CONVERSION OF FOREIGN COMPANIES ACCOUNTS IN THE ACCOUNT CONSOLIDATION PROCESS IN ROMANIA UNDER THE CLOSING RATE METHOD

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***Abstract**: The article approaches a topical theme of debate both in the professional academic environment and especially in the economic practice, i.e. the manner of converting the accounts of foreign companies in the account consolidation process, in Romania. We analyse the conditions of applying the accounting regulations related to the consolidation of accounts, in Romania, focusing on the manner of converting the accounts of the foreign companies according to Order no. 1802/2014 approving the accounting regulations on individual annual financial statements and consolidated annual financial statements and to the International Financial Reporting Standards (IFRS). We focused on the presentation of the practical method of applying the conversion of the accounts of the foreign companies according to the closing rate method, because irrespective of the accounting referential applied by the parent company for consolidation, this method occurs in the pre-consolidation stage, if the group leader has affiliates abroad, and the individual financial statements of the companies in the consolidation perimeter have different disclosure currencies.*

Keywords*:* Groups of companies, Consolidation, IFRS, Conversion of accounts, Closing rate method.

JEL Classification Codes: M41.

1. INTRODUCTION

In the current economic environment, the groups of companies became an increasingly obvious reality, their establishment being a direct consequence of performance increase and risk minimization strategies, applied by individual companies. Competition in the market determines business entities to continuously find grouping alternatives, for the combination with other entities, in order to cope together with the demand by means of a wide range of good quality products/services able to provide competitive advantages. This combination of companies aims at constituting groups of companies which, even though they do not have legal personality, behave like an autonomous entity. The parent company carries out its businesses through its controlling companies (Popa, 2011).

The consolidation perimeter, or all the entities retained for the preparation of consolidated annual financial statements, can also include entities operating abroad, whose individual financial statements used by the parent company for consolidation are prepared in another currency than that used for the presentation of the consolidated financial reporting.

In this case, and in other cases specified in the International Financial Reporting Standards, it is necessary to convert the accounts of the foreign companies in the account consolidation process.

2. THE NOTION OF GROUP OF COMPANIES AND THE LEGISLATIVE FRAMEWORK OF THE CONSOLIDATION OF ACCOUNTS IN ROMANIA

Currently, in Romania, the legislative standards on the consolidation of the accounts of the groups of companies are stipulated in Order no. 1802/2014 approving the accounting regulations on individual annual financial statements and consolidated annual financial statements. This order provides, as its title shows, the form and content of the annual consolidated financial statements, as well as the rules for the preparation, approval, auditing and publication of the annual consolidated financial statements.

In the consolidation of accounts, the group is viewed as a single entity, disregarding the legal independence of its components. In such case it is recommended to influence the principle of the prevalence of the economic side over the legal one (CECCAR, 2004). The economic substance– the business that are under a single management – take precedence over the legal form – distinctive legal personality of each if its branches. However, given their legal personality, each component of the group (both the branches, and the mother company) prepare individual financial statements, in order to observe the rules related to the individual companies. The consolidation of accounts is necessary because the individual financial statements of the company holding shares in other entities, called parent company, do not disclose the true size of the assets and economic power if the whole group, but their consolidation with those of the entities composing the group reveals its true assets and influence.

A parent is required to prepare consolidated annual financial statements when the size criteria set out in the order are exceeded (paragraph 10 (3) of the regulations referred to in Article 1), as well as in the case of small and medium groups which contain one or more affiliated public interest entities. Entities that have the obligation to prepare consolidated annual financial statements

may prepare these statements:

Either in compliance with the accounting regulations approved by the Order no. 1802/2014

Or based on the International Financial Reporting Standards (IFRS), applicable to companies whose securities are admitted to trading on regulated market*, *approved by the Order no. 1.286 / 2012

3. CONSOLIDATION PERIMETER AND THE NEED TO CONVERT THE ACCOUNTS OF THE FOREIGN COMPANIES

The consolidation perimeter is constituted from all the companies retained for the preparation of the annual consolidated financial statements. In theory, the consolidation perimeter includes all the companies on which the consolidating company (the parent company) exercises exclusive control, a concomitant control, or a remarkable (significant) influence.

The activities abroad carried out by an entity can take the form of:

- Transactions in a foreign currency;
- Operations abroad (subsidiaries, associates, joint venture or branch of a reporting entity).

