ROLE OF ACCOUNTING AND CONTROL PROCEDURES IN PROVIDING A SUCCESSFUL MANAGEMENT OF THE ACCOUNTS CONSOLIDATION PROCESS

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ABSTRACT: In numerous cases, there are significant differences among the evaluation and presentation rules applied by entities, members of a group, concerning the elaboration of individual financial statements. In their turn, the consolidated financial statements should allow a homogenous representation of the whole, which is made up of entities included within the consolidation perimeter. For this reason, prior to the achievement of accurate consolidation operations, a series of homogeneity re-treatments are necessary in order to remove all differences existing between the accounting rules applied for drawing up individual financial statements and those applicable to consolidated accounts determined by aggregating individual accounts of entities included within the consolidation perimeter.

Key words: accounts consolidation, management, consolidation perimeter.

JEL codes: M, A

Introduction

Starting from the concept of development strategy applied within each group entity, from its creation, monitoring and improvement, one may observe that the presence of these entities is related to the frequency on external markets or to the situation of a very diverse output.

Under these circumstances, one of the operation methods, providing the way of achieving the scope of work through extension on terms of high efficiency, may be chosen: either through maintaining the judicial unit and creating departments or subsidiaries, or through creating new companies, having own corporate body, controlled by the leader of the group.

The external extension, by incorporating new entities or by taking over the control over already existing companies, determines the entry of major corporations worldwide established.

Along the same line, it is important to mention the fact that, the organization of group entities on lines of business constitutes the main argument in providing an efficient general management corresponding to each level of business or country, although, it sometimes hide the economic reality.

We support the opinion of several specialists, according to which, the group leader "may be interested in purchasing a wasteful entity, deficient in management, but revealing an interesting long-term outturn potential. In this case, from the creditors' point of view, such an entity, independently analyzed, involves a high risk, but an analysis against the group background may emphasis a more attractive and rightful image of its real state"[4].

The need for an account formulation within the group entities may be related to the fact that, in order to achieve a real image of the business entity formed by a group, "the simple reading of individual annual accounts of the group-owned companies" is insufficient and irrelevant, according

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[4] Săcărin M., Detailed Accountancy (Contabilitate aprofundată), Economica Publisher House, Bucharest, 2004. p. 219.

to the field literature, because they do not allow a rightful estimation of the financial stand and of the group performances. The designation of individual accounts reflects the limited character of this concept which prevents the achievement of a group image, of a synthesizing analysis, ignoring the sizes of the group. The individual accounts do not indicate the common activity of different companies inside the group; they generate real deficiencies as they do not reveal mutual operations between companies, therefore, it is hard to estimate the turnover or outer transactions of the group, the global financial debt.

The elaboration of consolidated accounts is meant to eliminate these deficiencies of estimating the financial state and the profitability of the group entity, by the third parties. Considering this aspect, the consolidated accounts settled by the leader entity include the financial information presentation which allows an analysis of the group financial structure and profitability, the supplement of individual accounts, depending on the capital correlation between the leader and the other entities of the group.

Although, there are visible benefits resulting from the application of consolidated accounts, these accounts are not perfect, but improvable. Shown as belonging to a single reporting entity, they do not reflect any information concerning the financial flows existing between the entities within the corporation, even though, knowing the internal financial flows may be useful in understanding the whole group strategy and organization. Simultaneously, there is another issue impossible to ignore, namely, the analysis of financial statements belonging to the leader entity do not eloquently reflect the real economic power of the whole group entity, and the estimation of leader's "control" over other entities within the group, determined only according to the data included in the balance sheet, to the item "Participation securities owned within the group", proves to be insufficient, because they are reflected to their purchase value, finally updated.

According to an unanimous opinion, shared by the field literature[5] to which we line up, the group is perceived as a single whole, its annual accounts, as a general view, do not correspond to the sum of annual accounts owned by the group entities. Consolidated financial statements, seen as the "group mirror, which offers us a time travel meant to reveal its past, but, at the same time, a guide of its actions toward future performances", may be achieved according to unanimously accepted principles, establishing, thus, a diagnosis by means of reliable information, projections on standardized basis, as well as, the control of the leader entity on the basis of reliable documents.

