OPPORTUNITY AND ACCOUNTS CONSOLIDATION CONDITIONS

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Abstract: The making of consolidated accounts justifies its necessity just from the perspective of the elimination of this appreciation difficulty by third persons of the financial situation and of the profitableness of a group's companies. Viewed from this perspective, the consolidated accounts made by the leader entity present information that allow an analysis of the financial structure and of the group's profitableness, complementary to the individual (social) accounts, taking into consideration the capital connections that the leader has with the other entities in the group.

Key words: consolidation, entities group, opportunity, financial statements, faithful image.

Starting from the concept of developing strategy of every group entity, from the way of its making, conception, following and optimization, we can notice that the appearance of multinational companies, of the groups essentially, it is connected to the more pregnant presence on the external (foreign) markets or to the situation in which the production diversifies very much. In these situations it can be chosen one of the ways of action that ensures the attaining of the aimed objective through extension in conditions of maximum efficiency: either through the keeping of the juridical unit and the creation of departments or subsidiaries, or through the creation of new companies, which have their own juridical personality, but which are under the control of the group leader.

External extension, through the making of new entities or through the taking of the control of some already existent companies, lies at the basis of the appearance of big corporations with demonstrated world impact.

In the same line of words, the companies' organization on activities contributes to a more efficient administration at the level of each activity or country, still, sometimes, it masks the economical reality. For example, the group leader "can have the interest to acquire an unprofitable entity the administration of which is showing a deficit, but which present a productive potential interesting on long term. In this case, from the creditors' point of view, if it is analyzed independently, such an entity presents a quite important risk, while an analysis of this entity in the context of the ensemble of which it belongs it could put into evidence a more attractive and just image of its real situation."[1]

In the specialty literature and practice, a group's accountancy, of some corporation, of an ensemble of entities, it is found under the syntagms "consolidated accountancy" or "accounts' consolidation". To define the consolidated accounts it is appealed at the significance of the term "consolidation".

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[1] Săcărin M., Contabilitate aprofundată, Ed. Economică, Bucureşti, 2004, p.219.

“To consolidate”, from a lexicological point of view, has the meaning of “making or to be made solider, stronger, more durable”, meaning that has no connection to the desired interpretation of the accounts’ consolidation. In this sense, professor Bernard Collase[2] brings a criticism regarding the use of the word “consolidation”, “word unfortunately slipped, undoubtedly, from the accountant’s unconscious which lets to be accredited the idea according to which the accounts of the societies that compose a group are in themselves little solid.”

From a bookkeeping point of view, according to the French Bookkeeping Plan, “to consolidate means to replace the totality of the participating titles which are in a society balance, with the part of personal capitals eventually redrawn from the issuing society, detained by the consolidating society, including the quota of the resultants of the exercise that corresponds to these titles.”

The consolidation, defined by J. Raffegeau, is “a technique that allows the establishment of unique representative accounts of global activity and of the situation of an ensemble of societies, having common connections or depending of a common decision center, but keeping for each one an own juridical personality.”[3]

On the other hand, the consolidation can be perceived as a “process of aggregation or unification of the accounts of the group’s entities, to obtain a balance that reflect the means belonging to the group as each one would have been rather obtained individually than through stock acquisitions, and the process of consolidation consists in the summing, the accumulation of the accounts of the branches with the accounts of the leader entity, the elimination of the financial and commercial relations in the group that give birth to reciprocal accounts.”[4]

The necessity of elaborating the accounts of the group entity/multinational corporation, results from the fact that, for the obtaining of a real image of the economical entity that a group makes, it is insufficient and irrelevant the simple reading of the individual annual accounts of the societies that compose a group, because these ones don’t allow a correct appreciation of the economical and financial situation of the ensemble. Even the denomination of individual accounts reflects the restrictive character of this notion that doesn’t allow the obtaining of an ensemble image, the realization of a synthesizing analysis, ignoring the group’s dimensions. The individual accounts don’t reflect the common activity of the different companies within the group. They present limits through the unreflecting of the reciprocal operations between companies, being, in this context, difficult to appreciate the business amount or the acquisitions outside the group, the global financial debt.

The making of the consolidated accounts (of group accounts) justifies its necessity just from the perspective of the elimination of this appreciation difficulty by third persons of the financial situation and of the companies’ profitableness of a group. Viewed from this perspective, the consolidated accounts made by the leader entity present information that allow an analysis of the financial structure and of the group’s profitableness, complementary to the individual (social) accounts, taking into consideration the capital connections that the leader has with the other entities within the group.

