ARB 51: Consolidated Financial Statements

ARB 51 STATUS

Issued: August 1959

Effective Date: August 1959

Affects: No other pronouncements

Affected by: Paragraphs 1, 3, 4, 5, 9, 11, 13, 18, and 22 through 24 amended by FAS 160, paragraph A1
Paragraphs 2 and 3 replaced by FAS 94, paragraph 13
Paragraph 2 amended by FAS 144, paragraph C2(a), and FAS 160, paragraph A1
Paragraph 6 amended by FAS 71, paragraph 26(b), and FAS 160, paragraph A1
Paragraphs 7 and 8 deleted by APB 16, paragraph 7
Paragraph 10 amended by FAS 58, paragraph 8
Paragraphs 10, 14, and 15 deleted by FAS 160, paragraph A1
Paragraph 12 deleted by FAS 144, paragraph C2(b)
Paragraph 16 deleted by APB 23, paragraph 3
Paragraph 17 amended by APB 11, paragraph 2, and FAS 160, paragraph A1
Paragraph 17 replaced by FAS 96, paragraph 205(b)
Paragraph 17 reinstated by FAS 109, paragraph 9(e)
Paragraphs 19 and 20 amended by APB 10, paragraph 3, and APB 18, paragraph 1
Paragraph 19 replaced by FAS 94, paragraph 14
Paragraph 19 deleted by FAS 131, paragraph 130
Paragraph 20 deleted by FAS 94, paragraph 14
Paragraph 21 amended by APB 18, paragraph 1
Paragraph 21 deleted by FAS 94, paragraph 14
Paragraphs 25 through 39, A1 through A7, and B1 added by FAS 160, paragraph A1
Footnote 1 deleted by FAS 111, paragraph 8(b)
Footnote 1a added by FAS 58, paragraph 8, and deleted by FAS 160, paragraph A1

Other Interpretive Pronouncements: AIN-ARB 51, Interpretation No. 1 (Superseded by FAS 111)
FIN 46
FTB 85-2 (Superseded by FAS 125)

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncements: SOP 76-3
SOP 93-6
SOP 94-3
PB 2

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraph 10 interpreted by EITF Issues No. 88-16 and 90-12
Paragraphs 14 and 15 interpreted by EITF Issues No. 94-2 and 95-7

Related Issues: EITF Issues No. 84-15, 84-23, 84-40, 84-42, 85-12, 85-21, 88-15, 96-16, 97-2, 98-2, 98-6, 04-5, 06-9, 08-8, and 08-10 and Topic No. D-97

ARB 51 (Prior to FAS 160)

[For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), paragraphs 1 through 24 should read as follows:]

PURPOSE OF CONSOLIDATED STATEMENTS

1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

CONSOLIDATION POLICY

2. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing toward consolidation. However, there are exceptions to this general rule. A majority-owned subsidiary shall not be consolidated if control does not rest with the majority owner (as, for instance, if the subsidiary is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary).

3. All majority-owned subsidiaries—all companies in which a parent has a controlling financial interest through direct or indirect ownership of a majority voting interest—shall be consolidated except those described in the last sentence of paragraph 2.

4. A difference in fiscal periods of a parent and a subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period which corresponds with or closely approaches the fiscal period of the parent. However, where the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's statements for its fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position or results of operations.

5. Consolidated statements should disclose the consolidation policy which is being followed. In most cases this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required.

CONSOLIDATION PROCEDURE GENERALLY

6. In the preparation of consolidated statements, intercompany balances and transactions should be eliminated. This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any intercompany profit or loss on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss. (See also paragraph 17.)

ELIMINATION OF INTERCOMPANY INVESTMENTS

7–8. [These paragraphs have been deleted. See Status page.]

9. The earned surplus or deficit of a purchased subsidiary at the date of acquisition by the parent should not be included in consolidated earned surplus.

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[1] [This footnote has been deleted. See Status page.]

10. When one company purchases two or more blocks of stock of another company at various dates and eventually obtains control of the other company, the date of acquisition (for the purpose of preparing consolidated statements) depends on the circumstances. If two or more purchases are made over a period of time, the earned surplus of the subsidiary at acquisition should generally be determined on a step-by-step basis; however, if small purchases are made over a period of time and then a purchase is made which results in control, the date of the latest purchase, as a matter of convenience, may be considered as the date of acquisition. [i]**1a** Thus there would generally be included in consolidated income for the year in which control is obtained the postacquisition income for that year, and in consolidated earned surplus the postacquisition income of prior years, attributable to each block previously acquired. For example, if a 45% interest was acquired on October 1, 1957 and a further 30% interest was acquired on April 1, 1958, it would be appropriate to include in consolidated income for the year ended December 31, 1958, 45% of the earnings of the subsidiary for the three months ended March 31, and 75% of the earnings for the nine months ended December 31, and to credit consolidated earned surplus in 1958 with 45% of the undistributed earnings of the subsidiary for the three months ended December 31, 1957.

11. When a subsidiary is purchased during the year, there are alternative ways of dealing with the results of its operations in the consolidated income statement. One method, which usually is preferable, especially where there are several dates of acquisition of blocks of shares, is to include the subsidiary in the consolidation as though it had been acquired at the beginning of the year, and to deduct at the bottom of the consolidated income statement the preacquisition earnings applicable to each block of stock. This method presents results which are more indicative of the current status of the group, and facilitates future comparison with subsequent years. Another method of prorating income is to include in the consolidated statement only the subsidiary's revenue and expenses subsequent to the date of acquisition.

12. [This paragraph has been deleted. See Status page.]