Research methodology

Considering all these polemics, developing a comparative analysis between two major group entities, part of a domestic business environment, we have intended to settle clear observations regarding the starting points of the account consolidation process, first determining the accounting and control procedures which involve major meanings and incidences. This stage has great importance due to the budget implied here, particularly, when dealing with a first consolidation. Subsequently, a considerable budget is no longer necessary because the initial accounting and control procedures are maintained.

Thus, by taking the case of entities considered as most appropriate to our applicative research, namely: a. PETROM SA, an international company which operates in oil and gas field and develops an activity in the following business segments: exploration and production (E&P), refining, petrochemistry and marketing **and b. Romanian Development Bank BRD-Groupe Société Générale ("Bank" or "Group"), a joint-stock company registered in Romania,** which started its activity as a state owned bank, at the end of the year 1990, by taking over the patrimony assets and liabilities of the former Investment Bank of Romania, **a first approach would involve grasping the aspects concerning the representation of the ownership general structure indicated as it follows, as a result of the undertaken analysis:**

[5] A. Tiron Tudor, Accounts Consolidation Process, Tribuna Economica Publishing House, Bucharest, 2000.

	December 31st, 2008
OMV Aktiengesellschaft	51.01%
Ministry of Economy and Trade	30.86%
Property Fund SA	9.89%
European Bank for Reconstruction and Development	2.03%
Individuals and business entities (Free float)	6.21%
	Total 100.00%

The representation of BRD-Groupe Société Générale ownership structure, the Bank's shares being listed in the 1st category of the Bucharest Stock Exchange ("BVB"), is detailed in figure no 1:

	December 31st, 2008
Société Générale France	58.33%
SIF Oltenia	5.34%
SIF Muntenia	5.27%
SIF Moldavia	5.05%
SIF Banat Crisana	4.60%
SIF Transylvania	5.00%
European Bank for Reconstruction and Development ("BERD")	4.99%
Other shareholders	11.43%
	Total 100.00%

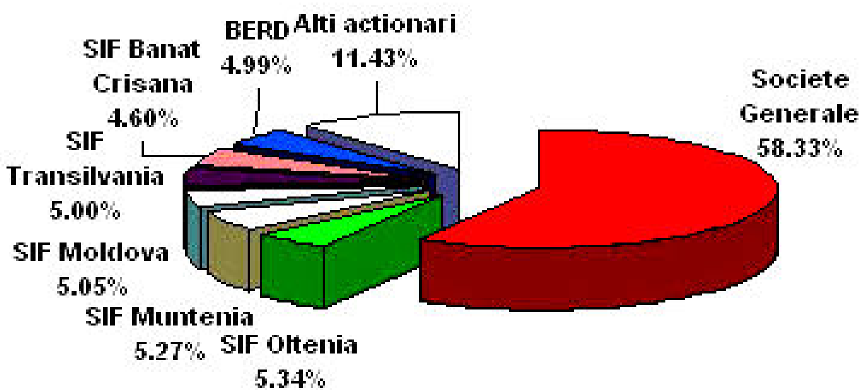

Fig. no. 1 – BRD-Groupe Société Générale ownership structure; information provided according to the annual consolidated financial statements

The specialty literature underlines the fact that this first stage of the accounts consolidation process involves solutions for the following issues[6]:

- Establishing chart of accounts for consolidation;
- Determining homogenous methods for evaluation;
- Establishing a closure date for the accounts;
- Consolidation works scheduler;
- Organization of the internal control necessary within the consolidation process.

- **Establishing the chart of accounts for consolidation** consists in the precise application of evaluation and classification rules and methods, which reflects the level of the consolidated entity.

All choices made to this respect should allow the enforcement of homogenous rules and methods proper to the consolidated entity. The elaboration of this plan proves to be much easier when applied for keeping the accounts of consolidated entities. Generally, certain specific circumstances determine the passage of some rules, different from those established according to

[6] Tiron Tudor A, Accounts Consolidation Process, Tribuna Economica Publishing House, Bucharest, 2000.

the chart of accounts for consolidation, by some consolidated entities, meant to provide their individual accounts.

We consider that the effective enforcement of a consolidated codification of accounts, including a detailed controlling and subsidiary account data, is a useful, and even easy to achieve measure, considering that, unlike cross-border groups, for national groups, the materialization of such an objective proves to be more facile, due to the fact that, all the group entities operate within the boundaries of the same State, therefore, they are submitted to the same accounting regulations. A major problem appears in the case of entities having subsidiaries operating abroad or indicating a fluctuating perimeter, such as PETROM S.A. – the company counts 18 subsidiaries located abroad (from a total of 29 integrated and affiliated entities).

