

WHAT DO I SEE ON STATEMENTS OF CHANGES IN OWNERS' EQUITY?

LEARNING OBJECTIVES

After completing this module you will be able to:

- Identify the purpose and structure of statements of changes in owners' equity and some of the ways managers, investors, and others use them.
- Connect changes in balance sheets to statements of changes in owners' equity, and apply these concepts to real companies' reports.
- Apply a hierarchical approach to assessing changes in owners' equity using information on statements of changes in owners' equity.



Key take-aways:

- As suggested by its name, and illustrated in figure 1, the statement of changes in owners' equity explains the changes in owners' equity during reporting periods.
- The beginning and ending balances for line items reported in the owners' equity section of the balance sheet are reported in the statement of changes in owners' equity. Typically, balance-sheet line items or rows correspond to columns in the statement of changes in owners' equity.
- In figure 2, the owners' equity change map demonstrates the hierarchical nature of concepts reported in the statement of changes in owners' equity. At the highest level of this hierarchy, the change in owners' equity has two components: the net changes associated with transactions with owners and other events that changed owners' equity.
- The net change due to transactions with owners is further divided into two components: contributions from owners, usually in exchange for stock, and distributions to owners, usually in the form of cash dividends or stock repurchases.
- Two balance sheet concepts were introduced in this module: Retained earnings is the net profits the company has accumulated since it started less the accumulated distributions of earnings to owners in the form of dividends or share repurchases. Thus, retained refers to earnings that have not been distributed to owners. Reserves, also called surplus or accumulated other comprehensive income, is other comprehensive income the company has accumulated since it started.

Key terms:

- **Owners' equity** - Owners' claims on entity's assets. Total owners' equity is the accounting or book value of the owners' claims, which generally differs from fair values. Also called stockholders' equity or shareholders' equity.
- **Retained earnings** - Net profits and losses (earnings) the company has accumulated since it started less the accumulated distributions of earnings to owners in the form of dividends or share repurchases. Also called Retained losses.
- **Reserves** - Other comprehensive income the company has accumulated since it started. Also called surplus, accumulated other comprehensive income, and other comprehensive income.

Figure 1 Connecting Balance Sheets to Statements of Changes in Owners' Equity

This figure demonstrates how balance sheets' rows and statements of changes in owners' equity's columns are connected.

