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Variable Interest Entity Consolidation in NetSuite: ASU 2025-03

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Executive Summary

A legal entity that a group owns less than 50% of can still belong on that group's consolidated balance sheet. Under US GAAP (generally accepted accounting principles), the consolidation guidance in ASC 810 (Accounting Standards Codification Topic 810) "applies to all legal entities with some exceptions" (arch.bdo.com), and the variable interest entity (VIE) model decides first whether voting rights are even the right test. An entity is a VIE if, among other characteristics, its equity at risk is insufficient to finance its activities or its voting rights are not proportional to economic exposure (arch.bdo.com). If the entity is a VIE, the reporting entity that has both power and economics is the primary beneficiary and consolidates it (arch.bdo.com).

For founder-owned lessors, franchisee finance vehicles, captive insurers and joint venture (JV) project entities, the practical sequence is: scope, variable interest, VIE test, power, economics, then the related-party tiebreaker. The common 10% equity rule of thumb is a rebuttable presumption, not a safe harbor. Private companies may be able to elect out of the VIE model for certain common-control entities under ASU 2018-17 (Accounting Standards Update), but only through an all-or-nothing policy election.

ASU 2025-03, published on 12 May 2025, is the dated news hook. It applies when a deal is effected primarily by exchanging equity interests and the legal acquiree is a VIE that is a business (viewpoint.pwc.com) (www.crowe.com). In that case the primary beneficiary is no longer automatically the accounting acquirer (www.crowe.com). It takes effect for annual reporting periods beginning after December 15, 2026, and is applied prospectively (iasplus.com). For a calendar-year company that means fiscal 2027.

On the NetSuite side, Oracle's documentation describes subsidiaries in a hierarchy, elimination subsidiaries and consolidated exchange rates (docs.oracle.com). The Oracle Help pages reviewed for this report did not document an ownership-percentage field or a noncontrolling interest (NCI) calculation for OneWorld subsidiaries, and published third-party descriptions differ. Finance teams should therefore treat NCI allocation

as a designed, documented process (journal entries, a reporting layer or an add-on module) and confirm the approach against their own account. This report is analysis for planning purposes, not accounting or legal advice; readers should consult their auditor and a qualified accountant on specific facts.

Introduction and Background

Most finance teams learn consolidation as a simple rule: own more than half the votes, consolidate; own less, use the equity method or cost. That rule is the voting interest model, and it remains the default for corporations. BDO describes the alternative, where an entity is outside the VIE model, as a voting interest entity analysis (arch.bdo.com). Yet control often sits elsewhere: in a lease guaranteed by the operating company, a franchise agreement that dictates how a franchisee spends, a management contract, or a loan that absorbs most of the downside.

This report addresses the earlier question that sits upstream of any elimination entry: should the entity be consolidated at all? The audience is CFOs, controllers and private-equity sponsor finance teams who own, control or fund entities without a simple majority vote. The decision has four parts: whether the entity falls in the VIE model, whether the group is its primary beneficiary, how to set up the entity, NCI and eliminations in NetSuite OneWorld if so, and, for equity-exchange transactions, what ASU 2025-03 changes from 2027.

The research base is a set of accounting-firm technical guides, the text of the Financial Accounting Standards Board (FASB) updates, FASB agenda papers, one public SEC filing and Oracle's NetSuite Help Center. ASU text is cited as reproduced in PwC Viewpoint. No client names or client details appear. The publisher of this report, Houseblend, is a Montréal NetSuite consultancy that implements and administers NetSuite; its relationship to the subject is that of an adjacent advisor on system design, and nothing here is a statement about its services beyond that.

The scope exceptions, thresholds and dates below are as of November 2026 and should be re-checked against the Codification before use.

