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Profit Distribution in Different Legal Forms of the Society

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Abstract: The distribution of profits and the coverage of losses of a company are regulated by positive regulations for all legal forms of companies. They also regulate the issue of financial reporting as a condition for profit sharing.
The distribution of profit is regarded as an accounting category created as a difference between the income and expenses generated in the previous period, as it may contain the effects of the application of certain International Accounting Standards (MPCs), or International Financial Reporting Standards (IFRS), as well as International Financial Reporting Standards for small and medium-sized entities (IFRS for SMEs).
Key words: *Distribution, profit, cost, revenue*

1. Introduction

In today's business environment, when marketability has reached an enormous scale, and internal economic and technological relations have become extremely complex, the problem of corporate profit sharing is gaining importance. The economic significance of the distribution of profits is to ensure the continuous and contemporary flow of business operations of companies, that is, to ensure the final resolution of expected expectations. Some regularity in the distribution of profit code, by legal form, of different companies is necessary, and appropriate methods and requirements are required.

The legal aspect of profit distribution and loss coverage for different legal forms of companies is regulated by the Companies Act and the founding acts of the companies. Otherwise, the profit of a company is determined in the regular annual financial statements of the company, the adoption of which is a prerequisite for the distribution of profit.

According to the Rulebook on the Chart of Accounts and the contents of the accounts in the Chart of Accounts for companies, cooperatives and entrepreneurs, Account 340 - Retained earnings from earlier years - is credited to accumulated retained earnings from earlier years, which as such is the subject of distribution in the accounting of a company.

Accounting-wise, the subject of profit-sharing is, first and foremost, the accounting category created as the difference between income and expenses generated in the previous period. Consequently, this category may also contain the effects of the application of certain International Accounting Standards (MPCs), that is, International Financial Reporting Standards (IFRS) and International Financial Reporting Standards for Small and Medium-Sized Entities (IFRSs for SMEs). The following examples provide possible accounting solutions for the distribution of profits by companies.

2. Profit distribution of a joint stock company

After the adoption of the financial statements, the general meeting of shareholders of the company decides on the distribution of profits and coverage of losses. The profits of the joint stock company are allocated to:

* Cover of losses carried forward from earlier years; and
* Legal reserves, if provided for by a separate law.

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If after such a distributed profit, a part of the profit remains for further distribution, the General Meeting of the company may allocate it for the purpose for:

* Statutory reserves (determined by the articles of association of the company); and
* Dividend.

The share capital of a joint stock company may also be increased by the distribution of retained earnings and reserves of the company available for these purposes. In other words, the profits of a joint stock company can also be distributed to increase the capital of a joint stock company, clearly in accordance with the Law. Therefore, retained earnings and reserves of a company can be transformed into share capital only if the company has not shown a loss in the financial statements, on the basis of which the decision on increase of share capital is made.

Example *of distribution of profit for increase of capital and reserves*: At the General Meeting of Shareholders of the joint stock company, it was decided not to distribute the undistributed profit of earlier years in the amount of RSD 2,450,000 for dividends, but for the following purposes, namely:

* Statutory reserves in accordance with the articles of association, in the amount of 450.000 dinars and
* Capital increase of 2.000.000 dinars.

The capital increase will be implemented by issuing a new issue of shares of 2,000 ordinary shares with a nominal value of RSD 2,000. And, according to the mentioned Law, all shareholders have the right to the action of the new issue on the day of the decision of the General Meeting of Shareholders. Namely, for each share already owned, they receive one more from the new issue, and the decision to increase the capital will be duly registered in the competent APR register. At the same time, the business of distributing profit accounting is carried out by posting through a diary, as follows:

340		Retained earnings of earlier years	2,450.000	
	322	Statutory reserves		450.000
	300	Share capital		2,000.000
		Profit distribution at the decision of the General Meeting of Shareholders		

After the decision on dividend payment is made, the shareholders become creditors of the company for the amount of the related dividend. Otherwise, the dividend on the shares is paid to the shareholders according to the rights arising from the type and class of shares they already own on the day of the dividend, in proportion to the number of shares held in the total number of that class.

It should be noted that the Law, as well as the regulations in the field of accounting, does not prescribe a deadline within which a company is required to distribute results or cover losses. Therefore, the profit can remain undistributed, that is, the loss is uncovered. Consequently, a company can distribute a portion of the profits while remaining unallocated.

Accordingly, the right to a dividend, as a property and status right, must never be exercised, so that if a joint stock company does not make a profit, this right remains only a hypothetical right. Even if a joint-stock company makes a profit, the general meeting may decide not to distribute dividends, to keep the profit generated undistributed, or to be used for other purposes.

