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ACCOUNTING CONSOLIDATION OF THE BALANCE BY THE ACQUISITION METHOD

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Summary

The emergence and need for making the consolidated calculations is a significant issue in a modern financial reporting. For the consolidation needs is important to determine theoretically a group of enterprises, in its narrower and broader sense, and connections among enterprises within a group. Adducting a collective balance weakness is necessary to point out to a necessity of the following elements elimination: internal share in capital and the capital, internal receivables and liabilities, internal inter-results and internal incomes and expenditures.

The main part of the paper refers to a method of subsidiary companies' capital consolidation, by the acquisition method. Harmonized with the IFRS 3 Business Combinations were defined and also analysed the basic requirements for conduction of the acquisition method. There were also analysed the examples which refer to an initial consolidation and the consolidation termination.

Key words: *balance, consolidation, accounting, enterprise.*

JEL: *M41, M40*

Introduction

The consolidation problem belongs to the most complex field of theory, analysis and balance policy. Although the first consolidated reports have appeared more than hundred years ago, as a response to a need for information on financial, income and proprietary position of a group, on their legal and professional regulatory rules has been waited for many years. The legislators have authorized a lack of regulatory rules by desire not to impose strict and rigid rules to the

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consolidation field, and representatives of the accounting profession by a dominant opinion that legal independence of the group members has been more important than economic unity of the group. First countries which had legally regulated the consolidation were USA and Great Britain, and then followed the Continental Europe countries, led by Germany.

Nowadays a practice of making the consolidated calculations has been customary in economies in which have been groups of enterprises. Making the consolidated financial statements has become its significance in last few decades. With increasing correlation of enterprises into groups, and then more and more comprehensive correlation of small and medium enterprises, beyond the national border, has also increasing a need for unifying the national legislatures concerning the consolidation field.

In response to it, the ex-European Economic Community, and today the European Union, was issuing the Seventh Directive in 1983 in Luxemburg. The Seventh Directive includes clauses by which define a goal and a content of the consolidated statement, a content of business report and obligation to announce the report, as well as a revision obligation[4]. The International Accounting Standards Board [5] deals with the consolidation problem in even 5 international accounting standards. Thereby has significantly contributed to harmonization of the regulations in Europe and approaching to the Anglo-American consolidation practice[6].

In practice form the groups of enterprises with equality relations and supremacy and subordination relations. Therefore, the holders for making the consolidated calculation are the group of enterprises with supremacy and subordination relations.

Accounting determination of the group of enterprises

According to the IAS 27 *Consolidated and Separated Financial Statements* we can observe the group of enterprises in narrower and broader sense. The group in its narrow sense makes the parent company and subsidiary companies which belong to the group. The subsidiary companies are those which exert a dominant influence, i.e. the parent company has a controlling influence on business and financial policy of the subsidiary company. A control is a power to manage with financial and business policies of an entity, aiming to benefit from its activities.[7] The group in its broader sense comprises, besides the parent company and the subsidiary companies, also joint (joint ventures) and associated enterprises (associates). The associates are those which exert significant influence on the parent company, but have no control. The important influence implies a power of participating in decision making in financial and business policy of an entity, but not control over those policies.[8] Such influence

4 Radovanović, R., Škarić, J. K. (1998): *Koncepcije bilansa*, Faculty of Economics, Belgrade, p. 39.

5 International Accounting Standards Board.

6 International Accounting Standards and International Financial Reporting Standards represent a compromise of the European and Anglo-American accounting practice.

7 IFRS 3 *Business Combinations*, Enclosure A.

8 IAS 28 *Investments in associates*, Article 2.

ensures to the parent company shares in amount of 20-50% voting rights. The joint enterprises are the enterprises which are under the same management with the enterprise from the group and some enterprise which does not belong to the group. Therefore, the highest degree of correlation is among the parent company and the subsidiary companies, and then the parent company and the associates and the weakest correlation is between the joint ventures. Logical to this descending series, in the sense of correlation degree, have been adopted the International Accounting Standards. The IAS 27 which refers to the parent company and the subsidiary companies, the IAS 28 deals with the associates and the IAS 31 with joint-ventures. Below is example 1, which aims to show the way how establish the relations within the group of enterprises.