Why Voting-Interest Thinking Fails

The VIE model exists because equity votes are an unreliable proxy for control in some structures. BDO's consolidation guide describes the order of analysis: determine whether the entity is within scope, then whether the reporting entity holds a variable interest, then whether the entity is a VIE. If the entity is within consolidation scope but outside the VIE model, it is a voting interest entity (arch.bdo.com). The general presentation and disclosure requirements apply to both kinds of entity (arch.bdo.com).

A variable interest is, in BDO's restatement of the definition, a set of "contractual, ownership, or other pecuniary interests in a VIE that change with changes in the fair value" of the entity's net assets (arch.bdo.com). That language is deliberately broad. Equity, loans, guarantees, subordinated support and some fees can all qualify. PwC notes that guarantees of an entity's liabilities "are always variable interests, regardless of the design of the entity" (viewpoint.pwc.com).

Three patterns recur in mid-market and sponsor-backed groups:

- **Control through contracts, not votes:** a franchisor, dealer-finance arm or management company directs the activities that matter without holding a majority of the equity.
- **Thin equity:** a real estate lessor or project vehicle funded mostly by debt that the operating company guarantees, so the equity at risk is small relative to total assets.
- **Related-party chains:** a founder owns the operating company and the lessor directly, so the question becomes which party in the related-party group consolidates.

In each case, a majority-vote analysis would conclude "no consolidation" while the VIE analysis may conclude the opposite. The reverse can also hold: a 40%-owned entity may be consolidated while a 60%-owned one is not, because the VIE test follows power and economics rather than percentage ownership.

The VIE Decision Flow

The decision flow below is a planning aid built from the sequence BDO describes (scope, variable interest, VIE, then primary beneficiary) and from PwC's chapter-level guidance. It is not a substitute for the Codification. *Table 1* summarizes each step, the question to ask and the evidence a controller should assemble.

Step	Question	What the guidance says	Evidence to collect
1. Scope	Is the entity excluded from consolidation or from the VIE model?	The guidance applies to all legal entities "with some exceptions" (arch.bdo.com).	Entity type, governing documents, regulatory status
2. Variable interest	Do we hold a contractual, ownership or other pecuniary interest that varies with the entity's net asset value?	A guarantee of the entity's liabilities is always a variable interest.	Loan agreements, guarantees, leases, fee schedules
3. VIE test	Is equity at risk insufficient, or do equity holders lack power, or are voting rights disproportionate to economics?	Equity at risk below 10% of total assets is presumed insufficient unless shown otherwise (viewpoint.pwc.com).	Balance sheet, fair value of assets, equity terms
4. Power	Who directs the activities that most significantly affect economic performance?	The primary beneficiary needs power over the activities that most significantly affect the entity's economic performance (arch.bdo.com).	Decision rights map, kick-out and participating rights
5. Economics	Do we absorb losses or receive benefits that could be potentially significant?	Both power and economics must be met (arch.bdo.com).	Variability analysis, loans, guarantees, residual interests
6. Related parties	If no single party meets both, does the related-party group, and who is most closely associated?	The party "most closely associated with the VIE" consolidates (viewpoint.pwc.com).	Ownership chart, common-control analysis, de facto agents
7. Private-company election	Does the common-control alternative apply?	ASU 2018-17 offers an all-or-nothing election for eligible private companies (viewpoint.pwc.com).	Parent identity, policy election, disclosure readiness

The table is sequential, but steps 4 to 6 are analytical rather than mechanical. Power is assessed against the activities that most significantly affect the entity. Kick-out rights (the ability to remove the decision maker without cause) and participating rights (the ability to block or participate in actions) matter only if a single party, with its related parties and de facto agents, can exercise them unilaterally. Economics is a qualitative and quantitative judgment, and no bright line is codified.

The Three VIE Characteristics

An entity is a VIE if any one of the characteristics applies. BDO lists, among others, that "the equity at risk is insufficient to finance the legal entity" and that voting rights of some investors are not proportional to their economic exposure. The 10% figure is a rebuttable presumption: "The VIE model establishes a rebuttable presumption that all entities with equity investment at risk of less than 10% of the fair value" of total assets are insufficiently capitalized. The same guide cautions that the presumption is not a safe harbor above 10%.

