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Consolidated financial statements in light of Hungarian regulations and IFRS standards

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Companies today have diverse relationship systems. In a legal sense, individual companies exercising influence on each other engage in significant transactions with each other during their operations. Market participants require knowledge of the financial, monetary, and income status of these corporate groups. Therefore, in addition to individual annual reports, it is also important to prepare consolidated financial statements that present the group as a single entity, following either national or international accounting standards.

In our study, the legal background of consolidation will be presented, as well as the rules of consolidation based on Hungarian regulations and the International Financial Reporting Standards (IFRS). Two IFRS consolidated financial statements will be compared, with a particular focus on the consolidated notes on the accounts (Notes), highlighting those intangible assets whose representation and evaluation are significantly different from Hungarian rules. While the selected parent companies present their corporate groups to varying extents and levels of detail, the requirements of the standards are reflected throughout.

Keywords: consolidated financial statement, International Financial Reporting Standards, business combination, intangible assets

JEL classification code: M40

1. Introduction

Over the past few decades, changes have occurred in the operation of companies both within Europe and beyond its borders. They no longer conduct their activities only within national boundaries, but they also possess international relationships (Böcskei, Dékán Tamásné Orbán, Bács, & Fenyves, 2017). Multinational companies operating in various economic and legal environments of the global market have diverse relational systems. Through investments and cross-border transactions, these companies establish relationships that result in ownership, equity, and dependency connections among them (Gluzová, 2015b). Although they are legally separate entities, these corporate groups are under the control of one single company. The individual companies cannot be considered economically independent, as their operational decisions often serve the interests of the controlling company or the group as a whole (Alfredson, Leo, Picker, Pacter, & Radford, 2007).

The members of corporate groups prepare their individual annual financial statements independently, following their respective national or international accounting standards (Darabos, 2014). However, it is mandatory for every parent company to prepare consolidated financial statements that present the members of the group as a single entity, free from inter-company transactions and accumulations.

In Hungary, companies listed on the stock exchange have been required to adopt International Financial Reporting Standards (IFRS) based consolidation since 2005, as per European Union Regulation 1606/2002/EC; however, other companies are also permitted to apply IFRS-based consolidation. With the amendments made to Act C of 2000 of the Accounting Act (hereinafter: Act on Accounting) in recent years, the legislatures have been trying to align the domestic reporting system with IFRS, though significant differences still exist between the two regulations. National regulations reflect the legal framework and cultural differences between countries (Alsharairi, Atmeh, & Al-Abdullah, 2019). Significant differences can be detected between the data reported under the two different approaches at the individual and consolidation levels (Dékán T-né, 2013).

In our study, we will emphasise the significance of consolidated financial reporting, the legal framework for preparing consolidated financial statements, and the practice of consolidation under Hungarian regulations and international standards. We will also compare the consolidated financial statements of two corporate groups, with a particular focus on the consolidated notes. We will compare these notes with each other, and regarding the requirements of the standards, we will highlight the representation of intangible assets at the consolidated level.

2. Literature Review

2.1. Consolidation accounting

It is essential for stakeholders (creditors, owners, investors, governments, etc.) to have access to financial statements that provide an accurate and true representation of the operations, assets, financial and income positions of corporate groups (Gluzová, 2015b, Tamimi & Orbán, 2022). These individuals and organisations may rely on the available information for further analysis, investigations, and decision-making processes; therefore, it is of crucial importance that the provided information ensures a credible picture of the business (Dékán T-né, 2019; Zéman, Bács, Bán, & Fenyves, 2016, Földvári & Erdey, 2009), thereby laying the foundation for more efficient controlling processes that promote their effective functioning (Lakatos, Béresné, & Tömöri, 2020; Dadkhah, Oermann, Hegedűs, Raman & Dávid, 2024).

