






## Financial Accounting II

### I. Capital operations

1. Buy Backs (Repurchase of Shares)
2. The reductions and increases in Capital

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## Financial Accounting II

### I. Capital operations

#### 0. Main Concepts

- Nominal Value;
- Emission Value;
- Emission Premium;
- Book Value;
- Market Value;
- Acquisition Value;
- Sale Value;
- Gain or Loss;
- Paid-in Capital;
- Total Number of outstanding Shares;
- Total Number of Own Shares;

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## Financial Accounting II

### I. Capital operations


#### 1. Operations with Buy back shares (Own Shares)

- S.A. and Lda firms can repurchase and after resell their own shares. However, they cannot subscribe!
- Regulation: - CSC artº 220, 316 to 325
- Limit: de 10% of Paid-in capital
- Conditions to meet:
  - Free Reserves with a value of at least the double of the shares to repurchase;
  - Retain free reserves with amount equal to the repurchase/acquisition of own shares.

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## Repurchase of Shares

- ◆ Companies repurchase shares because they:
  - Want to retire the stock
  - Think the stock is undervalued by the market
  - Want to change to proportion of debt and equity in the company
  - Need shares to distribute in a stock option plan
  - Want to return cash to shareholders without creating expectations for permanent increases in dividends
- ◆ Repurchased shares also increases EPS




## Financial Accounting II

### I. Capital operations

#### 1. Operations Buy Back

- ❑ Buy Backs (Own shares) appear in Owners Equity in debit (amount: acquisition value) because it is an obligation to shareholders that extinguishes!
- ❑ When the firm sells own shares we obtain a variation in reserves equal to the gain or loss obtained!
- ❑ Accounts used:
  - ❑ 521 - Own shares - Nominal Value
  - ❑ 522 - Own shares - Discounts and Premiums
  - ❑ 55x - Reserves to Own Shares or 551x - Legal Reserves to Own Shares

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## Financial Accounting II


### I. Capital Operations

#### 1. Operations Buy Back

Acquisition - The record depends of the relation between the Acquisition value (AV) and the Nominal Value (NV)

AV < NV	$\begin{array}{ccc} \frac{12}{AV} & \frac{522}{Disc} & \frac{521}{NV} \\ \uparrow & \uparrow & \uparrow \\ \hline \end{array}$	AV = Acquisition Value Disc = Discount NV = Nominal Value  With AV = NV - Disc
AV = NV	$\begin{array}{ccc} \frac{12}{AV} & \xrightarrow{\quad} & \frac{521}{NV} \\ \uparrow & & \uparrow \\ \hline \end{array}$	With AV = NV
AV > NV	$\begin{array}{ccc} \frac{12}{AV} & \frac{522}{Pe} & \frac{521}{NV} \\ \uparrow & \uparrow & \uparrow \\ \hline \end{array}$	Pe = Premium  With AV = NV + Pe

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## Financial Accounting II

### I. Capital Operations

#### 1. Operations Buy Back


##### Acquisition - Retain Free Reserves

$551x/55x$	$552$
←	←
	AV

Transference from free reserves to legal reserves in the amount of the acquisition of own shares

Distributed Results are maintained by the firm - Transitory Results or other defined by shareholders

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## Financial Accounting II


### I. Operations Buy Back

#### 1. Operations with Own Shares

Sale - The record depends of the relation between the Sale Value (SV), Acquisition Value (AV) and Nominal Value (NV)

SV > NV						
SV < AV	521	522	12	522	599	SV = Sale value x = SV - NV y = AV - SV (Loss)
	↑ NV	↑ x	SV		→ y	
SV = AV	521	522	12	522	12	No Gain or Loss to register in 599
	↑ NV		↑ x	SV		
SV > AV	521	522	12	599	522	Y = SV - AV (Gain)
	↑ NV	↑ x	SV		← y	

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## Financial Accounting II

### I. Capital Operations


#### 1. Operations Buy Back

Sale - The record depends of the relation between the Sale Value (SV), Acquisition Value (AV) and Nominal Value (NV)

**SV = NV**

<b>SV &lt; AV</b>	<table style="margin: auto;"> <tr> <td style="border: 1px solid black; padding: 5px;">521</td> <td style="padding: 0 10px;">←</td> <td style="border: 1px solid black; padding: 5px;">12</td> <td style="padding: 0 10px;">→</td> <td style="border: 1px solid black; padding: 5px;">522</td> <td style="padding: 0 10px;">→</td> <td style="border: 1px solid black; padding: 5px;">599</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">NV = SV</td> <td></td> <td></td> <td></td> <td style="text-align: center;">y</td> </tr> </table>	521	←	12	→	522	→	599			NV = SV				y	SV = Sale Value $y = AV - SV$ (Loss)
521	←	12	→	522	→	599										
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521	←	12	→	599	←	522										
		NV = SV				y										

