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Summary of the Ph.D. Thesis:

# DEVELOPMENTS AND ENQUIRES IN THE FIELD OF CONSOLIDATED FINANCIAL STATEMENTS

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# KEY WORDS

Consolidated financial statements, IAS, IFRS, 7th Directive, consolidated accounts, full consolidation method, basis of consolidation, market value relevance of financial information

# INTRODUCTION AND RESEARCH MOTIVATION

At international level company groups represent a reality just as important as companies. The phenomena of company groups has expanded in the last decades, including a large range of activity sectors (Feleagă & Malciu, 2002: 295). The core of the developed economies is the large industrial, commercial or financial multinational groups, the majority of which is listed on the capital market. The group structure is, however, more and more adopted by small and medium-sized companies which realize the economical (and not only) advantages of this form of capital concentration. In Romania, group forming is relatively recent, with an age of 10-15 years. But having our eyes set on the countries with a tradition in market economy and considering our country has adhered to the European Union, an amplification of this phenomena is expected in Romania.

A group, because it constitutes an economic entity, must be presented in its wholeness (as one single entity). In this respect, naturally group (consolidated) financial statements must be presented, besides individual financial statements of the group members. Publishing group statements has a fairly long history at international and European level, starting in the United States ever since the beginning of the 20th century. In Romania, practice of consolidated reporting is at the most a decade old (Malciu & Feleagă, 2004: 16). It will surely extend considering the relatively recent accounting regulations harmonized with Fourth and Seventh European Directives (OMFP 1752/2005 recently replaced by OMFP 3055/2009) as well as the adheration to the European Union, on the territory of which, for groups with listed parent companies, according to Regulation (CE) 1606/2002, there is the obligation (starting with 01.01.2005) to present consolidated financial statements according to IFRS adopted by the EU.

The importance of the matter of group financial statements also results from the preoccupations of IASC/IASB ever since its establishment. In the specialized literature, it is often mentioned that IASB philosophy regarding normalization today is mainly centered on consolidated accounts (Malciu & Feleagă, 2004: 16). The currentness at international level of consolidated financial statements matter emerges, on one hand from the finalization of the joint project FASB – IASB *Business combinations,* materialized in the issuance (in December 2007 and January 2008) of revised versions of FAS 141 and respectively IFRS 3 and the punctual amendment of IAS 27 and ARB 51 on the matter of minority interest, the North-American body even published in this respect a new standard FAS 160. On the other hand, the currentness of this theme also results from the existence on the joint agenda FASB – IASB of three major projects, respectively *Reporting Entity, Consolidations* and *Joint Arrangements*. The first, materialized in Discussion Draft entitled „Preliminary Views on an improved Conceptual Framework for Financial Reporting. The Reporting Entity" (IASB, 2008f), is part of Phase D of the project for improvement of the current Conceptual Framework (planning for the final text is for the fourth quarter of).[1] The other two have passed the exposure project phase by the publication of ED 10 „Consolidated financial statements" respectively ED 9 „Joint Arrangements", the issuance of the final standards being planned for the fourth, respectively the second quarter of 2010.

Romanian specialty literature on accounts consolidation is relatively recent and comprises a fairly low number of papers (e.g. Munteanu, 1998; Tiron-Tudor, 2000 şi 2005; Săcărin, 2001 şi 2002; Malciu & Feleagă, 2004; Petriş et al., 2004; Pitulice, 2007; Feleagă & Feleagă, 2007) compared to the corresponding literature in the Occidental countries (which is extremely vast and diversified, as a result of a tradition of many decades). Many contemporary papers concentrate more on presenting the content of international and/or national regulations and on numerically exemplifying the existing techniques (methods) of consolidation, and less on the conceptual aspects respectively on empirical studies. Following this line of thought, the matter of consolidated financial statements requires to be researched in order to provide a useful development and advancement in the specialized literature as well as in the practice of presenting consolidated financial statements.

Besides these aforementioned aspects, choosing this research theme was also determined by the two master dissertations wrote by the author: the first entitled „Technical aspects regarding

[1] In this project it is brought into question the matter of dual reporting (consolidated financial statements and parent company financial statements) and of the utility of the two categories of financial statements, presenting different points of view from the accounting world (for and against dual reporting).

accounts consolidation" and presented in 2003 at the Faculty of Economics and Business Administration in Cluj-Napoca, and the second entitled „Restatement of consolidated cash flows from German Accounting Standards to IAS/IFRS", elaborated as a result of a six months internship at the German group K+S, and presented in 2005 at the MBA „International Management" at University of Applied Sciences Fulda, in Germany.

Considering the aspects mentioned above, the central objective of the research project we set to is the *development and advancement of the matter of consolidated financial statements at international, European and national level*. This fundamental objective is decomposed in four subordinated objectives (or operational objectives), as follows:

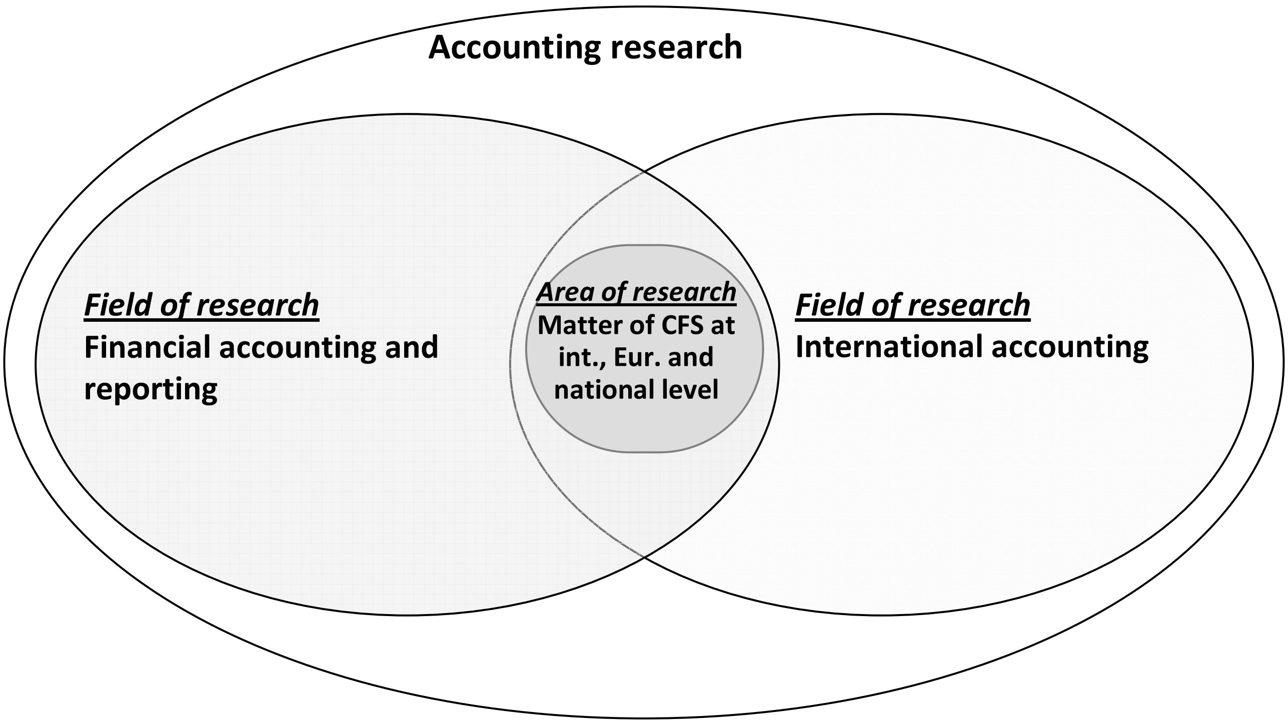
1. *Presenting the current stage of research, conceptual framework and international, European and national regulations concerning consolidated financial statements,*
2. *Development and advancement of technical and practical aspects regarding the activity of consolidating financial statements,*
3. *Development and advancement on one hand of aspects regarding the content and presentation of group financial statements and, on the other hand, of the matter of financial analysis of these statements,*
4. *Empirical investigation of the matter of market value relevance of consolidated financial statements.*

In order to achieve the four operational objectives, we planned our scientific endeavor in more stages, reflected in this paper in six distinct chapters: the first three chapters regard the attaiment of the first operational objective, and the other three follow, each at a time, the achievement of the other objectives mentioned above. The synthesis of the six chapters of the thesis is presented in the third part of this summary.

# RESEARCH METHODOLOGY

The first step of any scientific endeavor is positioning it in the general field of research chosen from the scientific knowledge, which is split into specific areas of research. The *general area of research* of this thesis is *the matter of consolidated financial statements at international, European, and national level*, and can be placed in the sphere of accounting research at the intersection between financial accounting and reporting research and international accounting research, as seen in the next scheme[2].

**Scheme 1:** *Positioning of our general area of reseach within accounting research*




Under the aspect of the main *research stream*, our endeavor is, in principle, part of the positive stream, following to explain, in a detailed and advanced approach different parts (conceptual and practical) of the matter of consolidated financial statements, at the same time searching to offer forecasts related to the evolution of regulations and practices in the field. At

[2] We constructed this framing starting from the systematization of accounting research done in a study by Baker & Barbu (2007: 274). The scheme exposed represents an adaptation to the matter of consolidated financial statements starting from a similar scheme, conceived by the two authors.

the same time, however, as this paper unfolds, there are elements of interpretive and critical streams, the researcher approaching different concepts, regulations and practices in the field in an interpretive manner (adopting a neutral point of view), but also critical (implicating from a personal point of view).

In what regards the *research methodology and perspective*, the scientific endeavor in its whole has combined qualitative with quantitative research, and a theoretical (descriptively-conceptual) perspective with a practical (empirical) perspective. At the level of theoretical research, it can be remarked, generally, a deductive approach, starting from concepts, theories, and existing regulations, towards particularizing them for group financial statements. About the empirical, quantitative researches, they present a mostly inductive approach, by formulating general conclusions based on results from a particular case study[3], a sample of answers from international organizations, respectively a sample of companies (groups) selected from the largest European capital markets (within the empirical study in the last part of the thesis).

