ACTA UNIVERSITATIS LODZIENSIS
FOLIA OECONOMICA 257, 2011

Radosław Ignatowski[*]

THE CONCEPTS OF GROUPS IN ACCOUNTING REGULATIONS AND THEIR IMPACT ON THE LEVEL OF CAPITAL, PRESENTED IN THE FINANCIAL STATEMENTS

Abstract. The purpose of this article is to present the impact of elaborated the theoretical concept of companies' groups and the related concepts of consolidating financial statements adopted by the international accounting regulations (IFRS) for the items and the value of the capital, reported in the financial statements. This effect was analyzed on example of selected Polish public companies listed on Warsaw Stock Exchange.

Consolidated reporting concepts, developed at the turn of the 19th and 20th centuries implemented in accounting regulations differently affect the level of equity of capital groups, presented in the consolidated financial statements. Their example shows a clear trend in the transition from the proprietary concept to the entity concept, which corresponds to the general orientation of financial reporting from the perspective of the owners to the perspective of the stakeholders.

The extended concept of the parent company used in the regulations of IFRS to the end of 2009, but mixed with the entity concept has shown, that the equity of capital groups include themselves both equity, attributed to the shareholders of the parent companies, but also assigned to the other shareholders of the subsidiaries (minorities). Only from 2010 there is a possibility of alternative uses of the pure entity concept, which contributes, in principle, to be even higher amounts of capital in the same operating conditions. In the present situation of possible parallel application of both concepts, the managements of the companies may recruit them at its own discretion, which may contribute to some manipulation on reported equity of capital groups, what examples already can be observed in practice of Polish companies.

Analysis of financial data of certain Polish groups did not allow to formulate certain general conclusions, regarding the impact of an extended parent company concept on the level of equities of the Polish groups. In many cases, the impact of the controlled entities positively affected the reserves of the group, but many situations can also be observed in which the activities of subsidiaries was weakening the group's reserves. In such situations separate financial statements of the parent are more favourable to the data presented in the consolidated. However, this may confirm the supremacy of the consolidated reporting on the separate reporting, which is characterized by a greater sensitivity to operational and financial operations of the parent in relation to their subsidiaries. In the case of consolidated reporting, the manipulation of transactions with controlled entities is largely neutralized by what more relevantly and objectively (neutrally) contributes to the evaluation of the effectiveness of the boards of the parent companies.

Keywords: accounting theory, consolidated financial statements, consolidation concepts, proprietary concept, parent company concept, extended parent, company concept, entity concept, goodwill, minority interests, IFRS.

[*] University of Lodz.

1. INTRODUCTION

The vast majority of expansive business-oriented entities develop theirs strategies through the creation of groups. In these connections the entity acts as a dominant firm (parent company) to subordinate its subsidiaries. This allows to accomplish its objectives, mainly oriented to achieve profits in the long-term financial and operating policies. This translates into a rise of entity value, which strengthens the economic strength and the positive financial image of business activity, assessed by the present and potential investors.

At various stages of development of the entity, there is a varied demand for form and scale of financing its further action. Several priorities are also in its action and relationships of their own is interchangeable with the holders of the equity instruments issued by the entity. This translates into specific strategies for capital investments, dividends policies, which are adopted and implemented by the governing and management bodies of the companies. Assessment of the effectiveness and efficiency of activity of the boards of the entities, particularly public companies is carried out in many cases on the basis of different measures, although the most common and simplest is the price of the shares. In principle, their growth is desirable, as it ensures in the most simple situations implementation of profits by the sale of shares. The increase in the price of the public company's shares depends on many factors. Dominate factors usually not directly dependent on the executive board of the public company – mostly current overall economy circumstances, market cycles in the scale of the world economy as a whole but not without significance of the parameters of the values of the net assets of the company and its ability to generate future economic benefits.

Periodic information about the financial position, financial performance and prospects of the business entity, its growth and development comes from general purpose financial statements. They are often refer as a statutory financial reports. When the report of the Board of Directors is supplemented (in the form of management commentary – MC, management's discussion and analysis – MS & A or operating and financial review – OFR), sometimes complemented also by the letter of the Chairman of the Supervisory Board, such documents are called commonly financial reports. They are prepared and presented according to specific rules and principles as regards the financial information contained in the financial statements and related qualitative descriptions, identify the legal financial reporting regulations strictly.

In the case of Polish companies listed on stock exchanges, regulations on financial reporting are contained mainly in the Accounting Act and the resulting obligation to apply International Financial Reporting Standards (IFRS), which are coordinated with the regulations applicable to regulated capital markets.

Under these regulations listed public company on regulated markets which will appear in the role of the parent, is required to prepare and present to the public, among others. annual financial statements, which shall include the scope of economic processes and resources directly controlled by the Board of Directors of the company. The Board of Directors of listed public company is obliged also to prepare and present the Group's annual accounts in the form of consolidated financial statements (CFS), in which the company is the parent. Therefore, the report covers the scope of economic resources and processes implemented in subsidiaries, controlled by the parent company. Indeed, since the company controls a subsidiary, it means that it controls economic resources and the processes occurring in the subsidiary. Hence, the financial data of subsidiaries should be included in the financial statements prepared for the entire group, if seen as a single, concise reporting entity (and economic entity).

Financial statements of the group, the consolidated accounts include not only financial data of the members of the group, but also financial data of other companies, in which the entities of the Group hold interests, allowing them to jointly control or significantly influence these companies. It is assumed that such forms of subordination also contribute to the achievement of economic benefits from their operations and thus better reflect the actual financial position and financial performance of the holding company, than to measure the value of interests in theirs cost, based on the price of acquisition or of their fair value (market value or other similar values).

The items and amounts that will be shown in equity section in CFS depend largely on the accounting regulations. These constitute the expression of the theoretical concepts underlying the determination of the scope of the group itself and the related theoretical concepts of the consolidation of financial statements, emanating from the qualities of accounting entity theories. Essential of the problem is the approach to certification and valuation of equity attributable to shareholders of subsidiaries. These include essentially two classes: parent company and shareholders in the parent entity and the other shareholders, called minority shareholders (or shareholders having non-controlling interests).

The purpose of this article is to present the influence of theoretical concepts of the groups and the related concepts of CFS, which have been adopted in accounting regulations on the items and amounts of equity, reported in the CFS. This impact will be analyzed by the example of selected Polish listed public companies and their groups. Because these since 2005 draw up statutory consolidated accounts in accordance with IFRS, these regulations shall constitute a reference to the theoretical concepts presented in the article and their practical applications and implications.

2. THEORETICAL APPROACHES TO CONSOLIDATING FINANCIAL STATEMENTS OF GROUPS

For the presentation of the accounting concepts underlying the preparation of group's CFS let's take the basic assumption: the relationship of domination of one person over another – control – results from the capital engagements, and provides the parents with, most but not all interests in the subsidiary's equity. This means that part of the interests of the subsidiary may be out of range of the same parent or by its controlled other subsidiaries. Thus, we assume the existence of the individual or institutional outside shareholders, having rights to part of the net assets of the subsidiary, including profit and other gains earned in current and in prior periods. These shareholders' equity rights are referred as to minority interests, although a contemporary trend is to use other term: non-controlling interests.[1]

The problem, which therefore in this situation generally occurs is the scope for recognition and presentation of net assets of subsidiary and the rights to them in the financial statements drawn up by a parent. Thus the financial statement of the group (the parent company and its controlled subsidiaries) should include only the rights of shareholders of the parent entity to the net assets of the subsidiary or disclose it in full, taking into account the rights of shareholders (minority) from outside the group? This is the essential question, the answer to that is the basis of different theoretical concepts of groups and concepts of CFS. This is a question about the concept and scope of the reporting of the reporting entity and the scope of its financial and operating impact.

