Unit : V (Accounts of Holding Company)

Holding Company :

Section 2(46) of the Companies Act, 2013 defines Holding Company. The company is said to be the holding company if that particular company holds/owns at least 50% of the other companies and has the authority to make management decisions, influences and controls the company's board of directors. A holding company may exist for the sole purpose of controlling and managing subsidiary companies.

Subsidiary Company :

Section 2(87) of the Companies Act, 2013 defines the Subsidiary Company. The subsidiary company is the company that is controlled by the holding or parent company. It is defined as a company/body corporate where the holding company controls the composition of the Board of Directors. As per the Companies Amendment Act, 2017, Section 2(87)(ii), if the holding company have control over more than one-half of the voting power of another company, that particular company will be identified as the subsidiary company.

Advantages of holding company :

1. **Benefits of Amalgamation** : The group as a whole benefited by reaping the fruits of amalgamation keeping their separate entity and goodwill of the individual companies.
2. **Benefits of Decentralization** : By opening subsidiaries in different areas, a holding company reap the benefits of decentralization.
3. **Benefits of Monopolies** : Fruits of monopoly or near monopoly can be enjoyed without making the public aware of the existence of combination of the units.
4. **Tax benefits** : Subsidiary companies maintain their separate identities; therefore, loss can be carried forward for the income tax purpose.
5. **Effective utilization of Resources** : A holding company holding different subsidiary companies may evaluate the functions of each company and takes actions on the basis of their performance.
6. **Separate Financial accounts** : Each subsidiary company prepares separate Trading, Profit and Loss Account and Balance Sheet and ascertains its profitability or otherwise.
7. **Giving up of control** : A holding company may give up its control over the subsidiary company if it is required, by disposing off its shares.
8. **Advantages of vertical combination** : A holding company may hold different subsidiary companies, each performing functions at different stages of production and marketing and may thus derive the benefits of vertical combinations.

Disadvantages of holding company :

1. **Minority interest** : It is alleged that the interest of the minority shareholders is neglected by the holding company.
2. **Manipulation of accounts** : There is a possibility of fraudulent manipulation of accounts specially when the accounts of subsidiary companies are prepared at different dates.
3. **Secret reserve** : Secret reserve may be created in subsidiary companies by understatement of assets.
4. **Valuation of inter-company stocks** : Where inter company transactions are heavy and closing stock is large, problem arises in the valuation of closing stock.
5. Interlocking of loans may create problems
6. A holding company has much power without responsibility.

Post acquisition profit/loss (Revenue profit) : Any profit earned or loss suffered by the subsidiary company after the date of acquisition is called post acquisition profit/loss (revenue profit).

Pre acquisition profit/loss (Capital profit) : Profits appearing in the balance sheet on the day of purchase of shares and the profits earned by the subsidiary company up to the date of acquisition of shares by the holding company is called pre acquisition profit/loss (capital profit)

Cost of control : If the holding company purchases the shares of a subsidiary company at a price higher than the face value, the excess amount paid represents the payment for cost of control or goodwill.

Excess of the cost of investment over the value of proportionate net assets of subsidiary co. is known as goodwill.

Excess of the value proportionate net assets of subsidiary co. over the cost of investment is capital reserve. It is calculated in following manner.

Cost of shares held (Investment)		= *******
Less : Share capital purchased	*******	
Less : Pre acquisition profit	*******	= *******
Goodwill / Capital Reserve		= *******

Accounting standard 21 /Consolidated financial statement – AS 21 :

Accounting standard 21 explains the way of making consolidated financial statement properly. Consolidated financial statement means combined profit and loss account and balance sheet of holding company and subsidiary company.

AS 21 provides following steps for making consolidated balance sheet .

1. Investment in subsidiary company by holding company will not be shown in consolidated balance sheet's asset side .

2. Share capital of subsidiary company in holding company will not be shown in consolidated balance sheet of holding company.

3. Calculation of minority interest : Minority interest means all shareholders who invest in subsidiary company but they are not shareholder of holding company. In other words any stock in subsidiary company which is not owned by parent company (holding company) so, when holding company will make his consolidated balance sheet minority interest will be shown in liability side by calculation of following formula.

4. Calculation of capital reserve : (a) Holding company purchases the shares of subsidiary company at discount , this value of discount will be shown as capital reserve in liability side of consolidated balance sheet .

(b) If the value of share capital of subsidiary company is more than investment of holding company in subsidiary company.