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Assessment of Business Subsidiary Operations and Consolidated Financial Statements through a Common Global Accounting Language, IFRS vs. GAAP

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ABSTRACT

The focus of this paper is to provide a comprehensive overview of financial accounting as it relates to business combinations. Additionally, comparisons have been made with regard to International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). Inclination for the research is based upon the study of IFRS and US GAAP separately at the collegiate level, having a solid understanding of full consolidation under US GAAP, and the desire to learn more about full consolidation under IFRS. Due to convergence of IFRS with US GAAP on many levels of accounting practices, the overview of full consolidation and logic behind such convergences proves significant in determining usefulness and impact of provided financial data.

Keywords: Business subsidiary, IFRS, US GAAP.
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1.0 INTRODUCTION

The focus of this paper is to provide a comprehensive overview of financial accounting as it relates to business combinations. Comparisons have been made with regard to International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP), with research based upon the study of IFRS and US GAAP separately at the collegiate level, having a solid understanding of full consolidation under US GAAP, and the desire to learn more about full consolidation under IFRS. Due to convergence of IFRS with US GAAP on many levels of accounting practices, the overview of full consolidation and logic behind such convergences proves significant in determining usefulness and

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impact of provided financial data. All of the information was thoroughly researched through quantitative studies regarding business subsidiary assessment and consolidated financial statements.

2.0 IDEOLOGY OF INVESTING IN SUBSIDIARIES AND THE APPLICATION OF FULL CONSOLIDATION

How do companies choose where to invest? What are the biggest factors when such crucial decisions are made? What happens when there are multiple different investments made by the same company and how are they accounted for? A firm may choose to invest in subsidiaries in which they exert control for a variety of reasons. In foreign countries, for example, economic conditions may be enhanced in foreign countries where there is an active market for a firm's offered goods and services, costs of production such as raw materials, labor, overhead, and capital may be more cost efficient overseas, technological advancements may be active in foreign countries, and advancements in trade initiatives may be in place abroad (*Why Do Companies Invest Overseas?*). Thus, the overall objective of such investments is to broaden corporate horizons which, in turn, reap the benefits of business combinations. Because shareholders are an integral component of a corporate entity by appointing management directly responsible for providing economic benefits, significant returns on investment may be sought. Thus, acquisition of a subsidiary may be part of a long-run plan to increase worth to the shareholders. In addition, the notion of added value to a corporate environment may be applied in the presence of competitive advantage within the market. If entering into new industries through business combinations, a firm may gain market recognition and realize profits and overall growth beneficial to corporate development (Doupnik, Hoyle, and Schaefer 40-41).

When a firm exerts control over a subsidiary in which it invests, full consolidation of financial reports is applied. The process of full consolidation combines the financial reports of all controlled subsidiaries with the financial reports of the parent company. This provides transparency of financial reports which, in turn, allows users of financial reports such as creditors and investors to assess the overall scope, resource allocation, financial position, and operational element of the corporate environment, all of which are the direct responsibility of appointed management (Shamrock 129). FASB ASC (para. 810-10-10-1) states the following in regard to imperative consolidation processes:

> "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" (Doupnik, Hoyle, and Schaefer 43).

In addition, the consolidated financial reports provide information with regard to the non-controlling interests in subsidiaries. Non-controlling interests may exist because a parent company may not be financially capable of holding one hundred percent of a subsidiary's outstanding stock, minority shareholders may wish retain small portions of ownership, or because foreign policies may prohibit one hundred percent ownership for retention of some local ownership. Non-controlling interests are reflected in net income in the consolidated income statement as well as the equity component in the consolidated balance sheet (Doupnik, Hoyle, and Schaefer 145).

