ASPECTS CONCERNING CONSOLIDATION OF ACCOUNTS AND THE EVOLUTION OF COMPANY GROUPS IN ROMANIA

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Abstract: In this paper I present aspects of the new national and international regulations related to the consolidated financial statements, evolution of the number of the companies' groups from Romania in 2007-2013, their fields of activity and their home countries.

Keywords:***consolidation of accounts, national and international regulations, enterprise groups, holding***

1. Introduction

Globally, the group of companies is a reality just as important as the enterprise. The phenomenon of grouping the companies has expanded in the last decades, covering a wide range of the activity sectors. The core of the developed economies is represented by the major multinational industrial, commercial and banking groups, most of them of listed companies. The group structure is more adopted by small and medium companies which realize the economic advanteges (and not only) of this form of capital concentration. In Romania, the groups' organizing is almost recently, having 10-15 years old.

For the purpose of Herring[1], the main motivations behind the creation of the groups refer to the combination of entities in the same activity sector; to the acquisition of entities which represents suppliers or customers of the firm who buys, to the diversification of the activities for a better management of the risk related to the business and to avoiding the hostile takeover by other entities and withdrawal of some shareholders or of some important managers.

Romania's accession to the European Union led to the internationalization of accounting. This process was conditioned by both thorough knowledge and alignment with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and the evolution of the market economy environment in Romania.

Consolidation of the accounts was necessary due to the globalization of the economies, development of the transnational companies, increasing of the stock exchange capitalization, development of the capital markets and appearance of the new financial products, but also due to increasing the necessary internal information of the companies groups.

Based on information provided by the annual consolidated financial statements, the financial analysts can determine a diagnosis on financial position and financial performance in the group of entities.

2. National regulations for the accounts consolidation

[1]Herring, H, III., *Business Combination&International Accounting*, Thomson South-Western, 2003, pp. 3 - 4.

In 2006, it was published the Order no. 1121/2006 of Ministry of Finance on application of International Financial Reporting Standards which imposed the consolidation of accounts of the credit institutions (as listed or unlisted group of companies on the Stock Exchange) and groups of companies whose securities at the balance sheet date are admitted to trading on a regulated market. These regulations were harmonized with the VII Directive of the Council and they were correlated with IAS 27 “Investment in Associates” and IAS 31 “Interestes in jointventures”.

In 2012, it was published the Order no. 1286/2012 of Ministry of Finance for *Approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to the trading companies whose securities are admitted to trading on a regulated market*, which highlight that the listed companies on the Bucharest Stock Exchange will compulsory prepare the financial statements in accordance with IFRS.

In 2014, it was published the Order no. 1802/2014 of Ministry of Finance, “Accounting Regulations on the separate annual financial statements and annual consolidated financial statements”. It brings clarifications regarding: the size criteria which must fulfill a group to elaborate the consolidated financial statements, companies that are excluded from consolidation, companies exempt from consolidation and the elements related to the structure of financial statements.

Nowadays, in Romania, there are two major categories of entities that elaborate the consolidated financial statements as follows:

a - entities that are required to elaborate the consolidated financial statements in accordance with IFRSs adopted by the EU (here are summarized the credit institutions, commercial companies whose securities at the balance sheet date are admitted to trading on a regulated market and certain entities of public interest) and

b - entities are required to elaborate the consolidated financial statements according to the accounting regulations compliant with European directives (Order no. 1802/2014).

This duality for consolidated reporting determines both a spatial limitation and a temporal one in terms of comparability of information provided by the consolidated financial statements.

Order no. 1802/2014 of Ministry of Public Finance “Accounting regulations on the separate annual financial statements and consolidated annual financial statements” are applied from 10.01.2015. It classifies the groups into two categories: small and medium groups, respectively large groups, (included in the consolidation) and eliminates applying the equity method in cases of joint control. So the applied consolidation methods are the global integration method and the equity method and show how to shift from proportional integration method to the equity method.

Small and medium groups are groups formed from the parent companies and subsidiaries that must be included in the consolidation and that, through consolidation, do not exceed the limits of at least two of the following three criteria at the parent balance sheet date:

a) total assets: EUR 24 million;

b) net turnover: EUR 48 million;

c) average number of employees during the financial year: 250.

