Implications of Stock Accounting within the Groups of Companies that Have Investments in the Furniture Industry

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Abstract:
The reason of this approach is constituted by the economic and social importance of the groups of companies investing in the furniture industry. In fact, great part of the companies considered leaders in the national production of furniture are part of groups of companies.
The consolidated financial statements were drafted by the entity considered the parent company of a group, including the accounting period of 2007, in compliance with the regulations of Directive VII of the European Economic Community. A new legislative act in the field of accounting allows for the drafting by great part of the entities considered parent companies of the consolidated financial statements either in conformity with the Accounting Regulations complying with Directive VII of the European Economic Community or on the basis of the International Financial Reporting Standards (IFRS).
I believe that it is important to analyze the implications of the stock accounting within groups of companies into which there are also entities from the furniture industry for the following reasons:

- *the stocks and the transactions involving these stock are numerous and complex; the stocks have a wide range in point of typologies, have big values and they sometimes raise problems of assessment due to the policies and methods that can be chosen by the entity;*
- *for the drafting of the consolidated financial statements concerning stocks and the transactions generated by their flows certain eliminations,homogenizations and re-treatments are necessary.*

Key words: consolidated financial statements, stocks, re-treatments, homogenization of the evaluation methods, the furniture industry.

The motivation of the research on the implications of stock accounting within the groups of companies part of which are entities in the furniture industry is constituted by the social and economic importance of the groups of companies that have significant investments in the furniture industry. In fact, in Romania, , great part of the entities considered leaders in the national furniture production (Mobexpert, Elvila, Silvarom Bucharest, Alprom, Staer, Parisat, Natuzzi) are parts of groups of companies.

A reality of the contemporary economic world, the groups of companies in the furniture industry appeared as a result of searching for ways of survival on a market influenced by fierce competition, of coping with the increasing and wider demand or of increasing their performance.

In the specialized literature the main reasons for which the groups of companies were established are mentioned:

- The horizontal and / or vertical integration of business; the horizontal integration consists in combining several companies in the same business, while the vertical integration consist in the acquisition of companies representing suppliers or customers of the acquiring company ;
- The business diversification with the purpose of a better management or the risks afferent to the business (such as, for example, the risks related to the life cycle, to the trend of the de foreign exchange rate, etc.);
- Avoiding hostile takeover by other companies following take-over bids or exchange bids The withdrawal of ;
- The withdrawal of important shareholders or managers.

The phenomenon of globalization strongly manifested at the end of the 20^{th} century lead to the expansion of the investments in the furniture industry beyond the national frontiers in order to be placed abroad. A consequence of the aforementioned was the establishment of multinational groups. In the context of the globalization of the groups of companies, their financial reporting becomes a topic of national interest, the regulating authorities of which (IASB: IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in the Associated Entities”, IAS 31 “Interests in Joint Ventures” and IFRS 3 “Combinations of Enterprises” or FASB for the American market) gave it the appropriate attention by issuing de norms and recommendations considered a reference framework in the area.

The consolidated financial statements, representing the financial reporting of the groups, are relevant for a wide range of users from the current or potential shareholders, to creditors, employees etc. The obtaining of these consolidated financial statements is the result of a process of aggregation of information performed by professional accountants, on the basis of the provisions of the domestic law, the applicable international norms care but also the professional reasoning in order to offer the users high quality consolidate information. At the account consolidation, the group is considered a single entity, the legal independence of its members being left aside. Due to the fact that each member of the group (both the subsidiary companies as well as the parent company) has its own legal status, each of them draws separate financial statements in order to comply with the norms concerning individual companies. The consolidation of the accounts is considered necessary due to the fact that the separate financial statements of the company holding stocks in other companies do not reflect the true size of the fortune and economic power of the group; their consolidation with those of the entities that are members of the group reveals its true wealth and influence.

The specialized material reveals the fact that in our country, the engineering specific to the consolidation of accounts is more than a decade old. The opening of a segment in the Romanian economy towards the processes of mondialisation and globalization has speeded up and will continue to speed up the need of building groups and implicitly, of knowing the norms, methods, procedures and techniques of consolidation of accounts. Consequently, the general norms related to consolidation have become operational norms through the assimilation of the regulations in compliance with the European directives (OMFP 1752/2005 for the approval of the Accounting Regulations for compliance with the European Directives, which also includes Directive

VII of the European Economic Communities related to the Drawing of the Consolidated Annual Financial Statements).
Recent accounting regulations allow for the possibility of many types of companies compelled to draw consolidated financial statements to choose (the exception for the option is applied in the case of certain types of public interest legal entities) between applying the Accounting Regulations in compliance with Directive VII of the European Economic Communities and with the International Financial Reporting Standards.