Example no. 1 - The company A owns 80% of capital stocks which include the voting rights at the General Shareholders Assembly of the company B. The company B owns 25% of capital stocks which includes the voting rights at the General Shareholders Assembly of the company C and 30% of preference shares of the company C. The company B also has option to buy the shares of the company D, which can use whenever, after a bonus to a market price in time they have been issued, and if used, they could benefit to the company B 10% of share in 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 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[9], 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.

Capital consolidation

Comprehending the group of enterprises as economic unity and respect of the principle of legal entirety fiction[10], especially in terms of form and contents of the group balance, in consolidated calculation should not appear: a) positions of participation in the group enterprise, it is inevitable to balance, from the collective balance, the participation positions with the position of an enterprise's capital assets in which participate, on which those participations refer. This procedure is called the capital consolidation, which is the subject of the paper, b) positions

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

10 A principle of legal entirety fiction was respected if all positions and their values would be excluded from the collective balance, which would never appear if the group was a unique enterprise, from a legal point of view.

of receivables from the enterprises, the group members, and liabilities to the enterprises, the group members, because it is not harmonized with an assumption that the group as a fictitious legal entirety claims of itself or owes to itself. Therefore those positions mutually clear and the procedure is marked as the consolidation of receivables and liabilities. c) amounts of cross-gain as the consequence of mutual futures of the group members, because the profit from the group point of view cannot appear after internal circulation between the group members. Therefore such profit clears with an appropriate asset which was implicit (stocks) and such procedure is called the internal result consolidation, d) positions of incomes and expenses as a consequence of mutual futures of the group members and mutual receivables and liabilities and positions of incomes from the internal capital relations. All incomes and expenditures on these bases mutually eliminate, which represents the consolidation of incomes and expenditures.[11]

The capital investment of an enterprise in some other enterprise (the parent company into the subsidiary company and among the subsidiary companies), records first in individual balance sheets of enterprises, which participate in the transaction. The enterprise which invests in the other enterprise′s[12] capital records the transaction as a part of assets – share in joint ventures. The enterprise, which invests in, records the transaction as increase in liabilities.[13] In the collective balance of the group of enterprises, which draws up according to individual financial statements of the group members, participation of the parent companies in the subsidiary companies and mutual shares between the subsidiary companies leads to double calculations, both on assets and liabilities sides. The enterprise which invests expresses a capital on assets side, in form of share, and in the enterprise in which invests, a capital is expressed as other assets. On liabilities side, the enterprise which has invested, the invested capital has expressed as a part of the capital assets, and in enterprise in which has been invested – the capital has been expressed as the capital assets. This form of drawing up the collective balance make impossible to understand the real amount of capital from it, which is available to the group as entirety.[14]

Example no. 2 - The assumption is that the parent company A has gained 100% of shares in the subsidiary company B and 60% of share in the subsidiary company C. Individual balances of the mentioned enterprises and calculated collective balance look like:

11 Andrić, M., Vuković, B. (2010): *Obeležja finansijskog i revizorskog izveštavanja o konsolidovanim bilansima u Srbiji*, Računovodstvo, vol. 54, br. 11-12, str. 7-20

12 As stocks and shares, depending on a legal form of the enterprise, which invest in.

13 Milojević, I., Mihajlović, M., Cvijanović, M. (2012): *Impact of organizational failure of relevance consolidated budget*, Ekonomika poljoprivrede, IEP Beograd, Vol. LIX, no 1/2012, str. 63-71.

