CONSIDERATIONS REGARDING THE PERFORMANCE OF GROUPS OF COMPANIES

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Abstract: *Groups of companies represent a poignant reality of the economy of the most recent the decades, and their importance is proved by the expansion of the grouping phenomenon, the economic power they have at international/national level, as well as by the interest of information users in the wealth of groups, their performance and also their strategies. Our article presents aspects that bring to the forefront the manner of reflecting performance from the perspective of the aspects monitored by information users, or how the latter also see performance from the perspective of the information provided through the consolidated financial statement. We believe that highlighting certain fiscal aspect will raise interest, in addition to the accounting treatment and the manner of how performance is analysed at the level of groups of companies.*

Key words: Group of companies; Consolidated financial statements; Performance; IFRS; Fiscal consolidation.

JEL Classification Codes: G34, M41, M48.

1. GROUPS OF COMPANIES – THE REASONS OF THEIR ESTABLISHMENT AND THEIR IMPORTANCE IN THE CURRENT BUSINESS ENVIRONMENT

There have been many discussions and written materials about groups of companies in the past decade, because the grouping phenomenon, which comprised, in the beginning, large entities, became attractive for medium/small entities as well afterwards, and currently, multinational groups of companies dominate global economy. Established around a company that provides their management (the parent company of the group), groups comprise companies that are independent from the legal point of view, but are nevertheless linked with each other by shares and contractual relationships. The competition in the market determines business entities to continuously find grouping alternatives, or alternatives of getting combined with other entities, with the purpose of coping together with the demand through a diversified range of high-quality products/services that will also provide competitive advantages. This combination of enterprises results in the establishment of groups of companies that, although they do not have legal personality, behave like an autonomous entity.

The main reasons for the creation of groups of companies are especially increasing performance and minimizing risks. Thus, among the advantages of creating groups of companies, mention can be made of (Manole Ciprian Popa, 2011 and Cosmina Pitulice, 2007):

-a better business risk management, by carrying out different activities within separate companies. If the activity of one of the companies of the group is not successful, this will not entail the liability of the parent company or of răspunderea the other affiliates in the group, and in most cases, it will not affect their performance either;

- the group structure gives the opportunity of a better organization. The emergence of the division as a form of organization (associating decentralisation and the control of operational divisions within affiliates) has generated the reorganization of groups and the reduction of bureaucratic costs, ultimately leading to an increase in their efficiency;

-the easy transfer of financial resources between companies that are members of the same group, more specifically, from the parent company or from the affiliates that have surplus funds to affiliates needing funds (faster or more advantageous than if they resorted to a credit institutions);

-flexibility in relation to the marketing and image policy (certain affiliates can use the brand image of their parent company). Moreover, the publication of information related to the membership of certain affiliates to the group can help those affiliates to develop partnerships or to win creditors' trust;

-funding facilities from investors who invest in the bonds of various companies in the group (the aim of the parent company being to keep the control) and also the structure of the group allows for attracting capital borrowed from credit institutions, much more important, in terms of value, than in the case of individual companies. The parent company of the group often establishes itself as the guarantor of the loans granted to the other entities;

- finding fiscal optimization possibilities, by establishing a company that enjoys a more favourable fiscal regime, or as a result of the benefits of fiscal consolidation.

Beyond these obvious advantages of the groups of companies, those who show interest in the group should be aware that they are individual companies, with individual legal personality and liability, and in case of minority interests, the strategic management rule of the dominating entity must be known by the minorities, which leads the operational and financial policies of the entire group of companies.

Statistics published on the website of the National Institute of Statistics (www.insse.ro, May 2021) show that in Romania, 2019, 80,787 groups of companies were identified, out of which 5,496 resident groups of companies, and 75,291 multinational groups of companies (462 controlled from inside, and 74,829 controlled from abroad, respectively). In 2019, out of the total groups of multinational companies controlled from abroad and identified in Romania, 13,660 are groups controlled by foreign legal entities, and 61,169 are groups controlled by foreign natural persons. Germany, France and Italy hold the first three places in the top of the countries that control subgroups of companies from Romania.

