CRITICAL STUDY OF INFORMATIONAL OFFER FOR CONSOLIDATED FINANCIAL SITUATIONS

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ABSTRACT: The accounting treatment for goodwill is far from being accepted, as the constant controversy and contradictions existent between it and the badwill are not yet solved. However, we wonder, in support to all interested groups in Romania, what would be the economic interpretation and perception of this difference? Thereby, if we start our analysis with how the acquisition difference is perceived, we consider appropriate to mention that the difference from the first consolidation can be emphasized if the cost of securities acquisition is compared with the net asset value of the percentage rate at which the securities will entitle.

KEY WORDS: consolidation, informational offer, consolidated financial statements, fidelity and relevance

Analysis of the process and the content related to the consolidated financial statements, allows obtaining of relevant findings in terms of information for the groups in Romania. Thereby, if we compare with the individual reporting, we can observe that the consolidated financial statements contain certain private structures, no matter what the group nationality is and the accounting referential used for financial reporting.

From the structures specific to the consolidated accounts, mentioned in the branch literature, we address those relating to:

- acquisition difference (special fund);
- securities that are equivalent;
- minority interests.

Acquisition difference (goodwill) has been constituted and continues to provoke a great interest for the accounting departments of many groups. The existence and, even more, the amplitude of this specific structure, is accounted by specialists on the uptrend manifested in the mergers, but also on the growth of rates on certain financial markets. We can notice the impact of this phenomenon on the difference increasing between purchasing prices and book values, when

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both, the content of the consolidated sheet and the consolidated profit and loss are significantly influenced, especially in those cases when the groups to whom it is presented have defined an external growth strategy.

Although, apparently, the issue is relatively unambiguous, the accounting treatment of goodwill is far from being completely accepted, and also is it in a constant controversy and contradictory state with the badwill. However, we wonder, speaking on behalf of all interested groups in Romania, what would be the economic interpretation and perception of this difference?

Thereby, if we start our analysis with how the acquisition difference is perceived, we consider appropriate to mention that the difference from the first consolidation can be emphasized if the cost of securities acquisition is compared with the net asset value of the percentage rate at which the securities will entitle.

This overestimation, attributed to the difference between fair value and book value associated with the entity included in the scope of consolidation from the operations of the acquisition of securities and the acquisition of control, can have as source:

- The differences generated by a revaluation of elements that are identified as assets, known as differences of evaluation, involve bringing these items at fair value.
- The characteristics of the operation of securities acquisition make the acquisition difference.

With this difference approach of the first consolidation, we can say that, joining us to the opinion of the specialists in the field, conforming to the separation in evaluation difference and the acquisition difference is purely subjective, in the conditions where the advantages or disadvantages of a goodwill accounting to a higher or lower value are, in the present, more and more marked out, reason for which we believe that additional elucidation on their correct perception, will be of real help also to the groups from Romania.

The question may be: How can be economically interpreted this difference?

The difficulty of the goodwill accounting interpretation led some authors to associate it to an “over value” generated by the anticipation for acquired entity of a higher profitability generated by the market.

Trying a review of this opinion, we have to say that we can not join such a mentality, in the condition where, the anticipation nature of entity’s profitability may not provide a firm guarantee which result in an overestimated price.

An important step in the correct highlight of the concept mentioned was developed by other authors who have taken forward the analysis, considering that “this over profitability is being generated by the existence of specific intangible assets” which are not recognized in the acquired entity accounts (reputation, customers, ford, etc.) and by the internal and external synergies generated by the securities purchasing.
Also this last interpretation is, in our opinion, a big drawback, because it is not appropriate “to assign an over profitability to a certain specific assets, due to the obligatory interactions between all assets, whether tangible or intangible.

Another assumption with a substantially different content, look’s the goodwill from the point of view of its generation by the opportunities variation determined by the specific elements of the negotiation process and revaluation errors of identifiable assets.

