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Financial Statements of Large Companies: An Empirical Study of Russian Catering and Hotel Companies

S.V. Kolchugin

Novosibirsk State Technical University, Novosibirsk, Russian Federation

ABSTRACT

The **object** of the study is the ownership structure of large companies in food service and hotel businesses in Russia. The **subject** of the study is the financial statements of these companies. The **purpose** of the study is to investigate large companies in the fields of food service and hotel businesses, and to determine how their structures affect the preparation of financial reports. To achieve this goal, we solved the following tasks: we analyzed the individual financial statements as the main report for a commercial organization. The sufficiency of financial statements to disclose financial position and results have been verified. The consolidated financial statements and their limitations for the formation of aggregate indicators for a group of companies have been considered. The article examines the features of combined financial reporting as a new type of financial reporting and its opportunities at the present time. The author analyzed the ownership structures of large organizations in the fields of food service and hotel businesses. The author assessed the extent to which current approaches to the preparation of financial indicators reveal information about financial situations and results. The empirical basis of the study is information disclosed by large companies on the unified state registry of legal entities and voluntary disclosures made in appendices to their financial statements. The study reveals that existing approaches do not fully facilitate the disclosure of aggregated indicators for a group of companies. As a recommendation, we propose a new type of financial accounting and reporting – additive. The additive financial accounting system focuses on the formation of individual financial statements, consolidated financial statements, and combined financial reports, regardless of the number of companies in the group or ownership structure.

Keywords: financial reporting; consolidated financial statements; combined financial statements; economic entity principle; additive financial accounting; additive financial reporting

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INTRODUCTION

The main source of information about the financial and economic activities of organizations is their financial statements. Financial reporting is based on the information needs and objectives of users [1, p. 163]. Several groups of users with their specific information needs can be distinguished: investors (actual and potential), creditors, managers, the state represented by tax and statistical authorities, personnel, society as a whole, etc. In this case, the first problem arises in the preparation of financial statements: "... the first problem is defining the *primary* user group" [2, p. 128]. Since the purposes and information needs of different user groups vary, the question arises as to which user group's information needs should be met most fully.

As Kenneth Most notes, there are two alternatives for addressing this problem: "providing information for unknown users with multiple decision objectives, or providing information for specific user groups with a known decision objective" [3, p. 147].

In the first case, "general purpose financial reporting" is formed, while in the second, "special purpose financial statements" are prepared [3, p. 129–130].

The lack of a common basis for understanding the information needs of financial statement users, and consequently, the lack of a foundation for developing accounting principles, allowed AICPA¹ President Marshall Armstrong to announce the establishment of two study groups in 1971: the Study Group on the Objectives of Financial Statements, chaired by Robert M. Trueblood², and the Study Group on the Establishment of Accounting Principles, chaired by Francis M. Wheat³.

The result of the Trueblood Committee's work was the publication in October 1973 of the Report of the Study Group on Objectives of Financial Statements "Objectives of

Financial Statements"⁴. In March 1972, the Wheat Committee released its Report of the Study on Establishment of Accounting Principles "Establishing Financial Accounting Standards"⁵. The Trueblood Committee report gained widespread recognition, which intensified discussions about the objectives and information needs of the main user groups of financial reporting.

In the article "Problems of Implementing the Trueblood Objectives Report" [4], Richard M. Cyert and Yuji Ijiri identify three parties whose interaction results in the emergence of financial reporting: corporations, users of financial statements, and the accounting profession⁶.

Corporations are understood by the authors as follows: "Corporations are not only the subjects whose status and activities are reported in financial statements; they are also the sole suppliers of financial statements. Without actions by corporations there is no way for an outsider to prepare financial statements with a satisfactory degree of reliability" [4, p. 29].

Financial statement users are understood to include "... not only past, present, and future shareholders and creditors but also financial analysts, governmental agencies, and the public in general" [4, p. 29].

Finally, by the accounting profession, the authors mean: "...not only individual accountants and auditors but also the system that influences the activities of accountants and auditors" [4, p. 29].

When studying the theory and methodology of accounting as the basis for financial statement preparation, the main focus was on two interacting parties in the reporting process: users of financial statements and

⁴ Report of the Study Group on Objectives of Financial Statements "Objectives of Financial Statements". American Institute of Certified Public Accountants. 1973. 71 p.

⁵ Report of the Study on Establishment of Accounting Principles "Establishing Financial Accounting Standards". American Institute of Certified Public Accountants. 1972. 105 p.

⁶ The viewpoint that the interests of three main parties – corporations, users of financial statements, and the accounting profession – intersect in the preparation of financial reporting has been recognized and widely adopted in the Anglo-Saxon school of accounting. See papers [1, p. 117; 5, p. 169].

¹ American Institute of Certified Public Accountants (AICPA)

² Known as "The Trueblood Committee".

³ Known as "The Wheat Committee".

the accounting profession. Corporations were perceived as the passive side of the process or as the object towards which the interests of financial statement users and the interests of accountants and auditors are directed.

DESCRIPTION OF THE OBJECT OF THE STUDY. BASIC CONCEPTS

The object of the study is large organizations in the Russian Federation whose main activity is the operation of hotels and catering establishments (OKVED code 56). To identify large organizations, one of the following criteria was used:

1. The company's revenue for the financial year is over 2 billion rubles;
2. The average number of employees for the preceding calendar year is over 1 500 people⁷.

The study period is fiscal year 2022.

Based on these criteria, 91 organizations were selected (Table 1).

The first 90 organizations met the first criterion, and BUSINESS ONLINE LLC (1157746772193) met the second criterion.

For further analysis of the research object, it is necessary to define the basic concepts.

Group — includes a controlling person or group of persons and controlled entities. The controlling person in a group can be either a natural or a legal person. The controlling group of persons can include both natural and legal entities. A government body can act as the controlling entity.

Control — is the ability of the controlling person (or group of persons) to influence the controlled organizations. Control can be shared or not shared.

Equity control — the participation of a controlling person (or group of persons) in the capital of a controlled organization.