At the level of the whole thesis, we used a wide range of *research methods* (both in theoretical and empirical approaches), remarking document analysis, comparative method, typology method, external (non-participant) observation, and participant observation. Plus, certain research methods pertaining to the empirical study in chapter six present, of course, a mathematical-statistical nature, and are exposed extensively within that study.

*Document analysis* consisted in: going over the selected literature; analyzing standards and relevant accounting regulations; studying official documents of different organisations (IASB, FASB, SEC, EFRAG etc.); analyzing accounting documents supplied by the companies part of the case study; interpreting the content of comment-letters received by IASB and FASB; as well as analyzing annual reports of entities which were the object of the empirical study. In what regards the *comparative method*, it was used especially to study: scientific research in the field in different time frames, different approaches to the concepts and specific theories from the chosen area of research, different relevant international norms and the provisions of international, European, and national regulations in order to identify the similarities and differences between the analyzed elements. This method was also used in the case study (to

[3] Case studies represent a research approach, a systematic and organized way of producing information about a topic, as well as the product of the respective approach, such as a paper (Stake, 2000 în Cooper & Morgan, 2008: 160). They constitute an examination based on profound and contextual information, of some organizations and specific environments, examination which explicitly relates to theory (Cooper & Morgan, 2008: 160).

quantify the impact of different alternative methods on consolidation), in the empirical study regarding the opinions of the different institutions on the matter of presenting financial statements (in order to identify the differences and similarities of opinion), as well as in the empirical study regarding absolute and relative relevance of consolidated statements as opposed to individual statements. *Typology method* was frequently used to make the different classifications of concepts, theories and methods and techniques related to consolidated financial statements. *Non-participant observation*, which presumes that the researcher is situated outside the observed system (Chelcea, 2004: 400), consisted in the analysis of the evolution of scientific knowledge in the fixed area, of the regulations regarding group statements at international, European, and national level, emphasizing the interactions between them, at the same time. Non-participant observation is also found in the empirical research where the researcher had no influence on the content of the comment-letters, respectively on the analyzed annual reports. About *participant observation* which positions the researcher inside the analyzed system, it is found in the case study, since the researcher took part in the analyzed phenomenon (presenting consolidated financial statements for SCR group).

From the *temporal criteria perspective,* the research methods alternate transversal with longitudinal character. So, *transversal research* covers the comparative analysis of different conceptions (visions) specific to consolidation, of theoretical and technical aspects regarding presenting and publishing group statements (from the perspective of the current stage of regulations), as well as market value relevance of consolidated and individual financial statements (at the level of a certain period). *Longitudinal research* covers the analysis of evolution in time of the scientific knowledge, international, European, and national regulations, as well as the (absolute and relative) relevance for the European capital markets of the consolidated financial statements.

The investigative approach, with a scientific character, implies having an assembly of *information sources* consisting in scientific articles published in different journals (with national and international recognition), speciality books relevant to the area of reference, legislative documents, analyzes and studies pertaining to the area of research, official documents and press communications of the different profile organizations (IASB, FASB, SEC, EFRAG), annual reports of entities (groups) selected for the empirical study, as well as different databases with financial information on the respective entities.

# BRIEF PRESENTATION OF THE CHAPTERS OF THE PH.D. THESIS

As we mentioned in the introductory part, in order to achieve the four operational objectives, we planned our scientific endeavor in more stages, reflected in this paper in six distinct chapters: the first three chapters regard the attainment of the first operational objective, and the other three follow, each at a time, the achievement of the other objectives mentioned above.

**Chapter 1: The Current Stage of Research in the Aria of Consolidated Financial Statements**

Therefore, in *the first chapter*, we reviewed the scientific knowledge in the field of consolidated financial statements in order to set a relevant reporting framework for the development of this scientific endeavor. At the same time, it constitutes a mandatory premise to attaining the central objective of any authentic scientific research, respectively to add value to the existing scientific knowledge in the respective area of research (Mustață, 2008:17). In order to do this dimensioning of the stage of scientific knowledge, we first did a quantitative analysis in which we followed at global level, as well as in time (at the level of four predetermined periods), certain characteristics of published research, respectively the theme, stream, research methodology and perspective and the country/region on which the research is based. This quantitative approach was followed by a qualitative one, in which we revised the specialty literature in the area of consolidated financial statements, analyzing at the level of each delimited period the main contributions of diverse authors to the scientific knowledge in the fixed area. As well, we analyzed the national accounting research published in academic journal in this area.

**Chapter 2: Conceptual Approach regarding Consolidated Financial Statements**

In *the second chapter*, we wanted to delineate a conceptual framework corresponding to the set area of research. In this respect, we analyzed the most relevant notions specific to consolidated financial statements (group, control, consolidation perimeter, minority interest and goodwill), notions which have been, in time, distinct research themes, circumscribed to the consolidated financial statements area of research. As well, we researched the rationale behind presenting consolidated financial statements and their corresponding objectives. The conceptual approach of consolidated financial statements has then regarded the comparative analysis of different specific underlying theories. We have identified four specific theories in the accounting literature: property theory, parent company theory, extended parent company theory, and entity theory.

**Chapter 3: International, European and National Regulations regarding Consolidated Financial Statements**

After setting the reference scientific framework, as well as the conceptual coordinates in the area of consolidated financial statements, we continued the scientific endeavor with a critical approach (in *the third chapter*) of the main relevant international, European and national regulations, analyzing their evolution in time, the existing interconnections and their current stage. At international regulation level, we focused, of course, on IAS/IFRS respectively on the North-American referential US GAAP, analyzing at the same time the international accounting convergence process. At the European level, we regarded the Seventh Directive CEE in the context of accounting euro-harmonization and the Regulations (CE) for implementing IFRS in UE. At Romanian level, we analyzed the relevant regulations in the area of consolidated financial statements starting with OMF 1414/1997 (not published in M.Of.) and until the recently adopted OMFP 3055/2009.

**Chapter 4: Drawing up Consolidated Financial Statements**

To continue, our efforts were oriented in the fourth chapter of this paper towards achieving the second operational objective set, respectively development and advancement of technical and practical aspects regarding the activity of consolidating financial statements. Because, on one hand, the matter of consolidating activity is extremely vast and complex, and, on the other hand, the time and space allocated to the present paper was evidently limited, it was necessary to select some relevant themes on which to concentrate the efforts for development and advancement of the researcher. Therefore, we first considered to particularize the research on the matter of consolidating subsidiaries (and not joint ventures, respectively associated companies), focusing on global integration (leaving aside proportionate integration and equity). We opted for this selection based on the definitions offered by the international referential and Romanian regulations, according to which the group is formed from a parent company and its subsidiaries, and consolidated financial statements represent the financial reporting of a group, therefore resulting that the obligation to present these documents is strictly linked to the existence of a subsidiary (and not of joint ventures or associated companies). In other words, inexistence of a/more subsidiaries leads to the inexistence of the obligation to present consolidated financial statements, and that the consolidated characteristic of group financial statements is given by the integration of subsidiaries and not by the integration of joint ventures or associated companies. Another reason for this selection is tightly related to IASB preoccupations regarding consolidation, focusing on identifying the relation parent company-subsidiary (therefore focusing on subsidiaries) and on establishing the requirements of presenting group financial statements. As well, we also considered the fact that IASB might drop proportionate integration (see Tiron-Tudor & Müller, 2008) and the largely popular belief in the technical literature according to which equity method is more of a valuation method than a consolidation one.

In the first part of this chapter we tackled the problem of preliminaries in presenting consolidated financial statements. We considered global consolidation perimeter, insisting on aspects related to identifying the parent (company) – subsidiary (company) relation and possible limitations of the consolidation perimeter. As well, we researched essential aspects of the matter of restating individual financial statements in order to apply accounting politics unitarily at group level, insisting on the subject of uniformization of recognizing, valuing and presenting rules. In the second part of this chapter we (theoretically) approached subsidiary consolidation, developing and advancing the problem of consolidating equity. In this context, the analysis was decomposed on aspects related to the first consolidation (methods to consolidate equity, acquisition difference, minority interest) and on particularities regarding the following consolidations.

In the practical part of this chapter we presented an illustrative case study regarding presenting consolidated financial statements at a Romanian industrial group (SCR). The objectives set for this study regarded (1) highlighting the critical points regarding the process of presenting consolidated statements for the first time for a Romanian group, (2) illustrating numerically the way to calculate the acquisition difference and of splitting equity, (3) highlighting intragroup operations and their effects, (4) quantifying the impact of different alternative methods on consolidation, as well as (5) identifying some practical solutions to solve certain problems specific to first-time consolidation.

**Chapter 5: Content, Presentation and Analysis of Consolidated Financial Statements**

Regarding *the fifth chapter*, we aim to develop and advance the matter regarding the content, presentation and financial analysis of group financial statements. The structure of this chapter is based on the three functions of financial statements, that is generalizing accounting information (grouped, systematized and centralized presentation of information), informing users (providing an information content relevant to users in decision-making) and analyzing (consisting of establishing a diagnostics of the financial position and performance of an entity – individual or group (Matiş & Pop, 2008: 728). Therefore, the first two subchapters were dedicated to the problem of presenting consolidated financial statements, the third subchapter aimed at the specific aspects related to the information content of these statements, and in the fourth subchapter we exposed the particularities of the analysis (quantitative and qualitative) of consolidated financial statements.

In the first subchapter we approached the key aspects related to presenting the financial position statement, financial performance statement, cash flows statement, equity modification statement and explanatory notes, insisting on particularities specific to groups. A special interest was devoted to the matter of reporting global performances and to the alternative of presenting cash flows according to the direct/indirect method. In this part we also analyzed the propositions made by IASB/FASB to modify the presentation of general financial statements. As well, we approached the evolution of the composition of consolidated financial statements in the context of applying international, European and national regulations. The second subchapter also aimed the matter of presenting financial statements, having as central point the proposals to modify financial statements presentation, exposed in the discussion paper published by IASB/FASB in October 2008 and entitled *Preliminary Views on presenting financial statements.* The subchapter was dedicated to a quantitative (on activity objects and geographical regions) and qualitative analysis of the reactions coming from different interested organizations (standard setters, professionals, users of financial statements etc) regarding the respective proposals.

