

## Consolidated techniques for groups of enterprises with complex structure

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### Abstract:

*The preparation and disclosure of the financial statements of a group of enterprises involves some consolidation techniques. The Literature presents many techniques, but in practice are used two of them. They will be described first of all in a particular manner and after that in a comparative one. The group of entities can choose one of these techniques, the final result (the consolidated financial statements) being the same, whatever the option.*

### Key words:

*Consolidated financial statements, levels consolidation, direct consolidation*

### 1. Introduction

The Romanian explicative dictionary defines *technique* as an aggregate of proceedings and skills used in a certain activity. For achieve its goals (the content of consolidated financial statements and also the rules for their preparation, approval, audit and disclosure), the consolidated accounting (a department of financial accounting applied in case of groups of enterprises), uses a so-called consolidation technique. According to above technique's definition, the consolidation technique regards an aggregate of empirical proceedings and skills used, especially, for preparation of annual consolidated financial statements, legal.

The Literature<sup>1</sup> refers to four techniques of consolidation: levels consolidation technique, direct consolidation technique, modular consolidation technique and the technique of consolidation using fluctuations method.

The modular consolidation technique consists in separating the entities' financial statements on module. These will be regrouped later, according to the needs of the group regarding the administration, on different activities, geographic area, production's matters etc.

The technique of consolidation using fluctuations method starts with the previous period's consolidated information and continues with the integration of consolidated flows of the current accounting period, which allows resolving not only the problem of booking them, but also the problem of annual consolidation area.

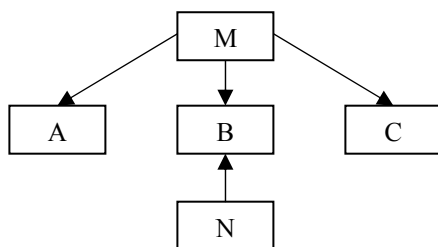
In our country practice, are used the left techniques: levels consolidation technique and direct consolidation technique, probably as a result of stipulate them in the first rule regarding consolidated financial statements (approved by O.M.F. nr. 772/2.000 recalled by O.M.F.P. nr. 1.752/2.005 also recalled by O.M.F.P. 3.055/2.009).

It is imperative to say that these techniques are not applied to any case of entities group. For a group of enterprises with a dentritic organigram and one level of boundaries between them (fig. no. 1) these techniques are not applicable. Whatever, in

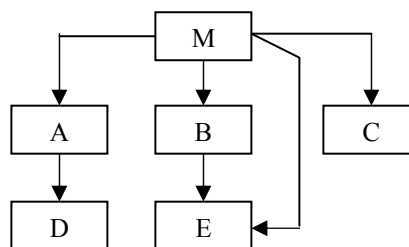
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<sup>1</sup> Feleagă N., Ionașcu I. (1998), *Tratat de contabilitate financiară*, vol. I-II, Ed. Economică, București

practice, such a simple groups do not often exist. Therefore these intervene in case of complex groups (fig. no. 2) made by joining direct and indirect investments with those linear, multiple, circular and mutual.



**Figure no. 1 Simple group**



**Figure no. 2 Complex group**

These consolidation techniques used in the preparation of consolidated financial statements are applied jointly with the consolidation methods scheduled in regulations<sup>2</sup>. Moreover, they lead, in most cases, to a combination between them (methods) because the group of enterprises may include controlled enterprises, which are integrated using global method, joint-ventures, which are subjects for proportionate consolidation and also associates, integrated by equity method<sup>3</sup>.

Therefore, in the case of groups with a complex structure, the methods and the techniques coexist and work simultaneously, under the rules relating them.

Next, we present some characteristics of two techniques, which came out for practice, levels consolidation technique and direct consolidation technique.

## 2. Levels consolidation

Levels consolidation is a steps consolidation, each step finalizing with the preparation of subgroup's consolidated financial statements. A level concentrates all the subgroups from the same consolidation step. Initially, the subgroup joins the entities placed farthest from the parent, regarding the control chain, and the entities next to them. Thus, the subgroups form successively up to the parent where is ending the consolidations' suite with the consolidated financial statements of the group as a whole. In every single subgroup exists an entity, at the superior level, that have a parent role for the other (the others) entity (entities) from the inferior level.

Therefore, figure no. 2, above, first of all will be consolidated the enterprises D and E in their parents A and B, forming the subgroups AD and BE, and the next, will be consolidated these subgroups and the entity C in the parent M.