13. Shares of the Parent held by a subsidiary should not be treated as outstanding stock in the consolidated balance sheet.

MINORITY INTERESTS

14. The amount of intercompany profit or loss to be eliminated in accordance with paragraph 6 is not affected by the existence of a minority interest. The complete elimination of the intercompany profit or loss is consistent with the underlying assumption that consolidated statements represent the financial position and operating results of a single business enterprise. The elimination of the intercompany profit or loss may be allocated proportionately between the majority and minority interests.

15. In the unusual case in which losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, such excess and any further losses applicable to the minority interest should be charged against the majority interest, as there is no obligation of the minority interest to make good such losses. However, if future earnings do materialize, the majority interest should be credited to the extent of such losses previously absorbed.

INCOME TAXES

16. [This paragraph has been deleted. See Status page.]

17. If income taxes have been paid on intercompany profits on assets remaining within the group,

such taxes should be deferred or the intercompany profits to be eliminated in consolidation should be appropriately reduced.

STOCK DIVIDENDS OF SUBSIDIARIES

18. Occasionally, subsidiary companies capitalize earned surplus arising since acquisition, by means of a stock dividend or otherwise. This does not require a transfer to capital surplus on consolidation, inasmuch as the retained earnings in the consolidated financial statements should reflect the accumulated earnings of the consolidated group not distributed to the shareholders of, or capitalized by, the parent company.

19–21. [These paragraphs have been deleted. See Status page.]

COMBINED STATEMENTS

22. To justify the preparation of consolidated statements, the controlling financial interest should rest directly or indirectly in one of the companies included in the consolidation. There are circumstances, however, where combined financial statements (as distinguished from consolidated statements) of commonly controlled companies are likely to be more meaningful than their separate statements. For example, combined financial statements would be useful where one individual owns a controlling interest in several corporations which are related in their operations. Combined statements would also be used to present the financial position and the results of operations of a group of unconsolidated subsidiaries. They might also be used to combine the financial statements of companies under common management.

23. Where combined statements are prepared for a group of related companies, such as a group of unconsolidated subsidiaries or a group of commonly controlled companies, intercompany transactions and profits or losses should be eliminated, and if there are problems in connection with such matters as minority interests, foreign operations, different fiscal periods, or income taxes, they should be treated in the same manner as in consolidated statements.

PARENT-COMPANY STATEMENTS

24. In some cases parent-company statements may be needed, in addition to consolidated statements, to indicate adequately the position of bondholders and other creditors or preferred stockholders of the parent. Consolidating statements, in which one column is used for the parent company and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information.

The statement entitled, "Consolidated Financial Statements" was unanimously adopted by the twenty-one members of the committee, of whom nine, Messrs. Bedford, Dunn, Graese, Graham, Halvorson, Hoyler, Kent, Powell, and Werntz, assented with qualification.

Mr. Bedford objects to the provision in paragraph 2 that ownership of over fifty per cent of the outstanding voting stock is the general rule governing consolidation policy. He believes the over fifty per cent ownership requirement is at best only one of several criteria evidencing the existence of a consolidated entity.

Messrs. Graese and Hoyler do not agree with the statement made in the last sentence of paragraph 8. Mr. Graese believes there are cases in which the crediting of a capital surplus account with the "excess credit" will result in a more appropriate presentation of consolidated operations and financial position, particularly in (but not limited to) situations where the acquisition of control of the subsidiary has been accomplished over an extended period of time or where there are acquisitions of minority interest at a date considerably after obtaining control. Mr. Hoyler is of the opinion that there have been, and probably will be, circumstances under which credits to capital surplus of the excesses referred to in this paragraph will be appropriate.

Messrs. Halvorson and Werntz object to the relative emphasis given to the recommendations in paragraph 10, which they believe should be reversed. They believe that the date of the purchase which results in control should generally be considered to be the date of acquisition; however, if a limited number of purchases are made over a period of time pursuant to a plan or program which culminates in control, they agree that the earned surplus of the subsidiary at acquisition may be determined on a step-by-step basis.

Mr. Halvorson disagrees with the recommendation in paragraph 18. In his view, the usual subsidiary is a closely held corporation, and consequently is under no pressure to declare stock dividends and is under no compulsion to follow the "fair value" method of accounting for them if it does. If it does capitalize earned surplus by means of a stock dividend or otherwise, particularly "otherwise," he feels that it must have been done with a purpose relating to its financial position, at the direction of, and with the acquiescence of, the parent company, and that the capitalization should carry through into the consolidated surplus accounts. If the subsidiary is one in which there is a publicly held minority interest, and a stock dividend is issued and accounted for on a fair-value basis in the manner of an independent publicly owned corporation, the accounting for earned surplus in respect of the majority interest would be the same as that for the minority interest, and again he believes that the capitalization should follow through into the consolidated surplus accounts. Mr. Powell also disagrees with the conclusion expressed in this paragraph. He believes that if a parent causes a subsidiary to freeze a part or all of its earned surplus through the payment of a stock dividend or otherwise, thus making such surplus unavailable for ordinary dividends, it should follow a similar procedure on consolidation.

Mr. Kent believes the consolidation policy section is deficient since it fails to restrict the increasing practice of not including certain subsidiaries in consolidated financial statements. He suggests that the bulletin may possibly result in further increasing such practice as a consequence of the preference expressed in paragraph 19 for the inclusion of the equity in earnings of unconsolidated subsidiaries in consolidated statements. It is his belief that in the usual situation a full consolidation policy as implied in paragraph 1 is generally preferable, supplemented by such summarized financial information, in footnotes or otherwise, as may be appropriate.

