

# ACCOUNTING FOR HOLDING COMPANIES

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# DEFINITION

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A Company which holds the majority of paid up capital of other company with the intension of acquiring control over it is called Holding Company and the company in which the shares are held is called subsidiary company.

# DEFINITION

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According to Section 4 of Companies Act 2013a company is deemed to be subsidiary of another company in any of the following three cases

- ✘ When the other company controls the composition of its Board of Directors.
- ✘ When the other company holds more than half in the nominal value of its equity share capital
- ✘ When it is subsidiary of any company which itself is subsidiary of another company

# EXAMPLES

Companies bearing the TATA label



**TATA STEEL**

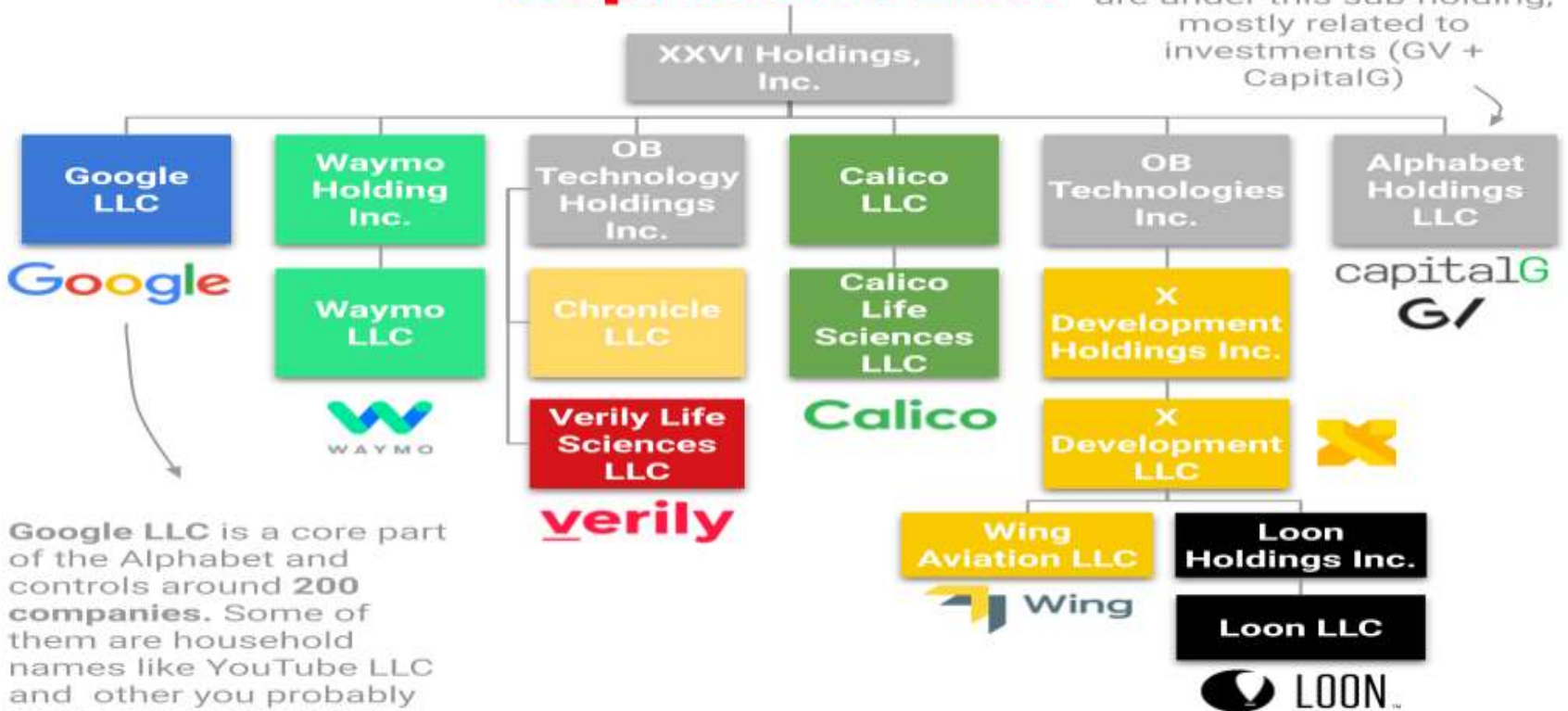
**TATA MOTORS**



# EXAMPLES

## Alphabet Inc.

Around 40 subsidiaries are under this sub-holding, mostly related to investments (GV + CapitalG)



