Class B. Com - II

Subject Corporate Accounting

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# How to prepare Cosolidated Balance Sheet

Steps for preparing consolidated balance Sheet of the holding company and its subsidiary company,

Step 1. :-

Add All the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidary company in holding company.

Step -2:

Add all the liabilities of subsidiary company with the liabilities of holding company. But share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company.

## Step-3

### Calculate of Minority Interest:

First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So when holding company shows consolidated balance sheet it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

We can calculate minority Interest with following formula:

| | | |
|---|---|---|
| | Total share capital of Subsidiary company = | xxx |
| Less | Investment of Holding company in to Subsidiary Company | - xxx |
| | | xxx |
| Add | Proportionate share of the subsidiary Co. profit and Reserves or increase in the value of assets. | + xxx |
| | | xxx |
| Less | Proportionate share of the subsidiary Co's loss and decrease in the value of total Assets of company | - xxx |
| | Value of Minority Interest | xxx |

step-4 :-

Calculate cost of capital / Goodwill or Capital Reserve

If holding company purchases shares of subsidiary company at premium, then the value of premium will be deemed as goodwill or cost of capital and shows as goodwill on the assets side of consolidated Balanasheet.

But if holding company purchases the share of subsidiary company at discount, then this value of discount will be capital reserve and show in the liability side of consolidated Balance sheet.

5th step :-

Treatment of Pre-Acquisition ~~of~~ of reserve and profit :

pre-acquistion profit and reserve of subsidiary company will be shown as capital reserve in consolidated balance sheet but the value of minority interest's profit or reserves deducts from it and add in minority interest value.

| | | |
|---|---|---|
| | Total profit before acquistion of Subsidiary company | xxx |
| Less | Share of minority interest<br>Value of profit × minority interest's<br>Value of shares in subsidiary company<br>or total share capital of Sub. co. | - xxx |
| | | xxx |
| | Pre-acquisition profit and reserve shown as capital reserves | xxx |

**Step- 6.**

## Calculate post acquisition profit:

After the date of purchasing the share of subsidiary company, profit of subsidiary company will also deem of holding co. and it include in the profit of holding company and we also separate the part of profit of minority interest and add in minority interest's value and shown in Liability side:

**Step- 7.**

## Ellimination of common transactions:

All common transaction between holding company and subsidiary company will not show in the consolidated balance. There following common transaction:

1. Goods sold and goods purchase on Credit and the value of debtor or Creditor either subsidiary co. or holding company will not shown in consolidated balance sheet.

2. Value of bill payable or bill receivable of holding company on subsidiary co. will also not shown but if some bills value is discounted from third party then either of both company's payable value shown as liability in the consolidated balance sheet.

Step - 8

## Treatment of Unrealized profit :-

If subsidiary company sells the goods to holding company or holding co. sells the goods to subsidiary co. at profit and if such goods will not sold in third party then the profit will not sold in third party then the profit and loss a/c. At this time a stock reserve a/c is opened and all amt. of unrealized profit transfer to this account and this accounts total amount is deducted of unrealized profit ~~p~~ transfers to this account and this accounts total amt. is deducted from closing stock of consolidated balance sheet :

Suppose :

| | |
|---|---|
| Closing stock of Holding co. | 50000 |
| Closing stock of Subsidiary Co. | 40000 |
| | 90,000 |
| Less Stock Reserves. | - 10,000 |
| | 80,000 |

If Subsidary company has also other outsider's shares then holding company makes reserve up to his share proportion

Step-9

## Treatment of Dividends:

If holding company gets the dividends from subsidiary company, then this will divide into two parts. If subsidiary Company declare dividend out of capital profits, then this will add in capital reserves in consolidated balance sheet. But, if subsidiary company has declared the profit out of revenue gains, then this dividend will add in general profit and loss a/c and will shown in the liability side of consolidated Balance sheet.