In this way the parent company that is part of a group having investments in the furniture industry can choose between the regulations of the European Directive and IFRS at the drawing of the consolidated financial statements.

I believe that it is important for us to analyse the implications of stock accounting within groups of companies part of which are also entities in the furniture industry din for the following reasons:

- the stocks and the transactions into which they are involved are numerous and complex, stocks have a wide range and typology and have big values and they sometimes raise problems due to the policies and methods that can be chosen by the entity;
- for the drawing of the consolidated financial statements concerning stocks and transactions generated by their flow, certain eliminations, homogenizations and re-treatments are necessary.

When is an entity from the furniture industry involved in consolidation and what is the position it can have?

An entity in the furniture industry can actually be the parent company of the group that draws the consolidated financial statements or it can be one of the subsidiary companies that places at the disposal of the parent company financial and accounting information necessary for the performance of the consolidation process.

The activities of the entities that are parts of a group can vary. The entities of the group perform transactions both among themselves as well as with third parties. Part of these transactions is generated by the flows of material elements such as stocks.

I am now going to analyze the implications of stock accounting in the process of consolidation, on the drawing of the consolidated financial statements of the group of companies having investments in the furniture industry.

The practical research is performed within Alprom Group the members of which are a significant number of entities that have investments in the furniture industry and that perform transactions involving stocks, both among themselves as well as with third parties that are not members of this group. Although during the research I analysed the implications of stock accounting within this group, due to the complex structure and types of the involved stocks, the situations and examples given in the article (with fictitious amounts due to the fact that there were many transactions and the real amounts were difficult to obtain and they were not necessary for the objective of the research) can be generally extended to all the groups having investments in the furniture.

Re-treatments of Homogenization

Due to the fact that the accounting regulations allow, in some cases, for the opportunity of the entity to choose among various versions, the methods of evaluating and presenting the own separate accounts used by the companies within the group may differ from the ones applied at the level of the consolidated accounts. A homogenous representation of the group formed by the companies included in the consolidation perimeter is intended through the consolidated accounts. Consequently, the separate accounts of the companies that use different methods as compared to the ones applied at the level of the consolidated accounts must be retreated (rectified) through the book entries. Besides a homogenization of the methods of depreciation, of the depreciation periods, the book entries for the separate account re-treatment also aim to **homogenize the methods of stock evaluation/inventory evaluation**. According to the IFRS related to consolidation and also to other specialized materials,the homogenization principle is applied to all the consolidated entities, irrespective of whether (exclusive or common) control or just a significant influence is exercised over them.

In what stocks are concerned, the most visible influences can appear at the choice of the methods of evaluating the outgoings (especially in the case of fungible stocks: FIFO, LIFO, CMP). I would like to highlight the fact that, in contrast with the provisions of IAS 2 “Stocks”, in Romania the LIFO method is accepted as an evaluation method for the fungible stock outgoings. At the level of groups it is necessary to decide what methods are retained on groups of stocks. If there are subsidiary companies that use other methods than the ones set within the group, re-treatments are necessary.

Example no. 1:
The company MOBTAP S.A. evaluates the stock outgoings by the FIFO method. The policy of the Alprom group, the member of which is the company MOBTAB S.A. is to use the CMP method. At the end of accounting period 2007, in the separate financial statements of the company MOBTAP S.A. the stock of raw materials is evaluated at 95,000 Euros.
If the CMP method had been used, the same stock would have had a value of 84,000 Euros. With the purpose of consolidation, the stock is brought to the level required by the policy of the group.