Each branch having the headquarters located abroad has the obligation to keep the accounts in compliance with the legal regulations of the respective country, which may differ from the group principles; therefore, an adapted chart of accounts is needed. Thus, the idea of establishing a unique chart of accounts may be rejected for supporting a precise disclosure of the evaluation rules and methods conserved for the elaboration of financial statements which are to be transmitted to the group.

The balance sheets and the financial result account, serving as a support in consolidated accounts elaboration, are also defined. All this information meets to draft a **consolidation guidebook**, and then, transmitted to all entities of the group.

The homogenous character of the evaluation methods reflects the fact that the consolidation guidebook includes all the rules for evaluating accounting positions which develop efficient accounting opinions regarding:

- ✓ Amortization of capital assets;
- ✓ Stock valuation;
- ✓ Adjustment for current asset depreciation;
- ✓ Debt and foreign currency claim conversion rules.

Each entity of the group should compare its own methods to those established by the group, in order to emphasize the existing differences and to estimate the impact. Each time the impact of these differences exceeds the established significance thresholds, a re-treatment operation becomes necessary.

Considering PETROM S.A. group, the impact of these aspects, concerned with the re-treatment procedures, over the account consolidation process, is elicited through footnotes; according to these footnotes, one may read the following mention: “the evaluation of assets and debts belonging to the subsidiaries is based on their just value registered on the date of the acquisition. The goodwill resulting on the date of the acquisition is considered as an asset, representing the cost surplus determined by the combination of enterprises over the Group’s interest from the net just value of assumed identifiable assets and debts. If the Group’s interest from the just value of the net identifiable assets, of assumed debts and contingent debts exceeds the enterprise combination cost, the surplus is registered in the profit and loss account”.

Preserving the comparative note followed in our approach, we should mention that, for the second analyzed group, the Romanian Development Bank BRD-Groupe Société Générale, an entity with a financial bank profile, these details should be taken into consideration for the elaboration of consolidated accounts; the information concerning the pre-consolidation aspects is provided by this entity according to the footnotes published. Therefore, it is important to point out the control d “when the Bank holds directly or indirectly over 50% of the voting shares of an enterprise”.

The consolidated financial statements include the financial statements of BRD-Groupe Société Générale, as well as those specific to the following subsidiaries:

- ➢ BRD Sogelease IFN S.A (holding 99.96%, 2005: 100%),

- BRD Finance IFN S.A (holding 49%, 2005: 49%),
- BRD Securities - Groupe Société Générale SRL (holding 99.82%, 2005: 99.82%),
- BRD/SG Corporate Finance (holding 51.25 %, 2005: 51,25%)
- ALD Automotive (holding 20 %, 2005: 20%).

- **Fixing a date for reporting the annual consolidated financial statements elaboration,** in the practice of different states, does not coincide with the end of the calendar year. Regarding the group, it is crucial that all the subsidiary entities included within the consolidation process, close the accounts on the same date, and, simultaneously, consider the same management period as the individual accounts of the leader-entity.

In **the case of the analyzed group, PETROM S.A.,** "the consolidated financial statements include the financial statements of the company Petrom S.A. and of its subsidiaries on the 31st of December 2008, and they are elaborated according to unitary accounting and evaluation principles. The financial statements of the subsidiaries are completed on the 31st of December 2008, which is the same reporting date registered by the parent company"[7].

Considering the other analyzed group structure, that of **BRD-Groupe Société Générale,** it provides information concerning "the consolidated financial statements which include the financial statements of BRD-Groupe Société Générale and of its subsidiaries on the 31st of December 2008. The financial statements of the subsidiaries are elaborated for the same reported period registered by the parent company, applying consequent accounting policies".

There are also exceptions to this rule, justified by means of footnotes provided for the annual consolidated financial statements, namely:

- The date meant to determine the consolidated accounts closure differs from that used for the leader-entity accounts;
- The closure date of individual accounts for most of the consolidable entities differs from the date used by the leader-entity; fact determined either by national regulations, either for technical or financial reasons.