Large groups are groups formed from the parent companies and subsidiaries that must be included in consolidation, and that, on the consolidation basis exceed the limits of at least two of the following three criteria at the parent balance sheet date:

a) total assets: EUR 24 million;
b) net turnover: EUR 48 million;
c) average number of employees during the financial year: 250.

Determining the value of the size criteria stipulated in this section is based only on appropriate indicators of the parent company and included subsidiaries in the consolidation.

3. European regulations and International Accounting Standards / International Financial Reporting Standards in the field of the accounts consolidation

At the European level, the desire to harmonize the national accounting regulations of the member countries of the European Union on the consolidated accounts has materialized in publishing the seventh Directive[2] in 1983. This Directive contains references to the: companies which have obligation to elaborate the consolidated accounts, the companies included in the scope of consolidation, the consolidation eliminations, consolidation methods, auditing of the consolidated financial statements etc.

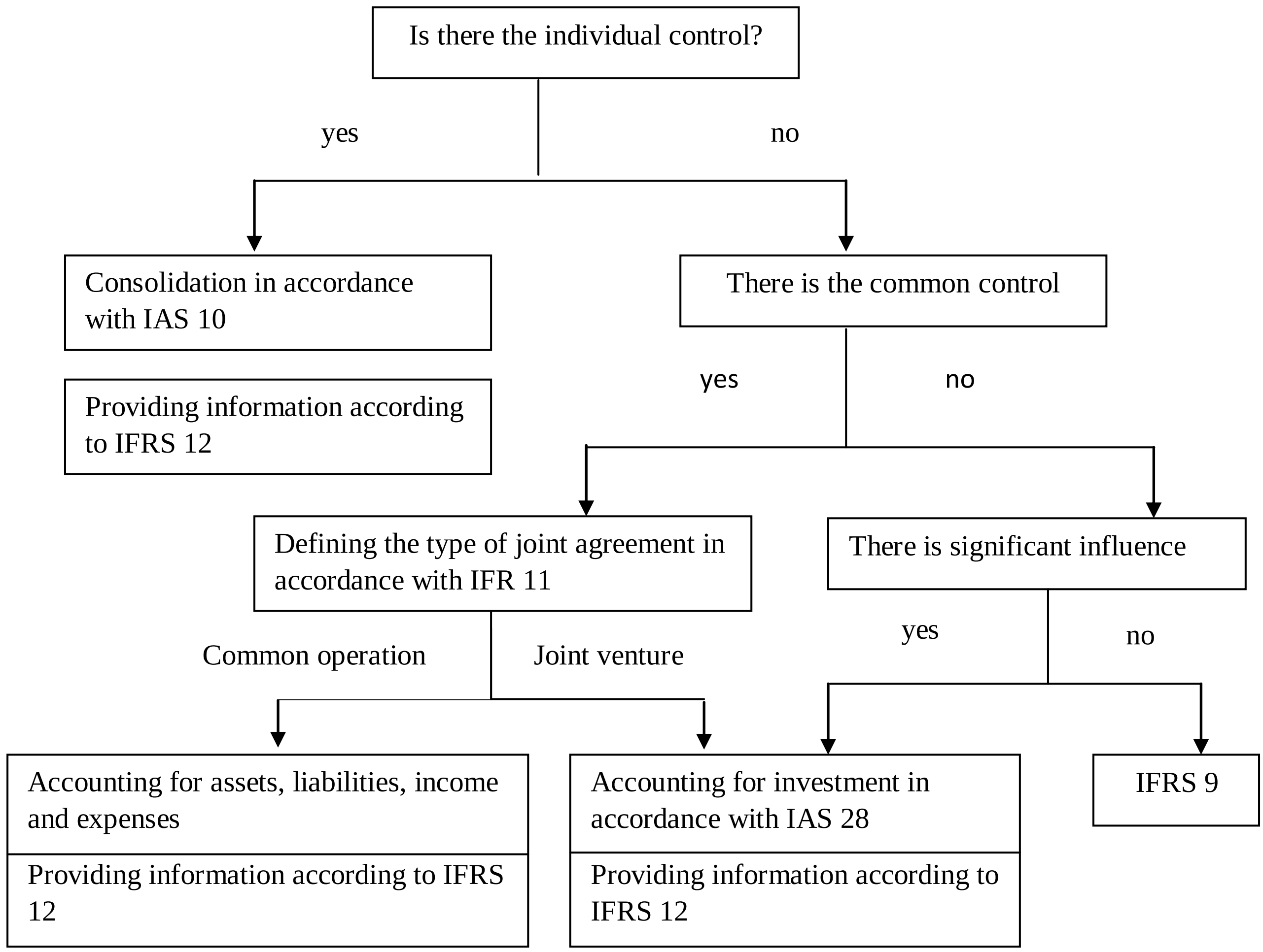
Currently, the large groups of companies listed on the major stock exchanges that use either the American accounting (USGAAP - generally accepted accounting principles in the USA) or International Financial Reporting Standards (Accounting) developed by the IASB (International Accounting Standard Board).

