

## Consolidation Changes – What Statement 160 Means to Your Organization

### Does your company have any subsidiaries that are not wholly-owned?

If you answered *Yes*, then FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, may change the following related to the minority interests (now referred to as noncontrolling interests) in your subsidiaries:

- The presentation of those interests in your financial statements; and
- The measurement of those interests when ownership levels change.

If you answered *No*, you'll appreciate knowing that Statement 160 does not change the accounting for wholly-owned subsidiaries. However, Statement 160 may still be important to you because it may mean significant changes to accounting for transactions that decrease your ownership level.

### What specifically has changed?

Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, has been amended by Statement 160. These amendments affect the consolidated financial statements of *for-profit* companies and do not affect those of *not-for-profit* entities. Until the FASB addresses not-for-profit entities by issuing follow-on interpretive guidance, such entities will continue to follow the pre-existing guidance in ARB 51, AICPA Statement of Position (SOP) No. 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*. While Statement 160 results in significant changes to ARB 51, the consolidation policy and consolidation procedures guidance in ARB 51 remains substantively unchanged.

Some of the more significant changes brought about by Statement 160 include:

What Changed	Before Adoption of Statement 160	After Adoption of Statement 160
Terminology	Minority interests	Noncontrolling interests in a subsidiary
Presentation of noncontrolling interests in the consolidated balance sheet	Presented by public companies in the mezzanine section between liabilities and equity  Usually presented by private companies in either liabilities or in the mezzanine section between liabilities and equity (i.e., diversity in practice existed)	Presented separately within equity
Presentation of net income allocated to noncontrolling interests in the consolidated income statement	Often classified as an expense (i.e., a reduction of consolidated net income)  Often not presented separately	Does not reduce consolidated net income  Present allocation between controlling interests and noncontrolling interests on the face of the consolidated income statement

What Changed	Before Adoption of Statement 160	After Adoption of Statement 160
Limitation of losses attributable to noncontrolling interests	Limited to the carrying amount of the minority interest (i.e., minority interests could not carry a negative balance)	No limitation (i.e., noncontrolling interests can carry a negative balance)
Accounting for increases in parent's ownership interest (e.g., purchase of additional ownership interests by parent; reacquisition of its own shares by subsidiary)	Accounted for using the purchase method	Account for as an equity transaction as follows: (a) adjustment of the noncontrolling interest to reflect the change in the corresponding ownership interest and (b) adjustment of the parent's additional paid-in capital to reflect the difference between (a) and the consideration paid
Accounting for decreases in parent's ownership interest that do not result in deconsolidation (e.g., sale of ownership interests by parent; sale of new ownership interests by subsidiary)	Accounted for as an equity transaction or recognized a gain or loss in the consolidated income statement	Account for as an equity transaction as follows: (a) adjustment of the noncontrolling interest to reflect the change in the corresponding ownership interest and (b) adjustment of the parent's additional paid-in-capital to reflect the difference between (a) and the consideration received  [Note: This approach eliminates the gain recognition previously permitted by SEC Staff Accounting Bulletin (SAB) No. 51, <i>Accounting for Sales of Stock by a Subsidiary</i> , commonly referred to as SAB 51 gains.]
Accounting for decreases in parent's ownership interest (due to something other than a nonreciprocal transfer to owners) that results in deconsolidation (i.e., loss of control)	Used carrying amount of retained investment in calculation of any gain or loss on deconsolidation	Use the fair value of the noncontrolling equity investment in calculation of any gain or loss on deconsolidation

In addition to the accounting- and presentation-related changes listed above, Statement 160 also requires disclosure of additional information in the consolidated financial statements for each reporting period presented. Examples of these new requirements include:

- Reconciling the following carrying amounts from the beginning of the period to the end of the period: (a) total equity; (b) parent's equity; and (c) equity attributable to the noncontrolling interest. Certain items, such as net income and individual components of other comprehensive income, must be individually listed within the reconciliation.

- Illustrating in table format how changes in a parent's ownership interest affected the equity attributable to the parent; and
- Providing specific information when a subsidiary is deconsolidated (e.g., the amount of any gain or loss recognized by the parent upon deconsolidation and, if the gain or loss is not separately presented, its location in the consolidated income statement).

These changes illustrate that Statement 160 includes noteworthy signs of the accounting world's movement to more accounting at fair value and alignment with International Financial Reporting Standards.

### **When is adoption required?**

The changes take effect in fiscal years beginning on or after December 15, 2008, including interim periods within those fiscal years. When adopting the presentation and disclosure items, retrospective application to conform previously reported statements to the new presentation requirements is required. However, changes to reflect the new measurement guidance for increases or decreases in ownership and other changes will be done prospectively. Entities may not early adopt Statement 160.



### **What should we do now?**

Implementation will require a thorough review of the amounts previously reflected as minority interest(s) on the balance sheet and of the amount of minority interest net income previously reflected within consolidated net income. This review is required to prepare for the retrospective application of the changed and (or) new presentation and disclosure requirements of Statement 160. To arrange a review of your specific situation with one of our audit specialists, contact Boyer & Ritter.