As stressed in the development of American Concepts and Standards Research Study Committee, appointed by the American Accounting Association (AAA) in 1964, in accounting for the business entity, with which we are dealing, may be defined as "the area of economic interest of the specific unit or group," stating further that "[...] the boundaries of such business entity may be defined by: (1) determination of interested individuals or groups, and (2) identification the nature of the interest of that person or group. The term business entity includes activity which it leads, economic events, usage of resources (tangible and intangible, quantitative and non-quantitative), which together affect the interest of individuals or groups. Put simply, the Committee adopted as a starting point for defining the business entity a user-oriented approach. This means that accounting, including financial reporting is developed to combine the needs of the individuals and/or groups" (AAA, 1965).

[1] See par. 4 of IAS 27 (2008). The IASB has recognized that the term "minority" may by its name suggest that control of the parent on the subsidiary always results from majority shares, which in the context of the ability to control the subsidiary on the basis of other considerations – for less orientated user of accounting regulations be misleading.

In such situation, if as a point of reference for the reporting, users of the entity's financial statements who have any capital relationship with this reporting entity will be taken into account, several qualities of the accounting theories exist, which correspond to the concept of financial reporting group. Three of them are bright automatically:

– a concept based on the owners of capital from the point of view of the group. These owners are identified with the rights assigned exclusively to the owners of the parent company (the proprietary concept);

– a concept based on the owners of the capital of all the entities of the group. These owners are identified with the rights assigned to all members of the economic structure, forming the multi-entity reporting structure (the entity concept);

– a concept based on the owners of the capital of the group, identified with the rights assigned to the owners of the parent company, who controlling all resources and processes of economic entities have the ability to use part of them, which are due to the other shareholders of subsidiaries (the concept of the parent company).

A unified approach to the presentation of the accounting concepts elaborated in science (also for the needs of economic practice and its regulation) to recognition of the interests in a subsidiary, and thus: the principles for the preparation and presentation of CFS have presented as the first two Canadians: G. C. Baxter and J. C. Spinney, making a summary of the presentation and comparison of accounting theory underlying the consolidation of financial statements. It has happened in seventies of the twentieth century only. They have set apart four independent, internally consistent concepts of consolidation of financial statements (Baxter, Spinney, 1975):

1) the proprietary concept;
2) the parent entity concept;
3) the extended parent entity concept, and
4) the entity concept.

Having as the reference point approach for the minority interests (non-controlling interests) in the consolidated accounts, which is an essential element of the different approaches to the consolidation of financial statements, the main assumptions of the listed concepts above are presented in Figure 1. In the figure the fields marked with an circle reflect equity of the parent holding company and its group), while the shaded field of horizontal ellipses represents reserves attributed to minority interests.

According to the proprietary concept, only a majority interests (holding company, seen mainly as interests of the parent) are of interest to financial reporting, hence minority interests are not presented in the financial statements at all taken into account. This means that the appropriate method of consolidation, corresponding to the concept is the proportional consolidation method.

According to the parent entity concept minorities are an integral part of the financial statements, but are only a supplemental funding source of the reported assets of a subsidiary, as the most important recipient of financial statements according to this concept is similar to the proprietary concept. That is the owner, who controls the subsidiary. Control allows to use and dispose of the entire net assets of the subsidiary and this means that the financial statements of the group should represent not only the assets to which the majority shareholder shall have the right, but also that which is assigned and is financed by other shareholders. According to this concept, the best form of the preparation and presentation of consolidated reports is the full consolidation method.

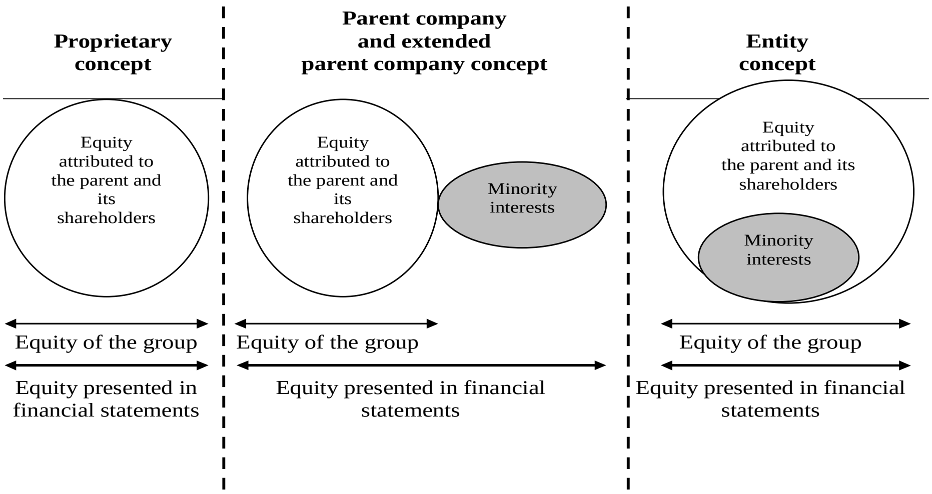

Fig. 1. Accounting approach to equity (shares) of minorities in the various concepts of the group (the concepts of consolidation of financial statements)

Source: adapted from Taylor (1990, p. 111).

According to the entity concept a minority shareholder of the subsidiary has the same rights of participation as the parent company and hence the right to the net assets of the subsidiary, as the majority shareholder – a parent entity. It is here, although seen as a separate shareholder, but not as a different shareholder who is not interested in the reports by the financial statements of the group, to which belongs its shares in the subsidiary. Therefore, the consolidated accounts shall be drawn up both majority shareholders and minority from both groups of shareholders' perspective, treated as the same. This means that there is no rationale to the preparation and presentation of CFS to highlight only the majority shareholders, and thus with the presentation of equity of the group must be presented the rights of shareholders of one or the other group of shareholders, presented in the same group of the equity.

It should however be pointed out the applicable term of the group and the equity group. Group consists of parent entity and its subsidiaries. By saying so on the equity of the group should bear in mind all the capital in what are equipped and have all entities of the group. However, in the process of consolidation most of the capital of the subsidiary is eliminated – these, which have been brought to it by the shareholders and other reserves which have been collected by the subsidiary to the date of acquisition. Hence, the notion of group's equity *de facto* means: paid-in capital of the parent and those other reserves held by a parent. It is all the other reserves, developed by the parent since its establishing (retained earnings, gains and losses recognized directly in equity, e.g. a revaluation surplus of property, plant and equipment or intangible assets), and only those subsidiaries' reserves, which were developed since the acquisition. Hence, in two concepts of parent entity and in a proprietary concept the group's equity means an equity attributable to the shareholders of the parent. While the entity concept, by which the minority interests are also considered as stockholder's equity of the group, the concept also covers part of the equity of the subsidiaries, which are attributed to the minorities (non-controlling interests). The above figure has stood, however, the term of group's equity in the sense of capital owed to shareholders of the parent. But, since the minority are considered stockholder, in this case, the narrower and wider meaning to the concept of capital group is the same.

Distinct element of the diversity of theoretical concepts of the consolidation of financial statements is a problem of measurement. This problem occurs with the three elements of measurement: the net assets of a subsidiary, minority interests in that net assets, if they are to be presented and the goodwill of the subsidiary.

From the viewpoint of consolidated accounts, there are several possible approaches for valuing assets (net assets). Basically at the level of theoretical concepts two of them are considered: concept based on costs and concept based on fair values.

According to the first concept, the entire assets of the subsidiary are measured with reference to theirs book values, resulting from the accounts of the subsidiary and are presented in consolidated financial statements.

According to the concept of the fair values, each of the assets of a subsidiary (its net assets) should be subject to valuation in such a way as if they were recognized for the first time on the acquisition of shares in the subsidiary.

The term and concept of valuation in the fair values were originally introduced in the United States of America and was used by financial institutions in relation to the amount of the reimbursement, which had expected to reach the investor from the investment (Hendriksen, 1970, p. 370; Hendriksen, van Breda, 2002, p. 498). By the interpretation of the US courts valuation at fair value should take into account all events related to the subject to valuation, including the valuation which takes into account its historical cost basis, but also the valuation based on replacement costs (prices). Financial institutions have become, in turn, the view that the basis for estimating fair value should the replacement be the only basis for Foster, Rodey, (1951, p. 27–29). However, some theorists argue that cannot be universally valid grounds for replacement for the valuation of all assets, purchased together with the entire enterprise. Basis of valuation of such inputs should indeed depend on the intent, which is accompanied by a purchaser in relation to specific assets. If the acquired property component is to be then sold, its valuation basis should not be based on the current replacement cost, but its realizable value (net selling price) – see e.g. Harvey, Keer (1985, p. 31–32); Ignatowski (1995).