Parties involved in transactions within a corporate group may experience an increase in assets or income for one party while causing a decrease for the other party. When presenting the members of the corporate group as a single entity in the financial statements, such transactions are considered as accumulations. The consolidated financial statement goes beyond simply aggregating the individual financial statements because inter-company transactions need to be eliminated to ensure that the financial statements provide consistent information to stakeholders (Dékán T-né, 2019; Fridrich, Simon, & Sztanó, 2008; Rákos et al., 2022).

According to Simon (2017), it is necessary to interpret businesses that have ownership and equity relationships with each other as a single corporate group and apply the methods of consolidated financial reporting to present a reliable and true image.

The lack of a reliable and true picture particularly increases the risk for investors and creditors. Due to the relationships within the corporate groups, funds obtained from original external sources by them may be transferred to other entities within the group that, based on their own individual financial information, may not be able to acquire such resources for financing their operations. Therefore, it is of particular importance for market stakeholders to analyse not only the individual financial statements but also the consolidated financial statements of the corporate group and only make decisions on establishing or continuing their relationships if the assessment of both statements is favourable together (Simon & Kresalek, 2017).

The consolidated notes make an integral part of the consolidated financial statements. According to Dékán T-né (2019), it is important that these notes contain information that helps the reader of the financial statements understand and evaluate the real financial, monetary, and profitability situation of the corporate group and assist their reader in the consistent interpretation of the items presented in the consolidated balance sheet and income statement.

3. Legal background in preparing consolidated financial statements

In the legal system of the European Union, the application of regulations is mandatory for individual member states, as they directly become part of national law. Council Regulation (EC) No 1606/2002 on the application of international accounting standards prescribes the compulsory use of International Financial Reporting Standards (IFRS) for the consolidated annual financial statements of companies listed on the stock exchange within the European Union since 2005 (Alexander & Nobes, 2013; Droppa & Becsky-Nagy, 2019).

According to the EU regulation, member states may allow or require the aforementioned companies listed on the stock exchange to prepare their individual annual financial statements, as well as the consolidated annual financial statements of non-listed companies, in accordance with international accounting standards. Accordingly, in the case of the consolidated financial statements of the companies listed on the stock exchange, member states do not have an option; at the same time, they are free to decide in any other cases, i.e. when and among which companies they make it possible or compulsory to apply the international standards at their individual and/or consolidated levels, and which of them are left within their national accounting systems.

Before our accession to the European Union, the Hungarian Accounting Act (Act C of 2000 on Accounting, hereinafter referred to as the Act on Accounting) was adopted, but following a legislative amendment in 2005, it states that "an undertaking subject to Article 4 of the Regulation fulfils its obligation to prepare consolidated financial statements by preparing its consolidated annual financial statements in accordance with the IFRS" (paragraph 2 section 10 of the Act on Accounting). According to the mentioned legislative amendment, also starting in 2005, non-listed companies can choose to either follow the domestic regulations or decide to prepare their consolidated financial statements in accordance with the IFRS. If companies choose this second option, they are not required to prepare consolidated financial statements according to Hungarian regulations. Akisik (2020) has concluded that IFRS is crucial for foreign investors in terms of enhancing the reliability and credibility of financial statements; however, transitioning to IFRS can be expensive for companies. (Bertrand, Brebissona, & Burietz, 2020).

4. Consolidation according to the Act on Accounting and the IFRS standards

When the need for consolidation arises, it is necessary to examine whether there is an obligation to prepare consolidated annual financial statements and, if so, which companies shall be included in the scope of consolidation. According to the Act on Accounting, the investments of the parent company in certain enterprises are classified based on voting rights and ownership stakes.

During the application of the IFRS standards, the first step of the consolidation process is to determine control within the corporate group. The investing parent company must consolidate all subsidiaries and controlled entities and prepare financial statements for the entire group as if it were a single economic entity (Dékán T-né, 2019; Gluzová, 2015b). When defining a corporate group, it is considered important to know which other companies the parent company has control over based on its current capabilities and possibilities. In the framework of IFRS, it is not a requirement to have ownership of a 50%+1 vote for the establishment of a parent-subsidiary relationship. (Dékán T-né, 2019; Borker, 2012).

