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International Accounting Standards on Business Combinations and Their Implementation in the Accounting in Romania

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Abstract *The purpose of this paper is to outline the specifics of an operation less applicable in our country, namely business combination. After formulating several views on the necessity of applying IFRS in Romanian accounting environment, there were highlighted the imperfections shown by the old international accounting norm that governed this type of transaction and the solutions offered by IFRS 3 for these imperfections. The study was divided into two approaches: a conceptual one, of deepening the realization methods and the accounting treatment prescribed by IFRS 3 for business combinations and a pragmatic one, of simulating an operation of combination for the two resident entities.*

Key words:
Standard, acquisition, combination, commercial estate, financial reporting

JEL Codes:
M40, M41

1. Introduction

Business combination transactions are becoming more common in the economy of each state, including Romania. The problem of accounting instrumentation of this operation is not common, but one that still requires clarification and improvement.

To ensure the convergence of U.S. and international systems, the solution offered by international legislative bodies was to design a standard to trace the main approach directions of optimal accounting treatment of business combination transaction. Thus, after the decline of "enterprise clusters" IAS 22, IFRS 3 "Business Combinations" arose in 2004. After a review in 2008, nine years later, the unification on an international accounting plan, of enterprise clusters still needs improvement. In Romania, this operation is still very little known and exploited.

The mentioned conceptual framework justifies the approaches to specific operations on business combinations, the evolution of the international regulatory framework, which states legal patterns for this type of transactions, the way of processing accounting information by appealing to accounting technical instruments, and the implications of accounting reporting mode.

2. Literature review

The first standard that was covered in business combinations was IAS 22 – "Enterprise clusters" – approved in 1983 and subsequently revised progressively since 1993. The choice of enterprise combining method has generated considerable debate. This standard has allowed two different methods business combinations accounting: the pooling of interests method and purchase method.

IAS 22 allowed the use of pooling the interests' method only for business combinations that fall within the *union of interests*. The union of interests occurs when the acquirer cannot be identified, in which (Petriș, R., Istrate, C. et al., 2004: p.43):

- the associates of the two companies equally share the control of the combined enterprise
- the management of the combining enterprises take part in the management of the combined company
- the shareholders of the combining enterprises equally share the risks and benefits of the resulting entity
- between the shareholders taking part in the combination, there is an equal exchange of voting common shares

The use of this method was widely prevalent in the USA for 50 years, but it had a great drawback – the actual cost of the acquisition remained hidden and future earnings were usually overestimated, while there were not applied any adjustments to the value carried forward of the fair value of depreciable assets, what in time, would lead to decreased depreciation.

After a period of use of the two methods in parallel, the purchase method and the pooling of interests method, financial analysts and other users of financial statements, pointed out that the use of two different accounting methods for transactions, mostly similar, affects the comparability of financial statements. In time, it was found that the application of the two methods led to different results, for which, there was a suspicion that using more than one accounting method for such transactions, stimulates the choice of a particular way to achieve a desired accounting result.
Another argument for rejecting the pooling of interests method and adopting the purchase method is that: purchase method considers a combination from the acquirer's view – the entity that obtains control over other companies taking part in the combination. The acquirer purchases or obtains in another way the control over the net assets and recognizes in its financial statements the acquired assets and the assumed liabilities, including those which were not previously recognized by the acquired entity.
Consequently, users of financial statements are better able to assess the initial investments made and the subsequent performance of those investments and compare them with the results of other entities. In addition, by the initial recognition of almost all acquired assets and assumed liabilities at their fair value, purchase method includes, in the financial statements, more information about market expectations in terms of value of future cash flows associated with those assets and liabilities, which increase the importance of that specific information (IFRS 2011, 2011: p.234).
US GAAP immediately eliminated the pooling of interests method starting with 2001, and the IASB has followed the same approach with the occurrence of IFRS, starting with 2004. Furthermore, IAS 22 contained an option of the application approach of the *purchase method*: identifiable acquired assets and assumed liabilities could be initially assessed using either the basic accounting treatment or an allowed alternative accounting treatment.
By basic accounting treatment, the identifiable acquired assets and assumed liabilities were initially evaluated as a combination of fair values, to the extent of ownership held by the acquirer, and as carrying amount before purchase, within minority ownership. Through the allowed alternative treatment, the identifiable acquired assets and assumed liabilities were evaluated initially at their fair values at the acquisition date. Based on these considerations, the IASB concluded that, if it is allowed that similar transactions to be accounted for by alternative methods, the utility of the information provided to users is affected, because both its comparability and its credibility diminish (Bogdan, V., Farcane, N. et al., 2011: p.267).