In accounting theory shall be adopted, therefore, that the fair value is not a distinct basis of valuation, which should be used for balance sheet valuation in general. Rather, it is a collection of miscellaneous bases of valuation used and defined by the various institutions, including courts, for specific purposes. This point of view is in line with the Y. Ijiri's theorem, who believes that among all possible methods of valuation, which can be applied in accounting, it is not possible to choose the "best" of them. He claims further that, in the specific case of the use of the information generated by the accounts of one method of valuation might be better than another. However, it cannot be made such an overall selection, which would relate in all cases (Ijiri, 1967, p. 65; see also par. 4.54–4.56 in IFRS 2011, p. 49 and the next).

It can be therefore accepted that the basis for the valuation of the acquired net assets of a subsidiary, in this minorities are their book values or fair values.[2]

Element of the latter, taken into account by Baxter and Spinney in the generated by their theoretical concepts of consolidation of financial statements, which affect also the diversity of bases of valuation of the net assets of a subsidiary is the measurement and disclosure of the goodwill of the subsidiary.

From the viewpoint of accounting theory in the literature (Hendriksen, 1982, p. 407) were initially three concepts of goodwill, i.e.:

1) goodwill as intangible components assigned to the entity, which shall not be recorded as assets, but which may explain the occurrence of goodwill;

2) goodwill as current surplus value (NPV) of the estimated future earnings more than the sum of the normal return on investment that does not include a goodwill;

3) goodwill as a surplus value of the company more than the sum of the values of its identifiable tangible and intangible assets, net assets.

[2] In regulations of accounting the fair value commonly is defined as "the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction." See e.g. *International Financial Reporting Standards 2011*, Glossary, p. 2808. A similar definition of fair value is also in the provisions of art. 28 par. 3.6. of the Polish law on accounting.

By the first and third concept, as opposed to the concept of the second, goodwill is seen as a separate asset, with its distinctive characteristics, such as other assets. So if we assume that for purchased shares of the subsidiary a price is paid which reflect its fair value, then also components of the net assets should be valued at their fair values, so that the excess of the purchase price of shares in excess of the net assets of a subsidiary, as may be assigned to the acquired shares may be considered an acquired goodwill by a parent.[3]

According to the second concept goodwill should not be recognized as an asset, as it is done with other components of the acquired entity. It would therefore not recording it at all in the balance sheet accounting system, and at most recognition as a contingent asset.

For this reason, recognition of goodwill as an expensed cost incurred to achieve future above-average earnings, with whom it relates must recognize that these gains will in future be achieved (i.e. recognition as an asset).

Found in the earlier practice, recognition of the purchased goodwill as the expensed cost of the period (or recognition directly in equity) doesn't fit in the canons of the aforementioned concepts. This would indeed be recognized that economic benefits inherent in it have now been implemented. Rationale for goodwill recognition as expensed cost or admission as a capital loss would make the assumption that the set of assets which it accompanies, there no longer earn any future above-average earnings. In other words, goodwill is carrying out its advantages at the time of its acquisition.

If we therefore assume (according to the first, but primarily the third concept) that goodwill is a component of the acquired net assets of the subsidiary, then it can be presented in the consolidated financial statement as an acquired goodwill, attributed to the parent. Such an approach from the perspective of the parent may be in turn offset approach from all the stakeholders of the subsidiary and the cause that the CFS should present not only goodwill acquired by the parent, but its subsidiary's total value. This approach is assimilated by the entity concept. The problem here is that, of course, how to measure the overall value of the company. As far as goodwill attributed to the parent can be measured easily, the measurement of the overall goodwill is already a bit more difficult. In determining the value of acquired goodwill accounting takes its third concept defined by E. Hendriksen, i.e. as the difference between purchase price and the value of net assets of a subsidiary, as may be assigned to the acquired shares. Determine the overall value of the company's subsidiary so requires knowledge of the total purchase price of all its shares or at least the fair value of minorities. The entity concept simply assumes that it is directly proportional to the price of the purchased

[3] More broadly about the theoretical concept of goodwill, its legal aspects, economic, reporting and accounting procedures, and changes in the practical and regulatory approach to this subject – Ignatowski (1995).

portion of the shares. It is known, however, that in practice this principle generally doesn't work. Under certain circumstances redeem the remaining shares belonging to minority requires a disproportionately higher consideration, and in the other circumstances, it is quite the opposite. In extreme cases value of the "golden share" may equal or even exceed the value of remaining shares, and extremely opposite is some of the other shares can be priced by the market significantly below the value of the assets of the company, which could be attributed to these shares.

3. CONCEPTS OF GROUPS AND CONSOLIDATED FINANCIAL STATEMENTS IN THE INTERNATIONAL ACCOUNTING REGULATIONS

In the international accounting regulations, all indicated in the preceding point theoretical concepts of groups and the consolidation of financial statements have already been or are still used.[4] International regulations currently shows a clear orientation to the entity concept, though, and two of the other three: the proprietary concept and extended concept of the parent still have their uses. However, in favor of the idea of a proprietary assumes in the regulation of International Financial Reporting Standards (previously International Accounting Standards) as the solution as an alternative permitted in presentation of interests not in entities controlled by a parent (in subsidiaries), but by a venturer in a jointly controlled entities (see par. 25 IAS 31 (1998) and par. 30 IAS 31 (2003)). Such entities and are not included in the group, but, in accordance with the requirements applicable to the preparation and presentation of CFS theirs data should be addressed in parallel with the headings of the revenues, expenses, gains, losses, assets, liabilities and cash flow of entities creating the group. So only that amounts reported, representing financial data of jointly controlled entities shall be the percentage share of the ownership of the venturer. Similarly applies to shares in associates, only enough so that their data is the only basis for applying the equity method, in which there is no direct recognition of their financial data, but they are only the basis for recognizing the change in the value of the shares, arising from changes in net assets of an associate. Capital effect (the recognition of gains or losses, including profits or losses) from the standpoint of equity of the group is the same, but only in part attributed to the shareholders of the parent entity. Speaking about this it means use of possible variants of methods in respect of the same subordinate entity, what at the regulatory level is possible only in the case of jointly controlled

[4] For the use of the parent company concept see at par. 32 IAS 22 (1998) and par. 26 IAS 27 (1994). For an extended parent company concept see at par. 34 IAS 22 (1998) and par. 26 IAS 27 (1994). For the entity concept see at par. 32 and B44 of IFRS 3 (2008), par. 27 IAS 27 (2008), and par. 54 IAS 1 (2007).

entities where it is possible to apply an alternative proportional method (consolidation based on the proprietary concept) or the equity method, which has the same roots as proportional consolidation – based on the proprietary concept. In the case of other forms of subordination: subsidiaries and associations, the current IFRS provisions only require: full consolidation method, respectively (according to an extended parent company concept or the entity concept, introduced into regulations in 2008) and the equity method (in which lies the proprietary concept bases).

The evolution of the international accounting regulations concerning the use of theoretical concepts of consolidation of accounts on the example of one of their three fundamental areas: the recognition, measurement and presentation in the CFS of minority interests illustrate Table 1, appearing at the end of this article. To distinguish the approach to goodwill in the entity concept and other concepts were adopted for the purpose of this compilation of terms not found in the regulation of accounting: total and acquired goodwill. It was developed on the basis of the tables in the source of IAS and IFRS regulations.