The economic power of groups of companies is reflected in the statistics of many countries, for example France, on the website of the National Institute of Statistics and Economic Studies, which specifies, through a press release December, 2018 in relation to “Portrait of groups in trade”, that “Almost one commercial company in ten formed part of a group in 2016. Although a minority by their number, these companies employ 71% of employees and generate 80% of the trade turnover…. Among these groups under foreign control holding sales subsidiaries in France, eight out of ten are European. Groups under German control are the most common, except in wholesale where American groups strengthened in 2016.”.

Groups of companies hold major economic power, which is reflected through the turnover generated at the level of each country, through the number of employees, the value of their assets, their performance, while their multinational nature, the free movement of capital are elements that render the dynamic image of their global expansion.

2. THE CONCEPT OF PERFORMANCE AND THE REFLECTION OF PERFORMANCE THROUGH THE FINANCIAL STATEMENTS

In any field of activity, performance is sought after by people in the activity they carry out, but also by organizations as a whole. In all the specialised materials, authors start from the concept of performance, which is easy to understand, because it has multiple meanings, depending on the field in which it is used, and on the point of view of the person who analyses performance (the information users). The world "performance" us of Latin origin and means to give the full firm of a thing. Etymologically, this word comes from the French word "performance", and the Explanatory Dictionary of the Romanian Language (DEX), presents, for this word, several meanings: result obtained by a sportsperson, by a team, by a race horse in a competition; very good result obtained by a sportsperson, a team, a race horse, etc., compared to the average value of performance; special achievement in a field of activity; the best result given by a technical system, a device, an engine, etc., in relation to one of its characteristics. This is obviously a multitude of fields/activities that can be associated with the word "performance" (sports, the technical field, any field of activity), and, at the same time, a double semantical valence: obtaining a result following a competition (the actual action of taking part into a competitive activity and of obtaining a result) and the second, of special, exceptional achievement, in any field of activity.

Consequently, there are different perceptions of the notion of performance. Over time, the quantitative and qualitative criteria used to assess performance have been and continue to be very numerous; survival, reaching objectives, integration, adaption, productivity, efficiency, satisfaction, development, planning, confidence, cooperation, personnel quality, creativity, turnover, importance of management, profitability, growth, control of the environment, etc.. We agree with the opinions of author Iulia Jianu who believes that "Performance is a state of competitiveness of the company that ensures the durable presence in the market … A high performance company is a company that creates value for its shareholders, satisfies clients, takes its employees' opinion into account, and protects the environment". A high performance company reconciles the expectations of all its partners. (Iulia Jianu, 2007). Consequently, we support the idea that it is not sufficient for a company to obtain high performance in a certain direction (the business one), it must obtain a good result in all the activities, because each of them influences overall performance. At the same time, the achievement of performance takes into account the interests of all those involved in the the life of the company, or of the life of those interacting with the company and who view performance through their own filter/according to their own interest. Currently, in the business field, performance is associated with notions such as: efficiency, efficacy, competitiveness, productivity, profitability, etc..

We have set out the goal to analyse performance from the point of view of the information made available for information users by entities or groups of entities by means of financial statements and other mandatory reporting, due to the fact that financial reporting is the common information basis, standardized, for all the categories of users. As mentioned in Accounting Law no. 82/1991 (republished), accounting is an activity specialising in assessing, knowing, managing and controlling assets, liabilities and equity, as well as the results obtained from the activity of legal entities. For this purpose, accounting must provide the chronological and systematic recording, the processing and the preservation of Information related to the financial position, **the financial performance,** as well as other information in relation to the activity carried out, both for their internal requirements, as well as in the relationships with current and potential investors, financial and commercial creditors, public institutions and other users. The same legislative act also mentions that all the official documents presenting the economic and financial activities of entities are the annual financial statements, prepared in compliance with the applicable accounting regulations and that must provide an accurate image of their financial position, **financial**

performance, and other information, in compliance with the law, in relation to the activity that is carried out.

In Romania, one of the following accounting references is currently applicable to companies:

- unlisted companies (which do not have shares traded on any stock exchange) apply the provisions of Order of the mini of Public Finance no. 1802/2014 on individual annual financial statements and consolidated annual financial statements;

- companies the shares of which are traded in a stock exchange) apply the regulations compliant with the International Financial Reporting Standards approved by Order of the Minister of Public Finance no. 2844/2016.