If there are variances between the closure date of individual accounts and the date of consolidated accounts, depending on the time extent between the two dates, the consequences of this situation need to be analyzed. The international accounting standards IAS 27 "Consolidated financial statements and investment accountancy applied within subsidiaries" and IAS 31 "Investment financial statement within joint ventures" cover two situations:

- Time differences to 3 months;
- Time differences of 3 months or more than 3 months.

If time differences do not exceed a period of 3 months, they are approved by the international accounting reference system. Therefore, interim accounts will be elaborated taking into account the individual accounts requirements.

If the time extent exceeds 3 months, the consolidation process may be initiated either by using interim accounts or individual accounts updated with operations and significant events developed during the intermediary period, or by using the last individual accounts and pointing out in the footnotes all the significant events following their elaboration, with an impact over the financial situation and results.

- **The consolidation works scheduler** involves planning the sequence of consolidation works, the necessary time period on days, appointing the working team, the representatives and indicating the completion date.
- **The organization of the internal control necessary within the consolidation process** views the following objectives:
  - Exhaustive information and operations;
  - Operations reality;

[7] The information results from the annual consolidated financial statements provided by Petrom S.A.

- Accuracy basic data applied within the consolidation operations;
- Time delimitation of financial periods;
- Presentation of complementary accounts and information.

Ways of exercising the consolidation internal control, considered for the analyzed groups:

- **Accuracy controls** meant to verify the concordance between synthesis documents and the accounts used for their elaboration, noticing the lack of necessary additional information;
- **Arithmetic controls** concerning the operations, mutual accounts, the concordance between the accounts data and the variation or analysis systems, balance total values, result account, accumulations;
- **Hierarchical controls**, performed by managers of working teams to assess the accomplished work and by the financial management over the achievement of synthesis situations (on departmental level, especially in the case of BRD-Groupe Société Générale);
- **Consolidation final control** concerns the rightful application of principles and methods, particularly, for answering to three questions regarding re-treatments: their exhaustive character in respect to the group standards, their just formulation, and their regular presence from a financial period to another**.** These questions should consider the form of all re-treatments, such as different categorization of items, performance elements included by the current fiscal period or leading re-treatments, namely, amortizations, controlled reserves. At the same time, the exhaustive character represents a matter of internal control, and should be provided by the company. Considering the company size and the undertaken re-treatments, the auditor performs controls in order to provide security in this sense. On the other hand, the exhaustive character of re-treatments is provided according to the forms filled in by the company auditors.

- The pre-consolidation process approach continues with **the delimitation of the consolidation perimeter.** This stage begins with the presentation of the consolidated group flowchart, the calculation of the interest rate and of the control percentage and the selection of the consolidation method.

The configuration of the consolidated group flowchart is based on a detailed evidence of the securities portfolio held by the leader entity and by the entities forming the group. As a minimal request, each entity of the group has the obligation of providing data concerning the following aspects:

- Business entity identification: denomination, head office, main line of business;
- Share capital: share capital value, number of shares or proprietary equity, nominal value of one share or equity;
- Ownership structure: shareholders' name, number of securities, the type of securities (simple voting rights shares, multiple voting rights shares, non-voting rights shares), direct or indirect holdings of shares.

Referring these requirements to our tangible situations, we mention the case of PETROM S.A. with a share capital counting 56,644,108,335 totally paid shares, with a total nominal value of 5,664,410,834 RON. The difference to 18,983,366,226 RON represents the inflation adjustment generated by the fact that, until January 2004, Romania registered a hyperinflationist economy. On November 22nd, 2005, the General Meeting of Shareholders approved the share capital increase for the year 2008 considering the deposits created during the period January 9 – February 9, 2008, determined by the land title acquisition under the Governmental Order no 834/1999, amounting to 64,360,226 RON. In January 2005, the company **Petrom S.A.** constituted an instrument employed to hedge treasury fund flows amounting to 410 million Euros, against risks. The instrument is used to secure investments for umbrella funds, limited to 300 million Euros and for the acquisition of fixed assets from external suppliers (110 million Euros). Till the end of the year 2008, from the amount of 110 million Euros, 40 million Euros were already invested in tangible assets for Marketing and E&P divisions. Similar projects were planned for the years 2007 and 2008. Unachieved losses registered during the year 2008 were directly treated as own equity and indicated the value of 38,092,834 RON. The "Reserves" position includes the reported result (gain) as well as other reserves set aside (statutory reserves and the reserve afferent to geological share facility). As an element of the reported financial result, the reserve afferent to geological share facility indicates the following values: 5,062,836,164 RON in 2008 and 3,918,709,501 RON in 2005.

