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THE ESSENCE OF EQUITY CAPITAL AND ITS IMPORTANCE FOR THE FINANCIAL CONDITION OF THE ORGANIZATION

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The author analyzed and systematized approaches to the essence of the concept of "equity capital", the author's definition of this concept, which most accurately reflects its content, the author's classification is given, the functions and directions of analysis of equity capital are considered.

One of the goals of financial management of any organization can be called ensuring its financial stability. The financial stability of the organization is characterized by various indicators, but one of the main indicators is the amount of equity capital.

The capital of an organization is a part of financial resources directed to current financial and investment activities in order to make a profit [1]. By structure, based on the sources of funds, the capital of most organizations consists of debt and equity capital. Borrowed capital is funds raised on a returnable (most often paid) basis. Equity capital is one of the most important sources of funds for the existence and development of the organization.

Economists interpret the essence of the concept of "equity capital" in different ways. For some, this is the net value of property, defined as the difference between the value of the organization's assets and its financial liabilities [2], someone presents it as an investment of the owners, as well as the profit accumulated over the period of the business entity's activity [3]. With the aim of a detailed study of the essence of the concept of "equity capital" and the formulation of a more complete, in our opinion, definition, we considered the approaches to the interpretation of this concept, proposed by various authors and presented in the regulatory documents of the CIS countries.

After analyzing the collected data, we came to the conclusion that equity is the net worth of the organization's property used as a source of assets formation, which is calculated by subtracting the amount of liabilities from the amount of assets.

The composition of equity capital can be represented as follows (fig. 1):

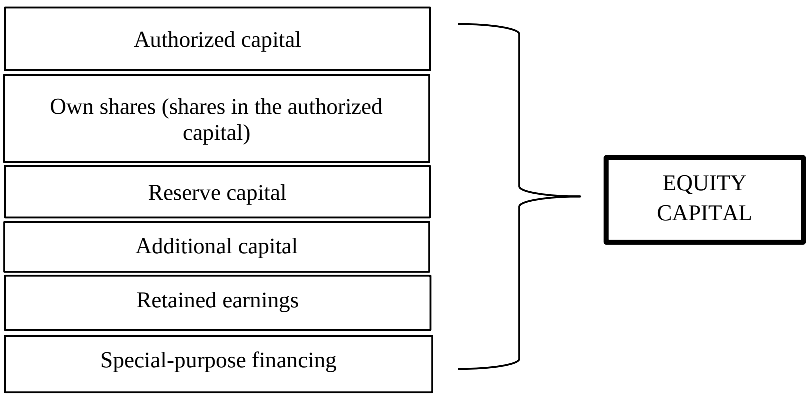

Fig. 1. – Composition of equity

The key component of equity capital is the authorized capital. The authorized capital is a set of funds contributed by the founders when creating an enterprise. According to the legislation of the Republic of Belarus, its size must be fixed in the constituent documents.

Own shares (stakes in the authorized capital) - in this case, shares that were purchased from shareholders by the owner-joint-stock company for the purpose of their resale or cancellation.

The reserve capital is a fund formed by the organization from the profit, which, in the event that the size of the current profit is insufficient, should be used for remuneration of labor, payment of dividends, compensation for possible losses from economic activities, etc.

The part of an organization's equity, referred to as additional capital, is the amount resulting from:

- markdowns, revaluation of intangible and tangible assets of the company, its fixed assets;
- exchange rate differences;
- sales of the company's shares received in excess of the par value of the outstanding shares.

Retained earnings - net profit (or part of it), which is not distributed among shareholders and is used to replenish the company's reserves or other business purposes.

Targeted financing - funds received by an organization free of charge for the implementation of certain goals and for carrying out targeted activities.

The classification of equity capital can be represented as follows (fig. 2):

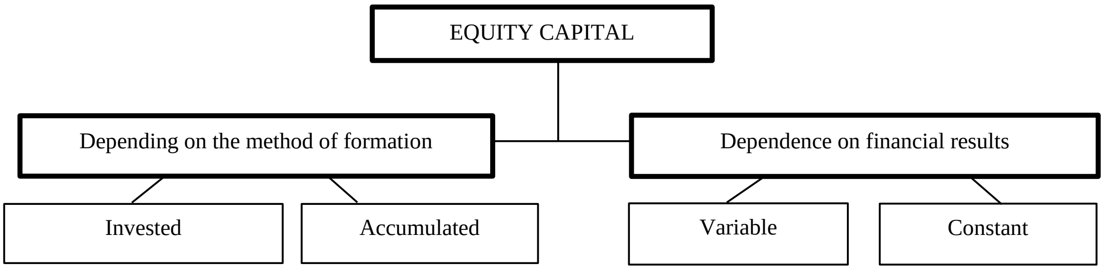

Fig. 2. – Classification of equity capital of organizations

Our proposed classification considers equity capital from two aspects: from the side of the initial formation and from the side of further changes and replenishment.