- The operation reflected into the balance:

121	Profit or loss. Analytical S.C. MOBTAP S.A.	=	301	“Raw materials”	11,000 Euros

- The operation reflected into the profit and loss account :

601	“Raw material expenses”	=	121	Profit or loss. Analytic SC MOBTAP SA	11,000 Euros

Until the establishment of the accounting regulations in compliance with the European Directives, at the level of separate accounts, the income tax and the income tax expenses were able to be calculated and recorded on the basis of either the method of the collectible (current) tax(the companies that applied the provisions of OMFP no. 306 for the approval of the simplified accounting regulations in harmony with the European Directives)or on the basis of the method of the deferred tax (the companies that applied the provisions of OMFP no.94/2001 the approval of the accounting regulations in harmony with Directive IV of EEC and with the International Accounting Standards) (in the consolidated accounts and with the obligation of applying the method of the deferred tax). The homogenisation of the accounting methods at the level of the group generated the registration of deferred taxes. At the entry of these deferred taxes in the consolidated accounts, the following rules should be taken into account:

- If the homogenization re-treatment generated an increase of the return of the year or of the reserve, a deferred tax liability must be recorded (deferred tax payable) according to the diminution of the return of the year or of the reserves;
- If the homogenization re-treatment generated an decrease of the return of the year or of the reserve, a deferred tax must be registered at assets (deferred tax receivable) according to the increase of the return of the year or of the reserves;
- Nowadays the trading companies apply the accounting regulations that are compliant with the European Directives, the method of calculating and recording the income tax being the one of the collectible (current) tax.

In my opinion, as long as at the level of the groups of companies from Romania no consolidated taxation has been regulated through the Fiscal Code, (it only exists at the level of the separate entities) the registration of assets or liabilities related to the income tax calculated for the incomes and expenditures emerging from re-treatments and eliminations would have the role of not presenting an adjusted gross return of the year [that would result from the difference: Incomes (from adjustments) – Expenditures (from adjustments)].In the consolidated financial statements of the groups of companies from Romania, the difference between the incomes and the expenditures that emerge from re-treatments and eliminations are presented as an adjusted gross return of the year.

By the approach of an international perspective in the situation of entities that apply IFRS (without including in this category the companies from Romania the accounting norms of which are based on the European Directives), in the aforementioned example, the stock re-treatment would generate a temporary deductible difference of 11,000 Euros and a deferred income receivable of 11,000 Euros x 16% = 1.760 Euros (supposing that the income tax rate is 16%):

4xx	Deferred tax receivables	=	7xx	Deferred tax income	1.760 Euro

Example no. 2:
The subsidiary company Alpstrat Alprom SA that is part of the Alprom group evaluates the stocks de raw materials using the LIFO method, whilst the group has retained for the consolidated financial statements the CMP method. The value of stocks according to the two methods is as follows:

Table 1: Situation of initial and final stocks of the subsidiary company Alpstrat Alprom S.A. - Euro –

	LIFO (accountancy of the subsidiary company Alpstrat Alprom SA)	CMP (according the rules of the Alprom group)	Differences
Balance at 01.01.2007	88.200	101.430	13.230
Balance at 31.12.2007	73.500	82.320	8.820

The effect of the adjustment will be the increase in the value of stocks along with the increase in the returns of the years (because, by applying the LIFO method, if prices are increased from one period to another, which is the case in Romania, higher expenses were recorded than in the case of using the CMP method).

- The operation reflected in the balance:

301	„Raw materials”	=		%	8.820 Euro
			106	“Reserves”	13.230 Euro
			121	Profit or loss. Analytic S.C. Alpstrat Alprom S.A.	-4.410 Euro (negative amount/amount in red)

- Operation reflected in the profit and loss account:

121	Profit or loss. Analytic SC Alpstrat Alprom SA	=	601	“Raw material expenses”	-4.410 Euro (negative amount/amount in red)

The elimination of internal accounts, operations and profits

The emergence of transactions with stocks within a single group generates the obligation of eliminating:

- The inter-company receivables and payables ;
- The internal profit included in the initial stock (profit recorded in the previous accounting period);
- The internal profit intern included in the final stock;
- The inter-company receivables and payables from the stock sale/purchase within the group.

As mentioned above, inter-company transactions generating returns at the one that sells may take place between the members of the members of the group.

Following the sale of a material item such as stocks, the value of the respective item must be reduced to the level of the stocktaking value at the company that sold it within the group, because the actual effort of the group, as an independent entity de sine is exactly on this level.

Many of the entities that are members of the groups of companies that have investments in the furniture industry perform inter-company transactions concerning the sale and purchase of goods suck as stocks. Being legally independent, each of them will invoice the respective goods to the other, thus registering both incomes that are taken into account at the calculation of the turnover as well expenses, at the discharge of stocks from the stock inventory. If we consider that the group is a single (an objective set through the drawing of the consolidated financial statements), then the inter-company transfers generate neither incomes nor expenses, and what matters is the turnover made by the sale to a third party that is independent from the group. Consequently, the inter-company receivables/ payables as well as the inter-company incomes/expenses emerged from the sale and purchase of stocks within the group will be counted out.

