

Consolidation of Financial Statements

Definition of Holding Company

" Any company who controls other company is called holding company. "

In other words, if any company has any one power from following three powers, then that company will be holding company:-

. If any company has 51 % shares of other company, then this company becomes holding Company of other.

Or

. if any company has power to appoint board of directors of other company, then this company becomes holding company of other company.

Or

. Main holding company also will be the holding company of all subsidiaries' subsidiary companies.

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.

Main features of Holding Company

1. Holding Company provides the power to work independently to subsidiary company.

Because relationship

of holding and subsidiary company is not amalgamation or merge but both company joins for cutting the

cost of competition and getting the benefits of monopoly.

2. Holding company can also deal with subsidiary company and it is also recorded in both books .

3. Under Company act of India 1956 , it is required to attach the copy of final accounts of subsidiary

company with the annual report of holding company .

What is Subsidiary Company

Subsidiary company is that company which is controlled by any other company. If any company invested his money to buy other company's shares and has bought 51% or more shares or share capital, then that company can become holding or parent company. The company whose shares are bought, will be subsidiary company.

Consolidated balance sheet of Holding Company Vs Subsidiary Company's Balance Sheet

Subsidiary company's balance sheet's assets and liabilities will become the part of consolidated balance sheet of holding company.

1. All the liabilities of subsidiary company will be added in the consolidated balance sheet of subsidiary company. But Share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company.
2. Add all the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidiary company in holding company.
3. Add minority interest in liability side. First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So, when holding company shows consolidated balance sheet, it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

Under Indian Company Act , there is no need to prepare combined or consolidated final accounts of holding and subsidiary company in the books of holding company but holding company attaches the copy of balance sheet , one copy of profit and loss account and one copy of audit report of subsidiary company with his final accounts . But for showing true financial position, often holding company prepare consolidated balance sheet.

It is easy to understand that consolidated balance sheet is a balance sheet in which all the assets and liabilities of holding company and subsidiary company are added with each other but practically, it is tough to make consolidated balance sheet of holding and subsidiary company.

Steps for preparing consolidated balance Sheet of the holding company and its subsidiary company.

1st Step

Add all the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidiary company in holding company.

2nd step

Add all the liabilities of subsidiary company with the liabilities of holding company. But Share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company .

3rd Step

Calculate of Minority Interest

First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So, when holding company shows consolidated balance sheet, it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

We can calculate minority interest with following formula

Total share capital of Subsidiary company = XXXXX

Less: Investment of Holding company in to subsidiary company = - XXXX

_____ XXXX

Add: proportionate minority share of the subsidiary company's profit and Reserves or increase in the value of assets XXXX

XXXX

Less: proportionate minority share of the subsidiary company's loss and decrease In the value of total assets of company - XXX

Value of Minority Interest

XXXXXX

4th Step

If holding company purchases shares of subsidiary company at premium, then the value of premium will be deemed as goodwill or cost of capital and shows as goodwill on the assets side of consolidated balance sheet.

But if holding company purchases the shares of subsidiary company at discount, then this value of discount will be capital reserve and show in the liability side of consolidated balance sheet.

5th Step

Pre – acquisition profit and reserve of subsidiary company will be shown as capital reserve in consolidated balance sheet but the value of minority interest's profit or reserves deducts from it and add in minority interest value.

Less: share of minority interest - XXXX

XXXXX

Pre – acquisition profit and reserve shown as capital reserve XXX

6th Step

Calculate post acquisition profits

After the date of purchasing the shares of subsidiary company , profit of subsidiary company will also deem of holding company and it include in the profit of holding company and we also separate the part of profit of minority interest and add in minority interest's value and shown in liability side .

7th Step

Elimination of common transactions

All common transaction between holding company and subsidiary company will not show in the consolidated balance. There following common transaction

1. goods sold and goods purchase on credit and the value of debtor or creditor either subsidiary company or holding company will not shown in consolidated balance sheet
2. Value of bill payable or bill receivable of holding company on subsidiary company will also not shown but if some bills value is discounted from third party then either of both company's payable value shown as liability in the consolidated balance sheet .

8th Step

Treatment of Unrealized profit

If subsidiary company sells the goods to holding company or holding company sells the goods to subsidiary company at profit and if such goods will not sold in third party , then the profit will not realized , so such unrealized profit will not credited to profit and loss account . At this time a stock reserve account is opened and all amounts of unrealized profit transfers to this account and this accounts total amount is deducted from closing stock of consolidated balance sheet.

Suppose

Closing stock of H 50000

Closing stock of S 50000

100000

Less stock reserve

2000

98000

If subsidiary company has also other outsider's shares then holding company makes reserve up to his shares proportion.

9th Step

Treatment of Dividends

If holding company gets the dividends from subsidiary company, then this will divide into two parts. If subsidiary company declare dividend out of capital profits, then this will add in capital reserves in consolidated balance sheet. But, if subsidiary company has declared the profit out of revenue gains, then this dividend will add in general profit and loss account and will shown in the liability side of consolidated balance sheet.

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