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Financial Accounting Standards Board of the Financial Accounting Foundation 401 Merritt 7
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Technical Director
File Reference No. 1205-001
Proposed Statement of Financial Accounting Standards: Consolidated Financial Statements Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries (6/30/05)

I have the following suggestions concerning this exposure draft:

#### 1. Paragraph A13 (p. 24):

The table would be much more understandable if you also showed an alternative manner of calculating the \$28,000 consolidated gain on sale. Show: \$90,000 cash proceeds - \$66,000 [6/7 of \$77,000] = \$24,000; \$15,000 fair value of retained investment - \$11,000 [1/7 of \$77,000]) = \$4,000; \$24,000 + \$4,000 = \$28,000 consolidated gain on sale.

This economic reality suggests that **stock issuances** should be handled differently from when **cash** is the consideration. If this business combination had been a cash deal, the TW shareholders undoubtedly would have agreed to receive a drastically lower amount of consideration (probably closer to \$20-25 billion cash). A **requirement should exist for stock deals that the total cost cannot exceed what would have been paid out in a cash deal.** Undoubtedly, such a requirement would probably require obtaining advice from investment bankers. But the reporting results would be far more realistic than the ridiculously inflated amounts that occur under the present rules.

Recall that prior to the AOL-TW merger Verizon Communications walked away from AOL's merger overtures toward Verizon because Verizon insisted on cash—not stock (funny money). Creating massive amounts of goodwill based on funny money values makes little sense.

### 2. Paragraph A12 (p. 24):

Line uses the term "carrying amount." If you mean the carrying amount of the net assets, why not add the words net assets.

### 3. Paragraph A9 (p. 22):

One of the line items in this schedule is "Cumulative effect of an accounting change, net of tax for (2,000)." Why have this type of line item in this schedule if FASB Stmt. 154 no longer allows the reporting of the cumulative effect and instead requires retrospective application to the extent possible?

## 4. Paragraph D5 (pp. 46-47):

Lines 5 and 6 on page 47 says "... the elimination of intercompany profit or loss may be allocated proportionately between the majority and noncontrolling (minority) interests." On line 6 of paragraph 14, however, it states that "... the elimination of intercompany profit or loss shall be allocated between the controlling interest and the noncontrolling interest." Why is it "may be" in one place and "shall be" in the other place? Why use "majority" in one place and "controlling" in another? Shouldn't this be consistent? (There might be other places where this particular inconsistency exists—recheck document?)

## 5. Paragraph B18, last sentence (p. 31):

What is the underlying rationale behind reporting a deficit noncontrolling interest when a subsidiary's stockholders' equity becomes negative?

If a parent of an 80% owned subsidiary has **not** guaranteed any of the subsidiary's debt, a strict application of the equity method of accounting would have the parent discontinue the use of the equity method when the sub's equity reaches zero. Obviously, the parent cannot lose more than it has invested in the subsidiary. If the sub has a negative equity and if the parent were to discontinue use of the equity method under these circumstances, the parent's net income in the parent-company-only statements would exceed the controlling interest in the consolidated net income. Are not the parent's net income and the consolidated net income supposed to always be identical when the parent uses the equity method? It seems as if this pronouncement would result in this equality no longer occurring in these situations? Is this what is intended?

#### 6. Effective Date:

I would delay the proposed effective date one year to "on or after December 15, 2007." Doing so would give corporate financial accountants a break from having to continuously deal with so many difficult issues (stock compensation, Sarbanes-Oxley).

# 7. General Comments Regarding pages 18-31:

The proposed manner of reporting shown in these pages is at the complex end of the spectrum instead of the simple end of the spectrum. Two primary reasons exist for this complexity:

Reason #1—Other Comprehensive Income. I would trash the concept of Other Comprehensive Income, which makes things far more complicated than need be. Put all of these items in the income statement. Let's get on with the project to reformat the income statement so as to make it more understandable and more parallel to the cash flow statement to the extent possible. The IASB's proposed new reformatted income statement is robust and makes sense. This manner of reporting should be implemented before this replacement of ARB No. 51 is issued.

Reason #2—Treating Transactions with the Noncontrolling Interest (NCI) Shareholders as Equity Transactions. Buying out the NCI is substantively no different than extinguishing debt. The CI either gains or loses economically. Put the gain or loss in the income statement. Simplicity also dictates that all transactions between the CI and the NCI be reported in the income statement (as an adjustment to the "consolidated net income attributable to the NCI)."

I would not issue this pronouncement until you simplified things. We need more simplicity in accounting—not more mind-numbing complexity that adds no value.

Very Truly Yours,

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