Limited partnerships get special treatment. PwC states that "An LP can only be a voting interest entity if the limited partners have" kick-out rights or substantive participating rights (viewpoint.pwc.com). Without them, a limited partnership is a VIE, which is why JV vehicles organized as partnerships so often land in the VIE model.

The Related-Party Tiebreaker

When the related-party group collectively holds power and economics but no single member holds both, the guidance asks which party is most closely associated with the VIE. BDO states that the model "requires a reporting entity to identify related parties and de facto agents" (arch.bdo.com). De facto agents can include a party that cannot finance its operations without subordinated support from the reporting entity, which is why a franchisee funded by its franchisor attracts scrutiny.

Illustrative Structures (Hypothetical Examples)

The three examples below are hypothetical and illustrative. They are not drawn from any client or public company, and the conclusions would change with the facts listed. Real conclusions require the full Codification analysis and auditor concurrence.

Founder-Owned Landlord (Hypothetical Example)

An operating company leases its headquarters from an entity owned by the operating company's founder. The operating company guarantees the lessor's mortgage. The guarantee is a variable interest, so the lessor is evaluated as a VIE if its equity at risk is thin or if the operating company's economics are significant. If the operating company directs the key activities (it effectively determines how the property is used and has the economics through the guarantee and lease terms), consolidation is plausible even with no equity. If instead the founder directs the lessor and absorbs the residual, the related-party tiebreaker may point to the founder's side.

For a private operating company, the ASU 2018-17 alternative can change the answer. It lets an eligible private company elect not to apply VIE guidance to legal entities under common control. The election is an accounting policy that must be applied to all qualifying entities rather than selected arrangement by arrangement. In the

period of adoption, the electing entity also gives change-in-accounting-principle disclosures (rsmus.com). The facts that would change the analysis: a public business entity parent, a separate non-family owner, a lessor with unrelated tenants, or a company planning an IPO or sale. RSM warns that if an electing company becomes a public business entity, it must restate previously issued financial statements (rsmus.com).

Franchisee or Dealer Financing (Hypothetical Example)

A franchisor lends to franchisees, guarantees their equipment leases and sets operating standards. Each franchisee is a separate legal entity owned by an individual. The franchisor holds variable interests through loans and guarantees. Whether it has power depends on whether the franchise agreement lets it direct the activities that most significantly affect the franchisee's economic performance (pricing, site selection, purchasing) or only protects the brand. Standard brand-protection rights alone usually leave power with the franchisee's owner, in which case the franchisor does not consolidate. The facts that would change the analysis: control over the franchisee's budget or personnel, subordinated funding that the franchisee could not obtain elsewhere (a de facto agent indicator), or a franchisee designed around the franchisor's needs.

JV Project Vehicle (Hypothetical Example)

Two sponsors form a limited partnership to build a facility. Sponsor A holds 40% of the equity and serves as general partner and operator; Sponsor B holds 60% as a passive investor. Because the limited partner holds no kick-out or substantive participating rights, the partnership is a VIE. Sponsor A has power through the operating agreement and absorbs significant variability through a completion guarantee and a subordinated loan. On those facts Sponsor A is the primary beneficiary and consolidates 100% of the vehicle despite a 40% equity stake, with Sponsor B's interest shown as NCI. The facts that would change the analysis: a substantive kick-out right held by Sponsor B alone, an arm's-length fee only for Sponsor A, or a shared-power arrangement where decisions need unanimous consent.

Public-Company Disclosure as a Reference Point

Public filings show how the ongoing-evaluation requirement reads in practice. One US-listed power producer's FY2024 annual report states: "We evaluate whether an entity is a VIE whenever reconsideration events as defined by the accounting guidance occur" (www.sec.gov). Its VIE note presents "The carrying amounts and classification of the consolidated VIE assets and liabilities included in consolidated balance sheets" (www.sec.gov). These illustrate the disclosure layer discussed under the documentation pack below.

