

Financial accounting

Topic 4: **Accounts of holding company**

Holding company

When the company acquires the majority of shares in the ownership capital or is in a position to influence or control the management of the other company, the company is called the **holding company** and the other company is called **subsidiary company**.

As per 2(46) of the Companies Act, 2013 defines holding company as: A company which has one or more subsidiary company having full control over them. It is formed for the purpose of purchases and owning share in other company. Holding company offers several benefits such as gaining more control, retaining the management of the subsidiary firm and incurring lower tax liabilities.

As per section 4 of the Companies Act, 2013- A company shall be deemed to be the subsidiary company of the other if:

i) The holding company controls the composition of the Board of Directors of the subsidiary company;

- ii) The holding company controls more than half of the total voting power of such company; and
- iii) The holding company hold more than half of nominal value of its equity share capital

SUBSIDIARY COMPANY

Section 2(87) of the Companies act, 2013 defines "Subsidiary Company" as an enterprise that is controlled by another enterprise (known as holding company). Subsidiary companies are of two types.

i) Wholly owned: This is the company in which 100% of the shares and the voting rights are owned by holding company

ii) Partly owned: This is the company in which more than 50 % but less than 100% shares and voting rights are owned by holding company. In this type of subsidiary, some of the shareholders of the subsidiary do not sell their shares to the holding company and these shareholders are known as Minority Shareholders.

AS. 21 CONSOLIDATION OF FINANCIAL STATEMENT

AS. 21 come into effect in respect of accounting periods commencing on or after 1st April i.e. for year ending 31st March 2002

.The A.S. 21 is applicable to all the enterprises that prepare consolidated financial statement.

As per AS 21, The Consolidated financial statements would include:

- i) Profit & Loss A/c
- ii) Balance sheet
- iii) Cash flow statement
- iv) Notes of Accounts except typical notes.
- v) Segment reporting

CONSOLIDATION OF BALANCE SHEET

A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Preparation of consolidated balance sheet

- 1) Share of holding company and share of minority (outside shareholders).
- 2) Date of Balance sheet of holding company and that of various subsidiary companies must be same. If they are not so necessary adjustment must be made before consolidation.
- 3) Date of Acquisition of control in subsidiary companies.
- 4) Inter company owing.
- 5) Revaluation of fixed assets as on date of acquisition, depreciation, adjustment on revaluation amount etc

MINORITY INTEREST

The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet.

Thus, minority interest is the share of outsider in the following.

- 1) Share in share capital in subsidiary.
- 2) Share in reserves (Both pre and post acquisition of subsidiary).
- 3) Share in accumulated losses should be deducted.
- 4) Proportionate share of profit or loss on revaluation of assets.

5) Preference share capital of subsidiary company held by outsiders and dividend due on such share capital, if there are profits

COST OF CONTROL / GOODWILL / CAPITAL RESERVE

If the amount paid by the holding company for the shares of subsidiary company is more than its proportionate share in the net asset of the subsidiary company as on the date of acquisition, the difference is considered as **goodwill**.

If there is excess of proportionate share in net assets of subsidiary company intrinsic of shares acquired and cost of shares acquired by holding company there will be **capital reserve** in favour of holding company.

If goodwill already exists in the balance sheet of holding company or both the goodwill thus calculated, will be added up to the existing goodwill. Capital Reserve will be deducted from Goodwill..

Balance sheet of M Ltd and subsidiary P Ltd

Equity and liability	M Ltd	P Ltd	Assets	M Ltd	P Ltd

Equity			Non-current Asset		
Equity share capital (fully paid of Rs.100)	400000	180000	Land & buildings	320000	230000
Retained earnings	150000	40000	Shares in P Ltd 1500 shares	280000	
Surplus	50000	30000	Current Assets	40000	70000
Current liabilities					
Trade creditors	40000	50000			
TOTAL	640000	300000	TOTAL	640000	300000