

**Makhmudova Nargiza Davlat qizi**

Doctoral Researcher, Samarkand Institute of Economics and Service

Senior teacher “TIAME” NRU PhD

[Makhmudovanargiza1408@gmail.com](mailto:Makhmudovanargiza1408@gmail.com)

**Abstract.** This article examines the theoretical and methodological aspects of reflecting business combinations in consolidated financial statements. In the context of increasing corporate integration and globalization, business combinations have become a key instrument for expanding economic activity and strengthening competitive positions. The study analyzes the economic substance of business combinations, the acquisition method prescribed by IFRS 3 “Business Combinations,” and the recognition and measurement of identifiable assets, liabilities, non-controlling interests, and goodwill in consolidated financial reporting.

Special attention is paid to the process of determining the acquisition date, measuring fair value, recognizing goodwill or gain from a bargain purchase, and eliminating intra-group transactions in accordance with IFRS 10 “Consolidated Financial Statements.” The article also highlights the impact of business combinations on financial performance indicators, capital structure, and risk assessment at the group level.

**Keywords:** business combinations, consolidated financial statements, IFRS 3, IFRS 10, acquisition method, goodwill, non-controlling interest, fair value measurement, corporate integration.

### Introduction

In recent decades, globalization and the rapid development of corporate structures have significantly increased the scale and frequency of business combinations. Mergers, acquisitions, and other forms of corporate integration have become essential strategic tools for expanding market share, achieving operational synergies, accessing new technologies, and strengthening competitive advantages. As a result, the accurate reflection of business combinations in consolidated financial statements has gained critical importance for ensuring transparency and reliability in financial reporting.

Business combinations fundamentally transform the structure, assets, liabilities, and performance indicators of corporate groups. Therefore, consolidated financial statements must present the financial position and results of operations of the combined entities as a single economic unit. International Financial Reporting Standards (IFRS), particularly IFRS 3 “Business Combinations” and IFRS 10 “Consolidated Financial Statements,” establish comprehensive principles for recognizing, measuring, and disclosing transactions arising from business combinations. These standards require the application of the acquisition method, which includes identifying the acquirer, determining the acquisition date, measuring identifiable assets and liabilities at fair value, and recognizing goodwill or a gain from a bargain purchase.

Despite the existence of a well-developed regulatory framework, practical challenges remain in implementing these requirements. Issues related to fair value measurement, identification of intangible assets, recognition of non-controlling interests, and elimination of intra-group transactions can significantly affect the quality and comparability of consolidated financial information. In addition, business combinations may have a substantial impact on key financial ratios, capital structure, and risk assessment at the group level.

Given these complexities, it is necessary to examine both the theoretical foundations and practical aspects of reflecting business combinations in consolidated financial statements. This article

aims to analyze the accounting treatment of business combinations within the framework of IFRS, assess their impact on consolidated financial reporting, and provide recommendations for improving transparency, consistency, and decision-usefulness of financial information.

### Literature Review

The issue of reflecting business combinations in consolidated financial statements has been extensively examined by both international and national scholars. The theoretical foundation of consolidated reporting is closely associated with the economic entity concept developed and elaborated by E.S. Hendriksen and M.F. Van Breda, who emphasized that consolidation should reflect economic control rather than merely legal ownership. Their works in accounting theory provided a conceptual basis for understanding business combinations within the framework of financial reporting.

The evolution of accounting for business combinations has also been analyzed by B. Needles, H.R. Anderson, and J.C. Caldwell, who discussed the transition from the pooling-of-interests method to the acquisition method. With the adoption of IFRS 3 “Business Combinations,” the acquisition method became mandatory, requiring fair value measurement of identifiable assets and liabilities and recognition of goodwill. K. Larson and R. Anthony highlighted that fair value accounting improves transparency and comparability, though it increases reliance on professional judgment. [5]

The concept of control in consolidated financial reporting has been significantly developed in the works of E.S. Hendriksen, M.F. Van Breda, and later interpreted in the context of IFRS 10 by scholars such as R. Obert and P. Pacter. They emphasized that control should be assessed based on power over the investee, exposure to variable returns, and the ability to use that power to affect returns. This approach expanded the scope of consolidation and strengthened the economic substance principle. [5]

The accounting treatment of goodwill has been widely discussed by J. Blake, M.F. Van Breda, and R.J. Eccles, who considered goodwill as a representation of expected synergies and intangible benefits arising from acquisitions. At the same time, E.S. Hendriksen noted that goodwill measurement introduces estimation uncertainty and may affect earnings quality due to impairment testing requirements under IAS 36. [4]

In Russian accounting literature, significant contributions to the study of consolidated reporting and business combinations were made by V.F. Paliy, Ya.V. Sokolov, V.V. Kovalev, O.V. Solovyova, and L.Z. Shneidman. V.F. Paliy emphasized the methodological aspects of eliminating intra-group transactions and preventing duplication of financial results in consolidated statements. Ya.V. Sokolov stressed the importance of prioritizing economic substance over legal form in consolidation procedures. V.V. Kovalev analyzed the impact of business combinations on financial stability and capital structure at the group level. [6]

Furthermore, A.D. Sheremet and O.V. Rozhnova examined the analytical implications of business combinations, focusing on how acquisitions influence financial ratios, leverage, and profitability indicators. Their research demonstrated that consolidated reporting provides a more comprehensive view of corporate performance compared to individual financial statements.

