CONSOLIDATION OF ACCOUNTS

Introduction

According to Sec 2(87) of companies Act, 2013, a company becomes the subsidiary of another if that another company
a) Controls the composition of its Board of Directors, or
b) Holds more than half of the nominal value of its equity capital or, in case of companies where preference shareholders have equal voting rights with equity shareholders, controls more than half of total voting power.

A company which is the subsidiary of a company, which in turn is a subsidiary of another company is also considered subsidiary of the ultimate holding company. For example, if A Ltd. is subsidiary of B Ltd., which is subsidiary of C Ltd. then A Ltd. would also be subsidiary of C Ltd.

Steps and points to be considered

1. Balance sheet of Holding Company & Subsidiary Company must be prepared on a uniform date with common Accounting Policies.

2. Combine All Assets and Liabilities at its 100% values. But while doing so intercompany transactions are eliminated as under

a) Inter-company debtors – creditors should be adjusted

Adjustment 1 – Debtors of holding company includes ₹10,000 due from subsidiary company. That also means that it is included in the creditors of the subsidiary company.
Effect – Deduct the amount from the total debtors and also from total creditors. This also holds true if the transaction is vice versa.
Adjustment 2 – If the debtors of the Holding company says ₹ 10,000 is receivable from subsidiary company, however if the subsidiary's creditors include only ₹ 8,000 payable.
Effect – Deduct ₹ 10,000 from the total debtors and ₹ 8,000 total creditors. The difference of ₹ 2,000 will be shown as cash-in-transit in CFS on the asset side. It can be vice versa also.

b) Inter-company Bills Receivable – Bills Payable should be adjusted

Adjustment 1 – Bills of ₹ 20,000 are accepted by subsidiary company in favor of holding company. That means it is included in Bills payable of subsidiary company and in Bills Receivable of holding company.
Effect – Deduct the amount from the total Bills Receivable and also from total Bills Payable. This also holds true if the transaction is vice versa.

Adjustment 1 – Bills of ₹ 20,000 are accepted by subsidiary company in favor of holding company, but holding company has only bills of ₹ 18,000 on hand. This means bills of ₹ 2000 are discounted.
Effect – Deduct ₹ 18,000 from the total Bills Receivable and Total Bills Payable. Balance of ₹ 2,000 should be discounted.

c) Investment in subsidiaries appearing on the asset side of holding company and correspondingly appearing on the as equity share capital on liability side of subsidiary company, should be adjusted as under

Investment (B.V) (Appearing on the Asset side of Holding Co.)	XXX
Less : Paid up value thereof as per subsidiary company	XXX
Goodwill/Capital Reserve	XXX

Note : The portion of the equity share capital of subsidiary company, not held by holding company and held by the persons other than holding company will be shown as *Minority Interest* in CFS

d) Transaction involving goods

1. Downstream Transactions : Goods were sold by holding company to subsidiary company and they are held in stock by subsidiary company.
   Effect – The profit element included there in should be eliminated from the combined stock and also from combined Revenue Reserve.

2. Upstream Transactions : Goods are sold by subsidiary company to holding company and they are held by holding company.
   Effect – The profit element included there in should be eliminated from the combined stock and holding company share in profit should be deducted from Revenue Reserves & Outsiders share should be deducted from Minority Interest.

3. Bonus Shares issued by Subsidiary Company

Effect : In Balance sheet of subsidiary company the bonus amount should be deducted from Reserves and Added to Share capital. For holding company, there shall be no effect for receiving the bonus shares.

4. Dividend Proposed.

a) Dividend Proposed by Holding company: It should deducted from Revenue Reserves and Should be shown as Current Liability.
b) Dividend Proposed by subsidiary company should be ignored.

5. Preliminary Expenses.

a) Preliminary expenses appearing on the asset side of the holding company should be shown as it in CFS.

b) Preliminary expenses appearing on the asset side of the subsidiary company should be considered as Capital loss. Holding company's share there in should be reduced from Capital Reserve and outsiders share should be reduced from minority interest.

6. Profit and Loss Account and General Reserve.

a) Profit and Loss Account and General Reserve appearing in balance sheet of holding company should appear in CFS, under the head Revenue Reserve.

b) Profit and Loss Account and General Reserve appearing in the balance sheet of the subsidiary company, should be first classified as created Prior to acquisition and created subsequent to acquisition. Reserves created Prior to acquisition is called PRE while created subsequent to acquisition is known as POST.

PRE – Holding company's share in pre profits is transferred to Capital Reserve and outsiders share is transferred to Minority Interest.

POST – Holding company's share in post profits is transferred to Revenue Reserves and outsiders share should be transferred to Minority Interest.

7. If on the date of acquisition of shares, fixed assets of subsidiary is revalued upward, the difference between upward valuation and book value is Capital Profit. This will be added to value of fixed assets and holding company's share there in should be added to capital reserve and outsiders share should be added to Minority Interest. The difference in depreciation will be calculated from the date of acquisition to date of balance sheet. It should be deducted from Fixed Assets and the holding company's share therein should be deducted from Revenue Reserve and outsiders share should be deducted from Minority Interest.

8. If the Fixed Assets of subsidiary company is revalued downward, the difference between downward valuation and book value is Capital Loss. It will be deducted from the Fixed Assets and holding company's share should be deducted from Capital Reserve and outsiders share should be deducted from Minority Interest. The difference in depreciation will be calculated from the date of acquisition to date of balance sheet. It should be added back to Fixed Assets and correspondingly holding company's share therein should be added to Revenue Reserve and outsiders share should be added to Minority Interest.

9. If the holding company has received dividend from subsidiary pertaining to the period prior to the date of acquisition, it is Capital Profits. It can be shown as capital Reserve or may be also be used to reduce the Value of Investment.

10. Finally, goodwill and capital reserve should be set off against each other and Net figure should be transferred to CFS.

FORMAT FOR BALANCE SHEET

Consolidated Balance Sheet for R Ltd. and its Subsidiary Ltd. M Ltd. as on 31st March ___

Particulars	Note No.	□
EQUITY AND LIABILITIES		
1. Share holders Fund		
a. Share Capital		
b. Reserves and Surplus		
c. Minority Interest		
2. Non Current Liabilities		
a. Long term borrowings		
b. Deferred Tax liability		
c. Other Non-current liabilities		
d. Long Term Provisions		
3. Current Liabilities		
a. Short Term borrowings		
b. Trade Payables		
c. Other Current Liabilities		
d. Short term Provisions		
TOTAL		
ASSETS		
1. Non Current Assets		
a. Fixed Assets		
i. Tangible Assets		
ii. Intangible Assets		
iii. Capital Work in Progress		
iv. Intangible Assets under development		
b. Non Current Investments		
c. Deferred Tax Asset		
d. Long Term Loans and Advances		
e. Other Non Current Assets		
2. Current Assets		
a. Current Investments		
b. Inventories		
c. Trade Receivables		
d. Cash and Cash Equivalent		
e. Short term Loans and Advances		
f. Other Current Assets		
TOTAL		

Working Notes
1. Goodwill
2. Capital Reserve
NET = 1 - 2 or vice versa (Also known as Cost of Control)
3. Revenue Reserve
4. Minority Interest
5…………