Depending on how the control is kept, it is applied one of the following standards:

- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 9 Financial Instruments.

Schematized, the application of international accounting standards are as follows:

[2] These provisions were included in the accounting regulations in Romania through OMPF 1752/2005, replaced by the Order no. 3055/2009



Source: *Marian Săcărin, Practices and regulations for consolidation of the accounts, ASE, Bucharest, 2012*

IFRS 10 Consolidated Financial Statements (in force since 1 January 2014), adopted by the EU on 11 December 2012 replaces the sections of IAS 27 Consolidated and Separate Financial Statements that deal to the consolidated financial statements. SIC-12 Consolidation - Entities with special scope have been withdrawn from the issuance of IFRS 10. According the IFRS 10, there is only one basis for consolidation, which is the control. In addition, IFRS 10 includes a new definition of the control that contains three elements: (a) authority over the entity in which has been invested, (b) exposure or rights over the variable results based on its participation in the entity in which has been invested, and (c) the ability to use their authority over the investee entity to influence the value of the investor results. Vast guidelines were added in IFRS 10 to deal with complex scenarios.

IFRS 11 Joint Commitments (in force from 1 January 2014), adopted by the EU on December 11, 2012, replaces IAS 31 Interests in jointventures. IFRS 11 deals with how the joint commitments should be classified in which two or more parties have the common control. SIC-13 Jointly Controlled Entities - Non-Monetary Contributions of the jointventures was withdrawn with the issuance of IFRS 11. In accordance with IFRS 11 the jointventures are classified as joint operations or stock companies, according to the rights or the obligations of the parties to the association. On the contrary, in accordance with IAS 31, there are three types of forms of jointventures: jointly controlled entities; jointly controlled assets; jointly controlled activities. In addition, in accordance with IFRS 11 a partner in a jointventure shall recognize an investment and to account it by the equity method, while in accordance with IAS 31, they can use the equity method or proportional with the equiy participation.

IFRS 12 Presentation of existing interests in other entities (in force from 1 January 2014), adopted by the EU on 11 December 2012 for the supply of additional information regarding the significant judgments and assumptions made to determine the nature of the owned interest in an entity or arrangement, subsidiary, common arrangements and the jointventures and unconsolidated structured entities.

IAS 27 Separate Financial Statements (amended in 2011), in force since 1 January 2013 was adopted by the EU was on 11 December 2012. The standard continues the accounting existed requirements and disclosures of IAS 27 (2008) regarding the separate financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 for the separate financial statements have been incorporated in IAS 27 (2011). The standard does not longer treat the principle of the control and provisions related to elaborate the consolidated financial statements, which are moved in IFRS 10 Consolidated Financial Statements.

IAS 28 Investments in associates entities (amended in 2011), in force since 1 January 2013 was by adopted the EU on 11 December 2012. There are limited amendments made in IAS 28 (2008): a) IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment or a part of an investment in an associate entity or jointventure that meets the criteria to be classified as investments held for sale. For any remaining part of the investment which has not been classified as held for sale, it is applied the equity method until it is occurred the failure of the part that is classified as held for sale. After the failure is occured, any retained interest is accounted using the equity method if the retained interest continues to be an associate entity or jointventure; b) previous, IAS 28 (2008) and IAS 31 provides that the cessation of significant influence or joint control to trigger the remeasurement of any joint kept in all situations, even if the significant influence was followed by the joint control. IAS 28 (2011) currently provides that in such scenarios the retained interest in investment is not remeasured.

