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## Accounting Misstatements in Related Party Transactions, Business Combinations and Consolidated Financial Statements under IAS 24, IFRS 3 and IFRS 10

***Abstract. Introduction.*** *Corporate groups, business combinations, and complex ownership structures increase the risk of accounting misstatements in financial reporting. These distortions may result from errors in individual transactions, the failure to disclose related-party relationships, the incorrect assessment of control, improper accounting for business acquisitions, and incomplete consolidation adjustments. The growing importance of consolidated financial reporting requires financial information prepared in accordance with International Financial Reporting Standards (IFRS) to achieve greater transparency and reliability. In this context, ensuring the faithful representation of economic relationships and financial performance within corporate groups requires a comprehensive understanding of the interaction among IAS 24 Related Party Disclosures, IFRS 3 Business Combinations, and IFRS 10 Consolidated Financial Statements.*

***Purpose.*** *This study aims to identify and analyse the key risks of accounting misstatements associated with the application of IAS 24, IFRS 3, and IFRS 10, as well as to develop audit procedures designed to improve the quality of consolidated financial statements. The research employs comparative analysis, systematisation, logical generalisation, and the modelling of consolidation adjustments. Particular attention is paid to identifying risk areas that may materially affect the completeness and reliability of consolidated financial reporting.*

***Results****. The findings reveal several significant sources of accounting misstatements, including the failure to disclose related-party relationships, non-arm's-length transactions, the overstatement of goodwill resulting from errors in purchase price allocation, the incorrect measurement of non-controlling interests, the failure to eliminate intra-group balances, and the incomplete elimination of unrealised profits. A model-based calculation demonstrates that the combined effect of several consolidation errors could overstate group assets by 5.68 million currency units and profit before tax by 0.98 million currency units. To mitigate these risks, the study proposes an audit-oriented framework incorporating a related-party register, a control assessment matrix, a purchase price allocation (PPA) file, a consolidation adjustment schedule, and a group audit evidence matrix.*

***Conclusions****. The scientific novelty of the study lies in the development of a three-layer approach to detecting misstatements in group financial reporting, based on the identification of relationships, the verification of measurement and consolidation procedures, and the coordination of audit evidence. The practical significance of the research lies in integrating the accounting requirements of IAS 24, IFRS 3, and IFRS 10 into group audit methodology, thereby enhancing the reliability and transparency of consolidated financial statements.*

***Keywords****: related parties; business combination; consolidated financial statements; goodwill; non-controlling interest; intra-group transactions; unrealized profit; group audit; audit evidence; material misstatement.*

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# Облікові викривлення в операціях із пов'язаними сторонами, при об'єднанні бізнесу та складанні консолідованої фінансової звітності відповідно до МСБО 24, МСФЗ 3 та МСФЗ 10

***Анотація.*** *У статті досліджено взаємозв'язок корпоративних груп, об'єднань бізнесу та складних структур власності, які підвищують ризик виникнення облікових викривлень у фінансовій звітності. Такі викривлення можуть бути зумовлені помилками в обліку окремих операцій, нерозкриттям інформації про пов'язані сторони, неправильним визначенням контролю, некоректним обліком придбання бізнесу та неповним виконанням консолідаційних коригувань. Зростання значення консолідованої фінансової звітності зумовлює необхідність забезпечення більшої прозорості та достовірності фінансової інформації, підготовленої відповідно до Міжнародних стандартів фінансової звітності. У цьому контексті достовірне відображення економічних взаємовідносин і фінансових результатів діяльності корпоративних груп потребує комплексного розуміння взаємодії вимог МСБО 24 «Розкриття інформації про пов'язані сторони», МСФЗ 3 «Об'єднання бізнесу» та МСФЗ 10 «Консолідована фінансова звітність». Метою статті є виявлення та аналіз ключових ризиків облікових викривлень, пов'язаних із застосуванням МСБО 24, МСФЗ 3 та МСФЗ 10, а також розроблення аудиторських процедур, спрямованих на підвищення якості консолідованої фінансової звітності. У дослідженні використано методи порівняльного аналізу, систематизації, логічного узагальнення та моделювання консолідаційних коригувань. Особливу увагу приділено виявленню ризикових сфер, які можуть суттєво впливати на повноту та достовірність консолідованої фінансової звітності. Результати дослідження засвідчили, що основними причинами облікових викривлень є нерозкриття інформації про пов'язані сторони, здійснення операцій на неринкових умовах, завищення гудвілу внаслідок помилок під час розподілу ціни придбання, неправильна оцінка неконтрольованих часток участі, невиключення внутрішньогрупових залишків та неповне виключення нереалізованого прибутку. Модельний розрахунок показав, що сукупний вплив кількох помилок консолідації може призвести до завищення активів групи на 5,68 млн грошових одиниць, а прибутку до оподаткування – на 0,98 млн грошових одиниць. Для мінімізації зазначених ризиків запропоновано аудиторсько-орієнтовану модель, що включає реєстр пов'язаних сторін, матрицю оцінки контролю, файл розподілу ціни придбання (PPA), відомість консолідаційних коригувань та матрицю аудиторських доказів групи. Наукова новизна дослідження полягає у розробленні трирівневого підходу до виявлення викривлень у груповій фінансовій звітності, який ґрунтується на ідентифікації взаємовідносин, перевірці правильності оцінки та процедур консолідації, а також координації аудиторських доказів. Практичне значення дослідження полягає в інтеграції вимог МСБО 24, МСФЗ 3 та МСФЗ 10 у методологію аудиту груп, що сприяє підвищенню достовірності та прозорості консолідованої фінансової звітності.*

