ACCOUNTING FOR CONSOLIDATION OF FINANCIAL REPORTS

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Abstract. The exposure and necessity of performing consolidated calculations is a critical issue in modern financial reporting. For consolidation purposes, it is necessary to define theoretically a group of enterprises as well as connections among enterprises within a group. In order to highlight the importance of the following elements, a collective balance weakness must be introduced: group share and other reserves, intragroup receivables and liabilities, intragroup incomes and expenditures. *The majority of the paper is about a method of capital consolidation for subsidiary companies using the acquisition method. Business Combinations were defined in accordance with IFRS 3 and the basic requirements for carrying out the acquisition method were also examined.*

Key words: Financial statements, consolidation, subsidiary, associate, international standards, entrepreneurship, business activities, stock, capital markets.

The consolidation problem is one of the most difficult areas of theory, analysis, and reporting policy. Although the first consolidated reports appeared more than a century ago, they were long overdue as a response to a need for information on a group's financial, income, and proprietary position, as well as their legal and professional regulatory rules. Legislators have permitted a lack of regulatory standards in the consolidation industry because they do not want to enforce tight and inflexible norms, and accounting professionals have a dominating opinion that legal independence of group members is more important than economic unity of the group. The United States and the United Kingdom were the first countries to legalize consolidation, followed by countries in Continental Europe.

In economies where there are groups of firms, it is now common practice to perform consolidated financial reporting. In the previous few decades, preparing consolidated financial accounts has grown increasingly important. With the growing association of businesses into groups, and subsequently a more thorough connection of small and medium businesses beyond national borders, there is a greater need for national legislatures to unite in the consolidation field.

As a result, the International Accounting Standards Board addresses the problem of consolidation in all five international accounting standards. After this, there has been a substantial contribution to the harmonization of European rules and the approach to the Anglo-American consolidation practice.[1]

Accordingly, nowadays Resolution of the President of the Republic of Uzbekistan "On additional measures for the transition to international financial reporting standards"[2] was published in the official press in February 2020. From January 1, 2021, legal entities included in the category of medium-sized organizations and large taxpayers will organize accounting on the basis of International Financial Reporting Standards (IFRS) and from the end of 2021, will prepare financial statements on the basis of IFRS to provide foreign investors with the necessary information environment and expand access to international financial markets. It means that In Uzbekistan also accepting consolidation procedures in economic financial reporting processes.

We can examine the group of firms in a narrower and broader sense using the IAS 27 Consolidated and Separated Financial Statements. The parent firm and subsidiary companies that belong to the group are referred to as the group in its broadest sense. The subsidiary companies are those that have a dominant influence, i.e. the parent company has a controlling effect over the subsidiary company's business and financial policy. A control is the ability to manage an entity's financial and business policies in order to profit from its operations[3]. In a larger sense, the

[1] International Accounting Standards and International Financial Reporting Standards represent a compromise of the European and Anglo-American accounting practice
[2] President resolution “On additional measures for the transition to international financial reporting standards” 2020
[3] IFRS 3 *Business Combinations,* Enclosure A.

group includes, in addition to the parent and subsidiary companies, joint (joint ventures) and linked enterprises (associates). The associates are individuals who are influenced over but parent don't have any control over it. Significant influence entails the ability to participate in decision-making in an entity's financial and business policies, but not control over such policies.[4] The parent business receives 20-50 percent voting rights as a result of this influence. Joint enterprises are businesses that are managed in tandem with other businesses in the group, as well as businesses that are not part of the group. As a result, the strongest link exists between the parent firm and subsidiary companies, followed by the parent company and associates, and finally the joint ventures. The International Accounting Standards have been applied logically to this falling series in terms of correlation degree. The parent company and subsidiary firms are covered by IAS 27, associates are covered by IAS 28, and joint ventures are covered by IAS 31. The first example below demonstrates how to develop relationships within a group of businesses.