Thus, to obtain high quality information on cluster enterprises, IFRS 3 is formed which states that for all purchases there must be identified an acquirer who will highlight the acquisition under the purchase method. Thus, IFRS 3 focuses on (Tiron, A., Răchișan, R. et al., 2005: p.328):

- accounting method for business combinations;
- initial evaluation of identifiable acquired assets and contingent assumed liabilities in a business combination;
- recognition of liabilities associated with termination or reduction of the activities of an acquired company;
- treatment of any excess of acquirer's interest in the fair values of the identifiable net acquired assets over the combination cost;
- accounting of goodwill and intangible acquired assets in a business combination.

3. Methodology of research

Approaching the subject on business combinations and the way of converging accounting standards, national and international, for this operating segment was done by studying specialized literature. The investigative tools used were analysis and synthesis. We approached a qualitative research type.

4. Implementation of IFRS in Romanian accounting environment

Currently, we are witnessing the most profound and comprehensive process of accounting harmonization on the background of globalization of international economic relations. Comparability of financial statements prepared and presented by different enterprises are the main current concern of the accounting profession worldwide, with IASB (International Accounting Standards Board) as a spokesman (Lungu, C.I., 2007: p.51). To achieve this objective, the IASB sought to develop, in the public interest, a single set of high quality accounting standards, globally applicable: IFRSs. IFRSs are the latest international standards and interpretations issued by the IASB to create a common language on an international level. The aim pursued was that the accounting information to become business interface and it should be transparent, understandable, comparable and high quality to meet the needs of all participants in these information flows.
In Romania, IFRSs should have been adopted since 01.01.2005, according to the Ordinance 70/2004, but their implementation by the Ministry of Public Finance was delayed by one year. It was delayed so that the companies could establish the conditions on turnover, number of employees, amount of assets, basically, assessing entities in accordance with IFRS norms.

Transition to IFRS from January 1, 2006, for those more than 100 companies and institutions which were obliged to do so, has been a large movement at the top of the Romanian economy.

On transition to IFRS, entities needed to establish an opening IFRS balance sheet. This is the starting point for subsequent accounting under IFRS (Malciu, L. and Feleagă, N., 2005: p.123). At the same time, the entity had to explain how the application of IFRS affected the reported financial position, financial performance and cash flows.

For years, Romania has given little importance to the principles of IFRS since 2006, but instead, we have an excess of rules and regulations that quite often cancel each other. Even in these circumstances, the IFRSs have brought companies in Romania the perspective of obtaining capital at a lower cost. But one of the major issues that hampered the implementation process of this method of existence for entities in the economic environment was the stiffness of approach and insufficient training of the personnel in accounting departments on what IFRS is concerned.

IFRSs brought two major advantages to the economic operators:

- they were oriented to the interest of the investors concerned, the knowledge of the relevant and reliable information is based on concept and principles clearly defined by financial reporting framework
- they focused on the fair value, on the accrual, on the economic funds of transactions and events

However, the entities in our country did not know to exploit the benefits of implementing these standards. Literally introducing, in Romanian accounting, the spirit of IFRSs encountered hardships due to the experienced taxation interference in the sphere of accounting, because the state will not easily accept to fall in 'the last' of the users of accounting information (Cernușca, L., 2004: p.35).

5. What does IFRS 3 Aim at what are the main changes introduced by the 2008 revision?

The central objective of this standard was to prescribe the high quality accounting treatment to entities that become part of a business combination.

This standard addresses a group of companies in which the acquirer is the parent-entity and the acquired entity is a subsidiary. The emphasis is on the accounting treatment on the acquisition date (Hennie van Greuning, 2009: p.117).

