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FINANCIAL STATEMENTS OF GROUPS COMPANIES – MAIN INFORMATIONAL SOURCES IN EVALUATING PERFORMANCES

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According to the accounting law stipulations, the parent-companies, defined thus in the regulations applicable to the groups of companies, draw up annual consolidated financial statements, too, made up of the consolidated balance, the consolidated profit and loss account, the consolidated statement of the treasury flows, the consolidated statement of the shareholder's equity's changing, the group's accounting policies and the explanatory notes. The paper presents the main information that these financial documents must contain, as well as the main evaluating indicators of the financial performance of the groups of companies which can be computed based on the consolidated financial statements.

The financial statements of the companies group, called consolidated financial statements, have as objective to provide information regarding the financial position, financial performance, cash flows and other information regarding the group's activity which should be useful to a wide range of users, in making their economic decisions.

The group represents the assembly made up of the parent-company (consolidating) and its branches on which the dominant company is exercising the control, that is the power to run their financial and operational policies so that they get economic advantages from their activity.

The main features of the companies group are:

- the companies group is actually a reality without juridical personality, identification attributes or patrimony;
- all the component structures have juridical personality and are subdued to the dominant company's will;
- the dominant company is exercising its will under direct or indirect forms, as a notable influence, control, direction, but never as an absolute subordination;
- the group unity is built on the unity of interests of the component companies.

1. Norms and regulations

The economic structures, the dynamism of the financial markets and the juridical system regarding the grouping of companies in the Anglo-Saxon countries have favoured the occurrence and expansion of the consolidated accounts presentation. The first legislations imposing the drawing up of consolidated financial statements were in 1933 in the USA and in 1948 in Great Britain.

In Europe only in 1976 it appeared the first proposal of European directive which had in view the consolidated accounts, this being the basis for the 7^{th} Directive of the European Commission and which was sanctioned only in 1983 due to some divergences regarding the approach of the group concept.

In 2002 it appeared a regulation which stipulated that the accounting directives should continue applying to the quoted companies which would publish the financial statements according to the International Financial Reporting Standards (IFRS).

In Romania, the general norms referring to consolidation and consolidated financial statements have become operational norms by the Injunction no 1752/2005 of the Minister of Public Finances meant to approve the accounting regulations in accordance with the European directives.

According to the Accounting Regulations in accordance with the 7th Company Law Directive of the European Economic Companies, sanctioned by OMFP no 1.752/2005, the parent-company should draw up annual consolidated financial statements and a consolidated report if it carries out one of the conditions:

- it has the majority of the voting rights of the shareholders or associates in a branch;
- it is a shareholder or an associate of an entity and the majority of the members of the management, administration and supervision bodies of that particular branch have been appointed only as a result of exercising their right to vote;
- it is a shareholder or an associate of a branch and it has alone the control on the majority of the voting rights of the shareholders or the associates of this branch, respectively it has the right to exercise a dominant influence on that branch, in accordance to a contract signed with that particular entity or a clause from the constituting act or status or the right to appoint or dismiss the majority of the members of the administration, management and supervision bodies of that branch;
- the parent-company has the power to exercise or it actually exercises a dominant influence or control on a branch;
- the parent-company and the branch are run on a unified basis by the parent-company.

According to the same regulations, a parent-company is exempted from drawing up the annual consolidated financial statements if on the date of its balance, the entities which are going to be consolidated do not overcome together, based on their latest annual financial statements, the limits of two out of the following three criteria:

- total assets 17,520,000 euro;
- net turnover: 35,040,000 euro;
- average number of employees during the financial year: 250.

2. The architecture of consolidated financial statements

A complete set of consolidated financial statements contains:

- consolidated balance,
- the consolidated profit and loss account,
- the consolidated statements of the treasury flows,
- the consolidated statements of the changes in shareholder’s equity,
- the group’s accounting policies and the explanatory notes.

Consolidated balance

This document provides information regarding the assets, liabilities and the shareholder’s equity. According to the IAS 1, the structure and the content of the balance must make the distinction between the current and non-current elements.

The current assets of the balance contain:

- the elements destined to be accomplished or held in order to be sold or consumed within a normal cycle of operation;
- the elements destined, mainly to be negotiated on different markets;
- the elements held in a short-term perspective, the entity being waited to achieve them in maximum one year since the closure of the financial year;
- the cash or the cash equivalents.

The other assets are considered non-current elements, being classified as intangible assets.

A debt is a current element of the external liability, when it must be reimbursed either within the normal cycle of exploitation or to a due time during the following 12 months which follow the closure date of the financial year. All the other liabilities are non-current liabilities, that is long-term liabilities.

The consolidated balance must present at least the following information:

- Fixed assets
- Real estate investments
- Intangible assets
- Financial assets
- Financial investments accounted for using the equity method
- Biological assets
- Stocks
- Commercial debts and other debts
- Cash and cash equivalents
- Commercial liabilities and other liabilities
- Provisions
- Financial liabilities
- Liabilities and debts regarding current tax, deferred tax respectively
- Minority interest, presented in the shareholder's equity
- Issued capital and the reserves allotted to the holders of shareholder's equity of the parent company.