Messrs. Dunn and Graham believe that the "preferable" method in paragraph 19 should be recognized as the only acceptable method of dealing with unconsolidated subsidiaries in consolidated statements, and that the method which carries the investment in unconsolidated subsidiaries at cost, and takes up as income only the dividends received, should be discontinued as rapidly as is practicable. They feel that the "preferable" method conforms to the purpose of consolidated statements as set forth in paragraph 1—to present the results of operations and the financial position essentially as if the group were a single company, and that its uniform adoption would increase the comparability of the financial statements of different companies, and would avoid the possibility of manipulation of reported consolidated earnings through the control of dividends received by the parent.

Mr. Dunn believes that paragraph 20 should require the elimination of intercompany gain on sales to unconsolidated subsidiaries if the failure to do so would have a material effect on the reported consolidated income, regardless of whether the gain on intercompany sales exceeds the unrecorded equity in undistributed earnings of the unconsolidated subsidiaries.

NOTES

(See Introduction to *Accounting Research Bulletin* No. 43.)

1. Accounting Research Bulletins represent the considered opinion of at least two-thirds of the members of the committee on accounting procedure, reached on a formal vote after examination of the subject matter by the committee, the technical services department, and the director of research. Except in cases in which formal adoption by the Institute membership has been asked and secured, the authority of the bulletins rests upon the general acceptability of opinions so reached.

2. Opinions of the committee are not intended to be retroactive unless they contain a statement of such intention. They should not be considered applicable to the accounting for transactions arising prior to the publication of the opinions. However, the committee does not wish to discourage the revision of past accounts in an individual case if the accountant thinks it desirable in the circumstances. Opinions of the committee should be considered as applicable only to items which are material and significant in the relative circumstances.

3. It is recognized also that any general rules may be subject to exception; it is felt, however, that the burden of justifying departure from accepted procedures must be assumed by those who adopt other treatment. Except where there is a specific statement of a different intent by the committee, its opinions and recommendations are directed primarily to business enterprises organized for profit.

Committee on Accounting Procedure (1958-59)

William W. Werntz, *Chairman*
Norton M. Bedford
Garrett T. Burns
Keith W. Dunn
Carl M. Esenoff
Clifford E. Graese
Willard J. Graham
Newman T. Halvorson
Charles A. Hoyler
Donald R. Jennings
Ralph E. Kent
George W. Lafferty
John F. Macha
John K. McClare
Herbert E. Miller
Weldon Powell
Samuel L. Ready
Walter R. Staub
William J. von Minden
Edward B. Wilcox
Delmar G. Wilsey

Carman G. Blough, *Director of Research*

ARB 51 (After FAS 160)

[Note: After the adoption of Statement 160, for all entities that prepare consolidated financial statements (except for not-for-profit organizations), paragraphs 1 through 39 should read as follows:]

PURPOSE OF CONSOLIDATED STATEMENTS

1. The purpose of *consolidated financial statements* is to present, primarily for the benefit of the *owners* and creditors of the *parent*, the results of operations and the financial position of a parent and all its *subsidiaries* as if the *consolidated group* were a single economic entity. There is a presumption that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities.

CONSOLIDATION POLICY

2. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. However, there are exceptions to this general rule. A majority-owned entity shall not be consolidated if control does not rest with the majority owner (for instance, if the entity is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the entity).

3. All subsidiaries—that is, all entities in which a parent has a controlling financial interest—shall be consolidated. [ii]**a**

4. A difference in fiscal periods of a parent and a subsidiary does not justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, financial statements for a period that corresponds with or closely approaches the fiscal period of the parent. However, where the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's financial statements for its fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events that materially affect the financial position or results of operations.

5. Consolidated financial statements shall disclose the consolidation policy that is being followed. In

most cases this can be made apparent by the headings or other information in the financial statements, but in other cases a footnote is required.

CONSOLIDATION PROCEDURE GENERALLY

6. In the preparation of consolidated financial statements, intercompany balances and transactions shall be eliminated. This includes intercompany open account balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity, such statements should not include gain or loss on transactions among the entities in the consolidated group. Accordingly, any intercompany income or loss on assets remaining within the consolidated group shall be eliminated; the concept usually applied for this purpose is gross profit or loss (paragraph 17).

ELIMINATION OF INTERCOMPANY INVESTMENTS

7–8. [These paragraphs have been deleted. See Status page.]

9. The retained earnings or deficit of a subsidiary at the date of acquisition by the parent shall not be included in consolidated retained earnings.

10. [This paragraph has been deleted. See Status page.]

11. When a subsidiary is initially consolidated during the year, the consolidated financial statements shall include the subsidiary's revenues, expenses, gains, and losses only from the date the subsidiary is initially consolidated.

12. [This paragraph has been deleted. See Status page.]

13. Shares of the parent held by a subsidiary shall not be treated as outstanding shares in the consolidated statement of financial position and, therefore, shall be eliminated in the consolidated financial statements and reflected as treasury shares.

14–15. [These paragraphs have been deleted. See Status page.]

INCOME TAXES

16. [This paragraph has been deleted. See Status page.]

17. If income taxes have been paid on intercompany profits on assets remaining within the consolidated group, those taxes shall be deferred or the intercompany profits to be eliminated in consolidation shall be appropriately reduced.

STOCK DIVIDENDS OF SUBSIDIARIES

18. Occasionally, subsidiaries capitalize retained earnings arising since acquisition, by means of a stock dividend or otherwise. This does not require a transfer to capital surplus on consolidation, because the retained earnings in the consolidated financial statements should reflect the accumulated earnings of the consolidated group not distributed to the owners of, or capitalized by, the parent.

19–21. [These paragraphs have been deleted. See Status page.]

