

# Consolidation: Intra-Group Transactions

## Intra-Group Transactions

- Occur between entities in a group
- Each separate legal entity records the transactions in their accounts
- Must be eliminated/adjusted on consolidation as there is no external transaction from the viewpoint of the group

**AASB 10:** Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intra-group transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). → intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements

## Effect on Tax

- Income Tax applies to temporary differences arising from elimination of profit and losses due to intra-group transactions
- Tax effect must be accounted for when adjusting a carrying amount on consolidation

## Sale of Inventory

### Inventory Stays Within Group

Adjust so that there is no sale or COGS and inventory is recorded at its cost to the group:

#### Current Year Entries

Date	Details	DR	CR
30/6/16	Sales <i>- eliminate sale revenue</i>	150	
	COGS <i>- eliminate COGS</i>		100
	Inventory <i>- reduce cost of inventory to group</i>		50
	<i>(elimination of inter-entity sale and URP on internal sale of inventory)</i>		

Date	Details	DR	CR
30/6/16	Deferred Tax Asset	15	
	Income Tax Expense (\$50 x 30%)		15
	<i>(decrease ITE on inter-entity transaction)</i>		

### Inventory Partly Sold

#### Current Year Entries

Date	Details	DR	CR
30/6/16	Sales <i>- sale revenue from sale from within group</i>	150	
	COGS <i>- COGS sub + COGS parent – original cost of goods sold by parent</i>		120
	Inventory <i>- URP % x profit from intra-group sale</i>		30
	<i>(URP in closing inventory)</i>		

Date	Details	DR	CR
30/6/16	Deferred Tax Asset	9	
	Income Tax Expense (\$30 x 30%)		9