If a parent company prepares and publishes its consolidated financial statements according to Hungarian regulations, it must own more than half of the shares or ownership interests of the subsidiary(ies) included in the consolidation. In cases where the voting rights and ownership stake are less than this threshold, we cannot consider these a parent-subsidiary relationship. In the context of transitioning to IFRS standards, where the presence of control is the key criterion for determining relationships between entities within a group, certain companies may be included in the scope of consolidation that would be excluded from consolidation under the Hungarian system due to the parent company's ownership being below 50%. However, a parent-subsidiary relationship might still exist through other means. Control can be obtained through options based on contracts, veto rights, or acquiring additional rights through agreements with other shareholders. Even if the remaining ownership is dispersed compared to the parent company, the ability to exercise control can still be realised within the framework of the IFRS standards. In the case of investments qualifying as subsidiaries, full, line-by-line consolidation must always be performed (Dékán T-né, 2019; Borker, 2012).

In a joint venture, the investor holds significant influence, which enables the investor to participate in financial and operational decision-making, but does not result in control, and the joint venture does not become a member of the corporate group. An investor who is required to prepare consolidated financial statements consolidates joint ventures using the equity method.

In IFRS, a jointly controlled entity refers to a joint arrangement in which the parties have the right to control the net assets of the joint arrangement. In the case of a jointly controlled entity, the equity method shall be applied for consolidation purposes (Alfredson et al., 2007).

4.1. The process of preparing consolidated financial statements in the Hungarian system of accounting

Fridrich et al. (2008) describe that during the preparation of the consolidated financial statements by the parent company, several mandatory tasks need to be carried out. The following presents the workflow of the preparation of consolidated financial statements according to Hungarian regulations:

- General preparation for consolidation: examination of the obligation to prepare consolidated financial statements, development of the consolidation accounting policy, establishment of data reporting system and accounting information system, determination of the scope of the consolidation, definition of consolidation principles and methods;
- Preparation for total consolidation: implementation of uniform valuation, conversion of individual financial statements prepared in a currency other than the currency of the consolidated financial statements (foreign currency exchange);
- Consolidation: consolidation of individual balance sheets and income statements of the entities included in the total consolidation with the parent company's balance sheet and income statement, resulting in the consolidated balance sheet and income statement containing cumulative data;
- Elimination of inter-company transactions: identification and elimination of inter-company transactions and balances generated during the process of total consolidation (capital consolidation, debt consolidation, elimination of interim results, consolidation of revenues and expenses);
- Execution of other consolidation tasks: consolidation of entities accounted for using the equity method, determination and accounting of the calculated corporate tax difference, compilation of consolidated notes and management report;
- Execution of post-consolidation tasks: audit, approval, and public disclosure of the consolidated financial statements (Fridrich et al., 2008).

4.2. Preparing consolidated financial statements in an international accounting environment

Under international regulations, the consolidation process is primarily guided by the IFRS 10 and IFRS 3 standards. The conceptual framework for the preparation of consolidated financial statements under the IFRS is defined by the IFRS 10 standard, particularly when the reporting entity holds investments qualifying as subsidiaries (Dékán T-né, 2019).

The process of preparing consolidated financial statements in accordance with the IFRS standards has been described by several authors, and according to Dékán T-né (2019), it involves several steps:

- Determining the group structure.
- Preparing individual financial statements of subsidiaries for consolidation purposes (e.g., converting from the company's own accounting system to IFRS).
- Identifying intra-group transactions.
- Creating the consolidated statement of comprehensive income by combining subsidiary income statements and adjusting compliance with the IFRS standards, including filtering intra-group transactions affecting income as well:
  - performing adjustments related to the comprehensive statement of income;
  - consolidating revenues and expenses (eliminating inter-company transactions according to the Act on Accounting);
  - filtering interim profits;
  - allocating consolidated net income and comprehensive income between the parent company and the non-controlling interests;
- Preparing the consolidated balance sheet by consolidating subsidiary balance sheets and filtering intra-group transactions:
  performing adjustments related to the balance sheet;
  determining the net asset value of subsidiaries;
  recognition of any goodwill;
  - including the non-controlling interests in the balance sheet of the corporate group;
  - determining the reserves of the parent company and the post-acquisition reserves of subsidiaries;
  - capital consolidation, meaning the elimination of the parent company's ownership interest in subsidiaries;
  - debt consolidation, meaning the elimination of intra-group receivables and payables);
  - considering items flowing through the consolidated statement of comprehensive income during the preparation of the consolidated balance sheet (e.g., filtering the effects of certain transactions, handling dividends paid within the group, transferring consolidated income to retained earnings);
- Creating the consolidated statement of changes in equity: preparing a movement table from the opening to the closing values;
- Preparing the consolidated cash flow statement based on the parent company's and subsidiaries' cash flows;

- Creating notes: compiling numerical data and tables and preparing the narrative section;
- Conducting external audit, obtaining approval at the general meeting, and making disclosures for stock exchange purposes. (Dékán T-né, 2019; Fridrich et al, 2008; IFRS 3).

The steps for performing total consolidation are almost identical in the Act on Accounting and the IFRS system, but there are a few differences, as shown in Table 1. The Act on Accounting allows for certain items to be "not eliminated if they are not significant in assessing the real assets, financial position, and income of the consolidated entities" (section 127 paragraph 2 of the Act). According to international regulations; however, total consolidation must be applied to every subsidiary (Alfredson et al., 2007).

Table no. 1. Steps of total consolidation according to the Hungarian and the IFRS regulations

Steps of consolidation	According to the Act on Accounting	According to IFRS
Capital consolidation	Compulsory	Compulsory
Debt consolidation	May be exempted	Compulsory
Exclusion of interim results	May be exempted	Compulsory
Consolidation of revenues (incomes) and expenditures	May be exempted	Compulsory

Source: own composition based on the Act on Accounting

5. Materials And Methods

Our research method is document analysis, which involves breaking down a text on a specific topic into segments, analysing them, and searching for measurable elements of concepts and their interrelationships (Field, 2013). Document analysis, like other analytical methods in qualitative research, requires the examination and interpretation of data and information (Bowen, 2009; Corbin & Strauss, 2008; Rapley, 2007; Bilder & Loughin, 2015; Mehmood et al., 2024).

We started from a previous study where the Company Information Service of the Ministry of Justice provided us with data on the number of parent companies that published consolidated annual reports in accordance with the Act on Accounting and those who submitted reports based on the IFRS standards in

2018. The data provided has included the main activity according to the TEÁOR codes, based on which we classified and aggregated the data and identified the industries. We found that among the parent companies engaged in the main activity of pharmaceutical manufacturing, several had transitioned to using the IFRS standards.

Continuing the previous data collection, as the next step, we requested further data from the Company Information Service of the Ministry of Justice for the year 2019. The data request included both parent companies that consolidated their financial statements based on the Act on Accounting and those following the IFRS standards. Along with the TEÁOR codes, they provided us with the tax identification numbers as well. With the knowledge of the tax identification numbers, we identified the companies and examined both their Hungarian and international consolidated financial statements. Finally, we selected two parent companies engaged in pharmaceutical manufacturing that have prepared their consolidated financial statements at the group level according to the IFRS standards. One of our selected companies is Gedeon Richter Plc., and we will analyse their consolidated financial statements prepared in accordance with the IFRS standards for the financial year ending on December 31, 2022. The other report under analysis is the consolidated statement prepared by Egis Pharmaceuticals Plc. for the financial year ending on September 30, 2022.