Google LLC is a core part of the Alphabet and controls around **200 companies**. Some of them are household names like YouTube LLC and other you probably have never heard about.

Please note that this organizational chart shows only the most relevant top-level subsidiaries. To my knowledge, there are around **400 direct and indirect subsidiaries of Alphabet Inc.**, most of them under Google LLC.

# EXAMPLES

## Understanding a Holding Company

A company that owns assets, but doesn't have any operations, activities, or other active business itself.

**Johnson & Johnson**

Holding company

Subsidiaries



# EXAMPLES

## Subsidiaries without the TATA Label



PURE JEWELLERY. PURE JOY.



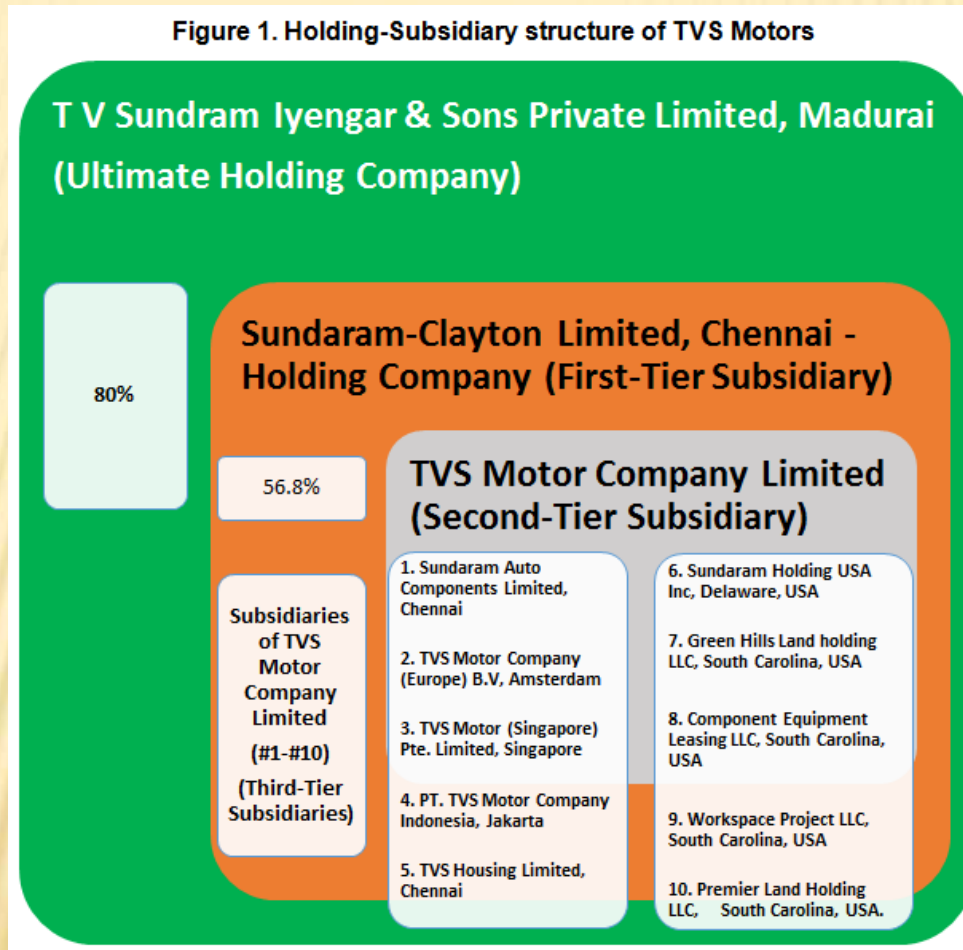
**VOLTAS LIMITED**

A **TATA** Enterprise.