I will now approach the elimination of the results from the stock sale within the group on the basis of the practical research and of the studied specialized papers. I will also give examples of the elimination of inter-company receivables/payables and incomes/expenses within the applications related to the counting out of the stock sale results.

The following steps are necessary for the elimination of the stock sale results within the group: identifying the stocks at the purchaser, calculating the profit made from selling stocks in the current accounting year and in the previous one, and recording the profit elimination.

In what the identification of stocks that have constituted the object of the intra-group transactions is concerned, two situations can be emphasized:

- The stocks in question are precisely identified, on the basis of a code or of some other reference. In this situation the emphasise of stocks coming from other companies in the group is easily made at the stocktaking;
- The stocks are fungible and the member of the group that owns them has several sources of supply.

Knowing precisely the stocks coming from the group is considered difficult, several conventional methods used for their identification being mentioned in the specialized literature:
- In the case of stocks with a slow turnover the last deliveries are considered function of the first in-first out (FIFO) method. For example, if the stock includes 6,000 units and the last supply is of 900 and comes from an entity within the group, and the last but one is of 7.000 units and comes from an external third party, the stock made by intra-group transactions is of 900 units.
- In the case of stocks without a slow turnover that are supplied continuously, in order to calculate the quantity coming from the entity within the group, a coefficient representing the weight of the purchases within the group in the total purchases of the respective stocks is applied to the quantity in the stock at the end of the accounting period.
- The elimination of stock intra-group profits has effects on:

1 **The return of the current year,** if the transaction took place during this accounting period;

2 On the returns of the previous accounting periods (**Reserves**), if, at the beginning of the period, there were goods in stock purchased from another entity of the group and in the cost of which there are intra-group profits.

In what the place of the elimination of the internal profit within the succession of eliminations it is believed that in the case where the entities of the group between which the transactions generating internal returns take place are 100% owned by the parent company, the order is less important. If the majority shareholder has an interest that is less than 100% the minor shareholders are involved and interests must be determined into their own capital and in the return of the year; in this case it is recommended that the elimination of the internal returns be made before the performance of the eliminations with patrimonial character, so that the interests of the external associates be correctly calculated.

Example no. 3 The Elimination of the intra-group returns from transactions with raw materials
Entities F (90% owned) and G (85% owned) are part of the same group with investments in the furniture industry globally integrated in the consolidated financial statements of this group. The main social object of entity F is trading in the goods necessary for the production of furniture and other products specific to the wood industry. The main social object of entity G is the furniture manufacturing.

During accounting period 2007, F sold goods to G, for a price of 600,000 Euros, while the cost was 400,000 Euros. For G, the goods in question represent raw materials, entirely used during accounting period integral 2007 and can be found in the finished products that, in their turn, were all sold to third parties that are not members of the group.

The exclusions concerning the internal stock transaction, at the end of accounting period 2007 are presented as follows.

The separate book entries of F and G related to these stocks were:

To entity F						**To entity G**					
• Goods sale to entity G:						• Raw material purchase from company F:					
411	“Customers”	=	707	“Income from goods sales”	600,000 Euro	301	“Raw materials”	=	401	“Suppliers”	600,000 Euro
•the discharge of sold goods:						• Raw material consumption:					
607	“Costs related to goods”	=	371	“Goods”	400,000 Euro	601	„Raw material expenses”	=	301	“Raw materials”	600,000 Euro
						• Obtaining the finished products:					
						345	„Finished Products”	=	711	“Stock Variation”	1,000,000 Euro (including the raw material

					expenses 600,000 Euro)

• Selling the finished products":

411	"Customers"	=	701	"Incomes from sales of finished products"	1,200,000 Euro

• Discharge:

711	"Stock variation"	=	345	"Finished products"	1,000,000 Euro

Taking into account that the products are no longer with C, the elimination for consolidation is limited to:

707	"Incomes from sales of goods.F"	=	711	"Stock variation. G"	600,000 Euro

If entity G had not paid for the goods coming from the purchase of raw materials the inter-company receivables and payables would have also been eliminated:

401	"Suppliers"	=	411	"Customers"	600,000 Euro

What would have been the eliminations into the consolidation if entity G had not sold the obtained products?