There are several differences in the structure, level of detail, and content elements of financial statements prepared under the framework of the Act on Accounting and the IFRS standards, both at the individual and consolidated levels. In this current study, our aim is not to go into these differences in detail. However, we will highlight specific items from the consolidated statements of the two pharmaceutical companies that significantly differ in their presentation and evaluation from the Hungarian regulations or are not even covered by the Act on Accounting. Therefore, we will focus on the recognition and evaluation of internally generated intangible assets, intangible assets acquired through business combinations and goodwill. We will present the Hungarian and international regulations regarding these items and provide information from the consolidated financial statements of the two company groups. Additionally, we will compare the two reports in terms of content to determine whether the more extent and longer notes provide more information to users compared to the shorter document.

6. Results

6.1. Recognition of intangible assets in the balance sheet

The Act on Accounting applies a rule-based approach, which means it provides an exact list of the intangible assets that can be recognised in the balance sheet (Kiss, 2014):

- Activated value of establishment or reorganisation
- Activated value of experimental development
- Rights of pecuniary value
- Intellectual products
- Commercial value or goodwill
- Advances for intangible assets:
- Adjustment of intangible assets (paragraphs (1) and (2) of section 25 and schedule No. 1. of the Act on Accounting).

The standards adopt a conceptual framework-based approach, which means they do not provide an exhaustive list of the items on the balance sheet (Akisik, 2020). According to IAS 38 Intangible Assets, intangible assets are identifiable non-monetary assets without physical substance that are controlled by the entity because of past events, and they are capable of generating future economic benefits. They can be recognised as assets in the balance sheet if they meet the definition of intangible assets and

- it is possible that they will generate future economic benefits,
- and their original cost can be measured in a reliable way.

Intangible assets can be acquired by an entity through the following methods:

- individual acquisition,
- business combination,
- government grants,
- via exchange (Alexander & Nobes, 2013).

6.2. Internally generated intangible assets

The pharmaceutical companies under study also report significant research and development (R&D) costs in their financial statements (Tömöri, 2014), although the impact on their profitability was not significantly influenced by differences between accounting systems (Tömöri, Bács, Felföldi, & Orbán, 2022). As previously mentioned, the Act on Accounting specifies the types of intangible assets that can be recognised in the balance sheet. One such item is the capitalised value of experimental development, which represents costs incurred for experimental development projects that are expected to generate future benefits and be recoverable through future revenues. These costs cannot be included in the cost of goods produced because they exceed the expected market value of the created product. It is important to emphasise that the capitalisation of these costs is optional under the Hungarian accounting system, providing companies with a choice. Indirect and general costs associated with experimental development cannot be capitalised, nor can basic research and applied research costs. These costs shall be expensed in the period they are incurred, affecting the results of that specific period (Alexander & Nobes, 2013).

According to the provisions of IAS 38 Intangible Assets, internally generated intangible assets may not always be recognised in the balance sheet. Costs incurred during the research phase shall be expensed in the period they have incurred, and capitalisation is not permitted. However, intangible assets in the development phase must be recognised as assets if all the following conditions are met:

- the technical feasibility of completing the intangible asset is demonstrated to a level that makes it possible to use or sell;
- the economic operator intends to complete the development of the intangible asset and use or sell it;
- the economic operator has the ability to use or sell the intangible asset;
- the intangible asset is expected to generate future economic benefits (e.g., through identifying an existing market or demonstrating the asset's usefulness for internal use);
- the economic operator is in charge of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;
- the economic operator can measure the costs and expenditures attributable to the intangible asset during its development in a reliable way.

The costs incurred during the research phase, which were expensed in the income statement, cannot be subsequently capitalised (IAS 38).

Domestic and international regulations differ not only in the definition and capitalisation of intangible assets but also in their evaluation, disclosure, and derecognition (Kiss, 2014); however, these differences are not discussed in detail in our current study.

In the consolidated note of Gedeon Richter Plc., they provide a detailed description of the IAS 38 standard requirements regarding the capitalisation of internally generated intangible assets similar to the way we have outlined them, and they also state that costs related to development projects are recognised as intangible assets if they meet the standard's criteria. Research and development costs that do not meet the criteria are expensed when they are incurred. The note specifically addresses the breakdown of intangible assets, revealing that the group possesses R&D assets.

