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Analysis and audit of equity capital in joint-stock companies

Annotation

One of the most important goals of any enterprise is to maintain a source of income, i.e. own capital. Equity is property that is free from liabilities and is used as assets. The financial stability of the enterprise is determined by the structure and value of equity capital (EC). The structure, dynamics and value of equity capital influence the adoption of managerial decisions of a short-term and long-term nature[6].

Аннотация

Одной из важнейших целей любого предприятия является сохранение источника дохода, т.е. собственного капитала. Собственный капитал - это имущество, которое свободно от обязательств и используется в качестве активов. Финансовую устойчивость предприятия определяют по структуре и величине собственного капитала (СК). На принятие управленческих решений краткосрочного и долгосрочного характера влияет структура, динамика и величина собственного капитала. [6].

Key words

equity capital, equity movements, equity capital efficiency indicators, equity dynamics, SWOT analysis; dupont model.

Ключевые слова

собственный капитал, движения собственного капитала, показатели эффективности использования собственного капитала, динамика собственного капитала, SWOT-анализ; модель «Дюпон».

Introductoin.Equity capital characterizes the total value of the funds of a joint-stock company owned by it and used by it to form a certain part of the assets. This part of the asset, formed at the expense of equity invested in them, represents the net assets of the joint-stock company. Own capital includes various sources of

financial resources in terms of their economic content, principles of formation and use: authorized, additional, reserve capital, retained earnings, special purpose funds and other reserves. Also, own funds include gratuitous receipts and government subsidies. The amount of the authorized capital must be determined in the charter and other constituent documents of the organization. It can be changed only after making appropriate changes to the constituent documents.

According to Professor Yu.A. Babaev, equity is capital minus attracted capital (liabilities), which consists of a combination of authorized, additional and reserve capital, retained earnings and other reserves (trust funds and reserves)[11]. In the textbook "Finance" by Lyudmila Drobozina, it is said that the equity capital of an enterprise is the difference between the sum of assets and the sum of external liabilities of the enterprise. Its value can only be determined by calculation based on balance data[10].

The main purpose of the analysis of equity in joint-stock companies is to identify the main sources of its formation and to establish the consequences of their changes for the financial stability of the organization, to determine the organization's ability to preserve capital.

Tasks of equity analysis:

- study of the composition, structure and dynamics of the equity capital of an economic entity;
- assessment of the changes that have occurred in the liabilities side of the balance sheet in terms of increasing the level of financial stability of the enterprise;
- identification of factors of change in their value;
- determination of the required amount of equity capital for the break-even activity of the joint-stock company;
- evaluate the effectiveness of the use of equity capital;
- assessment of the investment attractiveness of a joint stock company;
- substantiation of the optimal variant of equity replenishment reserves.
- determination of the total amount of own capital, its changes and the direction of movement in the process of economic activity of the joint-stock company;
- development of specific recommendations for making economically sound and profitable decisions, etc.

Currently, there is no approved methodology for the financial analysis of the equity capital of a joint-stock company in practice, so scientists and economists develop and offer their own unique schemes for analyzing equity capital. According to scientists, it is their methods that reflect the full range of information

to interested users about the structure of capital, its dynamics, the processes of formation, use, management and forecasting, and they are also easy to adapt and apply in production.

Theoretical and practical aspects of the stages of conducting an economic analysis of equity in joint-stock companies are reflected in the works of such foreign scientists as T.I. Grigorieva, L.T. Gilyarovskaya, A.D. Sheremet, E.M. , I.A.Zhulega, E.A.Markaryan, G.P.Gerasimenko, S.E.Markaryan, N.V.Kuznetsova, S.A.Ershova, G.V.Savitskaya[9] and others.

Material and Methods. Based on the studied existing modern methods and techniques of economic analysis, in our opinion, the analysis of equity should be carried out in the following order (Fig. 1).