Following the analysis, we find that the return of entity G is not influenced in any way by the operations into which the stocks purchased from entity F are involved, the expenses with raw materials previously purchased and consumed are offset by the intermediary income (stock variation that offsets the expenses made to obtain the production on until its being turned to account). Consequently, the incomes and the expenditures recoded by F when transferring the goods to G are to be eliminated. The intra-group profit is no longer retrieved in the raw material stock owned by entity G, but in the stock of finished products, from the value of which we should deduct 200,000 Euro, in order to comply with the consolidation regulations.

707	"Incomes from sales of goods "	=	%		600,000 Euro
			607	"Expenses concerning the goods from F"	400,.000 Euro
			345	"Finished products"	200,000 Euro

Financial statement of income and expenditure account :

121	"Profit or loss"	=	607	"Expenses related to the goods from F"	-400.000 Euro
707	"Incomes from sales of	=	121	"Profit or loss"	-600,000 Euro

goods “

Example no. 4 The elimination of profits made from intra-group stock sales (finished products for the selling entity) - a top-down transaction:

In accounting period 2006, the majority shareholder SM sells to company A (75% owned) finished products (furniture) for a sale price of 90,000 Euros, their cost being 80,000 Euros. For entity A the goods are merchandise, as the main social object of this company is trading in goods manufactured by other companies of the group. At the end of accounting period 2006 there were in stock 40% of the goods purchased from parent company SM.

Assuming that, until the end of accounting period 2006, entity A had not yet paid the amount due to entity SM, we will also entry the elimination of the inter-company receivables and payables in the consolidation journal.

The above-described operations were recorded in the separate accounting of the two companies as follows:

At supplier SM (majority shareholder)	**At customer A (subsidiary company)**
• sale of the finished products to A:	• purchase of the goods from SM:
411 “Customers ” = 701 “Incomes from the sale of finished products ” | 90,000 Euros	371 “Goods ” = 401 “Suppliers ” | 90,000 Euros
• discharge of the sold products	• the sale of part of the goods purchased from SM to external third parties (60% din the purchased goods):
711 “The stock variation” = 345 “Finished products” | 80,000 Euros	411 “Customers ” = 701 “Incomes from the sale of finished products ” | Sale price (90,000 x 60% +margin of profit)
	• discharge of the sold goods:
	607 “Expenses related to the goods” = 371 “Goods” | 54,000 Euros (90,000 x 60%)

The elimination of the inter-company receivables/payables of 90,000 Euros:

401 “Suppliers “ = 411 ”Customers” | 90,000 Euro

The elimination of the inter-company incomes and expenditures as well as the internal return included in the value of the stocks remained with A:

701 “Incomes from the sale of finished products SM = % | 90,000 Euro

"

607	"Expenses related to the goods. F"	54,000 Euro
711	"The stock variation. SM"	32,000 Euro
371	„Goods"	4,000 Euro

Explanations:

- The incomes recorded by company SM when it sold the finished products is entirely eliminated (because this is an intra-group sale) 90,000 Euros;
- the cost of the goods sold to subsidiary company A, the amount of 54.000 Euros is also entirely eliminated;
- the discharge amount of the finished products at parent company SM is diminished, for the part that remained unsold by purchasing subsidiary company A (80,000 Euros x 40% = 32,000 Euros);
- the profit from the actual final stock of goods at the and of the accounting period at subsidiary company A is eliminated

1 final stock (goods A) = 90,000 x 40% = 36,000 Euro
2 the profit afferent to goods in stock 36,000 – (36,000 : 1.125*)
3 or 36,000 x (12.5 : 112.5) = 4,000 Euro

*the margin of profit at the selling company $\dfrac{\text{Sale price - cost}}{\text{cost}}$

$$= \frac{90000-80000}{80000} \text{ x } 100$$
$$= \frac{10000}{80000} \text{x}100 = 12{,}5\ \%$$

We close the income and expenditure accounts in order to highlight the effects on the returns:

121	"Profit or loss"	=	607	"Expenses related to the goods"	-54,000 Euros
%		=	121	"Profit or loss"	-58,000 Euros
701	"Incomes from the sale of finished products. SM"				-90,000 Euros
711	"The stock variation. SM"				32,000 Euros

Supposing that in accounting period 2007 the majority shareholder SM sold to subsidiary company A finished products for a sale price of 60,000 Euros, their production cost being 52,000 Euros. Subsidiary company A sold, during accounting period 2007, goods purchased from SM the acquisition cost of which was 70,000 Euros.