Following the analysis of the two accounting references, we can draw the following conclusions in relation to the requirements of reflecting performance;

- the assessment **of financial performance** is made through the profit and loss account, **the result** obtained by comparing **income and expenses.**

Moreover in the IFRS- General framework- it is mentioned that "the information concerning **the financial performance** of the reporting entity helps users understand the profitability generated by the entity for its economic resources. The information concerning the profitability generated by the entity provides indications related to how well it's management fulfilled its responsibilities concerning the efficient and effective use of the resources of the reporting entity. The information concerning *the cash flow* help users understand the activities of a reporting entity, assess its financing and investment activities, assess its liquidity or solvency and interpret other information concerning **financial performance"**.;

- The board of directors prepares a **report** for each financial year, **named "Directors' report"** which contains **an accurate presentation of the development and performance of the entity** and of its position, as well as a description of the main risks and uncertainties faced by it. This presentation is a well-, balanced and extensive analysis of **the development and performance of the activities of the entity** and of its position, correlated with the dimension and complexity of its activity. Insofar as it is necessary for understanding the development, **performance,** or position of the entity, the analysis also includes key financial performance indicators and, if the case may be, **non-financial** ones, relevant for the specific activities, including, *information related to environmental and staff aspect.* In the presentation of the analysis, the directors' report also contains, when the case may be, additional references and explanations concerning şi the amounts reported in the annual financial statements;

- Entities that, at the time of the balance sheet, exceed the criterion of having an average number of 500 employees during the financial year, include in the directors' report a **non-financial statement** that contains, insofar as it is necessary for understanding the development, **performance** and position of the entity and of the impact of its activity, information related to at least environmental, social and personnel aspects, the respect of human rights, fighting corruption and bribery"

In relation to groups of companies, in the case of both accounting references, it is mentioned that "the entities who are parent-companies of a group, and which, at the time of the balance sheet in a consolidated basis, exceed the criterion of having an average number of 500 employees during the financial year, include in the consolidated directors' report a non-financial consolidated statement that includes, insofar as it is necessary for understanding the development, performance and position of the group and the impact of its activity, at least information related to environmental, social and personnel aspects, the respect of human rights, fighting corruption and bribery "

3. FINANCIAL REPORTING OF GROUPS OF COMPANIES

The simplest definition of the group of companies and of the dominating company of the group can be found in the regulations of Order of the Minister of Public Finance no. 1802/2014 : group means a parent company together with all its affiliates, and parent company means an entity that controls one or several affiliates. According to the same accounting regulations, depending on the size criteria, namely "Net turnover, Total assets, and Number of employees" groups of companies can be divided into two main categories, as follows: small and medium groups, and large groups respectively.

Table no. 1 The difference between small and medium groups, and large groups

Small and medium groups	**Large groups**
Small and medium groups are groups established from parent companies that are to be included into the consolidation and which, on a consolidated basis, **do not** *exceed the limits of at least two of the following criteria* at the time of the balance sheet of the parent company: a) total assets: 105,000,000 RON (the equivalent value of 23,681,717 eur); b) net turnover: 210,000,000 RON (the equivalent value of 47,363,435 eur); c) average number of employees during the financial year: 250.	*Large groups* are groups comprising the parent company and its affiliates that are to be included into the consolidation and which, on a consolidated basis, *exceed the limits of at least two of the three following criteria* at the time of the balance sheet of the parent company: a) total assets: 105,000,000 RON (The equivalent value of 23,681,717 eur); b) net turnover: 210,000,000 RON (The equivalent value of 47,363,435 euro); c) average number of employees during the financial year: 250.

(Source: Order of the Minister of Public Finance no. 1802/ 2014 on the individual financial statements and the consolidated financial statements, art.10)

In Romania, a parent company has the obligation to prepare annual consolidated financial statements when it is part of a large group, and in the case of small and medium size groups where one of the affiliated entities is a public interest entity.

