

EXPOSURE DRAFT

NATIONAL ACCOUNTING STANDARD FOR COMMERCIAL ORGANISATIONS No. 2

STATEMENT OF CHANGES IN EQUITY

General Provisions

Assignment of the Standard

1. This standard has been prepared in accordance with the Accounting Law of the Republic of Azerbaijan and is based on International Accounting Standard No.1 - Presentation of Financial Statements.

Presentation of financial statements

2. The commercial organizations should present the annual financial statements and the combined (consolidated) financial statements to the state bodies within the legal terms and timeframe, and other individuals – within the terms, stipulated in their charters.

Objective

3. The objective of this standard is to ensure that reporting entities recognise, measure and report changes in equity in a consistent and transparent manner.

Scope

4. This standard applies to all types of commercial organisations other than public interest entities and small entrepreneurship, to the Statement of Changes in Equity and to the combined (consolidated) financial statements prepared by commercial organisations as a part of annual financial statements. Terms used in this standard are related to joint stocks, and other enterprises should use equivalent terms.
5. All commercial organizations other than public interest entities and small entrepreneurship, can present financial statements and combined (consolidated) financial statements in accordance with International Financial Reporting Standards at their option.
6. This standard should be applied, taking into account additional provisions contained in the Rules of Bookkeeping and also in Explanations and Recommendations on Application of National Accounting Standards for Commercial Organizations.
7. In the case of contradictions between effective normative-legal acts on accounting and this National Accounting Standard this standard will be applied.
8. This standard doesn't deal with share distribution costs directly related to the purchase of other enterprises.
9. This Standard doesn't deal with the accounting of capital maintenance adjustments, presented in other National Accounting Standards

Definitions:

10. The following terms are used in this standard with the meaning specified

Equity – the residual interest in the net assets of the enterprise after deducting its liabilities.

Equity instruments – is any contract that evidences a residual interest in the assets of the enterprise after deducting all of its liabilities.

Charter Capital - is the portion of the authorised capital, determined by the constituent documents, registered within the legal terms. The Charter capital of the joint-stock company is equal to the total of respective nominal value of all shares issued/ According to the requirements of the Civil Code of Azerbaijan the charter capital should be issued and paid up before the enterprise registration.

Paid up charter capital is the portion of the capital that that has been paid by the owners (shareholders)

Share premium – the amount paid for the issued shares over and above their par value.

Share discount – the amount by which the issued value of shares drops below their par value. According to the requirements of the Article 1077.2 of the Civil Code of the Republic of Azerbaijan) the first-time allocation of the shares by value below their par value is not allowed.

Redeemed Capital (Treasure shares) - shares repurchased by the company and held for re-issue at a later date or until they are cancelled.

Contributed capital (paid up capital) – are increases in equity resulting from transfers from owners (shareholders) in their capacity as owners. In case of joint-stock companies it is the sum of paid up charter capital and share premiums less redeemed capital.

Earned capital – are the accumulated throughout the existence of an enterprise as at the reporting date:

- (1) the remaining amount which results after the deduction of other expenses recognised directly in an equity from other income is recognised directly in an equity according to the provisions specific National Accounting Standard,
- (2) A net profit of an enterprise after deduction of dividends and other distribution of profits to owners.

Reserves – are a part of earned capital including accumulated net profit allocated for specific purpose and unused part of other income and other expenses directly recognized in equity, which are not available for distribution to the owners (shareholders)

Retained Earnings-is the part of earned capital that is generally available for distribution to the owners (shareholders).

Cost of distribution of shares – expenses that arise directly and exclusively from the issue of shares or other equity instruments of the enterprise.

Fundamental errors – are errors discovered in the current period because of which the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Components of Equity

11. Accounting for equity includes transactions on:

- (a) The formation of the organisation, the issuing of shares to shareholders and the payment of the issued shares;
- (b) any subsequent transactions between the organisation and the shareholders such as the issuing of further shares or the redemption of issued shares;
- (c) the payment of dividends from retained earnings;
- (d) the creation and utilization of reserves;
- (e) the capital maintenance adjustments, recognised during the accounting period but not reflected in the Income Statement;
- (f) the transfer of net profit for the period to retained earnings.