3.0 DEVELOPMENT OF IFRS AND IMPLICATIONS OF US GAAP

Investment in foreign subsidiaries and development of multinational corporations has become increasingly attractive to corporate investors due to persisting competitive advantage and increasing profits they endeavor. As previously stated, foreign operations may provide advanced technology, lower costs, and overall availability of resources that cannot be sought economically within the boundaries of the originated country of the parent company. International Financial Reporting Standards (IFRS) have been developed by the International Accounting Standards Board (IASB) in attempt to create a set of internationally acceptable and usable accounting principles as a basis for preparing consolidated financial statements. Many stock exchanges worldwide use these standards so that financial reports of foreign companies cross-listed need not be converted from local Generally Accepted Accounting Principles (GAAP) (Doupnik and Perera 1-10). Recently, IFRS implementation has become increasingly popular in practice due to the flexibility the standards entail and consideration of global accounting values, and currently, IFRS has been successfully adopted in more than one hundred countries (Arons).

Moreover, worldwide accounting diversity may result in differences encompassed by the legal, political, and economic system, inflation, taxation policies, and by providers of capital for business enterprises. Such diversity presents a burden for the preparation of consolidated financial reports of corporations that invest in foreign subsidiaries because each subsidiary incorporated in a foreign country may be required to prepare financial reports under local GAAP. Thus, for parent companies, reconciliations at the balance sheet date from local GAAP to GAAP of the parent company may be required for consolidation (Doupnik and Perera 28-31). Furthermore, caution must be taken in determining the classification of a subsidiary as domestic or foreign in relation to the incorporated country of the immediate parent. If a subsidiary is deemed to be foreign, reported book values as well as the tax basis of assets, liabilities, and equity investments may differ significantly (*Accounting Issues with Investments in Foreign Subsidiaries,* 3-8). On the other hand, depending on the country of incorporation and associated flexibility of accounting practices, a multinational corporation may have the option to use IFRS in preparation of consolidated financial reports, which eliminates the need for reconciliation. The IASB formed in 2001 to harmonize accounting standards worldwide and simplify accounting procedures among parent and foreign subsidiaries after previous committees had failed to do so. The IASB is responsible for developing and issuing IFRS as well as Exposure Drafts, and to accept International Financial Reporting Interpretations Committee (IFRIC) Interpretations. This, in turn, is the process for which IFRS are put in place (Doupnik and Perera 65-77). The trustees are directly involved in publication and support of IFRS with disregard to technicality. Currently, the IASB requires that six trustees be appointed from each of the following countries; North America, Asia, Europe. Also, there must be one trustee from South Africa and one trustee from South Africa, and two others from various countries. At present, the board consists of trustees from the following countries; Spain, Netherlands, France, Hong Kong, Canada, Republic of Korea, People's Republic of China, Australia, five from the United States, India, Germany, Saudia Arabia, Brazil, UK, South Africa, Italy, and two from Japan.

Furthermore, the IASB and Financial Accounting Standards Board (FASB) of the United States have converged IFRS and Generally Accepted Accounting Principles (US GAAP) in many areas. The Norwalk Agreement was established in 2002 in effort to make the two sets of standards nearly identical as soon as possible and to cultivate this compatibility. The agreement specified that the two boards will omit differences and turn towards the other set of standards in both directions simultaneously. Also, in 2007, the Securities and Exchange Commission (SEC) provided companies with the option of using IFRS to eliminate requirement of corporations issuing foreign stock to reconcile consolidated financial reports to US GAAP (Doupnik and Perera 101-102). In turn, the SEC encourages use of the IFRS option in response to the increased need for global congruency in times of economic burdening on markets in the light of transparency and comparability among reporting practices and the impact it provides for international users of financial reports. Advocates of IFRS believe this can achieve unity of international markets and provide economic stability by increasing overall capital investment and affiliated returns within organizations. On the other hand, IFRS implementation alters the way in which a firm reports and monitors system and internal controls, thus proving to come with significant costs (*The Impact of Combining the U.S. GAAP and IFRS*). As it relates to conceptual theory of reporting practices, US GAAP and IFRS embrace a different approach. IFRS applies a principle-based approach where disclosures are broad and transactions recorded may raise questions by users about the financial reports. In addition, unclear expectations about reporting can be resolved by IASB guidance. On the other hand, US GAAP applies a rule-based approach, where matter of professional judgment is much more apparent and acceptable. Thus, exceptions to the rules may apply. In effect, the consolidation process contains the element of risk adversity under IFRS, whereas, US GAAP favors risk due to benefits rewards may reap (Forgeas). Thus, IFRS and US GAAP remain unique in certain practices and interpretations despite convergences to the process of full consolidation (Doupnik and Perera 101-103).