IFRS 3 aims to analyze the accounting method used for enterprise clusters, baseline assessment of the identifiable assets and liabilities taken over in a business combination, recognition of the debts with the purpose of reducing the activity of the acquired entity, accounting instrumentation used when the share held by the buyer in the fair value of acquired identifiable net assets exceeds the cost of the company group, accounting of intangible assets, including goodwill as a result of group operation.

IFRS 3 standard replaced not only IAS 22, but also the interpretations: SIC 9, "Business Combinations-classification either as acquisitions or union of interests", SIC 22, "Business Combinations, subsequent adjustments of fair value and goodwill initially reported", SIC 28 "Business Combinations-exchange date and fair value of equity instruments".

The purpose of IFRS 3 revised in 2008, was to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects.

IFRS 3, "Enterprise clusters" brings a number of major changes both in terms of increasing transparency in transactions and in terms of how transactions are recorded, evaluated and communicated (Jalba, L., 2010: p.162):

Table 1. Amendments to IFRS 3

⇒ all business combinations will be considered purchases;
⇒ initially, according to IAS 22, positive goodwill was amortized for a period not exceeding 20 years, while the negative one had to be systematically transferred in profit and loss account, after the adopting of IFRS 3 goodwill will not be amortized, but will be subject to an annual impairment test;
⇒ restructuring costs are recorded in income;
⇒ contingent liabilities are recognized at fair value;
⇒ unlike IAS 22, IFRS 3 requires the identification of the purchaser;
⇒ intangible assets such as brand, trade relations, which were usually part of the goodwill, are now separately identified, evaluated and passed directly to the balance sheet.

Source: Jalba Luminiţa, 2010:162

The most important change, brought by IFRS 3 with the repeal of IAS 22, was the one that concerning goodwill. Generally, goodwill will be recognized in the balance sheet only with the acquisition of assets or other companies/parts from other companies, when the amount paid is higher (positive goodwill) or lower (negative goodwill) than the fair value of acquired net assets (Duțescu, A., 2003: p.49). According to IFRS 3, goodwill acquired in a group will be evaluated, after its initial recognition, at the cost level reduced by

accumulated losses from impairment, expressly stating that it is not amortized but is tested annually for impairment. Independent of any indication of impairment, the entity shall annually apply the impairment tests (Malciu, L. and Feleagă, N., 2007: p.107).
2008 revision adds the option of recognizing the goodwill of the acquired entity for the full amount, that is, both for the part incumbent to parent-company and for the one incumbent to minority interests.

6. Identifying a business combination

Business combination involves bringing together separate entities into one economic entity, as a result of obtaining control over the net assets and over the activity of an entity performed by another entity (Popa, A.F., Pitulice, I.C. et al., 2007: p.401).
Grouping entities into one reporting entity implies that, in almost all cases of combinations, one entity, the acquirer, ha control over one or more entities.
A business combination may result in a relationship of parent-subsidiary type, the acquirer is the parent and the acquired entity is a subsidiary of the acquirer. In this case, the acquirer shall prepare consolidated financial statements under IFRS 3 and will include his interest in the acquired entity, in its separate financial statements, which he prepares, as an investment in a subsidiary. Another case under the jurisdiction of IFRS 3 is a combination in which one entity obtains control of another entity but the date, i.e. the date of purchase, does not coincide with the date of transfer of ownership. IFRS 3 addresses the consolidation of accounts and analyzes the accounting treatment of the different acquisition of securities as follows:

Table 2. The accounting treatment of various acquisitions of securities

Purchase of securities		
Percentage shareholding	Accounting treatment	Reference IFRS
Under 20%	Fair value	IAS 39
Between 20-50%	Equity method	IAS 28
Over50%	Consolidation	IAS 27
Others	Shareholders Associations Business combinations	IAS 31 IFRS 3

Source: Hennie van Greuning, 2009:117

IFRS 3 does not apply to those business combinations: involving entities under common control, involving two or more mutual entities, separate entities were combined to form a shareholder association or they were combined to form a reporting entity by contract only, without getting a participating interest.