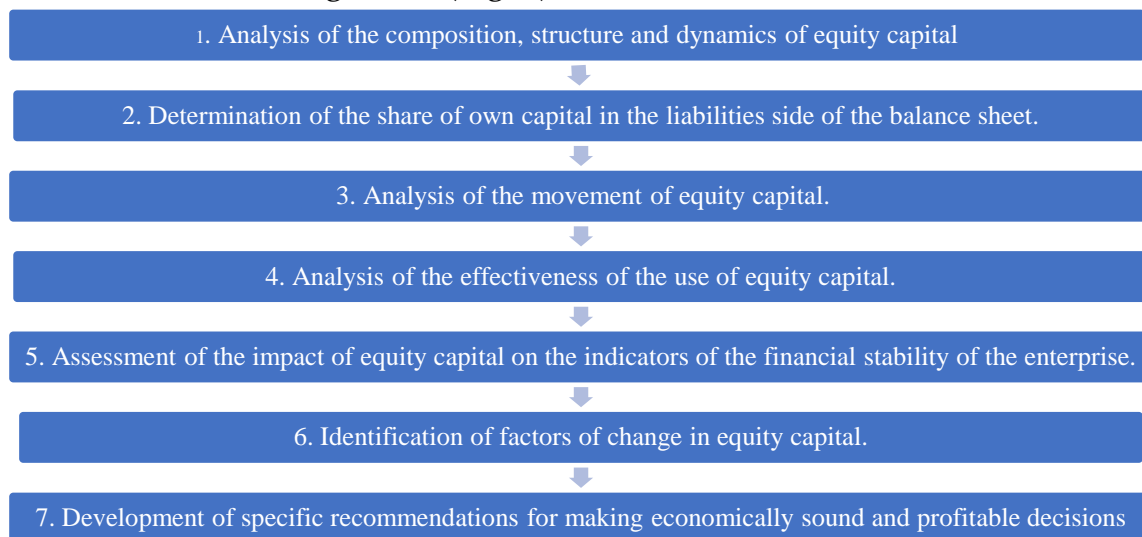


Figure 1. Model for conducting an economic analysis of equity in joint-stock companies.

1. Analysis of the composition, structure and dynamics of equity capital in joint-stock companies.

In the process of analysis, it is necessary to study in detail the composition of equity capital, find out the reasons for the change in its individual components and evaluate these changes, as well as analyze in detail the movement of equity capital. When analyzing the structure of equity, it is necessary to take into account the characteristics of each of its components. The capital structure of an organization (the share of its own and borrowed sources) has a direct impact on the financial independence and financial stability of the organization. Equity capital is characterized by ease of attraction, ensuring a more stable financial condition of the organization and reducing the risk of bankruptcy. The higher the share of equity in the total amount of capital, the higher the barrier that protects investors and creditors from possible losses, and the lower the risk of loss.

The need for own capital at an optimal level is due to the requirement for self-financing of a joint-stock company, since it is a guarantee of its independence and independence. The peculiarity of equity capital is that it is invested on a long-term basis, therefore it is exposed to the greatest risk for its owners.

For each current period, sustainable growth rates depend on the increase in equity, the source of which is retained earnings. Of all sources of financial resources, profit is a constantly reproducible resource. Other sources, such as: issue of shares, issue of bonds, loans are of a one-time nature for a certain period of time[8].

2. Determination of the share of own capital in the liabilities side of the balance sheet.

It is with this that the analysis of equity capital should begin, since its size and share in the liability of the balance sheet of an economic entity determines the degree of its independence from borrowed funds and, consequently, financial stability. In order to assess the change in the share of equity capital in the sources of financing, it is necessary to find out due to which of its components this change occurred. The excess of equity capital over borrowed capital, as well as the outpacing of its growth rates over the growth rates of borrowed funds, is a sign of a "good" balance.

3. Analysis of the movement of equity capital.

For the analysis of the movement of equity, the coefficients of receipt and disposal are used. The equity inflow ratio is the ratio of the value of equity capital received to the value of equity capital at the end of the period. It shows what part of the equity from the available at the end of the reporting period is made up of newly received funds in his account. The equity retirement ratio is the ratio of the value of retired equity to the value of equity at the beginning of the period. It shows how much of the equity capital with which the company started operations in the reporting period was used in the course of the business entity's activities. The excess of the values of the coefficients of receipt over the coefficients of retirement characterize the process of increasing equity (a positive trend), and the opposite situation will indicate the loss (reduction) of equity, which is regarded as a negative trend.

4. Analysis of the effectiveness of the use of equity capital.

To analyze the effectiveness of the use of equity, two main indicators are used: the turnover ratio of equity (the ratio of revenue to the average annual cost of equity), return on equity (the ratio of net profit to the average annual value of equity). The first coefficient shows the rate of turnover of capital invested by the

owners, the second reflects the profit received from each ruble of funds invested by the owners. The higher both ratios, the better the organization's own capital is used. These indicators are of interest not only to shareholders, but also to potential investors.

5. Assessment of the impact of equity capital on the indicators of the financial stability of the enterprise. To assess this impact, a system of indicators is used. The main coefficients included in it are the coefficient of autonomy and the coefficient of provision with own working capital.

Discussion. The autonomy ratio (equity concentration ratio) is the ratio of equity to the balance sheet. It shows the share of own funds in the total amount of funding sources and characterizes the independence of an economic entity from borrowed funds. An increase in the autonomy coefficient indicates an increase in financial independence and a decrease in the risk of financial difficulties. However, its significant value may indicate the inability to attract credit resources. The recommended value of the coefficient for industrial enterprises is 0.5 due to the fact that production is of a capacious nature, and equity capital is directed mainly to the formation of non-current assets and, above all, fixed assets.