Despite substantial academic contributions, many researchers, including P. Pacter and R.J. Eccles, argue that practical challenges remain in applying IFRS requirements, particularly regarding fair value measurement, identification of intangible assets, and assessment of non-controlling interests. In emerging economies, scholars such as L.Z. Shneidman and O.V. Solovyova note that the transition to full IFRS compliance requires further methodological development and professional training. [7]

Thus, the literature demonstrates a strong theoretical and methodological foundation for reflecting business combinations in consolidated financial statements. However, ongoing research is

necessary to bridge the gap between conceptual principles and practical implementation, especially in the context of global corporate integration and evolving financial reporting standards.

### **Methodology**

This study is based on a comprehensive methodological approach aimed at analyzing the theoretical and practical aspects of reflecting business combinations in consolidated financial statements. The research integrates conceptual analysis, regulatory examination, and comparative evaluation within the framework of International Financial Reporting Standards (IFRS).

The study employs the following research methods, systematic analysis, comparative method, normative and regulatory analysis, analytical method.

The research focuses on the acquisition method as the core accounting model for business combinations. Particular attention is given to determining the acquisition date, identifying the acquirer, measuring fair value of identifiable net assets, recognizing goodwill or gain from a bargain purchase, and eliminating intra-group transactions during consolidation.

### **Discussion and results**

The introduction of organized financial reporting for tax control purposes in Uzbekistan will help reduce the complexity of such tasks by narrowing the sampling framework. The challenge of reflecting business combinations in organized financial statements is relatively recent, and the methodological support for their preparation remains clearly underdeveloped. According to the national standard on consolidated financial reporting contained in the Law of the Republic of Uzbekistan on Accounting and related national accounting standards, consolidated financial statements must be prepared in accordance with the principles of national accounting and international standards where applicable.

Under Uzbek legislation, consolidated financial statements represent the financial position and performance of a group consisting of a parent entity and all its subsidiaries, and are prepared by combining the financial statements of the parent and its subsidiaries on a line-by-line basis, eliminating intra-group balances and transactions. A parent entity that prepares consolidated financial statements must disclose the reason for not presenting them if it is not required to do so, the method of accounting for investments in subsidiaries, and the name and registered address of the reporting entity.

A key issue in preparing consolidated financial reports is defining the consolidation perimeter. One of the main criteria for consolidation is control relationships. In accordance with established norms, if an entity controls other entities, it is required to include the financial information of all controlled entities in its consolidated reporting. At present, determining the consolidation perimeter remains a significant challenge in practice, especially in cases where complex structures are used for tax planning.

In Uzbekistan, the national accounting standard NAS 8 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” defines consolidated financial statements as those reflecting the financial position and performance of a group for a given reporting period. The standard specifies that subsidiary financial statements prepared at different reporting dates may be consolidated if they fall within an acceptable period, and adjustments should be made for significant events occurring between those dates. [1]

When preparing consolidated statements, a parent and its subsidiaries must apply a uniform accounting policy; if uniformity cannot be achieved, the fact must be disclosed in the notes to the consolidated financial statements. Non-controlling interests should be presented separately in the consolidated balance sheet and income statement.

Thus, under current Uzbek regulations, consolidated financial reporting is expected to align with both national accounting standards and, where required, principles consistent with international

practice, while enhancing transparency and comparability of financial information across business combinations and corporate groups.

The introduction of organized financial reporting for tax control purposes will reduce the complexity of these tasks by decreasing the size of the sampling. The difficulty of reflecting a business combination in organized financial statements is relatively new, and the methodological support for its formation is currently clearly insufficient. Issues related to the preparation of organized financial reporting occupy an important place within the IFRS system. In our opinion, the most significant standards are IFRS 3 “Business Combinations”, IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates”, and IAS 31 “Interests in Joint Ventures”. In addition, SIC 12 “Consolidation – Special Purpose Entities” [4] is applied for these purposes.

These documents set out the principles and requirements governing how business combinations are reflected in organized financial statements, including [7].

A more fundamental issue in preparing organized financial reporting is determining the consolidation perimeter. One of the criteria for consolidation is the existence of control between companies. In accordance with generally accepted standards, if a company controls other entities, it must include information about all controlled entities in its consolidated reporting.

At present, defining the consolidation perimeter is a difficult and unresolved issue for the Uzbekistan. In conditions of a high level of corruption, many companies are created solely for the purpose of tax evasion.

An examination of disputes considered by courts related to the receipt of unjustified tax benefits shows that in recent years their number in the Russian Federation has increased. Many taxpayers use various schemes to reduce tax payments to the budget. Often such schemes formally comply with civil and tax legislation. The parent company of an integrated group carefully conceals that it is controlled by companies established to reduce taxation.