# EXAMPLES

Figure 1. Holding-Subsidiary structure of TVS Motors





# CONSOLIDATED FINANCIAL STATEMENTS

- ✘ Ind AS 103 – Business Combinations
- ✘ Ind AS 110 – Consolidated Financial Statements

# IND AS 103

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- ✘ No of Shares held by Holding Company and Subsidiary Company
- ✘ Capital Profit and Revenue Profit
- ✘ 1-4-2019                      1-4-2019-1-10-2019 CP
- ✘ 1-10-2019                     1-10-2019-31-3-2020 RP
- ✘ Minority Interest
- ✘ Goodwill OR Cost of Control
- ✘ Consolidated Balance Sheet

# MINORITY INTEREST

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✘ Share Capital held by outsiders	XXX
+Share in Capital Profit	XXX
+Share in Revenue Profit	XXX

In Consolidated Balance Sheet Minority Interest will be shown under Current Liabilities

# GOODWILL OR COST OF CONTROL

Face Value of shares held by Holding Co		XXX
+Share in Capital Profit		XXX
Amount to be Invested	2500000	XXX
-Amount Invested	2200000	
	XXX	

- Cost of Control/Capital Reserve 300000
- If Amount to be invested is less than Amount invested than excess amount will be treated as Goodwill else treated as Cost of Control/Capital Reserve

# Accounting for Electricity Companies

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# Topics Covered

- Meaning
- Accounts to be prepared
- Reasonable Return
- Disposal of Surplus

# Meaning

- The Double Account System is a method of presenting the annual final accounts/annual financial statements of public utility undertakings, like Railways, Electricity, Gas, Water Supply, Tramways etc.
- These undertakings are usually incorporated under Special Acts

# Meaning - Contd

- These public utility undertakings are generally run by Government or by local authorities (except Electric Supply Companies and Tramways).
- It should be remembered that accounts of Industrial undertakings, other than Railways and Electric Supply, are prepared as per Indian Companies Act, 2013.



# Objectives

- The object of this system is not to show the financial position at a particular date but to disclose how the capital is being raised and the application of the same, in the acquisition of different fixed assets. For this purpose two-chamber Balance Sheet is prepared—the first part being Receipts and Expenditure on Capital Account and the second part being the General Balance Sheet.

# Accounts to be Prepared

- Revenue Account – Profit and Loss Account - All Revenue transactions of the business.
- Net Revenue Account – Profit and Loss Appropriation Account – Transactions related to capital like interest, dividends etc..
- Capital Account – Non Current Assets and Long term Liabilities
- General Balance Sheet – Current Assets and Current Liabilities, Totals of Capital Account.

## **Reasonable Return:**

1. A yield at the standard rate which is the Bank Rate stipulated by the Reserve Bank of India from time to time, plus 2% on the Capital Base.
2. Income derived from investments excluding investments made against the Contingencies Reserve.
3. An amount equal to 1/2% on any loans advanced by the State Electricity Board.
4. An amount equal to 1/2% on the amounts borrowed from organisations or institutions approved by the State Government.
5. An amount equal to 1/2% on the amounts realised by the issue of debentures.
6. An amount equal to 1/2% on the accumulations in the Development Reserve.

## **Capital Base:**

It means capital employed. According to sub-paragraph (1) of paragraph XVII of the Sixth Schedule, amount of capital base is the sum of the following items:

(i) The original cost of fixed assets available for use and necessary for the purpose of the undertaking less the cost of service lines contributed by consumers.

(ii) The cost of intangible assets (i.e., underwriting commission, preliminary expenses etc. excluding goodwill).

(iii) The original cost of work-in-progress.

(iv) Compulsory investments made on account of contingencies reserves.

