Holding Company as per Companies act 2013

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Sem : 6
Sub: Corporate Accounting

MEANING AND DEFINITION OF HOLDING AND SUBSIDIARY COMPANY

- According to section 2(46) of the Companies Act, 2013, "holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.
- According to section 2(87) of the Companies Act, 2013, "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—
- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:
- Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed. For the purposes of this clause,—
- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause
- (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression "company" includes any body corporate;
- (d) "layer" in relation to a holding company means its subsidiary or subsidiaries. The definition of a subsidiary as per the 2013 Act includes associates and joint ventures.
- ***Explanation with Example*** Suppose, H is holding company of S because 51 % shares are of H in S. S is also of holding Company of R because S have power to appoint the board of directors of R Company and then H is also holding Company of R

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AS PER THE COMPANIES ACT

- The Companies Act 1956 Act does not require preparation of consolidated financial statements (‘CFS’). However, listed entities are required to prepare CFS (as per SEBI regulations). The Companies Act 2013 has made preparation of consolidated accounts mandatory for companies having one or more subsidiaries or associates or joint ventures. According to sub section 3 of the section 129 of the Companies Act, 2013, where a company has one or more subsidiaries or associates or joint ventures, it shall, in addition to its financial statements for the financial year, prepare a consolidated financial statement of the company and of all the subsidiaries or associates or joint ventures in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement.
- The requirement to prepare CFS is largely consistent with internationally accepted practices. However, internationally, such requirements apply only to listed companies; and unlisted intermediate entities are generally exempted. The existing Indian and international accounting practices do not require preparation of CFS when the Company has investments only in associates and joint ventures (no subsidiaries).
- According to the rules, the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries or associates or joint venture in the Form 9.1.
- The Consolidation of financial statements of the company shall be made in accordance with the Accounting Standards, subject however, to the requirement that if under such Accounting Standards, consolidation is not required for the reason that the company has its immediate parent outside India, then such companies will also be required to prepare Consolidated Financial Statements in the manner and format as specified under Schedule III to the Act.

SCHEDULE III OF THE COMPANIES ACT, 2013

- The Schedule III of the Companies Act, 2013, provides certain general instructions for the preparation of consolidated financial statements.
- 1. Accordingly, where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of Schedule III of the Companies Act, 2013, as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:
- (i) Profit or loss attributable to “minority interest” and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.
- (ii) “Minority interests” in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

PREPARATION OF CONSOLIDATED BALANCE SHEET

- The following are the most important points which reserve special consideration in the preparation of the consolidated Balance Sheet of the holding company and its subsidiaries.

INVESTMENT IN SHARES OF SUBSIDIARY COMPANY

- (a) when all the shares of the subsidiary are held by the holding company - (acquired at par): In such a case, the investment in shares of subsidiary company represent the ownership of the holding company in the equity or net assets of the subsidiary company. Net assets are the difference between the total assets and the liabilities of the subsidiary. Net assets are also equal to the total of all accounts relating to the shareholders, i.e., Share Capital, Reserves, Profit and Loss Account balance, etc. The principle of consolidation is very simple in this case. While preparing the Consolidated Balance Sheet, investments of the holding company in shares of subsidiary company have simply to be replaced by the net assets (i.e., total assets and liabilities) of subsidiary company.

Illustration 1

The Balance Sheet of the H Ltd. and S Ltd. as on 31st March, 2014 are given below:

	H Ltd. Amount (`)	S Ltd. Amount (`)
I EQUITIES AND LIABILITIES		
1 Shareholders' funds		
(a) Share Capital		
Authorised, Issued subscribed and paid up capital		
Equity shares of ` 100 each, fully called up and paid up	6,00,000	2,00,000
(b) Reserve and surplus		
Profit and Loss A/c	80,000	80,000
2 Current Liabilities		
Trade Payables	75,000	48,000
TOTAL	7,55,000	2,48,000
II. ASSETS		
1 Non-current Assets		
(a) Fixed Assets		
Fixed Assets	5,55,000	2,48,000
(b) Long term Investment Shares in S Ltd. (at cost	2,00,000	–
TOTAL	7,55,000	2,48,000

Solution:

- **Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.as at 31st March, 2014**