The coefficient of provision with own working capital is calculated as the ratio of own working capital to current assets. It shows what part of current assets is formed at the expense of own sources. The lower limit of this indicator is 0.1 (at least 10% of working capital should be financed from equity), the optimal value is considered to be more than 0.3-0.5.

The practical use of the coefficient method for the analysis of equity enables users to obtain up-to-date data on the financial and economic condition of a joint-stock company, its stability, profitability and future prospects. And also you can make analytical reports for internal use, making cost-effective decisions.

6. Identification of factors of change in equity capital.

Determining the impact of various factors on equity is possible using the following models: a system of SWOT-analysis of financial activities; model "DuPont" - integrated analysis system (1-table); objectively oriented system of integral financial analysis; factor analysis of the dynamics of the value of net assets; portfolio analysis, etc.

7. Development of specific recommendations for making economically sound and profitable decisions.

Analysis of equity capital using financial ratios of O'zkimyosanoatloyiha JSC[12]

1-Table

No	Indicators	Definition	Reporting period	Change (+,-)
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			2019	2020	2021	2021 vs.2020	2020 vs. 2019
1.	Admission rate	SKp / SKkop	-	-	-	-	-
2.	Retirement rate	SLE / SKnop	-	-	-	-	-
3.	Equity turnover ratio	CV / SKss	3,76	4,21	3,22	-0,99	0,45
4.	Return on equity	(PE / SKss)*100	14,23	28,99	23,51	-5,48	14,76
5.	Autonomy coefficient	SC / Pos	0,61	0,60	0,66	0,06	-0,01
6.	Working capital ratio	(SK+DO-YES) / TA	0,55	0,49	0,48	-0,01	-0,06

Legend: SKp - incoming equity capital, SKop - cost of equity at the end of the period, CV - cost of retired equity capital, SKnop - cost of equity at the beginning of the period, CV - net revenue, CAcc - average annual cost of equity, NP - net profit, Pos - total liability, SC - equity, DO - long-term liabilities, DA - long-term assets, TA - current assets.

The DuPont model was used in the factor analysis of the return on equity ratio (Rsk(ROE)): $Rsk(ROE) = Ra(ROA) * Mr(DR) * PR / CV * CV / A * A / SC$. The model allows you to calculate the influence of factors on the return on equity.

Factor analysis of equity based on the financial statements of O'zkiyosanoatloyiha JSC[12]

№	Indicators	Reporting period			Change (+,-)	
		2019	2020	2021	2021 vs. 20.	2020 vs.
1.	Net profit, sand soums	220060.00	517925.20	481804.30	-36120,9	297865,2
2.	Net proceeds, sand soums	5816050.00	7530672.80	6603264.30	-927408,5	1714622,8
3.	The value of s, thousand s	2604004.00	3266035.80	3206290.80	-59745	662031,8
4.	Own capital, sand soums	1605707.00	1966690.90	2132663.50	165972,6	360983,9
5.	Sales stability (1/2), %	3,78	6,87	7,29	0,42	3,09
6.	Asset turnover, sum	2,23	2,30	2,06	-0,24	0,07
7.	Ratio of assets	1,62	1,66	1,50	-0,16	0,04

	equity (3/4), and soums					
8.	Return on equity (1/4), %	13,70	26,33	22,59	-3,74	12,63
Analysis of the influence of factors on the change in equity capital (2021 vs. 2020)						
A)	Change the profitability of the asset turnover	0,42*2,30*1,66			1,6	
B)	Change in asset turnover	7,29*(-0,24)*1,66			-2,9	
C)	Change in the ratio of assets to equity	7,29*2,06*(-0,16)			-2,4	

As can be seen from the table, in the reporting year, the return on equity is 31.77% (2021), compared to the previous year, it decreased by 3.74%. This change was influenced by an increase in the profitability of sales, asset turnover, the ratio of assets to equity capital. The profitability of sales in the reporting year is equal to 7.29%, compared with the previous year increased by 0.42%. In turn, this led to an increase in return on equity by 1.6%. Asset turnover in the reporting year is 2.06, compared with the previous year decreased by 0.24. As a result, the return on equity decreased by 2.9%. The ratio of assets to equity capital in the reporting year is 1.5, compared to the previous year it decreased by 0.16. This led to a decrease in return on equity by 2.4%.

Results. Based on all the calculations, we can make a generalizing conclusion that the decrease in net revenue and net profit led to a decrease in the profitability of sales and asset turnover. And they eventually had a negative impact on reducing the return on equity. At present, the analysis of equity in all joint-stock companies is given a central place, and our study allowed us to supplement the existing methods of analysis and formulate a certain sequence of stages in the analysis of equity in joint-stock companies. It consists of several procedures, namely: the formulation of goals, objectives, methods and techniques of analysis; conducting comparative, horizontal, vertical analysis; selection of certain coefficients of dynamics, composition and efficiency of the use of equity capital, their calculation and evaluation; assessment of the efficiency of capital use and determination of the influence of factors on capital; use of analysis data in making managerial decisions. In our opinion, it is precisely this sequence of conducting an analysis of the equity capital of a joint-stock company that will allow internal and external users to

receive up-to-date information and build an accounting and analytical system more rationally, that is, aimed at maximizing profits and minimizing losses.