In the third part of the chapter we approached the information content of the specific components of consolidated financial statements. Regarding the financial position consolidated statement we insisted upon goodwill, securities accounted for using the equity method, minority interest and conversion reserves. Concerning the performance consolidated statement we detailed the different income categories relevant at group level. Regarding the cash flows consolidated statement, the main elements exposed were payments for subsidiary acquisition, cashing in from selling subsidiaries and modifications of group treasury following fluctuations in stock price. Regarding the informational content of the explanatory notes to consolidated financial statements, we identified and analyzed four categories of information, namely consolidation perimeter, consolidation and valuation methods, explanations on the primary components of the accounts and others (including segment reporting).

The last part of this chapter was dedicated to specific aspects of financial analysis of consolidated financial statements, which mainly result from group particularities as reporting entity (e.g. duality economic entity – juridical diversity, different levels of control on the component parts, organizational structure complexity, often multinational character) and of consolidated financial statements (e.g. consolidation perimeter, consolidation methods, specific content elements). The traditional quantitative approach was mainly focused on performance analysis, financial management analysis, financial risk (balance) analysis, and investor perspective analysis, insisting on determining and interpreting relevant financial indicators for group financial statements. The qualitative analysis was decomposed in two, the first having as object the research of accounting policy instruments applied by the entity (specific to groups is: delineating the consolidation perimeter, choosing the method to integrate the companies within the group, and the method to consolidate equity) and the second aimed at the semiotic analysis of financial statements at a syntactic, pragmatic, and semantic level.

**Chapter 6: Empirical Study regarding the Capital Market Value Relevance of Consolidated Financial Statements**

After going through these research phases, characterized mainly by a theoretical approach, with a qualitative orientation (except for the case study and the empirical study), in order to achieve the fourth set objective, in the *sixth chapter* we set to empirically investigate market value relevance of consolidated financial statements of companies listed between 2003-2008 on the large European capital markets (stock exchanges from London, Paris, and Frankfurt). For this purpose, we structured the analysis in three sections. The first section followed the „confrontation" (regarding relevance) of consolidated and parent company financial statements. The second section compared entity theory and parent company theory by looking at consolidated financial statements relevance (including the matter of minority interest). In the end, the third section regarded the impact of mandatory application of IFRS on absolute and relative relevance of consolidated financial statements.

Naturally, in the end of this research project we gladly undertook, we exposed in extenso the main *conclusions and results* obtained in the course of the scientific endeavor, as well as highlighted the *contributions* to the stage of scientific knowledge on consolidated financial statements. Therewith, in the end we also noted the *limitations* of this scientific endeavor and we marked the *perspectives* for future research in this complex field.

# CONCLUSIONS AND RESEARCH PERSPECTIVES

In the end of this paper it is only appropriate to expose the main *conclusions and results* drawn during the scientific endeavor, as well as to highlight the *contributions* brought to the scientific knowledge on the matter of consolidated financial statements. Therewith, at the end we also noted the *limitations* of this scientific endeavor, as well as marking the *perspectives* for future research in this complex field.

In *the first chapter* we reviewed the stage of scientific knowledge in the research area of consolidated financial statements in order to set a relevant reporting framework for the development of the scientific endeavor. At the same time, this constitutes a mandatory premise to attaining the main objective of any authentic scientific research, that is adding value to the existing scientific knowledge in the targeted area of research (Mustață, 2008:17). In order to do this review, we first did a quantitative analysis in which we followed at global level, as well as in time (at the level of four previously delimited periods), certain characteristics of published research, respectively the theme, stream, research methodology and perspective, and the country/region on which the research was carried out.

Regarding the research themes, we delimited eight big categories, from which the more approached ones are: goodwill, consolidation perimeter, investment in joint ventures and associated companies reporting methods, and consolidated financial statements as a whole (targeting information content, relevance, and underlying principles). In the case of the majority of the identified themes we could notice an upward trend in research interest. If we refer to the main stream of research, we find a switch in time from the normative to the positive stream. One can also notice an increase of intepretive and critical orientations, as a researchers' reaction to the limitations of the positive stream, focused mainly on empirical testing of different developed hypotheses, and less on a profound analysis of the interaction between accounting and the surrounding environment. A switch in supremacy was also noticed regarding the research perspective and methodology, namely from a mainly theoretical approach towards a mainly empirical one, respectively from a qualitative towards a quantitative research, researchers becoming more and more interested in accounting practice in teh field, searching to test in the economic reality the developed hypotheses/theories. Regarding the countries/regions on which research is mainly focused, we remarked a diversification tendency of the interest for accounting practices from different countries/regions, having as background the internationalization process of groups and globalization of accounting regulations and practices in general, and those concerning consolidated reporting, in particular.

This quantitative review was followed by a qualitative analysis, in which we reviewed the technical literature in the area of consolidated financial statements, analyzing at the level of each delimited period the main contributions of the different authors to the scientific knowledge in the set area. Regarding national level, the accounting research published in academic journals in this area are relatively recent, having started to develop only in the last analyzed period (2002-2009). This research is characterized by a positive approach, mainly qualitative, oriented towards theoretical analysis, mainly following the presentation of international, European, and/or national regulations in the field.

In *the second chapter* of the thesis, we proposed a conceptual approach of the most relevant notions (group, control, consolidation perimeter, minority interest, and goodwill) and of the theories specific to consolidated financial statements (property theory, parent company theory, extended parent company theory, and entity theory). These notions and theories represented over time distinct research themes, circumscribed to the group financial statements area of research.

Regarding the *group* concept, it can be noticed that it does not have a unanimously accepted definition, but that the points of view expressed in the technical literature especially gravitate around the same idea, namely the reunion of a number of independent companies under a unitary leadership (control) of a company. We considered this polarity judicial diversity – economic unity as a definitory trait of the group. We could also ascertain an „in steps” approach, according to the intensity of the connection between the companies, which the group concept has known in the technical literature, considering the fluency of the passing from unitary leadership (respectively the power offered by control) to economic independence. Therefore, the parent company is the core, the subsidiaries are the first step, joint ventures are the second, and associated companies are the third. Tightly connected with group notion is the concept of *control* (- fundamental criteria for establishing the composition of a group), around which gravitates, in our opinion, the whole matter of financial statements. Its importance has lead in the technical literature to a manifestation of a broad range of opinions (Henry, 1999: 39), without being able to crystallize a standardized definition. However, two cumulative (and definitory) criteria can be delimited for the existence of (exclusive) control, namely the power criteria and the benefits one. As well, tightly linked to group (as reporting entity) and control notions is the concept of *consolidation perimeter*, meant to establish the borders of the consolidated assembly. In accounting theory, this concept is interpreted and defined in two ways: in a restricted sense (encompassing only parent company and subsidiaries to be consolidated) and respectively in a large sense (also including joint ventures and associated companies). We considered necessary to clearly distinguish between *consolidation perimeter* and *group perimeter*, or in other words between the assembly to be consolidated and group. Between the two concepts there is a connection from part to whole, because not all companies belonging to a group are included in the consolidation perimeter.

Regarding minority interest, we surprised the controversies present in accounting literature related to its nature (as debt of the group, as cvasi-debt, or as element of group equity– Aceituno, 2006). We concluded that the third approach corresponds to entity theory and to the objective of consolidated financial statements, namely presenting the financial position, performance and evolution of financial position of the societies within the group, as if they were one single company. However, we consider that the importance given to minority interest need not be overvalued, because the constant change of interest center from majority to minority interest in dealing with some consolidation aspects can be damaging to the conception according to which consolidated financial statements are presented from the perspective of a unified entity.

The last concept analyzed distinctly, respectively *goodwill*, was in time the most controversial aspect debated upon in the international accounting literature in the context of consolidated financial statements matter, regarding its definition, nature, and measurement. By analyzing the two approaches to the definition of this concept („residual value" respectively „exceeding profits") we remarked that these actually represent a rationalization of the methods generally used to compute the value of goodwill. Regarding the composition of goodwill, we consider that it is essentially made out by two parts (the core), one representing intangible assets that do not meet the recognition criteria (going concern goodwill), and the second representing synergy goodwill. It could also be taken into consideration a possible residual component, which appeared especially after an overvaluation of a bought company or of a control prime, and which cannot be associated with certain economic benefits. As well, after analyzing the different types of goodwill (internally generated of derived, resulted from merger or from consolidation) we can affirm that in the case of a business combination, the internally generated goodwill (of a company) is transformed (integrally of partially) in derived goodwill.

Beyond analyzing concepts specific to group financial statements, we researched the reasons behind presenting consolidated financial statements and their objectives. As a result of subsidiaries belonging to the group entity, the information function of their individual financial statements is to a great extent limited, because they do no allow for a faithful appreciation of the economic-financial situation of the assembly, becoming insufficient and even irrelevant. We consider that *the necessity* to present consolidated financial statements, in which to recognize assets, liabilities, earnings and expenses of the entities controlled by the parent company can be argued at conceptual level starting from the definitions and criteria (from the IASB conceptual framework) regarding the recognition of financial statements structures. It can be noticed that the assets and liabilities of companies from the group – being controlled and generating entries/exits of economic benefits to the parent company, meet the conditions to be recognized in the consolidated financial statements presented by it. At the same time, we are convinced that group financial statements represent a natural consequence of applying the substance over form principle at the level of financial position and performance of the entire group, characterized by the polarity economic unity – judicial diversity. Consequently, in our vision, *the main objective* of consolidated financial statements is a transference of the objective of individual financial statements at group level, and consists of supplying useful information to a wide range of users, by presenting a faithful image on the financial position, performance and evolution of financial position referring to a group of companies seen as an economic entity.