■ I **EQUITIES AND LIABILITIES**		*S Ltd.* **Amount** (`)
■ 1 **Shareholders' funds**		
(a) Share Capital		
Authorised, Issued subscribed and paid up capital		
Equity shares of ` 100 each, fully called up and paid up		6,00,000
(b) Reserve and surplus		
Surplus A/c		80,000
■ 2 **Current Liabilities**		
Trade Payables		
H Limited	75,000	
S Limited	48,000	1,23,000
■ **TOTAL**		**8,03,000**
■ **II ASSETS**		
■ 1 **Non-current Assets**		
(a) Fixed Assets		
H Limited	5,55,000	
S Limited	2,48,000	8,03,000
■ **TOTAL**		**8,03,000**

- It is clear from the above consolidated balance sheet that the investment of H Ltd. in shares of S Ltd. Amounting to ` 2,00,000 has been replaced by the net assets of S Ltd. amounting to ` 2,00,000 (i.e., Sundry Assets `2,48,000 - Trade Payables ` 48,000)

When some of the shares of the subsidiary are held by the outsiders

- In such a case, the outsiders holding shares in the subsidiary company will naturally claim a share in the net assets (i.e., the total assets minus liabilities) of the subsidiary company in proportion to their shareholding. While preparing the consolidated balance sheet, the amount of claim of the outside shareholders must be treated as a liability of the holding company and as such it has to be shown on the liabilities side of the balance sheet under the heading "Minority Interest". All the assets and liabilities of the subsidiary company have to be merged with those of the holding company which will eliminate investments of the holding company in the shares of the subsidiary company.

MINORITY INTEREST

- The claim of outside shareholders in the subsidiary company has to be assessed and shown as a liability in the consolidate balance sheet. In the above Illustration, minority interest consists only the face value of the shares held by them. But it may so happen that the subsidiary company may have some accumulated profits and reserves or accumulated losses. Besides, it may have some profits or losses on account of revaluation of its assets on the date of acquisition of shares by the holding company. While calculating the amount of minority interest, all these items have to be taken into account and proportionate share of all such profits and reserves should be added to the amount of minority interest while proportionate share of all such losses should be deducted from the minority interest, thus, Minority Interest = paid-up value of shares held by minority shareholders + proportionate share of the company's profits and reserves + proportionate shares of profits on revaluation of assets of the company – proportionate share of company's losses – proportionate share of loss on revaluation of assets of the company.
- The company's profit and reserves or loss will include both pre-acquisition and post-acquisition profits and reserves or losses.
- But, if there are some preference shares of the subsidiary company held by outsiders, the minority interest in respect of the preference share will consist only of the face value of such shares and the dividend due on such shares if there are profits.

PRE-ACQUISITION PROFITS AND RESERVES OF SUBSIDIARY COMPANY

- Accumulated profits and reserves which appear in the balance sheet of the subsidiary company up to the date of acquisition of its shares by the holding company are called pre-acquisition profits and reserves. Both the holding company and the minority shareholders will have proportionate share in such profits and reserves. The share of the minority shareholders in such profit and reserves will be added to the amount of minority interest. But the holding company’s proportionate share in such profits and reserve should be treated as capital profits and credited to Capital Reserve since the holding company cannot earn any revenue profits from its subsidiary before the shares are acquired in it. While preparing the consolidated balance sheet, this Capital Reserve should be shown on the liabilities side or if there is any Goodwill, it can be shown as a deduction from the Goodwill in the assets side.

PRE-ACQUISITION LOSSES OF SUBSIDIARY COMPANY

- Accumulated losses of the subsidiary company upto the date of acquisition of shares by the holding company are called pre-acquisition losses. Both the holding company and the minority shareholders must share such losses in proportion to their respective holdings. The minority shareholders' share of such losses should be deducted from the amount of Minority Interest. But the holding company's share of such losses should be treated as capital loss and debited to Goodwill account. While preparing the Consolidated Balance Sheet, this Goodwill Account should be shown as an asset.

PROFIT ON REVALUATION OF ASSETS OF SUBSIDIARY COMPANY

- If there is any profit resulting from the revaluation of assets of the subsidiary company whether before or after the date of acquisition of shares by the holding company, the same must be shared both by the holding company and the minority shareholders in proportion to their respective holdings. The minority shareholders' share of such profit should be added to the Minority interest. But the holding company's share should be treated as capital profits and dealt with like pre-requisitions profit and reserve. Further, adjustment for depreciation on the increases or decreases in the value of assets would be made in the profit and loss account of the subsidiary. For appreciation in the value of assets, depreciation charge would be increased proportionately and the same would be deducted from the revenue profits of the subsidiary company. On the other hand, for revaluation loss due to decrease in the value of assets, excess depreciation provision should be written back.