Example no. 1 - The firm A holds 80% of the capital stock of the company B, which includes voting rights at the General Shareholders Assembly. The firm B holds 25% of the capital stock of the company C, which includes voting rights at the General Shareholders Assembly, and 30% of the company C's preference shares. The firm B also has the option to purchase the shares of the company D, which it can do at any time after receiving a bonus at a market price at the time they were issued, and if it does, it will get 10% ownership and voting rights in the company D. The company A owns 5% of capital stocks with the voting rights and 55% of the preference shares of the company D. Make determination of the relations character between the companies!

Solution - The company A is the parent company, the company B is dependent on the company A, because it owns 80% of capital stocks in the company B. The company C is the associated company in regard to the company A, while the

[4] IAS 28 *Investments in associates*, Article 2.

company A has indirectly, over its subsidiary company B, 25% of the capital stocks of the company C (does not take into consideration the preference shares while they provide no voting rights). The company D is correlated with the company A after investment in the securities[5], because the company A has only 5% of the capital stocks in the company D. The company D is also correlated to the company B after the investments in the securities, while options on shares which provide 10% of share in the company D, can use at any time. Further issue of the paper is directed to the complete consolidation, for which is relevant the group of enterprises in the narrow sense.

The capital investment of one company in another (the parent company in a subsidiary company and among subsidiary companies) is initially recorded in the individual balance sheets of the companies involved in the transaction. The company that invests in the capital of the other company registers the transaction as an asset - a share in a joint venture. The transaction is recorded as an increase in liabilities by the company that was invested.[6] In order to make informed decisions about their investment, shareholders would need to read and interpret the financial statements of both entities. If there were more than one subsidiary entity this could become quite complex for shareholders. To this end one set of financial statements is prepared where the revenues, expenses, assets and liabilities of the parent and subsidiary are combined for ease of understanding and analysis.

The key points relating to the preparation of a consolidated statement of financial position and consolidated statement of financial performance are as follows:

- The assets and liabilities of the parent and the subsidiary are added together on a line-by-line basis

- The investment in the subsidiary included in the parent's SoFP is replaced by a goodwill asset in the consolidated SoFP

5 Investment of securities would balance in accordance with IFRS 9 *Financial instruments.*

[6] Kaplan Publishing UK "Financial accounting" 2021 p.394

- The equity (ordinary) share capital and share premium balances of the parent and subsidiary are not added together; only the parent entity balances for equity share capital and share premium are included in the consolidated SoFP. This reflects the fact that the consolidated SoFP includes all of the assets and liabilities under the control of the parent entity
- The amount attributable to non-controlling interests is calculated and shown separately on the face of the consolidated SoFP
- The group share of the subsidiary's post-acquisition retained earnings is calculated and included as part of group retained earnings
- Parent and Subsidiary may well trade with each leading to cancel each other out receivables and payables in P and S
- If a dividend is paid by one entity and received by the other, the net effect of this to the group is zero
- Add together the revenues and expenses of the parent and the subsidiary on a line-by-line basis and, if the subsidiary is acquired part-way through the year, time-apportion the results of the subsidiary
- Eliminate intra-group sales and purchases
- Eliminate unrealised profit held in closing inventory relating to intragroup trading
- Calculate the profits attributable to the non-controlling interests

According to the IFRS 3 Business Combinations, which was reviewed in 2008, for the capital consolidation can apply the acquisition method. This method requires:

a) identification of an acquirer,

b) determination of the acquisition date,

c) recognition and measurement of acquired recognizable property, overtaken liabilities and every share without control right in acquired entity, and

d) recognition and measurement of goodwill or profit from a bargain

Example no. 2 - The assumption is that the parent company A has gained 100% of shares in the subsidiary company B. At that date individual balances of the mentioned enterprises look like:

	A	B
Property, plant	85	18 000
Shares in B	60	
Current assets	160	84 000
Total assets	**305**	**102 000**
Equity shares @	65	20 000
Share premium	35	10 000
Retained	70	25 000
Current	135	47 000
Total equity	**305**	**102 000**

Solution – for preparing consolidated statement of financial position the main points here are shares, net assets of B at acquisition, adding line by line. In the following table we can see consolidated figures:

	Calculation	A&
Property, plant	85 000+18 000	103
Goodwill	60 000-	5
Current assets	160 000+84 000	244
Total assets		**352**
Equity shares @	65 000	65
Share premium	35 000	35
Retained	70 000	70
Current	135 000+47 000	182
Total equity and liability		**352**

In the next example is described a situation when the parent company has share less than 100% in the subsidiary company's capital. In that case appears the position share which does not provide control, which expresses separately from the subsidiary company's equity capital. The share that does not provide control, i.e. the minority share is a part of profit or loss and the subsidiary company's net assets, which can ascribe to shares in capital, not owned by the parent company, neither directly, or indirectly, through the subsidiary companies.

