



New Jersey Society of Certified Public Accountants

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Financial Accounting Standards Board  
File Reference 154-D  
401 Merritt 7  
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Gentlemen:

The New Jersey State Society of CPA's is pleased to provide its comments on the Proposed Statement of Financial Accounting Standards, Consolidated Financial Statements: Policy and Procedures.

The Board is interested on whether the definition of control expressed in the proposed statement is operational. We agree with the definition of control being comprised of both legal and effective control concepts. However, we are concerned about the application of the effective control concept because of its subjectivity. Even though the Exposure Draft states that control of an entity is an exclusionary power - if A controls B no other entity can control B, we believe that there could be a situation in which an entity can be consolidated by more than one party, based on the degree of subjectivity in applying the effective control aspect. In an effort to bring both more focus to the application of the effective control concept, we suggest that the specific reasons supporting the consolidation of entities on an effective control basis be required in the footnotes.

Other comments on the definition of control include the following:

- Paragraph 14.a. - we believe that defining large minority voting interest as approximately 40% is going to replace the concept of the 51% voting ownership interest currently utilized in practice. We recognize this is not the intention of the Board, but is likely to occur.
- Paragraph 14.a. - assuming the Final Statement continues with the definition of large minority voting interest as 40%, we suggest that "significant interest" also be defined through additional guidance and/or approximate ownership interest percent.

Paragraph 22 states that noncontrolling interest in subsidiaries should be reported as a separate component of equity. We don't believe that the noncontrolling interest in subsidiaries is an appropriate component of the equity section of the balance sheet, and that the continuation of including items in equity only serves to confuse that section of the financial statements. We believe that noncontrolling interest in subsidiaries should be shown between liabilities and equity, since we don't believe it meets either definition.

Following on the logic in the aforementioned paragraph, we believe that an income statement should only reflect one net income figure rather than the three shown in Paragraph 107, i.e. consolidated net income, net income attributable to noncontrolling interest in subsidiaries and net income attributable to controlling interest. Accordingly, income attributable to noncontrolling interest in subsidiaries should be shown in the body of the income statement, and net income attributable to controlling interest should be defined as net income.

It appears that the accounting for step acquisitions or dispositions has been eliminated. Therefore, it is possible to manage goodwill on acquisitions and losses on dispositions of subsidiaries. With goodwill being determined solely at the point of gaining control, any additional purchases of a company towards 100% ownership will flow through equity. Also losses on dispositions of subsidiaries will also flow through equity until there is a loss of control. In certain respects, companies may find these results desirable, thereby working to piecemeal transactions, and potentially manage acquisitions and dispositions to reflect more favorable results.

Paragraph 33 states that financial information of a subsidiary in consolidated financial statements shall cover the same fiscal period as the parents unless conformity is not practicable. We believe it might be helpful to provide examples of what is non-practicable.

We hope you find our comments helpful in your deliberations.

Sincerely yours,



Raymond M. Temple, CPA  
Chairman  
Auditing and Accounting  
Standards Committee