LOSS ON REVALUATION OF ASSETS OF SUBSIDIARY COMPANY

- If there is any loss resulting from the revaluation of the assets of the subsidiary company as on the date of acquisition of shares by the holding company the same must be shared both by the holding company and the minority shareholders in proportion to their respective holdings. The minority shareholders’ share of such loss should be deducted from the amount of Minority interest. But, the holding company’s share of such loss should be treated as capital loss and dealt with like pre-acquisition losses. But, if such loss occurs after the date of acquisition of shares by the holding company the same should be treated as ordinary loss.

GOODWILL OR COST CONTROL

- In actual practice, it rarely happens that the cost of acquisition of shares in the subsidiary company agrees exactly with intrinsic value of the shares (i.e. the net assets of the subsidiary company) on the date of acquisition. If the price paid by the holding company for the shares acquired in the subsidiary company is more than the intrinsic value of the shares acquired, the difference should be treated as Cost of Control or Goodwill. If on the other hand, the price paid by the holding company for the shares acquired in the subsidiary company is less than the intrinsic value of the shares acquired, the difference should be treated as capital profits and credited to Capital Reserve. It should be noted that while computing the intrinsic value of the shares as on the date of acquisition of control, all profits and losses up to that date, have to be taken into account. While preparing the consolidated balance sheet, such Goodwill or Capital Reserve, whatever may be the case, must be shown in the Balance Sheet.

POST-ACQUISITION PROFITS OR LOSSES

- Profits earned or losses incurred by the subsidiary company after the date of acquisition of its shares by the holding company are called post-acquisition profits or losses. Both the holding company and the minority shareholders should share such profits or losses in proportion to their respective holdings. The minority shareholders' share in such profits should be added to the amount of minority interest while their share in such losses should be deducted. So far as the minority shareholders are concerned, there is no difference between the pre-acquisition profits or losses and the post-acquisition profits or losses. But, so far as the holding company is concerned, it makes a lot of difference. The holding company's share of such profits or losses should be treated as revenue profits or losses and as such credited or debited to its profit and loss account.

INTER-COMPANY UNREALISED PROFITS INCLUDED IN UNSOLD GOODS

- If goods are sold by one company to the other (i.e., by the holding company to its subsidiary or *vice-versa*) at a profit and a part of it remains unsold at the end of the year, the unrealised profit and such goods remaining unsold must be provided for. But it is important to note here that the minority shareholders will not be affected in any way. Such unrealised profit has to be eliminated from the consolidated balance sheet in the following manner:

(i) The unrealised profits should be deducted from the current revenue profits of the company which sold the goods.

(ii) Again, the same should be deducted from the value of stock-in-trade of the company concerned.

INTER-COMPANY TRANSACTIONS

- The holding company and the subsidiary company may have a number of inter-company transactions in anyone or more of the following matters:
- (i) Loans advanced by the holding company to the subsidiary company or vice versa. This appears as an asset in the balance sheet of the company which gives loan and as a liability in the balance sheet of the company which takes the loan. If S Ltd. has taken a loan of ` 20,000 from H Ltd. then S Ltd.'s balance sheet shows a liability of ` 20,000, while H Ltd.'s balance sheet shows an asset of ` 20,000.
- (ii) Bills of exchange given by one company and received by another company appears as bills payable in the balance sheet of the accepting company and as bills receivable in the balance sheet of the drawer company. If H Ltd. draws a bills of ` 10,000 on S Ltd. then H Ltd.'s books will show bills receivable `10,000 while. S Ltd.'s books will show bills payable ` 10,000.
- (iii) Transactions relating to sale and purchase of goods on credit similarly appears as debtors in the balance sheet of the company selling goods and as creditors in the balance sheet of the company purchasing the goods.
- (iv) Debentures issued by one company may be held by the other. If S Ltd. issues debentures of ` 50,000 which are held by H Ltd. then S Ltd.'s books will show a liability of ` 50,000 while H Ltd. books will show an asset of `50,000. All the above inter-company transaction have to be eliminated while preparing the consolidated balance sheet. This can be done by deducting the inter company transactions from the respective items on both sides of the balance sheet.

CONTINGENT LIABILITIES

- If the contingent liabilities relate to the outsiders they must be shown by way of a footnote in the consolidated balance sheet. But a contingent liability in respect of a transaction between holding and subsidiary companies (internal contingent liability) will disappear from the foot note as they appear as actual liability in the consolidated balance sheet.

