REFLECTIONS ON THE NOTION OF CAPITAL

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Abstract
From a general perspective, the capital represents a monetary value, a value resource that is to be strategically invested and from which future economic benefits are expected. Investors, capital holders - monetary resources, based on the knowledge and forecasts used, using realistic capitalisation rates, determine under minimum or maximum risk conditions the capitalised value of the invested capital for an investment. The business evaluators in carrying out the missions of evaluating the value of an enterprise can use in the income capitalization approach, the method which involves reporting a representative level at a capitalisation rate or multiplying by a multiple of income. The objective of this paper is focused on the analysis of the notion of capital or of the terms of social capital, financial capital, own capital, etc.

Key words: financial capital, income capitalization approach, capital holders

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I. THE CONCEPT OF CAPITAL AND OF A STABLE AND SUSTAINABLE SOURCE OF FINANCING

The capital, long defined and redefined, appears in the general economic theory as one of the factors of production together with the primary factors of production, labour and nature. Defined as a factor derived from the primary ones, the capital is that factor of production which consists of all the goods produced and used to obtain other material goods and services, intended for sale with an economic advantage, an advantage found under the name of profit. A capital characteristic is the fact that it consists of the results of previous economic processes, of intermediate goods, of means of production goods and only active money is included in its sphere.

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The business evaluators in carrying out the missions of evaluating the value of an enterprise can use the income capitalisation approach, a method which involves reporting a representative level at a capitalization rate or multiplying by a multiple of income. Within the income forms used we find net current profit, net operating profit and net cash flow. The three forms that have been mentioned are nothing more than forms under which the capital is found at one point.

In order to develop a definition of equity, we must first define and understand the notion of equity as an object of accounting in all its aspects. Without using the notion of equity Luca Paciolo considers in his work "Summa de arithmetica, geometria, proportzioni et proporzionalita" published in Venice in 1494, that the object of accounting represents "everything that belongs to the merchant, movable and immovable property, as well as all his businesses, larger and smaller, in the order in which they took place". With the passing of the years, the authors of the specialised works have adopted in turn the notions of equity, wealth, economic resources and capital.

Within the economic enterprises, regardless of the form of public or private property, whether it is commercial companies, autonomous governments, associations, foundations, individuals who have acquired legal personality or who are traders - professionals or public institutions, the assets balance described by the relationship: Total assets = Equity + Debts is always respected.

Thus, the patrimony has acquired several definitions strictly related to the representations above. In the work "Basics of accounting" (Bazele contabilității) appeared in 1991 at the Independent University "Dimitrie Cantemir" Faculty of Tourism and Hotel Management Bucharest and later in "Accounting of the enterprise" (Contabilitatea întreprinderii), Ristea defines equity as being the totality of the rights and obligations with economic value as well as the assets to which they refer to, belonging to an individual or legal entity (the enterprise) (Ristea, 1997, p. 5; Hlaciuc, Grosu, Socoliuc & Maciuca, 2014; Grosu, 2009; Mates, Hlaciuc, & Socoliuc, 2009). N. Feleagă, based on the legal interpretation of the equity, defines "the net situation as the value
of the debts of the company to its associates, in other words, the value of the rights that the owners have over the patrimonial entity. In principle, the net situation is equivalent to equity” (Feleagă, Malciu, & Bunea, 2002, p. 48). Starting from the primordial equality reflected in the accounting Asset = Liability and approaching the functional presentation of the balance sheet in which the elements of the liabilities are assigned the function of financing the economic values, we obtain the definition of equity. Equity is, thus, also called own funds that correspond to the own financing of the economic values, of the patrimonial assets, which are in the patrimonial circuit of the enterprise.

Equity, or as found in most specialized works, equities, represents the residual interest of the owners in the assets of the enterprise, after deduction of all debts (Feleagă, Malciu, & Bunea, 2002, p.59). Referring from a financial-accounting point of view to the notion of capital, we will approach the liabilities of the company/equity liabilities, liabilities that do not highlight anything other than the resources available for current and future uses. The liabilities, through their composition, highlight the way of financing the economic values and the degree of chargeability of the sources of financing.

II. REFLECTIONS ON THE DEFINITION AND EVALUATION OF EQUITY AND COMPONENT ELEMENTS

Financing of economic values refers to financial support of the assets. In order to obtain economic values, an enterprise uses its own financing and foreign financing.