IFRS 9 Financial Instruments, issued in November 2009 (supposed to be in force from 1 January 2015), haven’t been adopted yet by the EU. This standard introduces new requirements for classifying and measuring the financial assets. IFRS 9 amended in October 2010 includes requirements for classifying and measuring the financial debts and for deregistration (derecognition).

4. Structure and importance of consolidated financial statements

According to regulations of Romania (OMPF 1802/2014) the consolidated financial statements include the consolidated balance sheet, consolidated profit and loss account and explanatory notes.

According to IAS 1 **Presentation of financial statements** theresulted set from consolidated includes: the consolidated statement of financial position, the consolidated profit or loss statement and other elements of global result, consolidated statement of the changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements .
The parent company - a separate legal entity within a group - elaborates its financial statements. However, the financial statements of the parent company do not offer to the users the necessary information to evaluate the financial position and performance of the entire group. Thus:

- **in the parent company's balance sheet**, the securities held in subsidiaries are presented at acquisition cost, a situation that does not allow to the users to determine the subsequent development of investment by the parent company;
- **in the profit or loss account** of the parent company the performance of the subsidiaries are presented incomplete; this situation is explained by the fact that the parent company highlight the dividends distributed by the subsidiaries, however, more often, dividends are different from the obtained results;
- a user of the separate statements of the parent company can not find out to what **extent its turnover** corresponds to transactions performed with the companies within the group;
- **the result highlight in the profit and loss** account of the parent company may be affected by the losses of other companies of the group.
- a good financial statement highlight in the balance sheet of the parent company that it may be compromised by the **indebtedness** of other companies of the group[3].

In these circumstances it is necessary to elaborate and publish the consolidated financial statements. They are prepared by the parent company, based on the separate financial statements of the companies that constituted the group and provides information about a group of companies as if they were one entity.
The consolidated financial statements, whose objective is to provide useful information in making the decision, are considered indispensable both for internal information and for external information.
Thus, through them, the parent company managers have consistent information for assessing the subsidiaries management, regardless of their implantation site (home and abroad), of national regulations and the activity sector. Also, highlighting the consolidation procedures contribute to creating an informational circuit that allows the parent company to:

- set targets for each company of the group;
- evaluate the performance of companies within the group to compare them;
- perform the subconsolidation on branches of activity.

In addition, the consolidated financial statements provide useful information to perform some particular analyses aiming:

[3]Săcărin Marian, Practici si reglementări de consolidare a conturilor, ASE Publishing House, Bucharest, 2012

- The results obtained on the activity branches, when the group companies engaged in different natures activities; thus, it can highlight the contribution of each activity sector to the overall profitability of the group.
- The results on the geographical area;
- Development of the turnover and of the investment group;
- Evolution of the financial situation of the group;
- Evolution of the profitability of the group compared with other groups.