In the Egis Group, research and development costs are expensed in the year they are incurred. The parent company's assessment is that the regulatory and other uncertainties associated with developing new products make it impractical to capitalise development costs. However, acquired patents, inventions, registration documentation, as well as registration fees related to new products and modifications of existing products, are capitalised as intangible assets. The category of intangible assets includes software, patents and licenses, and rights of pecuniary value, and their annual changes are presented in the supplementary note.

6.3. Intangible assets acquired in a business combinations

IFRS 3, the standard on Business Combinations, specifies how an investor shall identify and evaluate the assets and liabilities acquired in a business combination. In the consolidated financial statements prepared as of the date of acquisition, only those assets and liabilities that meet the criteria defined in the framework for the assets and liabilities can be recognised. The determination of the value of the acquired business involves considering not only the assets and liabilities already recognised but also any identifiable assets and liabilities. Therefore, assets and liabilities that were not previously recognised by the acquired entity but have become recognisable due to the acquisition must be included in the balance sheet. The assets and liabilities of the subsidiary shall be recognised in the consolidated balance sheet at their fair values on the acquisition date (FSA, fresh start accounting), which reflects the expectations regarding future economic benefits as well. It is important to emphasise that these items do not appear in the individual financial statements of either the parent or the subsidiary but are presented in the consolidated financial statements as items discovered during the acquisition (IFRS 3). Examples of such items include contingent liabilities of the acquired company (e.g., pending lawsuits), deferred tax assets and liabilities arising from the fair evaluation of identified assets and liabilities during the acquisition, internally generated intangible assets (e.g., brand name, customer list, ongoing research). Thus, if the acquired company, for example, is conducting research that cannot be capitalised and included in its individual financial statements, but the acquirer believes that this research will yield economic benefits in the future and increase the value of the acquired business, then the research shall be included in the consolidated balance sheet. Naturally, this item will increase the fair value of the acquired company's net assets (the difference between assets and liabilities).

Due to the intense competition prevailing in the pharmaceutical market we have examined, which is expected to intensify because of the effects of the COVID-19 pandemic, the trend of acquisitions is expected to strengthen further (Tömöri, Lakatos, & Béresné Mártha 2021). From the consolidated note of Gedeon Richter Plc., it is evident that assets, liabilities, and contingent liabilities acquired in a business combination are recognised at their fair values on the acquisition date, in accordance with the standard. Particular attention is given to the acquired intangible assets: after initial recognition, they are subsequently carried at a cost reduced by accumulated amortisation and impairment, like separately acquired intangible assets.

Intangible assets include rights of pecuniary value, intellectual property, and R&D assets as well. In addition to these, three rights related to distribution and trade that were identified in separate acquisitions are also recognised as standalone intangible assets. Another intangible asset is customer relationships, which cannot be recognised in the subsidiary's individual balance sheet but are included as an item discovered during the acquisition in the consolidated balance sheet of the Richter Group.

In the Egis Group, there have been no acquisitions that identified any intangible assets to be recognised in the consolidated financial statements.

6.4. Goodwill

During an acquisition, if there is a difference between the fair value of the consideration paid for the equity interest and the fair value of the net assets acquired from the subsidiary, it is accounted for as either goodwill or badwill (negative goodwill) (Dékán T-né, 2019; Kiss, 2014; IFRS 3). If the purchase price exceeds the fair value of the acquired company's net assets, the resulting goodwill shall be recognised as an intangible asset in the consolidated financial statements. Goodwill represents future benefits that cannot be individually identified, attributed to a specific asset, or separated from the entity. Under international accounting standards, goodwill can only arise in a business combination. Negative goodwill or a bargain purchase occurs when the purchase price is lower than the fair value of the net assets acquired. In this case, the evaluation of assets and liabilities shall be carefully reviewed, and if the calculation is deemed accurate and complete, the gain shall immediately be recognised in favour of income and shall be separately disclosed in the consolidated statement of income (IFRS 3).