Considering the same kind of information provided by BRD-Groupe Société Générale, we may refer to a nominal share capital of 696,901,518 RON (2005: 696,901,518 RON) registered to the Trade Register. The company's share capital also includes the amount of 1,818,721 RON (2005:1,818,721 RON) representing the surplus from re-evaluation. On the 31st of December 2008, the share capital indicated the total amount of 696,901,518 (2005: 696,901,518) including authorized common shares issued and still in circulation. The par value of one share is 1 RON (2005: 1 RON). During the years 2004 and 2005, the Bank did not buy own shares. The Bank applies local regulations concerned with the capital development, which comply with the European regulations, the **2000/12/EC Directive**. These requirements imply an individual application of values which are determined according to the local laws concerning financial-accounting reporting and related to the **International Financial Reporting Standards and European Economic Communities: Directive no 86/635/CEE.**

The **Groupe Société Générale** is one of the leading financial groups in the Euro zone and the 7th French company, following its stock exchange capitalization (59.3 thousand million Euros in December 31st, 2008). At the end of the last year, the Group, counting over 120,000 of employees, has achieved a net banking income of 22.4 thousand million Euros and a net profit of 5.2 thousand million Euros.

The **flowchart** represents in a graphical manner the financial relations existing among the entities of the group, and reflects the structure of departments and the relations between subordinate units.

The interest rate and control percentage calculation: the control percentage is determined depending on the voting rights ratio from their total number and **provides a proper selection of the consolidation method for the analyzed entity.** The interest rate is indicated by the amount of shares held within the issuer entity's share capital and influences the distribution of own shares.

The selection of the consolidation method is made considering the control percentage held by the consolidating entity at the level of the consolidated one. Thus, if the percentage exceeds 50%, global integration method is required. Global integration method can also be applied for a level reaching minimum 40% if there is no other shareholder or group of shareholders registering a higher percentage. When the company holds equal control percentages between 20 and 50%, together with a number of 5 shareholders, the decision-making factor, concerning entity management aspects, is achieved having all shareholders' agreement. In this case, the proportional integration method is applied within the consolidation process. If an entity registers a control percentage range from 20% to 50%, and a notable influence in making decisions concerning the issuer entity's management is provided, the equivalence consolidation method is applied.

In our case, the **PETROM S.A. Group,** by means of footnotes, provides detailed information concerning the accounting treatment and methods applicable to its subsidiaries. As an example, subsidiaries registering an interest rate exceeding 50% are presented in table no1.

We consider that, a crucial stage in leading a relevant consolidation process is the homogeneity characteristic of the information provided by means of individual accounts of entities retained within the consolidation perimeter limits.

In numerous cases, there are significant differences among the evaluation and presentation rules applied by entities, members of a group, concerning the elaboration of individual financial statements. In their turn, the consolidated financial statements should allow a homogenous representation of the whole, which is made up of entities included within the consolidation perimeter.

Table no. 1

Consolidation accounting treatment developed by the subsidiaries of PETROM S.A. Group, which register an interest rate higher than 50%

NAME OF SUBSIDIARY COMPANY	INTEREST RATE (>50%)	CONSOLIDATION ACCOUNTING TREATMENT*
Dbi Fund	100.00%	FC
Raiffeisen Fund	100.00%	FC
Oppenheim Fund	100.00%	FC
PETROGAS	100.00%	NC
TASBULAT OIL CORPORATION LLP.	100.00%	FC
PETROM GAS SRL	99.99%	FC
Petrom Distributie Gaze (Gas distribution)	99.99%	NC
Rafiserv Petrobrazi	99.94%	FC
OMV Romania	99.90%	FC
OMV Bulgaria	99.90%	FC
OMV Yugoslavia	99.90%	FC
Rafiserv Arpechim	99.75%	FC
PETROM NADLAC SRL Nadlac	98.51%	NC
POLIFLEX ROMANIA SRL Brazi	96.84%	NC
SC MP PETROLEUM DISTRIBUTIE	99.99%	FC
KOM MUNAI	95.00%	FC
OZTYURK MUNAI	95.00%	FC
SC Aviation Petroleum	99.99%	FC
RING OIL	74.90%	FC
PETROM MOLDOVA	65.00%	FC
Claire Nafta Ltd.	74.90%	FC
LLC Managent Company CorSarNeft	74.90%	FC
LLC Artamira	74.90%	FC
OJSC Chalykneft	74.90%	FC
OJSC Karneft	74.90%	FC
LLC Ekologicheskaya Tekhnika	74.90%	FC
LLC Neftepoisk	74.90%	FC
CJSC Saratovneftedobycha	74.90%	FC