We continued the conceptual approach of consolidated financial statements with the analysis of the different theories underlying them, and identifying four specific theories: *property theory, parent company theory, extended parent company theory, and entity theory* (Baxter & Spinney, 1975; Săcărin, 2008). We noticed the fact that none of them offers guidance as to what entities should be consolidated, starting from the premise that consolidation perimeter has already been established. These theories offer principle solutions regarding valuation and presentation of assets (including goodwill), liabilities, equity, results, and minority interest. We also remark the fact that applying these theories leads to different results only in the situation in which the parent company does not hold 100% from the equity of the consolidated subsidiaries. In our opinion, entity theory best corresponds to the general (set) objective for consolidated financial statements (offering useful information to a wide range of users), because it presents assets, liabilities and transactions from the perspective of the whole group, as economic entity, and not only from the perspective of one par of it, namely the parent company (and its shareholders). Of course, a practical problem that arises (and is gaining ground) following the application of entity theory is determining just value of each bought company, a costly and demanding operation for buyers. This type of valuation is, however, applied presently (at least) annually to establish a possible depreciation of goodwill by the companies (groups) that present consolidated financial statements according to IFRS.

After having set the conceptual coordinates in the area of consolidated financial statements, we considered a critical approach (in *chapter 3*) of the main relevant international, European and national regulations is absolutely necessary, analyzing in this respect their evolution in time, existing interrelations and their current stage. The main conclusions drawn from this theoretical analysis are exposed next.

Regarding the *recognition and international acceptance of IFRS* (by IOSCO, EU), we can affirm that these are directly linked to presenting consolidated financial statements, since companies listed on the capital market around the world are usually part of a financial group (often as the parent company) and in order to inform users publish first and foremost consolidated financial statements. As a matter of fact, ever since its establishment, IASC/IASB was preoccupied by the problem of consolidated financial statements. „It can be affirmed that, today, IASC/IASB philosophy, regarding normalization, is mainly focused on consolidated accounts" (Feleagă & Malciu, 2002: 296). Presently, one IFRS and two SIC-uri have as object (at least partially) consolidated financial statements, of course other standards or interpretations can be applied at the level of group financial statements. Regarding *North-American accounting* (and anglo-saxon in general), one of its essential characteristics is the priority of consolidated financial statements over individual financial statements, following the American management model, in which permanently companies sell, buy, or create subsidiaries in order to develop new activities (Walton, 1996). Within the American standards (US-GAAP) presently there are nine specific regulations in the area of consolidated financial statements, from which ARB 51, the oldest international regulation in the field (issued in 1959), is still applicable. Among the two sets of standards there is presently a convergence process officialized, starting with 2002, through the Norwalk Agreement. In this context, we appreciate that eliminating IFRS – US-GAAP reconciliation for foreign companies listed in the USA, as well as a possible acceptance to apply IFRS by local companies listed in the USA (in 2014 at the latest), will not cause the convergence process to stop, because the long-term objective declared by FASB and IASB is elaborating a common set of global standards of high quality and not just eliminating reconciliation between IFRS – US-GAAP. Surely enough, though, the de facto authority of IASB is growing through eliminating reconciliation, and will grow substantially once IFRS is accepted for American companies on the most important capital market of the world. At the same time we consider that the success of IFRS – US GAAP convergence practically speaking also depends on the coordination in activity of the interpretation organizations of IASB and FASB, namely IFRIC and EITF, because, even though the issued standards from the two bodies will be identical, the financial statements (presented according to IFRS or US GAAP) will not be comparable (or will be only limitedly comparable), the convergence efforts being undermined, if recommendations for applying these standards will not be the same as well (or comparable).

Reaching the *European level*, the main harmonization instruments regarding consolidated financial statements is the Seventh Directive which also represents an extension of the principles of the Fourth Directive on the aspects related to presenting group statements (Alexander et al., 2003). In our opinion, the objective of the accounting harmonization through Directives for group financial statements – respectively obtaining comparability and equivalence of consolidated financial information supplied by parent companies in different member countries has not yet been attained, except partially, and mostly in what regards the obligation of presenting and publishing them, as well as their form. Comparability at information content level of group statements is, in our opinion, largely restricted by the numerous accounting options provided by the Seventh Directive and implemented in different manners by the different member states. Conforming the Directive (as is) with IFRS only extends the options in the Directive so as not to conflict with the international referential, the comparability of consolidated financial information coming from companies in different member states is not enriched in any way. We consider that this conformity process should, when possible, restrict the existing options, eliminating those that contradict the international regulations (for example goodwill amortization, periodical distribution on income of negative goodwill, union of interests method etc) and should be repeated more often in order to keep up with the continuous developement of IFRS. Of course, this process would impose substantial changes to member states' legislation, restricting from one case to the other consolidation practices part of national tradition.

In our opinion, implementing IFRS in the EU for groups (through Regulations 1606/2002, 1725/2003, and 1126/2008) certainly represents a major progress in the process of accounting harmonization, contributing to the improvement of integration and competitiveness of the EU capital markets, by offering a legal framework for accounting standards of superior quality, which permit to a large extent comparability of accounting information. However, because of the endorsement mechanism of IFRS, there may be situations when the EU does not accept the complete adoption of the international referential, practically creating a new variant of it, which could decelerate the international accounting convergence process and accepting without reconciliation on the world's capital markets (especially those in the USA) of EU companies consolidated financial statements. From this point of view, we consider absolutely necessary that the EU adopts the IFRS in its wholeness which, of course, asks for a tighter collaboration between EFRAG and IASB, especially in the first phases of issuing new standards.

In what regards the *Romanian legal environment* on the matter of consolidated financial statements, we remark the fact that it has only started to get shaped in 1997, with the issuance of O.M.F. 1414/1997 for approving the Norms related to accounts consolidation (unpublished in the Official Monitor). After an evolution marked by some legal inconsistencies, the issuance of OMFP 1752/2005 for approving the accounting regulations in conformity with European directives has consecrated the application of European directives for all categories of entities starting with 2006, including the area of consolidated financial statements. Plus, in order to assure conformity of national accounting regulations with the European Union regulations of implementing IFRS, the Romanian legal system was enriched with a new regulation (OMFP 1121/2006), which requested the application of IFRS for Romanian public interest entities starting with 2007. As well, we could remark that for the first time, Law 82/1991 imposes sanctions for not respecting the legal obligation to present and publish annual consolidated financial statements only in July 2007. Regarding the newly issued OMFP 3055/2009 (which replaces OMFP 1752/2005), it does not have significant changes compared to its predecessor, except for a correction brought in relation to the compensation that need be made on account of just values (and not net accounting values) while consolidating equity.

Therefore, in the present, we have identified two main categories of entities that present consolidated financial statements according to the applicable regulations, namely: a) entities forced to present consolidated financial statements either based on regulations in conformity with European directives (OMFP 3055/2009), or according to IFRS adopted by the EU (this includes all entities except some public interest entities among which are listed companies) and b) entities forced to present consolidated financial statements according to IFRS adopted by the EU (this includes listed entities, credit and non-financial institutions, insurance, insurance-reinsurance and reinsurance companies, pension companies, financial investment services companies, and collective placement organizations). We consider that this duality regarding consolidated reporting limits, both in space and in time, consolidated accounting information comparability. As well, in the case of consolidation (mandatory or voluntary) according to IFRS, there is also the problem of presenting two sets of individual financial statements – one according to OMFP 3055/2009, and the other according to IFRS (used for consolidation). Such an effort can be very expensive and time-consuming, and can have an inhibiting effect on voluntary adoption of IFRS for consolidated reporting. In our opinion, the solution would be to eliminate the obligation to present individual financial statements according to OMFP 3055/2009 by those entities (parent companies or subsidiaries) included in consolidated statements according to IFRS, which, in our opinion, would be to the advantage of all users of financial information.

Up until this moment of the scientific endeavor, we have delineated a scientific reference framework, conceptual framework, and the regulation framework regarding the area of consolidated financial statements, and have thus succeeded, in our opinion, to reach the first operational objective of the research project (mentioned in the introduction to the thesis). Consequently, we have continued with the scientific endeavor (in order to attain the next objective), following in the next chapter (*chapter 4*) the development and advancement of technical and practical aspects regarding the activity of presenting consolidated financial statements. We have therefore realized a blending between theoretical and empirical (practical) approach of the problem of elaborating consolidated statements. To start with, we set to do a theoretical analysis of the most relevant problems pertaining to the preliminaries of presenting financial statements for a group made up from parent company and its subsidiaries, respectively delimiting global consolidation perimeter and unitary application of accounting policies at group level.

In approaching the consolidation perimeter in a restricted sense, we started from the premise that it is built on the existence of (exclusive) control, which makes possible finding a relation port parent company – subsidiary company. We have identified four cases which, in principle, indicate the existence of such a relation, namely (1) having the majority of voting rights in the general assembly of a company, (2) possibility to assign/revoke the majority of the executive members, (3) dominant influence over a company based on its constitutive act or a contract, and (4) de facto dominant influence generated by other circumstances. From these, the first situation has the most extended practical applicability, being considered in theory and practice as an obvious presumable indicator for the existence of control, but which can be infirmed, in some exceptional cases. Our opinion is that ignoring such exceptional circumstances can lead to the unnatural situation of including the same target company in the consolidation perimeter of two (different) groups. Regarding the classic case of de facto control (owning a significant percentage under 50% in the context of the dispersion of the other voting rights), we associate ourselves with the IASB point of view (contrary to part of the technical literature), according to which this type of control justifies the existence of a parent company-subsidiary relation, considering that „the danger of a changing majority" (the main argument of the opponents) has only a potential character, without retroactively affecting the ability of the parent company to impose its will in the majority assembly of the other company. As well, we opinionate that it is not necessary to impose a procedural limit for the voting rights owned, because the existence of exclusive de facto control should be appreciated on a case-by-case basis.

As well, in the context of delimiting the consolidation perimeter, we analyzed its possible limitations, found in the technical literature or in diverse regulations. Starting from the premise that at the base of the obligation to include a subsidiary in consolidation is the concept of control, and that it has to be either confirmed, or infirmed, we opinionate that, in essence, there is no justification for the existence of options such as excluding/including from/in the consolidation perimeter, since this approach could confine the information content of the resulting consolidated financial statements. However, we did find some arguments to support the existence of certain options of this kind. We concluded that, in principle, only the Romanian accounting legislation (based on the European one) explicitly provides options for inclusion in the consolidation perimeter (severe long-term restrictions, disproportionate costs or delays, exclusive intent to sell and insignificant character). Still, IFRS also implicitly permit not to include in consolidation insignificant subsidiaries (on the principle of materiality stipulated in the Conceptual Framework). Plus, the international referential imposes not to consolidate subsidiaries bought exclusively for sale (but not of subsidiaries for which the intention to sale was established after the acquisition).

