ACF2100 (WEEK 7)
CONSOLIDATION: INTRAGROUP TRANSACTIONS

- Intragroup transactions occur between entities within the group
- Each separate legal entity records these transactions in their accounts and the effects of such transactions will be included in the consolidated accounts
- These transactions must be eliminated on consolidation because from a group's viewpoint a transaction has not occurred with an entity outside of the group
- Intragroup transactions need to account for any tax effect that could arise

- **Sale of inventory:** *If there is an unrealized profit in the closing inventory/all of the inventory is still on hand*

Dr Sales xx
  Cr Cost of sales xx
  Cr Inventory xx (amount is unrealized profit)
(Accounting for unrealized profit in closing inventory)

Dr DTA xx
  Cr ITE xx (inventory*0.30)
(Recording tax-effect on unrealized profit)

Note: If there is a mark-up value given, then sales price divided by (1 + the mark-up percentage) would give you the cost. Then sales – cost = unrealized profit = inventory amount. This is then multiplied by the percentage of inventory on hand.

Note: If there is an external sale of inventory how much ever was NOT sold externally should be multiplied with the unrealized profit to find the value of 'Cr Inventory'.

- **Sale of inventory:** *the subsequent years*

Dr RE (op) xx
  Cr ITE xx (previous year's ITE amount)
  Cr Cost of sales xx (previous year's inventory amount)

- **Sale of inventory:** *If there is an unrealized profit in the opening inventory*

Dr RE (op) xx
Dr ITE (30%) xx (COS*0.30)
  Cr Cost of sales xx (amount of unrealized profit)
(Accounting for unrealized profit in opening inventory)

- **Transfers of PPE:** *Sale of an asset* ***when only the carrying amount is provided***

Dr Proceeds on sale xx (sale amount)
  Cr Carrying amount of Asset xx
  Cr Asset xx (amount of unrealized profit)
(Proceeds on sale of asset)

Dr DTA xx
  Cr ITE xx (Asset*0.30)
(Tax-effect on unrealized profit)

Dr Accumulated dep – asset xx
  Cr Depreciation expense – asset xx (depreciation %*amount of unrealized profit)
(Recording depreciation expense for the asset)

Dr ITE xx
  Cr DTA xx
(Tax-effect on depreciation)

*Sale of an asset when both the **cost & the carrying amount** are provided:*

Dr Gain on Sale xx
  Cr Asset xx

Dr Asset xx
  Cr Accumulated dep xx

Dr DTA xx
  Cr ITE xx (Gain*0.30)

*Reclassifying an asset as another asset/**each year since** the transfer, you reduce depreciation expense to the group's figure and profit becomes realized as asset benefits are consumed. For the next year when there is still **an unrealized profit** (Sale amount – cost), the entry is recorded as:*

Dr RE (op) xx
Dr DTA xx (unrealized profit amount*0.30)
  Cr Asset xx (unrealized profit amount)

Dr Accumulated dep – plant xx (unrealized profit amount*depreciation %*no. of years)
  Cr Depreciation expense – plant xx (Asset/no. of years OR Asset*depreciation %)
  Cr RE (op) xx

Dr ITE xx
Dr RE (op) xx (RE(op)*0.30)
  Cr DTA xx (Accumulated dep*0.30)

*Sale of an asset when the **parent classifies as one asset and the subsidiary classifies another:***

Dr Proceeds on sale xx (sale amount)
  Cr Carrying amount xx
  Cr Cost of sales xx (unrealized profit amount)

Intragroup services:

Dr Services revenue xx (if on cash)
  Cr Services expense xx

Dr Services payable xx
Cr Services receivable xx (if not on cash)/(if some was still unpaid)

Dividends: *Parent owns 100% of subsidiary and subsidiary pays a dividend of $100. The dividend is recognized as revenue by the parent, regardless of whether the dividend is paid from pre or post-acquisition equity.*

Dr Dividend revenue $100
Cr Dividend paid (RE) $100

When dividends are declared and not paid (from subsidiary's point of view):

Dr Dividend revenue $100
Cr Dividend receivable $100

Dr Dividend payable $100
Cr Dividend declared (RE) $100

Intragroup borrowings:

Dr loan payable xx
Cr loan receivable xx

Dr Interest revenue xx
Cr Interest expense xx

Intragroup borrowings: *the subsequent years*

Dr loan payable xx
Cr loan receivable xx

Dr interest revenue xx (calculate according to number of years)
Cr interest expense xx

Intragroup debentures: subsidiary's point of view

Dr Debentures xx
Cr Debentures in Parent Ltd xx

Dr Interest revenue xx
Cr Interest expense xx

Dr Interest payable xx
Cr Interest receivable xx