14 Ranković, J. (1994): *Konsolidovanje godišnjeg zaključka*, Ekonomski fakultet, Beograd, str. 121.

Table 1. Balance sheet of the parent company A

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Share in the associated company B	**18000**	A	Equity capital (A_1+ A_2)	**98000**
A_1	Share in the associated company C	**12000**	A_1	Capital assets	83000
B	Fixed assets	**45000**	A_2	Reserves	15000
C	Working capital	**40000**	B	Liabilities	**17000**
∑	ASSETS	**115000**	∑	LIABILITIES (A+B)	**115000**

Table 2. Balance sheet of the subsidiary company B

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Fixed assets	**13000**	A	Equity capital	**18000**
B	Working capital	**10000**	B	Liabilities	**5000**
∑	ASSETS	**23000**	∑	LIABILITIES	**23000**

Table 3. Balance sheet of the subsidiary company C

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Fixed assets	**18000**	A	Equity capital	**20000**
B	Working capital	**10000**	B	Liabilities	**8000**
∑	ASSETS	**28000**	∑	LIABILITIES	**28000**

Table 4. Collective balance sheet

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Share in companies B and C	**30000**	A	Equity capital	**136000**
B	Fixed assets	**76000**	B	Liabilities	**30000**
C	Working capital	**60000**			
∑	ASSETS	**166000**	∑	LIABILITIES	**166000**

From the collective balance sheet, made by simple addition of „line by line“[15]of connatural balance positions of separate balances, we can conclude that the total equity capital is 136,000, which does not direct to a real conclusion on the equity capital amount. A task of the capital consolidation is to avoid double calculations. According to the article 17 of the Fourth Directive, the shares define as the rights to the other enterprises′ capital, whether they are represented by a certificate or not, which, by making close relationships with the enterprises in which they have their share, aim to contribute to business of the group as entirety.

When the enterprise acquires, by purchasing shares, the share of 100% in some other enterprise, the share then defines as an indirect unilateral share without the involvement of third parties (minority shareholder[16]). If acquired the share of less than 100%, then it is about

15 IAS 27 *Consolidated and Separate Financial Statements*, article 18.

16 According to IFRS 3 *Business Combinations,* a concept of minority shareholders (minority interest) was replaced with the concept of shares, which were not ensuring control (non-controlling interest).

the indirect unilateral share with the involvement of third parties and it is the simplest way of the capital consolidation.

In the situation when some enterprise has its share in the other enterprise, and that enterprise has majority share in the third enterprise, then it is about unilateral multistage share. That is why the first enterprise does not only lay a claim to a part of the capital of the enterprise it participates directly, but also to a part of the capital of the third enterprise in which its share has its subsidiary enterprise. If there are mutual shares in the capital among two enterprises, then such shares are defined as mutual share in the capital of these two enterprises.[17]

In the subsidiary company, capital can also take part the group outsiders. Then the share of the parent company consolidates with the part of the subsidiary company's equity capital. The share of the third parties can see in the consolidated balance liabilities, increasing the equity capital in the consolidated balance, as a position „minority shareholders capital" or „shares which do not provide control".[18]

When there are indirect, multistage and mutual shares, there consolidate all shares between the parent company and subsidiary companies and among the subsidiary companies, but it is not possible to consolidate the shares of the subsidiary company in the parent company. The amount in the consolidated balance enters as a position of „purchased equity shares". The share of the subsidiary companies in the parent company excludes, because from the aspect of the group as economic unity and feigned legal entirety, the shares in the parent company consider by the subsidiary companies as purchased equity shares.

The equity capital of the subsidiary companies, in regard that they can be in form of joint stock companies, partnerships limited by shares [19] and limited liability company, does not consist only from the equity capital, but from reserves [20] and profit in previous and the current year. Neither the Seventh Directive, not the IAS 27 Consolidated and Separate Financial Statements, have not decisively defined the equity capital concept, as it was the subject of consolidation. However, the following balance positions make the capital, which is the consolidation subject:

- Capital assets;
- Capital reserves;
- Reserves from profit;
- Carried over profit/loss;
- Profit/loss in current year.

17 Simić, S. (2008): *Konsolidovani finansijski izveštaji važna pitanja sastavljanja i prezentacije*, Revizor, Vol.11, br. 44, str.73-90.

18 Stojanović, R. (2009): *Informacioni dometi konsolidovanih finansijskih izveštaja*, Računovodstvo, vol. 53, br. 3-4, str.18-32.

19 Partnerships limited by shares is present in German legislature, while Serbian legislature does not regulate these partnerships.

20 Reserves divide into legal, free and statutory.

The acquisition method

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. Later on will be analysed in more detailed every of the requirements for conduction of the acquisition method.