The above-described operations were recorded in the separate accounting of the two companies as follows:

At supplier SM (majority shareholder)	**At customer A (subsidiary company)**
• the sale of the finished products to company A:	• the purchase of the goods from SM:
411 "Customers " = 701 "Incomes from the sale of finished products " 60.000 Euro	371 "Goods " = 401 "Suppliers " 60.000 Euro
• discharge of the sold products:	• the sale of part of the goods purchased by third parties that are not members of the group:

711	"The stock variation "	=	345	"Finished products "	52.000 Euro

411	"Customers "	=	707	"Incomes from the sale of finished products "	Sale price (70.000 Euro +margin of profit)

• discharge of the sold goods:

607	"Expenses related to the goods "	=	371	"Goods"	70.000 Euro

At subsidiary company A, the situation of account 371 "Goods" at the end of the accounting period, as well as the flows registered during 2007 are as follows:

D **371 "Goods"**	C
Initial balance = 36,000 Euros (including an intra-group profit of 4,000 Euros)	
60,000 Euros (the cost of the goods purchased during the accounting period)	70,000 Euros (the cost of the sold goods)
Final balance = 26,000 Euros (the value of the goods at the end of accounting period 2007)	

The first record into the consolidation journal aims to eliminate the intra-group profit from the initial stock. We consider that the stockout is made in the order first in –first out, which means that the goods that are in stock at subsidiary company A and purchased from the majority shareholder SM in the previous accounting period are completely out of the patrimony of A. The goods outflow from the patrimony generated the discharge following their sale, and also, as a result, the debiting of account 607 „Expenses related to the goods". The elimination of the internal profit implies the debiting of the account of Reserves (the profit of the previous accounting period) and the crediting of account 607 „Expenses related to the goods" with the profit of 4,000 Euro found in the initial stock:

106	"Reserves "	=	607	"Expenses related to the goods"	4,000 Euros

If subsidiary company A did not pay the debt resulted from the purchase of the goods during accounting period 2007, the elimination of the inter-company receivable/payable will be registered:

401	"Suppliers "	=	411	"Customers"	60,000 Euros

The elimination of the inter-company incomes and expenditures, as well as the internal return included into the value of the stocks left at A:

701	"Incomes from the sale of finished products" SM	=	%	60,000 Euros

607	”Expenses related to the goods. A”	34,000 Euros
711	”The stock variation. SM”	22,530 Euros
371	„Goods”	3,470 Euros

Explanations:

- the incomes recorded by company SM at the intra-group sale of the finished products are entirely eliminated (60,000 Euros);
- we must eliminate the part corresponding to the goods purchased and sold in 2007 from the expenses related to the goods recorded by entity A during accounting period 2007, i.e. 70,000 Euros (the total cost of the sold goods) minus 36,000 Euros the cost of the goods coming from the previous accounting period → eliminated part 34,000 Euros.
- The discharge amount of the finished products at parent company SM is decreased for the unsold part that is left in stock at purchasing subsidiary company A:
  (26,000 Euros: 60,000 Euros) x 52,000 Euros = 22,530 Euros
- the profit included into the final stock of 26,.000 Euros at company A is eliminated by the decrease of the value of the goods 26,00 Euros x (15.8* : 115.38) = 3,470 Euros

*where 15.38 % is the margin of profit the selling company la SM, calculated as follows:

$$\frac{profit}{cost} \times 100 = \frac{\text{Sale price – cost}}{\text{Cost}} \times 100 = \frac{60000-52000}{52000} \times 100 = 15.38\%$$

We close the income and expenditure accounts in order to highlight the effects on the returns:

121	“Profit or loss“	=	607	“Expenses related to the goods“	-38,000 Euros
	%	=	121	“Profit or loss“	-37,470 Euros
701	“Incomes from the sale of finished products “				-60,000 Euros
711	”The stock variation ”				22,350 Euros

Following those records the return of accounting year 2007 rises with 530 Euros (the incomes decreased by 37,470 Euros, but the expenses are decreased by more than 38,000 Euros), the difference to the total eliminated profit of 3,470 Euro influencing the reserves (4,000 Euros). Consequently, the return of the previous accounting period (Reserves) decreased by 4,000 Euros and the return of the current accounting period increased by 530 Euros, per total a decrease by 3,470 Euros (the profit eliminated from the value of the final stock of goods from entity A).