PREFERENCE SHARES IN SUBSIDIARY COMPANY

- Preference share capital in subsidiary company should be shown along with minority interest in the consolidated balance sheet. However, if a part of the nominal value of non-participating preference share capital of the subsidiary is held by the holding company, it should be adjusted in cost of control against the cost of investment in preference shares. The balance of the preference share capital held by the outsiders should be included in minority interest.

BONUS SHARES

- The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as the minority shareholders. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits.

(a) *Issue of bonus shares out of capital profit (Pre-acquisition profits):* In this case there will be no effect on accounting treatment because while calculating the cost of control the share of the holding company in pre-acquisition profit is reduced because of capitalisation of profit and the paid-up value of shares held in subsidiary company is increased. Hence there is no effect on cost of control when bonus shares are issued from pre-acquisition profit.

(b) *Issue of bonus shares out of post acquisition profit:* In this case, a part of the revenue profits will get capitalised resulting in decrease of cost of control or increase in capital reserve.

TREATMENT OF DIVIDEND

- Dividends may be received out of capital or revenue profits of the subsidiary company. Dividend received by the holding company from the capital profits of the subsidiary company are credited to investment in shares of the subsidiary account thereby reducing the cost of control or increasing capital reserve. On the other hand, dividend received out of the revenue profits (i.e., post-acquisition profits) are treated as income and credited to profit & loss Account by the holding company. If dividend declared partly out of capital profits (i.e., pre-acquisition profits) and partly out of revenue profits (i.e., post- acquisition profits), the dividend received is divided into two parts in proportion to its declaration out of capital profits and revenue profits. The dividend pertaining to the first part (i.e., capital profits) is credited to Investment Account reducing the cost of control or increasing the capital reserve and dividend pertaining to the second part (i.e., revenue profits) is credited to profit and loss Account or surplus account. It may be noted that in the absence of information whether dividend has been declared out of pre-acquisition or post-acquisition profits, it is assumed that dividend is out of profits for the year for which the dividend is declared. If the dividend has simply been proposed by the subsidiary company and appears as 'Proposed Dividend' in its Balance sheet, holding companies share of such dividend will appear with the Surplus or Profit & loss Account balance in the consolidated Balance sheet and share of such dividend belonging to minority shareholders will be added to minority interest. Proposed dividend need not be shown in the consolidated Balance sheet because it has been added to the minority interest and profit & loss Account balance of the holding company. If *proposed dividend* is not given in the *Balance sheet* of the subsidiary company or directors of this company have not appropriated the profits for proposed dividend, then the following procedure is followed:

(i) Calculate the cost of control and minority interest etc. in the usual manner without any adjustment for the proposed dividend.

(ii) Deduct from minority interest its share of proposed dividend and show the same as a separate item in the consolidated Balance sheet.

PREPARATION OF CONSOLIDATED PROFIT AND LOSS STATEMENT

- While preparing the Consolidated Profit and Loss Statement of the holding company and its subsidiary, the items appearing in the Profit and Loss Statement of the holding and subsidiary companies have to be aggregated. But in doing so, the following adjustments have to be made:

(i) Transfer of goods between the holding company and the subsidiary company should be eliminated both from the purchases and sales appearing in the Consolidated Profit and Loss Statement.

(ii) Stock Reserve for unrealised profit in respect of inter-company transactions should be created by debiting Consolidated Profit and Loss Statement and crediting Stock Reserve Account.

(iii) The share of profits of the subsidiary company arising before the date of acquisition of shares by the holding company that belongs to the holding company will be debited to the Consolidated Profit and Loss Statement and credited to Capital Reserve or Goodwill Account as the case may be. In case of loss the entry will be just reversed.

(iv) The share of profits or losses belonging to the minority shareholders will be respectively credited or debited to Minority Interest Account.

(v) Dividends received from the subsidiary company by the holding company should be eliminated from both the sides of the Consolidated Profit and Loss Statement.

(vi) Care should be taken to see that both the companies pass entries for interest accrued and outstanding on debentures of the subsidiary company held by the holding company. The debenture interest should be eliminated from both the sides of the Consolidated Profit and Loss Statement to the extent to which it relates to the debentures held by the holding company.