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## Financial Accounting II

### I. Capital Operations

#### 1. Operations Buy Back

Sale - The record depends of the relation between the Sale Value (SV), Acquisition Value (AV) and Nominal Value (NV)


**SV < NV**

<b>SV &lt; AV</b>	<table style="margin: auto;"> <tr> <td style="border: 1px solid black; padding: 5px;">521</td> <td style="padding: 0 10px;">←</td> <td style="border: 1px solid black; padding: 5px;">522</td> <td style="padding: 0 10px;">←</td> <td style="border: 1px solid black; padding: 5px;">12</td> <td style="padding: 0 10px;">→</td> <td style="border: 1px solid black; padding: 5px;">522</td> <td style="padding: 0 10px;">→</td> <td style="border: 1px solid black; padding: 5px;">599</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">NV</td> <td style="text-align: center;">x</td> <td style="text-align: center;">SV</td> <td></td> <td></td> <td></td> <td style="text-align: center;">y</td> </tr> </table>	521	←	522	←	12	→	522	→	599			NV	x	SV				y	SV = Sale Value $x = NV - SV$ $y = AV - SV$ (Loss)
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521	←	522	←	12	→	574	←	599												
		NV	x	SV				y												

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## Financial Accounting II

### I. Capital Operations



#### 1. Operations Buy Back

#### Sale - Reverse Free Reserves


552	←	55x/551x
	AV	

Transference to free reserves the value retained before during the acquisition of the own shares.

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## Financial Accounting II

### I. Capital Operations



#### 2. The reductions and increases in Capital

##### Reductions in Capital

- ❑ Implies a reductions in several capital accounts (debit) or only paid-in capital; the credit will be shareholders or transitory results, in the amount of the reduction.
- ❑ Regulation - art 94° to 96° CSC
- ❑ Reasons to reduce Capital:
  - ❑ Exit of a shareholder;
  - ❑ Excess of capital;
  - ❑ Accumulated Losses (to cover losses).

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## Financial Accounting II

### I. Capital Operations

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#### 2. The reductions and increases in Capital

Reductions of capital - Record

Exit of a shareholder or Excess of Capital	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 2px 10px;">26x</td> <td style="padding: 2px 10px;">51/55/56</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 10px;">←</td> <td style="padding: 2px 10px;">% Correspondent</td> </tr> </table>	26x	51/55/56	←	% Correspondent
26x	51/55/56				
←	% Correspondent				
Losses cover	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 2px 10px;">56</td> <td style="padding: 2px 10px;">51</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 10px;">←</td> <td style="padding: 2px 10px;">amount to cover</td> </tr> </table>	56	51	←	amount to cover
56	51				
←	amount to cover				

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## Financial Accounting II

### I. Capital Operations


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#### 2. The reductions and increases in Capital

Increases in Capital

- Regulation - CSC artº 265º to 269º and 373º to 389º;
- Similar to the constitution of the firm;
- Accounts to use:
  - 51 - Capital;
  - 54 - Emission premiums;
  - 261 - Capital Subscribers;
  - 55 - Reserves;
  - 56 - Transitory Results;.
  - 58 - Revaluation Reserves.

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## Financial Accounting II


### I. Capital Operations

#### 2. The reductions and increases in Capital

Increases in Capital

- ❑ Emission Value (EV) = Nominal Value (NV) + Emission premium (EP)
- ❑ Ways to increase capital :
  - ❑ New Entries
    - EV is:
      - ❑ i) determined by the market or by the management; or,
      - ❑ ii) to assure that the new shareholders are not harmed/beneficiated in relation to the old ones it is needed to verify:
    - VE = BV shares/number shares before the increasing of capital;
    - EP = BV (old) - NV
  - ❑ Transformations of debts in capital
  - ❑ Reserves Incorporation

