



Division for Firms

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Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft of Proposed Statement of Financial
Accounting Standards "Consolidated Financial Statements:
Policy and Procedures"

Dear Mr. Lucas:

One of the objectives that Council of the American Institute of CPAs established for the Private Companies Practice Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective. These comments, however, do not necessarily reflect positions of the American Institute of CPAs.

TIC has reviewed the proposed guidance contained in the above-referenced exposure draft (ED) from the perspective of small non-public and not-for-profit organizations and the local CPA firms that serve them. We are pleased to provide the following comments and suggestions for your consideration.

General Comments

We believe the proposed statement will provide a useful framework to address consolidation; especially for not-for-profit, partnership, and other non-stock organizations. Reporting and accounting uniformity should improve after effective implementation of the Statement. The guidance in paragraphs 22 and 27 on reporting noncontrolling interests in subsidiaries as a component of equity and recording proportionate amounts of goodwill is appropriate and helpful. In addition, the illustrative guidance in Appendix B will assist practitioners in implementing the Statement.

Parent Company-Only Financial Statements

The ED does not address parent company-only financial statements even though the Statement will supercede ARB No. 51 and SFAS No. 94 which contain the guidance that currently exists. Without some direction, practitioners' current confusion over the appropriateness of such presentations will continue. Some believe such presentations are permissible as long as they are not the principal financial statements for the entity. Others maintain that such presentations are prohibited under any circumstances.

Although demand may be limited, small businesses do receive valid requests for parent company-only financial statements from stockholders, creditors, and some regulatory bodies. Therefore, we recommend the Statement include guidance on how a for-profit parent company's separate financial statements should be presented and the minimum disclosures required.

Noncontrolling Interest in Subsidiaries

Paragraph 23 requires that losses in excess of the noncontrolling interest's equity in a subsidiary be attributed to the controlling interest. However, we believe that there are situations in which such excess losses should be attributed to the noncontrolling interest. For example, if after the balance sheet date, but prior to the release of the financial statements, a capital contribution is made by the noncontrolling interest, we believe that such losses should be charged to the noncontrolling interest. Additionally, consideration should be given to similar treatment if there is a commitment by the noncontrolling interest to make additional contributions and it is probable that the commitment will be met.

In the event that these excess losses are charged to the controlling entity, we suggest that the financial statements disclose the amount of the losses -- both the charge for the period and cumulative amounts, where applicable.

Paragraphs 22-25 and 107 discuss reporting noncontrolling interests in subsidiaries. No guidance is provided on how to report or disclose changes in noncontrolling interests from non-income related transactions such as capital contributions and distributions. We believe such guidance should be included to assist practitioners in reporting these transactions. Such guidance may require a statement of shareholders' equity or reconciliation of controlling and noncontrolling interests.

Acquisition of a Subsidiary

TIC recommends that paragraphs 26-28 be expanded to provide guidance on how to present a subsidiary's operations prior to the date it was acquired using the purchase method. Currently some companies include all the subsidiary's operations for the reporting period and on one line eliminate the earnings/loss for the period prior to the date of its acquisition. Other companies include only the subsidiary's operations from the date of acquisition. We recommend that the Statement address alternatives and/or preferability related to this matter as current practice seems diverse.

Additionally, the ED does not address the proforma requirements provided for in APB Opinion No. 16. To make the document more user friendly, we believe the Statement should, at a minimum, refer to the applicable disclosure requirements. Reference should also be made to the exemption for non-public companies provided in SFAS No. 79.

Disposition of a Subsidiary

APB Opinion No. 30 contains the disclosure requirements for dispositions which qualify as a disposal of a segment of a business. We suggest the Board expand this section of the proposal to provide guidance on disclosure requirements for dispositions of subsidiaries not covered by APB 30. We find practice to be diverse in this area as well. One way to enhance comparability would be to have such disclosures include summary financial statement information for the disposed subsidiary for each period its operations are included in comparative financial statements.

Formerly Unconsolidated Majority-Owned Subsidiaries

SFAS No. 79 exempts nonpublic entities from various business combination disclosures. We believe that nonpublic entities should be similarly exempted from the disclosures required by paragraph 36 pertaining to formerly unconsolidated majority-owned subsidiaries. We believe the cost of providing this information also exceeds the benefits for users of nonpublic company financial statements.

Effective Date and Transition

We believe the practicability exemption for retroactive application will be helpful to small nonpublic and not-for-profit organizations and the CPA firms that serve them. However, it would be helpful to practitioners if the term "practicable" were defined within the context of this Statement in a manner similar to the explanation provided in SFAS No. 107.

Illustrative Examples

The guidance provided in Appendix B is helpful, particularly as it relates to consolidation policy issues. However, it would be even more useful to local firms if it were expanded to cover more consolidation procedure issues. Examples of such issues include the application of the provisions of paragraphs 23-25, changes in ownership interests, and how the recognition of gains for investments previously accounted for as available for sale securities should be presented within a statement of stockholders' equity. We also suggest providing sample disclosures for consolidation policy and procedures relating to such special circumstances as when earlier acquisitions continue to be accounted for pursuant to APB 16 concerning the accounting for fair value, or for other matters for which restatement is not practicable.

We strongly support the inclusion, whenever possible, of illustrative procedural examples in all new pronouncements rather than having CPAs wait for a "Q & A" to be published at a later date.

General Partners and Limited Partnerships

We believe that for most small entities the costs of the requirement to consolidate a limited partnership with a single general partner as discussed in paragraphs 14f and 182-187 will exceed the benefits of such presentations. TIC members find that in such arrangements the general partner is usually a "shell" corporation with no significant operations or accounts other than the investment in the limited partnership. In these circumstances, consolidated financial statements would not give their users any more meaningful information than that which is already available in the financial statements of the limited partnership. In fact, consolidating such partnerships could result in more confusing or even misleading presentations. We believe this is an instance of significant influence, not control. Therefore, the equity method of accounting, with appropriate disclosures, would be a fairer presentation of the structure of the organizations in this example. We believe use of the equity method would be an improvement over current practice in which the cost method of accounting is used for many of these investments.

Other

Paragraph 114 states that "The Board also decided to require recognition of only the parent's share of goodwill." Paragraph 124 states "The Board decided not to require re-measurement to fair value..." We believe that the way these sentences are structured could lead a reader to infer that alternative approaches are acceptable. We suggest both sentences be revised to eliminate any doubts as to the Board's intent.

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We appreciate the opportunity to present these comments on behalf of the Private Companies Practice Section. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Robert O. Dale

Robert O. Dale, Chair
PCPS Technical Issues Committee

cc: Frederick Gill, AICPA Senior Technical Manager (For AcSEC)
PCP Executive and PCPS Technical Issues Committees