Back to the sphere of accounting and concluding section, we can say that the specific accounting treatment of the goodwill’s derived from these features and difficulties of economic interpretation.

Summarizing the concepts and previous interpretations, we can conclude that goodwill fulfill the characteristics of a asset, which entitles us to suggest as appropriate for the groups from Romania in the balance sheet presentation, to intangible assets and to be amortized during the predictable use period. If there is an occasional impairment of the goodwill, must be booked an adjustment for depreciation, as a systematic depreciation is not justified, in the conditions that would lead to a double counting, once with the cost of promotion, publicity and research, expenses that contributes to maintain, even increasing the economic benefits acquired.

Analyzing the possibilities of implementation to the groups from Romania, of this treatment recommended as preferential processing by the SSAP 22 (Statement of Standard Accounting Practice SSAP) in Great British, we consider inappropriate it’s choice disadvantageous from the informational point of view, as this goodwill’s accounting, which does not affect the future result, favors the groups what did not hesitate to propose an higher price than the concurrence, as the goodwill was charged as equity.

Besides, another major disadvantage is the difficulty of ensuring the comparability between the consolidated reports of the groups that applies this treatment and those of the competing groups from abroad, from the point of view of profit and loss account, but also of balance sheet.

Due to these shortcomings mentioned, we can only welcome the adoption of the ASB orientation (Accounting Standard Board), in 1997, by adopting the standard financial communication FRS 10, according to which the goodwill should be subscribed to the balance sheet and amortized over a period that not exceed 20 years.

Our main objective can not be abandoned, for which we consider useful to try to highlight the impact that the goodwill’s treatments above mentioned have on the consolidated financial statements.

Thus, the incontestable advantage of non influencing the result that can be observed in the last two treatments, is being called “shaded” by the systematic amortization charged for the first treat, in the condition where the economic consequences of this reduction in income is passed on rate and competitiveness of takeover bids. On the other hand, the goodwill determinates an obvious reduction of their records. The major impact of this treatment that we can highlight regards
the financial majority of the financial rate of return, as the “hiding” of unfavorable investments, which distorts real performance of the groups.

For the groups from Romania, we have to mention that the subjectivity of identifiable assets can influence significantly the goodwill value, by increasing the differences from evaluation.

Currently, the practice use of the affecting the biggest part of the first consolidation difference of intangible assets (mostly found in the large food concerns cases), is contrary to the forecast of international accounting standards IAS 38 “Intangible Assets”, which suppose that the period use of an intangible fixed asset does not exceed 20 years.

The solution we consider appropriate for the groups from Romania, based on the Anglo-Saxon experience, involves the use of equity method, which allows accounting for groups of entities, not in terms of properly consolidation, but as a simple combination of an addition of accounting values, not being necessary to mark out any eventual value strengths.

We also appreciate as useful the fact that the goodwill should be noted as amortizable asset also in liabilities which affects equity.

What we must mention here, in addition, is the fact that, although the assimilation of international accounting standard implies as well the processing of the method, both OMFP 1.752/2005 and the new OMEF 2.374/2007, doesn’t mention specifically how the goodwill is influenced by this method.

The international accounting standards IAS 22 “Entities groups” mention the necessity of the goodwill amortization on its entire period use (period that normally does not exceed 20 years) considering useful to mention various defining factors as follows:

• The effects of products obsolesce, changes in demand and other economical factors
• The expected actions from competitors or potential competitors
• The expected duration of life of the acquired entity or the activity sector from which is a part of.
• The professional life expectancy of the key employees or employees groups.
• The legal disposition, regulations or contracts, affecting the period use.

However, this accounting treatment is being contested, existing lots of counties where is accepted also the possibility of the goodwill equity imposing (Germany, France, The Netherlands, Italy, etc.).