Table 1. Development of international regulations related to minority (non-controlling) interests

Year	Sourse of approach	Approach
1976	IAS 3 *Consolidated financial statements*	Recognition on the base of book values of net assets or of market values of identified net assets on the day of acquisition by the parent (assumption in lack of specified regulations). Presentation outside shareholders' equity section.
1983	IAS 22 *Accounting for business combinations*	Recognition on the base of book values of net assets or of fair values of identified net assets on the day of acquisition by the parent.
1998	IAS 22 *Business combinations*	As above, but preferable fair value approach with identification of net assets at the day of acquisition by the parent with recognition of restructuring provisions.
1988	IAS 27 *Consolidated financial statements and investments in subsidiaries*	Presented outside the shareholders' equity section, not below zero.
2003	IAS 27 *Consolidated and separate financial statements*	Recognition on the base of fair values of identified net assets, including contingent liabilities and excluding restructuring provisions, measured on the day of acquisition by the parent. Presented in shareholders' equity section with limited ability to value below zero.
2004	IFRS 3 *Business combinations*	
2008	IAS 27 *Consolidated and separate financial statements*	Recognition on the base of fair values of identified net assets, including part of contingent liabilities, or at fair value (with recognized goodwill), valued at the day of acquisition by the parent. Presented in shareholders' equity section with unlimited obligation to value below zero.
2008	IFRS 3 *Business combinations*	

The evolution of the international regulations on the recognition, measurement and presentation of goodwill and related other categories affecting stockholder's equity group, net assets and minority interests (non-controlling interests) is also pronounced in cases of specific acquisitions. There are basically three situations: multistage acquisitions, acquisitions achieved without the transfer of consideration and acquisition of additional shares in subsidiary already controlled.

Initially, the IAS 3 (1976) and later still in IAS 22 (1983) specific cases of acquisitions as indicated above, affecting the items presented in the CFS in connection with acquisitions, have had not their regulations. Only in IAS 22 (1998) addressed the issue of settlement of multi-stages acquisitions. These regulations set out the principle of separate accounting of each stage of acquisition (for each of the exchange days) according to the previously adopted general principles, namely: individual identification of assets and liabilities and their (re)valuation at fair value with recognition of difference as a gain or loss on the revaluation, as well as the identification and recognition at any stage of the acquisition the separate goodwill (also negative).[5] Advisable solution survives until the adoption of the revised version of IFRS 3 (2008) – see par. 58 to 60 of IFRS 3 (2004). By these new regulations currently in force, in the case of a multi-stage acquisition it is not to identify already and it is not to recognize separate goodwill for each day of the exchange (acquisition of successive tranches of shares), implying that the goodwill is included only on the moment of getting the control of the acquired company. In such situations, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in profit or loss. When and in connection with their respective shares of the acquiring entity any amount of gains or losses was recognized in other comprehensive income, it should be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.[6] Such specific detailed rules are not directed in any of the theoretical concept of consolidation.

Another special case of acquisitions, which are included for the first time in the revised version of IFRS 3 (2008) is acquisitions without payment. These are such acquisitions in which the control is not related to the consideration transferred. Examples of such acquisition is to obtain control of another entity of

---

[5] Item to recognize and present the gain or loss on the revaluation of each item was determined by solutions specific to the revalued items which regulated the other IAS (and IFRS). See par. 36 and 37 of IAS 22 (1998).

[6] See par. 42 of IFRS 3 (2008). Treatment of other comprehensive income would arise from the fact that the entity could owned shares classified as financial assets available for sale, and thus recognized gains on revaluation of these shares. But the entity could also value those shares in the CFS in relation to the equity method, allowing to recognize gains on revaluation of the net assets of a subordinate entity (shown e.g. as the revaluation surplus).

the decision, the owners of which may arise from its statute or assimilated most of the composition of the management entity that controls the entity (acquisition by contract alone) – see par. 43 of ifrs 3 (2008) and par. 13 of IAS 27 (2008).

In the case of acquisition without the transfer of consideration in order to settle acquisition introduced regulations oblige to apply the normal methods of acquisition, which results in the application of full consolidation method for drawing up the consolidated financial statement (see par. 44 of the IFRS 3 (2008). This means that the whole of the net assets of the subsidiary is assigned to the minorities (non-controlling interests) and since these are part of own capital, thus affect the amount of equity shown in the CFS. Participation of the parent entity at this level is of course zero. If the non-controlling interests are valued at the moment of acquisition of control in their fair values, the total goodwill of the subsidiary is recognized, *de facto* fully attributed to the shares of the minorities.

The third area of newly regulated in IFRSs in 2008 is a settlement in the acquisition of additional shares in subsidiaries. The earlier regulations did not contain any of the provisions in this area, causing a very diverse practice.[7] For that reason IASB adopted a resolution based on the settling of all transactions that have the effect of changing the structure of ownership in subsidiaries (acquisition of additional shares or sell parts of them), but it does not cause loss of control as the transactions in equity. As a result of this there is no additional goodwill recognized (or gain on bargain purchase – negative goodwill) and the result of the transaction is recognized as a whole as a gain recognized in other comprehensive income, assigned to the shareholders of the parent entity (see par. 30 and 31 of IAS 27 (2008).

In the area of mergers and acquisitions international regulations concerning those under common control are missing. For such business combinations, as a result of which all the merging entities (or businesses) are ultimately controlled by the same party or parties both before and after their merger (see par. 2 (c) and B 1 IFRS 3 (2008)). In such circumstances, the managers of the entity responsible for financial reporting must specify its own principles of accounting, having regard the provisions of IAS 8 (par. 10 to 12).

4. APPLICATION OF THE CONCEPTS OF GROUPS IN THE PRACTICE OF POLISH COMPANIES LISTED ON WARSAW STOCK EXCHANGE AND THEIR EFFECT ON THE RESERVES PRESENTED AT SSC

Polish companies listed on the Warsaw Stock Exchange, similar to those which are regulated by the regulation 1606/2002 of the Parliament and the Council on the application of international accounting standards, preparing and

---

[7] The IASB has identified six different practices and approaches to the settlement of such transactions. See *Accounting*… (2008). See also Ignatowski (2009b).

presenting CFS generally from 2005 must conform to the regulations of IFRS. This means inter alia that:

1) any combination of legal and equity acquisitions, which took place on the date of transition to IFRS for listed companies have accounted for by the provisions of IFRS 3. Those of them which have taken place in the financial year started on July 1, 2009 or after that date must be settled by mandatory provisions of IFRS 3 as of January 2008. This means that:
   a) acquisitions completed on the date of transition to IFRSs were settled only by the application of purchase method in accordance with IFRS 3 (2004), by which:
      i) goodwill have been recognized at each moment of exchange transaction as an intangible asset, not amortized, but tested periodically for impairment,
      ii) negative difference between the lower cost of a business combination and the higher the amount of participation in the fair value of net assets acquired have been determined on each exchange day was recognized in the profit of the period in which the acquisition (exchange) took place;
      iii) of the differences referred to in the above two points influence the costs directly attributed to the combination and any contingent liabilities that could be reliably measured, but restructuring provisions of the subsidiary acquired do not have the impact on the settlement of the combination;
      iv) acquisition of additional shares in a subsidiary may provoke an additional recognition of goodwill or negative goodwill and the disposition of the shares not causing loss of control involve adjustment of acquired goodwill and have had an impact on a gain (loss) on disposal of the shares;
   b) business combinations carried out from the date of application of IFRS 3 (2008) are also accounted for as the acquisition, using the purchase method only whereby:
      i) purchased or total goodwill solely on the moment of acquisition is recognized as not amortized intangible asset, but being periodically tested for impairment;
      ii) gain on bargain purchase (negative goodwill) is recognized in the profit of the period in which the acquisition (business combination) took place;
      iii) of the differences referred to in the above two points are no longer influence the goodwill: the costs directly related to a combination and those with contingent liabilities that relate to future obligations;
      iv) acquisition of additional shares or the disposal of not causing loss of control in a subsidiary does not result in the recognition of additional

goodwill or negative goodwill, or the correction of previously recognized goodwill, since such transactions are considered transactions on non-controlling interests and their effect is recognized in other comprehensive income) in the period in which the transaction took place;

c) business combinations under common control without being covered by the regulations of IFRSs can be applied to other methods than the purchase method, in justified cases, the pooling of interests method, whereby generally all reserves of the combining businesses increase group shareholder's equity;
d) in business combinations accounted for as the acquisition, it is necessary to recognize all assets and liabilities identified at the date of acquisition and measure them in theirs fair values, which makes that the greater difference between the book value net assets gathered and measured on the date of the acquisition of their fair values, the value of the equity of the group is less;