However, if the consolidation perimeter determined by the auditor during the audit of organized financial statements does not coincide with the consolidation perimeter defined by the reporting company, then the reporting company will have to justify the absence of control over such and other companies not included in the group but identified by the auditor as controlled.

According to IAS 27 “Consolidated and Separate Financial Statements” consolidated financial statements are the financial statements of a group consisting of a parent company and all its subsidiaries. However, in practice, situations often arise where an individual controls several companies, and those companies, in turn, act as parent companies for their own subsidiaries. In other words, at the top level of the group (in terms of control), there may be several companies that are not controlled by any other company within the group [6].

In IFRS for Small and Medium-sized Entities (IFRS for SMEs), the concept of “combined financial statements” is defined. According to this standard, such statements represent the organized financial statements of several companies controlled by one individual or under common control of several individuals who are closely related.

These companies are “sister companies,” and when preparing combined statements, their assets, liabilities, and performance indicators are aggregated with elimination of intra-group relationships, similar to the preparation of consolidated statements. The main difference in the combined reporting process is that the equity of the group of related companies is determined as the sum of the equity of the group companies. Currently, the preparation of combined statements is not regulated by generally accepted standards. However, practice and analysis by a number of financial experts lead to the conclusion that the legality, technical necessity, and importance of combined reporting are beyond doubt [5].

Companies that carry out different types of activities have different systems for evaluating their financial position and performance. When consolidating the accounts of such companies,

reporting data are generated that may not be suitable for certain analytical purposes. Standard analysis of reporting forms based on consolidated data does not provide an adequate reflection of the true picture of the group's activities and is not sufficiently relevant. Consolidated financial statements should also contain segment information that allows assessment of the nature and financial results of different business activities of the group, and supports well-grounded decision-making both by segments and for the group as a whole.

Thus, it is necessary to develop and introduce new, stricter rules for reflecting consolidated financial statements that would prevent business groups from concealing their financial reporting.

### Conclusion

The reflection of business combinations in consolidated financial statements plays a crucial role in ensuring transparency, reliability, and economic substance in corporate reporting. As corporate structures become increasingly complex and integrated, consolidated financial statements serve as an essential instrument for presenting the financial position and performance of a group as a single economic entity rather than a collection of separate legal entities.

The study confirms that the proper application of the acquisition method under IFRS 3 significantly enhances the relevance of financial information through fair value measurement of identifiable assets and liabilities, as well as the recognition of goodwill and non-controlling interests. At the same time, the process requires a high degree of professional judgment, particularly in determining control, assessing fair values, and conducting goodwill impairment testing. These areas remain the most sensitive and technically challenging aspects of consolidation practice.

The research also demonstrates that accurate determination of the consolidation perimeter is fundamental to the reliability of consolidated reporting. Failure to correctly identify controlled entities may distort financial results, reduce transparency, and increase risks related to tax compliance and regulatory oversight. In this context, harmonization between national legislation and international standards is essential for improving reporting quality and preventing manipulation of group structures.

Furthermore, the findings indicate that consolidated financial statements provide more comprehensive analytical value compared to individual financial statements. They allow stakeholders to evaluate group-level profitability, financial stability, capital structure, and risk exposure more effectively. However, practical challenges such as inconsistent accounting policies, system integration difficulties, and insufficient professional expertise may limit the effectiveness of consolidation procedures.

In conclusion, improving methodological guidance, strengthening regulatory frameworks, and enhancing professional training are necessary to ensure high-quality reflection of business combinations in consolidated financial statements. Continuous development of valuation techniques and disclosure practices will further increase the decision-usefulness and credibility of consolidated financial reporting in both national and international contexts.

### References

1. Law of the Republic of Uzbekistan "On Accounting." No. ZRU-404, dated 13 April 2016 (as amended).
2. Tax Code of the Republic of Uzbekistan. No. ZRU-599, dated 30 December 2019 (as amended).
3. Law of the Republic of Uzbekistan "On Auditing Activity." No. ZRU-677, dated 25 February 2021 (as amended).

4. Медведева Т.М. Новые правила раскрытия консолидированной финансовой отчетности // Актуальные вопросы бухгалтерского учета и налогообложения. – 2016. – № 8. – С. 1–15.
5. Плотников В.С., Плотникова О.В. Бизнес-учет как катализатор информации для бизнес-модели объединения бизнеса // Международный бухгалтерский учет. – 2015. – С. 36–47.
6. Плотников В.С., Плотникова О.В. Анализ теоретических основ концепции консолидированной финансовой отчетности // Экономический анализ: теория и практика. – 2016. – № 11. – С. 90–101.
7. Сергушкина А.Г., Бурлакова О.А. Сводная и консолидированная финансовая отчетность: проблемы и особенности ее составления // Сборник статей Международной научно-практической конференции. – 2018. – С. 25–28.