

СЕКЦІЯ 3.

ФІНАНСИ ТА БАНКІВСЬКА СПРАВА; ОПОДАТКУВАННЯ, ОБЛІК І АУДИТ

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IMPROVEMENT DIRECTIONS IN UNILEVER'S EQUITY CAPITAL ACCOUNTING AND ANALYSIS

The effectiveness of equity capital accounting and analysis plays a pivotal role in shaping a company's long-term financial performance and strategic decision-making. Equity capital represents the portion of a company's capital derived from shareholders' investments, including share capital, share premium, retained earnings, and reserves. The accuracy and transparency in its reporting not only support internal resource allocation and planning but also directly influence investor confidence and market valuation.

Unilever, a multinational consumer goods giant, provides a valuable case study in evaluating and optimizing equity capital management. The data for 2022 to 2024 indicate stable share capital and share premium accounts, reflecting the absence of new equity issuance. However, other reserves continued to decline, exerting downward pressure on total equity, while retained earnings grew substantially. This increase in retained profit was the primary driver of overall equity growth from €9.3 billion in 2023 to €10.7 billion in 2024. The reduction in non-controlling interest and increased treasury share holdings suggest a trend toward internal consolidation and shareholder value return, likely via buybacks.

Key financial ratios underline these trends. Return on Equity (ROE) declined from 38% in 2022 to 30.2% in 2024, reflecting weakened income generation relative to equity capital. Similarly, Earnings per Share (EPS) decreased from €3 to €2.3, indicating lower profits available to individual shareholders. Despite these trends, the Price-to-Book (P/B) ratio increased slightly, and market capitalization rose from €125 billion to €137.3 billion over the same period, likely due to sustained investor optimism. The debt-to-equity and equity multiplier remained relatively stable, suggesting a cautious capital structure.

To address the structural and analytical challenges revealed in this analysis, several improvements in Unilever's equity capital accounting and analysis were proposed. Theoretically, these improvements are anchored in financial reporting principles and supported by emerging practices in strategic capital management. One of the core theoretical concepts is the adoption of dynamic equity classification. Traditional accounting frameworks generally categorize equity capital under broad, static headings. In contrast, purpose-based equity tagging aligns capital allocations with strategic goals,

enhancing transparency and decision accountability. This practice is supported by capital allocation theory, which emphasizes the traceability and targeted deployment of financial resources to maximize shareholder value [1].

Another key theoretical foundation involves intangible asset valuation. According to modern financial theory, intangible assets such as brand equity, intellectual property, and organizational knowledge are critical determinants of corporate valuation, especially in consumer-driven sectors. Unilever, with approximately 78% of its market capitalization linked to intangible assets, stands to benefit significantly from improved intangible asset recognition. Techniques such as royalty relief and multi-attribute scoring models can supplement IFRS-based reporting, offering a clearer view of underlying value drivers [2].

Risk management theory also underpins the recommendation to implement a forward-looking equity risk dashboard. Conventional static ratio analysis fails to anticipate market volatility and emerging threats. By incorporating stochastic modeling based on geographic, commodity, and ESG factors, Unilever can better anticipate disruptions and adjust capital allocation accordingly. This predictive approach aligns with enterprise risk management (ERM) principles, which advocate for a proactive stance in identifying, quantifying, and mitigating financial risks [3].

Technological integration further supports improved equity capital accounting. Distributed Ledger Technology (DLT), such as blockchain, introduces new possibilities for transparency, traceability, and automation in capital flows. Smart contracts can automate dividend reinvestment, while blockchain ledgers provide verifiable evidence of capital allocation outcomes. This approach enhances investor trust and supports compliance with growing demands for ESG-related financial accountability.

Quantitative impacts of these measures are evident. Incorporating brand equity valuation could reduce the equity risk premium by 0.4%, lowering the cost of equity from 6% to 5.6% and increasing the P/B ratio from 3.27 to 3.37. Blockchain integration for ESG projects could attract €2 billion in green funds and improve the debt-to-equity ratio from 2.54 to 2.50. Predictive ROE modeling would reduce return volatility by 15–20%, and dynamic equity tagging could improve ROE in high-growth segments from 6% to 9%. ERP-based dashboards could yield a €500 million efficiency gain in equity utilization.

These results confirm that equity capital is not only a measure of company stability but also a dynamic lever for strategic transformation. By integrating advanced financial technologies, theoretical valuation models, and transparent reporting structures, Unilever can convert its equity capital into a catalyst for growth, innovation, and long-term value creation.

References:

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