In the Hungarian accounting system, a positive difference is reported as a "Capital Consolidation Difference" within the invested financial assets in the consolidated balance sheet, separately for subsidiaries and joint ventures. A negative difference is presented as "Capital Consolidation Difference from Subsidiaries" under subordinated liabilities.

The consolidated financial statement published by Gedeon Richter Plc. describes that the business value or goodwill arises when the consideration paid for a subsidiary exceeds the fair value of identifiable assets and liabilities acquired. The business value or goodwill is presented as a separate line item in the consolidated balance sheet and is not subject to depreciation but is reviewed annually for impairment.

In case of a favourable purchase, where the paid purchase price is lower than the fair value of the acquired subsidiary's net asset value, the difference is reported under "Other Income and Expenses" in the consolidated statement of income.

During impairment testing, the business value or goodwill is allocated to cash-generating units or groups of cash-generating units within the group. The closing value of the business value or the goodwill is detailed for each cash-generating unit, along with the basis for impairment tests. A detailed description of this can be found in the notes.

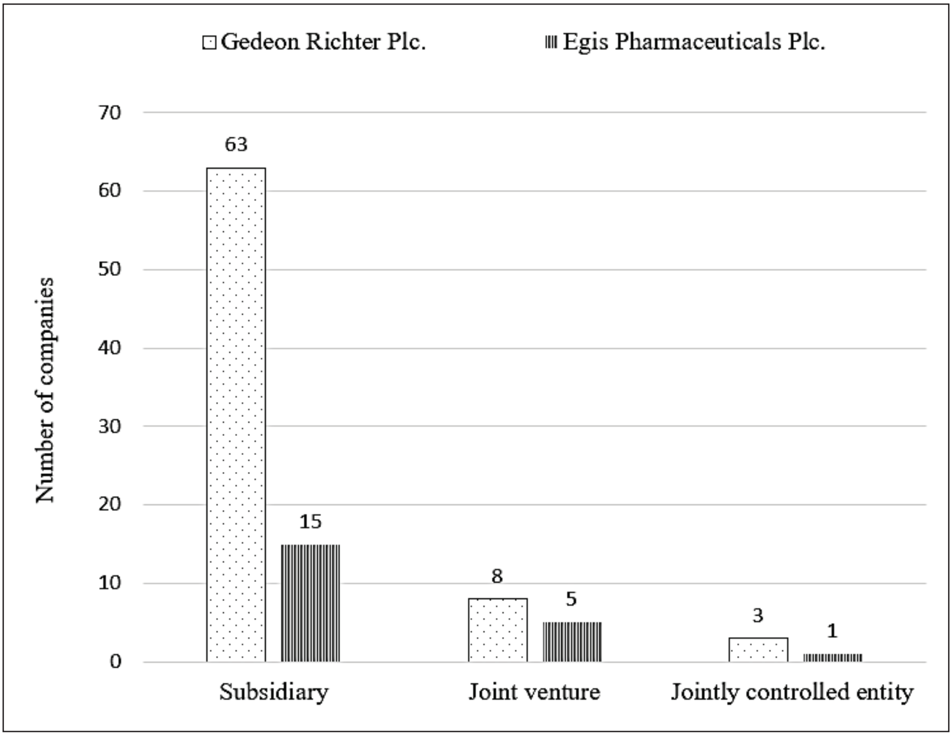
According to the report of Egis Pharmaceuticals Plc., the difference between the cost of investment and the fair value of net assets acquired in subsidiaries on the acquisition date is reported as goodwill in the consolidated financial statements. If the consideration paid is lower than the fair value of the acquired assets, the difference is accounted for in the consolidated statement of comprehensive income. After the initial recognition, the group retains the goodwill at the cost of investment net of impairment. The report also provides a specific case of impairment recognition, along with an explanation. The goodwill was originally related to the acquisition of a subsidiary that later performed poorly, leading to the total impairment of the goodwill.