Consolidated profit and loss account

The minimum information that must be presented in the profit and loss account refers to:

- Revenues
- Financial expenditure
- Quota-part in the result of associated enterprises and of associates in participation equated
- Profit or loss before taxation ascertained when selling the assets or discounting the relative liabilities for abandoned assets.
- Taxation on benefits
- Profit or loss after taxation, ascertained for abandoned activities
- Result of the financial year

The majority of groups, on the last line of the profit and loss account publish the result per share, an indicator having two forms: the result per share basic and the result per share diluted.

The entity must present an analysis of the expenditure by using a classification based either on the nature of expenditure or on their destination, according to the relevance.

The consolidated chart of treasury flows

Such an chart provides information allowing the users to evaluate the changes of the net asset of an enterprise, its structure and capacity to change the values and the bills payable book of the treasury flows in order to adapt to the changes of circumstances and opportunities, showing from where the cash came and how it was spent, explaining the causes for its variation.

The chart of the treasury flows must present the cashing and payments flows of the financial year classified into:

- flows generated by operation activities;
- flows generated by investment activities;
- flows generated by financing activities.

There are two methods to draw up the consolidated chart of the treasury flows:

1. by consolidating the individual charts of the treasury flows;
2. starting with the variations of the consolidated balance.

In practice, it is used a combination of the two methods of drawing up, the software programmes automatically generating:

- the consolidated chart of the treasury flows for each branch, starting with the balance variations and a series of supplementary information;
- the cumulus of all the consolidated charts of the treasury flows of branches in order to obtain the consolidated chart of the treasury flows of the group.

The consolidated statement of the shareholder's equity

In accordance with IAS 1, such a statement provides information regarding:

- the profit or loss of the period;
- losses and profits, expenditures and revenues which were directly affected to shareholder's equity as well as the total of these elements;
- total of revenues and expenditures of the period, computed as a sum of a) and b), presenting separately the total sums allotted to the shareholders of the parent-company and to the minority interests;
- for each component of the shareholder's equity, the effect of changes in accounting policies and error corrections.

Also, the entities must present, either in the statement of the shareholder's equity variations, or in notes, the following information:

- The operations performed with the owners, distinctly mentioning the distributions favouring them;
- The undistributed results, when opening and closing the financial year, as well as the explaining of the flows representing the variations;
- Reconciliation between the initial balance and the final balance of each post of shareholder's equity, separately stating each movement.

Accounting policies and explanatory notes

The practice demonstrates that the number and nature of the information can vary significantly from one group to another. There is though a series of minimum information which must be stated in the notes in order to allow the external users the understanding and interpretation of the criteria retained in the process of drawing up the financial statements. It is about:

- the accounting referential used, the norms which were not applied and the reasons for which the norms have not been applied;
- the consolidation methods, the treatment of the purchasing differences, the conversion methods and the date of account closure;
- the evaluation methods and rules used for the significant posts in the balance and the consolidated profit and loss account;
- the consolidation perimeter;
- the information comparability;
- the sector information;
- other information: events previous to the date of the balance, the remunerations of the members of management bodies, etc.

The explanatory notes must be presented systematically, each element of the other components of the consolidated financial statements having to make reference to all the relevant information in the notes.

The entities can present additional statements like the reports referring to the environment (which become more and more required by the society) and statements regarding the added value to the extent to which the management considers that they help the users in making economic decisions.

3. Financial indicators used to evaluate the performances of the companies groups

The performances of the companies groups present interest for several categories of people and institutions such as investors, public authorities, group management, the employees and not in the least the environment in which the group runs its activity.

The performance indicators can be established by the regulating institutions or by legislation, but can also be defined by the group also according to its objectives.

Among the most used financial indicators we mention:

- OP (Operational profit) – the profit generated by the operations of a company or a group, computed before the payment of interests and bills;
- EBIT (Earnings before interest and tax) – includes all the profits made from the normal operations of the company computed before the payment of interests and bills, being excluded from the computation the capital costs;
- EBITDA (Earnings before interest, tax, depreciation and amortization) – an indicator used to make a comparison of a company's profitability without the dates being influenced by changes in the computation of depreciation, amortization and the level of fees and interests;
- GPP (Gross profit percentage) – an indicator showing the efficiency of the computation process production in relation to the prices practised and the volume of sales;
- EPS (Earnings per Share) – an indicator used in evaluating the market value of a company, especially by the institutional investors;
- ROE (Return on equity) – an indicator measuring the efficiency of the company in using the assets and generating profit;
- ROI (Return on investment) – measures the efficiency of an investment made, providing the possibility to make a comparison with other investments;
- ROA (Return on assets) – measures the efficiency of using the total capitals or their capacity to generate profit;

The way to compute these indicators, the significance and interpretation of the results obtained make the object of a future research.

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