2) stockholder's equity of the group include capital assigned to minority (non-controlling interests), whose initial value:
   a) in accordance with IFRS 3 (2004) was determined solely on the basis of participation in the fair value of the identified fair value net assets at the date of acquisition;
   b) in accordance with IFRS 3 (2008) can be determined either on the basis of participation in the fair value of the identified net assets at the date of acquisition, either at their fair value (including part of goodwill), which their market value is the most reliable way to assess;
3) financial data of the group of the listed company are summarized in CFS by the use of full consolidation, at CFS show reserves attributable to minority interests in equity section, and this means that the smaller is the parent company participations in a subsidiary, the more it affects the amount of equity presented in the CFS of the group;
4) CFS also includes shares in associates and interests in jointly controlled entities which allow recognition of its reserves to the group in part due to the shareholders of the parent. These reserves represent changes in net assets of these entities, which occurred after the date of their submission. That is to the same extent as they are to be subsidiaries. The number of such entities contributes positively to the stockholder's equity of the holding company, as far as from the date of submission to the balance sheet date the value of their net assets shall increase. In the case of a jointly controlled entity selection method of recording data for their presentation in CFS does not have any consequence from the point of view of the amounts recognized in shareholder's equity of the group, including their profits or losses of the period.

After a brief overview of the most important regulations of IFRS for accounting of the acquisitions and CFS presentation from the standpoint of their impact on the parent shareholder's equity and their groups we look at the financial data of capital groups. The sample represents selected 28 Polish companies listed on Warsaw Stock Exchange. The basis for their analysis are annual CFS prepared and presented for 2009, but for the initial assessment of the scope of application of the entity concept semi-annual CFS for first half of 2010 of these companies are analyzed.

Analyzed sample is not accidental. Analysis of the subject have been listed companies, listed on Warsaw Stock Exchange, which either are, or were included in index WIG20 – index of the biggest companies. In my view, despite the intentional selection of the sample, analyzed data will make it on that basis to assess the impact that the concepts of groups and closely related concepts of groups used in the regulation of financial reporting have on the size of the capital, characterized by not only selected for study groups, but all of the Polish groups. However, that inference is based on analysis of the logical framework, rather than statistical.

Profits for period and the stockholder's equity of the largest Polish groups are shown in Table 2 (attached at the end of the study). The groups are listed according to the simplified name of their parent companies. In turn, the figures on the number of companies within the framework of the analyzed groups and other entities whose financial data affect group shareholder's equity are shown in Table 3. The table summarizes the data for 2008 and 2009, thus giving the impression of relative stability analysis of Polish groups. To depict the impact that the non-controlling interests have on analyzed group shareholder's equity they amounts are presented in Table 4. The profits of companies which are included using the equity method are shown in Table 5.

Table 2. Selected key financial data of some Polish groups for 2009 (in millions of zlotys)

No.	Company and its group	Profits for the year				Total shereholders' equity			
		SFS	CFS		SFS/PC	SFS	CFS		SFS/PC
			PC[1)]	G[2)]			PC [1)]	G [2)]	
1	2	3	4	5	6	7	8	9	10
1.	AGORA	36	38	37	94,7%	51	1196	1196	4,3%
2.	ASSECO	291	373	438	78,0%	3517	3682	4318	95,5%
3.	BANKBPH	56	53	61	105,7%	3439	4389	4489	78,4%
4.	BIOTON	-388	-547	-600	70,9%	1135	1004	1080	113,0%
5.	BRE BANK	57	129	131	44,2%	1522	4120	4271	36,9%
6.	BZ WBK	986	886	940	111,3%	5494	5947	6056	92,4%
7.	CERSANIT	-45	-8	-8	562,5%	407	1066	1066	38,2%

Table 2 (cont.)

1	2	3	4	5	6	7	8	9	10
8.	CYFROWY Polsat	232	230	230	100,9%	328	322	322	101,9%
9.	ENEA	305	514	514	59,3%	9832	9349	9373	105,2%
10.	GETIN HOLDING	89	276	336	32,2%	2464	3830	4054	64,3%
11.	GTC	b.d.	-525	-571	x	b.d.	3961	4152	x
12.	KGHM	2540	2359	2360	107,7%	10404	10556	10624	98,6%
13.	LOTOS	591	901	912	65,6%	5348	6677	6714	80,1%
14.	Mostostal Polimex	108	156	175	69,2%	1050	1243	1384	84,5%
15.	PBG	98	211	222	46,4%	1049	1395	1623	75,2%
16.	PEKAO	2462	2412	2421	102,1%	17968	18288	18371	98,3%
17.	PGE (UoR/MSSF)	1440	3371	4337	42,7%	24196	31168	38850	77,6%
18.	PGNiG	666	1202	1204	55,4%	17340	21392	21402	81,1%
19.	PKN ORLEN	1636	1308	1300	125,1%	17133	19038	21707	90,0%
20.	PKOBP	2432	2306	2312	105,5%	20180	20429	20436	98,8%
21.	POLNORD	58	64	64	90,6%	1115	1127	1127	98,9%
22.	PZU	2510	3763	3763	66,7%	10412	11267	11267	92,4%
23.	STALEXPORT	5	26	30	19,2%	192	370	374	51,9%
24.	STALPRO-DUKT	274	287	285	95,5%	1272	1319	1345	96,4%
25.	ŚWIECIE	70	71	71	98,6%	1182	1184	1184	99,8%
26.	TPSA	b.d.	1280	1282	x	b.d.	16579	16593	x
27.	TVN	419	421	346	99,5%	1831	1645	1285	111,3%
28.	ŻYWIEC	350	370	370	94,6%	700	704	704	99,4%

[1)] Amounts relate to profits (losses) and shareholders' equity, attributed to the parent company.

[2)] Amounts relate to profits (losses) and shareholders' equity of the hole group (attributed to the parents and minorities).

Table 3. Number of subordinated companies of some Polish parents and theirs groups

No.	Group of company	Subsidiaries		Associates		Joint ventures	
		2008	2009	2008	2009	2008	2009
1.	AGORA [1)]	12	13	-	-	1	1
2.	ASSECO	75	68	5	6	4	3
3.	BANK BPH	2	2	-	-	-	-
4.	BIOTON	21	21	3	3	-	-
5.	BRE BANK	22	22	3	1	-	-
6.	BZ WBK	8	9	2	3	2	2
7.	CERSANIT	32	33	-	-	-	-
8.	CYFROWY Polsat	1	2	-	1	-	-
9.	ENEA	24	24	3	3	1	1
10.	GETIN HOLDING	20	23	2	2	-	-
11.	GTC	111	108	7	7	10	12
12.	KGHM	25	30	1	1	-	-
13.	LOTOS	26	24	1	1	-	-
14.	Mostostal Polimex	27	29	4	4	-	-
15.	PBG	22	30	-	-	-	-
16.	PEKAO	25	23	8	8	-	-
17.	PGE	81	85	4	4	-	-
18.	PGNiG	33	35	2	2	-	-
19.	PKN ORLEN [1)]	64	68	1	1	4	4
20.	PKOBP	21	23	5	4	6	6
21.	POLNORD	22	22	-	-	7	7
22.	PZU	21	25	3	2	-	-
23.	STALEXPORT	6	6	1	1	-	-
24.	STALPRODUKT	11	11	-	-	-	-
25.	ŚWIECIE	1	1	1	1	-	-
26.	TPSA	19	20	3	3	-	-
27.	TVN	11	16	2	1	2	2
28.	ŻYWIEC	16	5	3	2	-	-

[1)] Number of companies included in consolidated financial statements. Total number may be greater.

