THE CONSOLIDATION’S JOURNAL ELABORATION FOR THE PROPORTIONALLY INTEGRATION CASE

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Abstract:
The method is specific to the societies under conjugated control. According to that method is taking over the quota from the patrimony of the societies integrated proportionally, according to the fraction of the capital invested in these entities (PI), leaving aside the part due to the others shareholders. When the yearly accounts of the societies which follows to be consolidated are structured for a manner that the proportionally integration is not possible or when not reflects the accurate image, these enterprises will be consolidated through the method of putting in equivalence. The application of the proportionally integration method do not suppose the considering of the external shareholders interests over the own capitals and over the result of the dominated societies.

Key words: *proportionally integration method, conjugated control, consolidated balance-sheet*

JEL classification: *M410*

Along with obtaining individual financial statements restated of the consolidated units, they can be aggregated by certain methods that depend, mainly, on the type of control exercised by the mother-company on depending companies.

If a company is controlled conjugate, its consolidation will be to agregate the balance sheets positions and of the elements in the profit and loss account on the dominant company, in proportion to the latter’s interests.

Proportionally integration method has the following stages: ♦ adding to the individual financial statements of the mother-company of a share of balance-sheet items and profit and loss account items of the controlled entity, after possible restatements, in order to harmonize them with the accounting principles group. Proportionally, line by line items balance-sheet and profit and loss account items of the consolidated company are collected to the mother-company. However, the value of the shares held by company consolidated in the controlled entity is substituted, in the consolidated balance-sheet, with the share of its equity unit which returns to the company that consolidates, determined by the percentage of the mother-companys interest in the entity subject to joint control; ♦ the elimination of the mutual operations, of the internal profits and of the interests in consolidated entities.

Due to limited space offered by the consolidated balance-sheet image, it is useful only if the number of consolidated companies is not large. When the group has a complex organization and includes a large number of enterprises, it is no longer used. His place is taken by the consolidation-journal that will includes, also, all the steps to be taken in the application of the proportionally integration method.

Based on the data in Table no 1, the first stage of the proportionally integration method, which consists in the aggregation of the two entities balance-sheets properly to the percentage of interest held by the mother-company in jointly controlled unit (30% A), is highlighted as it follows:

Table 1

Simplified balance-sheets of „SM” and „A” societies

No.	Explanations	„SM” society	„A” society
1	Fixed assets (- depreciation - adjustments for depreciation)	725.000	350.000
2	Shares at „A”	140.000	–
3	Stocks (- adjustments for depreciation)	98.000	200.000
4	Claims (- adjustments for depreciation)	104.000	140.000
5	Treasury (-adjustments for depreciation)	240.000	150.000
6	**TOTAL ASSETS**	**1.307.000**	**840.000**
7	Registered capital	977.000	500.000
8	Reserves	120.000	90.000
9	Result	50.000	40.000
10	**TOTAL CAPITAL AND RESERVES**	**1.147.000**	**630.000**
11	Debts	160.000	210.000
12	**TOTAL LIABILITIES**	**1.307.000**	**840.000**

%	=	%	**1.559.000**	**1.559.000**
Fixed assets$_{„SM”}$		Registered capital$_{„SM”}$	725.000	977.000
Shares at „A”		Reserves	140.000	120.000
Stocks$_{„SM”}$		Result$_{„SM”}$	98.000	50.000
Claims$_{„SM”}$		Debts$_{„SM”}$	104.000	160.000
Treasury$_{„SM”}$		Registered capital$_{30\% „A”}$	240.000	150.000
Fixed assets$_{30\% „A”}$		Reserves$_{30\% „A”}$	105.000	27.000
Stocks$_{30\% „A”}$		Result$_{30\% „A”}$	60.000	12.000
Claims$_{30\% „A”}$		Debts$_{30\% „A”}$	42.000	63.000
Treasury$_{30\% „A”}$			45.000	

Adding the assets elements belonging to the same category and the debts ones of the companies SM and A, the previous article may be written as:

%	=	%	**1.559.000**	**1.559.000**
Fixed assets$_{„SM + 30\% A”}$		Registered capital$_{„SM”}$	830.000	977.000
Shares at „A”		Reserves	140.000	120.000
Stocks$_{„SM + 30\% A”}$		Result$_{„SM”}$	158.000	50.000
Claims$_{„SM + 30\% A”}$		Capital social$_{30\% „A”}$	146.000	150.000
Treasury$_{„SM + 30\% A”}$		Reserves$_{30\% „A”}$	285.000	27.000
		Result$_{30\% „A”}$		12.000
		Debts$_{„SM + 30\% A”}$		223.000

Browse next stage requires the removal of the shares held by the mother-company in correspondence with the share of equity of the consolidated entity which returns to the first one (table 2).

Table 2

The sharing of the registered capital, reserves and result of „A” consolidated society

No.	Explanations	Group „SMA” (30% „A”)
1	Registered capital$_{„A”}$	500.000 x 30% = 150.000
2	Reserves$_{„A”}$	90.000 x 30% = 27.000
3	**Capital and reserves$_{„A”}$** *(without result)*	**177.000**
4	Shares at „A” *(at the acquisition cost)*	140.000
5	Differences (rd. 3 - rd. 4)	**+ 37.000**
6	**Result$_{„A”}$**	40.000 x 30% = **12.000**

The transfer of the mother-company income to the group result is, also, the ending record of the proportionally integration method. These issues are highlighted as follows:

%	=	%	**189.000**	**189.000**
Registered capital$_{30\%\ „A”}$		Shares at „A”	150.000	140.000
Reserves$_{30\%\ „A”}$		Reserves	27.000	37.000
Result$_{30\%\ „A”}$		Group result	12.000	12.000
Result$_{„SM”}$	=	Group result	50.000	50.000

It notes that have been removed so the registered capital, reserves and the result in jointly controlled entity A [which returns, according to the percentage of interest (30%), to the consolidated enterprise SM] and the shares held by the dominant society on it, appearing, also, specific elements of consolidation (reserves and group result).

