**HOLDING COMPANIES ACCOUNTS**

**B.COM-Part-II**

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1. **INTRODUCTION**

**One of the popular firms of business combination is by means of holding company or Parent Company. A holding company is one which directly or indirectly acquires either all or more than half the number of Equity shares in one or more companies so as to secure a controlling interest in such companies, which are then known as subsidiary companies. Holding companies are able to nominate the majority of the directors of subsidiary company and therefore control such companies. Holding company meet directly from such subsidiary company or it may acquired majority OR shares in existing company. Such company also considered as subsidiary company in which holding company acquired majority shares.**

**2.MEANING UNDER COMPANIES ACT 1956**

**Section 4 of the companies Act, 1956 defines a subsidiary company. A company is a subsidiary of another if and only if –**

1. **That other company controls the composition of its Board of Directors; or**
2. **That other –**
3. **Where the first mentioned company is an existing company in respect of which the holders of Preference shares issued before the commencement of this Act have the same voting rights in all respect as the holders of Equity shares exercises or controls more than half of the total voting power of such company.**
4. **Where the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals. OR**
5. **The company is a subsidiary of any company which is that other company’s subsidiary.**

**3.ADVANTAGES OF HOLDING COMPANIES**

**Following are the advantages of Holding Company:**

1. **Subsidiary company maintained their separate identity.**
2. **The public may not be aware the existence of combination among the various company.**
3. **Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.**
4. **It would be possible to carry forward losses for income tax purposes.**
5. **Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.**
6. **Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.**

**4.DISADVANTAGES OF HOLDING COMPANIES**

1. **There is a possibility of fraudulent manipulation of accounts.**
2. **Inter company transaction may not be at a fair prices.**
3. **Minority share holders interest may not be properly protected.**
4. **The accounts of various companies may be made upon different dates to, manipulate profit or financial position of**

**Group companies.**

1. **The shareholders in the holding company may not be aware of true financial position of subsidiary company.**
2. **Creditors and outsiders shareholder in the subsidiary company may not be aware of true financial position of subsidiary company.**
3. **The Subsidiary Companies may be force to appoint person of the choice of holding company such as Auditors, Directors other officers etc. at in dually high remuneration.**
4. **The Subsidiary Company may be force for purchases or sale of goods, certain assets etc. as per direction of holding company.**

**5. PRESENTATION OF ACCOUNTS BY HOLDING COMPANIES**

**As laid down in section (212) of the companies Act, 1956. A holding company requires to attach its balance sheet. The following documents and present the same to its shareholders.**

1. **A copy of the Balance Sheet of the subsidiary.**
2. **A copy of the Profit and Loss Account of the subsidiary.**
3. **A copy of the Report of the Board of Directors of the subsidiary.**
4. **A copy of the Auditors Report of subsidiary.**
5. **A statement indicating the extent of holding company’s interest in the subsidiary at the end of the accounting year of the subsidiary.**
6. **Where the financial year of the subsidiary company does not coincident with the financial year of the holding company. a statement showing the following.**
7. **Whether there are any changes in holding companies interest in subsidiary company since the close of financial year of the subsidiary company.**
8. **Details of material changes which have occurred between the end of the financial year or the subsidiary company an end of the financial year of the holding company.**
9. **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. It is mandatory for Listed companies and Banking companies.**

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

1. **Profit & Loss A/c**
2. **Balance sheet**
3. **Cash flow statement**
4. **Notes of Accounts except typical notes.**
5. **Segment reporting**

**AS 21 also desire various import terms, as well as treatment and same while preparing consolidated financial statement. Consolidated financial statements should be prepared for both domestic as well as foreign subsidiaries.**

**7.CONSOLIDATION OF BALANCE SHEET**

**A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Consolidated balance sheet is nothing but addicting of up or combining the balance sheet of holding and its subsidiary together. However assets and liabilities are straight forward, i.e. added line to line and combination of share capital, reserves, and accumulated losses are not directly added in consolidated balance sheet.**

***Preparation of consolidated balance sheet****.* **The following points need special attention while preparing 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. which are discussed here in after.**
	* **COST OF CONTROL / GOODWILL / CAPITAL RESERVE :**

**The holding company acquires more than 50% of the shares of the subsidiary company. such shares may be acquired at a market price. Which may be at a premium or at discount. This amount is reflected in the balance sheet of holding company of the assets side as investment in the shares of subsidiary company.**

**This is the price paid for shares in net assets of subsidiary company as on date of its acquisition. Net assets of the subsidiary**

**company consist of share capital, accumulated profits and reserve after adjustment, accumulated losses as on the date of acquisition. 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.**

**It 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.**

**In short, net amount resulting from goodwill and capital**

**Reserve will be shown in the consolidated Balance sheet.**

**Illustration : 1**

Cost of Control / Goodwill

Balance sheet of S Ltd. as on 31st March 2010 (Liabilities

only)

|  |  |  |
| --- | --- | --- |
|  |  | Rs. |
| Share capital 40,000 Equity shares of Rs. 10/- each | 4,00,000 |
| Reserves and surpluses | 2,50,000 |
| Secured loan | 2,50,000 |
| Other Liabilities | 1,00,000 |
|  |  | 10,00,000 |

On the above date H Ltd. acquired 30,000 Equity shares in S Ltd. on the above date for Rs. 7,50,000 fixed assets of S Ltd. were appreciated by Rs. 1,50,000 find out cost of control / Goodwill.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Rs. | Rs. |  |
| Cost of investment in S Ltd. |  | 3 | 3,00,000 | 7,50,000 |  |
| Less : 1) Share in share capital |  |  |  |
| 4,00,000 | × |  |  |  |
|  |  | 4 |  |  |
|  |  |  |  |  |
| 2) Share in Reserves and surpluses |  |  |  |  |  |
| 3 |  |  |  |  |  |  |
| Capital profit 2,50,000×4 |  |  | 1,87,500 |  |  |  |
| Share in capital profit | 3 |  |  |  |  |  |
|  |  |  |  |  |  |
| (Appreciation in fixed assets) 1,50,000 ×4 |  | 1,12,500 |  | 6,00,000 |  |
|  |  |  | Goodwill |  |  |  |
|  |  |  | 1,50,000 |  |

Suppose in above case, cost of investment amounted to Rs.

5,00,000 then instead of goodwill, there would be capital Reserve, Rs. 1,00,000.

• **MINORITY INTEREST :**

**The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet. Minority interest in the net assets of the company is nothing but the proportionate share of aggregation of share capital, reserve surpluses funds etc. proportionate share of all assets should be deducted from the minority interest.**

**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.**

**Minority interest means outsiders interest. It is treated as liability and shown in consolidated. Balance sheet as current liability. This amount is basically intrinsic value of shares held by minority.**

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