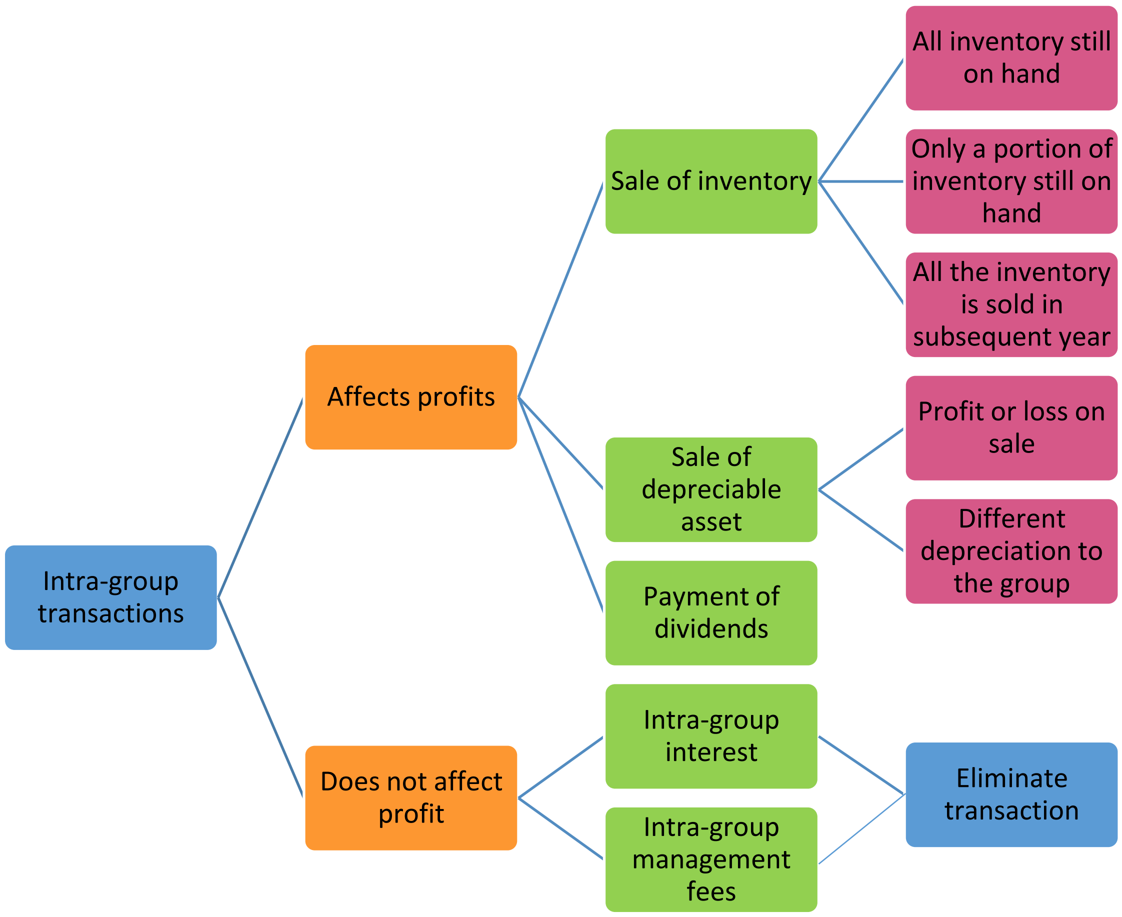
Intra-group transactions – Practice questions

(Financial Reporting Module 5)

Intra-group transactions – Practice questions

There are only 5 types of intra-group transactions that you need to know for consolidation purposes. Once you understand these transactions, you will find that there is nothing new or surprising when dealing with the elimination of intra-group transactions. The objective of these practice questions is to provide you with the different ways that intra-group transactions can be examined so that you can be familiar with them and to also cement your knowledge and understanding.