In Romania, O.M.E.F. 2.374/2007, completing O.M.F.P. 1.752/2005, mentions that, when the goodwill is treated as an asset, usually, in the consolidated financial statements its value must be amortized systematically, on a period that not exceed the goodwill’s life, no longer than 20 years. Also, if the purchased goodwill is presented in the balance sheet as an asset, it will be reproduced in the explicative notes the chosen period for amortization and the reasons which let to the determination of this period.

Although the accounting regulations of our country mention the goodwill amortization, we consider deficient the perception and disposal of this treatment, above mentioned, also the specifying of an alternative potential capable of a
superior informational relevance, depending of each separate group. The involved expenses deductibility of the goodwill, as mentioned also in other analysis, was not elucidated up to the present, reason why we opt for reviewing of these regulations regarding the goodwill, eventual in the conditions of a deeper analyses of the treatment incidents chosen strictly on a the groups working in the local business environment.

But not only the goodwill can occur and create strong polemics. We must not forget either “medal reverse”, meaning the badwill. It is identified when the “stake acquisition cost is less than the corresponding fraction of net assets, at purchasing”. The existence of a badwill can be explained by:

- Anticipation of future losses;
- The identifiable assets over evaluation of the acquired entity;

The accounting treatment recommended by IAS 22 “Entities groups”, mentions that, “when the badwill does not correspond to the future losses and expenses, identifiable at the acquisition moment, this must me accounted as follows:

- If the badwill increasing, which does not excel the proper values of the identifiable non-monetary assets acquired must be systematically accounted to incomes, on the remaining period use of the acquired identifiable amortized assets; and

- The goodwill dimensions which exceed the correct values of the identifiable non-monetary assets acquired must be immediately accounted to incomes.

We consider that a comparative presentation of a few defining referential issues for badwill, will be particularly suggestive, for which we will present it table 1.

<table>
<thead>
<tr>
<th>Our country’s standards</th>
<th>In USA</th>
<th>In France</th>
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<td>When the participation</td>
<td>ABS 16 impose that the</td>
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<td>is purchased at a lower</td>
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<td>value than its fair value,</td>
<td>difference to be charged</td>
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<td>the difference is</td>
<td>on fixed assets, proportional to their</td>
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<td>recognized as in income on a</td>
<td>value. If this charging</td>
<td>a reintegration period of</td>
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<td>systematic basis, being resumed in</td>
<td>brings to zero the fixed</td>
<td>time that not exceed 5 years.</td>
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<td>the income and loss statement</td>
<td>assets value, the residual</td>
<td>However, on exceptional</td>
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<td>when:</td>
<td>difference will be</td>
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<td>- unfavorable results that have</td>
<td>considered a postponed</td>
<td>specified, the negative</td>
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<td>been foreseen at the acquisition</td>
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<td>acquisition difference may</td>
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<td>moment is achieved;</td>
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<td>be included in reserves.</td>
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<td>corresponding to badwill</td>
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Being given all this aspects concerning the consolidated financial statements, without claiming an overwrought approach, we consider it worthy of...
a pertinent and exigent analysis, generated by the presentation modalities of financial statement, in general and the ones generated in particular.

Thus, the balance sheet, in horizontal or vertical format, is far from being a financial statement. The cause must be looked on the legal-economical binominal effects, on the consequences of applying accounting principles, as well as on the options taken by the entity. A balance sheet is one that facilities both knowledge effects of the (non-) achievement a balance of liquidity, solvency, profitability and risk assumed by the company.

If we move the analysis from balance sheet models drawn up by companies from countries with predominantly heterogeneous accounting system, we can see that the number and importance of reprocessing necessary to a balance sheet are decreasing significantly.

A first category of difficulties in effecting this analysis is being given by the differences relating to the position (statement) of the company. So, what is active in French accounting, for example, can signify an expense in American accounting. A dept in the British or American accountancy can be considered equity in the French accounting, etc.

A second category of difficulties is oriented on valences in terms of balance sheet analysis.