5. Evolution of the groups of companies in Romania in the period 2007-2013

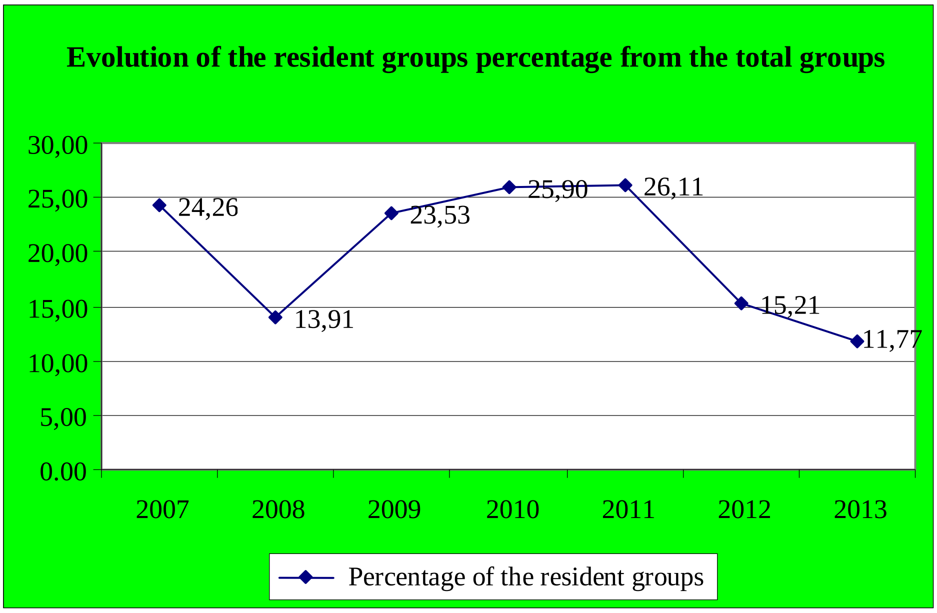
Further, I'll present relevant issues related to evolution of the number of groups of companies in Romania, their field of activity, and the country from the subgroups of companies are controlled according to the percentage of the number of employees in total of multinational groups of companies controlled from abroad.

Table no. 1 Evolution of the groups' number of the companies in Romania during 2007-2013

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Resident groups	3914	4276	4696	5372	5555	5689	5248
Groups of multinational enterprise	12219	26467	15258	15372	15722	31718	39327
of which							
controlled from inside	43	135	33	103	101	102	60
controlled from outside	12176	26332	15225	15269	15621	31616	39267
Percentage resident groups	24.26	13.91	23.53	25.90	26.11	15.21	11.77

Source: www. insse.ro

Figure 1 Evolution of the percentage of the resident enterprise groups in all groups



As shown in Table no. 1 but also in the figure above the number of the resident groups decreased in the period 2007 -2013 from 24.26% to 11.77%. So, in 2013, only 11.77% from the groups of companies identified in Romania were resident, of which 90% are composed from two or three companies.

We could say that we have an estranged economy, though I believe that these groups have significantly contributed to the decline of the unemployment rate, to increase the investment and with know-how in times of crisis that our country has passed.

The number of resident enterprise groups increased in the period 2007-2013 with almost 34% and the number of multinational enterprise groups increased in the same period from 12,219 to 39,327, that is, approximately 222%.

The most part of enterprise groups in Romania opereting in trade, manufacturing or construction.

From 2014, the holding tax regime is regulated in the Tax Code. Thus, Romania has, for the first time, the holding tax provisions. It is a simple procedure that meets the two minimum conditions required for operating the holding: tax exemptions on the capital gains and dividends.

In the context in which these two changes occurred - tax exemption on the capital gains and the dividend - it offers a great opportunity for the Romanian investors to keep the capital in Romania. In addition, this option may become interesting and for the new holdings domiciliation of the foreign investors, as long as the profit tax is low, 16%.

Meanwhile, earlier this year, there are not taxed any liquidation proceeds obtained from selling owns shares in the subsidiaries by the holding company. At the same time, in our country has been established a minimum holding period of one year.

Holding law draft is in Parliament, it has not been approved yet. The holding regim allows the intra-group resources transfer without legal or operational barriers and no cost. From this point of view, a major change, still awaited by businesspeople and stipulated in the holding law draft in Parliament is the fiscal consolidation of the intra-group profits. Thus, the losses and the profits of the societies which making up the group could cumulate and the tax would apply on the difference between them.

Table no.2 Fields of activities with the highest share in operating of the groups of companies in Romania

Fields of activity of the groups with the largest share	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Manufacturing Industry	32%	19%	18%	17%	16%	14%	11%
Wholesale trade and retail trade, repair of motor vehicles and motorcycles,	23%	31%	21%	21%	21%	28%	31%
Section of the professional activity, scientific and technical		10%					
Construction	8%	9%	14%	14%	14%	11%	13%

Source: www. insse.ro

As it is seen, the most groups of enterprises operate in the field of trade, what is determined by establishment of various supermarkets look like Lidl, Kaufland etc. It also observed increasing trend in the number of groups in the construction field from 8% in 2007 to 13% in 2013.