Viewed through an angle to a high degree of competitiveness, the main objective of the quoted international groups represents the value creation for the stockholders. In this angle, the

[2] Collase B., Contabilitate generală, Ed. Moldova. Ediția IV, Iaşi, 1995, p.347.
[3] J. Raffegeau and collective, Comptes consolides - Solutions françaises et internationales, Ed. Fr. Lefebvre, Paris, 1989, p.26.
[4] J.Watts, Accounting in Business environment, Ed Pitman, London, p.358.

consolidated accounts point out their importance in matters of information for:

- creditors, because they allow the appreciation of the solvability and of the duty of the group's companies in their entirety; also, on the basis of the information in the consolidated accounts, the banks can verify if the stable politics at the group's level is efficient and the financed operations are viable, although the individual financial situation of a branch is not exactly favorable;
- the partners that detain the majority find in the consolidated accounts information that allow them an appreciation as correct as possible of the mother-entity value;
- for the partners that detain the minority, they represent the only means of appreciation of the way in which their interests are administrated.

Although the advantages of the consolidated accounts (the accounts of the group entity) are unquestionable, it must be mentioned that these don't present any information on the fluxes that intervene between the entities within the corporation, although the knowledge of the internal fluxes can be useful in the knowledge of the strategy and of the organization of this structure (the group in its entirety).

Also, we cannot omit the fact that the analysis of the financial situations of the leader entity doesn't reflect eloquently the real economical power of the group entity in its ensemble, and the appreciation of the leader's "domination" on other group entities, only on the basis of the data comprised in the balance job "Participating titles detained within the group", is insufficient, these being reflected at their acquisition cost, eventually actualized. This aspect makes impossible the knowledge of the nature of the assets that they represent and of the possibilities of financing.

We think that the balance of the leader entity, through the reflecting in assets of the investment made with the help of the office "Participating titles detained within the group", will provide a legal and correct image, but not truthful from an economical point of view on the entire patrimony detained by the group. The attentive analysis of the balance of a corporation of holding type, for example, emphasizes the fact that the weight of a majority in its asset is detained by the participating titles, the debts connected to the participations in branches and the elements of treasury, not being put into evidence any immobile patrimony, while in the debts, the leader's obligations have a strong financial character. On the other hand, the results account is dominated especially by the financial incomes that come from the dividends received from branches, incomes from patents, marks and eventually incomes from rents if it also disposes of fixed patrimonial elements. Following a rapid analysis, we can notice that the result of this leader-society depends preponderantly on the dividends received from branches and from participations during the exercise, aspect directly connected to the profit obtained in the previous year and not on an enrichment of the group, being accredited here, especially, an intersociety transfer.

An opinion unanimously agreed upon in the specialty literature[5] is that of, although the group is perceived as a unitary entirety, the annual costs of the group, viewed in their ensemble, are not equal to the sum of the annual costs of the entities within the group.

The explanation of this kind of status, actually, we could formulate if we take into consideration the fact that between the entities that belong to the same ensemble take place numerous internal transactions, as the claims commitments and/or of debts and of incomes and/or expenses. The impact of this kind of operations is that they will artificially increase the values of the individual accounts, and their algebraic sum leads

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[5] A. Tiron Tudor, Consolidarea conturilor, Ed. Tribuna Economică, Bucureşti, 2000, p.37.

to a series of reciprocal annulments, the elimination of these operations is an essential condition of the insurance of the pertinence of a group's image, which doesn't reduce itself to the simple sum of individual accounts.

The necessity of consolidated accounts is founded on the creation of a more comprising image of the real situation of a group, image that it cannot be given by the ensemble of the component companies balances.

Thus, through the consolidated accounts, there will be presented all group's claims and debts towards juridical persons that don't belong to the group. Taking into consideration the important participation of the leader entity in the capital of the group's companies, it can be said that they can be considered as even parts of the mother society, so these claims and/or debts don't normally exist, because they turn still to the leader entity. In the consolidated accounts, these claims and internal debts, in a group, are eliminated, remaining only the debts and the real claims of the group to third persons.

The consolidated accounts, the objective of which consists in providing useful information for taking economical decisions, are considered indispensable both for the internal information of the group, and for the external information. Initially, the groups have made the consolidated accounts for their own needs of administration or at the demand of the mother-societies that were abroad. Ulterior, the obligation to publish the consolidated accounts led to the development of the consolidated financial information.

The impact of the use of consolidated accounts is emphasized also at managerial level, the staff of the leader entity disposing of homogenous elements for the appreciation of the branches administration, not taking into consideration the place of implantation of these ones (country or abroad), the national reglementations and the activity sector. Also, the existence of some group's financial situations, made on the basis of some unanimously accepted and elaborated principles, allows the establishment of a diagnosis, through the use of some truthful information, the making of previsions on normalized bases, the control at the level of the leader entity on the basis of some truthful documents. In our opinion, the spreading and the diversity of a group's activities make difficult the synthesis of the information at the level of the group's general direction, but the emphasis of some consolidation procedures leads to the creation of an informational circuit, normalized and controllable, which allows the group leader:

- the objectives establishment for each company within the corporation/group;
- the evaluation of performances of the entities within the group and to compare them with themselves;
- the effectuation of the underconsolidation on activity branches.

The generally met significance concerning the information comprised in the consolidated accounts is that they allow the making of some private analyses regarding[6]:

- the results obtained on activity braches, when the group company effectuates activities of different natures, in this way being able to be put into evidence the contribution, positive or negative, of each branch within the group's global profitableness;
- the results on geographical areas;
- the evolution of the business amount and of the group's investments;
- the evolution of the financial situation of the group;
- the evolution of the global profitableness of the group in relation to other groups.