An audit of equity capital is carried out in order to confirm the correctness of the formation and validity of changes in the authorized capital, the compliance of financial statements, the correctness of settlements with the founders.

Auditing activities are carried out in four areas:

1. The specifics of activities and features of constituent documents, based on the organizational and legal form of the organization;
2. Formation and adjustment of the authorized capital;
3. Settlements with the founders on contributions to the authorized capital and on the payment of income;
4. Structure and movement of capital and reserves.

The foundation of the audit, in particular the audit of equity, is the planning procedure, regulated by the International Standard on Auditing 300 "Planning the Audit of Financial Statements". This process allows you to build an audit plan to obtain a professional and high-quality result, as well as reduce the risk of not detecting material misstatements and errors in the accounting (financial) statements. At the planning stage, the timing and stages of verification are determined; a working group of specialists for the audit is selected; Significant areas of work are established, the result of the audit of which can have a significant impact on the formation of the auditor's opinion; evaluates the work and system of internal control of the company; allocate responsibilities among members of the audit team. One of the most important processes at the planning stage is the determination of the optimal materiality level. The procedure for its determination is regulated by International Auditing Standard 320 "Materiality in planning and conducting an audit". The need to determine the level of materiality is directly related to the expression of an opinion on the reliability of the financial statements of a joint-stock company. The higher the materiality level, the lower the audit risk.

When conducting an audit of equity, they plan to check:

- 1) authorized capital:
 - a) audit of the structure of the authorized capital;
 - b) audit of the authorized capital;
 - c) audit of contributions to the authorized capital.
- 2) additional capital:
 - a) audit of property revaluation;
 - b) audit of a part of the capital formed as a result of settlements with the founders;

- c) audit of investments in non-current assets.
- 3) reserve capital:
 - a) audit of reserve capital.
 - 4) audit of retained earnings
 - a) audit of retained earnings for the reporting year;
 - b) audit of retained earnings for previous reporting years.

By virtue of International Standard on Auditing 230 "Audit Documentation", audit firms should reflect in their working papers information obtained during planning.[5] Let's consider in more detail audit services and planned types of checks for elements of equity capital of a joint-stock company. When checking the authorized capital, the legal form of the company should be taken into account. The minimum amount of the authorized capital of a joint stock company must be at least the amount equivalent to four hundred thousand US dollars at the rate of the Central Bank of the Republic of Uzbekistan on the date of state registration of the company.

The deadline for the formation of the charter fund of the company in the amount provided for by the constituent documents should not exceed one year from the moment of state registration of the company, unless otherwise provided by law.

The next object of the audit of equity is additional capital, the main task of checking which is to determine the correctness of its formation and the validity of changes. The main part of it is formed by increasing the value of fixed assets as a result of revaluation.

Another object of equity audit is reserve capital. The main tasks of this element are to cover the losses of unforeseen expenses, pay off bonds or buy back shares. The legislation allowed limited liability companies to voluntarily determine the order and size of the reserve fund. Therefore, the auditor needs to study the charter of the company, which should contain provisions on reserve capital. And the final element of the audit of equity capital is the audit of the value of the financial result of the joint-stock company - retained earnings. To check the accuracy of the reported amount of retained earnings, it is necessary to verify the correctness of the amounts reflected under the items of the Statement of Financial Performance, and in particular, under the items "Gross profit (loss)", "Profit (loss) from sales", "Profit (loss) before taxation". Checking the formation of the above indicators should be thorough. To do this, you must be guided by IAS 18 "Revenue" [3].

Conclusion. These procedures help to establish the correctness of accounting and reflection of the elements of the equity of the joint-stock company - authorized,

additional, reserve capital and retained earnings in the accounting (financial) statements. As a result, it is possible to estimate the true size of the company's equity capital at any given time. The audit is carried out both in all areas of equity in the aggregate, and for individual capital items. Based on the results of the audit, the auditor provides an audit report in which an opinion is formed on the reliability of the accounting (financial) statements, in particular, on the reliability of information about the equity capital of the company. The auditor also develops recommendations based on the work done to improve the efficiency of the use of equity capital.

A competently conducted audit will help avoid a lot of disagreements, such as: misuse of reserve capital (to pay income); discrepancy between the data of synthetic and analytical accounting of equity capital; unreasonable decrease or increase in the total amount of the authorized capital; use of additional capital funds for the acquisition of fixed assets.

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