When it comes to the distribution of dividend income, it is very important to determine the dividend day. The list of shareholders who are entitled to dividends is organized according to the records of shareholders in the Central Registry of Securities on a particular day, and the day on which the list of shareholders entitled to dividends is called the day of dividend. Otherwise, in accordance with the Companies Act, the dividend day can be determined in two ways:

* The Articles of Association of the Company, which determine the date or manner of determining the dividend date and
* If the statute does not specify the day or method for determining the dividend day, that day is defined by the decision on payment of the dividend, whereby the company cannot designate an earlier day as the dividend day.

The day of the shareholders, which establishes the list of shareholders with the right to participate in the session of the General Meeting, falls on the tenth day before the date of the meeting.

The dividend is usually paid out to the shareholders in cash, but it is also possible to pay in shares, which is used to keep capital in the company.

Example of distribution of profit in dividends to shareholders: At its regular session held on April 27 of the current year, the General Meeting of Shareholders adopted the decision on distribution of profit as of December 31, 2010. of the previous year, so that the amount of profit (the profit generated by the operations of the company in the previous year) in the amount of 25,300,000 dinars is allocated to:

* Dividends to shareholders in the gross amount of 18.100.000 dinars, in the gross amount of 135.00 dinars per share, which is paid to the shareholders from the Unique register of shareholders of the company a. d. Central Registry, Depository and Clearing of Securities; and
* The rest of the profit in the amount of RSD 7,200,000 remains unallocated, with the dynamics and date of payment of the dividend being subsequently determined by the Executive Board. Of course, this transaction is also followed by the accounting of the company by appropriate posting, which follows:

340		Retained earnings of earlier years	18,100.000	
	461	Dividend payables		15,385.000
	489	Other liabilities for taxes, contributions, other duties		2,715.000
		Profit distribution at the decision of the General Meeting of Shareholders		

It is noticable that the payment of profits to shareholders with limited liability must be consistent with the provisions of the Companies Act, in particular those relating to the payment of dividends and interim dividends to shareholders.

In accordance with the manner in which joint stock companies regulate the distribution of profits, the General Meeting of Shareholders has the opportunity to distribute for:

* coverage of losses from earlier years,
* legal reserves, if provided for by a separate law,
* statutory reserves and other reserves, if provided for in the articles of association,
* dividend,
* participation of employees and board members and
* other purposes established by the founding act.

A limited liability company may, by founding act, stipulate that the payment of profits shall not be made in proportion to the share of members in the share capital of the company.

At the time of the decision on profit distribution, posting of that distribution, and then the payment of dividend in the books of company B, was made through the log like this:

340		Retained earnings of earlier years	750.000	
	461	Dividend payables		750.000
		Profit distribution at the decision of the General Meeting of Shareholders		
461		Dividend payables	750.000	
	241	Current (business) account		750.000
		For payment of dividend on bank statement no.		

Example of dividend distribution by a subsidiary to a parent company: Company A holds a 30% interest in Company B's capital. Company B reported a profit for the previous year in the amount of RSD 5,000,000. The decision on distribution of part of accumulated profit of 2,500,000 dinars was made in April of the current year, but the payment to the current account of member A was made in May of the current year in the amount of 750,000 dinars, which belongs to him from the part of paid profit (2,500,000 x 30%).

Entry in the books of company A at the moment of making the decision on profit distribution and then dividend payment was made as follows:

220		Dividend receivables	750.000	
	660	Financial income from main and subsidiary legal entities		750.000
		Based on the profit sharing decision		
241		Current (business) account	750.000	
	220	Dividend receivables		750.000
		For payment of dividend on bank statement no.		

Note that entities applying IFRSs and IFRSs to SMEs recognize dividend income when the owner's dividend rights are determined. This means, in other words, that the moment of recognition of dividend income is not the moment of actual receipt of money or other assets, but the moment when the dividends are appropriately approved for distribution, that is, when the right of the owner to receive the dividend is established. And that is the moment when the dividend distribution decision is made, which consequently precedes the moment of dividend payment

Pursuant to the Rulebook on the Method of Recognition, Valuation, Presentation and Disclosure of Positions in Individual Financial Statements of Micro and Other Legal Entities, dividend income is recognized in the amount of accrued income, that is, in the amount attributed to dividends to share capital.

So, if Company A is a micro-legal entity in the above example, it would have only one posting item, that is, it would not post the decision on dividend distribution, but only the payment made, that is:

241		Current (business) account	750.000	
	660	Financial income from main and subsidiary legal entities		750.000
		For payment of dividend on bank statement no.		