Non-equity control — control by a controlling person (group of persons) over

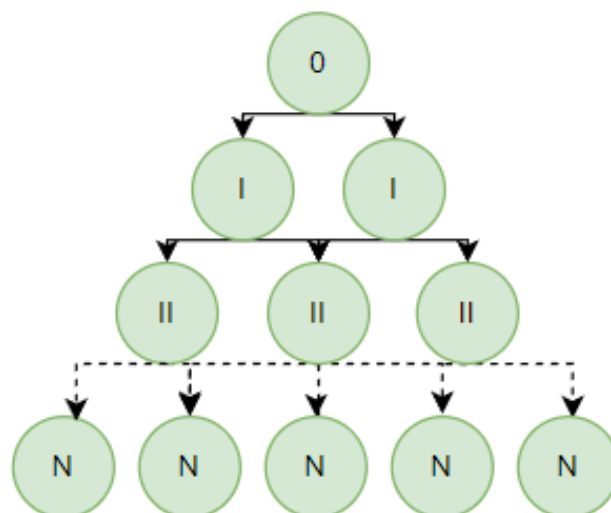


Fig. 1. Hierarchical Levels in the Ownership Structure of a Group

Source: Compiled by the author.

a controlled organization that is not related to equity control.

Ownership structure within the group — control of some group members over other group members.

Hierarchical levels in the group ownership structure — control structure where some organizations control others in a strictly ordered manner (Fig. 1). At the “zero” level, the controlling person can be either a natural person or a legal entity, or a group of persons, or a state body. Starting from the first level, the group's ownership structure includes only legal entities. The numbering of hierarchical levels in the group's ownership structure starts from the “zero” level.

The group's financial reporting perimeter — is a list of the group's organizations that prepare financial statements (consolidated financial statements; combined financial statements; additive financial statements).

The ownership structure within the group is determined from two sources:

- extracts from the Unified State Register of Legal Entities (section “Information about participants / founders of the legal entity”);
- information disclosed in the notes to the company's financial statements.

⁷ When selecting the criteria for classifying an organization as large, the provisions of Federal Law No. 209 from 24 July 2007 “On the Development of Small and Medium-Sized Enterprises in the Russian Federation” (Article 4: Categories of Small and Medium-Sized Enterprises) and Government Decree No. 265 from 4 April 2016 “On the Maximum Values of Income Received from Entrepreneurial Activities for Each Category of Small and Medium-Sized Enterprises” were applied.

An analysis of the ownership structure of large companies in the hotel and catering business (*Table 1*) shows that individual financial statements are prepared in 20 out of 91 cases, or 22% of all large companies in the industry under consideration. In the remaining 71 cases, or 78% of all large companies, individual financial statements are insufficient to determine the financial position and financial performance of a large company.

The fact that some large organizations belong to the same group deserves special attention. For example, TEREMOK-RUSSKIE BLINY LLC (1027809178363) and TEREMOK-CONFECTIONERY LLC (1097847225772); MAYREST LLC (1027809227050) and UNIREST LLC (1057749069839); RBE LLC (5147746269039) and NTS LLC (1117746210647); OLIMPLYUS LLC (1082312008954) and MOSTOVIK DEVELOPMENT LLC (1117746404885); FILIAS LLC (1027739493594) and MENARDI LLC (1117746785925).

Let's take a closer look at the ability of existing financial reporting to reflect the financial position and results of large companies in the hotel and catering business.

CONSOLIDATED FINANCIAL STATEMENTS AND THEIR LIMITATIONS

Theoretical and practical problems of consolidated financial reporting are widely represented in the spectrum of accounting academic research. Scientific research in this field covers the specifics of national, regional, and international consolidated reporting regulations [6–8], the history of the development of consolidation ideas in different countries [9–12], the problems of consolidation methodology and technique [13–17], and the analysis of consolidation criteria [18–21]. Additionally, narrow issues are being studied, such as deferred taxes in consolidated financial statements [22], consolidation in inflationary conditions [23], the specifics of consolidated financial statements in individual industries [24], assessing the factors influencing borrowing cost changes after domestic mergers and

acquisitions [25], modeling the bankruptcy of companies associated with a business group [26], and others.

The financial statements of the group of companies (consolidated financial statements) have been prepared for quite some time. “The first consolidated reports were prepared for the American Cotton Oil Trust in 1886 “[27, p. 85]⁸. The need for consolidated financial reporting was driven by the possibility of companies holding common stock and the problem of its valuation. Describing the prerequisites for the introduction of consolidated reporting in the USA⁹, R. Walker notes: “Shortly before the passage of the Sherman Act, changes in state legislation had enabled the formation of business combinations through the medium of the “holding company” [28, p. 123].

The problem with valuing common stock was that an investment in a subsidiary was reflected in the investor's financial statements at cost, which did not allow for determining the true value of the investment and distorted information about the financial position and financial performance in the investor's reporting. To address this problem, it was proposed to prepare consolidated financial statements as a fundamentally new type of supplementary financial reporting.

It should be noted that consolidated financial statements are a new type of financial reporting, distinct from individual financial statements. The fundamental difference is that in consolidated financial statements, the principle of the organization's separate legal personality is abandoned, or the “fiction of a legal entity” is rejected [29]. For individual financial reporting, the principle of organizational segregation of assets is fundamental.

The second fundamental characteristic of consolidated financial statements is their

⁸ Robert G. Walker offers a more streamlined definition: “Consolidated reports were first prepared in the United States as early as 1894. They were widely discussed in early American texts and periodicals and were widely used long before British companies began experimenting with this form of reporting in the early 1920s” [28, p. 120].

⁹ Section III “U.S. Background to the Introduction of Consolidated Reporting”.

