A Project On AT&T, Inc.

Unit 4 Individual Project

There are many fundamental principles that dictate the consolidation of financial statements. Some of these factors include the FASB, or Financial Accounting Standards Board. The Generally Accepted Accounting Principles, or GAAP, traditionally require the consolidation of financial reporting with the financial reports of any company that it also holds a controlling financial interest in. There are two models of testing you can use to figure out the controlling financial interest, said models are known as the Variable Interests Entity model and the Voting Interest model. A Variable Interest Entity (VIE) is when a company is able to control and structure the economic performance and has an obligation to either absorb the losses or accept the benefits of significance. If, using this model, it is determined that a specific company is not a Variable Interest Entity, then it is thus considered a Voting Interest Entity. A company that holds a controlling interest is one that holds 50% or more of the voting stock in an entity. However, this guideline does have some limitation on it. A controlling company may go around and avoid the VIE guidelines thus allowing it to engage in what look to be unethical practices. They can only do this by disclosing specific information ("Fasb issues update," 2014).

Consolidated financial statements

Consolidated and equity methods of accounting are quite different. The primary difference being that with consolidated accounting, subsidiaries pretty much don't exist within the realm of financial reporting purposes. The financial statements from both the subsidiary and parent company are put together and combined into one solitary set of financial statements used purely for reporting purposes. These new, consolidated, financial statements are advantageous for when an investor has a controlling interest in an investee obtaining an ownership of at least 50% of the overall voting stock (Hoyle, Schaefer & Doupnik, 2013).

AT&T, Inc

AT&T, Inc. has recently become a heavily discussed topic with its new acquisition of DIRECTV. Before their merger, AT&T already had a large stake in the DIRECTV Company. AT&T holds very diverse investments, these include 38% in Otter Media Holding, 47% in YP Holding, as well as a 40% interest in Roots Sports Southwest. They have also invested in other companies including Leap, Nextwave, Atlantic Tele-Network, NII Holding Inc., and GSF Telecom. Many of their other acquisitions were omitted from the annual financial report. AT&T subscribes to the

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equity method of accounting in all of its investments in which they hold less than 50% interest in voting stock ("AT&T INC 2014," 2015). This equity method is only used when an investor has a lot of influence over those who they're investing in, but without having control via 20-50% ownership of the voting stock (Stice & Stice, 2012). This method of accounting displays a company's investments on their financial statements but not on that of the investee.

Goodwill – AT&T

The asset known as goodwill, is intangible, and it has subjective value. It displays the difference between the acquired assets and liabilities ("Goodwill," 2015). In 2014, AT&T had $69,5692 million of goodwill and $69,273 in 2013, which can be seen on their 2014 consolidated financial statements. The acquisition of Leap as well as the sale of Connecticut are reportedly related to the amount of goodwill in 2014. AT&T utilizes both a market multiple approach ans a discounted cash flow to test their goodwill ("AT&T INC 2014," 2015).

Goodwill – FASB

FASB (financial accounting standards board) Topic 350 and statement no. 142 cover both goodwill and intangible assets. According to FASB statement no. 142, goodwill accounting is measured and reported as units. Goodwill attains an indefinite useful life and thus won't be amortized and those assets that do have finite lives will be amortized throughout their life of usefulness without any constraint whatsoever. Goodwill is always tested for impairment via a two-step process of testing. The first step screens for impairment, and the second step measures it. This testing process is completed annually, but if an asset meets certain parameters, the testing is not required in that year. Any changes in good will in any given period are required to be disclosed ("Summary of statement," 2001).

The Financial Accounting Standards Board Topic 350 includes the following requirements; goodwill that is indeed amortized should do so over 10 years or less via the straight-line method unless that is, a better, more useful life is demonstrated for the goodwill. The next provision states that testing for goodwill should be completed either at the entity level, or at the level of reporting. An assessment of quality can assess whether or not goodwill is impaired and if additional testing will be required ("Intangibles—goodwill and other," 2014).

Prior to the updates included in FASB statement no. 142 of the financial accounting standards, a portion of the goodwill reporting process included the following. Depending on the circumstances, goodwill reporting was tested on an as-needed basis, done as frequently as needed. Entities could either execute qualitative tests or an impairment test. Impairment was calculated based on an analysis urging an implied fair value to determine their impaired-ness. Modern goodwill reporting measurements have eliminated the two step testing process, by

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taking out the second step, they hypothetical analysis of goodwill. Before beginning the impairment test to look at goodwill, a qualitative assessment will be done to determine the need to complete the impairment test.

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