Identification of the acquirer aims to define clearly who the acquirer in a specific business combination is. The acquirer is the company which has control under the other company, while the acquire is the company under which is achieved control. In most of business combinations simply determines the company-acquirer. The company which provides cash, other resources or take over the liabilities - considers the acquirer. However, in some business combinations can happen that the entity, issuing the securities, to be the acquiree. Such business combination is called „a reversely acquisition“ and are rare in practice.[21]

Determination of the acquisition date is a moment when the acquirer really takes control of the company. Only economic criteria takes into consideration, the transaction must not be finished, in legal sense. The acquisition date is easy to determine when actual control acquires at once. It is more difficult to determine the acquisition date in successive purchases. In business combination realized in phases, the acquirer again measures its previous share in capital in the acquired entity, after fair value on the date of acquisition and recognizes resulted profit and loss, if there are any.[22]

The essence of the acquisition method is to make the consolidation on the day when the parent company had gained the actual control. The example 3 refers to determination of the acquisition date.

Example no. 3: The acquisition date - On March 5th, the company A has started negotiations on purchasing the company B. At the meeting of administrative boards of the companies, on June 1st, was arranged that the company A submits for the purchase of the company B a whole amount in cash. Legally, the purchase will be confirmed after signing a purchase contract. Just after August 30th , the company A can make strategic decisions, together with a management of the company B, primarily those which refer to reconstruction of the company B. On July 15th was announced a semi-annual calculation, on July 31st was signed the contract, and on September 20th were adjusted restructuring measures of the company B. Which date should define as the moment of acquisition?

Solution - The essence of the acquisition method is that the parent company, purchasing share, acquires assets and liabilities, i.e. net assets of the subsidiary company. The first consolidation makes on the day of the acquisition, which faces two requirements. The

21 Škarić, J. K. (2005): *Analiza konsolidovanog finansijskog izveštaja*, Računovodstvo, Vol. 49, br.9, str. 42-51.

22 IFRS 3, article 42.

first requirement considers determination of fair value of the parent company share in the subsidiary company capital. The fair value of share represents an acquisition value, i.e. a purchase price of share. According to the IFRS 3 Business Combinations, the acquisition value of share comprises: 1) fair value of resources given on the acquisition date in order to take control, 2) overtaken or provoked liabilities or 3) capital instruments issued by the acquirer in exchange for control of the acquired company. Before alterations of the IFRS 3, in the acquisition value of share were included also all costs, which could directly attributed to business combination. Such costs are: professional services of auditors, accountants, legal advisers, valuators and other professional consultants.[23] However, now these costs treat by expenditures of the period they appeared in. The acquisition date is August 30th, while from this date can adopt measures which implicate existence of control. As already mentioned, there take into consideration only economic, and not legal criterion.

The second requirement refers to determination of fair value of net assets of the subsidiary company. In order to come to the fair value of the subsidiary company's net assets is necessary to make individual evaluation of all assets and liabilities of the company. This requirement is significantly more complex in regard to the prior one. There assess every identified resources and liabilities. The resources assess in compliance with lower value principle.

When we determine these two values we compare them, aiming to determine if the parent company has realized goodwill or profit from the bargain. If the fair value of the parent company's share in the subsidiary company's capital is higher than net assets' fair value of the subsidiary company, there appears the goodwill position[24]. The goodwill acquired in business combination does not amortise[25], but the acquirer tests it on value impairment, at least once a year, harmonized with the IAS 36 *Impairment of Assets*.

If the fair value of the parent company's share in the subsidiary company's capital is less than the net assets' fair value of the subsidiary company, then it is said that the parent company has made a profit from the bargain. In such situation, the income should ascribe to the acquirer-company. In practice, the bargain can happen, if it is about a compulsory sale in which a salesman acts under compulsion.

First consolidation

The first consolidation is right after the acquisition date, therefore the method, by which the capital consolidation procedure carries out, is called the acquisition method. Below are shown two examples during the first consolidation. Due to simplicity and visibility were given simplified descriptions of the balance sheets of the parent and subsidiary companies. In

23 IFRS 3, *Business combinations* (2004).

24 Goodwill is asset representing future economic interests which origin from the other assets gained in business combination, which cannot identify individually and recognize apart.