Table

Analysis of the Ownership Structure of Large Catering and Hotel Companies

No	Company	Registration number	Revenue in rubles for 2022	Number of organizations in the group	Hierarchical levels in the groups ownership structure	Hierarchical level at which the organization is located	Number of individual owners (identified)	Organizations with sufficient individual financial statements	Organizations with sufficiently consolidated financial statements	It is advisable for organizations to prepare consolidated financial statements	It is advisable for organizations to prepare aggregated financial statements
1	SYSTEM PBO LLC	1027700251754	73 486 322 000	6	4	4	-	No	No	No	Yes
2	MEDVED LLC	1157627034597	71 617 930 000	1	2	2	-	Yes	No	No	No
3	BURGER RUS LLC	1097746274009	68 805 048 000	5	4	3	-	No	No	No	Yes
4	INTERNATIONAL RESTAURANT BRANDS LLC	1187746120044	33 959 172 000	3 / 4	4 / 5	4 / 4	-	No	No	No/No	Yes
5	UNIKSTAR 3	1127847404442	27 619 549 000	2 / 2	2 / 2	2 / 2	2	No	Да	Yes / Yes	No
6	TECHNOLOGY	1147847384343	22 441 861 000	2	3	3	-	No	No	No	Yes
7	MAIREST LLC	1027809227050	18 897 093 000	86 / 26	5 / 4	3 / 3	2	No	No	Yes / Yes	No
8	UNIREST LLC	1057749069839	17 224 285 000	86 / 26	5 / 4	3 / 3	2	No	No	Yes / Yes	No
9	SPP LLC	1167746195011	14 977 980 000	4	3	2	1	No	No	Yes	No
10	IFCM GROUP LLC	1027739281888	13 786 562 000	3	3	3	1	No	No	No	Yes
11	PARTNERS NOYABRSK LLC	1068905015354	12 568 746 000	42 / 5	4 / 3	2 / 2	2	No	No	Yes / Yes	No
12	RUSSOTSKAPITAL LLC	1077759881660	12 185 046 000	3	3	3	-	No	No	No	Yes
13	AEROMAR JSC	1025006171409	11 368 056 000	3	3	2	-	No	No	No	Yes
14	GAZPROM PITANIE LLC	1027739284968	10 242 079 000	602	8	3	-	No	No	No	Yes
15	ROZA KHUTOR LLC	1037702012952	9 524 607 000	55	9	5	-	No	No	No	Yes
16	VERONA LLC	1097746738275	9 135 703 000	3	3	3	-	No	No	No	Yes
17	KRASNAYA POLYANA NJSC	1022302937062	8 815 047 000	9	4	2	-	No	No	No	Yes
18	PROFSERVICE-KAZAN LLC	1101690055862	8 700 621 000	1	2	2	-	Yes	No	No	No
19	RADIUS LLC	1167847417594	8 590 116 000	2	2	2	1	No	Yes	Yes	No

Table (continued)

No	Company	Registration number	Revenue in rubles for 2022	Number of organizations in the group	Hierarchical levels in the group's ownership structure	Hierarchical level at which the organization is located	Number of individual owners (identified)	Organizations with sufficient individual financial statements	Organizations with sufficiently consolidated financial statements	It is advisable for organizations to prepare consolidated financial statements	It is advisable for organizations to prepare aggregated financial statements
20	AK RUSSIA LLC	5107746076488	8 570 116 000	2	3	3	-	No	No	No	Yes
21	PISHCHEVIK LLC	1107746828133	8 524 818 000	2	3	2	-	No	No	No	Yes
22	VAVILON LLC	1210400000403	8 045 437 000	1	2	2	1	Yes	No	No	No
23	ASTORIA LLC	1082301000693	8 023 425 000	1	2	2	2	Yes	No	No	No
24	PARUS LLC	1167847274781	7 726 276 000	2	3	3	-	No	No	No	Yes
25	GALEREYA-ALEKS LLC	1047796357179	7 454 171 000	9	5	4	-	No	No	No	Yes
26	PARTNERS KRASNOYARSK LLC	1112468056788	7 383 575 000	4 / 3 / 3	3 / 3 / 3	3 / 3 / 3	3	No	No	Yes / Yes / Yes	No
27	KDP JSC	1027700137541	7 263 711 000	1	2	2	-	Yes	No	No	No
28	CITY RESTAURANTS LLC	1057748191137	7 232 371 000	3	2	2	1	No	Yes	Yes	No
29	GLAVNAYA LINIYA LLC	1107746827539	6 314 824 000	2	3	3	-	No	No	No	Yes
30	GRAND KAY-S LLC	1214300010253	6 187 126 000	1	2	2	2	Yes	No	No	No
31	TEREMOK-INVEST JSC	1037789074080	6 113 069 000	1	2	2	-	Yes	No	No	No
32	ORBITAL LLC	1221800006471	5 927 770 000	2	2	2	1	No	Yes	Yes	No
33	MOSCOW CATERING LLC	1147746454350	5 775 324 000	3	2	2	1	No	Yes	Yes	No
34	RBE LLC	5147746269039	5 674 549 000	17 / 26	5 / 5	5 / 5	3	No	No	Yes / Yes	No
35	AKS	1021100897102	5 572 977 000	3	3	3	-	No	No	No	Yes
36	GSP-SERVICE LLC	1167847292580	5 570 566 000	38	5	3	-	No	No	No	Yes
37	MILTI LLC	5177746080694	5 442 143 000	5	3	2	1	No	No	Yes	No
38	NTS LLC	1117746210647	5 426 243 000	35 / 17 / 26	5 / 5 / 5	4 / 5 / 5	3	No	No	Yes / Yes / Yes	No

Table (continued)