COMBINED STATEMENTS

22. To justify the preparation of consolidated financial statements, the controlling financial interest

should rest directly or indirectly in one of the entities included in the consolidation. There are circumstances, however, where *combined financial statements* (as distinguished from consolidated financial statements) of commonly controlled companies are likely to be more meaningful than their separate financial statements. For example, combined financial statements would be useful where one individual owns a controlling financial interest in several entities that are related in their operations. Combined financial statements might also be used to present the financial position and the results of operations of entities under common management.

23. Where combined financial statements are prepared for a group of related entities, such as a group of commonly controlled entities, intercompany transactions and profits or losses shall be eliminated, and *noncontrolling interests,* foreign operations, different fiscal periods, or income taxes shall be treated in the same manner as in consolidated financial statements.

PARENT-COMPANY STATEMENTS

24. In some cases parent-company financial statements may be needed, in addition to consolidated financial statements, to indicate adequately the position of bondholders and other creditors or preferred shareholders of the parent. Consolidating financial statements, in which one column is used for the parent and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information. However, consolidated financial statements are the general-purpose financial statements of a parent having one or more subsidiaries; thus, parent-company financial statements are not a valid substitute for consolidated financial statements.

NONCONTROLLING INTEREST IN A SUBSIDIARY

Nature and Classification of the Noncontrolling Interest in the Consolidated Statement of Financial Position

25. A noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest. For example, 80 percent of a subsidiary’s ownership (equity) interests are held by the subsidiary’s parent, and 20 percent of a subsidiary’s ownership interests are held by other owners. The ownership interests in the subsidiary that are held by owners other than the parent is a noncontrolling interest. The noncontrolling interest in a subsidiary is part of the equity of the consolidated group.

26. The noncontrolling interest shall be reported in the consolidated statement of financial position within equity, separately from the parent’s equity. That amount shall be clearly identified and labeled, for example, as *noncontrolling interest in subsidiaries* (paragraph A3). An entity with noncontrolling interests in more than one subsidiary may present those interests in aggregate in the consolidated financial statements.

27. Only a financial instrument issued by a subsidiary that is classified as equity in the subsidiary’s financial statements can be a noncontrolling interest in the consolidated financial statements. A financial instrument issued by a subsidiary that is classified as a liability in the subsidiary’s financial statements based on the guidance in other standards is not a noncontrolling interest because it is not an ownership interest. Examples of other standards that provide guidance for classifying a financial instrument issued by a subsidiary are:

a. FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
b. FASB Staff Position FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150*
c. SEC Accounting Series Release No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks."*

Attributing Net Income and Comprehensive Income to the Parent and the Noncontrolling Interest

28. The amount of intercompany income or loss to be eliminated in accordance with paragraph 6 is not affected by the existence of a noncontrolling interest. The complete elimination of the intercompany income or loss is consistent with the underlying assumption that consolidated financial statements represent the financial position and operating results of a single economic entity. The elimination of the intercompany income or loss may be allocated between the parent and noncontrolling interest~~s~~.

29. Revenues, expenses, gains, losses, net income or loss, and other comprehensive income shall be reported in the consolidated financial statements at the consolidated amounts, which include the amounts attributable to the owners of the parent and the noncontrolling interest.

30. Net income or loss and *comprehensive income* or loss, as described in paragraph 10 of FASB Statement No. 130, *Reporting Comprehensive Income*, shall be attributed to the parent and the noncontrolling interest.

31. Losses attributable to the parent and the noncontrolling interest in a subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses attributable to the parent and the noncontrolling interest, shall be attributed to those interests. That is, the noncontrolling interest shall continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Changes in a Parent's Ownership Interest in a Subsidiary

32. A parent's ownership interest in a subsidiary might change while the parent retains its controlling financial interest in the subsidiary. For example, a parent's ownership interest in a subsidiary might change if (a) the parent purchases additional ownership interests in its subsidiary, (b) the parent sells some of its ownership interests in its subsidiary, (c) the subsidiary reacquires some of its ownership interests, or (d) the subsidiary issues additional ownership interests.

33. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent.

Example 1

Subsidiary A has 10,000 shares of common stock outstanding, all of which are owned by its parent, ABC Co. The carrying amount of Subsidiary A's equity is $200,000. ABC Co. sells 2,000 of its shares in Subsidiary A to an unrelated entity for $50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. That transaction is accounted for by recognizing a noncontrolling interest in the amount of $40,000 ($200,000 × 20 percent). The $10,000 excess of the cash received ($50,000) over the adjustment to the carrying amount of the noncontrolling interest ($40,000) is recognized as an increase in additional paid-in capital attributable to ABC Co.

Example 2

Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 9,000 are owned by its parent, ABC Co., and 1,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of Subsidiary A's equity is $300,000. Of that amount, $270,000 is attributable to ABC Co., and $30,000 is a noncontrolling interest in Subsidiary A. Subsidiary A issues 2,000 previously unissued shares to a third party for $120,000 in cash, reducing ABC Co.'s ownership interest in Subsidiary A from 90 percent to 75 percent (9,000 shares owned by ABC Co. ÷ 12,000 issued shares).

Even though the percentage of ABC Co.'s ownership interest in Subsidiary A is reduced when Subsidiary A issues shares to the third party, ABC Co.'s investment in Subsidiary A increases to $315,000, calculated as 75 percent of Subsidiary A's equity of $420,000 ($300,000 + $120,000). Therefore, ABC Co. recognizes a $45,000 increase in its investment in Subsidiary A ($315,000 – $270,000) and a corresponding increase in its additional paid-in capital (that is, the additional paid-in capital attributable to ABC Co.). In addition, the noncontrolling interest is increased to $105,000, calculated as 25 percent of $420,000.