The entities that have the obligation to prepare annual consolidated financial statements may prepare such financial statements:

May prepare such financial statements:

either according to the accounting regulations on the individual financial statements and the consolidated financial statements (**Order of the Minister of Public Finance no. 1802/2014**)

or based on the accounting regulations compliant with the International Financial Reporting Standards **(IFRS)**, applicable to trading companies the stocks, shares and transferable securities of which are traded in a regulated stock exchange, (**Order of the Minister of Public Finance no. 2844/2016**)

The obvious question is raised: "***Why is it necessary to consolidate accounts?***"

An answer to this question is the fact that the individual financial statements of the company holding stocks in other companies as well, also referred to as parent company, do not reflect the size of the wealth and economic power of the entire group, but their consolidation with those of the other entities members of the group reveal its true wealth and influence.

The consolidated annual financial statements provide an accurate image of the assets, liabilities, financial position, as well as of the profit or loss of the entities included in such financial statements, consolidated as a single item. Consequently, the objective of the consolidation of the accounts is to present the patrimony, the financial situation, and the profit or loss of the entities included in the consolidation perimeter, as if a single entity were presented. As such, consolidated (group), accounts are the answer to the need to aggregate both the assets and liabilities, as well as the incomes and expenses in order to provide an overall and accurate image of the financial position and performance of the group of companies. (Banuță Mariana, 2011).

Steps followed for the preparation of the consolidated annual financial statements

Although the accounting regulations do not present the stages of the consolidation process, we will present our own view of the main steps followed for the preparation of the consolidated financial reporting, in order to facilitate the understanding of the aspects pertaining to the reflection of the image of performance of the group of companies. For the preparation of the consolidated annual financial statements, several steps are followed which, in the version of the application of the traditional consolidation method (based on account balances), could be synthesized as follows:

- ❖ The consolidation percentages are calculated, the consolidation perimeter is delimited, and in the case of the obligation of the parent company to prepare consolidated annual financial statements, the consolidation method that will be applied in the case of each consolidated company is decided;

consolidation perimeter = ***Parent company*** + **all affiliates on which** it exercises, directly or indirectly

The exclusive control *or* | The joint control *or* | A (significantly) notable influence

The regulations of Order of Minister of Public Finance no. 1802/2014 mention certain cases in which a company that is under the control or significant influence of a parent company may be excluded from the consolidation perimeter. For example, an entity, including a public interest one, may be excluded from the consolidated annual financial statements if at least one of the following conditions is met:

a) in extremely rare cases where the information required for the preparation of the consolidated annual financial statements cannot be obtained without disproportionate expenses or unjustified delays;

b) the stocks or shares of the respective entity we owned exclusively for subsequent sale; or

c) severe long-term restrictions substantially preclude the exercise by the parent company of its right on the assets or management of the respective entity.

- ❖ If the parent company has foreign affiliates that are to be consolidated, the conversion of the accounts of the foreign companies is made;
- ❖ Accounts are cumulated for the consolidated companies using the global integration method;

- The operations of homogenising accounts are carried out with the purpose of homogenising the methods of assessment and the presentations of information;

  Observation: if temporal homogenisations are necessary, or for the aggregation of information, such homogenisations are made before the stage of converting the accounts of foreign companies;
- The eliminations required by inter-group transactions are made (eliminations of mutual accounts and of internal result included in the value of certain assets coming from other companies in the group);
- For companies consolidated using the global integration method, their equity is divided between the group and minorities (interests that are not controlled) and the shares held in such companies are eliminated.
- The equity method is used for she's held in the consolidated companies.
- The result and the reserves of the parent company are transferred to the consolidated result or to the consolidated reserves, respectively.
- Information is centralised and the consolidated annual financial statements are prepared (consolidated balance sheet, consolidated profit and loss account, consolidated cash flow statement, consolidated statement of the changes in equity, explanatory notes to the consolidated financial statements).

4. PECULIARITIES OF THE PERFORMANCE OF GROUPS OF COMPANIES

As mentioned hereinabove, the notion of performance has different valences depending on the interests of the information users who are interested in the performance of the group of companies.