Passing to the unitary application of accounting politics at group level, we first highlighted the importance of first aligning the closing data of financial statements to avoid misstatements of information presented in the consolidated financial statements. We have also argumented the necessity to restate individual statements of the companies within the group from the point of view of economic unity at group level. From the analysis of national and international regulations results that, as opposed to the Romanian legislative framework, which provisions the obligation to use in consolidated financial statements the same methods as in parent company financial statements, in the vision of IASB it is allowed to apply other accounting policies (for group statements), therefore existing the possibility to re-exercise accounting options regarding recognition, valuation, and presentation. In this situation, we support the Romanian version, considering that such a re-exercise can be confusing for users of financial statements who would analyze on one hand group statements presented according to some accounting policies, and on the other hand, parent company statements, presented according to other accounting policies.

Measures to uniform accounting policies that must be applied on group companies in order to present consolidated financial statements depend, on the one hand on the regulations applied at the level of group financial statements and respectively at the level of individual financial statements, and on the other hand on the way of exercising accounting policies by the parent company. Regarding the recognition of components of individual financial statements, they are not to be recognized in group statements for the simple fact that they are recognized in individual statement but in the virtue of an obligation or recognition option existing in the applied legislative framework. Moreover, there may be recognition cases in consolidated statements of assets or liabilities that do not appear in official individual financial statements. In what regards homogeneity of valuation methods in order to present group statements, we consider that it should be done only if asked for at the level of official individual financial statements.

From the research results the fact that the effects of adjustments (regarding recognition and valuation) on individual financial statements of companies within the group (and indirectly on consolidated financial statements) differ, from case to case, on the one side according to the character of consolidation (initial or subsequent), and on the other side according to the nature or the adjustment. So, on the occasion of initial consolidation, adjustments mainly affect reserves (or reported results) of the subsidiary in question, because they are related to the period before the subsidiary belonged to the group. Adjustments done on subsequent consolidations can impact either the income of the subsidiary if they pertain to the current financial year, or the reserves (or reported income) if they pertain to previous financial years. There may also be adjustments that do not influence performance, such as revaluation of noncurrent assets according to group policy.

We continued the theoretical approach to presenting consolidated financial statements by exposing the problem of consolidating subsidiary (included in the consolidation perimeter) equity. Regarding choosing the reference date for establishing relevant values, we consider that opting for the date of the first consolidation (choice permitted in some conditions only by Romanian regulations) instead of the acquisition date can have a major impact on the group statements, influencing (in both ways) both the acquisition difference following including in the compensation process of some results that, actually, belong to the group (being obtained while the subsidiary was part of the group), and the group result in the year of the first consolidation.

Regarding the determination of the participation percentage in the equity of a subsidiary within groups with a stair-like structure, we support the application of multiplicative method for consolidating (parting) equity (especially in subsequent consolidations), to eliminate the risk of producing misstatements of reported values in consolidated financial statements (which would affect true and fair view of the group). On the other side, regarding the determination of acquisition difference (and therefore of goodwill), in our opinion, it requires the additive method, considering the fact that part of investments owned by a subsidiary of a group (F1) in another subsidiary (F2) corresponds to an acquisition difference pertaining to indirect minority interest in F2 (at the level of their participation percentage in F1), this should be reported in consolidated statements the same way as an acquisition difference pertaining to the group.

Advancement of the problem of the first consolidation has also tackled identification and analysis of concurrent methods of equity consolidation, establishment and treatment of acquisition difference and valuation and presentation of minority interest. Of the four equity consolidation methods identified in the technical literature and relevant accounting regulations (accounting values method, proportional revaluation method, complete revaluation method and complete revaluation with recognition of total goodwill method) the IFRS international referential only permits the last two, while the Seventh Directive CEE offers as alternative the application of accounting values method or complete revaluation. Presently, national regulations (OMFP 3055/2009) recommend as main treatment the complete revaluation method, while permitting the application of the other only in the event that just values are impossible to be determined.

Regarding the determination of acquisition difference and respectively of goodwill (positive or negative) we remarked that the established value is influenced by the way of computing the participation percentage, by the compensation method used, as well as by the reference date set to establish relevant values. In our opinion, positive acquisition difference must be recognized as goodwill in the assets (also requested by national legislation and IFRS 3), a decrease of reserves is imposed only exceptionally, only when in initial consolidation compensation is made based on values at the date of the first consolidation (and not on the existing values at the date of acquisition), and the sourse of the consolidation difference is represented (totally or partially) by positive variations of subsidiary equity between the two mentioned dates. The significant differences between Romanian accounting regulations (and European) and IFRS were noticed about negative acquisition difference. Namely, if Romanian norms ask for recognition of a deferred income under the name of negative goodwill, the international referential imposes the recognition of a current income. The two approaches come from the visions related to the causes of negative acquisition difference: while IFRS 3 considers as sole reason a profitable acquisition, national norms also foresee the possibility of unfavorable foresights related to future results. According to IFRS 3, the possible unfavorable foresights must be taken into consideration even from the moment of recognition and valuation (at just value) of the assets and liabilities of the bought subsidiaries.

Advancement of the theme on minority interest (non-control) has highlighted the problem of indirect minority interest, existing in the case of multiple steps structured groups. Taking them into consideration is only possible in the context of applying multiplicative method to compute the participation percentage in the equity of a subsidiary. Because of the common situation in which the interest percentage of minority shareholders (direct and indirect) in a subsidiary is superior to the interest percentage of the parent company, the appellation „minority" seems inappropriate and that is why, at international level, the appellation „minority interests" was replaced by „non-control interests". Regarding the valuation of minority (non-control) interests, the method applied to consolidate subsidiary equity is determinant. Only in the case of complete revaluation with recognition of total goodwill, are non-control interests valued at just value, also getting part of the goodwill.

To continue, we focused on the main particularities of subsequent consolidations. With the occasion of each (subsequent) consolidation it is necessary that, in advance, the operations pertaining to the first consolidation and to the consolidations from the following years (after the initial consolidation) be redone, since they are not found in the initial balance of the exercise for which the new consolidation is done. Only after this can the operations pertaining to the consolidation of the current exercise be done. Regarding the subsequent treatment of positive goodwill, it knows two approaches both in the technical literature and in consolidated reporting practice, namely (linear) amortization on a finite period of time (the version stipulated by Romanian regulations) and testing it for depreciation at least annually (according to IFRS). The first version starts from the premise that derived (acquired) goodwill has a limited life-span, and the second considers that goodwill has an indefinite life-span, making it impossible to rationally establish, on a systematic basis, its value consumption.

The last part of this chapter was focused on the practical side of presenting consolidated financial statements by using a case study on the elaboration of such statements at an industrial Romanian group (SCR), made up of 14 consolidated companies. The study illustrated, both through narrative descriptions, and through numerous computing tables the stages of the consolidation process up to its ending, consisting in the simplified set of consolidated financial statements of the group SCR. The general conclusion is that presenting group statements for the first time is extremely difficult, raising numerous problems and often being as a nebula for the personnel involved. The causes were identified as the lack of necessary information along with insufficient preparation of the accounting personnel involved in this niche field of consolidated accounting. The concrete problems that can often cause a series of major inconveniences during the consolidation process are the inadaptation of financial accounting organization at company level for the necessities of consolidation, as well as the inexistence of a consolidation guide. In the perspective of publishing the set of consolidated financial statements, all these problems must be overcome as they affect the true and fair image, determining the auditor to refuse to express an opinion without reserves.

After developing and advancing the technical and practical aspects regarding the presentation of consolidated financial statements, exposed in chapter 4 (the results of which have been synthesized above), we dare affirm that we have attained the second operational objective of the research project as well (developed in the introduction of this thesis). Therefore, in *chapter 5* we focused on a theoretical approach of the problem of presentation, content and analysis of consolidated financial statements, combining a qualitative research with a quantitative one.

In the first part of this chapter we analyzed in detail the most relevant aspects related to *presentation of group financial statements* for the complete set, but especially for each component. Regarding the complete set of consolidated financial statements, there is a dynamic of its (mandatory) components in time within the international standards of financial reporting, in opposition with a relative constant composition in the European accounting legislation (namely Fourth and Seventh Directives) and national (starting with Order 1414/1997 – unpublished, until OMFP 3055/2009). So, if the complete set of the consolidated financial statements (also transposed in the Romanian norms) presently comprises in a mandatory fashion only the consolidated balance sheet, profit and loss consolidated statements and explanatory notes, the international regulations regarding the composition of the complete set have evolved from the obligation of the (only) three basic statements, to imposing as much as seven components (including cash flow consolidated statement, equity modification consolidation statement, and under some conditions global income consolidated statement and even a statement of the financial position from the beginning of the farther comparing period). As well, at national level there is an unjustified discrepancy between the complete set of individual financial statements for large companies (with five components) and the consolidated set (with three components), especially considering the fact that the obligation of presenting consolidated financial statements is (mainly) applicable to large entities.

Regarding the way in which the (consolidated) balance sheet is presented, the key aspects identified and analyzed refer to the format, to the classification of assets and liabilities and respectively the order in which assets, liabilities and equity are presented. Generally, we could notice on one side a high flexibility of international regulations (which in principle impose only classification based on the operations cycle, and also admit a classification based on liquidity), and on the other side a strictness (rigidity) of national accounting regulations (which impose the vertical “multiple step” format, a mix classification and organization of assets on increasing liquidity and respectively an organization of liabilities and equity on decreasing due date), European accounting directives are situated between international and national norms from the point of view of flexibility (following the stipulation of alternative ways of presentation). In our opinion, there are some inadvertencies and inconsistencies at national level regarding the classification of assets: on the one hand, assets are grouped based on the operations cycle (noncurrent/current), and on the other hand the distinction noncurrent/current is made according to the possession time (long/short). These inconsistencies can negatively affect the analysis of the financial position when an entity (group or individual company) produces assets both with a production cycle of less then a year, and with a long production cycle destined for sale.