Example no. 3 - A acquired an 80% holding in B on 1 January 20X8. At this date B's retained earnings stood at $20,000. On this date, the fair value of the 20% non-controlling shareholding in J was $12,500.

	A	B
Property, plant	85	18 000
Shares in B	60	
Current assets	160	84 000
Total assets	**305**	**102 000**
Equity shares @	65	20 000
Share premium	35	10 000
Retained	70	25 000
Current	135	47 000
Total equity	**305**	**102 000**

Solution – for preparing consolidated statement of financial position the main points here are shares, net assets of B at acquisition and at reporting, and considering non-controlling interest. In the following table we can see consolidated figures:

	Calculation	A&
Property, plant	85 000+18 000	103
Goodwill	60 000+12 500-	22
Current assets	160 000+84 000	244
Total assets		**369**
Equity shares @	65 000	65
Share premium	35 000	35
Retained	70 000+(25 000-	74
Non-controlling	12 500+(25 000-	13
Current	135 000+47 000	182
Total equity and liability		**369**

Every subsequent consolidation proceeds in the same manner, unless the parent firm decides not to sell its share in one or more of the subsidiary companies. This is the point at which the consolidation will come to an end. The sale of the parent company's share in the capital of the subsidiary firm is recorded in the parent company's segregated balance in such a way that the share becomes cash. The realized profit or loss on a sale is the difference between the sales price and the book price. Following the sale of a share, the parent company will remove all assets and liabilities related to the sold subsidiary company when calculating the consolidated balance.

Conclusions and suggestions. Different consolidation procedures are used depending on the degree of control and influence of the parent firm on the group members. The term "full consolidation" refers to the consolidation of capital between the parent and subsidiary companies. The acquisition approach is used in the entire consolidation. The equity technique is used to consolidate the capital of associates, whereas the quota consolidation method is used to consolidate the capital of joint ventures.

After IFRS 3 review thereby was made easier the situation for practitioners and composers of the consolidated calculation. The company's management and the balance policy's creators lost their room for manoeuvre, so on the balance policy in the field of full consolidation of the capital cannot be spoken about. Regulating one technique of entire capital consolidation also improves the consolidated financial statement's comparability. A wide range of criteria are utilized in the framework of such documentation, all of which must be taken into consideration in the final version of the reporting. As a result, consolidated reporting allows you to acquire the most comprehensive and accurate picture of the parent organization's financial condition and performance, as well as all organizations under its control, i.e., the objects are treated as a single economic unit. It's important to remember that the process of preparing consolidated financial statements is quite complicated, necessitating immediate preparation.

In the context of Uzbekistan, NAS and IFRS accounting policies may be converged to reduce the impact of the transition to IFRS on the financial results and IFRSs of companies that decide to do so. This reduces the amount of corrections in the first IFRS report. Among the main methodological recommendations for accounting policies to bring accounting closer to IFRS are:

- application of a single methodology for creating reserves for receivables and loans provided in IFRS cooperating with NAS;
- creating reserves in NAS in accordance with IFRS principles;
- regular inventarisation of stock, write-off of illiquid stock;
- creating a reserve for litigation based on the principles of IFRS reservation;
- application of a single methodology for the creation and restoration of reserves for unused holidays.

Taking into consideration the findings, we believe that the establishment of a single methodology for the responsible authority's implementation of the consolidation process is essential. It ensures the quality and fair presentation of the consolidated financial statements by meeting all of these requirements.

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11. *IAS 28, Investments in Associates and Joint Ventures.*

12. *IAS 31, Interests in Joint Ventures.*

13. *IAS 36, Impartment of Assets.*

14. *IFRS 3, Business Combinations.*

15. *IFRS 9, Financial Instruments.*