We will show, in the table below, ***our own view on how different information users see the performance of groups of companies***:

Table no. 2 The performance of groups of companies from the perspective of various stakeholders

Category of information users	Performance valences	Source of information
Current/potential investors (shareholders/ associates)	Investments in new companies with a contribution to the growth of their financial position and the result of the group	The description of the group, the analysis of the equity holding in other companies (the organizational chart of the group). Regular briefings of the investors
	Positive and growing consolidated result	The consolidated profit and loss account
	Consolidated value of equity – large and growing (significant and growing net accounting asset)	The consolidated statement of changes in equity

	Positive cash flows	The consolidated crash flow statement Explanatory notes to the consolidated annual financial statements
	Comment: We should take into account the fact that the entities that are members of the group are independent from the legal point of view and the shareholders/associates of each entity (parent company or affiliates) have rights/obligations only in relation to companies they hold shares into. The overall image of the group helps them understand how the individual performance of each company evolves as a result of their membership to the group, the overall development of the group, or the strategies implemented by the parent company (the advantages/disadvantages generated by the membership to the group).	
Banks or other credit institutions	Positive and growing consolidated result Positive cash flows (Especially)	The description of the group, the analysis of the equity holding in other companies (organizational chart of the group) The consolidated profit and loss account The consolidated cash flow statement Explanatory notes to the consolidated annual financial statements (statement on the intra-group loans) Additional information related to the financing of companies in the group.
	Comment: Banks can grant loans to the parent company or to affiliates in the group (more specifically, individually to companies in the group, not to the group as a whole). They are interested in the activity of the company to which it grants the loan, its capacity to generate cash flows in order to repay the loan and pay interests, and also potential assets brought as guarantee (sometimes, the parent company provides guarantees for amounts borrowed by affiliates in Lent the group). Financial analysts working with banks carry out detailed analyses of the	

	group of companies and of how it uses the funds granted to it as loans.	
Suppliers	Positive and growing consolidated result Consolidated equity value – large and growing (significant and growing net accounting asset) Positive cash flows	Consolidated profit and loss account Consolidated statement of changes in equity Consolidated cash flow statement Explanatory notes to the consolidated annual financial statements
	Comment: Suppliers are generally interested in the activity of companies in the group in order to identify possibilities of selling goods/providing services by them. The membership of the group with a good financial position and high performance strengthens suppliers' trust in their cooperation with the parent company and,/or with affiliates in the group. We should always keep in mind that each company in the group is individually liable for the payment of debts to suppliers, except for the fact that, if one affiliates in the group has financial difficulties, the parent company or another affiliate in the group can grant it a loan.	
Customers	Observing adequate policies : -in relation to quality -in relation to the environment and climate change -in relation to Business Ethics. Values. Fighting corruption	Consolidated directors ’report Non-financial statement (in the case of certain groups)
Employees	Positive and growing consolidated result Consolidated equity value – large and growing (significant and growing net accounting asset) Positive cash flows	Description of the group, analysis of equity-holdings in other companies (organisational chart of the group) Consolidated profit and loss account Consolidated statement of changes in equity Consolidated cash flow statement

<table>
<tr><td rowspan="2"></td><td>Observing adequate policies concerning the social and personnel policies</td><td>Explanatory notes to the consolidated annual financial statements
Consolidated directors' report
Non-financial statement (in the case of certain groups)</td></tr>
<tr><td colspan="2">Comment:
The employees of the parent company or of the affiliates are interested in the performance of the group in terms of result, wealth, capacity to generate cash flows, in order to assess the stability of jobs, the possibilities to get promoted. The overall image of the group can also indicate other possible companies in the group where they can transfer themselves.</td></tr>
<tr><td rowspan="2">The state</td><td>Positive and growing consolidated result
The consolidated equity value – large and growing (significant and growing net accounting asset)
Positive cash flows
A large number of employees
Observing adequate policies :
- in relation to quality
- in relation to the environment and climate change
-in relation to Business Ethics. Values. Fighting corruption
-in relation to the social and personnel policies.</td><td>Description of the group, analysis of the equity holdings in other companies (organizational chart of the group)
The consolidated profit and loss account
The consolidated statement of the changes in equity
The consolidated cash flow statement
Explanatory notes to the consolidated annual financial statements
The consolidated directors' report
Non-financial statements (in the case of certain groups)</td></tr>
<tr><td colspan="2">Comment:
The State, through its bodies, views group performance in terms of profitability, group wealth, (in order to assess the impact of the group of companies in the national economy) but also from the point of view of the compliance with policies concerning the environment, climate change, social, etc..</td></tr>
</table>