7. Forms of business combination

Concrete ways through which the business combination is made are: the purchase by a company of the equity of another enterprise, purchasing net assets whole or in part of another enterprise, assuming the debts of other companies (Sabău, C., 2009: p.7).
Transactions that meet the definition of enterprise clusters are (Gîrbină, M.M., Bunea, Ș., 2008: 348):
- acquisition of all assets and liabilities of an entity;
- acquisition of assets, liabilities and rights in the activities of an entity that meets the definition of a business;
- establishment of a new legal entity that will take over the assets, liabilities and business of the group entities.
The combination may be performed through the transfer of cash or other assets, by issuing shares, or a combination of the two methods, the process resulting in either a new entity that will control the combining entities, or restructuring of one or more participating in the combination.
A group of companies may be structured differently for legal or fiscal reasons etc. the transaction may be between the shareholders of the resulting entity or between an entity and the shareholders of another (Cenar, I., 2012: p.37). Counterparty is either represented by the assumption of debts, or shares of the buyer, money or other assets.

8. Business combinations achieved by the purchase method

All business combinations should be accounted using the purchase method, a method that takes into account the business combination from the perspective of the entity that is identified as the acquirer in the transaction. This acquires net assets and recognizes the acquired assets and liabilities, including the contingent ones, assumed from the entity taken over, including those previously unrecognized by the entity taken (Hennie van Greuning, 2009: p.119).
Conducting the purchase method involves three steps:
- *identifying the acquirer* (the combining entity that obtains control of the other entities involved in combination, for profit).
The standard mentions some indications regarding the establishment of the buyer's identity: comparing the fair values of the participating entities and identification of that with the highest fair value as possible purchaser; the counter service offered in exchange for shares, i.e. if the business combination is achieved by exchange of voting common shares for cash or other assets, the entity that gives the latter may be the acquirer; if the operation results in the possibility of combining the leadership of one of the participating entities, the acquirer may be exercising their dominance in the team.

- *calculating the combination cost*;

Acquisition cost (combination) is evaluated by the buyer as the aggregate amount, at the transfer date, of given assets, incurred liabilities and equity instruments issued by the acquirer in exchange for control of the acquired entity, and any costs directly attributable to the combination.

Fair value of acquired assets through direct cash payment is given to the amount paid at the time of purchase. Fair value of assumed liabilities by the buyer is fixed at the time of obtaining control.

If the combination operation is done through equity instruments issued by the acquirer, the cost of the combination is given by their fair value (market value of securities, whether listed on the market, and the share represented by the securities from the fair value purchased).

In the category of costs directly attributable to the combination there are included fees and other costs by preparing and issuing the instruments of capital.

- *allocating the combination costs of the acquired assets, and contingent assumed liabilities, at the acquisition date.*

In most cases of business combination, a company gains control over the other, and the identity of the purchaser can be identified immediately.

The main problem of accounting in the enterprise procurement is the allocation of the purchase price of acquired individual assets and assumed liabilities, in this respect, the position of IFRS 3, as shown in the base for conclusions, it is that what is recognized represents the assets and liabilities that existed in the acquired entity at the acquisition date, and their assessment is based on their value to the acquired entity rather than on their later utility. Any assets or liabilities resulting from the combination, compared to the existing ones at the combining time, are not recognized in the allocation of purchase price. This is an important question, if not subtle, and it represents a change from the position of IAS 22, which allowed certain restructuring provisions to be recognized in the calculation of the combination (Epstein, J. Barry, Jermakowicz, K. Eva, 2007: p.426).

Another major feature of the purchase method is that, none of the acquired entity accounts will appear in the consolidated financial statements, since the interests of the shareholders of the acquired entity is removed from the parent-company investment.

The acquirer will recognize separately the assets, liabilities and identifiable contingent liabilities of the acquired entity, at the acquisition date, only if they satisfy the following criteria at that date: in what the *assets* are concerned , other than intangible assets, it is probable that all future economic benefits associated with them will return to the acquirer, and its fair value can be reliably measured; in what debts are concerned, other than contingent liabilities, it is likely that the acquirer will generate a flow of resources embodying economic benefits to cover those liabilities, whose fair value can be reliably measured; in what intangible assets or *contingent liabilities* are concerned, their fair value can be reliably measured (Popa, A.F., Pitulice, I.C. et al., 2007: p.401).