The own financing of the assets is made directly by the equity holder through their material contribution in the form of individual capital (in the case of companies) or social capital (within the associative and corporate enterprises) and through self-financing (capitalization of the profit). Regarding the foreign financing of the assets, it is provided by third parties in relation to the holder of the assets. They lend their capital in different legal forms such as: bank loans, bond purchases, commercial loans and other settlement debts (Ristea, 1997, p. 17; Socoliuc & Grosu, 2015; Cosmulese, Ciubotariu, 2017; Socoliuc & Grosu, 2019; Cosmulese, Socoliuc; Ciubotariu, Mihaila, & Grosu, 2019; Ciubotariu, Socoliuc, Mihaila, & Savchuk, 2019).

According to the two financing modalities, the patrimonial liability is divided into equity or own funds, financing and results and foreign capital or debt. To these are added the liabilities in the form of provisions (funds) and the expenses.

The chargeability of the funding sources refers to their settlement term. This term, in the case of equity, operates at the time of the equity liquidation, in the case of provisions for a period of more than one year, and for the debts, the maturity term can be greater or less than the year of financial exercise. Accordingly, the debts are long-term (over a year) and short-term.

Depending on their degree of chargeability, the liabilities are grouped into:
- permanent financing sources (stable or permanent capital consisting of equity, provisions for risks and expenses and long-term debts);
- temporary (current or provisional) or short-term financing sources consisting of short-term debt.

The equity, called own funds or financing, corresponds to the permanent own financing of the economic values contained in the patrimonial circuit of the company. They are delimited by the individual or social capital, the capital premiums fund, differences or capital gains from the re-evaluation, the reserves, the deferred benefits, the result of the exercise.

In the structure of equity, individual or social capital has an advantageous character. It is constituted at the establishment of the company, being a mandatory condition of its existence and its functioning from a legal point of view - Law 31/1990 on commercial companies and in case of liquidation of the company is the last item that is distributed to them, to the associates or to the shareholders after all debts are extinguished (Law 31/1990). The disposition in the financial statements of the liabilities elements in descending order of the chargeabilities, the maturity term, places the share capital on the first position, the position corresponding to the longest maturity. The constitution of the capital takes place through the personal contribution of the entrepreneur, through the contribution in cash or in kind of the associates or the shareholders.

The share capital is divided into paid subscribed capital and unpaid subscribed capital (not deposited). The subscribed share capital is the capital that the owners of the company have committed to make available. The unpaid subscribed share capital (not deposited) represents the part of the subscribed share capital that has not yet been physically made available to the enterprise by the owner or owners and represents their debt to the created economic entity.

During the life of the company, the period of its operation, the capital can be increased by issuing new shares representing money and/or nature contributions and by internal operations (incorporation of reserves, capitalisation of the previous year profit, transformation of bonds into shares, etc.) and/or it can be reduced by repaying to shareholders or associates a part of the capital when the company considers the share capital too high.
in relation to its activity, the withdrawal of an associate or shareholder from the company concurrently with the withdrawal of the subscribed social shares provided, as well as by coverage of losses incurred in previous financial exercises.

The capital premiums or the Capital Premiums Fund includes the issuance and fusion/division, contribution, and bond conversion premiums (OMFP 1802, 2014) in shares, being deterred by the capital increase operations carried out by new contributions or by fusion or reduction of the capital through the operations of division. In the case of new contributions, the fund is created as a difference between the issue price of the new shareholders (higher) and the nominal value of the shares (lower). Fusion premiums arise in the case of the merger of two or more companies and represent the difference between the mathematical or intrinsic accounting value of the shares and the nominal value.

The revaluation reserves represent the pluses or minuses created by the revaluation of the tangible assets. If the revaluation of tangible assets is carried out, the difference between the value resulting from the evaluation based on the acquisition cost or the production cost and the value resulting from the revaluation must be presented in the balance sheet at the revaluation reserve, as a distinct sub-item in "Capital and reserves" (account 105 "Reserves from revaluation") (OMFP 1802, 2014, pt. 108).

The accounting regulations (OMFP 1802, 2014) provide that the revaluation surplus included in the revaluation reserve is capitalized by the direct transfer in the deferred result (account 1175 "The deferred result representing the surplus realised from the revaluation reserves"), when this surplus represents a realised profit. The gain is considered realised when the asset for which the revaluation reserve was constituted is removed. However, part of the gain can be realized as the asset is used by the entity. In this case, the value of the transferred reserve is the difference between the depreciation calculated on the basis of the revaluated book value and the depreciation value calculated on the basis of the initial cost of the asset.