Due to the fact that many information users associate the word "performance" with "profit", mention should be made of the fact that the taxation of profit is not made at the level of the group, but at the level of each company in the group. In Romania, in 2020 regulations were implemented that set conditions concerning the establishment, change and dissolution of the tax group in the field of the profit tax (fiscal consolidation). Consolidation is possible only in the case of Romanian companies and companies with the registered office in Romania, established in compliance with the European legislation, between which there are holdings of rights to vote or equity holdings, direct or indirect, 75%. The holding condition must be met for an uninterrupted period of 1 year, before the beginning of the fiscal consolidation period. Group members must pay profit tax, applying the same profit tax payment system, having the same financial, and not being in the process of being dissolved or liquidated. The period of the application of the fiscal consolidation is of at least 5 years. We are drawing attention on the fact that a fiscal group for which fiscal consolidation can be made in terms of profit tax is not the same thing as a group of companies for which the consolidated financial reporting is made in compliance with the accounting regulations. There can be cases where the fiscal group coincides, in terms of composition, with the consolidation perimeter for which the consolidated annual financial statements are prepared, provided that the conditions related to the minimum equity holding, the minimum duration of the holding, (for an uninterrupted period of 1 year, before the beginning of the fiscal consolidation period) as well as the condition concerning the fiscal inclusion of all the holders as profit taxpayers are met.

Another aspect se would like to highlight is that the consolidated profit or loss is not the simple result of cumulating the incomes and expenses of the consolidated entities, and subsequently deducting the aggregated expenses of the consolidated entities from the sum of their incomes in order to obtain the consolidated net profit or loss. It is true that this is indeed the basic principle of how the consolidated profit or loss is determined, but the process is much more complex. The income, expenditure accounts resulted for the consolidated parent company and affiliates by using the overall integration method are cumulated, but their consolidation implies carrying out certain restatements for the homogenisation of assessment methods and presentations of information through which corrections can be made to the income/expense items. Transactions between companies that are members of the group (intra-group transactions) also require the elimination of certain incomes/expenses generated by this type of transactions, due to the fact that what matters is all the transactions with third parties that are not in the group. We should also highlight the part corresponding to the group in the profit or loss of the companies consolidated by using the equity method. The goodwill that can appear on the occasion of the purchase of a new affiliate may lead to the reflection of the goodwill depreciation expenses in the consolidated financial statements. In relation to the aforementioned aspects, we will exemplify the manner of correcting income/expenses in the consolidation process, the accounts used being specific to the regulations of Order of the Minister of Public Finance no. 1802/2014. We will assume that the parent company applies the traditional consolidation method, based on the account balances.

❖ The aim of the consolidated financial statements is the clear, accurate and complete presentation of the assets, liabilities, financial position, profits or loss of the entities included in the consolidation, as if they were s single entity. Individual accounts of the entities in the consolidation perimeter are often prepared based on different norms on their assessment and presentation, in compliance with legal or fiscal regulations that do not coincide with those set through the consolidation plan. We can conclude that the consolidated financial statements cannot be obtained by the direct aggregation of the information in the individual financial statements of entities belonging to the consolidated whole. Both the accounting regulations applicable to unlisted companies, as well as the international accounting and financial reporting standards (IFRS) in the consolidation field mention as a basic rule **the homogenisation of the information** in the individual financial statements for the subsequent consolidation of the accounts.

Example : The affiliate F1 assesses the consumable material stocks by using LIFO method (last in – first out), while at the level of the consolidated accounts, the FIFO method is used (first in - first out). At 31.12.N the following information are known:

Explanations	Stock value according to the LIFO method (in the accounting records of the affiliate F1)	Stock value according to the FIFO method (based on the group rules)
Balance as at 01.01.N	310,000 RON	420,000 RON
Balance as at 31.12.N	270,000 RON	330,000 RON

Make the homogenization records of the assessments on the occasion of preparing the consolidated financial statements for the financial year N.

Solution:

On the occasion of the consolidation of the accounts for the financial year N, the differences from homogenisation restatements are determined and recorded .