No	Company	Registration number	Revenue in rubles for 2022	Number of organizations in the group	Hierarchical levels in the group's ownership structure	Hierarchical level at which the organization is located	Number of individual owners (identified)	Organizations with sufficient individual financial statements	Organizations with sufficiently consolidated financial statements	It is advisable for organizations to prepare consolidated financial statements	It is advisable for organizations to prepare aggregated financial statements
39	SHKOLNIK-YUZ LLC	1027700130204	5 394 216 000	4	4	4	-	No	No	No	Yes
40	PERSPEKTIVA LLC	1145321007193	5 220 550 000	2	3	3	-	No	No	No	Yes
41	YAMMI GROUP LLC	1082635003110	4 979 164 000	2	2	2	1	No	Yes	Yes	No
42	ELTEKHINORD LLC	1157847288543	4 734 902 000	2	3	3	-	No	No	No	Yes
43	JTK JSC	5077746868403	4 671 243 000	2	3	2	-	No	No	No	Yes
44	BG MANAGEMENT LLC	1162366053255	4 479 912 000	10	4	3	1	No	No	Yes	No
45	VITO-1 LLC	1027700064534	4 457 847 000	1	2	2	1	Да	No	No	No
46	ROSINTER RESTAURANTS LLC	1027739718280	4 436 863 000	31	3	2	-	No	No	No	Yes
47	AVK LLC	1107746818970	4 391 100 000	2	3	3	1	No	No	No	Yes
48	DEPARTMENT OF FOOD JSC	1171690075919	4 373 649 000	1	2	2	-	Yes	No	No	No
49	RESTORANSERVIS PLUS LLC	1037804042704	4 325 021 000	2	3	3	-	No	No	No	Yes
50	LE ROND DEVELOPMENT LLC	1122366007202	4 268 165 000	2	2	2	1	No	Yes	Yes	No
51	TEREMOK-RUSSIAN BLINY LLC	1027809178363	4 241 146 000	4 / 4	2 / 2	2 / 2	2	No	Yes	Yes / Yes	No
52	ROGSIBAL LLC	1035001601513	3 939 128 000	7	4	4	-	No	No	No	Yes
53	LOTTE RUS JSC	1027700022074	3 707 049 000	1	2	2	-	Yes	No	No	No
54	NTPO LLC	1122457001006	3 693 767 000	33	4	3	-	No	No	No	Yes
55	JIN HUAN LLC	1037739682716	3 561 007 000	2	2	2	1	No	Yes	Yes	No
56	ASP LLC	1127747146449	3 541 404 000	1	2	2	1	Yes	No	No	No
57	FASTLAND LLC	1027759292448	3 498 957 000	20	3	2	-	No	No	No	Yes

Table (continued)

No	Company	Registration number	Revenue in rubles for 2022	Number of organizations in the group	Hierarchical levels in the group's ownership structure	Hierarchical level at which the organization is located	Number of individual owners (identified)	Organizations with sufficient individual financial statements	Organizations with sufficiently consolidated financial statements	It is advisable for organizations to prepare consolidated financial statements	It is advisable for organizations to prepare aggregated financial statements
58	FAMILY HOLIDAY LLC	1159102108175	3 259 208 000	9	4	3	-	No	No	No	Yes
59	OMEGA CENTER NJSC	1062309026812	3 166 119 000	1	2	2	-	Yes	No	No	No
60	POTENTIAL LLC	1147847233270	3 124 570 000	2	3	3	-	No	No	No	Yes
61	ALTERNATIVE LLC	1185053013001	3 113 081 000	2	2	2	1	No	Yes	Yes	No
62	VARIANT LLC	1072722001109	3 112 939 000	3/2	2/2	2/2	2	No	Yes	Yes/Yes	No
63	OLIMPPPLUS LLC	1082312008954	2 928 397 000	5	5	3	-	No	No	No	Yes
64	VYSOTKA LLC	1157746258504	2 860 589 000	4/18	3/3	2/2	2	No	No	Yes/Yes	No
65	LEVEL MSK LLC	1187746870497	2 856 809 000	6	3	3	-	No	No	No	Yes
66	DOMODEDOVO CATERING LLC	1155009000343	2 831 402 000	25	5	3	-	No	No	No	Yes
67	MOSTOVNIK DEVELOPMENT LLC	1117746404885	2 705 239 000	4/5	4/5	4/5	1	No	No	No	Yes
68	PIZZA VENTURE LLC	1111101000405	2 628 224 000	8	4	3	-	No	No	No	Yes
69	SATURN-SHBS-3 LLC	1027700311847	2 574 819 000	4	5	2	-	No	No	No	Yes
70	NIKO LLC	1157847416726	2 571 500 000	1	2	2	-	Yes	No	No	No
71	FILIAS LLC	1027759493594	2 561 288 000	10/10	3/3	3/3	2	No	No	Yes/Yes	No
72	ORION LLC	1095035000466	2 533 467 000	2	2	2	1	No	Yes	Yes	No
73	PUBLIC CATERING LLC	1127847622979	2 509 350 000	2	3	2	-	No	No	No	Yes
74	FAST FOOD MARKET LLC	1167746682366	2 427 999 000	1/2	2/2	2/2	2	Yes/No	No/Yes	No/Yes	No/No
75	PROSERVIS TAIMYR LLC	1132457000719	2 422 658 000	9/7	4/4	3/3	-	No/No	No	No/No	Yes
76	TEREMOK-CONFECTIONERY LLC	1097847225772	2 409 268 000	4	2	2	2	No	Yes	Yes	No

Table (continued)

No	Company	Registration number	Revenue in rubles for 2022	Number of organizations in the group	Hierarchical levels in the group's ownership structure	Hierarchical level at which the organization is located	Number of individual owners (identified)	Organizations with sufficient individual financial statements	Organizations with sufficiently consolidated financial statements	It is advisable for organizations to prepare consolidated financial statements	It is advisable for organizations to prepare aggregated financial statements
77	IRKUTSK FOOD COMBINE CBM	1113850048905	2 341 623 000	1	2	2	-	Yes	No	No	No
78	GC ZHEMCHUZHINA JSC	1022302832078	2 341 186 000	2	3	3	-	No	No	No	Yes
79	VECTOR LLC	1075031003046	2 299 746 000	3	2	2	1	No	Yes	Yes	No
80	RENSERVICE LLC	1067847368797	2 286 999 000	1	2	2	1	Yes	No	No	No
81	KORPUSGRUPP URAL LLC	1076671021327	2 251 574 000	9	6 (5)	5 (4)	-	No	No	No	Yes
82	URBAN COFIX RUSSIA LLC	1167746480098	2 242 169 000	4	4	3	-	No	No	No	Yes
83	PRIMESTAR RESTAURANTS GROUP LLC	1107746986720	2 165 401 000	92 / 3 / 4	3 / 2 / 2	2 / 2 / 2	3	No / No / No	No	No / No / No	Yes
84	CAFETERA GROUP RUS LLC	1037739512590	2 159 075 000	4	2	2	1	No	Yes	Yes	No
85	GID LLC	1144253006567	2 147 677 000	5	4	4	-	No	No	No	Yes
86	ANAPSKOE VZMORYE LLC	1102301000218	2 140 579 000	3	2	2	1	No	Yes	Yes	No
87	LUCHI SOLNTCA	1165044052788	2 087 672 000	1	2	2	1	Yes	No	No	No
88	PREMIUM HOTEL MANAGEMENT JSC	1075032015673	2 060 345 000	1	2	2	-	Yes	No	No	No
89	MENARDI LLC	1117746785925	2 026 678 000	10 / 10	3 / 3	3 / 3	2	No / No	No	Yes / Yes	No
90	PROMETEIY-CITY LLC	1077758610820	2 018 508 000	1	2	2	-	Yes	No	No	No
91	BUSINESS ONLINE LLC	1157746772193	over 1 500 people	1	2	2	-	Yes	No	No	No

Source: Compiled by the author.

