HOLDING COMPANY

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Meaning

- A **holding company** is a company or firm that owns other companies' outstanding stock.
- It usually refers to a company which does not produce goods or services itself, rather its *only* purpose is owning shares of other companies.
- Holding companies allow the reduction of risk for the owners and can allow the ownership and control of a number of different companies.

- Holding Company is a company which has a control over another company by either of the following:
  - Controls the composition of it’s Board of Directors.
  - Holds more than half in nominal value of it’s Equity share capitals.
  - It is the Holding Co for it’s Subsidiary’s Subsidiary Co.

Holding Company

- **Advantages**
  - cost savings associated with lower overhead
  - autonomy increases the motivational level of divisional executives
  - Control with fractional ownership.
- **Disadvantages**
  - inherent lack of control and dependence
  - limited staff support
  - partial multiple taxation.

Consolidation of P&L A/c

- The consolidated profit & loss a/c of the holding Co and it's subsidiaries are prepared to show the operating activities of the Cos.
- The items appearing in the P&L a/c of both individual companies are aggregated in the consolidated P&L a/c.

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- While consolidating, the following adjustments has to be made:
  - Prepare profit and loss account in columnar form. Amounts relating to inter company transactions are entered in the adjustment column and are subtracted.
  - All inter company operating transaction such as purchase and sale of goods, interest on loans among the companies are eliminated.
  - All inter company profits are adjusted.

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- Dividends received by the holding company from the subsidiary company should be eliminated.
- Interest accrued and outstanding on debenture of the subsidiary company held but the holding company should be accounted by both and then eliminated.
- The balance in holding company columns will represent the total profit or loss made by the company as a whole.

Consolidation of Balance Sheet

- It is where the balance sheet of the holding company and the subsidiary company is combined.

- Few points to be kept on mind when consolidating:
  - ➢ Share of holding company and share of minority (outside shareholders).
  - ➢ Date of balance sheet of the holding company and that of the various other subsidiary companies must be same.

Cost of Control

- The holding company acquires more than 50% of shares which may be either at a premium or at a discount price.
- 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 subsidiary company, the difference is considered as goodwill.

Minority Interest

- Minority interest is the share of the outsider in the following:
  - Share in share capital of subsidiary.
  - Share in reserves.
  - Share in accumulated loss should be deducted.
  - Proportionate share of profit or loss on revaluation of assets.

Capital and Reserve Profit

- Any profit earned by subsidiary company before the date of acquisition is the capital profit.
- Any profit earned by subsidiary company after the date of acquisition is the revenue profit.

Unrealized profits

- It is when the same group have sold goods to each other at profits but the goods still remains unsold at the end of the year.
- While preparing the consolidated balance sheet those unrealized profits has to be eliminated.

Bonus Shares

- Issue of bonus shares out of pre-acquisition profits :
  - ➢The cost of control remains unchanged as the share capital increases by the amount of bonus and capital profits decreases by the same amount when bonus shares are issued out of pre-acquisition profits.
- Issue of bonus shares out of post-acquisition profits :
  - ➢This will result either in decrease in cost of control or increase in capital reserve.

Elimination of Investments in Shares

- Investment in shares represents the cost paid by the holding company to acquire the shares of the subsidiary company .
- The investments entitles the holding company to share the net assets.
- Therefore, in the consolidated balance sheet; the assets and liabilities have to be merged with that of the holding company eliminating the investments in the shares of the subsidiary company.

Inter Company Transactions

- The holding and the subsidiary company may have a number of inter company transactions. Some are:
  - Loan advanced by the holding company to the subsidiary company or vice versa.
  - Sale or purchase of goods on credit by the holding company from the subsidiary company or vice versa.
  - Debentures issued by one company may be held by the other.

Thank You