As mentioned before, the globalization phenomenon, strongly manifested at the end of the 20th century, made the investments of the groups of companies from Romania exceed the national frontiers and be placed abroad. I am mentioning that, with the purpose of consolidation, the accounting regulations included in Directive VII of EEC establish that the annual financial statements of the non-resident companies are converted by the closing rate method. In the case of goods such as their expression in the balance is made at the closing rate. The incomes and expenditures generated by the stock flow is expressed in the profit and loss account at the middle rate.

I am underlying the fact that many of the groups of companies that are investors in the furniture industry do not have an information system through which to be able to provide the optimum performance of the consolidation process the result of which should be the drawing of consolidated financial statements able to provide high quality consolidated information to the users. In the case of a group within which multiple inter-company transactions are performed that are related to goods sale/purchase or to service provision, I am in favour of the establishment of a consolidation department at the level of the parent as wall as the decentralized organization of the consolidation process, its advantage being that part of the consolidation duties are taken over by the consolidated entities. The decentralized consolidation is generally applied by the groups with a large number of members, due to the fact that it allows for the simplification of the works performed by the group consolidation department. This type of consolidation requires that the subsidiaries of the group should be very familiar with the group evaluation regulations.

Taking into account the fact an entity the main social of object is manufacturing/ trading in furniture can be a member of a group in the position of parent company or of subsidiary; I will point out the stages this company must go through in the consolidation process if the decentralized organization is applied, as follows:

1 **if the entity in the furniture industry is a subsidiary company** (consolidated company) these stages are:

- drawing separate financial statements, in compliance with its own rules;
- performing the homogenization records (including the homogenization ones related to the stock evaluation);
- drawing re-treated individual accounts (including those related to stocks).

2 **if the entity in the furniture industry is the parent company within the group**, the operations concerning the consolidation are related to:

- setting the consolidation perimeter;
- collecting the data;
- converting the accounts of the foreign affiliates (if there are any);
- performing the elimination of the inter-company accounts (including those related to the inter-company payables/receivables emerged as a result of trading the stocks and that were not settled until the end of the accounting period, as well as the inter-company incomes

and expenditures generated by such transactions involving stock transfers);
- assessing the variation of the equity capital;
- centralizing the information and submitting the consolidated financial statements .

Another observation related to the analysis of the implications of the stock accounting with the entities in the furniture industry that are members of a group is the big discrepancy between the theoretical presentations of the homogenization of the methods of evaluating stocks, the eliminations and re-treatments related to stocks or the intra-group transactions related to stocks and the practical methods of performing them. A group that does not have an appropriate information system may find itself incapable of going through the stages specific to the consolidation stages or may go through these steps with very high costs, significant delays or in an appropriate manner. The applications presented by the specialized literature show, for example, at the level of a subsidiary, what the value of the raw material stock is, evaluated in the separate financial statements function of the FIFO method used by the subsidiary and then there is the immediate specification that, for this type of stocks, in the consolidation, the method that is accepted by the parent company will be retained(and the value of the raw materials stocks is also expressed according to the CMP method). But the following question is raised: “Can the value of this stock actually be calculated by the CMP method?”. In my opinion, it is crucial to have information systems in order to obtain a positive answer. The creation of separate procedures in the information system that should also calculate the stock movement according to the CMP method, movements that should only generate information useful for the consolidation process, not records into the separate accounting of the subsidiary, becomes necessary.

Moreover, I believe that the analytical accounting of the receivables and payables towards the entities in the group, and that of the generated incomes and expenditures are important and I support the usage of accounting formulas such as (example for transactions with stocks such as goods):

Company of the group – supplier (F)	**Company of the group - customer (C)**
• goods sale to company C:	• goods purchase from company F:
451 “Settlements between the affiliated entities. Analytic entity C ” = 707 “Incomes from goods sale. Analytic Company C”	371 “Goods. Analytic company C” = 451 “Settlements between the affiliated entities. Analytic company F ”
• discharge of goods	
607 “Expenses related to the goods. Analytic Company C ” = 371 “Goods”	

I recommend the usage of an information system with stock item codifications by which the balances and turnovers of the stocks coming from or going to the entities of the group can be identified in point of quantity and value (the incomings and outgoings) in the case of the groups of companies that perform intra-group stock transactions.

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