ASU 2025-03: What Changes From 2027

ASU 2025-03, "Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity," was published on 12 May 2025 (viewpoint.pwc.com). Before the update, as Grant Thornton describes it, "the primary beneficiary of the acquired VIE is always the accounting acquirer" (www.grantthornton.com). KPMG notes that the issue often arose in deals where the acquiree was a partnership or partnership-like entity (kpmg.com).

Scope: Two Conditions

The update applies only when two conditions are met. The transaction must be "effected primarily by exchanging equity interests when the legal acquiree is a VIE" (viewpoint.pwc.com), and the legal acquiree must be a business: Crowe lists "The legal acquiree meets the definition of a business" as a condition (www.crowe.com). When both are met, the entity considers the factors in ASC 805-10-55-12 through 55-15, which start with "The relative voting rights in the combined entity after the business combination" (www.grantthornton.com). Grant Thornton adds that a newly formed entity "is not necessarily the acquirer" (www.grantthornton.com).

Consequence: Reverse Acquisition Becomes Possible

Under the legacy rule, Crowe says, the approach "precluded the application of reverse acquisition accounting" (www.crowe.com); Grant Thornton makes the same point, saying such transactions "would not have qualified as reverse acquisitions" (www.grantthornton.com). Now, "The primary beneficiary is no longer automatically the acquirer in these scenarios" (www.crowe.com). CohnReznick observes that in-scope deals bypass the consolidation analysis, which can "result in a reporting entity bypassing the application of consolidation guidance" (www.cohnreznick.com).

Out of Scope: A VIE That Is Not a Business

For the acquisition of a VIE that is not a business, nothing changes. Bonadio states "then the accounting acquirer will always be the primary beneficiary" (www.bonadio.com). BDO says an entity "cannot analogize to the guidance in ASU 2025-03 if the acquired VIE" is not a business, and notes that fewer transactions will be accounted for as business combinations after adoption (arch.bdo.com). When the primary beneficiary initially consolidates a VIE that is not a business, PwC states "no goodwill shall be recognized" (viewpoint.pwc.com). If the VIE is under common control, the primary beneficiary measures the VIE's assets, liabilities and NCI at amounts "at which they are carried in the accounts of the reporting entity that controls the VIE" (viewpoint.pwc.com).

Effective Date and Transition

Table 2 compares the position before and after adoption.

Topic	Before ASU 2025-03	After ASU 2025-03
Accounting acquirer where legal acquiree is a VIE	Primary beneficiary always the acquirer (www.grantthornton.com)	Primary beneficiary no longer automatic if equity-exchange deal and VIE is a business (www.crowe.com)
Factors considered	Consolidation analysis only	ASC 805-10-55-12 to 55-15 factors, such as relative voting rights (www.grantthornton.com)
Reverse acquisition	Precluded for these deals (www.crowe.com)	Possible (www.grantthornton.com)
VIE that is not a business	Primary beneficiary is acquirer (www.bonadio.com)	No change (www.bonadio.com)

Topic	Before ASU 2025-03	After ASU 2025-03
Effective date	Not applicable	Annual periods beginning after December 15, 2026, and interim periods within (viewpoint.pwc.com)
Transition	Not applicable	Prospective (viewpoint.pwc.com)
Early adoption	Not applicable	Permitted as of the beginning of an interim or annual period (viewpoint.pwc.com)

The table shows a narrow change: it affects the identification of the acquirer, not the VIE definition or the primary beneficiary test itself. Deloitte's Heads Up, reproduced by IAS Plus, uses the same date and says "effective for fiscal years beginning after December 15, 2026, including interim" periods (iasplus.com). KPMG reports that the FASB cited operational challenges and limited expected benefits to investors in rejecting retrospective application (kpmg.com). The sources are consistent on the date; none of the pages read for this report presented a conflicting effective date.