The main coordinates analyzed, around which gravitates the problem of group performance, refer to the classification method of exploitation expenses respectively to the way of presenting elements of global results recognized directly in equity. The general conclusion that can be extracted from the technical literature regarding the classification method of expenses is that presenting expenses on account of their nature is easier to do but less informative (relevant) to users. However, there are numerous voices of analysts and investors that support classification according to nature, considering that it offers relevant information with a higher degree of decentralization, permitting a better forecasting of future performance and a better comparability at the same time. From the three analyzed sets of regulations, only in the national one is imposed classification according to nature (the most spread in continental Europe).

The way of presenting other elements of global results (recognized directly in equity) represents just one of the most disputed and still undecided themes in the technical literature related to performance presentation, identifying in essence two versions, namely their presentation in the same statement (global results statement) in which appear elements of profit and loss statement, or in a statement separate from profit and loss account. At the origin of this controversy there is in essence the conceptual dualism regarding entity performance (net income/global result). The existence of the two concepts is based on the model (system) of mix accounting (promoted by IASB and FASB especially, and taken over to a certain extent by the EU) which combines two systems of determining results – the system based on historic costs (which promotes net income/result) and the system based on just value (which promotes global result). We associate with the general conclusion which results from the vast accounting literature (theoretical and empirical), according to which the excessive attention given to any of the two versions of determining the result cannot be justified, since conceptually speaking there is no clear delimitation between net income and the other elements of global result recognized directly in equity. Therefore, we consider that both results should be presented with equal prominence, in the same statement which reflects the global performance of an entity, so as not to favor net income in the detriment of global income. Presently, the matter of presenting in financial statements the elements of global result recognized directly in equity is found in an explicit manner only in the international referential. As in the North-American standard, IAS 1 (2007) permits both versions of presentation described, because (even though IASB has shown preference for one single statement) some constitutive members opposed one single statement arguing that it might put too much accent on global result.

Regarding the (consolidated) cash flow statement there is also a significant (still undecided) controversy in the technical literature, related to the method of presenting cash flows related to operations activity, distinguishing between direct and indirect methods. Presently, the international referential permits both presentation methods, recommending however direct method, since it would supply information useful to estimate future cash flows. We consider it difficult to adopt a decided position on applying one or the other of the two methods in practice. Of course, as it results from empirical research, the direct method is proven to be superior to the indirect one, the information supplied by it having a better forecasting capacity. On the other hand, however, the difficulties and high costs of implementing especially in the case of groups speak in favor of using indirect method. Consequently, the decision about applying or imposing the direct method (more relevant to users) can be made, of course, only after analyzing the cost/benefits ratio.

Regarding the presentation of explanatory notes to consolidated financial statements, it does not have in the accounting literature some well established forms, explanatory notes (obviously) having a pronounced narrative character. As well, international, European, and national regulations include few details on how explanatory notes to individual financial statements (applicable to groups, too) should be exposed, essentially being limited to recommending (exemplifying) their presentation structure (IAS 1 şi OMFP 3055/2009).

Beyond the analysis of accounting literature and legislation regarding the aspects of consolidated financial statements presentation, we researched in this paper the IASB/FASB propositions to modify the current financial statements (presented in the discussion paper *Preliminary views on presenting financial statements* published in October 2008) and especially the reactions of the diverse organizations (taken from the 145 comment-letters), carrying on in this respect a quantitative empirical study, with qualitative elements. The main conclusions we have reached are exposed in the next paragraphs.

On the whole, the reaction to IASB/FASB propositions was slightly favorable, with an average agreement at the level of the 10 analyzed questions of 52%, the average level of disagreement being 41%, the difference being undecided answers. The respondents generally agree with the propositions to separate business activities from financial activities, presenting equity in a distinct section, applying management reasoning for classifying assets and liabilities, classification at operational segment level and informing in the notes regarding less usual transactions. However, there is a pronounced disagreement on the proposals regarding disaggregations of expenses on account of function and nature, presenting cash-flow using direct method and reconciliating cash flow and global results in the explanatory notes. The most disputed (controversial) proposals are those linked to presenting assets and liabilities in the business and financial sections and reporting performance in a single statement of global result.

The analysis on geographic regions highlighted a more significant agreement on the part of Australian organizations (as opposed to those in the USA and Europe) regarding the utility of the approach based on managerial reasoning to classify assets, liabilities and the modification of financial statements, respectively, indicating, in our opinion a stronger orientation towards principles (comparable to managerial reasoning) of Australian organizations as opposed to European and American ones (in detriment of an orientation towards rules). As well, respondents from Australia significantly differ from those in Europe and the USA, because of their position favorable to the proposal of imposing the direct method for presenting operating cash flow, position that can be explained by the fact that only Australian and New Zealand accounting legislation imposes the application of direct method. Regional analysis also proves (empirically speaking) a favorable attitude of European respondents related to the proposal to allocating assets and liabilities to the business and financial sections, indicating the fact that, in the „European" vision, the advantages of implementing the IASB/FASB proposal (especially regarding facilitating financial analysis) would outweigh the disadvantages of increased complexity (less feared by the Europeans, considering their habit with a more complex structure inherited from the European accounting directives). European organizations also stand out thanks to their unfavorable opinion related to the proposal to impose presenting global performance in a single statement of global result, which is explicable considering that European entities applying IFRS would only be practically familiarized with this statement of global result in the financial year of 2009, when becomes applicable the version of IAS 1 revised in September 2007 (unlike USA entities, familiarized ever since 1997 with this statement through the issuance by FASB in that year of SFAS 130 „Reporting Comprehensive Income").

The analysis after the activity sector of the respondents has shown some significant differences between fields of activity regarding the proposals to present global performance in a single statement of global result, imposing direct method to compute operating cash flow and respectively presenting the reconciliation between cash flow and global result in the explanatory notes. We could also notice a favorable position (significantly different from the other groups) for financial analysts, respectively a strong unfavorable attitude from the respondents in the industry and services group. The favorable attitude of financial analysts suggests their preference for dual reporting of entity performance and the importance given to global result, respectively the superiority (in their vision) of the direct method in forecasting future cash flows and practical utility of the reconciliation (for internal and external financial analysis). The negative reaction of the industry and services group is explicable through the higher risk to negatively affect entity performance following a greater volatility of global results (which mainly appear after valuation at just value), respectively through the existence of considerable financial and technical efforts that would appear if direct method and reconciliation of cash flow with global result would be imposed.

Following the results obtained from the analysis (quantitative and qualitative), we incline to predict that the majority of IASB/FASB proposals will appear in the next common standard which will be issued, most probably in 2011, according to the IASB plan. Regarding however the proposals related to disaggregation of expenses on account of function and nature, presenting cash flow using direct method and reconciliation of cash flow and global results in the notes we opinionate that the two international bodies will be skipped over from the text of the future common standard. In formulating this prediction, we also considered past behavior of IASB, we refer here to the proposal to impose full goodwill method when revising IFRS 3, abandoning this version (of imposing) following substantial concerns expressed in comment-letters by the respondents to the exposure draft (October 2005).

To continue our scientific endeavor (in chapter 5) we analyzed the information content of specific elements from the consolidated statements. It can be affirmed that, in general, the content of the positions is the same as in the case of an individual company, considering the fact that, for the most part, each element of the consolidated financial statements is, in essence, a summing (either total or by percent) of the same position from the individual financial statements of the subsidiary companies or of the joint ventures.

Regarding the consolidated financial position statement, the specific most significant positions identified and analyzed were goodwill, minority interest, securities accounted for using the equity method, and conversion reserves. It can be concluded that the values established for these elements can vary significantly, function of the methods used based on applicable legislation (IFRS, European directives or OMFP 3055/2009). In what regards the specific elements of the consolidated income statement, these are the different categories of results relevant at group level, that appear as a result of the consolidation process, namely group net income, and group global income, each being detailed in results pertaining to the integrated entities/associated companies, respectively results pertaining to the parent company/minority interests. We consider that each of these positions is relevant for analyzing group performance, and considering that neither the international referential, nor the European directives, respectively national legislation do not solicit all these result elements, we opinionate that a revising is imposed in this sense (too) of the respective regulations.

In the consolidated cash flow statement, the most significant specific positions refer to payments made for subsidiary acquisition, respectively payments received from selling subsidiaries, and modification of group cash following exchange rate variation. Regarding the first two elements, reporting on net basis (according to IAS 7) can lead to the less natural situation in which, when payment for buying/selling a subsidiary takes place after the date of the financial statement, there appears a positive/negative cash flow pertaining to the acquisition/selling of the respective subsidiary. Consequently, we consider that presenting entries/exits of money following acquisition/selling of subsidiaries is more transparent, in order to clearly reflect the influence of the variation of consolidation perimeter.

Regarding explanatory notes to consolidated financial statements, their function is to close the breach between abstract mathematical information from primary financial statements and the request for true and fair view, as certain as possible on the financial position and performance of the group (Küting & Weber, 2006a: 546). We have identified four information categories specific to explanatory notes to consolidated financial statements, namely consolidation perimeter, valuation and consolidation methods, explanation on the specific positions and other explanations (here including segment reporting). From the comparative analysis of international, European and national regulations on the content of explanatory notes to consolidated financial statements, we noticed a much higher volume of information and level of detail in notes in the context of applying the international accounting referential (a conclusive case being segment reporting).

In the last part of chapter 5 we approached the specific aspects of consolidated financial statements analysis, which, in principle, derive from the particularities of group as a reporting entity (e.g. duality economic unity - judicial diversity, different control intensities over the components, organizational structure complexity, often multinational character) as well as the particularities of consolidated financial statements (e.g. comprising area, consolidation methods, specific content elements). Only after analyzing the economic and business environment and the corporate strategy, respectively the business strategy of the entity, can the financial analysis be applied in a constructive manner in order to fundamentally interpret its results. A complete analysis of the (consolidated) financial statements comprises a qualitative and a quantitative side as well. The most spread technique of quantitative analysis is the one based on economic-financial indicators, distinguishing performance/profitability analysis of the entity (group), financial management analysis, risk (or equilibrium) analysis, and investment perspective analysis (for entities listed on the capital market).