***Ключові слова:*** *пов'язані сторони; об'єднання бізнесу; консолідована фінансова звітність; гудвіл; неконтрольована частка; внутрішньогрупові операції; нереалізований прибуток; аудит групи; аудиторські докази; суттєве викривлення.*

**Formulation of the problem.** The expansion of corporate groups and cross-border acquisitions has made consolidated financial reporting one of the most complex areas of accounting practice. A group may consist of legally separate entities that are economically interdependent. Therefore, reliable reporting depends not only on the accuracy of the separate financial statements of each entity, but also on correctly identifying related parties, appropriately measuring business combinations, and completely eliminating intra-group transactions.

The relevance of this study is determined by the fact that IAS 24, IFRS 3 and IFRS 10 operate at the intersection of accounting judgement, corporate governance and audit risk. Related party relationships may influence pricing and financing terms; business combinations require fair value measurement of acquired assets, liabilities, non-controlling interests and goodwill; consolidation requires the presentation of the group as a single economic entity. Any flaw in one of these processes could result in a significant distortion of assets, liabilities, profits or disclosures.

This issue is also important for audit practice. According to ISA 550 and ISA 600, auditors must obtain sufficient and appropriate audit evidence relating to related party relationships and group financial statements. However, group audits are complicated by component auditors, different information systems, ownership chains, internal financing and management estimates. Consequently, a formal checklist is insufficient – the auditor requires an integrated approach that connects relationships, measurement, consolidation and evidence.

**Analysis of recent research and publications.** The normative basis of the study is formed by IFRS and ISA

requirements. IAS 24 requires the disclosure of related party relationships, transactions, outstanding balances and commitments, provided that such information may affect users' assessment of the reporting entity [1]. IFRS 3 establishes the acquisition method: identifying the acquirer, determining the acquisition date, recognizing identifiable assets and liabilities, measuring non-controlling interests and recognizing goodwill or a gain from a bargain purchase [2]. IFRS 10 defines 'control' as the basis for consolidation, requiring a parent entity to prepare consolidated financial statements if it controls one or more investees [3]. IFRS 12 complements this model by requiring disclosures about interests in other entities [4].

Research on related parties confirms their dual nature. Gordon, Henry, Louwers and Reed demonstrate that auditors encounter challenges in identifying, examining and disclosing related party transactions [9]. Al-Dhamari et al. argue that related party transactions increase audit risk and fees, but that a strong internal audit function can mitigate this effect [10]. Habib, Jiang and Zhou also found that auditors associated related-party transactions with a greater audit effort. Conversely, Lo, Wong and Firth demonstrate that corporate governance can restrict earnings management through related-party sales [12].

Research on group audits emphasizes coordination risks. Downey and Bedard demonstrate that global group audits are impacted by communication and coordination issues, particularly when the client is substantial and spread across different locations [13]. Downey and Westermann highlight issues relating to component auditors and the allocation of audit responsibilities [14]. Studies on goodwill, including those by Hellman and Hjelstrom, demonstrate that impairment testing under IFRS remains judgement-intensive and conceptually challenging [15].

Despite these contributions, related parties, business combinations and consolidation are often examined separately in the literature. The problem that remains unresolved is the lack of an integrated accounting and audit model that treats IAS 24, IFRS 3 and IFRS 10 as interdependent elements of group reporting. This article addresses this gap by linking accounting distortions with audit procedures and by proposing a practical model for group audit planning.