"When applying for the first time the accountable regulations, the balance of account 1065 "Reserves representing the surplus realised from revaluation reserve" is transferred to the account 1175 “The deferred result representing the surplus realised from reserves from revaluation” (OMFP 1802, 2014, pt. 109 par. 3).

The reserve from revaluation is reduced to the extent that the amounts transferred to it are no longer necessary for applying the accounting method based on revaluation.

No part of the revaluation reserve may be distributed, directly or indirectly, unless it represents an actual realized gain.

The reserves represent sustainably capitalized benefits by the enterprise until a decision of the competent bodies is made. The basic feature of the reserves is that they are constituted in relation to the quotas affected (retained) from the benefits of the year. Exceptionally, reserves may also consist of other components of the net situation. Example, from earnings related to the sale of capital instruments, transferred to reserves, according to the law or from capital related premiums. Structural reserves are divided into: legal reserves, statutory reserves and other reserves.

"The legal reserves are constituted annually from the pre-tax accounting profit (gross profit) of the entity in the quotas and the limits provided by the law and from other sources provided by the law” (OMFP 1802, 2014, pt. 419 par. 2. 3) from the benefits, or from the capital related premiums, being allocated to protect the share capital, in case the financial year ends with losses. “The size of the legal reserve is of 5% of the annual accounting profit before taxation (gross profit) and constitutes up to 20% of the share capital. The amounts used to set up or increase the reserve fund are deductible when determining the taxable profit within 5% of the annual profit, until it reaches the fifth part of the share capital” (Law 227/2015, art. 26 par. 1 let. a). Statutory or contractual reserves are those funds whose benefits are stipulated in the company statute or by contractual clauses and are constituted from the net profit of the company. They aim to temper the shareholders to claim dividends at the expense of other larger and more urgent obligations of the company regarding its normal functioning.

In the category of other reserves, the funds created through legal provisions, through the state or optional constitutions made by the decision of the general assembly, from the benefits of the good years, the net profit are delimited. They are intended for the partial or total financing of new investments in tangible fixed assets, the granting of dividends and in the financial exercises ending with losses, for the repurchase of its own shares by the company in order to reduce capital.

As stated above, from the reserve category, only the legal reserves that are constituted from the gross profit are deductible when calculating the income tax, the rest being net profit. "Capital and reserves (equity) represent the right of the shareholders on the assets of an entity, after deduction of all debts. Equities include: capital contributions, capital premiums, reserves, deferred result, financial year result” (OMFP 1802, 2014, pt. 408). "When preparing the financial statements, the entities adopt the financial concept of capital. According to this concept, capital is synonymous with the net assets or the equity of the entity” (OMFP 1802, 2014, pt. 409).

An important objective of the use of the resources mentioned above is the result of the exercise, which shows the
performance of the use of the resources available through policies, strategies and as an ensemble of policies and strategies. The performances measurement is made with the rate of return and shows the effect/effort ratio. The higher the ratio, the higher the capitalisation rate of resources and the associates/shareholders enjoy more consistent dividends or use them for capitalisation.

Thus, in the category of equity, the results carried over from previous years, whose distribution was postponed by the general meeting of associates or shareholders, as well as the net benefits of the ended financial exercise, are included. We emphasize that the net benefit of the financial year appears as its own source of financing until its distribution on the destinations established by law or the statute of the company. In the individual enterprises, the net profit is transferred to the individual capital on the first day of opening the exercise of the one following its realization (Ristea et al., 1997, p.19; Mates et al., 2009; Cosmulese, Grosu, & Hlaciuc, 2017; Cosmulese, Grosu, Hlaciuc, & Zhavoronok, 2019; Cosmulese, Grosu, & Hlaciuc, 2017; Grosu, Socoliuc, & Hlaciuc, 2017).

Provisions for risks and expenses are funds created on the basis of expenses, being intended to cover disputes, fines and penalties, compensations, damages, expenses related to the service activity during the guarantee period and other expenses regarding the guarantee granted to clients, expenses for restructuring companies, pensions and similar obligations, termination of employment contracts, concession agreements, contracts with onerous charges, estimated expenses related to the disposal of tangible assets and other similar actions related to them, taxes, fees, bonuses to be given to the staff from the profit realized according to the legal or contractual regulations (Brezeanu, 2009). Being created by including a share in the operating expenses of the enterprise, the obtained result is indirectly influenced by a reduction. Thus, a temporary fiscal advantage is created for the enterprise but only for those provisions recognized as deductible by the regulations in force.

