

Accounts of Holding Companies Part-I

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Introduction

As per Section 2(87) “**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. Thus,

- a) A **subsidiary** is an enterprise that is controlled by another company (known as parent).
- b) A **parent/ holding** is an enterprise that has one or more subsidiaries.
- c) A **group** is a parent and all its subsidiaries.

Wholly owned and Partly owned Subsidiaries

A **Wholly Owned Subsidiary** is one in which 100 percent shares with voting rights are owned by holding company. On the other hand, in a **Partly Owned subsidiary**, only the majority of shares i.e. more than 50% are owned by the holding company. In a partly owned subsidiary, some of the shareholders do not sell their shares to the holding company. Such shareholders are known as “**Minority Shareholders**”.

Every Company having a subsidiary or subsidiaries has to submit Consolidated Financial Statement in addition to its own ‘financial statement’.

Consolidated Balance Sheet

Preparation: In simple terms, consolidation of balance sheets can be achieved by adding items in the accounts of the holding company to the same items in the accounts of the subsidiary company or companies. **But this aggregation of items is subject to following exceptions:**

- (i) Investments made by holding company in the share capital of subsidiary company. [See Cost of Control]
- (ii) Negative surplus in the profit and loss statement in the books of the holding company should not be added.
- (iii) The share capitals of the holding company and its subsidiaries should never be aggregated.
- (iv) The necessary revaluation (**appreciation or reduction in value**) of assets must be carried out before aggregating them.
- (v) **Inter-company or mutual transactions must be eliminated.**

Preparation of Consolidated Balance Sheet in case of Wholly Owned Subsidiary

The following are the balance sheets of *H Ltd.* and *S Ltd.* as at 31st March, 2011 :

<i>Particulars</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
I. EQUITY AND LIABILITIES :	₹	₹
Shareholder's Funds :		
Share Capital :		
(Shares of ₹10 each, fully paid)	20,00,000	5,00,000
Reserves	6,00,000	—
Current Liabilities		
Trade Payables	1,40,000	80,000
	27,40,000	5,80,000
II. ASSETS :		
Non-Current Assets		
Investments : (in 100% Shares of <i>S Ltd.</i>)	5,00,000	—
Current/Non-Current Assets		
Sundry Assets	22,40,000	5,80,000
	27,40,000	5,80,000

Prepare a consolidated balance sheet as at 31st March, 2011.

Solution

In this problem, 100% shares of S Ltd. are held by H Ltd. It means that H Ltd. owns 100% of the net assets of S Ltd. i.e. the assets and liabilities of S Ltd. Therefore, while preparing a consolidated Balance Sheet of H Ltd. and S Ltd., the assets and liabilities of both the companies will be added and the “Investments in 100% shares of S Ltd.” will be cancelled against the “Share Capital of S Ltd”. The resultant Balance Sheet is shown as:

Consolidated Balance Sheet of H and S Ltd. As at 31st March, 2011

Particulars	Note No.	Amt.	Amt.
I. EQUITY AND LIABILITIES			
Shareholder's Fund			
(a) Share Capital	1	20,00,000	
(b) Reserves & Surplus	2	6,00,000	26,00,000

Current Liability			
(a) Trade Payables	3		2,20,000

Total			28,20,000

II. ASSETS			
Non Current Assets			
Fixed Assets			
(a) Tangible Assets	4		28,20,000

Total			28,20,000

Notes to Accounts

Particulars	Amount	Amount
1. Share Capital 2,00,000 shares of Rs. 10 Each		20,00,000
2. Reserves & Surpluses		6,00,000
3. Trade Payables:		
H Ltd.	1,40,000	
S Ltd.	80,000	
	<hr/>	2,20,000
4. Tangible Assets		
H Ltd.	22,40,000	
S Ltd.	5,80,000	
	<hr/>	28,20,000

Cost of Control / Capital Reserve

In the previous problem, H Ltd acquired the shares of S Ltd. Exactly at par. But in actual practice, H Ltd may pay for the shares of S Ltd. Which is either more or less than the face or nominal value.

If the holding company pays **more than the face value of shares**, the excess amount paid is considered as **payment for Goodwill or cost of control**.

On the other hand, if Holding company **pays less than the face value of shares**, the difference is treated as a capital profit and is shown as **capital reserve** in the consolidated Balance Sheet.

Problem II

Calculation of Cost of Control or Goodwill

The following are the balance sheets of *H Ltd.* and *S Ltd.* as at 31st March, 2011 :

<i>Particulars</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
I. EQUITY AND LIABILITIES :	₹	₹
Shareholder's Funds :		
Share Capital : (Shares of ₹10 each, fully paid)	20,00,000	5,00,000
Reserves	6,00,000	—
Current Liabilities		
Trade Payables	1,40,000	80,000
	27,40,000	5,80,000
II. ASSETS :		
Non-Current Assets		
Investments :		
(in 100% Shares of <i>S Ltd.</i>) (at cost)	5,20,000	—
Current/Non-Current Assets		
Sundry Assets	22,20,000	5,80,000
	27,40,000	5,80,000

Prepare a consolidated balance sheet as at 31st March, 2011.