Currently, US GAAP continues to dominate the accounting practices in the United States in absence of complete convergence with IFRS. The United States has recently set the goal of adopting IFRS in efforts of full convergence by 2015, but continues to apply accounting practices of US GAAP for the most part due to substantial similarity between the two sets of standards (Legotte). As of August 2012, accomplishments of IFRS proceeding FASB and IASB convergence include the following:

- 13 International Financial Reporting Standards (IFRS)
- 41 International Accounting Standards (IAS)
- 20 International Financial Reporting Interpretations (IFRIC)
- 31 Standard Interpretations Committee (SIC) (Legotte).

Despite such accomplishments, no efforts are presently being made by IASB and FASB to further converge. Although IASB's intended goal was to set IFRS nearly identical to US GAAP, it also must consider additional global accounting values and practices. Thus, convergence has proven to be somewhat complicated between IFRS and US GAAP and has remained passive since the end of 2012 (Arons).

4.0 CONVERGENCE BETWEEN IFRS AND US GAAP CONSOLIDATIONS, DIFFERENCES IN ASSESSING CONTROL, AND EXISTING DIFFERENCES IN APPLYING FULL CONSOLIDATION

The FASB ASC Topics on Business Combinations (805) and Consolidation (810) present a strategy implemented by IASB and FASB in effort to converge IFRS and US GAAP in the process of full consolidation. In effect, IFRS 3 was revised in 2009, and IFRS and US GAAP have become interchangeable where most significant accounting practices of full consolidation are applied (Doupnik, Hoyle, and Schaefer 62). The intention of doing so was stated by IASB and FASB as follows:

> "To develop a single high-quality standard for business combinations that can be used for both domestic and cross-border financial reporting. The goal is to develop a standard that include a common set of principles and related guidance that produces decision-useful information and minimized exceptions to those principles. The standard should improve the completeness, relevance, and comparability of financial information about business combinations" (Doupnik, Hoyle, and Schaefer 62).

Specifically, under IFRS and US GAAP, full consolidation considers complete aggregation of all of the subsidiary's income statement and balance sheet accounts. This procedure is applied at the closing date of the income statement and year-end or fiscal year-end of the balance sheet regardless of whether or not the parent has acquired one hundred percent of the subsidiary's stock. Thus, non-controlling interests presented separately exemplify the percentage of net income and net assets that have not been entitled to or been acquired by the parent company. Prior to consolidation, investment accounts reflected in the balance sheet are used to represent and account internally for the impact of subsidiary operations. These accounts are eliminated in the process of consolidation (Doupnik and Perera 468).

IFRS 10 provides insight for determining when a parent company must consolidate the financial activities of a subsidiary and defines control as "the ability of an entity to direct the relevant activities of an entity whose return is exposed and entitled to, and for which it can affect the variability of those returns" (Shamrock 130). Under IFRS 10, there are three constituents of control, all of which must be present to precede full consolidation; (1) Power over the investee, (2) Exposure or rights to various returns, and (3) The ability to effect the variability of those returns. In determination of control, IFRS also acknowledges the possible variability of ownership through stock options, warrants, contracts, and the like. IFRS differs from US GAAP in application of these three constituents as an individual approach to the consolidation proceeding because US GAAP contains many omissions with regard to the corporate environment. Moreover, US GAAP does not take the variability of ownership stakes into account (Shamrock 130).
Key differences existing among IFRS and US GAAP may also be implied within board definitions and individual standards. For example, IFRS bases control upon legal control, generally defined as

"ownership of more than fifty percent of the shares and voting rights of another company", and IAS 27 defines control as "the power to govern the financial and operating policies of an entity as to obtain benefits from its activities" (Doupnik and Perera 465). Moreover, IASB defines control as "exclusive rights over an entity's assets and liabilities and the ability to increase, maintain or protect the amount of these benefits" (Doupnik and Perera 467). If legal control is present but ownership is less than fifty percent, contractual arrangements between the parent and subsidiary may be present for control to be exerted by the parent company. This may include the following elements:

- Over more than half of the voting rights through agreements with other shareholders
- To set the company's financial and operating policies because of existing statues or agreements
- To appoint or remove the majority of the members of the governing body (board of directors or equivalent group)
- To cast the majority of votes at meetings of the company's governing body (Doupnik and Perera 465).