What Finance Should Do in 2026 Diligence

Because adoption is prospective and the effective date falls in fiscal 2027 for calendar-year companies, 2026 is the diligence window for pending or planned equity-exchange deals. Practical steps:

- **Map the deal form:** confirm whether consideration is primarily equity, since the update does not apply otherwise.
- **Test the target:** confirm whether the legal acquiree is a VIE and whether it is a business.
- **Draft the factor analysis early:** relative voting rights, governing body, senior management and terms of exchange from ASC 805-10-55-12 to 55-15.
- **Model the reverse-acquisition outcome:** if the acquirer flips, the reporting history and basis of accounting change.
- **Decide on early adoption:** early adoption is available at the start of an interim or annual period; decide with the auditor before signing.
- **Plan the audit evidence:** agree the factor analysis and any early-adoption decision with the auditor before signing.

NetSuite Consequences of Consolidating a VIE

The following describes what Oracle's documentation states and where design choices fall to the implementer. Nothing here is a statement about a product limitation: NetSuite OneWorld is built around legal-entity subsidiaries, and the VIE model asks a question about accounting policy, not about system configuration.

How a Consolidated VIE Appears

Oracle describes OneWorld as a way to "manage data for a hierarchical structure of separate legal entities (subsidiaries)". A consolidated VIE would therefore normally be created as a subsidiary under the primary beneficiary's parent in the hierarchy, even where the group's ownership is below 50%. Whether the entity

should be placed in the hierarchy at all is a function of the primary beneficiary conclusion; a legal entity can be a NetSuite subsidiary without being consolidated for accounting purposes, and the reverse must be handled through process design. This design guidance is the analyst's, not Oracle's.

Consolidated reporting is selected through context. Oracle states that "the Subsidiary Context field in the footer of the report includes options appended with (Consolidated)" (docs.oracle.com). Because the account limit is 250 subsidiaries including the root and elimination subsidiaries are excluded from the count (docs.oracle.com), a group with many small lessor or franchisee VIEs should check the count before modeling each as a subsidiary.

Ownership Percentage Versus Economic Share

The Oracle Help pages on the subsidiary record and consolidation that were reviewed for this report do not document an ownership-percentage field or a built-in NCI calculation. That is an absence in the pages reviewed, not proof that no feature exists. Published third-party descriptions of how OneWorld handles minority interest differ, and none of them is an Oracle Help page, so confirm the behavior in your own NetSuite account before relying on it.

NetSuite's own educational article describes minority-interest calculations as an adjustment that reflects "what is owed to the minority owners" and happens during consolidation (www.netsuite.com). For the group's economic share, the VIE accounting point matters more than the system field: income attributable to NCI follows the contractual arrangements and not merely equity percentage, so an ownership percentage on a subsidiary record, even if it exists, would not by itself produce the right allocation.

Noncontrolling Interest Presentation

The accounting presentation is set by GAAP, not NetSuite. FASB Statement 160, the pre-Codification source for these rules (the Codification superseded all then-existing non-SEC standards, so confirm current wording in ASC 810-10), defines NCI as "the portion of" a subsidiary's equity not attributable to the parent (storage.fasb.org), requires that it be "reported in the consolidated statement of" financial position within equity, separately from the parent's equity (storage.fasb.org), and requires consolidated net income to be reported at amounts that include both parent and NCI shares (storage.fasb.org).

