Class :- B.Com Part-II.
Subject :- Corporate Accounting
paper :- IV
unit : IV
Topic : Holding Company accounts.
Lecture Sequence No :- 4

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Accounting in the Books of Holding Company:

(1) Purchases of Shares:

On purchases of majority or whole of shares of subsidiary company, the following Journal entry will be passed:

Investment in shares or Shares in Subsidary Co. Dr. xxx
To Bank a/c xxx
To Debentures a/c xxx
To Share Capital a/c. xxx
(Being purchase of ... shares of ... Co.).

(2) On Distribution of Profit as Dividend:

Dividend is distributed out of profits if the holding company has received dividend from the subsidiary company, then we have to see whether it belongs to the pre-acquisition (purchase) period or post-acquisition period:

(a) Dividend or Profit belonging to Pre-acquisition (Purchase) period:

When holding company will transfer this amount to Investment A/c and not to Dividend A/c because this dividend represents the purchases price and this is capital profit:

Journal entry:

Bank a/c Dr. xxx -
To Investment in shares - xxx
(or) To Share in Subsidiary Co. - xxx
(Being dividend received out of Pre-acquisition profit).

Date:

(b) Dividend received out of the profit of the post-purchase period:

When holding company receives dividend from the subsidiary company out of the profit of post-purchase period. It is treated as revenue income and so it is credited to Dividend Account.

Journal Entry:

Bank a/c Dr. xxx -
To Dividend a/c - xxx
(Being Dividend received).

When Dividend is transfered by holding co. to P/L a/c

Dividend a/c Dr. xxx -
To Statement of Profit & loss a/c - xxx.
(Being profit transfered to Statement of P&L a/c).

(3) Bonus shares received from Subsidiary Co.

If the holding company receives bonus shares from Subsidiary co., then no entry is made to this effect. However, the number of shares in investments increases.

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Debiting the subsidiary Company with Profit:

When the holding company purchase all shares of the subsidiary company, then the holding company gets right over all the profits and loss of the subsidiary co. Therefore, following entry will be passed in this situation.

(1) In case of loss:

Subsidiary Company's A/c. Dr. xxx -
To Statment of Profit & Loss of Subsidiary a/c - xxx.

(2) In case of profit:

Statement of Profit & Loss of Subsidiary A/c Dr xxx -
To Subsidiary Company - xxx

Bank a/c Dr. xxx -
To Subsidiary Co. a/c - xxx.