Note: The presence of two or more digits separated by a "slash" indicates two or more lines of ownership, two or more groups, or two or more hierarchical levels within the ownership structure.

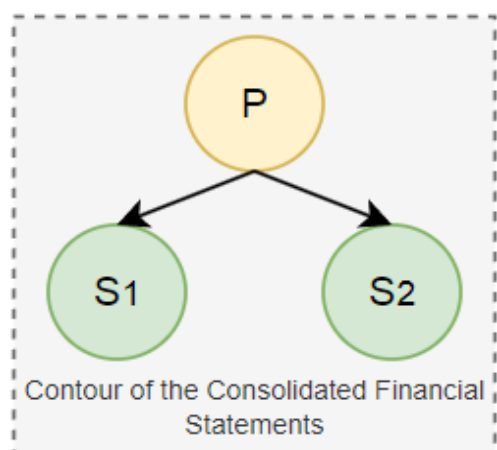


Fig. 2. The Ownership Structure of the Group, and Consolidated Financial Statements

Source: Compiled by the author.

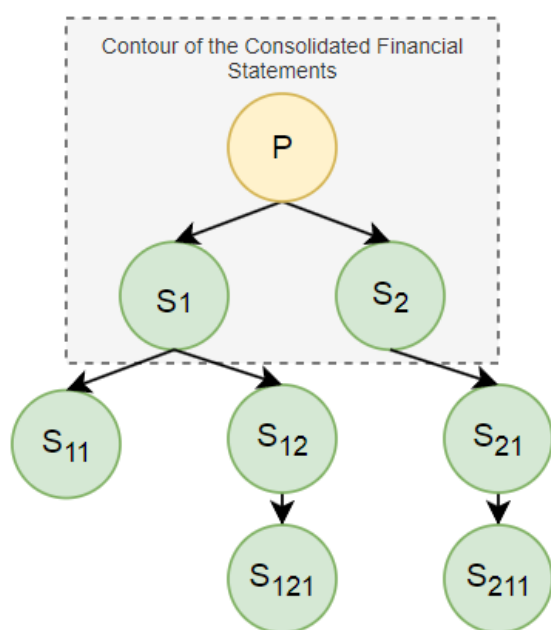


Fig. 3. The Ownership Structure of the Group, and the Outline of the Consolidated Financial Statements, with More Than Two Levels of Hierarchy

Source: Compiled by the author.

derivative nature. Consolidated financial statements are additional reporting to the parent company's individual financial statements. The derivative nature of consolidated financial statements is due to the fact that they are based on the individual financial statements of the parent company and its subsidiaries. In the absence of individual financial statements from the parent and

subsidiary companies, consolidated financial statements cannot be prepared.

Additionally, consolidated financial statements are aimed at meeting the information needs primarily of the group's external investors. This conclusion stems from the definition of "general purpose financial statements (or simply "financial statements")" in IFRS. General purpose financial statements are understood as: "General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs"¹⁰.

The main idea behind consolidated financial statements is that the cost of an investment in a subsidiary is replaced by the parent company's share of the net asset value, as well as the recognition of goodwill and non-controlling interest. At the level of consolidated financial reporting, homogeneous indicators from the individual reports of the parent and subsidiary companies are aggregated, with the mandatory elimination of intra-group transactions.

To prepare consolidated financial statements, the parent company must have an investment in subsidiaries. The ownership structure within the group and the consolidated reporting perimeter are presented in Fig. 2, where P – is the parent company, S₁ and S₂ – are subsidiaries.

In the ownership structure of a group with more than two hierarchical levels, consolidated financial statements have their limitations. So, organizations controlled by subsidiaries ("grandchild organizations"), like organizations at higher hierarchical levels, are not included in the consolidated financial reporting perimeter (Fig. 3). This limitation is related to the methodology for preparing consolidated financial statements. Since the parent organization does not directly own shares in "subsidiary organizations" and organizations at higher levels of ownership, such organizations

¹⁰ IAS 1 Presentation of Financial Statements. IFRS Foundation. Issued 2024. URL: [https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements.html/content/dam/ifrs/publications/html-standards/english/2024/issued/ias1/\(accessed on 29.08.2024\)](https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements.html/content/dam/ifrs/publications/html-standards/english/2024/issued/ias1/(accessed%20on%2029.08.2024)).

are not included in the consolidation perimeter. They do not allow for the exclusion of the parent organization's investment and the calculation of the share of net assets attributable to the parent organization, goodwill, and the non-controlling interest.

Furthermore, the derivative nature of consolidated financial statements and their focus on the information needs of investors prevent the formation of current indicators for the group. In other words, there is currently no consolidated financial accounting as a separate type of financial accounting.

The analysis of the ownership structure of large companies in the hotel and catering business (*Table 1*) shows that only 36 out of 91 companies have an ownership structure that includes two hierarchical levels of ownership. In the remaining 55 companies, the ownership structure has more than two hierarchical levels. For example, the group that includes ROZA KHUTOR LLC (1037702012952) has 9 hierarchical levels in its ownership structure. Moreover, the organization itself, ROZA KHUTOR LLC is at the fifth hierarchical level. In 42 out of 55 cases, or 76% of the time, a large company is at level three or lower proficiency.