Table 4. Minority (non-controlling) interests of subsidiaries in some Polish groups

No.	Group of company	Total minorities			Porfits attributed to minorities		
		2008	2009		2008	2009	
			thousands of PLN	MI/TSE		thousands of PLN	MP/TP
1.	AGORA	-93	-206	0,0%	-119	-1.023	-2,7%
2.	ASSECO	379.903	635.789	14,7%	77.882	64.501	14,8%
3.	BANKBPH	90.863	99.752	2,2%	5.719	8.275	13,1%
4.	BIOTON	131.141	75.898	7,0%	-4.141	-53.213	8,8%
5.	BRE BANK	153.584	150.967	3,5%	31.885	1.595	1,5%
6.	BZ WBK	239.872	108.338	1,8%	98.840	53.964	5,7%
7.	CERSANIT	2.342	-	-	-	-1	0,0%
8.	CYFROWY Polsat	-	-	-	-	-	-
9.	ENEA	31.078	23.778	0,3%	6	21	0,0%
10.	GETIN HOL-DING	218.473	224.324	5,5%	51.849	60.103	17,9%
11.	GTC	237.786	191.076	4,6%	88.217	-45.637	8,1%
12.	KGHM	58.360	67.875	0,6%	-313	568	0,0%
13.	LOTOS	396.078	36.752	0,6%	64.134	11.051	1,2%
14.	Mostostal Polimex	114.886	140.783	10,2%	20.305	18.885	10,9%
15.	PBG	168.570	228.181	14,0%	30.923	11.415	5,0%
16.	PEKAO	89.125	83.057	0,5%	12.972	9.610	0,4%
17.	PGE	7.365.921	7.681.428	19,8%	750.076	966.511	22,3%
18.	PGNiG	9.030	10.477	0,0%	445	1.647	0,2%
19	PKN ORLEN	2.718.556	2.669.308	12,3%	-21.384	-8.354	-0,6%
20.	PKOBP	46.216	7.329	0,0%	18.513	6.246	0,3%
21.	POLNORD	-	-	-	-	-	-
22.	PZU	168	133	0,0%	-23	-34	-0,0%
23.	STALEXPORT	3.753	3.711	1,1%	3.873	3.789	13,3%
24.	STALPRODUKT	28.072	25.514	1,9%	-248	-1.945	-0,7%
25.	ŚWIECIE	-	-	-	-	-	-
26.	TPSA	13.000	14.000	0,1%	2.000	2.000	0,2%
27.	TVN	-	-359.717	-27,9%	-	-74.665	-21,7%
28.	ŻYWIEC	89	-	-	20	2	0,0%

Table 5. The equity method influence on profits of some Polish groups (in thousands of zlotys)

No.	Group of company	Profit for the year		Profit attributed to the parent	
		2008	2009	2008	2009
1.	AGORA	- 1.633	- 1.012	-7%	-2,6%
2.	ASSECO	2.889	1.608	0,9%	0,4%
3.	BANKBPH	-	-	-	-
4.	BIOTON	- 28.394	- 15.947	12,8%	2,9%
5.	BRE BANK	555	23	-0,05%	0,0%
6.	BZ WBK	- 777	- 334	-0,07%	0,0%
7.	CERSANIT	-	-	-	-
8.	CYFROWY Polsat	-	-69	-	0,0%
9.	ENEA	414	7.766	0,2%	1,5%
10.	GETIN HOLDING	224	- 523	0,04%	-0,2%
11.	GTC	- 3.661	- 10.887	-0,06%	2,1%
12.	KGHM	267.579	270.072	9,7%	11,4%
13.	LOTOS	26.551	8.227	-5,9%	0,9%
14.	Mostostal Polimex	2.821	6.241	2,3%	4,0%
15.	PBG	-	-	-	-
16.	PEKAO	123.028	58.076	3,5%	2,4%
17.	PGE	238.561	242.157	12,4%	7,2%
18.	PGNiG	221	- 359	0,02%	0,0%
19	PKN ORLEN	266.533	272.375	-10,6%	20,8%
20.	PKOBP	15.594	342	0,5%	0,0%
21.	POLNORD	-	-	-	-
22.	PZU	-	-	-	-
23.	STALEXPORT	- 1.550	- 1.181	-5,2%	-4,5%
24.	STALPRODUKT	-	-	-	-
25.	ŚWIECIE	134	-15	0,07%	0,0%
26.	TPSA	-	-	-	-
27.	TVN	-39.132	-94.440	-10,7%	-22,4%
28.	ŻYWIEC	8.755	-10.497	2,2%	-2,8%

The general conclusion that comes from an analysis of the group shareholder’s equity and groups’ profits on the background of the financial data of the parent companies is such that the power of the Polish groups have largely the same parent companies. In 14 of the 26 cases, profits of the parent company accounted for over 90% of these are due to their shareholders from the perspective of the group. What interesting in 7 cases, the profits of the parent company have proven to be higher than the profits, which take account of shares in subsidiaries and other entities subordinated. A similar relation occurs at the level of total equity. In 15 of the 26 cases the equity of the parents constitute over 90% of the groups' equities attributed to the shareholders of the parent companies. But in 4 cases, the same parent company stockholder were higher than they are due to its shareholders from the perspective of the group. On this basis, it is difficult to pull out more far reaching conclusions, but as far as readable is the correlation level of profits and the equity of the parent companies in relation to similar measurements of groups' equity.

An interesting situation is presented in the case of three companies and their groups: Agora S.A., Cersanit S.A. and Stalexport S.A., which indicated the relative regularity does not occur. In the first company its profit is close the profit of the group (more than 97%), but the parent stockholder's equity represents only just over 4% of the equity of the group, but the non-controlling interests have not affected these numbers – theirs level is almost equal to zero. In a case of Cersanit S.A., the company's loss for the period is more than five times greater than the loss of the group, which should be considered as a phenomenon of quite exceptional, particularly in circumstances where the financial position of the group *de facto* is related to the financial and operational policy of the parent.[8] The favorable results of the subsidiaries have influenced a significant reduction in the loss of the group. A feature of a significant imbalance between the relationship of profits and equity is still only one company: Stalexport S.A. and its group. In this case, the company's profit is less than 20% of Stalexport S.A.'s group profit attributable to the parent shareholders, and the company's shareholders equity constitute just over half of that from the perspective of parent shareholders in the group.

In addition, the Polish groups have the parent companies significant participations in subsidiaries. In 21 cases equities (vide data from Table 4) attributed to a minority interests accounted for no more than 5% of the total equity of the groups. But up in 14 cases, minorities were close to or less than 1%, while in 5 groups minorities did not occur at all.

Another, rather quite obvious conclusion from the analysis of data on the equity of the parent companies and their groups is that in a significant majority of companies subordinated contribute to improving the image of its parent companies. In 22 of the 26 cases analyzed, the group shareholder's equity were higher than the related data of their sole parent companies. But it is not always observable the positive link between the number of subsidiaries in the group and

[8] The company Cersanit S.A., reached a quite good level of EBIT (slightly more than 118 million zlotys), at which level contributed 3,4% increase in revenues relative to the previous year. The reason for such a large loss of Cersanit S.A. were high financial expenses (over 162 million zlotys), among which a significant amount (more than 76 million zlotys) were the losses incurred on the revaluation of and transactions on financial instruments.

the share of the profit for the period or the equity of the parent company in profit or equity of the group. For example, a company Mondi Świecie S.A. has only one subsidiary and the share of the profit for the period (equity) of the parent company in profit for the period (equity) for the group constitutes of 98,6% respectively (99,8%), but in the case of company Lotos S.A., which has 24 subsidiaries, relevant indicators are 105,5 and 98,8% respectively. For comparison, the company PKN Orlen S.A. has 68 subsidiaries and profit and equity ratios range at 125,1% and 90% respectively.