12. Following elements of equity to be recognised on the balance sheet and on the Statements of Changes in Equity:
 - Issued share capital
 - Share premium
 - Reserves
 - Retained Earnings
 - Changes on equity adjustments

Recognition and Measurement of Equity

Paid-up charter capital.

13. Issued share capital should be paid by the owner before registration of the enterprise. If the new shares are issued after the establishment of the enterprise, the additional issued charter capital of the enterprise can be left unpaid for a certain period of time. In the event of incomplete payment for issued capital The balance outstanding should be recorded as unpaid share capital. For this period, the unpaid portion of the equity should be recorded as unpaid charter capital. When calculating the amount of the charter capital paid up as at the balance sheet date, the amount of the unpaid charter capital should be deducted from the registered issued capital. The Paid up Charter capital only should be recognized in the Balance Sheet for the period and presented on the Statement of Changes in Equity, and the balance of non-paid charter capital should be recorded separately in the Notes to the Statement of Changes in Equity.
14. When contributions are made in the form of non- cash assets, the value of the property should be measured at its fair value. If the fair value of the contributed property is higher than the nominal value of the shares then the difference between the two values should be recognised as share premium, otherwise (if it is not prohibited by the legislation) should be recognised as discount to issued shares.
15. The paid-up charter capital may decrease as a result of transactions such as a redemption by the enterprise of shares already in issue, or a decrease in the nominal value of the distributed shares of the enterprise.

Share premium

16. If the sale price of the shares is more than the nominal value, then the enterprise should get the share premium. The difference between two values are recorded as a share premium and recognized as another component of equity.

Discount to Issued Shares

17. In cases stipulated by normative and legal acts the selling price of the issued shares may be lower than par value of shares issued. This case, can be considered as a discount to issued shares.
18. The sum of discount to issued shares should be accounted as following:
 - (a) Transferred to the paid up charter capital from the retained earnings
 - (b) When the balance of retained earnings is insufficient, the unpaid amount should be charged as an unpaid loss for the reporting period and should be disclosed separately.

Retained Earnings

19. **Retained Earnings** both for the current reporting period and cumulative for all previous reporting periods will be recognised on the Balance Sheet as a component of equity. The undistributed profit (unpaid loss) for the current reporting period is determined after the preparation of the Income Statement for the current reporting period. The measurement of the current year profit or loss will be the final result on the Income Statement after tax, dividends and any other permitted use of profit adjusted for any other gain or loss permitted to be recorded directly to undistributed profit.

20. Cumulative undistributed profits (unpaid loss) represent the total of all prior periods' undistributed profits (unpaid loss). Cumulative undistributed profits (unpaid loss) could be distributed between owners. This cumulative undistributed profits will be classified on the Balance Sheet as a component of equity.

Reserve Capital

21. Reserves are the part of the earned capital, which includes unused amount remained after the deduction of other expenses recognised directly in equity from other income recognised directly in equity and accumulated net profit assigned for specific purposes that held by the enterprise for specific purposes and can not be distributed between owners (shareholders), Reserves are created by the allocations from net profit in accordance with the requirements of the legislation, enterprise's charter and decisions of the of the enterprise's management. Reserves established for specific tasks may not be used for other purposes. When an enterprise achieves the goals for which these reserves were created or these goals change, the reserves should be added to the retained earnings.

Shares distribution costs

22. Costs relating to an issue of shares of the enterprise net of any related profit tax should be recorded as a share discount. Costs relating to an issue of shares and other equity instruments which were declared unsuccessful are recognised as expenses of the relevant period.