Subsequently, while returning to the provision, when debts with uncertain chargeability or value decrease or cease, profits/revenues increase to be taxed. A provision will only be recognized when (OMFP 1802, 2014, ptc. 374(1));

- an entity has a current obligation generated by a previous event;
- it is likely that an outflow of resources will be needed to meet that obligation;
- a credible estimate of the value of the obligation can be made.

If these conditions are not met, a provision will not be recognized.

"The following provisions/adjustments for impairment are deductible according to the Fiscal Code" (Law 227/2015):

- provisions for good performance guarantees granted to customers. Provisions for good performance guarantees granted to customers are deducted quarterly/annually only for the goods delivered, the works executed and the services provided during the respective quarter/year for which the guarantee is granted in the following periods, at the level of the quotas provided for in the agreements concluded or at the level of the percentage of guarantee provided in the tariff of the works executed or the services provided (Law 227/2015, 26 par. 1 let. b) ;
- adjustments for the impairment of receivables, registered according to the applicable accounting regulations, within a limit of 30% of their value, if the receivables fulfil cumulatively the following conditions:
  - are not collected in a period exceeding 270 days from the date of maturity;
  - are not guaranteed by another person;
  - are indebted by a person who is not a person affiliated with the taxpayer (Law 227/2015, art. 26 par. 1 let. c);
- adjustments for the depreciation of the receivables registered according to the applicable accounting regulations, within a limit of 100% of the value of the receivables, if the receivables fulfil the following conditions cumulatively:
  1. are held by a legal person on which the bankruptcy procedure is declared, based on the court decision certifying this situation, or on an individual on which the insolvency procedure is opened based on:
    - debt repayment plan;
    - liquidation of assets;
    - simplified procedure;
  2. they are not guaranteed by another person;
  3. they are indebted by a person who is not a person affiliated with the taxpayer” (Law 227/2015, art. 26 par. 1 let. j);

Foreign funds, also called borrowed capital or funds of third parties or creditors, liabilities, obligations or foreign capital, express the funds or capital provided by third parties and which the unit must repay in value (monetary) equivalent. This includes loans contracted from banks or other financial institutions, loans from the
bond issue, as well as debts created within the unit’s settlement relationships with other individuals and legal entities.

The legal entities and the individuals with whom the unit has money obligations are generically called creditors. Thus defined, the creditor is the person who within a patrimonial report has advanced an economic value and is to receive a value equivalent or a consideration. Foreign sources are reflected in the accounting records from the moment of the debt to third parties until the repayment (in the case of loans). From the patrimonial structure of the most significant debts are the financial debts, the commercial debts, the debts regarding the settlement relations with associates or shareholders and the various creditors. The financial debts represent the loans received from the bank and other credit institutions, as well as the loans from the bond issue.

Loans received from the bank and other credit institutions include long-term and medium- and short-term loans, also called cash loans. They are intended to finance current investments and expenses related to the operating activity.

“The loans from the bond issue, also called obligatory loans, represent the long-term funds secured by the sale of negotiable securities to the public. The sale is usually made through financial institutions, without being excluded the possibility of direct sale to the public even by the trading company. The equity holder issuing such a loan undertakes to repay in due time or spread time the due rates and to pay interest in the form of coupons attached to the credit securities” (Ristea, 1997, p. 20).

“The loans received from the bank and other banking institutions are interest bearing, which is an expense for the company. Interest expense is fully deductible if the degree of debt of the capital is less than or equal to 3. The degree of debt is determined as the ratio between the capital borrowed with a repayment term of over one year and the equity, as an average of the values existing at the beginning of the year and at the end of the period for which the corporate tax is determined. By borrowed capital we understand the total of credits and loans with repayment term of over one year, according to the contractual clauses” (Law 227/2015, art. 27 par. 1).

III. CONCLUSION

Regardless of the strategies adopted by the management in financing the activities carried out, equity remains the only indispensable source for financing the activity. In the case of setting up companies by cash contribution, the cash deposited to highlight the share capital begins to rotate to finance the development of the company at a speed that depends on the skill of the manager and the market conditions. Thus, without realizing from the first use of the cash contribution, the share capital starts to calculate the capitalisation rate with which the associate/shareholder will pay. It only depends on his skill and on the conditions adjacent to the size of the capitalization rate and finally on the level of equity.

IV. REFERENCES