(vii) If the subsidiary company has passed entries for proposed dividend and the holding company has taken credit for its shares of the dividends, the holding company's share should be eliminated from both the sides of the Consolidated Profit and Loss Statement. The necessary changes should also be made on both the sides of the Consolidated Balance Sheet. However, if the holding company has not passed entries for proposed dividends of the subsidiary company, the debit in respect of the proposed dividend should be reduced by the holding company's share in such proposed dividend and obviously, the liability in respect of proposed dividend in the Consolidated Balance Sheet should also be reduced.

(viii) If there are profits and the dividends on cumulative preference shares are in arrears, the arrears of dividends on preference shares held by the Minority shareholders should be debited to the Consolidated Profit and Loss Statement and credited to Minority Interest Account.

(ix) If fixed assets of the subsidiary company are revalued at the time of acquisition of shares by the holding company without any alteration in book-values, the excess or short depreciation should be adjusted by debiting or crediting the Consolidated Profit and Loss Statement and crediting or debiting the respective Asset Account.

(x) The minority interest will consist of its proportion of total profits after adjustment of excess or short depreciation due to over or under valuation of fixed assets, but before adjusting the proportionate unrealised profit on stock. It is important to note here that the consolidated Profit and Loss Statement has got no concern with the Consolidated Balance Sheet. It is prepared in addition to the Consolidated Balance Sheet to serve the purpose of showing the total profits earned by the group of companies for a particular period.

Illustration:

- The following are the balance sheets of H. Ltd. And its subsidiary S. Ltd. As on 31st March,2009.

Particulars	H Ltd (Rs)	S Ltd (Rs)
Equity and Liabilities		
1. Shareholders funds		
a) Share Capital (Equity share of Rs 100 each paid up)	10,00,000	8,00,000
b) Reserve and surplus		
General reserve	2,00,000	2,00,000
profit & loss A/c	4,00,000	3,00,000
2. Current liabilities	2,00,000	2,00,000
Total	18,00,000	15,00,000
Assets		
1. Non current assets		
a) Fixed assets	5,00,000	4,00,000
b) Non current investments (investment in S Ltd)	5,00,000	-
2. Current assets	8,00,000	11,00,000
Total	18,00,000	15,00,000

Further information:

i) H ltd acquired 3,000 shares in S ltd on 1.4.2008 when the reserve and surplus of S ltd was as under:

a) General reserve - Rs 5,00,000 b) profit & loss A/c (Cr) - Rs 2,00,000

ii) On 1.10.08 S.ltd issued 3 fully paid up shares for every 5 shares held, as bonus out of pre acquisition reserve.

iii) On 30.06.08 S ltd declared 20% dividend out of pre acquisition profits and H ltd credited the receipt of dividend to its profit & loss A/c.

iv) S ltd owed H ltd on 31.03.09 Rs. 1,00,000 for purchase of stock from H ltd . The entire stock is held by S ltd on 31.03.09. H ltd made a profit of 25% on cost.

v) H ltd transferred for cash payment a machine to S ltd for Rs. 80,000, the book value of the machine to H ltd was Rs 60,000.

Prepare Consolidated Balance sheet as at 31.03.09. Depreciation on machinery is to be ignored.

Solutions:

- Control Chart (A): Minority Interest

Sl No	Particulars		Amt.	Share of H. ltd	Share of Minority Holders
1.	Degree of Control (W.N 1)			3000/5000=3/5	2/5
2.	Share capital of S ltd including Bonus		8,00,000		
	Less: Share of Minority holders		3,20,000		3,20,000
	Transfer to cost of control			4,80,000	
3.	Capital Profit:				
a)	Pre-acquisition Profit:				
	P/L of S Ltd on 1/4/2008		2,00,000		
	Less: Pre-acquisition dividend		1,00,000		
	(5,00,000*20%)		1,00,000		
b)	Pre-acquisition Reserve				
	Reserve on 1/04/08	5,00,000			
	Less: Bonus Issue(3000*100)	3,00,000			
			2,00,000		
			3,00,000		
	Less: Share of Minority Holder		1,20,000		1,20,000
	Transfer to cost of control			1,80,000	
4.	Post-acquisition reserve & surplus:				
a)	Post-acquisition Profit:(3,00,000-1,00,000)		2,00,000		
	Less: share of minority holder		80,000		80,000
	Transfer to Consolidated P/L			1,20,000	
b)	Post-acquisition Reserve:				
	(2,00,000-2,00,000)		Nil	-	-
	Minority Interest(2+3+4)				5,20,000

Cost of Control(Chart: B)