25 Goodwill used to write off, in accordance with the VII directive, mostly on the five-year period.

the example 4 was described a situation when the parent company has 100% of share in the subsidiary company and the situation when the goodwill occurs.

Example no. 4 - On December 31st were given the balances of the parent company A and the subsidiary company B.

Table 5. Balance sheet of the parent company A

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Share in the subsidiary company B capital	**5000**	A	Equity capital (A_1 +A_2 +A_3)	**50000**
B	Equipment	**30000**	A_1	Fixed assets	**35000**
			A_2	Capital reserves	**5000**
C	Other assets	**40000**	A_3	Profit	**10000**
			B	Liabilities	**25000**
∑	ASSETS	**75000**	∑	LIABILITIES (A+B)	**75000**

Table 6. Balance sheet of the subsidiary company B

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Equipment	**3000**	A	Equity capital (A_1 +A_2 +A_3)	**3650**
			A_1	Fixed assets	**3500**
			A_2	Capital reserves	**100**
B	Other assets	**4650**	A_3	Profit	**50**
			B	Liabilities	**4000**
∑	ASSETS	**7650**	∑	LIABILITIES (A+B)	**7650**

On the acquisition date, the parent company owns 100% of share in the company B′s capital. The equipment fair value of the company B is 4000, while the liabilities fair value is 4200. Compose the consolidated balance sheet.

Solution:

Table 7. Determination of net assets′ fair value of the subsidiary company B

Positions	Accounting value	Fair value	Difference (potential reserves/latent loss)
1. Equipment	3000	4000	+ 1000
2. Other assets	4650	4650	-
Total assets	7650	8650	+ 1000
- Liabilities	4000	4200	- 200
= Net assets of the subsidiary company B	3650	4450	+ 800

In the table 1 was presented a calculation procedure of the subsidiary company B net assets. The net assets' fair value is higher than the book value of the company B for amount of 800, which is a profit in corrected balance sheet of the company B. While the net assets' fair value of the company B was determined, the amount we compared with the fair value of the parent company's share in the subsidiary company's capital. The fair value of the parent company's share in the subsidiary company capital is 5000, and the net assets' fair value of the subsidiary company is 4450. In regard that the fair value of the parent company's share in the subsidiary company's capital is higher than the net assets' fair value of the subsidiary company B in the consolidated balance appears the goodwill in amount of 550.

Table 8. Consolidation procedure

Positions	Balance sheet of the parent company A		Corrected balance sheet of the subsidiary company B by fair value		Collective balance sheet		Consolidation		Consolidated balance sheet	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Liabilities	Receivables	Assets	Liabilities
Share in capital B	5000		-		5000			5000	-	
Equipment	30000		4000		34000				34000	
Other assets	40000		4650		44650				44650	
Goodwill							550		550	
Total assets	75000		8650		83650				79200	
Capital assets		35000		3500		38500	3500			35000
Capital reserves		5000		100		5100	100			5000
Profit		10000		850		10850	850			10000
Liabilities		25000		4200		29200				29200
Total liabilities		75000		8650		83650	5000	5000		79200

In the second column of the table 2 were described data of the parent company, overtaken from the initial balance sheet. The data for the subsidiary company B after the fair value, we had calculated in the previous table, is in third column. Adding up the data from the second and the third column, row by row, we get the column – a collective balance sheet. The consolidation procedure is described in the next column. Claiming the share in amount of 550, owing the goodwill in amount of 550, the capital assets 3500, the capital reserves 100, and the profit in amount of 850. In the last column is described the consolidated balance sheet.

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[26]. In this example will be taken into consideration also the situation in which appears the profit in the consolidated balance sheet, i.e. the profit from the bargain.

Example no. 5 - On December 31st were given the balance sheets of the parent company A and the subsidiary company B.