**Formulation of research goals.** This article aims to systematize the risks of accounting misstatements arising from related parties, business combinations, and consolidated financial statements under IAS 24, IFRS 3, and IFRS 10. It also seeks to substantiate audit procedures for detecting such misstatements in audits of groups of enterprises.

The research objectives are: to clarify the relationship between related party disclosures, acquisition accounting and consolidation; to classify typical accounting distortions; to calculate the effect of selected consolidation errors on group reporting; to propose an audit-oriented framework for verification of related parties, business combinations and consolidation adjustments; to formulate practical recommendations for strengthening group audit documentation and internal control over consolidation.

The methodology combines a normative analysis of IFRS and ISA requirements, a synthesis of academic findings, a comparative analysis of risk areas, and a model calculation. The numerical example is not based on a particular enterprise. It demonstrates how separate accounting errors can lead to a material misstatement in consolidated financial statements.

**Presentation of the main research material.** The accounting architecture of group reporting can be seen as a series of three interconnected sections. The first block involves identifying relationships and control. The second block measures acquisition effects. The third block involves consolidating and auditing the group's financial statements. IAS 24, IFRS 3, and IFRS 10 correspond to these blocks and should be applied together rather than mechanically.

IAS 24 is aimed not only at transactions but also at relationships. The existence of control, joint control, significant influence, or key management influence may affect pricing, guarantees, loans, management services, and cost allocation. Consequently, a group should maintain a related party register reconciled with ownership data, management declarations, minutes of governance bodies, and legal contracts.

IFRS 3 introduces measurement risk because assets and liabilities acquired in a business combination are recognized at the acquisition date's fair value. The most sensitive items are identifiable intangible assets, contingent liabilities, contingent consideration, non-controlling interests, and goodwill. If management omits intangible assets or understates liabilities, goodwill will be overstated. Incorrectly determining the acquisition date may result in income and expenses being included in the wrong period.

IFRS 10 introduces perimeter risk. Control is based on power over the investee, exposure to variable returns and the ability to use power to affect returns. Control may arise from voting rights, contracts, potential voting rights, or structured arrangements, not only from voting rights. Therefore, auditors should analyze the substance of rights and obligations rather than merely the legal percentage of ownership. Table 1 summarizes the main areas of misstatement.

Table 1 **Key areas of accounting misstatement in group reporting**

| Area | Typical misstatement | Reporting effect | Audit focus |
|---|---|---|---|
| IAS 24 | Undisclosed relationship or non-market pricing | Incomplete disclosure; distorted revenue, expenses or liabilities | Related party register, board minutes, contracts, declarations |
| IFRS 3 | Incorrect acquisition date; omitted intangible assets; overstated goodwill | Misstated assets, equity and future impairment | Purchase price allocation and valuation assumptions |
| IFRS 10 | Entity wrongly included or excluded from consolidation | Omitted or excessive assets, liabilities, income and expenses | Control matrix, voting rights and contractual rights |
| Consolidation | Uneliminated balances, transactions and unrealized profit | Overstated assets, liabilities, revenue and profit | Consolidation worksheet and intercompany confirmations |
| ISA 600 | Insufficient component work or poor communication | Unsupported group audit opinion | Component materiality, instructions and review of work |

*Source: developed by the author based on IAS 24, IFRS 3, IFRS 10, ISA 550 and ISA 600*

To demonstrate the cumulative effect of errors, consider the following model group. Parent P acquired 80 percent of Subsidiary S for 12,0 million monetary units. The fair value of identifiable net assets of S is 10,0 million. The fair value of the non-controlling interest is 2,2 million. During the reporting year P sold inventories to S for 3,6 million at a cost of 2,4 million; 40 percent of these inventories remained unsold to external customers. P also granted S a 5,0 million loan at a 10 percent annual interest rate. Management omitted the elimination of the loan and interest, as well as the elimination of the unrealized profit in inventories.

Goodwill, calculated using the full goodwill method, is determined as follows: Goodwill = consideration transferred + fair value of NCI - fair value of identifiable net assets = 12,0 + 2,2 – 10,0 = 4,2 million.

However, if management incorrectly measures NCI at the proportionate share of net assets while presenting the acquisition as if full goodwill had been applied, then NCI equals 2,0 million, and goodwill equals 4,0 million. This difference of 0,2 million affects goodwill, equity presentation, and future impairment testing. The combined effect of the other omitted adjustments is shown in Table 2.