But not all economic categories, reflecting the financial activity of the groups in lights of theirs parents give always equally positive effect. Financial results achieved in the group of the company PKN Orlen explain this reserve. Here, quite seem surprisingly the data presents the relationship of the profit of the company PKN Orlen (slightly more than 1,6 billion zlotys) in relation to the profit for the entire group (1,3 billion zlotys) and the profit of the group that is attributed to the shareholders of the parent company (slightly more than 1,3 billion zlotys). This time the same parent company profit is found to be higher than profits of the group, acting virtually comparably 125% of the profits of the group and profit of the group that is attributed to the shareholders of the parent company. It can be said otherwise: the profit for 2009 of the entire group and the profits of the companies of the group that are attributed to (but not always in full due) to the shareholders of the company PKN Orlen is a little over 330 million zlotys lower than the profit for the same parent company – company PKN Orlen, acting less than 80% of its profit. What may be the reason for this state of affairs? The simplest explanation for this situation are incurred losses of certain subsidiaries in the group. To confirm this, one would reach the notes to the CFS insofar as the essential characteristics of the financial companies constituting the group shall be made public. Unfortunately, the accounting principles, in which case IAS 27 does not specifically require the disclosure of such data (see par. 41 of IAS 27 (2008)). Nothing so strange that the annual financial report, prepared by the company PKN Orlen for your group for 2009, such data does not contain. Similarly, there are no such requirements at the level of an separate financial statements of the parent company (see par. 43 of IAS 27 (2008)). It would remain, therefore, to verify the situation by targeting relevant accounts of subsidiaries, which is no longer as easy as in the case of public company's financial data.

But in this case, the difference between the profit of the parent company and the profit of the group explanation of the reasons for the higher profit of parent from the consolidated profit (loss of subsidiaries) is not impossible.

On the basis of the data of the minority interests for 2009 in holding company PKN Orlen S.A., it appears that the profits of which were attributed to the shares which are available to minority (in subsidiaries) are negative, meaning that they are losses that are including more than 8 million zlotys in total. This may suggest that the allocation of loss to shareholders of subsidiaries between parent company and the rest of their shareholders (minority) is due to the losses which these companies have suffered in 2009, by which they contribute to reducing the profits of the parent company of the group-wide perspective and from the perspective of shareholders of the parent. The amount of total losses of all the subordinated companies (mainly subsidiaries) are not, however, specify in the CFS.

Other reasons that contribute to the profit of the parent company might be higher than the profit of the group, are, for example, the need to eliminate the dividend received by the parent company, recognized in the parent company as financial income. In the case of company PKN Orlen were they in 2009 more than 617 million zlotys, which shall notify the company in its annual financial statements.[9] Another reason may be eliminated profits for intra-group trade and financial transactions (sale of products or services between companies of the group), which from the perspective of the parent company are qualified and recognized in the operating or financial profit for the period, and which from the point of view of the group are recognized in the profit of the period when these transactions are concluded with customers outside. According to the information by the company PKN Orlen in 2009, the transactions of this kind have had a total value of more than 22 billion zlotys in sales to subsidiaries, representing almost half (47%) of the revenues of the company. Probably many of these revenues during 2009 has not been made in the form of resale outside the group, so that a fair portion of the profits on these transactions has been from the viewpoint of groups deemed to be void.

The company Agora, whose subsidiaries, similarly to the subsidiaries of the company PKN Orlen, in 2009, contributing theirs losses to lower profit levels throughout the group. Minorities share in the losses of subsidiaries in 2009 amounted to here just over 1 million zlotys. But in this case, the profits of the group as a whole (in the amount of 37 million zlotys) and profits of the group, which are attributable to the shareholders of the company Agora S.A. (38 million zlotys), slightly outweighs the profit of the company Agora S.A. (36 million zlotys). Why does this happen? Clarification: by analyzing financial data company Agora SA, included in its separate financial statements. Here the company, despite the existence of such a requirement, does disclose selected financial data for all of its subsidiaries, which are the subject of consolidation, and not only those which are put under the equity method.[10] According to the information contained in the explanatory note of the data of subordinated

[9] See Note 31 (d), p. 66 of *Jednostkowe sprawozdanie finansowe – Polski Koncern Naftowy Orlen Spółka Akcyjna za rok zakończony 31 grudnia 2009 r.*

[10] Required disclosure of such information in financial statements, in which the data are put under the equity method is determined by the provisions of par. 37 (i) of IAS 28 *Investments in associates*.

companies in the separate financial statements of the company Agora S.A. (Note 35. *Holding Company Agora S.A.*), it appears that the subsidiary Inforadio Sp. z o. o., in which the company Agora S.A. owns 66,1% of the shares has suffered loss in 2009, for an amount of over 4 million zlotys. Loss understates the profits of the group (vide data in Table 2), but its partial allocation on the non-controlling interests contribute to the increase in profit for the year that has been attributed to the shareholders of the company Agora S.A. A similar situation occurs in the case of the subsidiary AdTaily Sp. z o. o., although the impact of its loss on the profits of the group are much smaller. Profitable subsidiary IM 40 Sp. z o. o., in which the company Agora S.A. had in 2009 72% of the shares have made the total loss of all subsidiaries, allocated to the minority interest amounted to just over 1 million zlotys (vide data in Table 2). These losses also contributed to present the equity of subsidiaries from the standpoint of non-controlling interests in total negative amount of just over 200,000 zlotys, which is the sum of a nonmaterial effect on the reserves of the group as a whole and reserves attributed to the holding company shareholders, which are in the total amount of nearly 1,2 billion zlotys (vide data from Table 2).

It should also be pointed out here that the individual company's data on the level of the CFS are complementary not only the affiliates, but also the data of the jointly controlled entities or associates. Investments in such entities are frequently put under the equity method.

By looking at the data contained in Table 5, it can observed, for example, that the companies concerned are not always covered by the benefits to the investors. This is because the equity method maps precisely the financial position and financial performance of those companies. If a company is profitable, its profits are included in the appropriate percentage to the investment. For example, this is the case with the companies in KGHM Polska Miedź S.A. and the company of PGE S.A., for which participation in the financial results of companies covered by the equity (associates and jointly controlled entities) amounted in 2009, more than 270 million zlotys and 242 million zlotys respectively. In the case of company KGHM it has only one associate (vide data in table 3), which is Polkomtel S.A., mobile network operator. Not surprising therefore unusual profitability of this company and its positive impact on the results of the group profits and value of investment in that company, which in 2009 amounted to a total of over 1,346 billion zlotys. From the point of view of the group, with highly profitable activities of the same group, share in profit, drawn up jointly by all entities of the Group KGHM reaching in 2009, including nearly 2,360 billion zlotys (see table 2), provides, and so significant over 11%. For reminder, companies of KGHM's group amount of 31 companies: a parent company and 30 subsidiaries (vide data from Table 3).

The other aforementioned group is a group of the company PGE S.A., in which a number of associates in 2008 and 2009 was four only. Their overall results, calculated as a percentage of shares held, amounting to just over 238,5 million zlotys in 2008 and just over 242 million zlotys in 2009, will bring the group slightly less profit. Their share in the profits of all companies of the PGE group, it was half of the company's shares in Polkomtel S.A. in KGHM group. Associated with the group companies have achieved this PGE in 2009 including just 5,6% of the profit for the year and the total value of investments (little over 1,346 billion zlotys) would be comparable in amount, as the same company Polkomtel S.A. of the KGHM group.

But not in all cases, the financial data of companies accounted by the equity method benefits to the group. The problem is not, of course, about the flaw in the method, but financial results, which characterize the companies concerned. And so, for example, the greatest losses in 2008 and 2009 for the whole group gave the companies associated with the group of company TVN S.A. (more than 39 million zlotys and almost 94,5 million loss respectively). These losses have resulted in a drastic decline in the value of the investments in these companies (from 120 million zlotys in 2008 to just over 1,2 million zlotys in 2009). However, the worse situation is likely to suffer a Bioton S.A. capital Group companies, in which the results of three associates contribute to the recognition of their share of losses in the period between 2008 and 2009 respectively at almost 28,4 million zlotys and nearly 16 million zlotys loss. The adverse results of these companies have made the investments in these companies with 30 million zlotys in 2008 declined only to 11,000 zlotys at the end of 2009.