Oracle documents that equity accounts can be set up as intercompany accounts ("You can set up intercompany accounts for this group of account types") and that equity accounts are valued using the historical consolidated exchange rate (docs.oracle.com). A common design pattern, offered as analyst suggestion and not as an Oracle-documented feature, is to create an NCI equity account (and an income attribution account) in the chart of accounts, post the NCI allocation through a documented consolidation journal entry at the parent or elimination level, and show it through Financial Report Builder layouts. Groups with complex allocations may instead use NetSuite's Close Management and Consolidation offering, which is described as "Built from the Oracle Fusion Cloud Enterprise Performance Management (EPM) solution" (www.netsuite.com) and as helping "speed of the close process by reclassifying, adjusting, and eliminating data" (www.netsuite.com).

Elimination Subsidiary Design and Intercompany With the VIE

Oracle states that "OneWorld uses elimination journal entries, associated with elimination subsidiaries, to maintain this balance" (docs.oracle.com). An elimination subsidiary is created as a normal subsidiary "except that you check the Elimination box on the subsidiary record" (docs.oracle.com), and "Only journal entries post to elimination subsidiaries" (docs.oracle.com). In multi-level hierarchies, NetSuite "posts elimination journal entries to the elimination subsidiary for the least common parent node" (docs.oracle.com). Once a VIE is consolidated, loans, lease payments, fees and guarantee-related balances between the VIE and the parent are intercompany items and flow through the same elimination mechanism.

Operationally, the elimination run is a close step: "The last task on the checklist is Eliminate Intercompany Transactions" (docs.oracle.com), and Oracle advises running the reconciliation report first: "Run the Intercompany Reconciliation report before you run intercompany elimination" (docs.oracle.com). The Intercompany Elimination report "provides an audit trail of intercompany eliminations for a period" (docs.oracle.com), which supports auditor evidence requests. Where the VIE is a variable-interest relationship with an outside party (not a subsidiary-to-subsidiary transaction), the item is not an intercompany elimination and requires a separate reconciliation and documentation step.

Design Checklist for a Consolidated VIE (Analyst Suggestion)

The checklist below is the analyst's planning suggestion and is not drawn from Oracle documentation. Each item should be confirmed against the customer's own NetSuite account and with the auditor.

- **Subsidiary record:** create the VIE as a child of the primary beneficiary's parent so that consolidated reports include it.
- **Currency:** confirm the VIE's base currency and that consolidated exchange rates are maintained at each period end.
- **Chart of accounts:** add an NCI equity account and an income attributable to NCI account, labeled per the accounting policy.
- **Allocation schedule:** keep a schedule that allocates income and losses by contractual economics, separate from ownership percentage.
- **Intercompany accounts:** flag loans, lease balances and fees between the VIE and the group for elimination.
- **Elimination subsidiary:** confirm which elimination subsidiary receives entries given the hierarchy depth.
- **Reconciliation:** run the intercompany reconciliation report before each elimination run.
- **Reporting layout:** build consolidated statements that show NCI within equity and attribute net income to parent and NCI.
- **Access and review:** restrict who can post to the NCI accounts and require a documented review each close.
- **Audit evidence:** retain the elimination report, allocation schedule and the VIE memo for the auditor.
- **Reassessment hook:** add a close checklist item that asks whether any reassessment trigger occurred.

Data Analysis and Evidence

The quantitative content in this area is mostly thresholds, dates and illustrative arithmetic rather than market statistics. No published count of VIEs or of consolidations resulting from the model was found in the sources read, and none is asserted.

Documented thresholds and dates:

- **Equity at risk:** presumed insufficient below 10% of total assets, rebuttable, with no safe harbor above it.
- **ASU 2025-03:** published 12 May 2025, effective for annual periods beginning after December 15, 2026, prospective.
- **OneWorld subsidiary limit:** 250 subsidiaries including the root, excluding elimination subsidiaries (docs.oracle.com).

Table 3 is an illustrative consolidation worksheet. It is a hypothetical example with invented figures (in thousands of dollars), showing a VIE in which the parent holds 40% of the equity but is the primary beneficiary. It assumes carrying amounts equal fair values, no goodwill, a parent loan to the VIE of $1,000 and income allocated 60% to the other holders.