IAS 10 provides that substantive rights determine power. IAS 27 articulates the significance of voting influence from which substantive rights are generated versus nonvoting influence (Shamrock 133).

Unlike IFRS, US GAAP has no precise definition of control which generally limited to the concept of acquiring the majority of a subsidiary's outstanding shares. However, US GAAP has broadened the scope of control through FASB Interpretation 46 in consolidating variable interest entities (VIEs), or special purpose entities, where majority ownership is inapplicable (Doupnik and Perera 467). Control in such entities may be evident by the following:

- The direct or indirect ability to make decisions about the entity's activities
- The obligation to absorb the expected losses of the entity if they occur
- The right to receive the expected residual returns of the entity if they occur (Doupnik and Perera 467).

In addition, IAS 27 requires full consolidation of all subsidiary operations in which the parent exerts control unless both of the following criteria are met: The subsidiary was acquired with the intention to be disposed of within twelve months and Management is actively seeking a buyer (Doupnik and Perera 468).

Furthermore, as stated by Ernst & Young in 2009 and 2012 publications, full consolidation under IAS 27 is "generally required, but there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly-owned subsidiary or partially-owned subsidiary if certain conditions are met" (*US GAAP versus IFRS: The Basics,* 8-9), (*US GAAP versus IFRS: The Basics,* 7-8). In contrast, US GAAP does not permit exclusion of consolidation based upon the stated criteria (Doupnik and Perera 468). The 2009 and 2012 publications of Ernst & Young state that full consolidation under ASC 810 of US GAAP is "required, although certain industry-specific exemptions exist (e.g., investment companies)" (*US GAAP versus IFRS: The Basics,* 8-9), (*US GAAP versus IFRS: The Basics,* 7-8). Historically, under IFRS, if a subsidiary's operations were not critical to the reporting entity or currently inactive due to detrimental effect on profitability, the parent company may not have consolidated a subsidiary to omit irrelevance of operational and financial information provided. However, this is no longer permitted under IAS 27 or US GAAP despite the potential lack of relevance. As previously stated, both IFRS and US GAAP place emphasis upon defining control as an underlying factor for which a parent must consolidate its subsidiaries. Thus, consolidation of subsidiaries may be discontinued only when the parent company loses control. Under both sets of standards, a parent company may lose control when its ability to oversee and regulate operational and financial management of its subsidiaries ceases. Foreign governmental interventions, for example, are a major implication leading to loss of control over foreign subsidiaries. Bankruptcy is another common scenario in which a parent company's control over a subsidiary is effectively lost (Doupnik and Perera 468).

5.0 ACQUISITION OF CONTROLLING INTERESTS, CONSOLIDATION REQUIREMENTS, AND METHODS APPLIED

At the date in which a subsidiary is purchased with a controlling interest, the first step in consolidating financial information is to obtain fair market value of the acquired assets and liabilities contained within the subsidiary's balance sheet. Income statement accounts are not consolidated at this time because such activities are irrelevant to the operations of the parent company. Acquisition may occur by conversion of cash, common stock, assets, or liabilities from the parent company. The parent and subsidiary may either retain their originated corporate identity in this process, the subsidiary's originated corporate identity may dissolve, or the parent and subsidiary may dissolve simultaneously creating an entirely new organization. If no dissolution occurs, the parent and subsidiary remain separately incorporated and thus, manage autonomous accounting records throughout the year (Doupnik, Hoyle, and Schaefer 43-50). In addition, periodic revaluation of subsidiary association is necessary under both IFRS and US GAAP to assess the continuance of control. Under special circumstances such as arising contractual agreements, operational expansion or contraction, or risk control, consolidation requirement criteria as well as participation rights are subject to change (Shamrock 153-154).

