

Accounting for specific Industries

Consolidate financial statement

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Outline of Consolidated financial statement

1. Meaning of Parent and subsidiary company
2. Document required by parent company along with financial statement of subsidiary company
3. Format of consolidated financial statement
4. Calculation of ownership of parent company
5. calculation of cost of control/investment
6. Practice question
7. References

Parent and Subsidiary company

Group or group of companies

2 companies or more than 2 companies



1. Holding company(Parent company)
2. Subsidiary company

According to the companies act 2013(section-4) define holding company and subsidiary company as follow:-

For the purpose of the act a company is deemed to be a subsidiary of another only when:

1. The first company invest more than 50 % in the share of subsidiary company
2. The first company controls the composition of its board of directors(BOD)

According to sec 212- of the companies act 1956

The holding company is required to present its balance sheet at the end of financial year along with the following documents of the subsidiary company:

1. A copy of the balance sheet of subsidiary company
2. A profit and loss account of subsidiary company
3. A statement showing the investment by holding company in subsidiary company
4. A copy of the report of the auditor certificate

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Format for preparation of the consolidated Balance sheet

Particular	Amount
I Share holders fund	
Share capital	XXX
Reserves and surplus	XXX
Profit and loss	XXX
General reserves	XXX
Capital reserves	XXX
II Long term liabilities	
Debentures	XXX
Long term loans	XXX
III Short term liabilities	
Creditors	XXX
Bills payable	XXX
Outstanding expense	XXX
Total capital liabilities	

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Particulars	Amount
IV Fixed assets	
Land and building	XXX
Plant and machinery	XXX
Investment	XXX
V Current assets	
Debtors	XXX
Cash	XXX
Bills receivables	XXX
Total assets	

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Calculation of Ownership of parent company in subsidiary company

Percentage of ownership by A ltd in B ltd

$$\text{Formula: } \frac{\text{Investment by A ltd}}{\text{Total capital of B ltd}} \times 100$$

Lets say :

Share capital	A ltd	B ltd	Investment by A ltd in B ltd	50,000	-
@10 each	200,000	50,000			

Calculate share holding of A ltd in B ltd?

Use formula:

$$\frac{50,000}{50,000} \times 100 = 100\%$$

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Calculation of Cost of Investment and control

Investment made by Parent in subsidiary	----
Less. Shareholding of parent in subsidiary total share capital	----
Goodwill/ capital reserve	----

When parent company purchases the shares(or made investment) of the subsidiary company at a price more than their paid up value, the excess is account for **cost of control or goodwill**

Alternatively, when the shares are purchased at a price (or investment) which is less than the paid up value of the shares, the difference is considered as **capital reserve or profit**.

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Practice question

The following are the liabilities and assets of the holding company A Ltd. and its subsidiary B Ltd. as on 31st December 2017:

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital:	400000	200000			
Shares Of Rs. 10 each					
			Sundry Assets	260000	240000
Profit And Loss	80000	20000	Investments:	300000	-----
Account	40000	16000	20000 Shares In S Ltd.		
General Reserve	40000	4000		560000	240000
	560000	240000			

A Ltd. acquired the shares of B Ltd. on 31st December 201&. Prepare the Consolidated Balance Sheet.

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Solution

A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	400000
b. Reserves and Surplus	2	120000
Current Liabilities		
A Ltd. 40000		
B Ltd. 4000		44000
Total		
		564000
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
A Ltd. 260000		
B Ltd. 240000		500000
Intangible Assets – Goodwill		
		64000
Current Assets		
		Nil
Total		
		564000

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Solution continued-working notes

Note No.	Particulars	Amount (Rs.)
1.	Share Capital Issued and Subscribed	400000
2.	40000 Equity shares of Rs. 10 each	
	Reserves and Surplus	40000
	General Reserve P & L A/c	80000
		120000

Cost of Shares in S Ltd.	Rs.	Rs.
Less: Face value of shares in S Ltd. Profit and Loss Account	200000	300000
General Reserve	20000	
Goodwill or Cost of Control	16000	236000
		64000

References

1. **S. N. Maheshwari**, Suneel K Maheshwari, et al. (2018), Ccorporate Accounting
2. Reddy and Murthy, (2018), Corporate accounting

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