Line ($ thousands)	Parent (before VIE)	VIE	Eliminations	Consolidated
Cash and other assets	20,000	10,000	0	30,000
Investment in VIE (40% of equity)	1,200	0	(1,200)	0
Loan receivable from VIE	1,000	0	(1,000)	0
Total assets	**22,200**	**10,000**	**(2,200)**	**30,000**
Third-party liabilities	12,000	6,000	0	18,000
Loan payable to Parent	0	1,000	(1,000)	0
Parent equity	10,200	0	0	10,200
VIE equity	0	3,000	(3,000)	0
Noncontrolling interest (60%)	0	0	1,800	1,800
Total liabilities and equity	**22,200**	**10,000**	**(2,200)**	**30,000**

The worksheet shows the mechanics: the consolidated balance sheet includes 100% of the VIE's assets and third-party liabilities ($10,000 and $6,000) even though the parent owns 40% of its equity. The parent's investment ($1,200) and the loan ($1,000) are eliminated, and the other holders' $1,800 share of VIE equity appears as NCI. If the VIE earned $500 and income followed the contractual economics of 60% to the other holders, $300 would be attributed to NCI and $200 to the parent. If the contractual split differs from ownership percentages, the attribution differs; the guidance follows the arrangements. Presentation and disclosure requirements apply to both VIEs and voting interest entities, and the filing quoted earlier shows the carrying-amount table a primary beneficiary provides (www.sec.gov).

In NetSuite terms, the VIE would be a subsidiary under the parent. The elimination column corresponds to elimination-subsidiary journal entries for the investment and the loan, and the NCI line corresponds to a consolidation entry that the group designs and documents. Oracle's documentation of consolidated exchange rates, including that the historical rate is used for equity accounts, matters when the VIE has a different base currency (docs.oracle.com).

Documentation Pack and Reassessment

A defensible VIE conclusion is a memo plus supporting evidence, refreshed when facts change. The guidance sets the cadence: PwC states "A reporting entity is required to reconsider whether it is the primary beneficiary of a VIE on an ongoing basis" (viewpoint.pwc.com), while VIE status is reconsidered on specified events. Public registrants describe this in their accounting policies, as the filing quoted above shows (www.sec.gov).

Core contents of the documentation pack:

- **Entity profile:** legal form, owners, governing documents, activities, purpose and design.
- **Scope memo:** scope exceptions considered and the conclusion.
- **Variable interest inventory:** every loan, guarantee, lease, fee and equity interest, with the evidence.
- **VIE test:** equity-at-risk analysis against the 10% presumption, power analysis and voting-rights analysis.
- **Primary beneficiary analysis:** power conclusion by activity, economics conclusion, related-party and de facto agent analysis.
- **ASU 2018-17 election record:** whether the private-company alternative is elected, the policy, and the disclosures.
- **System design note:** subsidiary hierarchy, elimination subsidiary, NCI account design and period-close steps.
- **Auditor communication:** conclusions shared and any concurrence recorded.

Reassessment triggers, drawn from the guidance and from practical close calendars, include a change in governing documents, a return of equity or an additional equity contribution, new activities or assets, a new guarantee or loan, a change in who holds kick-out rights, or a change in related-party status. Auditor sign-off is not a codified step, but a pre-agreed memo shortens the year-end cycle. The FASB's staff papers show why the subject remains under review: they report a Private Company Council member's view that "it can be difficult to determine what constitutes common control in family businesses" (storage.fasb.org).

Implications and Future Directions

The FASB has kept the topic on its agenda. Its first-quarter 2026 chair report says the Board added a project on "a definition of the term common control based on existing practice" (storage.fasb.org), and records that staff were directed "to explore potential improvements to the variable interest entity guidance" (storage.fasb.org). EY's weekly summary for the week ending January 29, 2026 confirms the project was added to the technical agenda (www.ey.com). A staff handout says a definition could address challenges in determining whether "private equity portfolio companies are under common control" (storage.fasb.org). No

exposure draft or final standard on the common-control definition appeared in the sources reviewed for this article, so the outcome is not known as of those sources, and groups relying on the private-company election should treat the policy as subject to future change.