The groups of the resident enterprise operate frequently in these same fields.

Table no. 3 Fields of activity with the highest share in operating the groups of resident companies in Romania

Fields of activity with the highest share for the groups of the resident enterprise	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Manufacturing Industry	22%	22%	18%	15%	13%	11%	12%
Wholesale trade and retail trade, repair of motor vehicles and motorcycles,	18%	22%	23%	21%	22%	21%	21%
Section of the professional activity, scientific and technical					11%	11%	11%
Construction	11%	13%	13%	11%	11%	10%	11%

Source: www. insse.ro

Depending on the percentage of employees, the most subgroups of enterprises in Romania are controlled from Germany, Italy and Netherlands.

Table no. 4 Structure of the first 10 subgroups of enterprises in Romania, after the percentage of employees

	2007	2008	2009	2010	2011	2012	2013
Italy	20.4 %	11.7%	7.9%	8.4%	8.2%	10.2%	7.4%
Germany	11.1 %	15%	17.3%	17.4%	17.3%	18.1%	15.6%
Turkey	6.8 %						
Cyprus	6 %	5.9%	6.3%	6.3%	5.9%		6.1%
Netherlands	5.8%	6.4%	7%	6.3%	8.3%	9.8%	12.6%
France	5.1%	9.7%	11.6%	11.2%	11.1%	9.3%	10.8%
Austria	5.1%	8.5%	9.3%	8.8%		8.2%	11.4%
Hungary	4.5%						
United States	3.5%	5.2%	6.9%	7.6%	8.1%	6%	3.5%
United Kingdom	3.5 %		3.5%	3.6%	3.3%	3.5%	3.4%
Luxembourg	4.5%		4.3%	3.9%	3.7%	3.6%	5.7%
Switzerland		3.7%		3.2%	3.3%	3.6%	3.7%
Other					22%	22.8%	19.8%

Source: www. insse.ro

From Table 4 Structure of the first 10 subgroups of enterprises in Romania, after the percentage of the employees, it is observed decreasing in number of the multinational groups in Italy, and increasing the number of groups from France, Holland and Austria.

Conclusions:

Developing of the national economy depends largely on the evolution of large and powerful trade companies, which have enough strength to stimulate the research and innovation, to hire other people and close collaboration with many small and medium enterprises around them.

In terms of legislation, the recognizing of the society groups in Romania was done gradually, with the implementation of the Community acquis, the regulatory directions focused on the following areas: competition, capital market, taxation, banking and insurance and accounting.

Consolidating the accounts was necessary due to globalization of economies, development of transnational companies, market capitalization growth, development of the capital markets and the emergence of new financial products, but also due to increasing the needs of the internal information of the groups of companies.

Based on information provided by the annual consolidated financial statements, the financial analysts can determine a diagnosis on financial position and financial performance in the group of entities.

From the analysis of statistical data published by the National Statistics Institute the residents' groups' number declined in the period 2007 -2013 from 24.26% to 11.77%. So, in 2013, only 11.77% from the groups of companies identified in Romania were resident.

The problem is not that we have not controlled enterprise groups of people in Romania, but we can not develop high power Romanian business to expand regionally, to impose the outside interests, as happened, for example in Poland .

The most part of enterprise groups in Romania opereting in trade, manufacturing or construction.

Depending on the percentage of employees, the most subgroups of enterprises in Romania are controlled from Germany, Italy and the Netherlands.

We believe that the publication of a holding companies law would generate greater attractiveness for business in Romania because it allows intra-group transfer of resources without operational barriers, and reducing the tax rate. Moreover, the establishment of holding companies in Romania will encourage the development of collateral activities; the first targeted are the liberal professions (accounting, juridical services, consultancy).

In addition, it will be realized the development of new jobs in the highly skilled sectors. Also, a holding company regime will encourage keeping the domestic capital in the country, increasing Romania's chances to impose against the tax competition from outside.

Considering that the literature in this area is almost recently and includes a small number of works (6-7works) compared to the corresponding literature of western countries, I believe that is necessary to make guides for elaborating the financial statements.

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