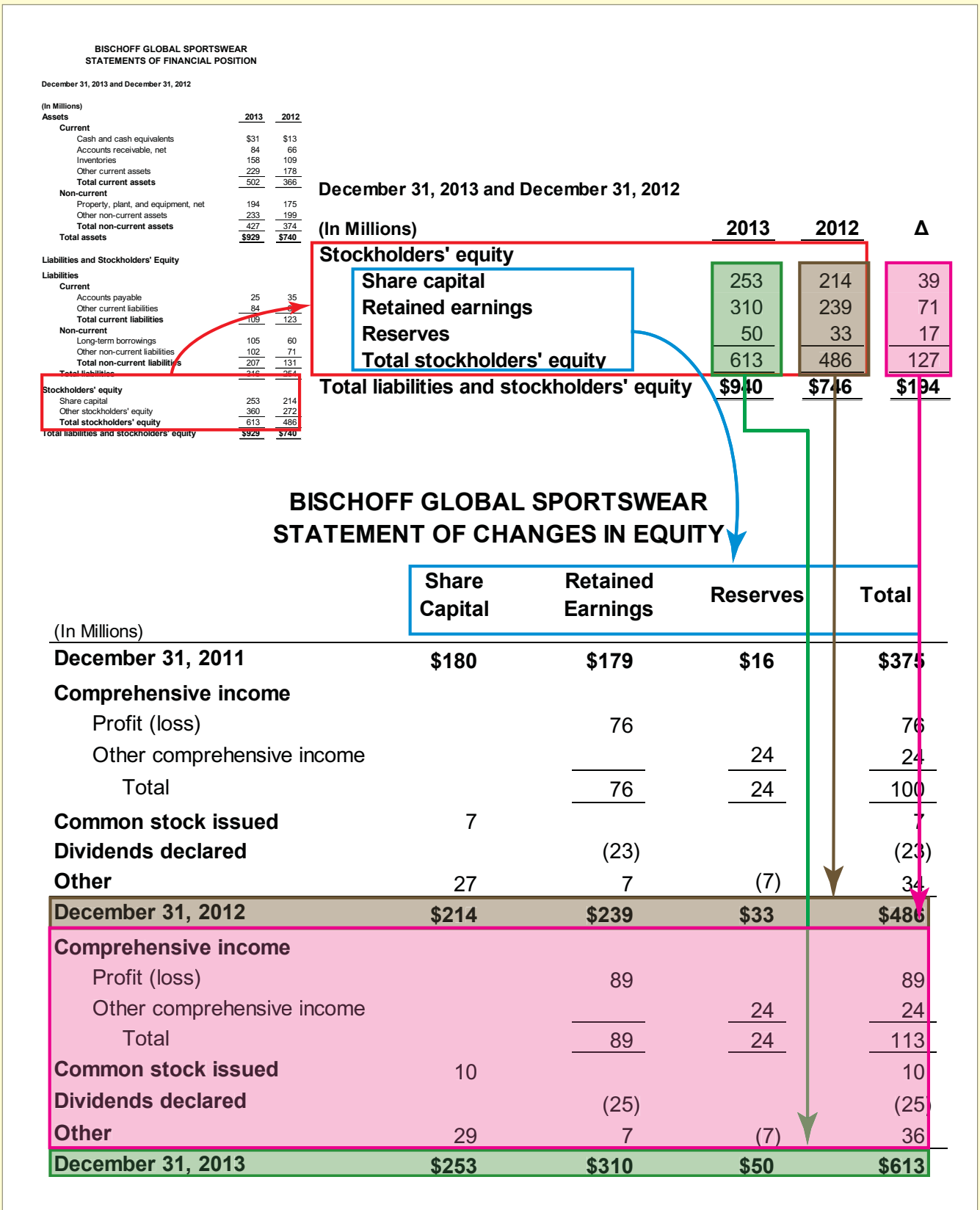


Figure 2 Connecting Owners' Equity Change (OEC) Map to Statement of Changes in Owners' Equity

This figure illustrates the hierarchical nature of concepts reported in the statement of changes in owners' equity.

