

# American Institute of Accountants

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To the Members of the Committee  
on Accounting Procedure

Gentlemen:

Re: Problems in Connection with Consolidated  
and Parent Company Statements

Item X of the agenda for the next meeting of the committee states that a list of questions on the subject of consolidated statements has been prepared by the research department. The following are the questions which have occurred to us as being significant in connection with any consideration of a possible comprehensive statement dealing with:

### Consolidated Statements

1. When a subsidiary by a stock dividend or otherwise capitalizes surplus earned subsequent to its acquisition by a parent, on consolidation of the accounts should the amount of surplus capitalized be shown as part of consolidated earned or consolidated capital surplus?
2. What is the proper accounting treatment in consolidation of the excess of cost of investment in subsidiary over underlying net asset value at date of acquisition? What is the proper treatment when the underlying net assets of the subsidiary exceed the cost of the parent's investment therein?
3. What are the governing criteria in determining whether a parent's accounts should or should not be consolidated with those of its subsidiaries?
4. What is the proper method of presentation for the minority interest in the balance sheet? In the income statement?

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5. When foreign companies are consolidated with domestic companies, is a footnote showing only the amount of net current assets represented by foreign items adequate, or should the detail of the foreign assets and liabilities be given?
6. When a majority-owned subsidiary is not consolidated, should a footnote to the parent's or consolidated statements be required 1) setting forth the parent's share of the unconsolidated subsidiary's profits or losses for the period and the parent's share of dividends declared by such subsidiary during the period, and 2) setting forth the extent to which the parent's equity in the unconsolidated subsidiary has been increased or diminished since date of acquisition as a result of profits, losses, and distributions?
7. Are there any special considerations which should govern or require the preparation of "combined" statements as distinguished from consolidated statements? ("Combined" statements here refers to consolidation of accounts of a group of companies under common control of another corporation or a group of individuals.)
8. When several blocks of stock have been purchased at various dates culminating in control of a subsidiary, how is "date of acquisition" to be defined?
9. Can a parent company acquire earned surplus (to be reflected as part of consolidated earned surplus if and when consolidated statements are prepared) through purchase of a controlling interest in the stock of a subsidiary?
10. Should there be a requirement that provision be made for prospective taxes on transfers of unblocked undistributed earnings of consolidated domestic or foreign subsidiaries? How, and to what extent, should such provision be made?
11. Should a free rate or official conversion rate be used in consolidating the accounts of a domestic parent and foreign subsidiaries?

12. Where consolidated statements are prepared for annual report purposes but individual companies in the consolidated group file separate income-tax returns, is it necessary procedure, on consolidation, to defer charging the income tax relating to the intercompany profits until such profits are realized in the following year?
13. What constitutes proper presentation in the consolidated statements where a subsidiary company carries in its balance-sheet as an investment, at cost, a substantial block of stock in the parent company? Is there any legal "restriction" upon consolidated earned surplus?
14. Should only the controlling interest's equity in intercompany profits be eliminated in consolidation or should the full amount of intercompany profits be eliminated?
15. What constitutes proper procedure and presentation in situations where a parent during its fiscal year has acquired a controlling interest in a subsidiary and, upon consolidation, a proration of the subsidiary's income between pre-acquisition and post-acquisition periods is required?
16. Should disclosure of the extent or degree of consolidation of a parent's subsidiaries, and a clear statement of policy followed in determining whether or not to consolidate, be made mandatory in consolidated statements?
17. Should the committee deal with the mechanics of elimination of intercompany sales and profits?
18. Should the committee deal with questions arising upon consolidation of accounts of companies with dissimilar fiscal periods?

In connection with questions on consolidation, two other questions might be dealt with. They relate to:

Accounting on the Books of a Parent Company

1. Should it be required that inter-company profits

3/30/51

resulting from sales of inventory or fixed assets to an unconsolidated domestic or foreign subsidiary be eliminated from the parent's statements?

2. If earnings of an unconsolidated subsidiary are taken up by a parent before actual realization through dividends, should the "undistributed earnings of subsidiaries" be ear-marked?

Undoubtedly other and possibly more important questions will occur to you, but these will serve as a basis for discussion at the meeting.

Very truly yours,

  
Director of Research

CGB:rc