34. A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent.

Example 3

Subsidiary A has 10,000 shares of common stock outstanding. Of those shares, 8,000 are owned by its parent, ABC Co., and 2,000 are owned by other shareholders (a noncontrolling interest in Subsidiary A). The carrying amount of the noncontrolling interest is $48,000, which includes $4,000 of accumulated other comprehensive income. ABC Co. pays $30,000 in cash to purchase 1,000 shares held by the noncontrolling shareholders (50 percent of the noncontrolling interest), increasing its ownership interest from 80 percent to 90 percent. That transaction is recognized by reducing the carrying amount of the noncontrolling interest by $24,000 ($48,000 × 50 percent). The $6,000 excess of the cash paid ($30,000) over the adjustment to the carrying amount of the noncontrolling interest ($24,000) is recognized as a decrease in additional paid-in capital attributable to ABC Co. In addition, ABC Co.'s share of accumulated other comprehensive income is increased by $2,000 ($4,000 × 50 percent) through a corresponding decrease in additional paid-in capital attributable to ABC Co.

DECONSOLIDATION OF A SUBSIDIARY

35. A parent shall deconsolidate a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. Examples of events that result in deconsolidation of a subsidiary are:

a. A parent sells all or part of its ownership interest in its subsidiary, and as a result, the parent no longer has a controlling financial interest in the subsidiary.
b. The expiration of a contractual agreement that gave control of the subsidiary to the parent.
c. The subsidiary issues shares, which reduces the parent's ownership interest in the subsidiary so that the parent no longer has a controlling financial interest in the subsidiary.
d. The subsidiary becomes subject to the control of a government, court, administrator, or regulator.

36. If a parent deconsolidates a subsidiary through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, applies. Otherwise, a parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income attributable to the parent, measured as the difference between:

a. The aggregate of:
   (1) The fair value of any consideration received
   (2) The fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated
   (3) The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated
b. The carrying amount of the former subsidiary's assets and liabilities.

37. A parent may cease to have a controlling financial interest in a subsidiary through two or more

arrangements (transactions). Circumstances sometimes indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

a. They are entered into at the same time or in contemplation of one another.
b. They form a single transaction designed to achieve an overall commercial effect.
c. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
d. One arrangement considered on its own is not economically justified, but they are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

DISCLOSURES

38. A parent with one or more less-than-wholly-owned subsidiaries shall disclose for each reporting period:

a. Separately, on the face of the consolidated financial statements, the amounts of consolidated net income and consolidated comprehensive income and the related amounts of each attributable to the parent and the noncontrolling interest (paragraphs A4 and A5).
b. Either in the notes or on the face of the consolidated income statement, amounts attributable to the parent for the following, if reported in the consolidated financial statements (paragraph A4):
   (1) Income from continuing operations
   (2) Discontinued operations
   (3) Extraordinary items.
c. Either in the consolidated statement of changes in equity, if presented, or in the notes to consolidated financial statements, a reconciliation at the beginning and the end of the period of the carrying amount of total equity (net assets), equity (net assets) attributable to the parent, and equity (net assets) attributable to the noncontrolling interest. That reconciliation shall separately disclose (paragraph A6):
   (1) Net income
   (2) Transactions with owners acting in their capacity as owners, showing separately contributions from and distributions to owners
   (3) Each component of other comprehensive income.
d. In notes to the consolidated financial statements, a separate schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent (paragraph A7).

39. If a subsidiary is deconsolidated, the parent shall disclose:

a. The amount of any gain or loss recognized in accordance with paragraph 36
b. The portion of any gain or loss related to the remeasurement of any retained investment in the former subsidiary to its fair value
c. The caption in the income statement in which the gain or loss is recognized unless separately presented on the face of the income statement.

The statement entitled, "Consolidated Financial Statements" was unanimously adopted by the twenty-one members of the committee, of whom nine, Messrs. Bedford, Dunn, Graese, Graham, Halvorson, Hoyler, Kent, Powell, and Werntz, assented with qualification.

Mr. Bedford objects to the provision in paragraph 2 that ownership of over fifty per cent of the outstanding voting stock is the general rule governing consolidation policy. He believes the over fifty per cent ownership requirement is at best only one of several criteria evidencing the existence of a consolidated entity.

Messrs. Graese and Hoyler do not agree with the statement made in the last sentence of paragraph 8. Mr. Graese believes there are cases in which the crediting of a capital surplus account with the "excess credit" will result in a more appropriate presentation of consolidated operations and financial position, particularly in (but not limited to) situations where the acquisition of control of the subsidiary has been accomplished over an extended period of time or where there are acquisitions of minority interest at a date considerably after obtaining control. Mr. Hoyler is of the opinion that there have been, and probably will be, circumstances under which credits to capital surplus of the excesses referred to in this paragraph will be appropriate.

Messrs. Halvorson and Werntz object to the relative emphasis given to the recommendations in paragraph 10, which they believe should be reversed. They believe that the date of the purchase which results in control should generally be considered to be the date of acquisition; however, if a limited number of purchases are made over a period of time pursuant to a plan or program which culminates in control, they agree that the earned surplus of the subsidiary at acquisition may be determined on a step-by-step basis.