For sponsor-backed groups, three implications follow. First, the cost of getting the VIE analysis late is concentrated in transactions: acquisitions, refinancings and exits. Second, ASU 2025-03 shifts attention for equity-exchange deals toward factors such as relative voting rights and governance, and away from the automatic primary-beneficiary outcome. Third, the ERP design should be able to represent a partly owned consolidated entity and its NCI without ad hoc spreadsheet bridges, which is relevant when ERP rationalization follows an acquisition.

Where an implementation or acquisition-integration partner is useful is narrow. The accounting conclusion belongs to management and the auditor. A NetSuite partner can help translate that conclusion into subsidiary and account structure, elimination design, NCI journals or reporting layouts, and close checklist steps, and can test them before the first audit cycle. Houseblend is one such provider of NetSuite implementation and administration services; the platform decisions, including whether to use native OneWorld features, Close Management and Consolidation or an add-on module, are the customer's, and none of the options here is a recommendation against Oracle NetSuite.

Frequently Asked Questions (FAQs)

How do I determine the primary beneficiary of a VIE?

Test power and economics. BDO states that "A reporting entity is the primary beneficiary of a VIE if it has power and economics". Power is the ability to direct the activities that most significantly affect performance; economics is an obligation to absorb losses or right to receive benefits that could be potentially significant. If the related-party group collectively meets both but no one party does, the tiebreaker applies.

What is the difference between the VIE model and the voting interest entity model?

The voting interest model applies when an entity is outside the VIE model, and it generally looks to majority voting control. The VIE model looks at equity sufficiency, power and economics. Limited partnerships are voting interest entities only if limited partners have kick-out or substantive participating rights.

What does ASU 2025-03 change, and when is it effective?

It changes the identification of the accounting acquirer where the deal is primarily an equity exchange and the VIE is a business (www.crowe.com). It is effective for annual reporting periods beginning after December 15, 2026 (iasplus.com), applies prospectively, and permits early adoption.

What happens when the VIE acquired is not a business?

The primary beneficiary remains the accounting acquirer, and no goodwill is recognized on initial consolidation.

What journal entries does consolidating a VIE involve?

At a high level: combine the VIE's assets and liabilities, eliminate the parent's investment against VIE equity, eliminate intercompany loans and balances, and record NCI for equity held by others (see *Table 3*). In NetSuite, eliminations post to elimination subsidiaries as journal entries.

How is noncontrolling interest handled in NetSuite?

Presentation follows GAAP (storage.fasb.org). The Oracle Help pages reviewed did not document a built-in NCI calculation, and published third-party descriptions differ, so groups should design and document NCI journals or use a consolidation module and confirm against their own account.

Does OneWorld handle intercompany elimination with a VIE?

Yes in the sense that a consolidated VIE set up as a subsidiary participates in the elimination process, which is a Period Close Checklist task (docs.oracle.com).

Conclusion

Consolidation of a variable interest entity turns on power and economics, not on a majority vote. The decision flow runs from scope to variable interest, the VIE test, power, economics and the related-party tiebreaker, with a private-company common-control election available in limited circumstances under ASU 2018-17. For equity-exchange deals, ASU 2025-03 removes the automatic link between primary beneficiary and accounting acquirer for VIEs that are businesses, effective for annual periods beginning after December 15, 2026, prospectively.

In NetSuite, a consolidated VIE is naturally a subsidiary in the OneWorld hierarchy with eliminations through elimination subsidiaries. The documented features cover hierarchy, consolidated reporting and eliminations; NCI allocation based on contractual economics is a design and documentation task that the group should settle with its auditor and implementation team before the first close. This report is not accounting, legal or tax advice.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

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