Quantification of purchased goodwill is done by comparing the fair value of an investment in a parent-company in a subsidiary and the fair value of the subsidiary's identifiable net assets. If the value of the investment is higher than the value of the net assets, then the difference should be recognized as a depreciable asset, i.e. goodwill. If the price paid is less than the fair value, then the process of identification and evaluation of identifiable assets, liabilities and contingent liabilities of the acquired entity is restarted and any excess remaining after the reassessment is recognized immediately in profit or loss account.

9. The purchase method in stages

In many cases, the control over an entity cannot be obtained from a single transaction, but may involve successive transactions of shares.

The question in terms of accounting for these acquisitions in stages is to determine the precise timing of business combination and how to measure the combination cost. IFRS 3 states that the estimated acquisition cost is compared with the cost and fair value data starting with that transaction exchange.

In this type of acquisition, the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity may be different from the date of each exchange transaction, since:

- identifiable assets, liabilities and contingent liabilities of the purchased entity are restated at their fair values at the date of each transaction to assess the value of any goodwill associated with each transaction individually;
- identifiable assets, liabilities and contingent liabilities of the purchased entity have to be recognized by the buyer at their fair value at the acquisition date.

Subsequently, the review in 2008 drew another argument which requires that the goodwill to be recognized once at the time of obtaining control and to be determined based on the fair values on that date. Consequently, when acquiring control in stages, it is not necessary to determine goodwill after each transaction each transaction that preceded the takeover (Săcărin, M., 2009: p.40).

However, the share of interests acquired before the takeover date must be measured at fair value and any gain or loss should be recognized in profit or loss account. If the acquirer owns a subsidiary of the acquired entity, IFRS 3 calls the operation reverse acquisition and it prescribes the treatment to be applied.

10. The results of accounting investigation of the acquisition method

We consider two companies, (Popa, A.F., Pitulice, I.C. et al., 2007: pp. 404-407) α S.A. (joint stock company) and β S.A. (joint stock company) entering the business combination process during the year N. On June I N, α *S.A.* acquired 70% of β *S.A.* Company shares at the price of 1.5 lei/share, paid in cash. The share capital of β *S.A.* Company is divided into 10,000 shares with a nominal value of 1 leu / share. On the acquisition date, the balance sheets and profit and loss statement of the two companies are the following:

Balance sheet drawn on 01.06.N

-mii lei-

Elements	α S.A.	β S.A.
Tangible assets	75.000	15.000
Stocks	22.500	5.000
Trade receivables	43.000	7.500
Available assets	36.000	2.500
Total assets	**176.500**	**30.000**
Share capital	50.000	10.000
Reserves	35.000	4.500
Result for the year	2.500	3.000
Provisions	4.000	2.500
Trade liabilities	85.000	10.000
Total equity and liabilities	**176.500**	**30.000**

Profit and loss statement drawn on 01.06.N

-mii lei-

Elements	α S.A.	β S.A.
Income from sales	55.000	110.000
Costs	52.500	107.000
Result for the year	2.500	3.000

The acquisition of β *S.A.* company generates assessments of its elements, the fair values determined being as follows: tangible assets 17,500 lei; stocks 4,500 lei; provision for risks and costs was estimated at 2,750 lei; for the other elements, the fair values coincide with book values; for deferred tax calculation a rate of 16% will be considered.

Conducting the combination process of α *S.A.* and β *S.A.* companies, under IFRS 3, is as follows:

1. The calculation of net asset at the fair value of β S.A. company:

-mii lei-

Elements	Values - lei
Tangible assets	17.500
Stocks	4.500
Trade receivables	7.500
Available assets	2.500
Deferred tax asset on stocks (500 x 16%)	80
Deferred tax asset on the provision for risks (250 x 16%)	40
Provisions	(2.750)
Trade liabilities	(10.000)
Deferred tax liability on tangible assets (2.500 x 16%)	(400)
Net assets at fair value	**18.970**

Accounting treatment of assets/liabilities of deferred tax is prescribed by IAS 12. Under this standard, a deferred tax liability should be recognized for all taxable temporary differences, unless the deferred tax liability arises from: the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting result nor the taxable profit at the transaction date.