(v) The amount of working capital, being the monthly average or,  $\frac{1}{2}$  of stores, materials and supplies including

(a) full in hand at the end of each month of the year of account.

(b)  $\frac{1}{12}$  of the sum of cash and bank balances and call and short-term deposits at the end of each month of the year of account not exceeding  $\frac{1}{4}$  th of the operating expenses excluding generation, interest and depreciation.

**Deductions:**

(i) The amounts written-off or set aside on account of depreciation of fixed assets and the amounts written-off in respect of intangible assets in the books of the Company.

(ii) The amounts of any loans advanced by the State Electricity Board.

(iii) The amounts of any loans borrowed from organisations or institutions approved by the State Government.

(iv) The amount of any debenture issued by the Company.

(v) The amounts deposited in Cash with the Company by consumers by way of security.

(vi) The amounts standing to the credit of the Development Reserve at the close of the year of account.

(vii) The amounts standing to the credit of the Tariffs and Dividends Control Reserve at the beginning of the year of account.

(viii) The amount carried forward at the beginning of the year of account to the Consumers' Benefit Reserve.

## **Disposal of Surplus:**

According to paragraph II of the Sixth Schedule, if the amount of clear profit is in excess of the amount of reasonable return to the extent of 20% in any year, such excess shall be applied as under:

(i) 1/3rd of such excess, not excluding 5% of the amount of reasonable return, is to be placed at the disposal of the undertaking (as a reward for efficiency),

(ii) Of the balance of excess, 1/2 shall be transferred to Tariffs and Dividends Control Reserve, and the remaining 1/2) 1/2 shall be distributed in shape of proportionate rebate to the consumers on the amounts collected from the sale of energy and meter rental. Pending distribution, if any (this remaining 1/2) is carried to a 'Consumers' Benefit Reserve'.

The Tariffs and Development Control Reserve shall be available for disposal only to the extent by which the clear profit is less than the reasonable return in any year of account.

Any excess over 20% of reasonable return must be refunded to customers.

# Lease Accounting



# Lease



- According to IndAS 17 Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

# Parties of an Lease Agreement



- **Lessor: Owner of asset**
- **Lessee: Person who has taken the asset on lease to use.**



# Types of Lease



- Operating Lease
- Financial Lease
- Leverage Lease

# Present Value



- $PV = 1/(1+r)^n$

Where  $r$  = Discount rate

$N$  = Number of years

# Asset Value



- Value of Asset = FMV or PV of Lease Rentals which ever is less

# Journal Entries in the books of Lessee



a) When Contract is Signed

Asset a/c	Dr
To Lease Payable a/c	

b) For Down Payment

Lease Payable a/c	Dr
To Bank a/c	



# Journal Entries in the books of Lessee



e) For Lease Rental Paid

Lease Rental a/c	Dr
To Bank a/c	

f) For Depreciation Charged

Depreciation a/c	Dr
To Asset a/c	

# Journal Entries in the books of Lessee



g) For lease expenses paid

Expenses a/c	Dr
To Bank a/c	

h) For expenses charged to P&L a/c

P&L a/c	Dr
To Depreciation a/c	
To Expenses a/c	
To Interest a/c	

# Journal Entries in the books of Lessee



i) For purchase of asset at an agreed value

Asset a/c                      Dr  
    To Bank a/c

Note: Journal Entries from C to H will be repeated in every year.



