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Financial Accounting Standards Board  
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Gentlemen:

I am pleased to submit our comments on the Exposure Draft of a proposed statement of Financial Accounting Standards, *Consolidated Financial Statements: Purpose and Policy*.

Our Firm has followed the deliberations concerning consolidated financial statements since the 1991 Discussion Memorandum with a great level of professional interest. A primary concern has been whether or not this project would encompass combined financial statements for brother-sister type relationships. We understand that current pronouncements allow for the preparation of combined financial statements. However, such combined financial statements are not required as are consolidated financial statements under the guidance in SFAS No. 94.

Section C51.121 of the FASB Current Text does speak to combined financial statements. We submit that section to you as follows:

*“.121 To justify the preparation of consolidated statements, the controlling financial interest shall rest directly or indirectly in one of the enterprises included in the consolidation. There are circumstances, however, where combined financial statements (as distinguished from consolidated statements) of commonly controlled enterprises are likely to be more meaningful than their separate statements. For example, combined financial statements would be useful if one individual owns a controlling interest in several enterprises that are related in their operations. Combined statements also would be used to present the financial position and the results of operations of a group of unconsolidated subsidiaries. [Refer to paragraph .102 for rules requiring consolidation of majority-owned subsidiaries.] They also might be used to combine the financial statements of enterprises under common management. [ARB 51, ¶122].”*

We believe that in most situations where brother-sister relationships exist, combined financial statements are more meaningful than separate statements, similar to the theory established in consolidation policy and procedure. Such combined statements report all financial resources, operating results, and cash flows of the controlling party regardless of the type of entity or person in control.

¶ 233 of the Exposure Draft also speaks to combined financial statements. The FASB has previously acknowledged as does, ARB No. 51, that in certain circumstances combined financial statements may be more meaningful than separate financial statements of individual related entities.

¶ 233 goes on to state that the "Board notes that to determine the conditions for which combined/consolidated financial statements should be required or for which separate statements of related entities should be precluded would require considerably more research, education, and deliberation than contemplated in the scope of this Statement."

We encourage the FASB to develop conditions for combined financial statements at a point sooner rather than later so "loop-holes" crafted by management through entity ownership structure are closed when the structure is established simply for the purpose of avoiding the preparation of combined financial statements. Further, the element of control, whether held by an entity or an individual, is not of significance difference to allow similar instances where a parent-subsidiary relationship must consolidate and a brother-sister would not issue combined financial statements.

Issue 2 of the Exposure Draft provides guidance for applying its definition of control. The FASB specifically asks respondents if guidance in the form of rebuttable presumptions is necessary and do the circumstances (a through d), as described, provide a reasonable basis for presuming that one entity controls another entity in the absences of evidence that demonstrates or proves otherwise. Are they sufficiently clear and operational? Are additional presumptions of control necessary for specific circumstances?

As practicing auditors who may be placed in the position to audit management's assertion on why or why not a consolidated relationship exists, we state that guidance in the form of rebuttable presumptions of control will most definitely be necessary. Specifically, Item b states when an entity "has a large minority voting interest in the election of a corporation's governing body and no other party or organized group of parties has a significant voting interest" control exists. We believe that additional guidance must be given by you to aid us in the determination of how substantial minority interests exercise control. Examples will always assist those of us implementing standards to better understand the intent of the Board and provide us with literature to show clients why we must recommend a specific course of action for their business.

¶ 167 of the Exposure Draft, in Appendix B, raises a particularly interesting question with item e when the Board asks "How should the noncontrolling (minority) interest's share of acquired assets and assumed liabilities be accounted for in consolidated statements at the date of acquisition of a subsidiary by a parent?" If an entity owns less than 50% of another entity, but has control over that relationship and consolidation is appropriate, a dilemma arises as to how the parent will give effect to the noncontrolling interest's share of assets and liabilities of the subsidiary. We hold that a final pronouncement on consolidation policy and procedure should require recognition in the equity section of the parent's consolidated financial statements for the noncontrolling interest. At the present time, the Board continues to deliberate on approaches for distinguishing liability and equity components. The Board has decided:

*"All unconditional financial obligations that either (a) require the issuer to satisfy the obligation by issuing its own equity shares or (b) provide the issuer with the discretion to determine how it will settle the obligation, if the value of the obligation changes in direct relationship to changes in the fair value of the issuer's equity shares shall be classified as a component of equity".*

Recognition of the noncontrolling interest (or minority interest) is most appropriately reflected in the equity section of the financial statements under the Board's conclusions for liability and equity components. We hope that a final pronouncement on consolidated financial statements will speak directly to this issue and provide users and preparers of consolidated financial statements sufficient implementation examples so clarity is given to the proper accounting presentation of the noncontrolling interest's claims in the consolidated entity. This guidance should be given concurrently with instructions on how the reporting entity shall display consolidated net income and the related components of net

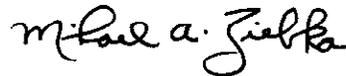
income with emphasis on attribution for the noncontrolling interest's portion of operating results and cash flows. This project, in particular, emphasizes how important the interrelationship of one project is to another as the Board conducts its work.

It is our belief, from discussions with other practicing certified public accountants in Connecticut, that there is widespread noncompliance by many reporting entities with the requirements of lessees to consolidate a special-purpose entity lessor when the conditions of EITF Consensus Opinion 90-15 exist. We suspect the primary reason for instances of noncompliance is due to the fragmentation of GAAP requirements in professional literature. We agree with the conclusions expressed in EITF 90-15. However, we submit here for your consideration that any new accounting pronouncement for consolidation policy and procedure tie together all the related issues into one master reference source. This would perform a great service to those involved with financial accounting and reporting in corporate America.

In summary, our Firm is supportive of the views expressed in the Exposure Draft. As certified public accountants, we always are hopeful that new accounting standards be published with voluminous examples to assist us in either preparing financial statements or be able to adequately examine a client's assertion that they have complied with the requirements of generally accepted accounting principles.

We appreciate the opportunity to express our comments to the Financial Accounting Standards Board. Should there be any questions concerning our response, please direct them to my personal attention.

Very truly yours,



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