According to IFRS, the parent company attains controlling interest in a subsidiary if the following occurs:

- IFRS 3.43a: Aquiree repurchases its own shares such that an investor (the acquirer) obtains control
- IFRS 3.43b: Minority veto rights lapse which had previously kept the acquirer from controlling the acquiree (*Comparison between U.S. GAAP and International Financial Reporting Standards,* 136).

Furthermore, IFRS 3, Appendix A, defines the acquisition date as "the date the acquirer obtains control of the acquiree." As previously stated, fair value at this date is used as a basis for measuring net assets acquired. Because this transition may occur before year-end or fiscal year-end, the combination in its entirety is insufficient. Thus, the parent company must record temporary balances of incomplete transactions involving net assets until adjustments to actual values can be recorded. Again, US GAAP is consistent with this standard through ASC 805-10-25-6 (*Comparison between U.S. GAAP and International Financial Reporting Standards,* 137).

In some instances, US GAAP may disregard certain assets and liabilities that IFRS would otherwise consolidate and vice versa (Shamrock 151-152). This arises due to the continued differences between IFRS and US GAAP consolidations remaining in determination of control as it relates to special purpose entities (*Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards,* 7-9). IFRS 10 necessitates the allocation of Deemed Separate Entities (DSE); that is, the parent company must partially consolidate to record certain subsidiary assets and liabilities separate in the case that some assets are held as collateral or generate payments for specified liabilities. Again, it is critical for the parent company to determine control under IFRS in relation to DSEs (Shamrock 151-152). The following states paragraph B77 of IFRS in relation to DSEs:

> Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interest in, the investee. Parties other than those with the specified liability do not have rights or obligation related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets liabilities and equity of that deemed separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a "silo" (Shamrock 152).

In contrast, the VIE section of US GAAP indicates that some assets and liabilities may be excluded from partial consolidations if the subsidiary cannot be defined as a VIE, which under US GAAP, meets the definition of control. Since a VIE is a direct benefactor to the parent company, recording any other cash bearing assets held for the payment of liabilities and the relative liabilities would prove irrelevance (Shamrock 152). Paragraph 810-10-15 of U.S. GAAP states the following;

> Portions of legal entities or aggregations of assets within a legal entity shall not be treated as separate entities for purposed of applying the Variable Interest Entities Subsections unless the entire entity is a VIE. Some examples are divisions, departments, branches, and pools of assets subject to liabilities that give the creditor no recourse to other assets of the entity. Majority-owned subsidiaries are legal entities separate from their parents that are subject to the Variable Interest Entities Subsections and may be VIEs (Shamrock 152).

Moreover, US GAAP requires consolidation of development stage entities similar in benefactor purposes to VIEs, defined as "An entity devoting substantially all of its efforts to establishing a new business and for which either of the following conditions exists: (a) planned principal operations have not commenced. (b) Planned principal operations have commenced, but there has been no significant revenue therefrom" (Shamrock 152).

Under IFRS, the purchase method is required to report controlling interest in net assets at the date in which an entity gains control over a purchased subsidiary. Under the purchase method, fair value of net assets is assessed at the acquisition date. Goodwill is recorded if consideration transferred for acquisition is in excess of the revalued net assets. Originally, under IAS 22, goodwill recorded under the purchase method could have been treated in one of two ways. First, it could have been recorded as an intangible asset. Alternatively, it could have been used to instantly offset equity. However, IAS 22 was revised to allow only the recording of an intangible asset, subject to amortization over its assessed, twenty year maximum useful life. IFRS 3 revised stipulations to further converge IFRS with US GAAP, indicating that goodwill can no longer be amortized, but instead tested annually for impairment (Doupnik and Perera 468-470). Furthermore, IFRS has revised its standards in accounting for step acquisitions to supplement convergence with US GAAP in requiring the parent company to revalue the investment account, previously accounted for under the equity method, when control is achieved. Gains and losses associated with the revaluation are recognized in consolidated net income as other gains/losses. Historically, IFRS required revaluation of net assets at each stage in the acquisition regardless of whether or not control was achieved (Doupnik and Perera 471).