* Consolidation accounting treatment:
- Integral consolidation FC

Unconsolidated subsidiary NC[8]

For this reason, prior to the achievement of accurate consolidation operations, a series of homogeneity re-treatments are necessary in order to remove all differences existing between the accounting rules applied for drawing up individual financial statements and those applicable to consolidated accounts determined by aggregating individual accounts of entities included within the consolidation perimeter.

In order to achieve a significantly consolidated group, the aggregation of individual accounts established according to homogenous rules of evaluation and presentation becomes necessary. In addition, there are elective evaluation rules specific to the consolidation process. Most frequently, inside the group, the juridical organization, the area of activity and the geographical placement determine each entity to assume different accounting choices.

Under these circumstances, in order to achieve intelligible and relevant financial statements, the correction of individual accounts belonging to consolidated entities becomes imperative.

[8] Distribution companies, individually, as well as, collectively insignificant from the financial statements consideration. Most of the unconsolidated subsidiaries register a reduced working volume or they represent distribution companies; their amount of sales, net profits/losses and own share capital represent less than 2% of consolidated sums.

Although, they do not take the form of accounting records, they a significant influence because they remove all the main causes of heterogeneity.

There may appear exceptions from the homogeneity principle, especially, when considering the negligible importance or disproportionate homogeneity costs (as mentioned above in the table, the case of unconsolidated subsidiary entities).

The specialty literature associates the term of homogeneity[9] either to the term of "**regrouping**", involving the elimination or the diminution of differences resulting from the accounts representation, or to that of "**re-treatment**", referring to the remediation of potential discrepancies existing among the evaluation rules and methods retained by each entity.

The **regrouping** process interferes in the elaboration of accounting synthesis documents of entities involved within the consolidation process, and according to international practices, they become effective on different dates and follow different types of representation generating serious problems concerning the accounting convergence, especially when dealing with groups registering multiple subsidiaries spread in different geographical areas and developing diverse activities, some of them even applying individualized accounting methods meant for each type of activity.

Considering the existence of isolated or simultaneous causes generating heterogeneous effects over the individual accounting synthesis documents, correction measures, homogenization measures are needed, generally provided by the consolidation guidebook elaborated within the group.

If the individual accounts are determined according different patterns (Anglo-Saxon or continental) and different formats – list or table, these different representations also impose an accounting regrouping for elaborating homogenous and relevant documents.

Putting a different complexion on the matter of regrouping, for the re-treatments, the same ideational line, previously mentioned, is preserved; therefore, we agree that for the elaboration of the balance-sheet and the account of consolidated results, it is necessary to apply the same homogenous structure or classification of components. **Major difficulties** appear when dealing with foreign entities submitted to different laws and regulations, which apply a different account codification system.

From a different point of view, there might be the possibility of cumulating integral elements of the balance-sheet and of the financial result account when the accounts are represented in foreign currency. Therefore, the foreign currency conversion is necessary.

For the balance-sheet accounts, the currency units are converted at the rate applicable at closure date, except for certain units converted at the rate existing at entry date.

For the result account, we have the following situations:

- ➢ The currency units registered at the end of the year are converted at the rate existing at closure date (for example, the adjustment situation),

and

- ➢ The currency units registered during the financial period are converted applying the entry rate or an average rate is taken into account.

No matter its elaboration structure (table or list), the result account should include at least the following elements: consolidated net turnover, the result determined by global taxation of consolidated entities through integration, the quota of results determined by consolidated entities through triggering equivalence, the shareholders' or minority shareholders' equity, as well as the consolidated entities' share, distinctively pointed out.