Analysis shows that jointly controlled entity reported profit at years end. Let's analyze how may be hightlight in the consolidation-journal the case where the company dominated registeres losses at the end of the financial year. The consolidation of the company A by proportionally integration method is based on data in Tables no 3 and 4.

Table 3

Simplified balance-sheets of „SM" and „A" societies

No.	Explanations	„SM" society	„A" society
1	Fixed assets (- depreciation - adjustments for depreciation)	725.000	300.000
2	Shares at „A"	140.000	–
3	Stocks (- adjustments for depreciation)	98.000	60.000
4	Claims (- adjustments for depreciation)	104.000	40.000
5	Treasury (-adjustments for depreciation)	240.000	120.000
6	**TOTAL ASSETS**	**1.307.000**	**520.000**
7	Registered capital	977.000	400.000
8	Reserves	120.000	60.000
9	Result	50.000	- 10.000
10	**TOTAL CAPITAL AND RESERVES**	**1.147.000**	**450.000**
11	Debts	160.000	70.000
12	**TOTAL LIABILITIES**	**1.307.000**	**520.000**

Table 4

The sharing of the registered capital, reserves and result of „A" consolidated society

No.	Explanations	Group „SMA" (30% „A")
1	Registered capital$_{„A”}$	400.000 x 30% = 120.000
2	Reserves$_{„A”}$	60.000 x 30% = 18.000
3	**Capital and reserves$_{„A”}$** *(without result)*	**138.000**
4	Shares at „A" *(at the acquisition cost)*	140.000
5	Differences (rd. 3 - rd. 4)	**– 2.000**
6	**Result$_{„A”}$**	– 10.000 x 30% = **– 3.000**

Transactions that are recorded are as follows:

a) the proportionally aggregation of the controled company balance-sheet elements with those of the mother-company:

%	=	%	**1.463.000**	**1.436.000**
Fixed assets$_{„SM + 30\% A”}$		Registered capital$_{„SM”}$	815.000	977.000
Shares at „A"		Reserves	140.000	120.000
Stocks$_{„SM + 30\% A”}$		Result$_{„SM”}$	116.000	50.000
Claims$_{„SM + 30\% A”}$		Registered capital$_{30\%\ „A”}$	116.000	120.000
Treasury$_{„SM + 30\% A”}$		Reserves$_{30\%\ „A”}$	276.000	18.000
		Result$_{30\%\ „A”}$		$\boxed{3.000}$
		Debts$_{„SM + 30\% A”}$		181.000

b) the elimination of the shares held by the company consolidated to entity A in correspondence with the part of its equity that belongs to the first one, and the transferring of the mother-company result to the group result:

%	=	%	**135.000**	**135.000**
Registered capital$_{30\%\ „A”}$		Shares at „A”	120.000	140.000
Reserves$_{30\%\ „A”}$		Reserves	18.000	$\boxed{2.000}$
Result$_{30\%\ „A”}$		Group result	$\boxed{3.000}$	$\boxed{3.000}$
Result$_{„SM”}$	=	Group result	50.000	50.000

After the elaboration of the accounting articles mentioned at a) - b), it reveals that:

♦ the total assets are worth 1.323 billion lei and have the following composition:

D Fixed assets	C
815.000	
	Sf_d 815.000

D Stocks	C
116.000	
	Sf_d 116.000

D Claims	C
116.000	
	Sf_d 116.000

D Treasury	C
276.000	
	Sf_d 276.000

♦ the equity and debts elements are also worth 1.323 billion lei and are as it follows:

D Registered capital$_{„SM”}$	C
	977.000
Sf_c 977.000	

D Reserves	C
	120.000 $\boxed{2.000}$
Sf_c 118.000	

D Group result	C
	$\boxed{3.000}$ 50.000
Sf_c 47.000	

D Debts	C
	181.000
Sf_c 181.000	

Proportionally integration method is specific to the companies under joint control, as a particular form of global integration. The analysed method takes only the share of assets of the companies proportionally integrated, in relation to the amount of capital invested in these entities (PI), apart from the other shareholders due.

In the consolidated balance-sheet the value of the shares owned by the company consolidated is replaced only by the part that represents the percentage of its interest in the equity of the consolidated entities. The consolidated profit and loss account will take, similarly, items of income and expenses elements of the mother-company and, proportionally, items of income and expenses of jointly controlled units in accordance, also, with the percentage of interest held by the dominant firm [3].

Application of proportionally integration method can be summarized as it follows [1]: ♦ integrating a share of the assets, liabilities, expenses and income of the consolidated company in the corresponding elements of the mother-company; ♦ elimination of shares held by the holding company; ♦ highlighting the rights of the group in the reserves and the results of the consolidated companies.

When the annual accounts of the companies to be consolidated are structured in such a way that global integration, and more so the proportionally one, is not possible or does not reflect the true image, these companies will be consolidated by the method of puting on equivalence.

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