Under US GAAP, the acquisition method is required to report controlling interest in net assets at the date in which an entity gains control over a purchased subsidiary. The acquisition method, as it applies to controlling interests, is very similar to the purchase method used under IFRS, where fair value of net assets is considered relative to the fair value of the consideration transferred in obtaining control over the subsidiary (Doupnik, Hoyle, and Schaefer 47-59). In 2002, the FASB deemed use of the acquisition method imperative to further converge US GAAP with IFRS (Doupnik and Perera 471). In addition, goodwill is not amortized subsequent to acquisition, but tested annually for impairment (Doupnik, Hoyle, and Schaefer 107-113). However, there is a difference between the two sets of standards in the treatment of negative goodwill upon acquisition. Negative goodwill arises when the fair value of the subsidiary's acquired net assets exceeds the consideration transferred by the parent. Under IFRS 3, negative goodwill is treated as a gain in the income statement in the other gains/losses section upon acquisition (Doupnik and Perera 470-471). Conversely, under US GAAP, negative goodwill is assigned to an account termed "gain on bargain purchase" (Doupnik, Hoyle, and Schaefer 49), an extraordinary gain on the income statement (Doupnik and Perera 471).

6.0 DEFINITION AND CONSOLIDATION OF NON-CONTROLLING INTERESTS

In many cases, the parent company acquires less than one hundred percent of a subsidiary's outstanding stock, but retains a significant proportion, typically defined as more than fifty percent ownership to legitimate controlling interest. Thus, the remaining percentage of ownership in a subsidiary is allocated to non-controlling interests. As previously stated, non-controlling interests in subsidiary net income and equity must be presented on the consolidated financial reports to provide transparent financial data to users. Although the non-controlling parties possess no power over the subsidiary, the assessment of overall subsidiary operations and the underlying inclusion of non-controlling interests are no less relevant. In effect, non-controlling parties possess legal rights and claims to a portion of net assets of the subsidiary.

Just as controlling interests, fair value assessment must be applied in allocation of non-controlling interests as determined by the purchases method under IFRS, and the acquisition method under US GAAP. The fair value of the non-controlling interest is typically determined by the fair market value of the subsidiary's stock. If the fair market value is unknown, the per share acquisition price transferred by the parent company is used as a basis for determination of non-controlling interest as an implied value. In any matter, the combined fair value of controlling interests and non-controlling interests in excess of the fair value of subsidiary net assets, relative to percentage of controlling and non-controlling interests, is assigned to goodwill among controlling and non-controlling interests (Doupnik, Hoyle, and Schaefer 146-150).

IFRS and US GAAP agree for the most part in assessing the overall scope of non-controlling interests. Both standards acknowledge participation of non-controlling investors relative to business operations; that is, operations may become compelling enough to override stipulations and limitations contributed by the control element. Additionally, the right to participate in decision-making by itself is not supportive enough to entail the substantive element. A non-controlling party may have the right to terminate a controlling investor and obtain controlling status in special circumstances specific to subsidiary operations. In a special case involving limited partnerships, FASB paragraph 810-10-20 and IFRS 10 legitimize kick-out rights, where limited partners have the right to obtain control from a general partner. This concept and initiative has been applied to the scope of controlling and non-controlling interests in corporate subsidiaries (Shamrock 137-138). However, US GAAP is much more specific in defining the ordinary course of business, as well as the relative decision-making process and how it emphasizes the concept of substantive rights in relation to non-controlling interests. ASC paragraph 810-20-25 specifically states that rights are not substantive if the "ordinary course" arrangement is remote (Shamrock 139). On the other hand, IFRS simply uses power initiative of non-controlling interests and operations impacting return on investment to determine the substantive element. Furthermore, US GAAP legitimizes non-controlling capacity to accept or reject acquisition or disposal of investments and thus, degree of substantive rights, where IFRS does not (Shamrock 139).