A deferred tax asset should be recognized for all deductible temporary differences, to the extent that it is probable that a taxable benefit, on which these deductible temporary differences will be charged, to be available.

2. *Calculation of goodwill or the difference of purchase or excess of the acquirer's interest in the combination:*

-mii lei-

Acquisition cost of securities (7000 shares *1,5 lei/share)	10.500
(-) The share of α company in the net asset at the fair value of β company (70% x 18.970)	13.279
= Negative goodwill (purchase difference)	**(2.779)**

3. *Calculation of minority interests:*
Minority interest = 30% x 18.970 = 5.691 lei.

4. *Accounting reflection of purchase securities in the individual accounts of* α *company*:

Equity securities	=	Available assets	10.500

5. *Accounting reflection of combination operation in the consolidation journal, at the acquisition date*:

a) Taking over the items from α company balance sheet:

176.500	%	=	%	176.500
75.000	Tangible assets		Share capital	50.000
10.500	Equity securities		Reserves	35.000
22.500	Stocks		Result for the	2.500
43.000	Trade receivables		year Provisions	4.000
25.500	Available assets		Trade liabilities	85.000

b) Taking over the items from β company balance sheet:

30.000	%	=	%	30.000
15.000 Tangible assets			Share capital β	10.000
5.000 Stocks			Reserves β	4.500
7.500 Trade receivables			Result for the year β	3.000
2.500 Available assets			Provisions Trade liabilities	2.500 10.000

c) Reflecting the changes due to the fair value measurement of assets and liabilities taken over by α company (deferred tax will be reflected on a net basis, 80 + 40-400 = (280) lei, respectively net deferred tax liability):

Tangible assets	=	%	2.500
		Stocks	500
		Provizsions	250
		Deferred tax liability	280
		Equity securities (2.500-500-250-280) x 70%	1.029
		Minoritary interest (2.500-500-250-280) x 30%	441

d) Recognition of excess of acquirer's interest or goodwill (α company was assumed to have taken all necessary checks before recognizing the surplus in the profit and loss statement):

Equity securities	=	Income from goodwill	2.779

e) Taking over the items from α company profit and loss statement:

%	=	Income from sales	55.000
Costs			52.500
Result for the year			2.500

f) Share of β company equity between α company and minority shareholders:

17.500	%	=	%	17.500
10.000 Share capital β			Equity securities (17.500*70%)	12.250
4.500 Reserves β			Minoritary interest (17.500*30%)	5.250
3.000 Result for the year β				

6. Drawing the consolidation table based on consolidation journal:

-mii lei-

Elements	α S.A.	β S.A.	Adjustments Debit	Adjustments Credit	Consoli-dated elements
Income from sales	55.000	-	-	-	55.000
Income from goodwill	-	-	-	2.779	2.779
Payable amounts	**55.000**	**-**	**-**	**-**	**57.779**
Costs	52.500		-	-	52.500
Receivable amounts	**52.500**		**-**	**-**	**52.500**
Outcome for the minority shares	-	-	-	-	-
Result for the year	2.500	-	-	2.779	5.279
Tangible assets	75.000	15.000	2.500	-	92.500
Equity securities	10.500	-	2.779	1.029 12.250	-
Stocks	22.500	5.000	-	500	27.000
Trade receivables	43.000	7.500	-	-	50.500
Available assets	25.500	2.500	-	-	28.000
Receivable amounts	**176.500**	**30.000**	**-**	**-**	**198.000**
Share capital	50.000	10.000	10.000	-	50.000
Reserves	35.000	4.500	4.500	-	35.000
Result for the year	2.500	3.000	3.000	2.779	5.279
Minority interest	-	-	-	441 5.250	5.691
Provisions	4.000	2.500	-	250	6.750
Deferred tax liability	-	-	-	280	280
Trade liabilities	85.000	10.000	-	-	95.000
Payable amounts	**176.500**	**30.000**	**-**	**-**	**198.000**