The calculation shows that group misstatements accumulate. Although a loan elimination error does not change profit, it overstates assets and liabilities. An unrealized profit overstates both inventory and profit. Interest elimination errors distort income and expenses. Goodwill measurement errors influence future impairment testing. Therefore, materiality in a group audit should be assessed at the component level and by the type of consolidation adjustment and aggregation risk.

Table 2 **Model calculation of potential group reporting misstatements**

| Indicator | Calculation | Amount | Interpretation |
|---|---|---|---|
| Goodwill under full goodwill | 12,0 + 2,2 – 10,0 | 4,20 | Goodwill recognized as residual asset |
| Goodwill under proportionate NCI | 12,0 + (10,0 x 20%) – 10,0 | 4,00 | Different NCI method changes goodwill |
| Goodwill measurement difference | 4,20 – 4,00 | 0,20 | Potential misstatement in goodwill and NCI |
| Unrealized profit in inventory | (3,6 – 2,4) x 40% | 0,48 | Inventory and profit overstated |
| Uneliminated intra-group loan | Loan receivable/payable | 5,00 | Assets and liabilities overstated |
| Uneliminated intra-group interest | 5,0 x 10% | 0,50 | Income and expenses overstated |
| Potential asset overstatement | 5,00 + 0,48 + 0,20 | 5,68 | Separate errors become material in aggregate |
| Potential profit before tax overstatement | 0,48 + 0,50 | 0,98 | Profitability and covenants may be distorted |

*Source: author's model calculation*

For planning purposes, the article proposes a potential consolidation misstatement indicator (PCMI):

PCMI = GMD + UPI + UIB + UII + URPD, where GMD is the difference in goodwill measurement, UPI is unrealized

profit, UIB is uneliminated intra-group balances, UII is uneliminated intra-group income and expenses, and URPD is the estimated effect of undisclosed related-party disclosures. In the model example, when unquantified related party disclosures are excluded, PCMI equals 0,20 + 0,48 + 5,00 + 0,50 = 6,18 million. If group performance materiality is 3,0 million, then extended audit procedures are required, even if individual items appear immaterial.

The scientific novelty of this indicator is the way it combines measurement and consolidation errors into one audit planning metric. It is not an IFRS measurement but rather an internal analytical tool for auditors and preparers. It connects the accounting logic of IAS 24, IFRS 3, and IFRS 10 with the risk assessment logic of ISA 315 and ISA 600.

Audits of these areas should be organized as an integrated process. ISA 550 requires auditors to understand relationships and transactions with related parties. ISA 600 requires special procedures for group audits. ISA 540 is relevant for fair value estimates and goodwill impairment. ISA 315 requires an assessment of the risk of material misstatements. Table 3 presents an audit-oriented framework.

Table 3 **Audit-oriented framework for verifying group financial statements**

| Audit block | Procedures | Evidence sources | Expected result |
|---|---|---|---|
| Related parties | Compare management register with ownership data, minutes and declarations | Corporate registers, contracts, KMP declarations | Reduced risk of undisclosed relationships |
| Control assessment | Prepare IFRS 10 control matrix for each investee | Shareholder agreements, voting rights, governance documents | Correct consolidation perimeter |
| Business combinations | Test acquisition date, fair values, NCI and goodwill | Purchase agreement, valuation reports, PPA file | Reliable acquisition accounting |
| Consolidation | Reconcile balances and eliminate transactions and unrealized profit | Consolidation worksheet, confirmations, inventory reports | Reduced overstatement risk |
| Group audit | Set component materiality and review component auditor work | ISA 600 instructions, reports, communication logs | Sufficient appropriate group audit evidence |
| Disclosures | Check IAS 24 and IFRS 12 notes for completeness and consistency | Disclosure checklist, notes, management representations | Transparent information for users |

*Source: developed by the author based on ISA 550, ISA 600, ISA 315 and ISA 540.*

The proposed framework is supported by five working documents. The first document is a related party register that includes ultimate beneficial owners, subsidiaries, associates, key management personnel, guarantees, and significant contracts. The second document is a control assessment matrix that documents power and exposure to variable returns, as well as the ability to exercise power. The third document is a purchase price allocation file containing transferred consideration, identifiable assets, liabilities, net of cash items (NCI), and goodwill. The fourth document is a consolidation adjustment schedule. The fifth document is a group audit evidence map that links risks, components, procedures, and conclusions.