Table no. 3 Determining the differences from homogenisation restatements

Explanations	Differences from homogenisation restatements
The differences for the financial years prior to the one for which the consolidated financial statements are prepared	420,000-310,000 = 110,000 RON
Differences for the financial year for which the consolidated financial statements are prepared (N)	330,000-270,000= 60,000 RON

-from the record of the differences for the financial years prior to the one for which the consolidated annual financial statements are prepared in the amount of 110,000 RON, it results that we must increase the value of the consumable material stocks by 110,000 RON:

302 Consumables = 106 Reserves 110.000 RON

-from the record of the differences for the financial year for which the consolidated annual financial statements are prepared, in the amount of 60,000RON, it results that we must increase the value of the consumable material stocks by 60,000 RON:

302 Consumables = 602 Consumable expenses 60,000 RON

The aforementioned accounting formula is the equivalent of:

602 Consumable expenses = 302 Consumables -60,000 RON

The record above is reflected :

- in the balance sheet

121 Profit or loss = 302 Consumables -60,000 RON

- in the profit and loss account

602 Consumable expenses= 121 Profit or loss -60,000 RON

Consequently, it was necessary to decrease consumable expenses by 60,000 RON due to the fact that the affiliate applied a valuation method at the exit of the fungible stocks from the patrimony which was different from the one agreed by the parent company and that will be used as consolidation standard.

❖ ***The transactions carried out between the companies that are members of the group*** are various in nature: sales – purchase of stocks, sale and purchase of fixed assets; granting and receiving loans, renting fixed assets, etc. These intragrup transactions are recorded in the individual accounting records of the entities, as usual, as if they were carried out with third parties outside the group. The effect of these transactions leads to recording receivables, incomes in the accounting records of those who sell goods/provide services, and on the other hand, of goods/expenses and debts in the accounting records of the buyers. All these accounting it mutual in nature in the accounting records of the companies taking part into the transaction. In the consolidation process, it is necessary to eliminate the effects of intra-group transactions and respectively to eliminate mutual operations and accounts. The effect of these eliminations is the reflection of the patrimony and the result of the group viewed as a single entity, following the transactions carried out with third parties from outside the group. If such effects of the intra-group transactions were not eliminated, just through the mere aggregation of information from the individual accounts of the entities in the consolidation perimeter intragrup, a false image of the situation of the group, of the turnover and of other incomes, expenses, assets held, etc. would be obtained (Mariana Banuta, 2011)

Example: During the financial year N, the parent company invoiced rent to its affiliate F2 which it exclusively controls, in the amount of 40,000 RON. The debt was settled 50% by transfer, while for the rest of the amount, the affiliate F2 issued a promissory note in the amount of 20,000 RON, accepted by the parent company, but outstanding until the end of the financial year. What eliminations are required in the account consolidation process for the financial year N?

Solution:

On the occasion of the consolidation of the accounts for the financial year N, the following operations are carried out:

- The elimination of the mutual debts and amounts receivable:

403	Bills of exchange payable (Account of the affiliate F2)	=	413	Bills of exchange receivable (Account of the parent company)	20,000 RON

- The elimination of mutual incomes and expenses:

706	Rental and royalty income (Account of the parent company)	=	612	Rental and royalty expenses (Account of the affiliate F2)	40,000 RON

Consequently, it was necessary to decrease rental and royalty incomes and expenses by the amount of 40,000, these incomes/expenses having a mutual nature and representing the effect of intra-group transactions.

If in the balance sheets of the companies consolidated using the full integration method, there are, at the end of the financial year, assets coming from other companies in the group and which include in their value an internal profit/Loss, it is necessary to eliminate the internal result from the value of these assets.

5. CONCLUSIONS

In our view, there are several stakeholders interested in the performance of the group of companies. We believe that they "see" performance differently, depending on their specific interests. Consequently, performance has different valences for each category of users. The information sources are the consolidated annual financial statements, the consolidated directors' report, and the consolidated non-financial statement (the latter being included in the consolidated directors' report in the case of the groups of companies which, at the time of the balance sheet on a consolidated basis, exceed the criterion of having an average number of 500 employees during the financial year). The aspects presented in this article in relation to the determination of the consolidated profit or loss, which is an indicator by which many information users analyse the performance of groups lead us to say that the calculation of the consolidated profit or loss, at group level, is a complex and sometimes difficult process which requires specific knowledge of those who carry out this analysis.

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