Thus, a parent company of a group of entities can exercise exclusive control, common control, or a remarkable influence on companies whose activities are located or performed in another country or another currency than the one of the reporting entity (the parent company).

Given that in Romania the consolidation of the accounts of the groups of company can be made either according to the International Financial Reporting Standards (IFRS), or according to Order no. 1802/2014, we will analyse below the manner of converting the financial statements of the dominated foreign companies, in the view of two accounting referentials.

4. CONVERSION OF THE FINANCIAL STATEMENTS OF THE FOREIGN COMPANIES USING THE CLOSING RATE METHOD IN COMPLIANCE WITH IFRS

International Accounting Standard IAS 21 "The effects of changes in the foreign exchange rates" is also applied to the conversion of the results and the financial positions of the operations abroad that are included in the financial statements of the entity by global integration or by the equity method.

IAS 21 mentions that, when an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into **the functional currency**. Moreover, if the presentation currency differs from the entity's functional currency, it translates its results and financial position into the **presentation currency**. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

In our opinion, conversion of the accounts of a dominated entity, located abroad, is made differently, according to the situations described below, as follows (Banuta, 2011):

- ***local currency ≠ functional currency ≠ presentation currency***

The accounts of the foreign entity are converted from the local currency into the functional currency, through the **historical rate method**. Subsequently the accounts are converted from the functional currency into the presentation currency of the consolidated company, through the **closing rate method**.

- ***local currency = functional currency ≠ presentation currency***

The accounts of the foreign entity are converted from the functional currency into the presentation currency of the consolidated company, through the **closing rate method.**

- ***local currency = functional currency = presentation currency***, the conversion of the accounts of the foreign entity is **no longer** made.

- ***the local currency differs from the functional currency*** (that ***coincides** with the presentation currency*), the conversion of the accounts of the foreign entity is made through the **historical rate method**.

In order to make the conversion of the accounts of the foreign entities, it is necessary to explain the semantic meaning of the words:

TYPES OF CURRENCIES USED FOR THE CONVERSION OF THE ACCOUNTS	
	♦ **local currency** – is the “currency of the country where the consolidated entity is located and often represents the currency in which it prepares its individual financial statements”’;
	♦ **functional currency** – is the “currency of the main economic environment in which the entity operates. The main economic environment in which an entity operates is normally that in which it usually generates and spends cash”;
	♦ **presentation currency –** is “the currency in which the financial statements are presented (including the presentation of the consolidated financial statements) by the parent company”.

In relation to the **identification of the functional currency**, IAS 21 "The effects of changes in the foreign exchange rates" mentions the following:

- “An entity takes into account the following factors in the determination of its functional currency:

(a) currency
→that mainly influences selling prices of the goods and services (this will often be the currency in which the selling prices for its goods and services are denominated and set); and
→of the country whose competitive forces and regulations mainly determine the selling prices for its goods and services.

(b) the method that mainly influences the labour costs, the significant costs and other costs of supplying the goods or services (this will often be the currency in which such costs are denominated and set)”;

- “The following additional factors are considered in the denomination of the functional currency of an operation abroad and in the determination of the extent to which it is the same as that of the reporting entity (the parent company).

(a) if the activities of the operation abroad are performed as an expansion of the reporting entity rather than having a significant autonomy level. An example of activities performed as an expansion of the reporting entity is when the operation abroad only sells goods imported from the reporting entity and remits the profits to it. An example of high level of autonomy is when the operation accumulates cash or other monetary elements, bears expenses, generates income and settles loans, all mainly in its local currency.

(b) if the transactions with the reporting entity represent a larger or a smaller proportion of the activities of the operation abroad.

(c) if the cash flows from the activities of the operation abroad directly affect the cash flows of the reporting entity and are quickly available in order to be remitted to it.

(d) if the cash flows from the activities of the operation abroad are sufficient to serve the debt obligations, normally expected without making funds available from the reporting entity (without borrowing funds from the parent company).

If, following the analysis of the above/mentioned factors, the functional currency is not obvious, the management uses its own reasoning to determine the functional currency that fairly reflects the economic effects of the existent transactions, events and conditions.”