Consolidated Balance Sheet of H and S Ltd. As at 31st March, 2011

Particulars	Note No.	Amt.	Amt.
I. EQUITY AND LIABILITIES			
Shareholder's Fund			
(a) Share Capital	1	20,00,000	
(b) Reserves & Surplus	2	6,00,000	26,00,000

Current Liability			
(a) Trade Payables	3		2,20,000

Total			28,20,000

II. ASSETS			
Non Current Assets			
Fixed Assets			
(a) Tangible Assets	4	28,00,000	
(b) Intangible Assets	5	20,000	28,20,000

Total			28,20,000

Notes to Accounts

Particulars	Amount	Amount
1. Share Capital 2,00,000 shares of Rs. 10 Each		20,00,000
2. Reserves & Surplus		6,00,000
3. Trade Payables: H Ltd.	1,40,000	
S Ltd.	80,000	
	<hr/>	2,20,000
4. Tangible Assets H Ltd.	22,20,000	
S Ltd.	5,80,000	
	<hr/>	28,00,000
5. Intangible Assets Goodwill or Cost of Control (5,20,000- 5,00,000)		20,000

Problem III

Calculation of Capital Reserve

The following are the balance sheets of H Ltd. and S Ltd. as at 31st March, 2011 :

<i>Particulars</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
I. EQUITY AND LIABILITIES :	₹	₹
Shareholder's Funds :		
Share Capital : (Shares of ₹10 each, fully paid)	20,00,000	5,00,000
Reserves	6,00,000	—
Current Liabilities		
Trade Payables	1,40,000	80,000
	<u>27,40,000</u>	<u>5,80,000</u>
II. ASSETS :		
Non-Current Assets		
Investments : (in 100% Shares of S Ltd.) (at cost)	4,80,000	—
Current/Non-Current Assets		
Sundry Assets	22,60,000	5,80,000
	<u>27,40,000</u>	<u>5,80,000</u>

Prepare a consolidated balance sheet as at 31st March, 2011.

Consolidated Balance Sheet of H and S Ltd. As at 31st March, 2011

Particulars	Note No.	Amt.	Amt.
I. EQUITY AND LIABILITIES			
Shareholder's Fund			
(a) Share Capital	1	20,00,000	
(b) Reserves & Surplus	2	6,20,000	26,20,000
Current Liability			
(a) Trade Payables	3		2,20,000
Total			28,40,000
II. ASSETS			
Non Current Assets			
Fixed Assets			
(a) Tangible Assets	4	28,40,000	
			28,40,000
Total			28,40,000

Notes to Accounts

Particulars	Amount	Amount
1. Share Capital 2,00,000 shares of Rs. 10 Each		20,00,000
2. Reserves & Surpluses		
Capital Reserve (5,00,000- 4,80,000)	20,000	
Other Reserve	6,00,000	
	<hr/>	6,20,000
3. Trade Payables:		
H Ltd.	1,40,000	
S Ltd.	80,000	
	<hr/>	2,20,000
4. Tangible Assets		
H Ltd.	22,60,000	
S Ltd.	5,80,000	
	<hr/>	28,40,000

Preparation of Consolidated Balance Sheet in case of Partly Owned Subsidiary

Minority Interest

When the holding company does not own 100% shares of the subsidiary company, the subsidiary company is known as partly owned subsidiary.

Suppose H Ltd owns only 75% of the shares of S Ltd. , the remainder 25% shares will be owned by outsiders or other persons. The interest of outside persons is termed as '**Minority Interest**' and is shown as a separate item in the consolidated Balance Sheet below Share Capital and Reserves & Surplus.

Calculation of Minority Interest

Minority Interest represents the claim of the outsiders in **the net assets (Assets- Liabilities)** of the company. It consists of the amount payable to outsiders in respect of share capital and accumulated profits (Reserves & Surplus) **to the extent of their holding.** Hence, the Minority Interest consists of:

Contd.

- i. Their proportionate share in the **Share Capital** of the Subsidiary company
- ii. Their proportionate share in the **Reserves (both pre-acquisition and post-acquisition)** of subsidiary company
- iii. Their proportionate share in the **surplus (surplus in the profit and loss statement) both pre- acquisition and post- acquisition**, of the subsidiary

Note:

In case of Partly Owned Subsidiary also, the method of consolidation is same i.e., to include in the consolidated balance sheet, the whole of the assets and liabilities of the holding and subsidiary companies and in addition, showing the “Minority Interest” on the liabilities side of the consolidated balance sheet.