# Journal Entries in the books of Lessor



a) For purchase of Asset

Asset a/c	Dr
To Bank a/c	

b) When Contract is signed

Rent Receivable a/c	Dr
To Asset a/c	



# Journal Entries in the books of Lessor



e) For Rent received

Bank a/c Dr

To Rent Receivable a/c

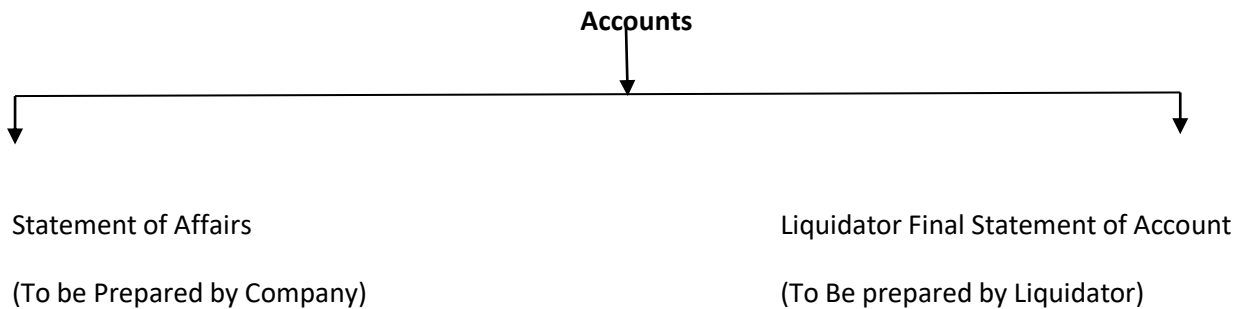
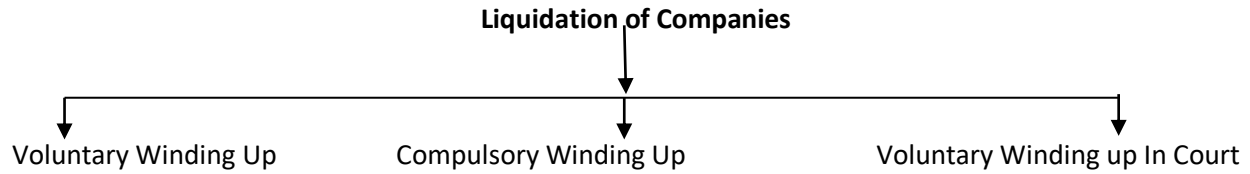
To Interest Receivable a/c

f) For Lease Terminated

Bank a/c Dr

To Income on sale of asset a/c

Note : Journal entries d and e will be repeated every year.



Dr	Liquidator Final Statement of Account		Cr
Particulars	Amount	Particulars	Amount
To Assets Realized	XXX	By Liquidator Remuneration	XXX
		By Liquidator Expenses	XXX
		By Preferential Creditors	XXX
		By Debentures	XXX
		By Other Secured Creditors	XXX
		By Unsecured Creditors	XXX
		By Preference Share Capital	XXX
		By Equity Share Capital (Bal. Fig)	XXX
	<b>XXXXX</b>		<b>XXXXX</b>

**Liquidator's Remuneration:**

- a) On Assets Realized:  $\text{Remuneration} = \text{Assets Realized} \times \text{Rate} / 100$
- b) On Amount paid to Unsecured Creditors
  - (i) If Amount Left after paying secured creditors is sufficient to pay entire unsecured Creditors:  $\text{Remuneration} = \text{Unsecured Creditors} \times \text{Rate} / 100$
  - (ii) If Amount Left after paying secured creditors is not sufficient to pay entire unsecured Creditors:  $\text{Remuneration} = \text{Amount Left} \times \text{Rate} / 100 + \text{Rate}$

# INVESTMENT ACCOUNTING

# DEFINITION

- Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise.

# IND AS 13

According to AS 13 Investments does not include

- ◉ Interest, Dividends and rentals earned on investments
- ◉ Operating or Financial Leases
- ◉ Investment of retirement benefit plans and life insurance enterprises
- ◉ Mutual Funds
- ◉ Assets held as stock in trade

# CURRENT INVESTMENTS

- ⦿ A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.



# LONG TERM INVESTMENT

- A long term investment is an investment other than a current investment.

# FAIR VALUE

- It is the value for which the asset could be exchanged between a knowledgeable willing buyer and knowledgeable willing seller in an arm's length transaction.

# MARKET VALUE

- It is an amount obtainable from sale of an investment from an open market.

# SCRIPS

- ◉ Fixed income bearing scrips
- ◉ Variable income bearing scrips