



SIMPLE STEPS FOR CONSOLIDATION OF ACCOUNTS

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ABSTRACT

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. In order to understand the financial position of holding company, consolidations of accounts become very vital. A consolidated financial statement is very useful for investors. It helps investors to easily understand overall corporate performance, without getting into each subsidiary's details. This article is useful to graduates, post graduates and scholars

KEYWORDS : Consolidation of Financial Statement – Holding Company – Subsidiary Company.

INTRODUCTION

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.

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.

Balance Sheet Of H Ltd. & S Ltd. As On -----

Liabilities	H. Ltd	S. Ltd	Assets	H. Ltd	S. Ltd
Share Capital	xx	xx	Building	xx	xx
Reserves	xx	xx	Machinery	xx	xx
P&L A/c	xx	xx	Goodwill	xx	xx
Debentures	xx	xx	Investments	xx	xx
Bank Loans	xx	xx	Stock	xx	xx
Creditors	xx	xx	Debtors	xx	xx
Bills Payable	xx	xx	Bills receivables		
Bank O.D	xx	xx	Cash in hand	xx	xx
Provisions for taxation	xx	xx	Cash at bank	xx	xx
Proposed Dividend	xx	xx	O/s incomes	xx	xx
O/s expenses	xx	xx	Preliminary exp.	xx	xx

H. Ltd: Holding Company; S. Ltd: Subsidiary Company

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.

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.
- 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.

Cost Of Control Or Goodwill

- 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 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.

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:
1. The unrealised profits should be deducted from the current revenue profits of the company which sold the goods.
 2. 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 any one or more of the following matters:
1. 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.
 2. A transaction 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.
 3. All the above inter-company transaction has to be eliminated while preparing the consolidated balance sheet. This can be done by deducting the intercompany 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

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.

1. 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.

2. 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.

Steps For Preparation Of Consolidated Balance Sheet

Step 1: Calculation of Pre & Post acquisition period.

Pre Acquisition period = Year beginning To date of Purchase

Pre Acquisition period = Date of Purchase To Year ending

Setp 2: Share of H Ltd. & S Ltd.

$$\text{Share of H Ltd} = \frac{\text{No. of Shares purchased by H ltd}}{\text{Total No. of Shares in S Ltd.}}$$

Share of S. Ltd: 100% – Share of H Ltd.

Step 3: Calculation of Capital Profits

Particulars	Rs.
Last year Reserves	xxx
Last year P&L Account	xxx
Current year pre acquisition reserves	xxx
Current year pre acquisition P&L Account	xxx
Appreciation in value of Fixed Assets	xxx
Total Capital Profit	xxx

H Ltd. Share of capital profit = Total capital profit x Share of H Ltd

S Ltd. Share of capital profit = Total capital profit x Share of S Ltd

Step 4: Calculation of Revenue Profits

Particulars	Rs.
Current year post acquisition reserves	xxx
Current year post acquisition P&L Account	xxx
Total Revenue Profit	xxx

H Ltd. Share of revenue profit = Total revenue profit x Share of H Ltd

S Ltd. Share of revenue profit = Total revenue profit x Share of S Ltd

Step 5: Calculation of Cost of Control or Goodwill

Particulars	Rs.	Rs.
Cost of Shares purchased		xxx
Less:		
Face Value of shares purchased	xx	
H Ltd Share of capital profit	xx	
H Ltd share of Bonus shares issued out of Post acquisition profits	xx	xxx
Capital Reserve or Goodwill		xxx

Step 6: Calculation of Consolidated P&L Account

Particulars	Rs.
Profit & Loss Account of H Ltd	xxx
Add: H Ltd share of Revenue Profits	xxx
	xxx
Less: Unrealized profit in unsold stock	xx
Total	xxx

Consolidated Balance Sheet

As On _____

Liabilities	Rs.	Rs	Assets	Rs.	Rs.
Share Capital of H Ltd.		xx	Goodwill (Step 5)		xx
Capital Reserve (Step 5)		xx	Building H Ltd.	xx	
P&L A/c (Step 6)		xx	S Ltd.	xx	xx
Minority Interest (Step 7)		xx	Machinery H Ltd.	xx	
Debentures H Ltd.	xx	xx	S Ltd	xx	xx
S Ltd.	xx		Stock H Ltd.	xx	
Creditors H Ltd.	xx		S Ltd	xx	
S Ltd	xx		Less	xx	
Less:	xx	xx	Unrealized profit	xx	xx
Mutual Owings			Debtors H Ltd.	xx	
			S Ltd	xx	
Bills Payable H Ltd.	xx	xx		xx	
S Ltd	xx		Less: Mutual Owings	xx	xx
Less:			Bills receivables H Ltd.	xx	
Mutual Owings			S Ltd	xx	
				xx	
			Less: Mutual Owings		
				xx	xx
			Cash & Bank Bal. H Ltd.	xx	
			S Ltd	xx	xx
		xx		xx	xx

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