If the functional currency is the currency of a hyperinflationary economy, the financial statements of the respective entity are retreated in compliance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

Examples concerning the selection of the conversion currencies

As the own site shows, Romcarbon is a company known on Romanian and European market as a traditional plastic processor. Having 65 years of experience in the processing of polyethylene, polypropylene, PVC, polystyrene, Romcarbon has the reputation of the most important plastic packaging manufacturer in Romania and is one of the largest employers in the county of Buzau, counting approximately 900 employees. Since the 5th of January 2015, according to BVB new market segmentation, Romcarbon is listed under „Standard" category (www.romcarbon.com). This company has many subsidiaries, a part of them in other countries.

RECYPLAT LTD is a company which is set up in Cipru, in 2011. ROMCARBON SA (parent company) owns entirely and directly 100% the share capital of this firm. Therefore, the romanian company ROMCARBON SA, the dominating entity of the group of companies, exercises an exclusive control on the company RECYPLAT LTD located in Cipru (according to Consolidated financial statements ROMCARBON SA, for the period ended 31 December 2016). The parent company prepares the consolidated financial statements according to IFRS. We will assume that the company RECYPLAT LTD invoices its sales in euro and pays most production factors in euro and the company ROMCARBON SA in RON.

Table no. 1 Identification of the types of currencies in the case of the two affiliated companies

Currency / Company	Local	Functional	For the presentation of the consolidated company
ROMCARBON SA (the parent company)- in Romania	RON	RON	RON
RECYPLAT LTD (the consolidated company)- in Cipru	euro	euro	-

For the preparation of the consolidated financial statements it will be necessary to convert the financial statements of the company RECYPLAT LTD from the functional currency (euro) into RON (presentation currency) through the closing rate method.

The conversion of the financial statements of the foreign entities, from the functional currency into the presentation currency of the parent company (the consolidating company) is made by means of the **closing rate method**.

● ***Conversion procedures applied if the functional currency of the foreign entity is not the currency of a hyperinflationary economy***

The results and the financial position of an entity whose functional currency is not the currency of a hyperinflationary economy will be converted in a different presentation currency, using the following procedures:

a) the **assets and liabilities** for each **balance sheet** presented (i.e. including comparative figures) will be converted **at the closing rate** of the date of the respective balance sheet;

Note: Although the international accounting standard does not mention the manner of converting the equity capital items, their conversion is made based on the **historical course**.

b) **the incomes and expenses** for each **profit and loss account** (including comparative figures) will be converted at the **exchange rates of the day of the transactions**.

Standard IAS 21 mentions that, due to practical reasons, a rate that approximates the exchange rates of the days of the transactions, for example **an average of the rates for the**

respective period, is often used for the conversion of the income and expense items. If those rates fluctuate significantly, it is inappropriate to use the average of the rates for a period.

c) **all the rate differences resulted will be recognised as a separate component of the equity capitals**. Other differences in the exchange rates result from the conversion of the incomes and expenses at the exchange rates of the days of the transactions, of the assets and liabilities at the closing rate, as well as due to the conversion of the net opening assets at the closing rate that is different from the previous exchange rate.

● ***Conversion procedures applied when the functional currency of the foreign entity is the currency of a hyperinflationary economy***

When the functional currency of an entity is the currency of a hyperinflationary economy, the entity will retreat the financial statements in compliance with IAS 29 "Financial Reporting in Hyperinflationary. Economies" before applying the conversion method presented below (except the comparative values that are converted in a currency of a country that is not hyperinflationary (according to item b)).

"The results and the financial position of an entity whose functional currency is the currency of a hyperinflationary economy will be converted in a different presentation currency, using the following procedures:

a) all the values (i.e. **the assets, liabilities, equity capital items, incomes and expenses,** including the comparative figures) will be converted at the **closing rate of the date of the latest balance sheet**, except that

b) when the values are converted in the currency of an economy that is not hyperinflationary, the comparative values will be those that were presented as being the values of the current year in the financial statements revealed from the previous years (i.e. non/adjusted for the subsequent changes in the level of the price or for the subsequent changes in the exchange rates)."

5. CONVERSION OF THE FINANCIAL STATEMENTS OF THE FOREIGN COMPANIES IN COMPLIANCE WITH ORDER NO. 1802/2014

In the accounting regulations compliant with Order no. 1802/2014 approving the accounting regulations on individual annual financial statements and consolidated annual financial statements, it is mentioned that the annual financial statements of the non-resident companies are converted using the **closing rate method**.