Structure and extent

Both notes of the consolidated financial statements indicate that the ownership ratio always corresponds to the voting rights ratio for subsidiaries, joint ventures, and jointly controlled entities. Gedeon Richter Plc. holds ownership in subsidiaries ranging from 51% to 100%, mostly without controlling interests. In joint ventures, the ownership stake ranges from 20% to 49%, while in jointly controlled entities, it represents a 50% ownership share. Egis fully owns its subsidiaries, and the ownership stakes in associates range from 30.7% to 40%, while the jointly controlled entity represents a 50% ownership interest.

Figure no. 1. below shows the ownership stakes of Gedeon Richter Plc. and Egis Pharmaceuticals Plc. in 2022.

Graph No. 1. Shares of the Gedeon Richter Plc. and the Egis Pharmaceuticals Plc. in 2022



Source: self-edition based on the consolidated financial reports of Gedeon Richter Plc. and Egis Pharmaceuticals Plc.

It is plain to see that Gedeon Richter Plc. has ownership stakes in a significantly higher number of companies, which increases the number of transactions that need to be presented in the consolidated financial statements to ensure a credible and accurate picture.

Gedeon Richter Plc. prepared a substantially longer consolidated note, spanning over 110 pages, which includes several tables and explanations of the consolidated balance sheet, consolidated comprehensive income statement, consolidated cash flow statement, and consolidated statement of changes in equity to provide a comprehensive view of the system. After introducing the general background and significant accounting principles, separate chapters describe the related accounting policies, followed by the presentation of numerical data.

The consolidated note of Egis Pharmaceuticals Plc. consists of 52 pages. It does not present the accounting policies in detail but in a summary format, followed by a 20-page section on the consolidated cash flow and changes in equity. Subsequently, the consolidated balance sheet, the comprehensive income statement, and the explanations of cash flow and changes in equity are provided. Almost everything mentioned in Richter's disclosure is also covered in Egis' statement, though generally in a shorter and different order. The accounting policies mention but do not elaborate upon items that the group does not possess, such as assets held for sale.

The Richter Group provides more detailed information on events related to its subsidiaries. For example, in the case of contingent liabilities, they provide precise information to inform readers about legal disputes; on the other hand, Egis only describes the numerical data related to provisions for legal disputes and their utilisation.

With a few exceptions, such as segment information, derivative financial instruments, contractual assets, contractual liabilities, Employee Share Ownership Program (ESOP), and headcount data, the supplementary note of Egis Pharmaceuticals Plc., despite its shorter length, includes all the data found in the consolidated note of Gedeon Richter Plc.

7. Summary

In our study, we have highlighted the importance of consolidation accounting, the legal framework for preparing consolidated financial statements, as well as the consolidation process based on the Hungarian regulations and the International Financial Reporting Standards (IFRS). The IFRS consolidated financial statements of two corporate groups have also been compared. We have specifically been focusing on the consolidated notes, and we have highlighted the presentation of certain intangible assets at the corporate group level. We have also presented the Hungarian and international regulations related to these items, as well as the information provided in the consolidated financial statements of the two corporate groups. In addition, we gave a brief description of the structure and scope of the two reports, as well as the similarities and differences in their content.

By examining and comparing the consolidated financial statements of the two companies and aligning them with the requirements of the standards, we can conclude that the two documents have a highly similar structure and that they do not significantly deviate from each other in terms of content. Therefore, although the selected parent companies present their various investee companies as a single entity in different scopes and levels of detail, the requirements of the standards are reflected throughout.

In our opinion, both consolidated notes contain information that helps in the interpretation of the items in the consolidated balance sheet, the comprehensive income statement, the cash flow statement, and the statement of changes in equity, and that they provide insights into the true financial, monetary, and income position of the corporate groups, assisting the readers of the financial statements.

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