On the other hand, the perception of the consolidated accounts through the

[6] M. Săcărin, Grupurile de societăți şi repere ale interpretării conturilor consolidate, Ed. Economică, Bucureşti, 2002, p.88.

angle of the role detained in the external information allows us to notice their superiority on a significance line to the individual accounts, as the obvious necessity, from the point of view of the insurance of a sincere presentation, when one of the group's companies detains a financial interest, direct or indirect, which allows the control of other entities.

From the elements on the basis of which we consider ourselves entitled to sustain the points of view that emphasize the fact that through the individual accounts of the leader entity cannot be provided sufficient information on the financial position, performances and treasury fluxes of the groups, we remember:

- an external user of the individual accounts of the leader entity cannot know if the business amount of this one corresponds, entirely, to the sales outside the group or, partly, to the sales made to other entities in the group;
- the benefit of the leader entity can be affected by the losses of some other society in the group;
- the financial situation, apparently healthy, of the leader entity can be compromised by the obligation of other societies in the group.[7]

The avoidance of these inconvenients (restrictions) is realized through the consolidated accounts, which allow the presentation of some useful information for the external users of financial-accountant information: creditors, associated, financial analysts and other users of financial-accountant information.

If we would ask ourselves "To whom serve mainly the consolidated accounts?", we would certainly choose a trenchant answer: for the group's creditors (those that finance the group), to which the consolidated accounts offer the necessary information both for the determination of the real financing needs and of the possibilities of group's reimbursement, and for the appreciation of the risks due to their financing. If the society that borrows is the leader entity, the consolidated accounts indicate the financial force of the group. On the contrary, if the entity that borrows is another society than the leader entity, the consolidated accounts allow the appreciation of the financial support that this one can receive from the group, in case of bankruptcy.

An important utility of the consolidated accounts also may find the financial analysts, which can appreciate correctly the installments of profitableness and the investments capacities of the group-forming entities.

But, if we consider the consolidated accounts through the angle of the control that the leader entity has on the subsidiary company (the branch), we can notice that this one has the possibility to dispose of the assets of its own branch, even if it isn't theirs. Thus, it may arrive at the situation in which the concept of property, which, in most countries, lies at the basis of the registering in the individual accounts, is replaced by the concept of control. To represent as correct as possible this situation, in the consolidated balance, the assets and their debts replace the participating titles detained by the mother-societies, within the branches, as if the leader entity were their owner.

The accountant principle of the prevalence of the economical field on the juridical field finds its real supremacy through the consolidated accounts. In fact, the reality lies in the fact that the leader entity, which dominated the branches, can, at any moment, suppress their administration autonomy, while, apparently, every branch disposes of a distinct juridical personality and of an own patrimony.

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[7] J. Raffegeau, P. Dufils, J. Corre, D. De Menonville, Comptes consolidés, Solutions françaises et internationales, Éditions Francis Lefebvre, Paris, 1989, p.69.

In spite of all these potential advantages of the use of the consolidated accounts, we cannot omit the inconvenients that practicing specialists have surprised in their measures.[8]

Those that use the consolidated accounts in taking decisions must be conscious of the fact that they are only an instrument of administration and information as many others, without having the value of "panacea", an instrument that has certain limits that must not be ignored if it is desired the avoidance of erroneous fundaments.

The limits of the consolidated accounts, valid especially for the external information, are generated by:

- The Variation of the consolidation perimeter, because, through its nature, the group is not an unchanging ensemble, knowing dimensional fluctuations according to the presence of acquisitions or, on the contrary, of disinvestments, being thus affected, mainly, the comparison on medium and short term.
- The elimination of "negligible companies" from the consolidation perimeter. A company cannot be let outside the consolidation, when it only presents a negligible interest to the aimed objective.
- The different accountant politics regarding the making and the presentation of the consolidated accounts. We consider that the choice of different accountant options make more difficult the comparative analysis between groups, more difficult to realize if the groups operate in different activity sectors.
- The consolidated accounts are the resultant of some dispersed components the ensemble significance of which isn't always obvious.

From the perspective of the external information, the contribution of each entity within the group is emphasized in a masked manner through the consolidated accounts. The calculation of the self financing capacity of the group, through which we consider that it would be necessary to be presented complementary information to find out if this comes from an entity in expansion or in decline and the global debt, through which the structures of individual financing are dissimulated, represent only few arguments in this sense.

Paraphrasing, we can remember that: " One of the difficulties in matters of consolidated accounts is given by the fact that every user is looking to find out in these an image of the group, but the nature of the image is not always the same: economical for some, financial for a few, patrimonial for others… and, sometimes, all these three at the same time." [9]

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[9] J. Raffegeau, P. Dufils, J. Corre, D. De Menonville, Comptes consolidés, Solutions françaises et internationales, Éditions Francis Lefebvre, Paris, 1989, p.71.