Table 9. Balance sheet of the parent company A

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A	Share in capital of the subsidiary company B	**9000**	A	Equity capital ($A_1 + A_2$)	**42000**
B	Other fixed assets	**42000**	A_1	Fixed assets	**32000**
C	Working assets	**15000**	A_2	Capital reserves	**10000**
			B	Liabilities	**24000**
∑	ASSETS	**66000**	∑	LIABILITIES (A+B)	**66000**

Table 10. Balance sheet of the subsidiary company B

Ord. No.	Position	Amount	Ord. No.	Position	Amount
A B	Fixed capital Working assets	**15000** **10000**	A B C	Capital assets Reservations Liabilities	**12400** **600** **12000**
∑	ASSETS	**25000**	∑	LIABILITIES	**25000**

On the acquisition date, the parent company owns 80% of share in the company B capital. The fair value of the company B's fixed assets is 13000, the fair value of working assets is 10400, the fair value of reservations 0 and the fair value of liabilities 10500.

Solution:

Table 11. Determination of net assets′ fair value of the subsidiary company B

Positions	Accounting value	Fair value	Differences		
			Total	PC 80%	20% NCIS[27]
1. Fixed assets	15000	13000	- 2000	- 1600	- 400
2. Working assets	10000	10400	+ 400	+ 320	+ 80
- Total assets	25000	23400	- 1600	- 1280	- 320
- Reservations	600	-	- 600	- 480	- 120
- Liabilities	12000	10500	- 1500	- 1200	- 300
= Net assets of the subsidiary company B	12400	12900	+ 500	+ 400	+ 100

26 IAS 27, *Consolidated and Separate Financial Statements*, article 4

27 Non-controlling interest share.

The amount in the table 3 of 500 represents the profit in the corrected balance sheet, where 400 refer to the parent company, and the rest 100 belong to the shareholders who have no control. As in the previous example, compares the fair value of the parent company's share in the subsidiary company's capital and the fair value of the subsidiary company's net assets. Taking into consideration that there is no 100% of the parent company share, the fair value of the subsidiary company's net assets calculates in a way that the fair value of the subsidiary company's net assets multiply with the parent company's share in its capital.

In this example are the following data 12900 * 80% = 10320, and the fair value of the parent company's share in the subsidiary company's capital is 9000, which is less for 1320. The amount of 1320 represents the profit in the consolidated balance sheet.

Table 12. Consolidation procedure

Positions	Balance sheet of the parent company A		Corrected BS of the subsidiary company B, by fair value		Collective balance sheet		Consolidation MP 80% 20%			Consolidated balance sheet	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Liabilities	Receivables	NCIS	Assets	Liabilities
Share of the parent company	9000		-		9000			9000		-	
Fixed assets	42000		13000		55000					55000	
Working assets	15000		10400		25400					25400	
Total assets	66000		23400		89400					80400	
Capital assets		32000		12400		44400	9920		2480		32000
Capital reserves		10000		-		10000					10000
Profit		-		500		500	400	1320	100		1320
NCIS											2580
Reservations		-		-		-					-
Liabilities		24000		10500		34500					34500
Total liabilities		66000		23400		89400	10320	10320	2580		80400

The consolidation procedure in the table 4 was carried out in a similar way as in the previous example. In the column consolidation appears also the position share, which does not provide control, because the parent company has no 100% of share in the subsidiary company's capital. The amount of 2580, which represents the amount of share which does not provide control and gets when 10320 deducts of 12900.

Next consolidation and consolidation termination

In the first consolidation, during the re-assessment of the subsidiary company, determines the fair value of all separated assets and liabilities. As a difference between higher fair value of assets in regard to value, after which the assets are kept in accounting books (book value), occur potential reserves[28] The potential reserves increase active balance positions, and decrease debit balance positions. There can also appear latent losses as a difference between the assets value in the books in regard to the fair values. Uncovered potential reserves, i.e. latent losses, will be objectified in the future capital consolidations. If the uncovered potential reserves are in a position land, they will not be objectified up to their sale, because there is no land amortization. The potential reserves in fixed assets will be written off in the remaining life-time of the assets, while the potential reserves in working assets will be objectified in the first year after the consolidation.[29]

Every next consolidation is carried out in the same way, until the parent company does not decide to sell its share in some of the subsidiary companies. This is the moment of the consolidation termination. The sale of the parent company's share in the subsidiary company's capital records in the separated balance of the parent company, in a way that the share turns into cash. The sale results, realized profit or loss represents a difference between a sales value and the book value.[30] After the sale of share, the parent company, during drawing up the consolidated balance, will omit all assets and liabilities which had referred to the sold subsidiary company. Below is an example which refers to the capital consolidation determination.