Mr. Halvorson disagrees with the recommendation in paragraph 18. In his view, the usual subsidiary is a closely held corporation, and consequently is under no pressure to declare stock dividends and is under no compulsion to follow the "fair value" method of accounting for them if it does. If it does capitalize earned surplus by means of a stock dividend or otherwise, particularly "otherwise," he feels that it must have been done with a purpose relating to its financial position, at the direction of, and with the acquiescence of, the parent company, and that the capitalization should carry through into the consolidated surplus accounts. If the subsidiary is one in which there is a publicly held minority interest, and a stock dividend is issued and accounted for on a fair-value basis in the manner of an independent publicly owned corporation, the accounting for earned surplus in respect of the majority interest would be the same as that for the minority interest, and again he believes that the capitalization should follow through into the consolidated surplus accounts. Mr. Powell also disagrees with the conclusion expressed in this paragraph. He believes that if a parent causes a subsidiary to freeze a part or all of its earned surplus through the payment of a stock dividend or otherwise, thus making such surplus unavailable for ordinary dividends, it should follow a similar procedure on consolidation.

Mr. Kent believes the consolidation policy section is deficient since it fails to restrict the increasing practice of not including certain subsidiaries in consolidated financial statements. He suggests that the bulletin may possibly result in further increasing such practice as a consequence of the preference expressed in paragraph 19 for the inclusion of the equity in earnings of unconsolidated subsidiaries in consolidated statements. It is his belief that in the usual situation a full consolidation policy as implied in paragraph 1 is generally preferable, supplemented by such summarized financial information, in footnotes or otherwise, as may be appropriate.

Messrs. Dunn and Graham believe that the "preferable" method in paragraph 19 should be recognized as the only acceptable method of dealing with unconsolidated subsidiaries in consolidated statements, and that the method which carries the investment in unconsolidated subsidiaries at cost, and takes up as income only the dividends received, should be discontinued as rapidly as is practicable. They feel that the "preferable" method conforms to the purpose of consolidated statements as set forth in paragraph 1—to present the results of operations and the financial position essentially as if the group were a single company, and that its uniform adoption would increase the comparability of the financial statements of different companies, and would avoid the possibility of manipulation of reported consolidated earnings through the control of dividends received by the parent.

Mr. Dunn believes that paragraph 20 should require the elimination of intercompany gain on sales to unconsolidated subsidiaries if the failure to do so would have a material effect on the reported consolidated income, regardless of whether the gain on intercompany sales exceeds the unrecorded equity in undistributed earnings of the unconsolidated subsidiaries.

NOTES

(See Introduction to *Accounting Research Bulletin* No. 43.)

1. Accounting Research Bulletins represent the considered opinion of at least two-thirds of the members of the committee on accounting procedure, reached on a formal vote after examination of the subject matter by the committee, the technical services department, and the director of research. Except in *cases in which formal adoption by the Institute membership has been asked and secured, the authority of the bulletins rests upon the general acceptability of opinions so reached.*

2. Opinions of the committee are not intended to be retroactive unless they contain a statement of such intention. They should not be considered applicable to the accounting for transactions arising prior to the publication of the opinions. However, the committee does not wish to discourage the revision of past accounts in an individual case if the accountant thinks it desirable in the circumstances. Opinions of the committee should be considered as applicable only to items which are material and significant in the relative circumstances.

3. It is recognized also that any general rules may be subject to exception; it is felt, however, that the burden of justifying departure from accepted procedures must be assumed by those who adopt other treatment. Except where there is a specific statement of a different intent by the committee, its opinions and recommendations are directed primarily to business enterprises organized for profit.

Committee on Accounting Procedure (1958-59)

William W. Werntz, *Chairman*	Newman T. Halvorson	Weldon Powell
Norton M. Bedford	Charles A. Hoyler	Samuel L. Ready
Garrett T. Burns	Donald R. Jennings	Walter R. Staub
Keith W. Dunn	Ralph E. Kent	William J. von Minden
Carl M. Esenoff	George W. Lafferty	Edward B. Wilcox
Clifford E. Graese	John F. Macha	Delmar G. Wilsey
Willard J. Graham	John K. McClare	
	Herbert E. Miller	Carman G. Blough, *Director of Research*

Appendix A: IMPLEMENTATION GUIDANCE

[Note: After the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08) for all entities that prepare consolidated financial statements (except for not-for-profit organizations), Appendix A (paragraphs A1 through A7) is added as follows:]

Introduction

A1. This appendix discusses generalized situations and provides examples with simplified assumptions to illustrate how to apply the provisions of this ARB, as amended by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* The examples do not address all possible situations or applications of this ARB.

Illustrations of the Presentation and Disclosure Requirements for a Parent with One or More Less-Than-Wholly-Owned Subsidiaries

A2. The examples are based on the following assumptions:

Assumptions for all years

a. ABC Co. has one subsidiary, Subsidiary A.
b. The tax rate for all years is 40 percent.
c. ABC Co. has 200,000 shares of common stock outstanding and pays dividends of $10,000 each year on those common shares. ABC Co. has no potentially dilutive shares.
d. Subsidiary A has 10,000 shares of common stock outstanding and does not pay dividends.

Assumptions for 20X1

e. ABC Co. owns all 10,000 shares in Subsidiary A for the entire year.

f. On June 30, 20X1, Subsidiary A purchases a portfolio of securities for $100,000 and classifies those securities as available for sale. On December 31, 20X1, the carrying amount of the available-for-sale securities is $105,000.

g. For the year ended December 31, 20X1, the amount of Subsidiary A's net income included in the consolidated financial statements is $24,000.

Assumptions for 20X2

h. On January 1, 20X2, ABC Co. sells 2,000 of its shares in Subsidiary A to an unrelated entity for $50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows:

	Subsidiary A
Common stock	$ 25,000
Paid-in capital	50,000
Retained earnings	125,000
Accumulated other comprehensive income	5,000
Total equity	$ 205,000

The sale of Subsidiary A's shares by ABC Co. is accounted for as an equity transaction in the consolidated financial statements, as follows:

(1) A noncontrolling interest is recognized in the amount of $41,000 ($205,000 × 20 percent).