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## Financial Accounting II







### I. Capital operations

#### 2. The reductions and increases in Capital

Increases in capital	Subscription of Capital	Liberation/Realization	Transference between capital accounts
Increases in capital by entries in cash	$\begin{array}{c c c} 261 & 51 & 54 \\ \hline \text{NV+P} & \text{NV} & \text{P} \end{array}$	$\begin{array}{c c} 261 & 11/12 \\ \hline \leftarrow & \end{array}$	
Increases in capital by incorporation of reserves	$\begin{array}{c c} 51 & 261 \\ \hline \leftarrow & \times \rightarrow \end{array}$	$\begin{array}{c c} 261 & 55/58^{**} \\ \hline \leftarrow & \end{array}$	$\begin{array}{c c} 51x & 51x \\ \hline \leftarrow & \end{array}$
Transformation of debts in capital*		$\begin{array}{c c} 261 & 22/27 \\ \hline \leftarrow & \end{array}$	

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## Financial Accounting II

### I. Capital Operations







#### 2. The reductions and increases in Capital

\* Eventually can include a premium besides de nominal value;

\*\* The incorporation of revaluation reserves can be made when the firm meets a set of criteria.

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## Financial Accounting II

### I. Capital Operations

#### 2. The reductions and increases in Capital

Ration of shares


- It is necessary when the number of subscribed shares > number of issued shares
- The ration makes the proportional division of subscribed shares by the number of issued shares, according to criteria defined a priori.
- During subscription it can be immediately delivered one percentage of the emission value. In these cases, a posterior and with ration, it need to be returned the excess part!

261x1 - Capital Subscribers

261x2 - Capital Subscribers- excess

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## Financial Accounting II

### I. Capital Operations

#### 2. The reductions and increases in Capital

Operation	Record	Description								
Subscription	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">5111</td> <td style="padding: 5px;">54</td> <td style="border-right: 1px solid black; padding: 5px;">261x2</td> <td style="padding: 5px;">261x1</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">↑ NV<sub>e</sub></td> <td style="text-align: center;">↑ EP<sub>e</sub></td> <td style="border-right: 1px solid black; text-align: center;">↑ Ex</td> <td style="text-align: center;">SV</td> </tr> </table>	5111	54	261x2	261x1	↑ NV <sub>e</sub>	↑ EP <sub>e</sub>	↑ Ex	SV	NV <sub>e</sub> = nominal value of issued shares EP <sub>e</sub> = Emission Price of issued shares (if exists) Ex = Excess of subscription in relation to emission = SV - (NV <sub>e</sub> + EP <sub>e</sub> ) SV = Total value of subscribed shares
5111	54	261x2	261x1							
↑ NV <sub>e</sub>	↑ EP <sub>e</sub>	↑ Ex	SV							
Realization of the subscribed part	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">261x</td> <td style="padding: 5px;">→</td> <td style="padding: 5px;">12</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">PRs</td> <td></td> <td style="text-align: center;">PRs</td> </tr> </table>	261x	→	12	PRs		PRs	PRs = Partial Realization of subscribed shares		
261x	→	12								
PRs		PRs								
Ration	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">261x1</td> <td style="padding: 5px;">←</td> <td style="padding: 5px;">261x2</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">Ex</td> <td></td> <td style="text-align: center;">Ex</td> </tr> </table>	261x1	←	261x2	Ex		Ex	Cancel of Excess. Ex = Total value of subscription - Total Value of emission = SV - (NV <sub>e</sub> + EP <sub>e</sub> ) Account 261x2 has zero balance now		
261x1	←	261x2								
Ex		Ex								

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## Financial Accounting II

### IV. Capital Operations

#### 2. The reductions and increases in Capital

Operation	Record	Description						
Return of the partial realization of the excess shares	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">12</td> <td style="padding: 5px;">←</td> <td style="padding: 5px;">261x1</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">DRPex</td> <td></td> <td style="text-align: center;">DRPex</td> </tr> </table>	12	←	261x1	DRPex		DRPex	DRPex = Return of the partial realization of the excess shares
12	←	261x1						
DRPex		DRPex						
Realization of the rest of subscription	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">261x1</td> <td style="padding: 5px;">→</td> <td style="padding: 5px;">12</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">RRe</td> <td></td> <td style="text-align: center;">RRe</td> </tr> </table>	261x1	→	12	RRe		RRe	RRe = realization of the rest of the issued shares Account 261x1 has zero balance now
261x1	→	12						
RRe		RRe						
Transference between capital accounts	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">51x2</td> <td style="padding: 5px;">←</td> <td style="padding: 5px;">51x1</td> </tr> <tr> <td style="border-right: 1px solid black; text-align: center;">NV<sub>e</sub></td> <td></td> <td style="text-align: center;">NV<sub>e</sub></td> </tr> </table>	51x2	←	51x1	NV <sub>e</sub>		NV <sub>e</sub>	Account 5111 has zero balance now
51x2	←	51x1						
NV <sub>e</sub>		NV <sub>e</sub>						

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