Example no. 6 - The parent company had sold the share in capital of the subsidiary company for 250 million RSD. The acquisition value of share had amounted 120 million RSD. In the moment of acquisition were uncovered the potential reserves in amount of 35 million RSD and the business value, i.e. the goodwill in amount of 30 million RSD. The potential reserves and the business value have been, during next consolidations, carried over to expenses, i.e. losses. Determine the results of the sale!

Solution - If we would take as a result a difference between the sales and the acquisition value of share, we would get: 250-120=130. If the result of 130 million RSD would be overtaken into the consolidated balance, then the group result would be double reduced, due to the

28 Vukša, S., Milojević, I. (2007): *Balance analysis*, BK University, Belgrade, p. 290.

29 Škarić, J. K. (2000): *Ciljevi i instrumenti bilansne politike holding kompanije*, Četvrti simpozijum računovođa i revizora Republike Srpske, Teslić, Zbornik radova, str. 281.

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potential reserves and the business value. The first time, within the following consolidations, when the potential reserves and the business value were written off, and the second time - during the sale results determination. Therefore the sales result gets as: 250 – (120 – 65) = 195. The amount of 195 million RSD represents the result of share sale.

Conclusion

Depending on control degree and influence of the parent company on other companies, the group members, there apply different consolidation methods. Full consolidation implies the capital consolidation between the parent and subsidiary companies. In the full consolidation uses the acquisition method. During the consolidation of the associates′ capital applies an equity method, while for the consolidation of the joint ventures capital uses a quota consolidation[31].

Reviewing the IFRS 3 Business Combinations in 2008 has introduced innovations in the field of the capital consolidation. In theory and practice of consolidation there were several methods of the capital consolidation: German, Anglo-Saxon, the interest pooling method, the acquisition method in its two variants, the equity method, also in two variants. The mentioned methods have differed by a size of capital, as a subject of the consolidation, by use of an appropriate concept of value and by possibility of objectification of the potential reserves. A step toward an order in professional literature and practice was adoption of, already mentioned, the Seventh Directive. In other words, German and Anglo-Saxon consolidation methods were not applied according to the Directive, so there were not actual until then. The Seventh Directive did not explicitly forbid the interest pooling method, but did not also recommend it. Until the moment of the IFRS 3 review, the acquisition method had its two variants. Today, the acquisition method is only in one variant. 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.[32]. Regulating one method of the full capital consolidation also contributes to comparability of the consolidated financial statement.

31 In IAS 31 *Participation in mutual projects* as an alternative to a quota consolidation is an equity method.

32 While, for example, the balance policy can pursue in internal result consolidation, while during the internal result determination can use a method of individual futures, a method of average annual rate of supplier's internal success or a method of average annual rate of the internal result of the group, as entirety.

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RAČUNOVODSTVENO KONSOLIDOVANJE BILANSA METODOM STICANJA

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Rezime

Nastanak i potreba za sastavljanjem konsolidovanih obračuna predstavlja značajno pitanje u savremenom finansijskom izveštavanju. Za potrebe konsolidovanja važno je teorijski odrediti grupu preduzeća u užem i širem smislu i veze između preduzeća unutar grupe. Navođenjem slabosti zbirnog bilansa potrebno je uputiti na neophodnost eliminisanja sledećih elemenata: internih učešća u kapitalu i kapital, interna potraživanja i obaveze, interni međurezultati i interni prihodi i rashodi.

Glavni deo ovog rada odnosi se na metod konsolidovanja kapitala zavisnih preduzeća, metodom sticanja. U skladu sa MSFI 3 Poslovne kombinacije definisani su i analizirani osnovni zahtevi za sprovođenje metode sticanja. Obrađeni su primeri vezani za početno konsolidovanje i prestanak konsolidovanja.

Ključne reči: *bilans, konsolidovanje, računovodstvo, preduzeće.*

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