Thus, based on the analysis of large companies in the hotel and catering business, it can be concluded that consolidated financial statements do not accurately reflect the assets and financial performance of a group of enterprises in 55 out of 91 cases, or 60% of the time. Furthermore, the focus of consolidated financial reporting on meeting the information needs of only one group of users – investors – and the derivative nature of consolidated reporting raise the question of the need to develop a new type of accounting for a group of companies. Within the framework of the new type of financial accounting, on the one hand, the possibility of generating current indicators for the group should be provided, and on the other hand, this type of accounting should allow for the preparation of financial statements for the entire group of companies regardless of the number of hierarchical levels in the ownership structure.

COMBINED FINANCIAL STATEMENTS

When starting to examine the content of combined financial statements, it's worth noting that both the concept and the methodology for preparing combined reporting are in their initial stages of development. As of today, there is no unified understanding of combined statements as an independent type of financial statements.

The first mention of the need to disclose information about an investment entity on a "combined basis" is found in Accounting Principles Board Opinion No. 18 "Equity Method of Accounting for Investments in in Common Stock" ("APB Opinion 18"): "The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. If the investor has more than one investment in common stock, disclosures wholly or partly on a combined basis may be appropriate"¹¹. According to the Accounting Principles Board, the preparation of combined financial statements is appropriate when one investor "has more than one investment in common stock" (*Fig. 4*).

The concept of combined financial statements is contained in the International Financial Reporting Standard for Small and Medium-sized Entities: "Combined financial statements are a single set of financial statements of two or more entities controlled by a single investor"¹².

A similar definition of combined financial statements is found in the Financial Accounting Standards Board (FASB) "55 Implementation Guidance and Illustrations". According to paragraph 810-10-55-1B: "... combined financial statements would be useful if one individual owns a controlling financial interest

¹¹ Opinions of the Accounting Principles Board 18 "Equity method of accounting for investments in common stock", American Institute of Certified Public Accountants, Inc. 666 Fifth Avenue, New York 10019, 1971. 20 p.

¹² The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) is issued by the International Accounting Standards Board (IASB), 30 Cannon Street, London EC4M 6XH, United Kingdom, 2009.

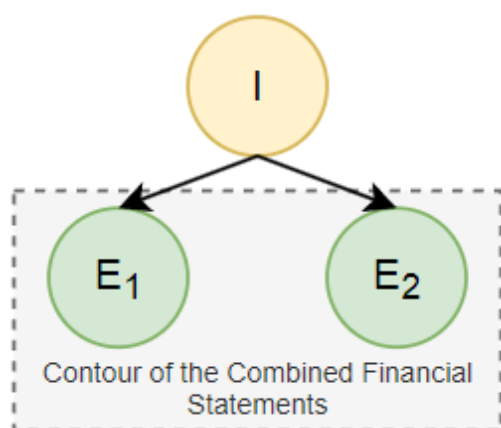


Fig. 4. Contour of the Combined Financial Statements

Source: Compiled by the author.

Note: To simplify, the figure shows two legal entities (“Ent 1” and “Ent 2”) that are under the control of an investor (“Inv”). The outline of the consolidated financial statements is indicated by the gray rectangle.

in several entities that are related in their operations. Combined financial statements might also be used to present the financial position and results of operations of entities under common management”¹⁵.

In the article “Criteria for Consolidation” [20], describing anomalies in consolidated reporting, John Calman Shaw gives an example where: “Mr. A and his family own the entire issued share capital of Company X Ltd and Company Y Ltd. No ‘group’ exists although both companies are clearly under the control of a single individual or small number of individuals acting in concert” [20, p. 72]. The author then notes: “In this type of situation there may well be significant inter-company commercial relationships and trading transactions. The effect of these may be obscured by the non-consolidation of the figures, and difficulties in interpreting the results or financial status of the companies concerned can be aggravated if different accounting dates are selected” [20, p. 72].

Another definition of combined financial statements can be found in the document by

¹⁵ 55 Implementation Guidance and Illustrations. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810 Consolidation. URL: <https://asc.fasb.org/1943274/2147481175/810-10-55-1B> (accessed on 20.08.2024).

the Federation of European Accountants¹⁴: “Combined and Carve-out Financial Statements. Analysis of common practices”¹⁵ and in the Discussion Paper DP/2020/2 of IFRS Standard “Business Combinations under Common Control”¹⁶.

According to the Federation of European Accountants, combined financial statements refers to historical financial information prepared for a limited scope of economic activity. The need for combined financial statements arises when the structure of a group of companies changes or an individual company is reorganized.

According to the draft international financial reporting standard “Business Combinations under Common Control”, combined financial statements are understood as financial statements that are appropriate when entities or businesses under common control are combined. In this study, **combined financial statements** refer to the financial statements of a group where the parent is a single individual or a group of individuals.

An analysis of the ownership structure of large companies in the hotel and catering business showed the feasibility of forming consolidated financial statements for twenty-nine organizations (*Table 1*).

A classic example of an ownership structure within a group that necessitates the preparation of consolidated financial statements is an ownership structure that includes the organization ORBITAL LLC (1221800006471) (*Fig. 5*).

¹⁴ The Federation of European Accountants, abbreviated as FEE (Fédération des Experts-comptables Européens), includes 45 professional accounting and auditing organizations from 33 European countries, including 27 European Union member states. The Federation of European Accountants has over 500 000 professional accountants as members.

¹⁵ Combined and Carve-out Financial Statements. Analysis of common practices. A document primarily based on the responses received to the FEE Discussion Paper Combined Financial Statements and additional research undertaken by FEE February 2013.

¹⁶ Discussion Paper DP/2020/2 IFRS Standards “Business Combinations under Common Control”. URL: <https://www.ifrs.org/content/dam/ifrs/project/business-combinations-under-common-control/discussion-paper-bucc-november-2020.pdf> (accessed on 20.08.2024).