According to this method, the conversion of the accounts of the non-resident companies is made as follows:

• In the balance sheet	→ expressing the positions in the balance sheet (**assets and liabilities**), except equity capitals, **at the closing rate**;
	→ expressing **equity capitals** at the historical rate;
	→ recording, as separate item of the equity capitals, a **conversion reserve**, corresponding to the difference between equity capital at the closing rate and equity capital at the historical rate, as well as the difference between the result determined depending on the average rate or the exchange rate of the day of the transaction and the result at the closing rate. The conversion reserve recorded in the balance sheet is distributed between the parent company and the non-controlling shares.
• In the profit and loss account	→ expressing the **incomes and expenses** at the **average rate**. When it fluctuates significantly, the incomes and expenses will be expressed at the exchange rates of the day of the transactions.

6. EXAMPLE CONCERNING THE APPLICATION OF THE CLOSING RATE METHOD

In this example the dates are assumed as we don't have access at the real dates of the subsidiaries of the parent company (it is not bind to provide these information about the non-resident companies).

The Romanian company SM is the parent company of the group of companies Savinex Grup. SM exercises exclusive control on its branch F_1 located in Belgium. The functional currency of the branch F_1 (that coincides with the local currency) is euro. At the end of the accounting period N, the balance sheet and the profit and loss account of the branch F_1 are as follows:

Table no. 2 Balance sheet of the branch F_1, as at 31.12.N - euro -

	Items		Value
A	Non-current assets		32.448.322
	I	Intangible assets	36.192
	II	Tangible assets	30.718.361
	III	Financial assets	1.693.769
B	Current assets		27.178.785
	I	Inventories	20.139.240
	II	Receivables	5.883.939
	III	Short term investments	600
	IV	Cash and bank accounts	1.155.006
C	**Accrued expenses**		178.224
Total assets			**59.805.331**
D	**Debts: amounts payable within less than one year**		16.198.603
E	**Net current assets /net current debts** (B+C-D)		11.158.406
F	**Total assets / current debts**		42.800.869
G	**Debts: amounts payable within more than one year**		1.627.952
H	Provisions		30.000
I	**Deferred income (investment subsidies)**		805.859
J	**Capital and reserves**		
	I	Subscribed and paid in share capital	4.024.625
	II	Premium related to capital	1.101.000
	III	Revaluation reserves	20.000.116
	IV	Reserves	9.593.060
	V	Retained profit or loss	1.146.414
	VI	Profit or loss for the period	5.277.702
K	Total equity capital		41.142.917
Total liabilities			**59.805.331**

Table no. 3 The profit and loss account of the company F_1, as at 31.12.N - euro -

	Items	Value
1	Net turnover	93.381.234
2	Variation in inventory	1.754.452
3	Own work capitalised	170.613
4	Other operating revenue	200.041
A	**Operating revenue - total**	**95.506.340**
5	• Raw materials and consumables and other material expenses	35.989.104
6	• Other external expenses (with energy and water)	9.006.011
7	• Expenses regarding goods	7.001.070
8	Personnel expenses	27.832.270
9	• Adjustments on the value of tangible and intangible assets (expenses - income)	3.608.029
10	• Adjustments on the value of current assets (expenses - income)	-139.449
11	Other operating expenses (related to external services, other taxes, duties	5.832.565

	and similar contributions, and compensations, donations and transfers)	
12	Provision adjustments (expenses - income)	30.000
B	**Operating expenses - total**	**89.159.600**
C	**Operating profit or loss (a - b)**	**6.346.740**
13	Revenues from financial investments and loans which are part of non-current assets	478.114
14	Interest income	199.451
15	Other financial revenues	1.228.865
D	**Financial revenues - total**	**1.906.430**
16	• Adjustments on the value of non-current assets and financial investments held as current assets	0
17	• Interest expenses	617.235
18	• Other financial expenses	1.314.410
E	**Financial expenses - total**	**1.931.645**
F	**Financial profit or loss = D - E**	**-25.215**
G	**Current profit or loss = C + F**	**6.321.525**
H	**Total income = A + D**	**97.412.770**
I	**Total expenses = B + E**	**91.091.245**
J	**Gross profit or loss = H - I**	**6.321.525**
K	Income tax	1.043.823
L	**Net profit or loss related to financial year = J - K**	**5.277.702**

Other information:

Branch F_1 is totally owned by the company SM.