Example of dividend distribution to members of the company to legal entities: At the regular annual general meeting of shareholders of the company in March this year, it was decided to distribute the undistributed profit of the company in the amount of RSD 1,200,000 for:

* statutory reserves of 400,000 dinars and
* 2 members of the company (resident legal entities) of 400,000 dinars each.

340		Retained earnings of earlier years	1.200.000	
	322	Statutory and other reserves		400.000
	4610	Dividend payables (member of company A)		400.000
	4612	Dividend payables (member of company B)		400.000
		Profit distribution at the decision of the General Meeting of Shareholders		

Example of dividend and interim dividend distribution: 1. A limited liability company for the previous year made a profit of 1,200,000 dinars and has no retained earnings from previous years. At the regular annual general meeting of shareholders of the company in March of the current year, the decision was made to distribute the profit to the founder, to whom it was paid to the founder as a legal entity in April.

Also in June of the following year, the General Meeting of Shareholders decided to pay inter-dividend for the current year in the amount of RSD 420,000. This decision was made on the basis of the estimated estimated profit and loss for the current year, in which the company presented estimated profit. By paying off the dividend, the liquidity of the company is not compromised because the company has enough free - available funds to pay.

1	340		Retained earnings of earlier years	1,200.000	
		461	Dividend payables		1,200.000
			Profit distribution at the decision of the General Meeting of Shareholders		
1a	461		Dividend payables	1,200.000	
		241	Current (business) account		1,200.000
			For payment of dividend on bank statement no.		
2	723		Employer personal income	420.000	
		461	Dividend payables		420.000
			Based on the decision to pay between dividend		
2a	461		Dividend payables	420.000	
		241	Current (business) account		420.000
			For payment of dividend on bank statement no.		

3. Profit distribution in a partnership society

In accordance with the current law, a partnership company is a company founded by two or more partners who are jointly and severally liable with their entire property for the company's obligations. Partners in the company acquire shares in proportion to their contributions, unless otherwise stipulated in the contract of incorporation. The applicable law of the Company is distributed between the partners in equal shares, unless otherwise stipulated by the founding agreement.

Example of distribution of profits to partners: In the financial statement for the previous year, a partnership company with two partners (physical persons) made a profit of 900,000 dinars. The decision on the distribution of profit in the current year envisages that a part of profit in the amount of 600,000 dinars will be entered into the company as an increase in stakes (300,000 dinars for two partners), and that the rest of 300,000 dinars in gross amount will be paid for the needs of the partners as a dividend in the amount of 150,000 dinars each. The dividend on the partners was paid.

1	340		Retained earnings of earlier years	900.000	
		3021	The stakes of the partner A		300.000
		3022	The stakes of the partner B		300.000
		461	Dividend payables		255.000
		489	Other taxes, contributions and other duties		45.000
			Profit distribution at the decision of the partners		
1a	461		Dividend payables	255.000	
	489		Other taxes, contributions and other duties	45.000	
		241	Current (business) account		300.000
			For payment of dividend on bank statement no.		

We emphasize that the income that the founders, ie members of a company, earn as a shareholder in the share capital of the company is a tax treatment of income from capital, which is taxed at the rate of 15%. In our example, 15% was calculated on the gross amount of dividends distributed in the amount of RSD 300,000.

4. Profit distribution in a limited partnership

A limited partnership is a company with at least two members, at least one of which is liable unlimited jointly and severally (complementary) and at least one is liable limited up to the amount of its unpaid or unpaid role (commander). Under applicable law, commanders and complementaries participate in the profit sharing of the company in proportion to their shares in the company, unless otherwise provided by the founding act.

Example of profit sharing in a limited partnership: A profit of 90,000 dinars was made in one limited partnership. To the complementary (natural person) on the basis of the share in profit the amount of 30,000 dinars belongs, and to the commander (legal entity) the amount of 60,000 dinars. According to the decision, both the Commander and the Complementary will use the associated amounts of profit to increase their stake, and the accounting records this as follows:

1	340		Retained earnings of earlier years	90.000	
		3021	Stakes (complementary)		30.000
		3022	Stakes (Commander)		60.000
			Profit distribution at the decision of the partners		

5. Conclusion

It follows clearly from the foregoing that in the distribution of profits in a given company, in addition to claims from the point of view of the owner of the capital, as a claim from the point of view of an inviolable right, one should primarily bear in mind the company in which the distribution and distribution of profits are made and regulations that tangent to this economic, accounting material and, of course, the constancy of economic conditions, as well as all other moments relevant to the determination of the appropriate profit distribution system. Only then will it be possible to quickly and accurately obtain all the necessary information for the relevant behavior of the owner of the capital.

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