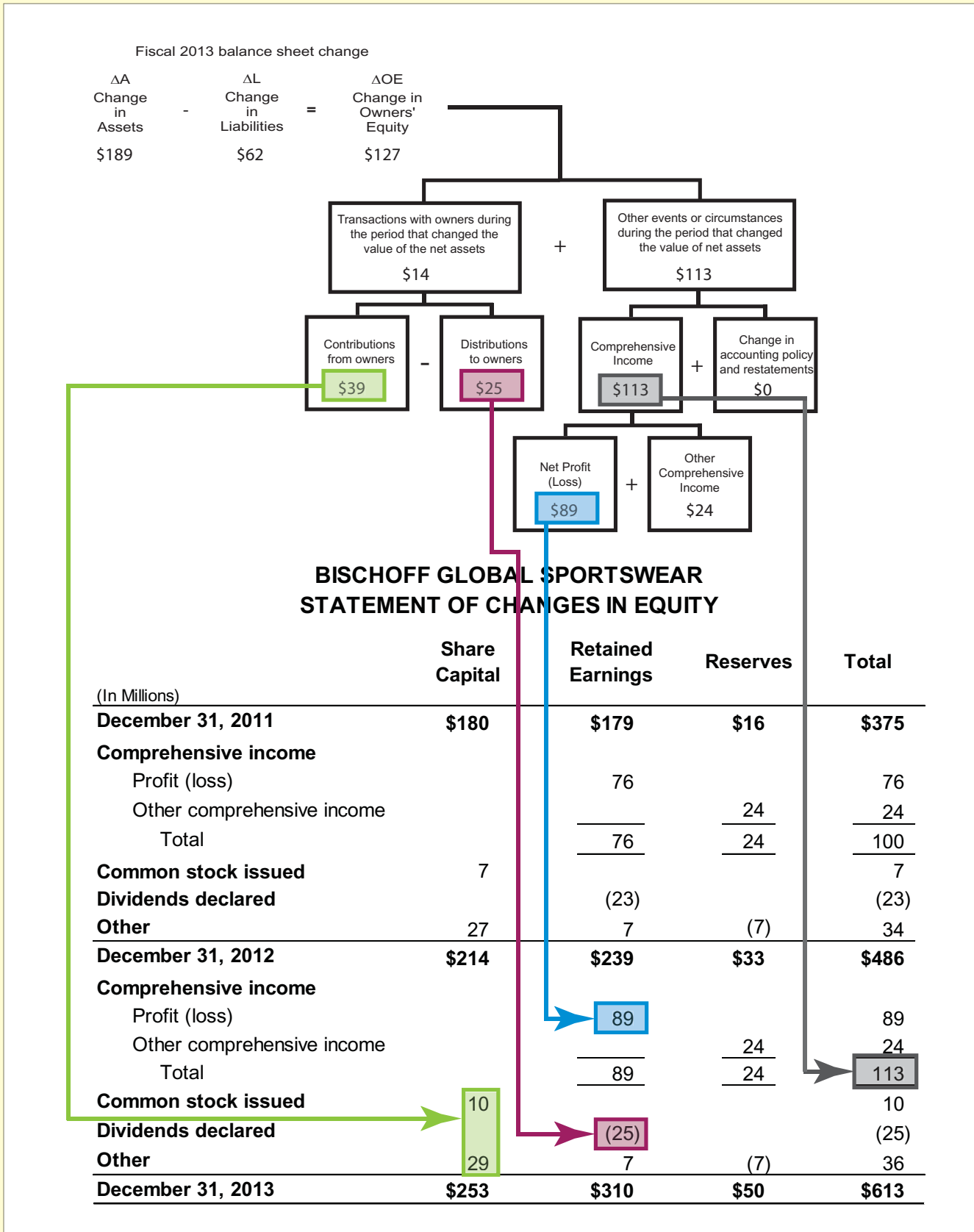


Figure 3 Connecting Owners' Equity Change (OEC) Map to Statements

This demonstrates how balance sheets, income statements, and statements of changes in owners' equity are connected.

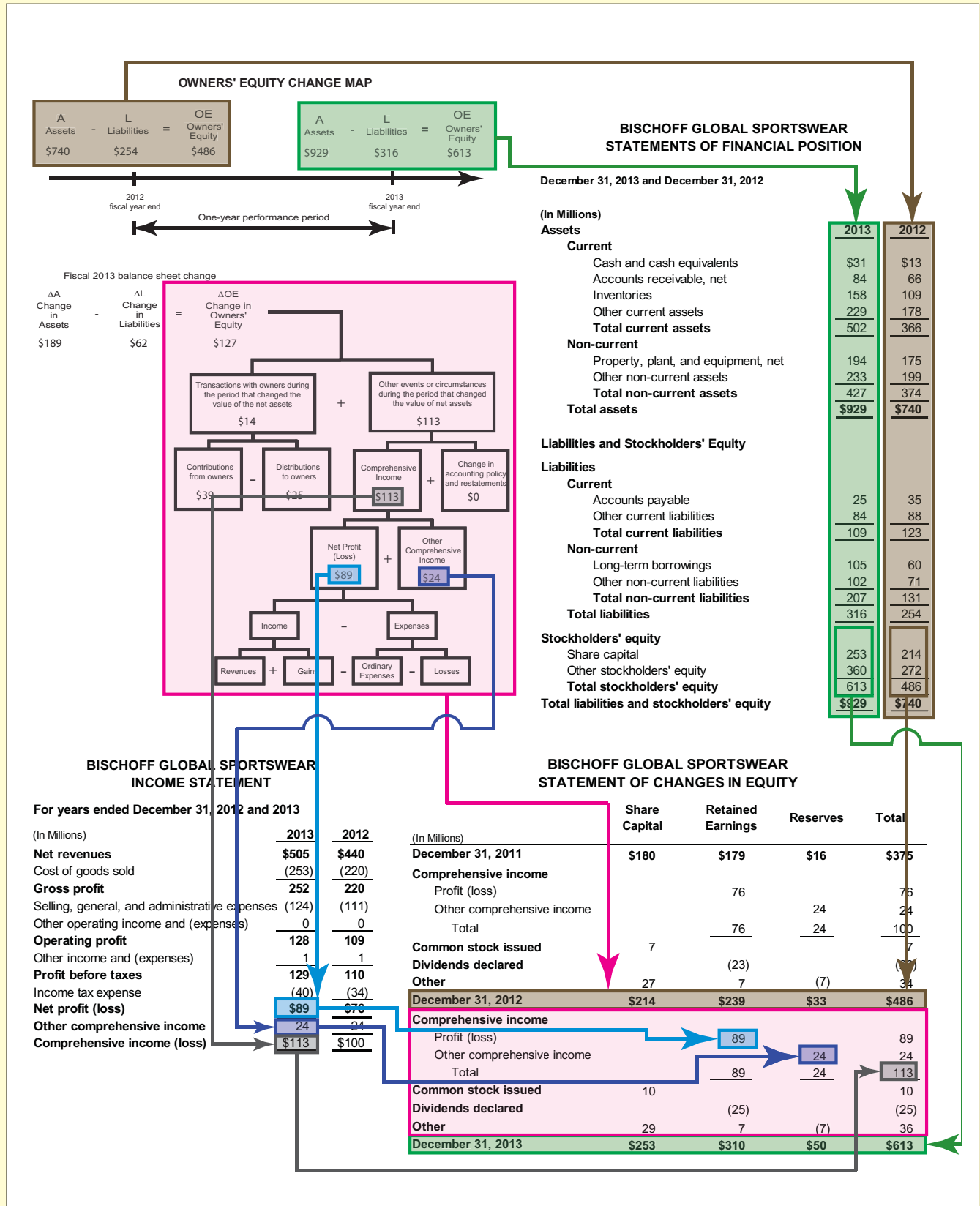


Figure 4 Accounting is not a spectator sport — it's game time

This figure lists Scenic route menus for additional information.