Particulars	Amt	Amt.
Cost of investment in S ltd		5,00,000
Less: face value of investment in share including bonus share	4,80,000	
Less : share of capital profit	1,80,000	
Less: share of pre-acquisition dividend wrongly credited in P/L (100,000*3/5)	60,000	7,20,000
Capital Reserve		2,20,000

Consolidated Balance Sheet of H ltd with subsidiary S ltd as on 31/03/2009

SL No	Particulars	Note No	Amt
	Equity and Liabilities		
1.	Shareholders Fund:		
a)	Share capital of H Ltd		10,00,000
b)	Reserve & Surplus	1	8,40,000
2.	Minority Interest (Chart A)		5,20,000
3.	Non-current liabilities		--
4.	Current liabilities	2	3,00,000
	Total		26,60,000
	Assets		
1.	Non-current assets		
a)	Fixed assets (tangible)	3	8,80,000
2.	Current assets	4	17,80,000
	Total		26,60,000

Notes to Accounts:

Note no	particulars	Amt	Amt
1.	Reserve & Surplus:		
	a) Capital reserve (cost of control)		2,20,000
	b) Consolidated reserve of H ltd		2,00,000
	c) Consolidated P/L A/C of H ltd	4,00,000	
	Add: share of post acquisition P/L of S ltd	1,20,000	
		5,20,000	
	Less : unrealized profit on stock(100,000*1/5)	20,000	
	Less : profit included in machinery(80,000-60,000)	20,000	
	Less : share of pre acquisition dividend wrongly credited In P/L A/C	60,000	4,20,000
	Total		8,40,000
2.	Current liabilities: H Ltd.	2,00,000	
	S Ltd	2,00,000	
		4,00,000	
	Less : mutual debts set off	1,00,000	
			3,00,000

Notes to Accounts:

Note no	particulars		Amt	Amt
3.	Fixed Assets(tangible):	H Ltd	5,00,000	
		S Ltd	4,00,000	
			9,00,000	
	Less: profit included in machinery of S Ltd		20,000	
				8,80,000
4.	Current Assets:	H Ltd	8,00,000	
		S Ltd	11,00,000	
			19,00,000	
	less : unrealised profit on stock		20,000	
	less: mutual debts set off		1,00,000	
		Total		17,80,000

Working note 1

a) Degree of control

The no of share of S Ltd before bonus issue = 8000*5/8=5000 shares (ratio of bonus 3:5)

Control of H Ltd =3000/5000=3/5th

LESSON ROUND-UP

- – A holding company is one which acquires all or a majority of the equity shares of any other company called subsidiary company in order to have control over the subsidiary company.
- – Consolidation of balance sheet and profit and loss account implies preparation of a single balance sheet and profit and loss account of the holding company and its subsidiaries by aggregating all items of assets, liabilities, incomes, expenses, etc., of the holding company and its subsidiaries.
- – Investment in shares of subsidiary company represents the ownership of the holding company in the equity or net assets of the subsidiary company.
- – Minority interest is *equal to* the paid-up value of shares held by minority shareholders *plus* proportionate share of the company's profits and reserves *plus* proportionate shares of profits on revaluation of assets of the company *minus* proportionate share of company's losses *minus* proportionate share of loss on revaluation of assets of the company.
- – Accumulated profits and reserves which appear in the balance sheet of the subsidiary company up to the date of acquisition of its shares by the holding company are called pre-acquisition profits and reserves.
- – Accumulated losses of the subsidiary company upto the date of acquisition of shares by the holding company are called pre-acquisition losses.
- – If the price paid by the holding company for the shares acquired in the subsidiary company is more than the intrinsic value of the shares acquired, the difference is treated as cost of control or goodwill.
- – If the price paid by the holding company for the shares acquired in the subsidiary company is less than the intrinsic value of the shares acquired, the difference is treated as capital profits and credited to capital reserve.
- – Profits earned or losses incurred by the subsidiary company after the date of acquisition of its shares by the holding company are called post-acquisition profits or losses.
- – When goods are sold by one company to the other at a profit and a part of it remains unsold at the end of the year, there arise the unrealised profit on such goods remaining unsold.
- – The holding company and the subsidiary company may have a number of inter-company transactions which may be eliminated while preparing the consolidated balance sheet.
- – Contingent liabilities relate to the outsiders must be shown by way of a footnote in the consolidated balance sheet. But a contingent liability in respect of a transaction between holding and subsidiary companies will disappear from the foot note.
- – Issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as the minority shareholders. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue

Thank You