(2) Additional paid-in capital attributable to ABC Co. is increased by $9,000, calculated as the difference between the cash received ($50,000) and the carrying amount of the noncontrolling interest ($41,000).

(3) Additional paid-in capital attributable to ABC Co. is also increased by $1,000, which represents the carrying amount of Subsidiary A's accumulated other comprehensive income related to the ownership interest sold to the noncontrolling interest ($5,000 × 20 percent = $1,000). Accumulated other comprehensive income attributable to ABC Co. is decreased by a corresponding amount.

(4) The journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholders is as follows:

Cash	50,000	
Accumulated other comprehensive income (ABC Co.)	1,000	
Noncontrolling interest		41,000
Additional paid-in capital (ABC Co.)		10,000

i. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is $20,000.

Assumptions for 20X3

j. On January 1, 20X3, ABC Co. purchases 1,000 shares in Subsidiary A from the noncontrolling shareholders (50 percent of the noncontrolling interest) for $30,000 for cash, increasing its ownership interest from 80 percent to 90 percent. Immediately before that purchase, the carrying amount of the noncontrolling interest in Subsidiary A was $48,000, which included $4,000 in accumulated other comprehensive income. The purchase of shares from the noncontrolling shareholders is accounted for as an equity transaction in the consolidated financial statements, as follows:

(1) The noncontrolling interest balance is reduced by $24,000 ($48,000 × 50 percent interest acquired by ABC Co.).
(2) Additional paid-in capital of ABC Co. is decreased by $6,000, calculated as the difference between the cash paid ($30,000) and the adjustment to the carrying amount of the noncontrolling interest ($24,000).
(3) Additional paid-in capital of ABC Co. is also decreased by $2,000, which represents the carrying amount of Subsidiary A's accumulated other comprehensive income related to the ownership interest purchased from the noncontrolling shareholders ($4,000 × 50 percent = $2,000). Accumulated comprehensive income attributable to ABC Co. is increased by a corresponding amount.
(4) The journal entry to record that purchase of Subsidiary A's shares from the noncontrolling shareholders is as follows:

Noncontrolling interest	24,000	
Additional paid-in capital (ABC Co.)	8,000	
Accumulated other comprehensive income (ABC Co.)		2,000
Cash		30,000

k. For the year ended December 31, 20X3, the amount of Subsidiary A's net income included in the consolidated financial statements is $15,000.

Consolidated Statement of Financial Position

A3. This consolidated statement of financial position illustrates the requirement in paragraph 26 that ABC Co. present the noncontrolling interest in the consolidated statement of financial position within equity, but separately from the parent's equity.

ABC Co.
Consolidated Statement of Financial Position
As of December 31

	20X3	20X2
Assets:		
Cash	$ 570,000	$ 475,000
Accounts receivable	125,000	110,000
Available-for-sale securities	125,000	120,000
Plant and equipment	220,000	235,000
Total assets	$ 1,040,000	$ 940,000
Liabilities:		
Total liabilities	$ 555,000	$ 459,000
Equity:		
ABC Co. shareholders' equity:		
Common stock, $1 par	200,000	200,000
Paid-in capital	42,000	50,000
Retained earnings	194,500	167,000
Accumulated other comprehensive income	22,500	16,000
Total ABC Co. shareholders' equity	459,000	433,000
Noncontrolling interest	26,000	48,000
Total equity	485,000	481,000
Total liabilities and equity	$ 1,040,000	$ 940,000

Consolidated Statement of Income

A4. This consolidated statement of income illustrates the requirements in paragraph 38(a) that the amounts of consolidated net income and the net income attributable to ABC Co. and the noncontrolling interest be presented separately on the face of the consolidated income statement. It also illustrates the requirement in paragraph 38(b) that the amounts of income from continuing operations and discontinued operations attributable to ABC Co. should be disclosed.

ABC Co.
Consolidated Statement of Income
Year Ended December 31

	20X3	20X2	20X1
Revenues	$ 395,000	$ 360,000	$ 320,000
Expenses	(330,000)	(305,000)	(270,000)
Income from continuing operations, before tax	65,000	55,000	50,000
Income tax expense	(26,000)	(22,000)	(20,000)
Income from continuing operations, net of tax	39,000	33,000	30,000
Discontinued operations, net of tax	—	(7,000)	—
Net income	39,000	26,000	30,000
Less: Net income attributable to the noncontrolling interest	(1,500)	(4,000)	—
Net income attributable to ABC Co.	$ 37,500	$ 22,000	$ 30,000
Earnings per share—basic and diluted:			
Income from continuing operations attributable to ABC Co. common shareholders	$ 0.19	$ 0.14	$ 0.15
Discontinued operations attributable to ABC Co. common shareholders	—	(0.03)	—
Net income attributable to ABC Co. common shareholders	$ 0.19	$ 0.11	$ 0.15
Weighted-average shares outstanding, basic and diluted	200,000	200,000	200,000
Amounts attributable to ABC Co. common shareholders:			
Income from continuing operations, net of tax	$ 37,500	$ 27,600	$ 30,000
Discontinued operations, net of tax	—	(5,600)	—
Net income	$ 37,500	$ 22,000	$ 30,000

Consolidated Statement of Comprehensive Income

A5. This statement of consolidated comprehensive income illustrates the requirements in paragraph 38(a) that the amounts of consolidated comprehensive income and comprehensive income attributable to ABC Co. and the noncontrolling interest be presented separately on the face of the consolidated statement in which comprehensive income is presented.

