have no maturity date. Therefore, no legal obligation exists to pay the preference shareholder. As a result, companies classify preference
shares as part of equity. Companies generally report preference shares at par value as the first item in the equity section. They report any excess over par value as part of share premium. They also consider dividends on preference shares as a distribution of income and not an expense. Companies must disclose the pertinent rights of the preference shares outstanding. [2]

**PRESENTATION AND ANALYSIS OF EQUITY**

**Presentation of Equity**

**Statement of Financial Position**

Illustration 15-1 shows a comprehensive equity section from the statement of financial position of Frost Company that includes the equity items we discussed in this chapter.

Frost should disclose the pertinent rights and privileges of the various securities outstanding. For example, companies must disclose all of the following: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares. Liquidation preferences should be disclosed in the equity section of the statement of financial position, rather than in the notes to the financial statements, to emphasize the possible effect of this restriction on future cash flows.

**Presentation of Statement of Changes in Equity**

Companies are also required to present a statement of changes in equity. The statement of changes in equity includes the following.

1. Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests.

2. For each component of equity, the effects of retrospective application or retrospective restatement.

3. For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
   - (a) Profit or loss;
   - (b) Each item of other comprehensive income; and

1Companies may include a number of items in the “Accumulated other comprehensive loss” or “Accumulated other comprehensive income.” Among these items are “Foreign currency translation adjustments” (covered in advanced accounting), “Unrealized holding gains and losses for non-trading equity investments” (covered in Chapter 17), and “Unrealized gains on property, plant, and equipment” (covered in Chapter 11), often referred to as revaluation surplus.
(c) Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

A statement of changes in equity for Park Company is presented in Illustration 15-2.

<table>
<thead>
<tr>
<th>Share Capital</th>
<th>Retained Earnings</th>
<th>Unrealized Holding Gain (Loss) on Non-Trading Equity Investments</th>
<th>Unrealized Holding Gain (Loss) on Property, Plant, and Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—December 31, 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of Ordinary Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Comprehensive Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance—December 31, 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In addition, Park is required to present, either in the statement of changes in equity or in the notes, the amount of dividends recognized as distributions to owners during the period and the related amount per share. [3]

**U.S. GAAP PERSPECTIVE**

Under IFRS, it is common to report “Revaluation surplus” related to increases and decreases in revaluations of items such as property, plant, and equipment, and natural resources. The term surplus is generally not used in U.S. GAAP; revaluation accounting is not allowed under U.S. GAAP.

**AUTHORITATIVE LITERATURE**

**Authoritative Literature References**


**BRIEF EXERCISES**

**BE15-1** Kaymer Corporation issued 300 shares of €10 par value ordinary shares for €4,500. Prepare Kaymer’s journal entry.

**BE15-2** Wilco Corporation has the following account balances at December 31, 2010.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital—ordinary, €5 par value</td>
<td>€510,000</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>€90,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>€2,340,000</td>
</tr>
<tr>
<td>Share premium—ordinary</td>
<td>€1,320,000</td>
</tr>
</tbody>
</table>

Prepare Wilco’s December 31, 2010, equity section.

**BE15-3** Ravonette Corporation issued 300 shares of $10 par value ordinary shares and 100 shares of $50 par value preference shares for a lump sum of $13,500. The ordinary shares have a market price of $20 per share, and the preference shares have a market price of $90 per share. Prepare the journal entry to record the issuance.

**EXERCISES**

**E15-1** (Recording the Issuance of Ordinary and Preference Shares) Abernathy Corporation was organized on January 1, 2010. It is authorized to issue 10,000 shares of 8%, $50 par value preference shares, and 500,000 shares of no-par ordinary shares with a stated value of $2 per share. The following share transactions were completed during the first year.

- **Jan. 10** Issued 80,000 ordinary shares for cash at $5 per share.
- **Mar. 1** Issued 5,000 preference shares for cash at $108 per share.
- **Apr. 1** Issued 24,000 ordinary shares for land. The asking price of the land was $90,000; the fair value of the land was $80,000.
- **May 1** Issued 80,000 ordinary shares for cash at $7 per share.
- **Aug. 1** Issued 10,000 ordinary shares to attorneys in payment of their bill of $50,000 for services rendered in helping the company organize.
- **Sept. 1** Issued 10,000 ordinary shares for cash at $9 per share.
- **Nov. 1** Issued 1,000 preference shares for cash at $112 per share.