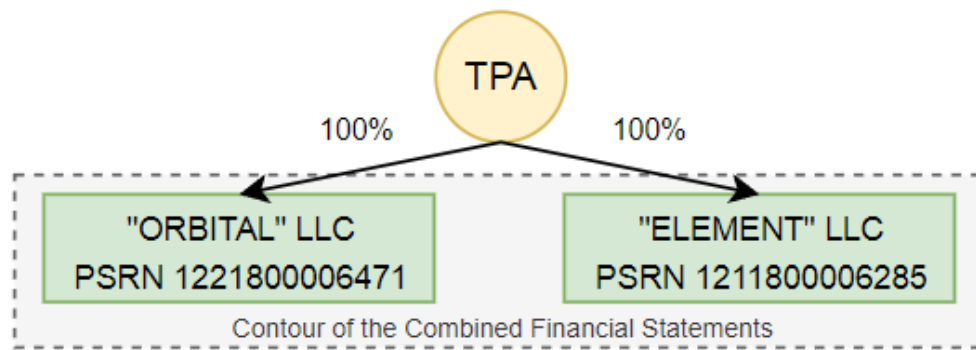


Fig. 5. The Ownership Structure and Contour of the Combined Financial Statements for the Group with the Participation of ORBITAL LLC

Source: Compiled by the author.

Note: Hereinafter, for the purpose of non-disclosure of personal data, the individual owner is designated by the abbreviation of the first letters of their surname, first name, and patronymic.

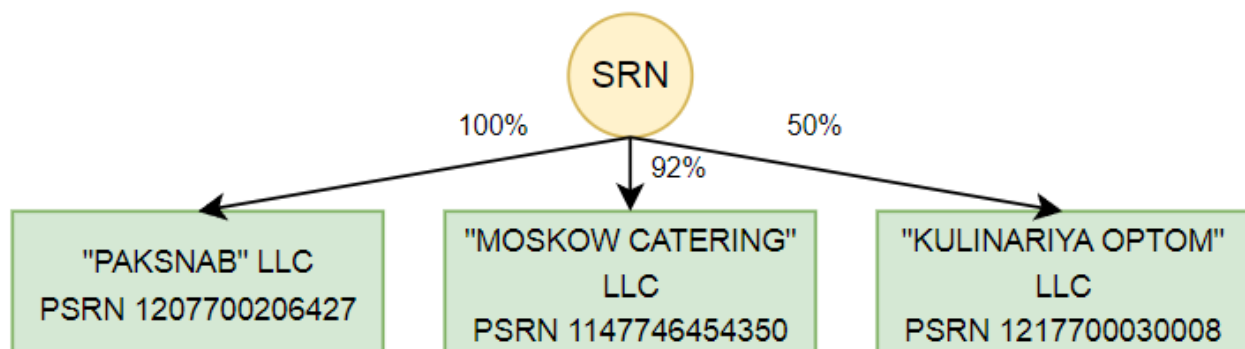


Fig. 6. The Ownership Structure for a Group with the Participation of MOSKOW CATERING LLC

Source: Compiled by the author.

In this case, one individual owns a 100% stake in two companies — ORBITAL LLC and ELEMENT LLC, which form a group and are included in the combined financial reporting perimeter. In other words, to determine the group's financial position and financial performance, it is necessary to prepare consolidated financial statements.

A different ownership structure of the group is also possible, in which the preparation of combined financial statements is appropriate. Let's consider the group that includes the organization MOSKOW CATERING LLC (1147746454350) (Fig. 6).

The group consists of three organizations with different ownership percentages — 100%, 92%, and 50%. In this case, two methodological problems arise. The first is related to defining the scope of the combined financial statements.

While it can be definitively stated that the organizations Paksnab LLC and MOSKOW CATERING LLC are included in the scope of the combined financial statements, no such definitive conclusion can be drawn regarding the organization Kulinariya Optom LLC. The second problem is related to the method of preparing consolidated financial statements with varying ownership percentages. In the organization MOSKOW CATERING LLC, a private individual — the owner — holds a 92% share, while the remaining 8% belongs to other individuals. In this case, a problem arises in reflecting the 8% non-controlling interest in the consolidated financial statements. A different kind of problem arises with the organization Kulinariya Optom LLC if it is not included in the combined reporting perimeter. Under this condition, a methodological problem arises

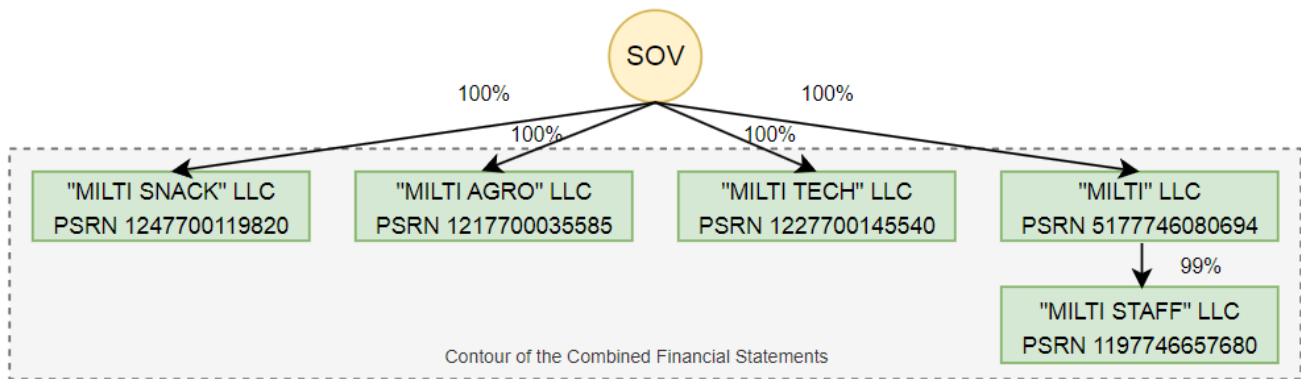


Fig. 7. The Ownership Structure and Contour of the Combined Financial Statements for the Milti LLC group

Source: Compiled by the author.