ABC Co.
Statement of Consolidated Comprehensive Income
Year Ended December 31

	20X3	20X2	20X1
Net income	$ 39,000	$ 26,000	$ 30,000
Other comprehensive income, net of tax:			
Unrealized holding gain on available-for-sale securities, net of tax	5,000	15,000	5,000
Total other comprehensive income, net of tax	5,000	15,000	5,000
Comprehensive income	44,000	41,000	35,000
Comprehensive income attributable to the noncontrolling interest	(2,000)	(7,000)	—
Comprehensive income attributable to ABC Co.	$ 42,000	$ 34,000	$ 35,000

Consolidated Statement of Changes in Equity

A6. This consolidated statement of changes in equity illustrates the requirements in paragraph 38(c) that ABC Co. present a reconciliation at the beginning and the end of the period of the carrying amount of total equity, equity attributable to ABC Co., and equity attributable to the noncontrolling interest. It also illustrates that because the noncontrolling interest is part of the equity of the consolidated group, it is presented in the statement of changes in equity.

ABC Co.
Consolidated Statement of Changes in Equity
Year Ended December 31, 20X3

			ABC Co. Shareholders				
	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital	Noncontrolling Interest
Beginning balance	$ 481,000	$ —	$ 167,000	$ 16,000	$ 200,000	$ 50,000	$ 48,000
Purchase of subsidiary shares from noncontrolling interest	(30,000)			2,000		(8,000)	(24,000)
Comprehensive income:							
Net income (loss)	39,000	39,000	37,500				1,500
Other comprehensive income (loss), net of tax: Unrealized gains on securities	5,000	5,000		4,500			500
Other comprehensive income (loss)	5,000	5,000					
Comprehensive income	44,000	$ 44,000					
Dividends paid on common stock	(10,000)		(10,000)	—	—	—	—
Ending balance	$ 485,000		$ 194,500	$ 22,500	$ 200,000	$ 42,000	$ 26,000

ABC Co.
Consolidated Statement of Changes in Equity
Year Ended December 31, 20X2

			ABC Co. Shareholders				
	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital	Noncontrolling Interest
Beginning balance	$ 400,000	$ —	$ 155,000	$ 5,000	$ 200,000	$ 40,000	$ —
Sale of subsidiary shares to noncontrolling interest	50,000			(1,000)		10,000	41,000
Comprehensive income:							
Net income (loss)	26,000	26,000	22,000				4,000
Other comprehensive income, net of tax: Unrealized gains on securities	15,000	15,000		12,000			3,000
Other comprehensive income	15,000	15,000					
Comprehensive income	41,000	$ 41,000					
Dividends paid on common stock	(10,000)		(10,000)	—	—	—	—
Ending balance	$ 481,000		$ 167,000	$ 16,000	$ 200,000	$ 50,000	$ 48,000

Additional Disclosure If a Parent's Ownership Interest in a Subsidiary Changes during the Period

A7. This schedule illustrates the requirements in paragraph 38(d) that ABC Co. present in notes to the consolidated financial statements a separate schedule that shows the effects of changes in ABC Co.'s ownership interest in its subsidiary on ABC Co.'s equity. This schedule is only required if the parent's ownership interest in a subsidiary changes in any periods presented in the consolidated financial statements.

ABC Co.
Notes to Consolidated Financial Statements
Net Income Attributable to ABC Co. and
Transfers (to) from the Noncontrolling Interest
Year Ended December 31

The purpose of this schedule is to disclose the effects of changes in ABC Co.'s ownership interest in its subsidiary on ABC Co.'s equity.

	20X3	20X2	20X1
Net income attributable to ABC Co.	$ 37,500	$ 22,000	$ 30,000
Transfers (to) from the noncontrolling interest			
Increase in ABC Co.'s paid-in capital for sale of 2,000 Subsidiary A common shares	—	10,000	—
Decrease in ABC Co.'s paid-in capital for purchase of 1,000 Subsidiary A common shares	(8,000)	—	—
Net transfers (to) from noncontrolling interest	(8,000)	10,000	—
Change from net income attributable to ABC Co. and transfers (to) from noncontrolling interest	$ 29,500	$ 32,000	$ 30,000

Appendix B: GLOSSARY

[Note: After the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08) for all entities that prepare consolidated financial statements (except for not-for-profit organizations), Appendix B (paragraph B1) is added as follows:]

B1. This appendix contains definitions of certain terms or phrases used in this ARB.

Combined financial statements

The financial statements of a combined group of commonly controlled entities or commonly managed entities presented as those of a single economic entity. The combined group does not include the parent.

Consolidated financial statements

The financial statements of a consolidated group of entities that include a parent and all its subsidiaries presented as those of a single economic entity.

Consolidated group

A parent and all its subsidiaries.

Noncontrolling interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Owners

The term *owners* is used broadly to include holders of ownership interests (equity interests) of investor-owned or mutual entities. Owners include shareholders, partners, proprietors, or members or participants of mutual entities.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity.).

Subsidiary

An entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. (Also, a variable interest entity that is consolidated by a primary beneficiary.).

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[i]ARB51, Footnote 1a—The amount of interest cost capitalized through application of FASB Statement No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method,* shall not be changed when restating financial statements of prior periods.

[ii]ARB51, Footnote a—Not-for-profit organizations shall continue to apply ARB 51 as it was before the amendments made by FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, until the Board issues interpretative guidance. In addition, AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA Audit and Accounting Guide, *Health Care Organizations*, also provide guidance on the application of consolidation policy by not-for-profit organizations.