**Instructions**
Prepare the journal entries to record the above transactions.

**E15-2** (Preference Share Entries and Dividends) Weisberg Corporation has 10,000 shares of $100 par value, 6%, preference shares and 50,000 ordinary shares of $10 par value outstanding at December 31, 2010.

**Instructions**
Answer the questions in each of the following independent situations.

(a) If the preference shares are cumulative and dividends were last paid on the preference shares on December 31, 2007, what are the dividends in arrears that should be reported on the December 31, 2010, statement of financial position? How should these dividends be reported?
(b) If the preference shares are convertible into seven shares of $10 par value ordinary shares and 3,000 shares are converted, what entry is required for the conversion, assuming the preference shares were issued at par value?

(c) If the preference shares were issued at $107 per share, how should the preference shares be reported in the equity section?

E15-3 (Equity Section) Teller Corporation’s post-closing trial balance at December 31, 2010, was as follows.

<table>
<thead>
<tr>
<th>TELLER CORPORATION</th>
<th>POST-CLOSING TRIAL BALANCE</th>
<th>DECEMBER 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>€ 310,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>€ 480,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation—building and equipment</td>
<td>185,000</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Bonds payable</td>
<td></td>
<td>700,000</td>
</tr>
<tr>
<td>Building and equipment</td>
<td>1,450,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>190,000</td>
<td></td>
</tr>
<tr>
<td>Dividends payable on preference shares—cash</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>560,000</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>201,000</td>
</tr>
<tr>
<td>Share capital—ordinary (€1 par value)</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td>Share capital—preference (€50 par value)</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Share premium—ordinary</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Share premium—treasury</td>
<td>160,000</td>
<td></td>
</tr>
<tr>
<td>Treasury shares—ordinary at cost</td>
<td>170,000</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>€3,290,000</td>
<td>€3,290,000</td>
</tr>
</tbody>
</table>

At December 31, 2010, Teller had the following number of ordinary and preference shares.

<table>
<thead>
<tr>
<th></th>
<th>Ordinary</th>
<th>Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized</td>
<td>600,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Issued</td>
<td>200,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Outstanding</td>
<td>190,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The dividends on preference shares are €4 cumulative. In addition, the preference shares have a preference in liquidation of €50 per share.

Instructions
Prepare the equity section of Teller’s statement of financial position at December 31, 2010.

**FINANCIAL REPORTING**

Financial Reporting Problem
Marks and Spencer plc (M&S)

The financial statements of M&S can be accessed at the book’s companion website, www.wiley.com/college/kiesoifrs.

Instructions
Refer to M&S’s financial statements and the accompanying notes to answer the following questions.

(a) What is the par or stated value of M&S’s preference shares?
(b) What is the par or stated value of M&S’s ordinary shares?
(c) What percentage of M&S’s authorized ordinary shares was issued at December 31, 2008?
(d) How many ordinary shares were outstanding at December 31, 2008, and December 31, 2007?
(e) What was the pound amount effect of the cash dividends on M&S’s equity?
(f) What is M&S’s rate of return on ordinary share equity for 2008 and 2007?
(g) What is M&S’s payout ratio for 2008 and 2007?

BRIDGE TO THE PROFESSION

Recall from Chapter 13 that Hincapie Co. (a specialty bike-accessory manufacturer) is expecting growth in sales of some products targeted to the low-price market. Hincapie is contemplating a preference share issue to help finance this expansion in operations. The company is leaning toward preference shares because ownership will not be diluted, but the investors will get an extra dividend if the company does well. The company management wants to be certain that its reporting of this transaction is transparent to its current shareholders and wants you to research the disclosure requirements related to its capital structure.

Instructions

Access the IFRS authoritative literature at the IASB website (http://eifrs.iasb.org/). When you have accessed the documents, you can use the search tool in your Internet browser to respond to the following questions. (Provide paragraph citations.)

(a) Identify the authoritative literature that addresses disclosure of information about capital structure.
(b) What information about share capital must companies disclose? Discuss how Hincapie should report the proposed preference share issue.