In the analysis of commercial profitability of groups (for making time and space comparisons) we considered useful to compute an indicator (which we called „operating profit gross margin pertaining to turnover ratio") which relates (perfectly) corresponding measures, namely on the one side income before goodwill and other intangible assets with an indefinite life-span amortization, interest and taxes ($EBITA_{GW}$), and on the other side turnover. Regarding the most used capital profitability indicators we identified return-on-equity (ROE), return-on-assets (ROA) and return on capital employed (ROCE). The values obtained by these indicators at group level can be significantly influenced by the valuation methods of goodwill and minority interest, so that there can appear serious comparability problems between group entities and individual entities. In order to analyze the trend and to make comparisons between groups (which operate in more fields of activity and/or more geographical regions) in what regards economic profitability (rate of return), it is recommended to decompose in operational (and geographical) segments the groups in question (Pendlebury, 1980: 105). The same recommendation is applicable in the case of indicators which measure financial management of group assets and liabilities (rotation speeds).

A very important component of the analysis of (consolidated) financial statements serves to reflect the financial equilibrium (or risk) on long and short term. In order to correctly interpret liquidity and solvability indicators, the polarity „economic unity/judicial diversity" that characterize groups must be kept in mind. A satisfying value of liquidity/solvability at group level can hide low values of liquidity/solvability at the level of some consolidated companies. In case payment of short/long term debts of consolidated companies (especially towards suppliers) is not guaranteed at group level, creditors must be sensitive to the level and evolution of liquidity/solvability of companies within the group (judicially independent) with which they have commercial relations, as well. On the other side, however, if cash management is organized at the level of the whole consolidated assembly, liquidity ratios of the group are more relevant as opposed to liquidity ratios computed for the different consolidated companies. As well, in order to appreciate the long-term financial equilibrium of a group (based on solvability indicators), it must be considered the negative impact that consolidation process has on the liabilities/equity ratio (following elimination of social capital of subsidiaries and of intragroup results).

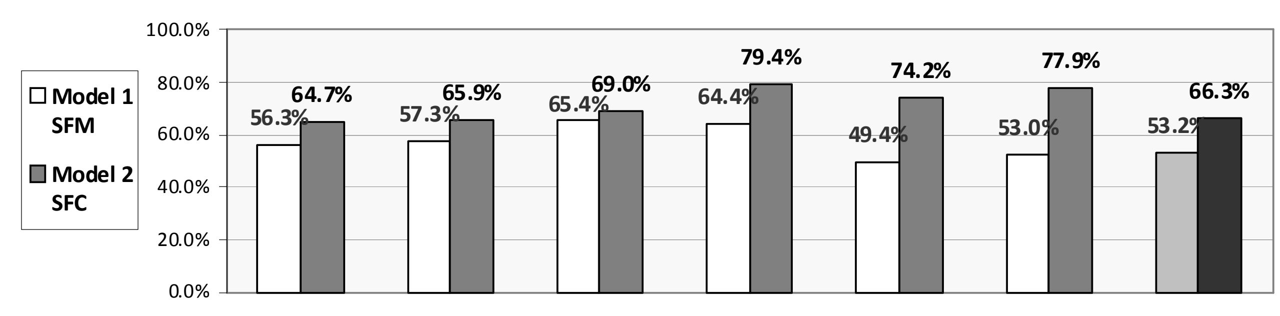
In what regards the particularities of investment analysis of groups, it can be concluded that market growth ratios (PBR, PER and PEG) have lower values as opposed to the same indicators computed at the level of the parent company following the fact that they put in relation on the one hand information (share price) related to the parent company shares, and on the other side information related to the financial position and performance of the group. As well, dividend market ratios have different values than the same ratios computed separately for the parent company: so, dividend distribution ratio is lower, and dividend coverage ratio is higher for groups in the classic situation in which consolidated result attributable to the majority shareholders is superior to the result of the parent company.

A high potential for financial analysis is comprised in qualitative information, as well, that cannot be quantified through some operational indicators, information that appears in explanatory notes to financial statements (but also in managers' report and in the annual report). This information is the object of the qualitative analysis, and come to complete the quantitative analysis, being meant to overcome the limitation of traditional analysis of quantitative data from financial statements. We delimited two components of the qualitative analysis, the first has as object researching the instruments of accounting policies applied by the entity (specific to groups is: delimiting consolidation perimeter, choosing the integration method for the companies within the group and the equity consolidation method), and the second follows the semiotic analysis of financial statements at syntactic, pragmatic and semantic level.

Getting back to the plan for carrying on this assumed research project, we consider that, after developing and advancing the matter of presentation, content and analysis of consolidated financial statements, exposed in chapter 5 (the results of which have been detailed above), we have achieved the third operational objective (developed in the introduction to this thesis) of the scientific endeavor as well. Therefore, in order to attain the final objective, in the last part of the research (*chapter 6*), we followed (based on some econometric regression models) to empirically investigate the matter of market value relevance of consolidated financial statements of companies listed in 2003-2008 on the largest capital markets from Europe (stock exchanges from London, Paris, and Frankfurt). For this aim we structured the analysis in three sections.

In the first section, we followed the „confrontation" on the issue of value relevance between consolidated financial statements and parent company financial statements. As expected (and in accord with previous empirical studies, for example Harris et al., 1994, Niskanen et al., 1998, Abad et al., 2000, Goncharov et al., 2009), the results have shown an increase in superiority (statistically significant) of the relevance of consolidated statements (in detriment of individual ones).

**Scheme 2:** *Evolution of value relevance (in absolute terms) of CFS and PFS*




| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2003-2008 |
|---|---|---|---|---|---|---|---|
| **Adj. $R^2$ Model 1 PFS** | 56.3% | 57.3% | 65.4% | 64.4% | 49.4% | 53.0% | 53.2% |
| **Adj. $R^2$ Model 2 CFS** | 64.7% | 65.9% | 69.0% | 79.4% | 74.2% | 77.9% | 66.3% |
| ***ΔAdj. $R^2$*** | ***8.4%*** | ***8.6%*** | ***3.6%*** | ***15.0%*** | ***24.8*** | ***24.9%*** | ***13.1%*** |

While in the analyzed period, consolidated financial statements have seen a positive trend of relevance, individual statements have had an oscillating relevance (inside some limits). These results prove, of course, the importance (usefulness) of consolidated financial statements especially for investors on the capital market. Therewith, they question the necessity of publishing parent company financial statements (according to national regulations) as long as they present consolidated financial statements.[4] We consider that these conclusions are valid not only for large European capital markets, but also for emerging capital markets (such as the one in Romania).

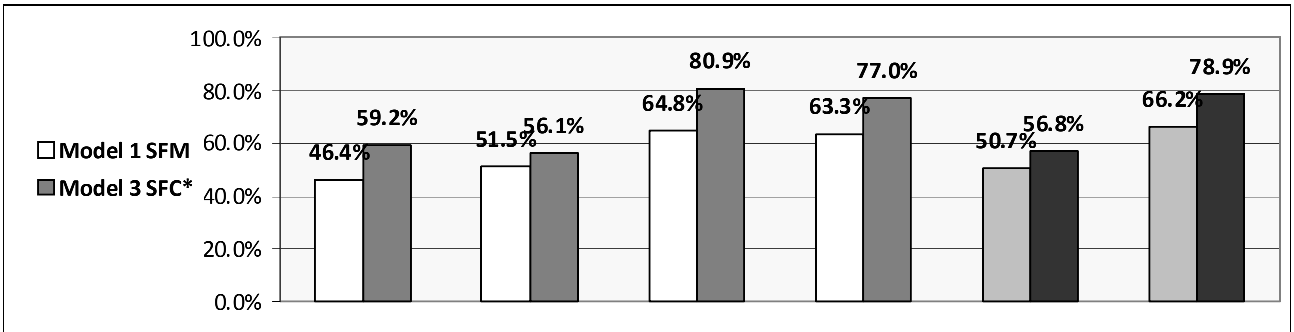
The second section of the study was aimed at comparing entity theory and parent company theory, as well, through the point of view of the value relevance of consolidated financial statements (including here the matter of minority interest). The developed hypothesis regarding the superiority of entity theory (inspired by the joint decision of IASB and FASB to prescribe presenting consolidated statements from the perspective of the group entity) was statistically refuted. This conclusion is, as a matter of fact, in accordance with the empirical results obtained by Abad et al. (2000), according to which there is no justification (from the point of view of market value relevance) a conceptual closeness to entity theory. In our study we showed,

[4] As a matter of fact, in the USA the obligation to publish parent company financial statements was eliminated since 1982, following the issuing of Accounting Series Release no. 302. (Francis, 1986: 394).

however, that a „restrained" entity perspective, which would combine elements of entity theory (by focusing on the whole group equity) and elements of parent company theory (by focusing on income corresponding to majority interest), would have a superior relevance compared to the classical versions of the two mentioned perspectives.

In the third section, we considered the impact of IFRS application on the absolute and relative value relevance of consolidated financial statements. The statistical results have confirmed the initial prediction regarding the increase of group statements value relevance once IFRS were adopted. Thus, we join the conclusions delineated by more authors (e.g. Bartov et al., 2005; Jermakowicz et al., 2007, Barth et al., 2007; Lin and Paananen, 2007) as a result of some empirical research on this matter.