As a particular feature of the account of consolidated results, the way of classifying the integral components determines the development of two patterns, namely, the result account representing expenses and incomes according to their nature (it corresponds to the social result

[9] Tiron Tudor A, Accounts Consolidation Process, Tribuna Economica Publishing House, Bucharest, 2000, page 128.

account pattern) and the result account representing expenses and incomes according to the destination, a pattern inspired by the Anglo-Saxon design.

Consequently, the classification harmonization constitutes one of the major conditions for achieving a homogenous financial level within the consolidated group.

For covering this aspect, we should appreciate the fact that the international regulations, concerning the representation of consolidated accounts, are very flexible, they indicate only a minimum of necessary columns included in the consolidated synthesis documents. This aspect is highly recommended for the business groups operating in Romania.

These regroupings are no longer necessary in the case of national groups operating according to the same rules of representation and elaboration of synthesis documents, particularly when there is a single elaboration date of synthesis documents, provided by the law, as in the case of Romania.

The need for regrouping is required when dealing with foreign subsidiaries of the group.

Considering the two forms of representing the balance-sheet, the table or the list, there are no significant differences concerning the content of financial positions. As for the result account, the two forms of representation, according to the destination and nature, are different considering the elements meant to determine the business operation result; the way of achieving other results remains unchanged

On the other hand, the **re-treatment processes concerned with the accounting homogenization** are focused on the application of unitary evaluation methods: the acquisition and production cost evaluation for fixed assets and stocks; depreciation plans; provision and adjustment determination; stock record and management methods etc.

If an entity included in the consolidation process does not apply the method provided by the consolidation guide book, it has the obligation to rectify (re-treat) the accounts in order to achieve the representation of harmonized accounts, in compliance with the method retained by the group.

In order to benefit from certain facilities or to enforce the regulation applied in the residence country, the member entities of a group sometimes register pure fiscal items along with individual financial statements. For the elaboration of consolidated financial statements, it is important to avoid the incidence of statements resulting from the enforcement of fiscal regulation.

We may, thus, achieve a regrouping of these operations and a classification in:

- Homogeneity re-treatments;
- Re-treatments for removing fiscal incidences.

The effect of these operations may result in the adjustment of income tax expense, because, as considered in the elaboration of individual financial statements, they influence the tax base. In other words, re-treatment operations generate a series of future differences between the accounting and the fiscal result, presently accounted as delayed taxes.

In certain circumstances, observing the accounting regulations, it is hard to prove the specific character of an activity performed within consolidated entities. The selection may provide a unique method available for various activities, in this case, homogeneity is considered, or the juxtaposition of several different methods, which involves coherence and credibility. In both situations, the selection process should be motivated and comply with the principle of the permanence of methods.

From a practical point of view, the field literature distinctively grasps re-treatments which precede the consolidation process, according to the consolidation manner applied[10], namely:

- Considering the outstanding balance;
- Considering the cash flow.

[10] Feleagă N., Malciu L., "Account Consolidation Regulation and Practice", CECCAR Publishing House, Bucharest, 2004, p.70.

The consolidation process enabled by outstanding balance uses data gathered from the individual financial statements of consolidated entities, at the end of each fiscal period. These data are cumulated, re-treated and adjusted taking into account the current fiscal period and previous fiscal periods.

The consolidation process enabled by cash flows implies the elaboration of consolidated financial statements for each fiscal period, the balance takeover at the opening of the following fiscal period and the accounting operation finding during the fiscal period. For this case, the re-treatment incidence over previous fiscal periods is already ascertained in the outstanding balance at the opening of the fiscal period; for this reason, only the re-treatment incidence afferent to the current fiscal period is registered.

We agree that, the adequate approach fit for the orientation of group entities in Romania, remains the consolidation process enabled by cash flows. Our consideration results from the high degree of unpredictability still manifested by the Romanian business background, which may determine numerous objective business fluctuations concerning the consolidation limits and the applied assessing methods. This affirmation is supported by the success and consistency of groups submitted to the analysis, Petrom S.A. and BRD-Groupe Société Générale, reached through the application if this type of consolidation process.

Concerning the operations designed for the account pre-consolidation process, we shall continue to focus on the main accounting scope influenced by re-treatments, compulsorily needed for providing the convergence setting through reliable accounting data.

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