An audit of related parties should not rely solely on written representations. Practical procedures include inquiries of those responsible for governance, a review of board minutes, scanning for unusual journal entries, analyzing counterparties with non-standard payment terms, and comparing intra-group prices with market evidence. If an undisclosed related-party transaction is found, the auditor should assess whether it indicates a control deficiency or a risk of fraud.

Auditing business combinations requires connecting legal, valuation, and accounting evidence. Acquisition agreements define consideration, contingent payments, and indemnification clauses. Although valuation reports support fair values, the auditor must evaluate key assumptions, such as discount rates, growth rates, useful lives, customer attrition, and tax effects. High goodwill relative to identifiable assets should trigger additional procedures, as it may indicate the presence of omitted intangible assets or excessive optimism regarding expected synergies.

Auditing consolidation requires a substance-based test of the group perimeter. The auditor should determine if control exists through voting rights, contractual rights, or the practical ability to direct relevant activities. Additionally, component auditors should receive clear instructions on significant risks, materiality, related parties, and required reporting. The group auditor should evaluate whether their work provides sufficient appropriate evidence for the group opinion.

The author's proposal is a three-layer model for detecting group reporting distortions. The relationship

layer identifies related parties, control links, and governance rights. The measurement and consolidation layer verifies acquisition accounting, goodwill, NCI and elimination entries. The audit evidence coordination layer links risks to components, procedures, and conclusions. This model treats IAS 24, IFRS 3, and IFRS 10 as a single reporting system, not as isolated standards.

For enterprises, the practical recommendation is to introduce a periodic consolidation control cycle. This cycle should include the reconciliation of intra-group balances, the automated identification of related counterparties, a review of non-standard terms, the documentation of judgments on control, and the approval of acquisition accounting by a team including accountants, lawyers, valuation specialists, and auditors. This reduces year-end pressure and improves the reliability of audit evidence.

For management purposes, the proposed model can be transformed into an internal consolidation policy. This policy should specify who is responsible for updating the related party register, how often intra-group balances should be reconciled, what the threshold is for investigating unusual prices, and what the procedure is for approving acquisition accounting estimates. Additionally, it is advisable to require that all significant intra-group agreements contain standardized identifiers that allow the accounting system to automatically recognize related counterparties.

The framework supports a risk-based selection of components for auditors. A quantitatively small component may be significant if it contains complex related-party transactions, goodwill-generating assets, contingent consideration, or material intra-group balances. Therefore, qualitative significance should be assessed together with financial size. The group auditor should document why a component was selected for full-scope, specific, or analytical review procedures.

Digitalization can further strengthen the proposed approach. For example, an enterprise resource planning system can be configured to flag transactions with related counterparties, generate reconciliation reports, and compare intra-group margins with approved transfer pricing policies. However, digital controls should not replace professional judgment. Rather, they should provide structured evidence and exception reports to help accountants and auditors focus on economically unusual transactions.

**Conclusions.** The study confirms that related parties, business combinations, and consolidated financial statements constitute a single, high-risk area of International Financial Reporting Standards (IFRS) reporting. IAS 24 ensures transparency of relationships, IFRS 3 determines acquisition measurement, and IFRS 10 defines the consolidation perimeter. Typical misstatements include undisclosed related parties, non-market pricing, omitted guarantees, incorrect assessment of control, overstated goodwill, incorrect net cash flow (NCI) measurement, and incomplete elimination of intra-group transactions.

The model calculation shows that errors in separate categories, such as goodwill, inventories, loans, and interest, may accumulate into a material distortion. In the example, the potential overstatement of assets equals 5.68 million monetary units, while the potential overstatement of profit before tax equals 0.98 million monetary units. The proposed PCMI indicator can be used as an audit planning and internal control tool because it links accounting adjustments with aggregation risk.

The scientific novelty lies in the proposed three-layer model, which consists of the relationship layer, the measurement and consolidation layer, and the audit evidence coordination layer. The practical value lies in the set of working documents proposed: the related party register, the control assessment matrix, the purchase price allocation file, the consolidation adjustment schedule, and the group audit evidence map. These documents can strengthen financial reporting and audit quality.

The conclusions have interdisciplinary significance because group reporting encompasses accounting, auditing, valuation, law, and corporate governance. Future research should test the proposed indicator using real consolidated financial statements, analyze regulatory findings on group audit deficiencies, and develop digital tools that can automatically identify related parties and consolidation eliminations.

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