**Scheme 3:** *Evolution of relevance increment of CFS as opposed to PFS before and after adopting IFRS*




| | 2003 Local GAAP | 2004 Local GAAP | 2005 IFRS | 2006 IFRS | 2003-2004 Local GAAP | 2005-2006 IFRS |
|---|---|---|---|---|---|---|
| Adj. $R^2$ MODEL 1 PFS | 46.4% | 51.5% | 64.8% | 63.3% | 50.7% | 66.2% |
| Adj. $R^2$ MODEL 3 CFS* | 59.2% | 56.1% | 80.9% | 77.0% | 56.8% | 78.9% |
| ***Δ Adj. $R^2$ (M3 – M1)*** | ***12.8%*** | ***4.6%*** | ***16.1%*** | ***13.7%*** | ***6.1%*** | ***12.7%*** |
| **Sig.** | 0.000 | 0.025 | 0.000 | 0.000 | 0.000 | 0.000 |

Plus, we ascertained (according to predictions) an increase in the relevance surplus (market value relevance) supplied by consolidated financial statements compared to parent company financial statements once the adoption of IFRS became mandatory for presenting consolidated financial statements. As well, it must be emphasized the fact that, even in the situation of presenting consolidated financial statements according to national regulation (based on European accounting directives) they have a superior relevance compared to individual statements (presented according to national regulations). This idea comes to strengthen the conclusions of the first section of the study.

In the end of the scientific endeavor, we must mention some aspects regarding the ***limitations*** of this paper, as well as the ***perspectives*** for future empirical research. Regarding the limitations of the scientific endeavor, these can be analyzed both at the level of theoretical (conceptual) research and at the level of empirical research.

As we affirmed in the first chapter dedicated to dimensioning the current stage of knowledge in the area of consolidated financial statements, since it is practically impossible to do a review of the whole scientific literature (in any field, for that matter), it was necessary to limit the analysis at a certain category of research. Without pretending to use the most relevant criteria for selection, we considered it useful to limit the analysis at those scientific journals published by the most renowned editors of academic papers from the sphere of economic research in general, and accounting research in particular. Again related to the literature review, it must be pointed out the possibility of erroneously including some articles related to certain characteristics (e.g. research stream, or main research methodology) following the subjectivity of the researcher, inherent to such an analysis.

Regarding the approach of technical aspects related to the consolidation process, since, on the one hand, this matter is extremely vast and complex, and on the other hand, the amount of time and space allocated to the present thesis is evidently limited, it was necessary to select some relevant themes on which to focus the researcher's development and advancement efforts. Therefore, we first particularized the research to the matter of consolidating subsidiaries (and not joint ventures or associated companies), focusing on global integration (leaving aside proportional and equity integration). We used this selection based on definitions from the IFRS and Romanian regulations, according to which the group is formed from the parent company and its subsidiaries, resulting that the obligation of presenting consolidated financial statements is strictly linked to the existence of a subsidiary (and not joint ventures or associated companies). We also considered the focus of IASB preoccupations on the consolidation matter on identifying the parent-subsidiary relation (thus looking at subsidiaries) and establishing the requests for presenting group financial statements. At the same time, we had in mind the possibility for IASB to drop proportional integration as well as the wide-spread conception in the technical literature according to which equity method is rather a valuation method than a consolidation one.

Another limitation of this research can be identified at the level of the quantitative study regarding the opinions of different interested organizations on the matter of IASB/FASB proposals to modify the presentation of financial statements. The limitation is chiefly linked to the fact that the quantitative analysis is based on a non-probabilistic sample, having practically considered all the comment-letters posted on the FASB official website. Therefore, besides a quantitative approach of the research, it was also necessary to do a qualitative analysis of the answers in order to formulate some relevant conclusions. Second, the limitation at the level of the quantitative analysis refers to the possibility to incorrectly interpret the answers from the different organizations, based on the inherent subjectivity of the researcher.

Of course, at the level of the empirical study there must be mentioned some research limitations, which were also highlighted at the end of the respective study. We refer first to the problem of sample representativeness (and implicitly the results obtained) for the large European capital markets, and respectively to the whole European capital market. Second, the results were obtained only by testing some regression linear models based on share prices, without applying other nonlinear models, respectively models based on returns. Third, the study investigated the relevance and therefore decision usefulness of consolidated statements only from the point of view of the investors on the capital market, without following the problem of relevance of these statements from the perspective of other users.

Regarding future ***research perspectives***, these are mainly linked to the limitations of this scientific endeavor. At the level of theoretical research, these could follow some examples from the technical literature by analyzing the matter of consolidating/integrating joint ventures, respectively associated companies (see Nobes, 2002; Soonawalla, 2006; Baumann, 2007; Tiron-Tudor & Müller, 2009), thus focusing on proportional integration and equity method. Not even the problem of goodwill is exhausted in the accounting literature (despite the numerous papers published on this theme through years). We are especially talking about the new FASB and IASB regulations regarding the obligation/possibility to value and recognize full goodwill, and to attribute a part of it to non-control interest. Regarding future empirical research, these could extend the analysis (and so the sample) to other European capital markets, and to other companies that are not included in the main index of the stock exchange on which they are listed. As well, it could employ other nonlinear models, for example logarithmic (see Hellström, 2006) respectively models based on returns (see Bartov et al., 2005). Moreover, future research could investigate the matter of consolidated statements relevance from the point of view of other categories of users, for example financial institutions as creditors, less approaches until now (see Goncharov et al., 2009).

We have thus tried to point to some of the possible perspectives for future research, in order to provide support for other researchers willing to engage in projects on consolidated financial statements, as well as to hint to some future preoccupations we will also gladly engage in.

# OWN CONTRIBUTIONS

After exposing the main conclusions that we have reached during this research project, we consider it useful to ***underline the contributions*** brought to the level of knowledge in the area of consolidated financial statements. As a matter of fact, through these contributions we can prove the attainment of the major objective of an authentic research (also mentioned in the introduction to this thesis), respectively creating added value to the existing scientific knowledge in the studied area of research (Mustață, 2008:17).

In the most condensed version, these contributions can be synthesized through the main objective of the research project (which we dare think we have attained), that is *developing and advancing the matter of consolidated financial statements at international, European, and national level*. Dividing this objective in the four operational objectives permits an initial detailing of our contributions to scientific knowledge. So, we consider that in the first three chapters we have managed to present the current stage of research, the conceptual framework and international, European and national regulations relevant to the field of consolidated financial statements (the first objective). To continue, at the level of the fourth chapter, we developed and advanced technical and practical aspects regarding the consolidation of financial statements (the second objective). In chapter five we managed to develop and advance aspects regarding the content, presentation, and analysis of group financial statements (the third objective). And in the last chapter we investigated empirically the market value relevance of consolidated financial statements matter (the fourth objective). To continue, we will highlight some of the contributions to the scientific knowledge that we consider most relevant, first at theoretical-conceptual level:

- In what regards the current stage of knowledge in the field, we have (for the first time) done a wholesome dimensioning of the extant research at the level of the whole area of consolidated financial statements matter, consisting from a quantitative and qualitative analysis of the most relevant scientific papers published in international academic journals. Up until now, in the academic technical literature, there are no (from what we know) similar studies in this area of research, scientific papers usually presenting a review of the main studies only at the level of the approached subfield (or topic).

- At the level of theoretical approach, we have created a coherent and current conceptual framework, in which we integrated the basic specific notions of the field (group, control, consolidation perimeter, minority interest, and goodwill), the reasoning and objectives pertaining to consolidated financial statements, as well as the four specific theories (property theory, parent company theory, extended parent company theory, and entity theory) underlying these statements.
- Regarding the accounting regulations, we have critically approached the main relevant regulations for consolidated financial statements at international (IFRS, US GAAP), European (Seventh Directive and certain Regulations (CE)) and national (from OMF 1414/1997 – unpublished in M.Of. – until OMFP 3055/2009) level, analyzing in this respect their evolution in time, the existing interrelations, and their current stage.
- On the technical side of presenting consolidated financial statements, we have developed and advanced especially the problem of delimiting global consolidation perimeter and initial and subsequent consolidation of equity, analyzing critically and comparatively the stipulations of relevant international, European, and national regulations.
- In what regards the presentation and content of consolidated financial statements, we approached in detail each component of the complete set under the aspects of form of presentation and information content of specific elements, analyzing critically, in an evolutionary framework, and comparatively the relevant provisions of international, European, and national regulations.
- Related to analyzing consolidated financial statements, we combined traditional quantitative approach (focusing on performance analysis, financial management, financial risk and investment perspective analysis) with qualitative approach (researching the instruments of accounting policies applied at group level, and semiotic analysis of consolidated financial statements at syntactic, pragmatic, and semantic level).

In order to highlight the main contributions of the scientific endeavor at empirical level, we must refer to the results obtained from the case study (in chapter 4), from the quantitative and qualitative analysis of the opinions related to IASB/FASB proposals regarding the presentation of financial statements (from chapter 5), but mostly from the empirical sutdy regarding market value relevance of consolidated financial statements (chapter 6):

- Using the case study on presenting consolidated financial statements at the Romanian industrial group SCR, we highlighted the critical points in the process of initial consolidation for a Romanian group, we numerically illustrated the computing of acquisition difference and of parting equity, elimination of intragroup operations and their effects, quantifying the impact of the different alternative methods on consolidation, and also identifying practical solutions in order to solve specific problems of initial consolidation.
- Within the study on the IASB/FASB proposals to modify the presentation of financial statements, using a quantitative (on fields of activity and regions) and qualitative analysis of the reactions coming from different interested organizations, we took the pulse of the international accounting world on the approached matter, identifying trends, for and against arguments, and forecasting putting into practice of the majority of the proposals in a common standard (with some significant exceptions).
- Through the empirical study we have done, on a representative sample (at least) at the level of the major European capital markets, a comparative analysis in time (2003-2008) of absolute and relative relevance of the two categories of financial statements (group and individual), bringing evidence (statistically significant) regarding the increasing superiority of market value relevance of consolidated financial statements in the detriment of the individual ones. Through this current study we contribute to the international technical literature which has a reduced volume on this theme.
- Within the study we also followed to supply empirical arguments (almost non-existent in the literature) to finding a current answer to the question regarding the superiority (in terms of market value relevance) of one of the two concurrent visions/theories regarding group statements or a combination of the two. We have shown (for the first time) that a „restricted” entity theory that would combine elements from entity theory and parent company theory would present a superior relevance as opposed to the classic versions of the two perspectives.
- Still at the level of this empirical study, by researching the impact of applying IFRS on absolute and relative relevance of consolidated financial statements, we obtained statistical results that confirm an increase in relevance (both in absolute and incremental terms) of group statements once IFRS was applied, thus enriching the list of for arguments in the empirical literature on this matter.

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