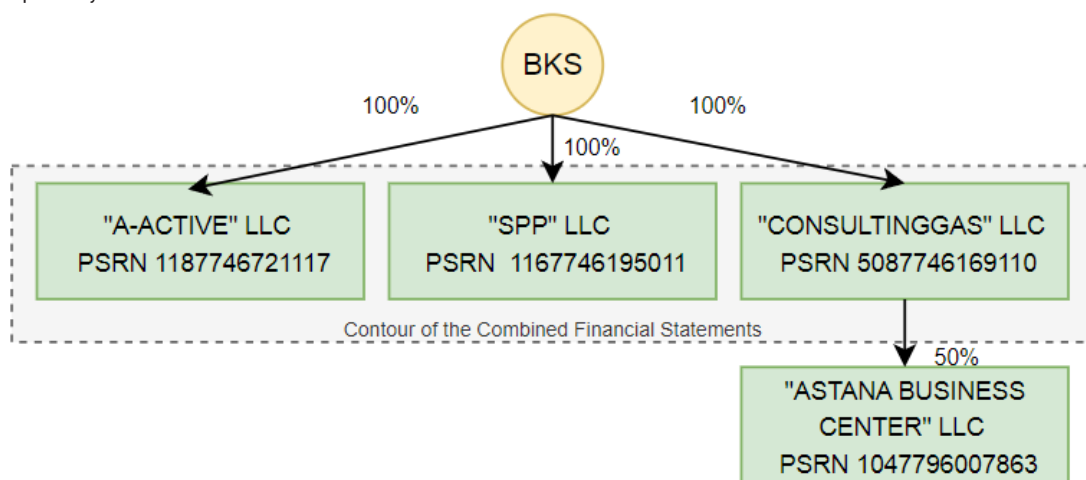


Fig. 8. The Ownership Structure and Contour of the Combined Financial Statements for the Group with the Participation of SPP LLC

Source: Compiled by the author.

regarding the reflection of investments in Kulinariya Optom LLC when preparing the group's consolidated financial statements.

The ownership structure of large companies in the hotel and catering business, for which it is appropriate to prepare consolidated financial statements (Table 1), includes various groups ranging from two organizations (YAMMI GROUP LLC (1082635003110)) to eighty-six (MAYREST LLC (1027809227050)) that make up the group.

Another ownership structure is represented by a group that includes MILTI LLC (5177746080694) (Fig. 7).

The group under consideration contains more than two hierarchical levels in its ownership structure. Milti Staff LLC is at the third level of ownership (a subsidiary

of Milti LLC), which poses a methodological problem – the formation of consolidated financial statements for a group containing more than two hierarchical levels in the group's ownership structure.

In the considered area of the hotel and catering business, for which it is advisable to prepare combined financial statements (Table 1), the maximum number of hierarchical levels in the group's ownership structure is five (RBE LLC (5147746269039)).

A group that contains more than two hierarchical levels in its ownership structure with varying degrees of ownership deserves special attention (Fig. 8).

Fig. 6 shows a group for which it is appropriate to prepare consolidated financial statements

with an entity at the third hierarchical level in the group's ownership structure, located outside the scope of the consolidated financial statements. In this case, a methodological problem arises regarding the reflection in the financial statements of an investor's investment in an entity that is outside the scope of the consolidated financial statements.

The analysis of the ownership structure of large organizations in the catering and hotel industry showed that for 29 out of 91 organizations, or 31% of the organizations under consideration, it is advisable to prepare combined financial statements.

When considering combined financial statements as a new type of financial reporting, it is necessary to define the information needs of the main user groups. The users of combined financial statements primarily include: investors (both existing individual investors and potential investors), creditors, management, and the state represented by tax and statistical authorities.

For investors, combined financial statements provide consolidated financial information about the group as an investment object. This financial information includes the composition and value of assets, liabilities, and equity, the group's financial performance, cash flows, and other information. For investors, it is sufficient to prepare consolidated financial statements outside the accounting system. Maintaining financial accounting as a system, the result of which is consolidated financial statements, is not necessarily.

For creditors, consolidated financial statements allow for a more comprehensive analysis of the group's financial position for the purpose of making credit decisions.

For the state, represented by tax and statistical authorities, a new taxable entity and a new subject of statistical observation emerge — a group of companies under the single control of a natural person.

Group managers need not only summary information — consolidated financial statements — but also current financial data for the group. To obtain current consolidated financial information for the group, it is necessary

to maintain full financial records for the group of organizations under the control of a single individual. This type of financial accounting can be called combined financial accounting.

CONCLUSION

The analysis of the ownership structure of large catering and hotel organizations revealed that in modern economic realities, the economic entity is not a single organization, but a group of companies with a complex ownership structure. Yes, individual financial statements are sufficient only for 19 large organizations in the industry under consideration.

The presence of more than two hierarchical levels in the ownership structure imposes significant limitations on the ability to prepare consolidated financial statements for the group. The group's consolidated financial statements allow for the disclosure of the group's financial position and financial performance in 17 out of 91 cases. At the same time, the derivative nature and orientation of consolidated financial statements toward the information needs of external users highlight the problem of consolidated accounting as an independent type of accounting.

The presence of a natural person at the zero level in the group's ownership structure makes it advisable to form a new type of reporting — combined financial statements. This type of reporting may be appropriate for groups where a group of individuals or a government body is at the zero level in the ownership hierarchy. Preparing combined financial statements is appropriate for 29 out of the 91 large organizations in the industry under consideration. To meet the information needs of both external and internal users, combined financial statements should be the result of a systematic process of combined financial statements.

An analysis of large organizations in the catering and hotel business allows us to put forward the hypothesis that a significant number of large organizations in the Russian Federation operate as part of a group of companies with a complex ownership structure.

The limitations of individual financial statements prepared for a single legal entity and consolidated financial statements for a group of companies, as well as the emergence of a new type of financial reporting — combined financial statements — allow us to conclude that there is a need to create a new type of accounting system and financial reporting to reflect the consolidated figures of the group, regardless of its composition and the number of hierarchical levels in the group's ownership structure. The new type of accounting is proposed to be called additive financial accounting, and the new type of financial reporting — additive financial statements.

The additive accounting system should be maintained on a systematic basis and allow for the preparation of both individual financial statements for a separate organization, consolidated financial statements for a group of companies, combined financial statements, and also the consolidation of indicators for all companies within the group, regardless of the ownership structure and the number of hierarchical levels of ownership. The additive accounting system should be oriented toward the information needs of both external and internal users of financial statements and allow for the formation of both current and final indicators.

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ABOUT THE AUTHOR



Sergei V. Kolchugin — Cand. Sci. (Econ.), Assoc. Prof., Department of Computer Science in Economics, Novosibirsk State Technical University, Novosibirsk, Russian Federation
<https://orcid.org/0000-0001-9575-1920>
s.kolchugin@rambler.ru

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