Meeting the requirements in terms of analysis resulted in time to various balance sheet schemes consecration, two of them being considered as source: balance sheet in form of account (bilateral format) which privileges an analysis of financial-functional type and list balance sheet, oriented to an analysis of liquidity-solvency type. The first model is based on ACTIV-PASSIVE balance equation and on patrimonial judgments while the second is developed on equation base ASSETS – LIABILITIES = EQUITY and on economic and financial judgments.

The preference for one model or another has many justifications. The fourth European Directive retains and recommends this two source models, offering an impressive number of options regarding their configuration. The bilateral balance sheet model was assimilated especially in counties like Continental Europe, where the accent is on long term management, the assets and liabilities are arranges in ascending order of liquidity and chargeability. The second model is agreed in Great British and in the countries where the British accountancy system had a great rate of exportability. This present the assets in ascending order of their liquidities, the liabilities in descending order of their chargeability and finalized with equity.

We can not ignore the fact that, unlike European countries, in USA and Canada, the companies presents its assets and liabilities in decreasing order of liquidity, respective their chargeability. This classification denotes a North-American element of accountancy culture, focusing on short-term elements, meaning that the balance sheet begins with short-term assets and liabilities.

In this way, we appreciate the opinion of specialists according to an especially attention must be given to the meaning which different referential accountancy accord to “long term” and “short term” definition. Most often, the
benchmark is being constituted by the financial year. But things are not always like this. The American and international accountancy referential retain the possibility of including the assets and liabilities within the current or non-current category, using for this purpose the reporting to operating cycle period.

The things are getting complicated when, into the same company, are being organized several operating cycles, some of them superiors and some of them inferiors to the calendar year or when the company changes its activity domain, or it restructures.

A third category of difficulties is being given by the rigid of flexible character of balance sheet items. That’s why must be given an especially importance to the situations in which a rigid model of balance sheet can hide sustainable elements in the category of short-term and vice versa, and a flexible model can hide some image manipulation tendencies on the company’s financial position.

Romanian balance sheet will be analyzed in the content of the two phases of accounting system reform.

From the opening moment of the first reform phase of the Romanian accounting system, up to today, in specialties practice, including the consolidation case, we found two models of balance sheet.

The first model, the horizontal one, was consecrated by the Accounting Law and its implementation Rules at the beginning of the 90’s. Such a balance sheet privileges a horizontal analysis of the company’s financial situation, bringing to attention the specific indicators of the financial balance (working capital, working capital necessary, net Treasury)

What may be charged to the horizontal model of balance sheet is the juridical pronounced basis of the assets and liabilities concept. It doesn’t automatically reflect the “real” situation of a company, either financial or economical (indifferent of this terms definition),

The second balance sheet model is the one imposed with February, 2001, through “Accounting Regulations harmonized with the fourth Directive of the European Economical Communities and International Accounting Standards”. The order spread among the large companies of the area of applicable a vertical balance sheet model. Although, far from being a financial balance sheet, we consider that this balance sheet model answers better to the analysis requirements and company’s financial management, which is supported by several arguments.

The balance sheet in this form comes to help the drawing of the “Cash flow picture”. The cash flow variation can be determined by comparing the receipts and payments generated by three cycles of the company’s activity (mining, investment financing). The receipts and payments flow determination is facilitated by the debit and dept ventilation, depending on payment terms. Into the center of attention is brought to the operating cycle also its contribution to achieving overall financial balance of the company. Indeed, we find on the balance sheet structure, “mobile assets, respective current net debts”, which does not represent other than working capital. A working capital gross determined, if we take into consideration the assumption retained by the normalized, how the
spending and revenues in advance can not be engaged otherwise but on short-term (being therefore, assimilated to the mobile assets and current debts).

The vertical balance sheet model opens the analysis prospect of a financial dynamic balance, on rotation elements base that compose the working capital requirements (stock rotation, client-debit rotation, providers-dept rotation).

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