Let’s look yet at associates with a group of Stalexport Autostrady S.A. Here on the weaken the results of the group affected one company – the company Autostrada Mazowsze S.A. in 2008 and in 2009 it has suffered losses, amounting to 6,879 million zlotys, and 3,937 million zlotys respectively, while with the 30% participation of the Stalexport company gives shares of periodic losses, chargeable to the financial results of the group amounts to 1,550 million zlotys for 2008 and 1,181 million zlotys for 2009 respectively. Losses of the company Autostrada Mazowsze, which contributes to decrease of the investment in the company, which in the years 2008 and 2009 were duly 397,000 zlotys and 116,000 zlotys. Further losses of the company may reduce the value of investment entirely to zero, and in the event that the Stalexport company had to cover of its losses, the participation interests would be change in recognition of commitment and be presented in liabilities. Hopefully, however, that the company Autostrada Mazowsze S.A., in the short term will start making profits, since they imply rather it will be the start of his statutory activities, finally, which is crucial to all of us, is the construction of motorways.

As shown in tables 2 and 4 of the financial data of selected Polish groups originated, among others from the CFS have a basis for drawing up regulations, using an extended parent company concept. Only with the beginning of 2010, the companies applied to provisions of the revised version of IFRS 3 (2008), in which it is now allowed to apply of the entity concept. Analysis of semi-yearly 2010 CFS shows, however, that only the holding company Cyfrowy Polsat S.A. uses this concept (applies to settle the acquisition of company M. Point Holdings Ltd).[11] Its applications has contributed to the recognition of minority (non--controlling interests) at 4,509 million zlotys, i.e. nearly 12 times higher in relation to their level (378,000 zlotys), what would be determined on the basis of the fair value of net assets, the company said. Such action has allowed parent company recognize 4,131 million zlotys of additional goodwill, which, in the context of a subsequent acquisition of these minorities by parent company resulted in coverage of 23,000 zlotys gain (shown as other comprehensive income) in place of 4,108 million zlotys losses on the acquisition of these non-controlling interests.[12]

In the case of acquisitions in other groups that have taken place in the first half of 2010, the managers of the companies decided to apply the traditional approach – as previously applied (based on extended parent company concept).[13] The reason for this, as theorized by these words, it may be a difficulty or highly expensive measurement of non-controlling interests at theirs fair values or traditional conservative stance towards new solutions, which is characterized by a majority of accountants and of the boards of European companies,[14] and probably also possible to observe a worldwide.

5. FINAL REMARKS AND CONCLUSIONS

In accounting, already at the turn of the 19th and 20th centuries modern theoretical concepts of groups and the consolidation of financial statements were developed. Since then they have been implemented in regulations of accounting, which have been clearly expressed in IFRS. In their example a clear trend in the

[11] See *Grupa Kapitałowa Cyfrowy Polsat. Rozszerzony skonsolidowany raport półroczny za okres 6 miesięcy zakończony 30 czerwca 2010*, p. 7.

[12] *Ibid*, p. F8

[13] Such acquisitions have taken place in the groups of companies: Asseco, Globe Trade Centre, KGHM Polska Miedź, PGNiG. In the period under review there were acquisitions, consisting of the acquisition of all shares of investees like in the groups: Lotos, PBG, Polnord. in these circumstances the extended parent company concept is equivalent to the entity concept, since the total value of goodwill is the same as acquired goodwill.

[14] Evidence is provides, among others by report prepared for the European Commission, assessing the application of IFRS in the countries of the EEA. See *The EU Implementation of IFRS and The Fair Value Directive. A report for the European Commission*, ICAEW, London 2007, http://ec.europa.eu/internal_market/accounting/docs/studies/2007-eu_implementation_of_ifrs.pdf. See also Ignatowski (2009a, p. 346-349).

transition from the proprietary concept to the entity concept is seen, which corresponds to the general orientation of financial reporting from the perspective of the owner on the perspective of the stakeholders.

Consolidated reporting concepts, implemented in accounting regulations (not only international) in different manner affect the level of groups' equity presented in the consolidated financial statements. The extended parent company concept used in the regulation of IFRS by the end of 2009, has shown that the groups' entity included both equity attributed to shareholders of the parent, and also to the other shareholders of subsidiaries (minority interests). Only from 2010 there is a possibility of an alternative application of the entity concept, which contributes, in principle, to present even higher amounts of equity under the same conditions. In the present situation of parallel capabilities applied to both the concepts managers of the parent companies may recruit them at its discretion, which may contribute to some manipulation of the reported equities, what examples already can be seen in the practice of Polish companies.

Analysis of financial data of some Polish groups listed on Warsaw Stock Exchange did not allow the derivation of some general conclusions, regarding the impact of an extended parent company concept on the groups' equities of Polish groups. This concept in the regulation of IFRS was mixed with elements of the entity concept, that are manifested in the reporting in equity group for those that are assigned to the minority. In many cases, the impact of the subordinate entities affects positively the reserves of the group. But it can also be seen many situations in which the activities of subordinated entities weaken the capital position of the groups, which indicate, that the financial data of the parents are more favorable to the data presented on a consolidated basis. However, this may confirm the supremacy of the consolidated reporting on the single reporting entity, which is characterized by a greater sensitivity to operational and financial operations of the parent in relation to their subsidiaries. In the case of consolidated reporting manipulation on transactions with entities subordinated is largely neutralized so more relevantly and more objectively contributes to the evaluation of the effectiveness of the managers' boards of the parents.

REFERENCES

Accounting for changes in the relative proportion of the controlling and non-controlling interests (2008), London: IASCF.

American Accounting Association (1965), "The Entity Concept, 1964, Concepts and Standards Research Study Committee Report", *The Accounting Review*, Vol. XL, No. 2, April.

Baxter G. C., Spinney J. C. (1975), "A Closer Look at the Consolidated Financial Statement of Theory", *Canadian Chartered Accountant (CA Magazine)*, Vol. 106, No. 1, January, and No. 2, February.

The EU Implementation of IFRS and The Fair Value Directive. A report for the European Commission (2007), London: ICAEW, http://ec.europa.eu/internal_market/accounting/-docs/studies/2007-eu_implementation_of_ifrs.pdf.

Foster J. R., Rodey B. S. (1951), *Public Utility Accounting*, New York: Prentice-Hall.

Harvey M., Keer F. (1985), *The Accounting Framework in Practice*, London: The Certified Accountants Educational Trust.

Hendriksen E. S. (1970), *Accounting Theory*, Homewood: Richard d. Irvin.

Hendriksen E. S., van Breda M.F. (2002), *Teoria rachunkowości*, Warszawa: PWN.

IAS 1 (2007), *Presentation of Financial Statements* London: IASB.

IAS 22 (1998), *Business Combinations*, London: IASC.

IAS 27 (1994), *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, London: IASC.

IAS 27 (2008), *Consolidated and Separate Financial Statements*, London: IASB, January.

IAS 31 (1998), *Financial Reporting of Interests in Joint Ventures*, London: IASC.

IAS 31 (2003), *Interests in Joint Ventures*, London: IASB.

IFRS 3 (2004), *Business Combinations*, London: IASB.

IFRS 3 (2008), *Business Combinations*, London: IASB.

Ignatowski R. (1995), *Konsolidacja sprawozdań finansowych w teorii i praktyce rachunkowości*, Warszawa: FRRwP.

Ignatowski R. (2009a), *Instytucjonalne uwarunkowania i otoczenie globalnych standardów rachunkowości*, Łódź: Wydawnictwo Uniwersytetu Łódzkiego.

Ignatowski R. (2009b), *Nowa wersja MSR 27 Skonsolidowane i jednostkowe sprawozdania finansowe ze stycznia 2008*, [w:] A. Jaruga, M. Frendzel, P. Kabalski, R. Ignatowski, *Międzynarodowe standardy sprawozdawczości finansowej (MSSF/MSR) w 2009. Najnowsze zmiany*, Warszawa: SKwP.

Ijiri Y. (1967), *The Foundations of Accounting. A Measurement and Mathematical Economic, and Behavioral Inquiry*, Englewood Cliffs, N.J.: Prentice-Hall.

International Financial Reporting Standards (2011), London: IASB.

Taylor P. A. (1990), *Consolidated Financial Statements. Concepts, Issues and Techniques*, Ltd, London: Paul Chapman Publishing.