

## The significance and understanding of retained earnings

### (Significance)

- ① Securing future investment funds (equipment, personnel costs, etc.) and stabilizing management
- ② Risk avoidance (prevention of bankruptcy)
- ③ Countermeasures against banks' reluctance to lend

### **\*Rights as property rights (individuals and corporations)**

However, those contrary to the public welfare are not permitted

The purpose of use is limited as described above.

### **\* Existing tax on retained earnings**

★ This is not a concept of directly transferring retained earnings (excess surplus) to personnel expenses as dividends.

It is not a concept of deposits.

☆ If retained earnings are to be used, the top priority should be dividends to shareholders.

Negotiations between labor and management that misunderstand the above ☆ should be avoided.

## **(Interpretation)**

### **(Specific Example ①)**

It is a violation of the law for a manager (shareholder) to directly use a portion of the retained earnings for living expenses without going through a resolution of the shareholders' meeting or the board of directors.

(Criminal Code: Breach of Trust, Embezzlement)

(Companies Act: Compensation for damages to the company will be incurred)

(Companies Act: Providing company benefits to specific shareholders is prohibited)

### **(Specific example ②)**

When drawing down retained earnings, it is necessary to go through a procedure to distribute the retained earnings to all shareholders in a uniform manner, in proportion to the number of shares they own.

**This is what is called retained earnings.**