Redeemed Capital (Treasury shares)

Redemption of the Shares

23. When the redeemed shares are held by the enterprise for the purpose of re-issuing them at later period or to be canceled fully, these shares should be shown as a reduction of the sum of paid-up charter capital and share premium and should be accounted separately.
24. Redeemed capital (shares) is measured by amount of cash and cash equivalents paid for their redemption

Re issuing of Redeemed shares

25. On the re-issuing of redeemed capita (shares) at a later date they are derecognised.
26. When redeemed shares are re-issued at the price above the amount paid for their redemption, the difference is recognised as increase of the share premium
27. If redeemed shares are re-issued at the prise below the amount paid for their redemption, the difference is recognised as reducing of the share premium.
28. In the case if share premium account does not exist or its current balance is insufficient to cover the price difference arisen then the unpaid amount is recognised as reduction of the retained earnings.
29. Price difference shall be recognised in equity as unpaid loss in the case when share premium's or retained earnings' current balances are not sufficient to cover it.
30. Costs of redemption and re-distribution of the shares should be recorded in the same way of costs of distribution of the shares.

Cancellation of the Redeemed Shares.

31. Cancellation of shares represents a reduction in the capital of the enterprises. When shares are redeemed and immediately cancelled the timing of the recognition is at the moment of payment for the redeemed shares by the organisation to the former shareholders. When shares are

cancelled at a later date than that of their redemption the timing of the recognition will be when the enterprise takes the formal decision to do so.

32. When redeemed shares are cancelled the amount paid for their redemption is deducted from the paid up charter capital and share premium of appropriate class of shares and in the cases shown in the paragraph 34 of this Standard from the retained earnings
33. Reduction in the paid up charter capital is measured at the total amount of the nominal price of all cancelled redeemed shares.
34. Reduction in the share premium is measured at the amount of balance of the “Share premium” account related to redeemed shares.
35. If the amount paid for the redemption of cancelled shares is different from the sum of par value and balance of the “Share premium” account related to these shares then the difference shall be recognised as changes in retained earnings of the current year. If this difference is positive it shall be recognised as reduction of the retained earnings. If this difference is negative it shall be recognised as increasing of the retained earnings. If there is not sufficient balance on the retained earnings it should be recognised as the unpaid loss for the reporting period.

Capital Maintenance Adjustments

36. There are three types of capital maintenance adjustments:
 - (a) Incomes and expenses related on the revaluation
 - (b) translation differences arose on the preparation of combined (consolidated) financial statements for the main enterprise.
 - (c) Incomes and expenses related on the significant errors and changes in accounting policy of the enterprise.
37. The rules of accounting for income and expenses resulted from revaluation of non-current assets and recognised as a component of equity (revaluation reserve) are regulated by the appropriate National Accounting Standards on accounting for non-current assets.
38. The rules of accounting for exchange rates differences mentioned in aragraph 36(b) and recognised as a component of equity (translation reserve) are regulated by the appropriate National Accounting Standard.
39. The rules of accounting for income and expenses related to the significant errors and changes in the accounting policy of the enterprise and recognised as an adjustments to the enterprise’s retained earnings are regulated by the appropriate National Accounting Standard.

Presentation and Disclosure

40. Enterprise shall present the Changes in Equity Statement that describes the information on reasons and amounts of changes in equity during the reporting period.
41. The components of equity shall be presented in the financial statements by the separate items as specified in this standard. The classification of items of equity in the Balance sheet and Changes in Equity Statement should allow the user to assess the composition and structure of the capital and reserves of the enterprise as well as the restrictions on the distribution of individual components of equity.
42. The information on the following changes in equity of the enterprise during the reporting period shall be included into the Changes in Equity Statement:

- (a) Net profit or loss of the period;
 - (b) Income and expenses directly recorded in equity; by item and as a total amount;
 - (c) total income and expenses for the reporting period (the sum of the amounts presented under items (a) and (b) above), presenting separately shares of parent company and minority shareholders
 - (ç) total amount of changes in accounting policy and corrections of significant errors that to be recorded in accordance with appropriate National Accounting Standards as adjustments to the opening balance of retained earnings of the previous years;
 - (d) The following information should be disclosed directly in the Statement of Changes in Equity or in the notes thereto:
 - transactions on the contribution of capital by the owners and the distribution of capital to the owners;
 - Balance of retained earnings (unpaid losses) at the beginning and at the end of the reporting period, and on changes to this item during the reporting period;
 - the reconciliation of opening and closing balances of each component of paid up capital (separately by share classes) and of each reserve and on changes to these items during the reporting period.
43. The following information should be disclosed separately in the notes to the financial statements of the enterprise for each class of share:
- (a) Par value per share or that the shares have no par value ;
 - (b) number of issued shares
 - (c) reconciliation of the number of shares issued, paid and unpaid at the beginning and end of the reporting period;
 - (ç) Rights, privileges, and restrictions attaching to each class of shares, including restrictions on the distributions of dividends and the repayment of capital;
 - (d) number of shares of enterprise held by the enterprise, its subsidiaries and associates
 - (e) Number of shares reserved for issue under options and contracts, including the terms and amounts;
 - (ə) Information on commitments on the redemption of shares;
 - (f) information on shares transferred as collateral to third parties;
 - (g) Description of the nature and purpose of each reserve.
 - (ğ) The amount of dividends that were proposed or declared after the balance sheet date but before the presentation date of the financial statements and not presented in the financial statements, including information on amounts of appropriate dividends per share;
 - (h) The amount of any cumulative preference dividends not recognised.
44. A non-joint-stock enterprise shall disclose information equivalent to that required above. This information shall present changes during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

First Time Application

45. At the first time of applying this standard it is not required to present the comparative information for the previous reporting periods
- Transitional Provisions.**
46. The following paragraphs of this standard become effective only after introduction of appropriate National Accounting Standards
- (a) Paragraphs 5 and 42(c) (in a part of consolidated statements), after the introduction National accounting standards based on IAS 27 – Consolidated and Separate Financial Statements
 - (b) paragraph 42-(b) – after the introduction of the National Accounting Standard for Commercial Organisations based on IAS 16, - Property, Plant and Equipment, IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, IAS -21 – The Effects of Changes in Foreign Exchange Rates, IAS 38 - Intangible Assets;
 - (c) paragraph 42-(ç) after the introduction of the National Accounting Standard for Commercial Organisations based on IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors;

47. In accordance with paragraph 14 owner's contributions in the form of non-monetary assets are measured by the fair value of these assets. Until the introduction of the National Accounting Standard for Commercial Organisations disclosing the fair value concept, the fair value of these assets is considered to be a value established by the constituent general meeting of the owners respectively/.

Effective Date

48. The effective date of this standard is determined by appropriate order of Ministry of Finance of the Republic of Azerbaijan.

Appendix 1 – Comparison NASCO 2 Statement of Changes in Equity with IAS 1 Presentation of Financial Statements

1. The National Accounting Standard for Commercial Organizations No. 2 – Changes in Equity Statement is based on International Accounting Standard No. 1 - Presentation of Financial Statements and IASB Framework. There are no principal differences between this standard and above mentioned pronouncements. However, the level of details contained in this standard is higher than in International Accounting Standard No. 1 - Presentation of Financial Statements to reflect the need for more explanation of the reporting of equity.
1. National Accounting Standard for Commercial Organisations №2 - Changes in Equity Statement additionally requires to present of the following information:
 - (a) Information on commitment on redemption of shares (paragraph 43(ə));
 - (b) information on shares transferred as collateral to the third parties (paragraph 43f);

It is not necessary to present such kind of information according to International Accounting Standards 1, Financial statements presentation
3. Additional paragraph related to the first time application of the standard was included into the National Accounting Standard for Commercial Organizations 2 – Changes in Equity Statement (paragraph 44). According to this paragraph at the first time applying of this standard it is not necessary to present comparative figures for the previous reporting periods.
4. Additional paragraphs related to the transitional provisions were included into the National Accounting Standard for Commercial Organizations No. 2 – Changes in Equity Statement (paragraphs 46 and 47). In accordance with these paragraphs some provisions of the standard will come to the effect and some other provisions of the standard will obtain proper meaning only after introduction of the appropriate National Accounting Standard.
5. In accordance with the National Accounting Standard for Commercial Organizations No. 2 – Changes in Equity Statement owner's contributions in the form of non-monetary assets are measured by the fair value of these assets. In accordance with transitional provisions (paragraph 47) until the introduction of the National Accounting Standard for Commercial Organisations disclosing the fair value concept, the fair value of these assets is considered as value established by the constituent general meeting of the owners respectively.