THE USING OF CONSOLIDATION JOURNAL AT THE GLOBAL INTEGRATION METHOD

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Abstract:
The global integration method applies to all the societies retained in the consolidation perimeter and which are controlled exclusively, exception being the situations when one or more dependent unities must or should be excluded from the consolidation process. Indifferent if the exclusive control is realised by rights, by fact or according to the contract, the consolidation method which will be used will be the global integration one. According as the group is developing its activity, can also appear the situation when the losses applied to the minority, in a consolidated subsidiary exceeds the pertaining to a minority interest in the own capital of the subsidiary. The registered value is deducted from the pertaining to the majority interest, excepting the case when the pertaining to the minorities are obliges and can cover the registered losses.

Key words: *global integration method, exclusive control, minoritary interest*

JEL classification: *M410*

Global integration method is applicable to all companies chosen in the consolidation perimeter and which are controlled exclusively. Using this method requires, however, to determine if the structure of individual accounts of entities under the exclusive control is compatible with the mother-companys individual accounts. Otherwise, even in spite of this type of control, the consolidation method used will be the one of puting on equivalence method.

Part of the net result of the activity and of the net assets of a subsidiary attributable to the participants that are not owned directly or indirectly, through subsidiaries, by the mother- company is called minoritary interest (minoritary holdings).

In preparing of the consolidated summaries documents by the global integration method, the financial statements of the mother-company and its subsidiaries are combined element by element, by adding similar items of assets, liabilities, equity, income and expenses. In order to present financial information about the group, as it would be considered a single undertaking, the consolidated financial statements should consider the following aspects: ♦ carrying amount of investment made by the mother-company in each subsidiary (the book value of shares held by the company consolidated in each of the dominated entities) should be removed in relation to the share capital of each subsidiary; ♦ minoritary interests in the net profit of the consolidated subsidiaries for the reporting period are identified and adjusted in relation to group profit, in order to arrive at the net profit to be paid to the owners of the mother-company; ♦ minoritary interests in net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and shareholders equity of the mother-company. These interests relate both to the asset value at the date of the original combination and the part of the equity movements at that date which returns to the minoritary.

When the number of companies subject to consolidation process is great, then the image of the consolidated balance-sheet can not be used due to limited physical space that they offer. This inconvenience can be removed by completing a consolidation-journal.

Based on the data of Table no 1, the first stage of global integration method is the aggregation of balance-sheets elements of both companies (SM and A).

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	385.000
2	Shares at „A"	276.000	–
3	Stocks (- adjustments for depreciation)	155.500	187.500
4	Claims (- adjustments for depreciation)	163.500	147.000
5	Treasury (- adjustments for depreciation)	300.000	275.500
6	**TOTAL ASSETS**	**1.620.000**	**995.000**
7	Registered capital	1.150.000	518.500
8	Reserves	195.000	87.500
9	Result	115.000	24.000
10	**TOTAL CAPITAL AND RESERVES**	**1.460.000**	**630.000**
11	Debts	160.000	365.000
12	**TOTAL LIABILITIES**	**1.620.000**	**995.000**

The highlighting of this issue in the consolidation accounting is accomplished through the following accounting article:

%	=	%	<u>2.615.000</u>	<u>2.615.000</u>
Fixed assets„SM"		Registered capital„SM"	725.000	1.150.000
Shares at „A"		Reserves	276.000	195.000
Stocks„SM"		Result„SM"	155.500	115.000
Claims„SM"		Debts„SM"	163.500	160.000
Treasury„SM"		Registered capital„A"	300.000	518.500
Fixed assets„A"		Reserves„A"	385.000	87.500
Stocks„A"		Result„A"	187.500	24.000
Claims„A"		Debts„A"	147.000	365.000
Treasury„A"			275.500	

In completing of the next step are taken into consideration both the percentage of interest of the company consolidated in the subsidiary that will be globally integrated (60%) and the data in the sharing-table of equity and result of the dominated society A between the group and minoritary interests (Table no 2).

Table 2

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

No.	Explanations	Group „SMA" (60%)	Minoritary interest (40%)
1	Registered capital„A"	518.500 x 60% = 311.100	518.500 x 40% = 207.400
2	Reserves„A"	87.500 x 60% = 52.500	87.500 x 40% = 35.000
3	**Capital and reserves„A"** *(without result)*	**363.600**	**242.400**
4	Shares at „A" *(at the acquisition cost)*	276.000	–
5	Differences (rd. 3 - rd. 4)	**+ 87.600**	–
6	**Result„A"**	24.000 x 60% = **14.400**	24.000 x 40% = **9.600**

It proceeds, also, to the elimination of the shares held by consolidated entity, in correspondence with the share of equity (without rezult) of the unit which is consolidated, result that belongs to the mother-company, and to highlight the minoritary interest, as it follows:

%	=	%	<u>606.000</u>	<u>606.000</u>
Registered capital„A"		Shares at „A"	518.500	276.000
Reserves„A"		Reserves	87.500	87.600
		Minoritary participations		242.400

According to this accounting article, it have been eliminated both the registered capital and the unit A reserves and the shares held in by the dominant society, apearing the consolidation first specific elements (reserves and minoritary participations).

Dominated company rezult distribution (24,000 lei) between group (60%) and the minoritary interests (40%) and the transferring of the mother-company result to the group result represents the operations that ends the last stage of global integration method. These are captured in the consolidation-journal through the following articles:

Result$_{\text{„A”}}$	=	%	24.000	
		Group result		14.400
		Result related to the minoritary participations		9.600
Result$_{\text{„SM”}}$	=	Group result	115.000	115.000

It goes on to analyze the situation in which the consolidated company records a loss in the financial year and does not have reserves, too (Table no 3). The data in this table are used as a starting point to show in the consolidation-journal the aspects of the global integration of the subsidiary A.