For the preparation of the subgroups' consolidated financial statements, it is used the parent-role entity's share in every other entity of the subgroup, and for establish the consolidation method it is used the power of the voting rights owned by the group's parent in each consolidated enterprise.

## 3. Direct consolidation

<sup>2</sup> O.M.F.P. nr. 3.055/2009 pentru aprobarea reglementărilor contabile conforme cu directivele europene publicat în Monitorul Oficial nr. 766 din 10 noiembrie 2009

<sup>3</sup> Scorțescu F. I. (2005), *Unele considerente cu privire la tehnica de consolidare pe paliere a societăților comerciale cu profil horticol*, în „Lucrări științifice”, Universitatea de Științe Agricole și Medicină Veterinară „Ion Ionescu de la Brad” Iași, vol. 48, seria Horticultură

Direct consolidation presumes the consolidation of each group's enterprise directly into parent, in this way preparing only the consolidated financial statements of the group as a whole. Thus, it is imperative to share the equity of each consolidated entity between its parent and minority interests according to their portion of investments. Also, between them, must be shared the investments that will be eliminated from consolidation. The instrument used in this case is interests' portion of both, parent and minority interests, but in the enterprise that holds the investments. These two portions are different.

In the case of above example (fig. no.2), the entities A, B, C, D and E will be consolidated directly into parent M, apart from the latent subgroups. The share of their equity will be made using the interests' portion of the parent and minority interests in these entities. For eliminate the investments will be used also their interests' portion but held in A and B.

#### 4. Levels consolidation vs. direct consolidation

The both consolidation techniques have special characteristics that will be presented comparatively in below table (table no. 1), emphasizing similarities and differences between them, advantages and disadvantages also.

**Table no. 1 Levels consolidation vs. direct consolidation**

<b>Characterization criteria</b>	<b>Levels consolidation</b>	<b>Direct consolidation</b>
<b>1. Goal</b>	Preparation of the annual consolidated financial statements of a group as a whole;	Preparation of the annual consolidated financial statements of a group as a whole;
<b>2. Applicability field</b>	Medium and small groups of enterprises with a complex structure and a limited levels of boundaries;	Medium and small groups of enterprises with a complex structure and at least two levels of boundaries;
<b>3. Procedure</b>	On steps, corresponding to the existent levels of boundaries in the group's organigram, into where it is forming subgroups;	Directly, whatever the number of the existent levels of boundaries in the group's organigram, ignoring the consolidation steps;
<b>4. Principles</b>	The series of consolidations start from the entity placed farthest from the parent, regarding the control chain, and ascend up to it;	The order of consolidations is insignificant;
<b>5. Accomplish method</b>	It is preparing the consolidated financial statements of each subgroup formed, using the adequate consolidation method;	It is preparing only the consolidated financial statements of the group of enterprises as a whole, using the adequate consolidation method;
<b>6. Used instruments</b>	At each step, the interests' portion of the parent-role entity owned in every other	The interests' portion of the parent, owned directly in each consolidated entity, whatever

	subgroup's entity, from the inferior level;	the level;
<b>7. Equity share</b>	At each subgroup, between the parent-role entity and the minority interests (including here, also, the interests' share of other consolidated entities from outside of subgroup);	At the group as a whole, between the parent and the minority interests, according to them share of interests owned in consolidated entities;
<b>8. Investments share before eliminated them</b>	At each subgroup, the sharable investments belong entirely to the parent-role entity, as a result of direct own;	At the group as a whole, in case of indirect boundaries, between the parent and the minority interests, according to their share of interests owned in the entities that hold the investments;
<b>9. Advantages</b>	Allows a segmentation of the financial information within the group, by the preparation, first of all, of the consolidated financial statements of the subgroups and only after, the consolidated financial statements of the group as a whole;	Provides directly, quicker and with less expenses, the state of the assets, liabilities, financial position, income and losses of any group of entities and allows a better portion of the consolidated entities' equity, between the parent and minority interests;
<b>10. Disadvantages</b>	Requests much more work for accomplish the suite of consolidations, involving more expenses, and also its applicability is limited.	It not allows analysis within the group which may satisfying the needs of administration and information, based on a segmentation on different activities, geographical areas etc.

Whatever the chosen technique, the consolidated financial statements must be the same.

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