7. Drawing up the consolidated balance sheet at the acquisition date (comparatively, the individual balance sheet of α S.A. company will be also drawn up):

Balance sheet drawn on 01.06.N

-mii lei-

Elements	α Group Consolidated financial situations	α S.A: Individual financial situations
Tangible assets	92.500	75.000
Equity securities	-	10.500
Stocks	27.000	22.500
Trade receivables	50.500	43.000
Available assets	28.000	25.500
Total assets	**198.000**	**176.500**
Share capital	50.000	50.000
Reserves	35.000	35.000
Outcome	5.279	2.500
Minoritary interest	5.691	-
Provisions	6.750	4.000
Deferred tax liability	280	-
Trade liabilities	95.000	85.000
Total equity and liabilities	**198.000**	**176.500**

8. *Drawing up the consolidated profit and loss statement on the purchase date and comparative presentation of the profit or loss individual statement of α S.A. company:*

Profit and loss statement drawn on 01.06.N

-mii lei-

Elements	α Group Consolidated financial situations	α S.A: Individual financial situations
Income	55.000	55.000
Income from goodwill	2.779	-
Costs	52.500	52.500
Result for the year	**5.279**	**2.500**

The profit of β S.A. is not taken in the calculation of the consolidated result, the practice being prohibited by IFRS 3 *Business Combinations*, whereas at the acquisition date the group represented α S.A. did not participate in obtaining the respective performance. It appears, however, as a component of net assets acquired by the purchasing company and take part in calculating the goodwill. It is noted the relevance of financial position, estimated through the consolidated financial statements, as opposed to the individual one reflected in the separate financial statements prepared by α S.A.

Revised IFRS 3 requires the acquirer, which is α S.A. company, to disclose the following information: the name and description of the acquired entity, the acquisition date, the percentage of ownership acquired, combination motivations, qualitative description of the factors influencing the recognized goodwill, the fair value at the acquisition date, of the total consideration transferred and the fair value at the acquisition date for each major type of consideration, amounts recognized for each class of acquired assets and assumed liabilities, and other information.

11. Conclusion and recommendations

At present, our country is faced with great interest processes for accounting: globalization of economies, increasing transnational companies, increasing market capitalization and the development of new financial products, the establishment and development of new forms of association and survival in the economic environment.

The impact of IFRS implementation varies from country to country and from company to company.

The implementation involves complexity and complexity involves costs. In a study of 1,000 entities in Europe, two thirds of those who responded indicated that the adoption of IFRS had a medium to maximum impact on their business, but the implementation costs were felt.

In Romania, one of the most important effects of the transition to IFRS was reflected in the improvement of the legal relations between companies. Companies' need to make appropriate disclosures to the stakeholders, to properly explain the changes and their impact. Accountants and lawyers needed to work together for the good reflection of the requirements of IFRSs.

Using an accounting framework recognized globally by companies in Romania, based on the concepts of true and fair view and fair value, was a much awaited measure by the private sector.

IFRS 3 stipulates that all business combinations must be accounted for according to the purchase method assimilating the purchase of a business with its assets and its liabilities. However, in the consolidated balance sheet, the identifiable assets and liabilities of the acquired company are accounted for at their fair value. In equity one can distinguish the acquirer's share and the one which is due to other shareholders. (Scorțescu, F.I., 2005/2006: p. 47).

The acquirer, if a business combination should enable the users of consolidated financial statements to evaluate the nature and financial effect of the operation, either during the current reporting period, or at the end of the period, but before approval for publication.

We believe it is necessary to analyze the impact of changes on the entities wishing to initiate a combination process, in order to avoid getting no sustainable income for entities.

On a practical level, the acquired entities are stored either as operative subsidiaries or their assets and liabilities are absorbed by the purchaser. Consolidated financial reporting of the subsisting entity, or of parent-company, will be identical in either case, but in the first one mentioned, the subsidiary's own financial statements retain the accounting values based on its historical cost, thereof, the increases and decreases in assets and liabilities to be made in preparing the consolidated financial statements.

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