Table 3

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

No.	Explanations	„SM” society	„A” society
1	Fixed assets (- depreciation - adjustments for depreciation)	800.000	340.000
2	Shares at „A”	250.000	–
3	Stocks (- adjustments for depreciation)	100.000	195.000
4	Claims (- adjustments for depreciation)	200.000	20.000
5	Treasury (-adjustments for depreciation)	300.000	10.000
6	**TOTAL ASSETS**	**1.650.000**	**565.000**
7	Registered capital	1.200.000	400.000
8	Reserves	200.000	–
9	Result	100.000	- 200.000
10	**TOTAL CAPITAL AND RESERVES**	**1.500.000**	**200.000**
11	Debts	150.000	365.000
12	**TOTAL LIABILITIES**	**1.650.000**	**565.000**

Aggregated balance-sheets of both companies SM and A, which constitutes the first stage of global integration is evidenced by the following entry:

%	=	%	**2.215.000**	**2.215.000**
Fixed assets$_{\text{„SM”}}$		Registered capital$_{\text{„SM”}}$	800.000	1.200.000
Shares at „A”		Reserves	250.000	200.000
Stocks$_{\text{„SM”}}$		Result$_{\text{„SM”}}$	100.000	100.000
Claims$_{\text{„SM”}}$		Debts$_{\text{„SM”}}$	200.000	150.000
Treasury$_{\text{„SM”}}$		Registered capital$_{\text{„A”}}$	300.000	400.000
Fixed assets$_{\text{„A”}}$		Result$_{\text{„A”}}$	340.000	$\boxed{200.000}$
Stocks$_{\text{„A”}}$		Debts$_{\text{„A”}}$	195.000	365.000
Claims$_{\text{„A”}}$			20.000	
Treasury$_{\text{„A”}}$			10.000	

Adding the assets belonging to the same category and the debts of the entities SM and A, the preceding accounting article can be written as:

%	=	%	**2.215.000**	**2.215.000**
Fixed assets$_{\text{„SM + A”}}$		Registered capital$_{\text{„SM”}}$	1.140.000	1.200.000
Shares at „A”		Reserves	250.000	200.000
Stocks$_{\text{„SM + A”}}$		Result$_{\text{„SM”}}$	295.000	100.000
Claims$_{\text{„SM + A”}}$		Registered capital$_{\text{„A”}}$	220.000	400.000
Treasury$_{\text{„SM + A”}}$		Result$_{\text{„A”}}$	310.000	$\boxed{200.000}$
		Debts$_{\text{„SM + A”}}$		515.000

Carrying out the next phase of global integration method is considering the elimination of shares held by the mother-company to the dependent entity on correlation with the share of equity (without result) of it to the undertaking of the company consolidated (58%). The aspect mentioned and the registration of the minoritary interest in equity of the unit dominated (42%) are based on data from Table no 4 and are reflected in the consolidated accounting as it follows:

Table 4

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

No.	Explanations	Group „SMA" (58%)	Minoritary interest (42%)
1	Registered capital„A"	400.000 x 58% = 232.000	400.000 x 42% = 168.000
2	Reserves„A"	–	–
3	**Capital and reserves„A"** *(without result)*	**232.000**	**168.000**
4	Shares at „A" *(at the acquisition cost)*	250.000	–
5	Differences (rd. 3 - rd. 4)	**– 18.000**	–
6	**Result„A"**	- 200.000 x58% = **– 116.000**	– 200.000 x 42% = **– 84.000**

Registered capital„A"	=	%	400.000	
		Shares at „A"		250.000
		Reserves		$\boxed{18.000}$
		Minoritary participations		168.000

Following the preparation of this accounting article have been removed registered capital of the integrated subsidiary and shares held in the dominant society.

The entries made in the last stage of global integration method refers to the distribution of the result of the company dominated between the group and the minoritary interests and to the transferring of the mother-company result to the group result. These issues are highlighted in the group consolidation-journal through the following articles [3]:

Result„A"	=	%	$\boxed{200.000}$	
		Group result		$\boxed{116.000}$
		Result related to the minoritary participations		$\boxed{84.000}$
Result„SM"	=	Group result	100.000	100.000

Of those presented, the subsidiary A registers a loss of 84.0000 lei, directly attributable to the external partners. Because its value does not exceed 168.000 lei, the specified loss will be deducted from the minoritary participations:

Result related to the minoritary participations	=	Minoritary participations	$\boxed{84.000}$	$\boxed{84.000}$

Matters referred to the global integration method can be summarized as it follows [1] ♦ 100% integration of the consolidated company assets, liabilities, expenses and income in the appropriate elements of the mother-company; ♦ the disposal of shares held by the holding company; ♦ the equity share under the share of reserves and result which returns to the group and the one appropriate to the minoritary interests.

As the group operates, may also occur the situation where the losses applicable to the minoritary in a consolidated subsidiary exceed the minoritary interest in its equity. The excess, which is deducted from the majority interest, unless the minorities are required and can cover the registered losses. If, afterwords, the subsidiary reports profit, this one is fully allocated to the majority interest, until the covering of the losses related to minoritary shareholders who have previously supported.

Legal provisions and regulations provide the possibility of puting on equivalence of the companies in which the group holds a significant part of the shares but whose management is entrusted to another shareholder. Also, it has to be justified in the annexa the case when an unit is global integrated, even if the fraction of voting rights held is below 40%. Also, it has to be justified when an entity is not consolidated by global integration, although voting rights are held by more than 50%.

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