



## Method of Drafting and Assessment of Specific Rules to Consolidated Financial Statements

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**Abstract** *To draw up the Consolidated Financial Statements it is necessary to aggregate the Patrimonial Statement, the Economic Account Statement and the Budgetary Execution Account Statement of all institutions within the scope of consolidation, so that, the assets and liabilities, the gains and costs, the incomes and the expenses can be represented in this statement.*

**Key words:**  
*Consolidated financial statements, assessment, accounts, wording.*

**JEL Codes:**  
M41

### 1. Introduction

In order to perform correctly the consolidated financial statements, it is necessary that all the wording and assessment criteria adopted in each public institution to be uniform, in the case when the criteria are not homogeneous the data's must be rectified.

### 2. Institutions included in the scope of consolidation

For the identification of the institutions which must be or mustn't be included in the consolidation area, IPSAS 6 essentially refers to the principle of control, defined as, „To determine the power management options of a different administrative and business entity in order to obtain rewards”. This definition is consistent with that made by ESA '95 defining control with respect to non-financial corporations, whether it is exercised by a public or private entity, and public producers, as „the ability to determine the general policy or institutional units, if necessary nominating its directors or managers”.

Based on the above indications, there are included in the public account consolidation institutions like:

- with legal personality and draw their own financial situation of exercise, compliance with regulations in force,
- operating under government control, based on the regulation, in special purposes,

- engaged the production of goods and services not for sale,

- covers more than 50% of production costs with revenue from product sales (the criterion of 50%).

The application of the criterion of 50 % acquires a special importance for institutions with their own income from the sale of goods or services, for the own income amount includes all contributions granted by government or EU institutions related to the volume or value of production, the transfers are excluded while covering a global deficit. For the application of this criterion must be included also the transfers „the financial corporations and quasi-corporations to compensate for losses suffered by them than occasionally productive activity, having to charge prices below average costs of production as social and economic policy guidelines established at European level or by the government”.

Besides „the criterion of 50 %” must be applied through a multi-annual perspective, if it is found for a number of years, and this year, and if there are expected in the near future, however, without taking account of the secondary fluctuations in the volume of sales of the each year to the following year.

The State Treasury is included in the scope of consolidation and therefore property values, financial and related economic management contributed to its consolidated financial statements.

### 3. Institutions excluded from the scope of consolidation

Taking into account the criteria in the previous paragraph, are excluded from the scope of consolidation the following institutions:

- the ones which don't have legal personality and don't draw their own financial situation of exercise,
- the ones which are not operating under public administration control,
- the ones which are economically active in different purposes of the social ;
- the ones which have their own revenues resulting from the sale of goods and services that generate revenue of more than 50% of production costs.

In addition, there can be excluded the establishments whose activity is irrelevant to a true and fair representation in the institutions strengthened of the consolidated institution's activity and its results or which consolidation involves building some excessive costs for obtaining accurate data.

### 4. Consolidation procedures

In drawing up the consolidated financial statement and consolidated accounts of assets and liabilities, and the income and the gains and the expenses and the costs of the institutions included in consolidated institutions are integrally taken.

Regarding to the budget execution account on the nature, data will be aggregated in a first phase with the distinction over the funding sources, each identified by a specific code and then synthesized for the entire subsector and sector.

Similarly, budget execution account will be drafted by aggregating data by the subsectors and later by sectors.

### 5. The centralization and merger of financial statements.

The Ministry of Public Finance consolidates the received financial statements, received and carried to strengthen further processing for consolidation.

#### **Rectification procedures**

*a) Eliminating mutual receivables and payables between the institutions included in the consolidation*  
Claims are subject to consolidation, determined at the date of the consolidated financial statements, which every public institution has in relation to other institutions included in the scope of consolidation considered, they must find a correlation in liabilities recorded on the same date in the Statement heritage of the latter. Values mutual claims and liabilities arising from financial operations and/or business conducted between the institutions concerned.

*b) The removal of the expenses/costs and incomes/gains relating to transactions between consolidated institutions for transfers and contributions.*

The transfers (current and in capital account) contributions are recognized as an exception to the general principle of accrual to the economic, in the time of transaction, in financial terms, with correlation both in the amount of cash and accrual.

Eliminating the income/gains and expenses/costs for interest income from consolidated institutions and the State Treasury.

Lending rates are subject to correction and passive reference found on the consolidated financial statements related to the financing transactions between considered institutions within the scope of consolidation.

The consolidated financial statement of the sub-sector and sector are subject to correction and lending and deposit rates for Treasury operations.

*c) Elimination of income/gains and expenses/costs for taxes and fees paid by an institution to other government institutions.*

Are subject to correction any taxes paid by public tax of another institution under the regulations in force. This category includes assets and income taxes payable for the work. I not included local VAT rate transferred by the central government budget.

*d) Eliminating income/gains and expenses/costs for the sale of goods and services between institutions strengthened/ consolidated.*

Commercial transactions (purchase/sale of goods and services for a specific cost) are recorded at the time of transaction, regardless of the receipt or payment therefore the amount of cash and accrual may be different.

*e) Eliminate income/gains and expenses/costs for transactions between consolidated institutions.*

Are subject to correction and the values of the sums awarded by way of reimbursement received full or partial funding for financing operations between public consolidated institutions.

*f) The remove of any profits and losses included in assets resulting from exchanges between institutions.*

The remove of any profits and losses included in assets resulting from exchanges between institutions. Profits are subject to correction and losses resulting from exchange transactions between consolidated institutions are included in property asset classes. Categories interested financial statement shows assets, materials and supplies of goods.

The procedure is to remove the full potential profits and losses included in the carrying amount of these assets, arising out of or where consolidated exchanges between institutions are made at a different price to cost value.

*g) The removal of shareholdings in companies included in the consolidation as meet the requirements for the scope of consolidation.*

Holdings are subject to correction values in categories patrimonial assets of an institution in relation to the consolidated institutions. Peculiarities that must be removed are generally recorded in financial assets. Is the case of the companies providing services exclusively composed of companies with the support of one or more public administration.

Not subject to rectification participation quotas for unconsolidated companies or institutions.

## 6. Conclusions

The removal of the annulment of the value of shares involves reducing the value of the net assets

consolidated to an extent proportional to the percentage of ownership held.

Any difference between the carrying amount of the equity and its share of net assets must be recorded in a special category of asset position (assets and liabilities) entitled "Consolidation differences".

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