From the side of the initial formation, equity capital can be characterized by such concepts as invested capital and accumulated capital. Invested capital is capital invested by the founders of the organization. Thus, the invested capital will be the authorized capital of the organization and its own shares (stakes in the authorized capital). Note that targeted financing can also be attributed to the invested capital, but in this case, not only the founders can act as an investor.

Accumulated capital is capital that has been created in excess of the original share capital of the organization. The accumulated capital includes retained earnings, reserve and additional capital.

On the other hand, the invested capital in the short term is not highly dependent on the financial result, therefore it can be called constant. The accumulated capital is directly dependent on the financial result, therefore it will be variable capital.

Equity capital has the following functions: protective, operational, regulatory, distributive, informational.

Based on the opinion of O. V. Efimova [4], the operational function is that the share capital is constant in the short term and provides the company with the possibility of existence.

The essence of the protective function is that the requirement for the organization to have net assets, the value of which must be unregistered authorized capital. Offers a kind of protection of the interests of the organization's creditors.

The distribution function is to distribute among the owners of the profit remaining at the disposal of the enterprise. The regulatory function includes the regulation of the powers of their owners in the management of a joint stock company.

The essence of the information function is to inform external and internal users of information about the financial position and the level of its stability.

Analysis of the condition of equity capital and the efficiency of its use is one of the most important indicators of the financial condition of an enterprise, as well as a comprehensive assessment of the effectiveness of its financial and economic activities.

L.T. Gilyarovskaya [5] believes that the analysis of the efficiency of using the organization's equity capital is "... a way of accumulating, transforming and using information in accounting and reporting." Analyzing the capital of the organization, it is necessary to characterize the change in its structure and dynamics. Today, in a market economy, for the effective and successful functioning of an organization, it is necessary to organize effective management of its resources, which is based on the formation of the organization's resources, their rational distribution and effective use, which is based on planning and analysis.

Analysis of the efficiency of using the organization's equity capital is a way of accumulating, transforming and using information in accounting and reporting. Analyzing the organization's equity capital, it is necessary to characterize changes in its volume, structure, dynamics.

When analyzing equity capital, two tasks are solved:

– check the security of the enterprise with its own capital;
– study the effectiveness of using sources of their own funds.

The following main tasks of the analysis of the organization's equity capital can be distinguished:

– study of the composition and structure of equity capital;
– identification of sources of formation of the organization's own capital;

– study of the impact of changes in the sources of equity capital of the organization on its financial stability;
– identification of the factors of changes in the organization's equity capital;
– assessment of the organization's ability to preserve its capital;
– assessment of the possibility of increasing the capital of the organization;
– determination of restrictions on the disposal of current and accumulated retained earnings;
– substantiation of the optimal variant of the ratio of equity and debt capital
– assessment of the efficiency of using equity capital;
– assessment of equity capital turnover;
– assessment of the return on equity of the organization;
– informing the management of the enterprise for making management decisions aimed at eliminating the reasons that negatively affect the financial condition of the enterprise.

The analysis of the efficiency of using equity capital can be carried out using various types of models that allow to identify and structure the relationship between the indicative ones considered in the analysis.

For the analysis of equity capital, models based on the use of accounting information are mainly used - descriptive models. These models are descriptive in nature, and they include, for example: dynamic analysis, structural analysis, trend analysis, factor and coefficient analysis, as well as the presentation of financial statements in various analytical sections.

To analyze the financial condition of the organization, including the analysis of equity capital, the following indicators are used:
– equity ratio;
– total capital inflow rate;
– equity capital inflow ratio;
– equity retirement ratio;
– capitalization ratio;
– investment capital turnover;
– financing ratio (solvency ratio);
– financial strength ratio;
– return on equity;
– change in the value of net assets;
– change in the return on equity.

For a more complete analysis of equity capital, it is necessary to conduct a factor analysis of these indicators in order to find out which indicators and to what extent have an impact on the performance indicators.

Factor analysis of the use of the organization's equity capital will help identify reserves for improving the financial condition of the organization and make correct and effective management decisions.

The last stage in the analysis of the use of equity capital is to inform the managers of the organization about the results of the analysis using various reports for making effective management decisions.

Thus, equity capital plays an important role in the financial system of an organization, as it is a necessary base for its financial stability and effective functioning. Equity capital performs important functions, being a guarantee for the protection of creditors' interests, a means that gives a legal opportunity for the existence of an organization and a regulator of the legal possibilities of shareholders.

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