Exchange rate on	→equity capital establishment:	1 euro = 3.0 RON	
	→capital premiums recorded:	1 euro = 3.3 lei	
	→recording revaluation reserves:	As at 31.12.N-3	(10.000.000euro) 1 euro = 3.4 RON
		As at 31.12.N-1	(7.500.116 euro) 1 euro = 4.3 RON
		As at 31.12.N	(2.500.000euro) 1 euro = 4.5 RON
	→recording reserves	From the profit or loss of the accounting year N-2	(7.593.000 euro) 1 euro = 4.2 RON
		From the profit or loss of the accounting year N-1	(2.000.060 euro) 1 euro = 4.1 RON
	→recording retained earnings		1 euro = 4.4 RON

Exchange rate of the European currency, at the end of each financial year has evolved as follows:

Date	**Exchange rate in RON**
31.12.N-3	3,4
31.12.N-2	4,2
31.12.N-1	4,3
31.12.N	4,5

⇨

Average exchange rate:

• of the financial year N: $\frac{4,5+4,3}{2}=4,4$

• of the financial year N-1: $\frac{4,3+4,2}{2}=4,25$

• of the financial year N-2: $\frac{4,2+3,4}{2}=3,8$

Solution:

For the conversion of the accounts of the branch F_1, located abroad, from the functional currency (euro) into the presentation currency of the parent company (RON), the closing rate method will be used.

Table no. 4 Conversion of the accounts in the profit and loss account of the branch F_1

Items		Value in the functional currency of the branch F_1 (euro)	Applicable exchange rate	Value in the presentation currency of the consolidating company (RON)
1	Net turnover	93.381.234	4,4	410.877.430
2	Variation in inventory	1.754.452	4,4	7.719.589
3	Own work capitalised	170.613	4,4	750.697
4	Other operating revenue	200.041	4,4	880.180
A	**Operating revenue - total**	**95.506.340**	—	**420.227.896**
5	Raw materials and consumables and other material expenses	35.989.104	4,4	158.352.058
6	Other external expenses (with energy and water)	9.006.011	4,4	39.626.448
7	Expenses regarding goods	7.001.070	4,4	30.804.708
8	Personnel expenses	27.832.270	4,4	122.461.988
9	Adjustments on the value of tangible and intangible assets (expenses - income)	3.608.029	4,4	15.875.327
10	Adjustments on the value of current assets (expenses - income)	-139.449	4,4	-613.575
11	Other operating expenses (related to external services, other taxes, duties and similar contributions, and compensations, donations and transfers)	5.832.565	4,4	25.663.286
12	Provision adjustments (expenses - income)	30.000	4,4	132.000
B	**Operating expenses - total**	**89.159.600**	—	**392.302.240**
C	**Operating profit or loss = A - B**	**6.346.740**	—	**27.925.656**
13	Revenues from financial investments and loans which are part of non-current assets	478.114	4,4	2.103.702
14	Interest income	199.451	4,4	877.584
15	Other financial revenues	1.228.865	4,4	5.407.006
D	**Financial revenues - total**	**1.906.430**	—	**8.388.292**
16	Adjustments on the value of non-current assets and financial investments held as current assets	0	4,4	0
17	Interest expenses	617.235	4,4	2.715.834
18	Other financial expenses	1.314.410	4,4	5.783.404
E	**Financial expenses - total**	**1.931.645**	—	**8.499.238**
F	**Financial profit or loss**	**-25.215**	—	**-110.946**
G	**Current profit or loss**	**6.321.525**	—	**27.814.710**
H	**Total income**	**97.412.770**	—	**428.616.188**
I	**Total expenses**	**91.091.245**	—	**400.801.478**
J	**Gross profit or loss**	**6.321.525**	—	**27.814.710**
K	Income tax	1.043.823	4,4	4.592.821
L	**Net profit or loss related to financial year = J - K**	**5.277.702**	—	**23.221.889**

Table no. 5 Conversion of the accounts in the balance sheet of the branch F_1:

Items	Value in the functional currency of the branch F_1 (euro)	Applicable exchange rate	Value in the presentation currency of the consolidating company (RON)
A Non-current assets	32.448.322	-	146.017.449
I Intangible assets	36.192	4,5	162.864
II Tangible assets	30.718.361	4,5	138.232.625
III Financial assets	1.693.769	4,5	7.621.960
B Current assets	27.178.785	-	122.304.532
I Inventories	20.139.240	4,5	90.626.580
II Receivables	5.883.939	4,5	26.477.725
III Short term investments	600	4,5	2.700
IV Cash and bank accounts	1.155.006	4,5	5.197.527
C **Accrued expenses**	178.224	4,5	802.008
Total assets	**59.805.331**		**269.123.989**
D Debts: amounts payable within less than one year	16.198.603	4,5	72.893.713
E **Net current assets /net current debts**	11.158.406	-	**50.212.827**
F **Total assets – current debts**	42.800.869	-	**192.603.911**
G Debts: amounts payable within more than one year	1.627.952	4,5	7.325.784
H Provisions	30.000	4,5	135.000
I Deferred income (investment subsidies)	805.859	4,5	3.626.365
J Capital and reserves			
I Subscribed and paid in share capital	4.024.625	3,0	12.073.875
II Premium related to capital	1.101.000	3,3	3.633.300
III Revaluation reserves	20.000.116	-	77.500.499
- from N-3	10.000.000	3,4	34.000.000
- from N-1	7.500.116	4,3	32.250.499
- from N	2.500.000	4,5	11.250.000
IV Reserves	9.593.060	-	40.090.846
- from N-2	7.593.000	4,2	31.890.600
- from N-1	2.000.060	4,1	8.200.246
V Retained profit or loss	1.146.414	4,4	5.044.222
VI Profit or loss for the period	5.277.702	Taken from the Profit or loss account after the conversion	23.221.889
VII Conversion differences (conversion reserves)	-	Calculated using the formulas below *	23.578.496*
K **Total equity capital**	41.142.917	**-**	**185.143.127**
Total liabilities	**59.805.331**	**-**	**= total converted asset =269.123.989**

*Conversion reserve =

→Total liabilities – provisional liabilities =

= = 269.123.989 - (72.893.713+7.325.784+135.000+3.626.365+12.073.875+3.633.300+77.500.499+40.090.846+5.044.222+23.221.889) =269.123.989-245.545.493= 23. 578.496 RON

or

→Equity capitals at the closing rate – Equity capital at the historical rate = = (41.142.917x 4,5) - (12.073.875+3.633.300+77.500.499+40.090.846+5.044.222+23.221.889) = 185.143.127- 161.564.631= 23.578.496 RON

7. CONCLUSIONS

The economies of many countries are dominated by a number of multinational companies and they tend to depend heavily on them. It is very possible that a multinational company will receive at the end of the year, financial situations from different subsidiaries expressed in a series of currency as the euro, pound, dollar, ruble, yen. etc. This means that the financial statements of the different subsidiaries should be interpreted in the country in which the parent company is registered (Epstein&i Mirza, 2005).

In our opinion in Romania, the consolidation of the accounts of the groups of companies is a practical activity whose achievement is sometimes difficult, starting from the selection of the accounting referential to which it will be related: Order no. 1802/2014 or the International Financial Reporting Standards (IFRS). We fully support the idea presented in the specialized literature according to which "the multitude of the currencies used by the companies in a multinational group to record the operations performed and the presentation of the financial statements makes the account consolidation process very complex" (Bogdan and the others, 2011). The conversion of the accounts of the foreign branches, in the consolidation process, is required when the currency in which the individual financial statements of the entities in the consolidation perimeter are prepared are different from the currency in which the consolidated financial statements will be presented by the parent company.

The conversion of the accounts of the foreign companies using the closing rate method is applied in various situations according to the two accounting referentials. Thus, according to Order no. 1802/2014 that regulates the consolidation of the accounts at national level, the closing rate method is used for the conversion of the accounts of all the foreign branches whose financial statements are prepared in a currency other than the one used for consolidation. If the parent company uses the IFRS for consolidation, it will use for conversion the closing rate method, if the functional method of the foreign branch differs from the currency in which the annual consolidated financial statements will be prepared. The closing rate method was broadly described and exemplified in this article, exemplified on the structures of the balance sheet and profit and loss account regulated in Romania.

In the accounting of the entities in Romania, the conversion reserves below the conversion of the accounts of the foreign branches is recorded for the preparation of the consolidated financial statements, by means of account 107 "Conversion reserves" and is a separate row in the balance sheet, in the equity items.

The conversion reserve entered in the balance sheet is distributed between the parent company and the non-controlling shares. We recommend that if the consolidation perimeter also includes branches from other countries, a decentralised consolidation should be used, and the foreign branches should send to the parent company retreated financial statements, depending on all the homogeneities required in the consolidation process.

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