The IASB and FASB will continue their mutual efforts to harmonize and converge accounting standards for reporting non-controlling interests in business combinations. Currently, consolidated financial reporting practices for non-controlling interests are very similar between IFRS and US GAAP, but complete progress is yet to be achieved. As discussed previously, IFRS 3 revised indicated changes to IFRS that initiated proximity to US GAAP. Overall, the use of the purchases method under IFRS and the acquisition method under US GAAP embrace the fair value model in allocating acquired net assets and resulting controlling and non-controlling interests upon subsidiary acquisition. After acquisition has taken place, successive reporting periods allocate the non-controlling interest component of equity in accordance with non-controlling interest in subsidiary net income or losses, offset by dividends received by non-controlling parties. In effect, parent company and non-controlling transactions are reflected in equity until control can be redefined (Doupnik, Hoyle, and Schaefer 174). In 2007, SFAS 160 issued by the FASB required non-controlling interest allocation as equity, a change made to US GAAP to effectively mirror IFRS (Doupnik and Perera 471). However, reporting non-controlling interests differs in that IFRS provides the option of using fair value to assess non-controlling interest which, in turn, includes goodwill and allocates it proportionately among controlling and non-controlling interests, and alternatively, the used of proportionate share of the subsidiary's fair value of net identifiable assets which, in turn, excludes goodwill from non-controlling interests and allocates it entirely to controlling interest (Doupnik, Hoyle, and Schaefer 174). Currently under US GAAP, only the former is permitted (Doupnik, Hoyle, and Schaefer 174), and previous to convergence with US GAAP, only the latter was permitted under IFRS (Doupnik and Perera 471). In 2009, IFRS 3 was revised to permit the latter as an option under any circumstance (*US GAAP versus IFRS: The Basics,* 11). However, as of 2012, IFRS 3 has been revised further to allow the latter only in liquidation proceeding and accounting for joint ventures (*US GAAP versus IFRS: The Basics,* 12). Specifically, IAS 31 emphasizes the importance of using proportionate consolidation in the case of a joint venture, defined under IFRS as "a contractual arrangement whereby two or more parties undertake an activity which is subject to joint control" (Doupnik and Perera 472) This, in effect, excludes the accounting practices of non-controlling interests all together. Parties affiliated with joint ventures, however, may not precisely seize proportionate control or interests in net assets and net profits. Thus, contractual arrangements in determining joint control and oversight in the decision-making process are required (Shamrock 165-166). In the case of a joint venture, equity method accounting as investments, an asset, is required under US GAAP, and although currently unchanged, the IASB has worked with the FASB to converge on this requirement (Doupnik and Perera 472).

7.0 CONCLUSION ON FULL CONSOLIDATION AND IFRS AND US GAAP CONVERGENCE

Due to the economic benefits provided by subsidiary acquisitions, full consolidation is commonly required and applied in corporate financial accounting practices. Subsidiary investments, whether domestic or foreign, are required to be consolidated in a business combination if the parent has been determined to possess control over subsidiary operations. In turn, controlling interests as well as non-controlling interests possessed by minority shareholders in income and equity must be reflected in the consolidated financial reports, thus providing transparent operational financial data to users. As indicated, the basis of control as well as some reporting procedures differ among IFRS and US GAAP. Thus, consolidated financial reports may be presented differently among the two sets of standards depending on circumstance. Although the IASB and FASB have worked to converge accounting standards into an overall framework, full progress is yet to be made. However, it has been indicated that convergences in full consolidation have taken place in most significant areas. Goals were initially set by the boards to complete convergence projects by a specific point in time, however, previous attempts of meeting such timelines have failed. Presently as for policy implication, the IASB and FASB hope to achieve full convergence by 2015, although issues and concerns are not currently being addressed. Thus, when taking into consideration IASB's attempt to achieve harmonization among the various accounting practices internationally, it is questionable as to whether IFRS and US GAAP will ever achieve full convergence.

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