NOTE: For all questions, assume the applicable tax rate is 30%. You are required to consider and account for tax for all questions unless specifically stated otherwise. You are not required to include narrations to journal entries for these practice questions.

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PART A: Intra-group transactions that affect profits

Question 1:

On 1 January 20X4, Bully Ltd (parent company) sold a delivery machine to Timid Ltd (subsidiary company) for $60,000. The machine had a carrying amount of $50,000. Bully Ltd depreciates fixed assets at a rate 20% per annum while Timid Ltd depreciates its fixed assets at a rate of 10% per annum. Both have a 31 December financial year end.

Required:

a) At what rate will the machine be depreciated in 20X4? Justify your answer.
b) What is the unrealised profit or loss on 1 January 20X4? (Ignore tax effects)
c) What is the unrealised profit or loss on 31 December 20X4 (Ignore tax effects)
d) What will be the carrying amount of the machine in the books of Timid Ltd on 31 December 20X4?
e) What will be the carrying amount of the machine for the group on 31 December 20X4?
f) What will the net effect on profits be on 31 December 20X4 when this intra-group transaction is eliminated? (Include tax effects)

Question 2:

On 1 January 20X4, Lion Ltd (parent company) sold a delivery truck to Zebra Ltd (subsidiary company) for $40,000. The truck had a carrying amount of $30,000. Lion Ltd depreciates fixed assets at a rate 20% per annum while Zebra Ltd depreciates its fixed assets at a rate of 10% per annum. Both have a 31 December financial year end.

Required:

a) What is the consolidation elimination journals on 31 December 20X4?
b) What is the consolidation elimination journals on 31 December 20X5?

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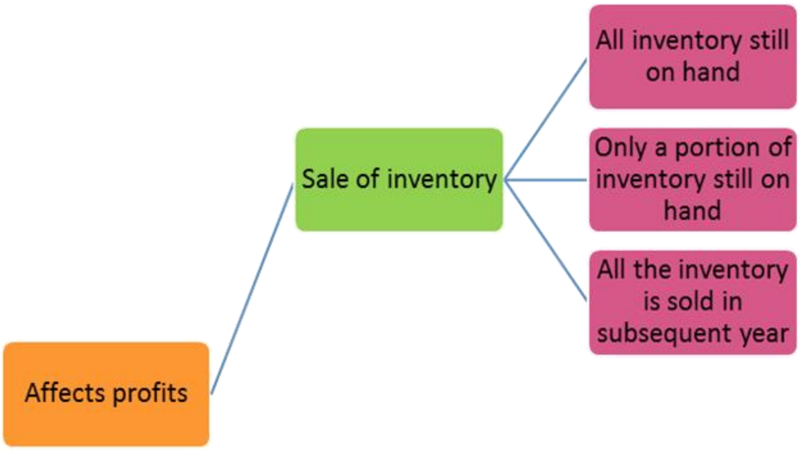
Question 3:

The financial period for the City Group is from 1 July to 30 June. On 1 July 20X6, Town Ltd (subsidiary company) sold a plant with a carrying amount of $350,000 to City Ltd (parent company) for $600,000. On the date of sale, the plant had a remaining useful life of 7 years. However, City Ltd intends to depreciate the plant over a useful life of 10 years.

Required:

a) What is the consolidation elimination journals on 30 June 20X7?
b) What is the consolidation elimination journals on 30 June 20X8?

Question 4:



On 1 October 20X8, Angel Ltd (parent) sold inventory costing $6,000 to Demon Ltd (subsidiary) for $8,000. Both companies have a 31 December year end.

Required:

a) Assuming all the inventory was on hand on 31 December 20X8, what will the consolidation elimination journals be?
b) Assuming half the inventory was on hand on 31 December 20X8, what will the consolidation elimination journals be?
c) Following from (b), what would be the elimination journals on 31 December 20X9 if the remaining inventory was sold in the 20X9 financial year?

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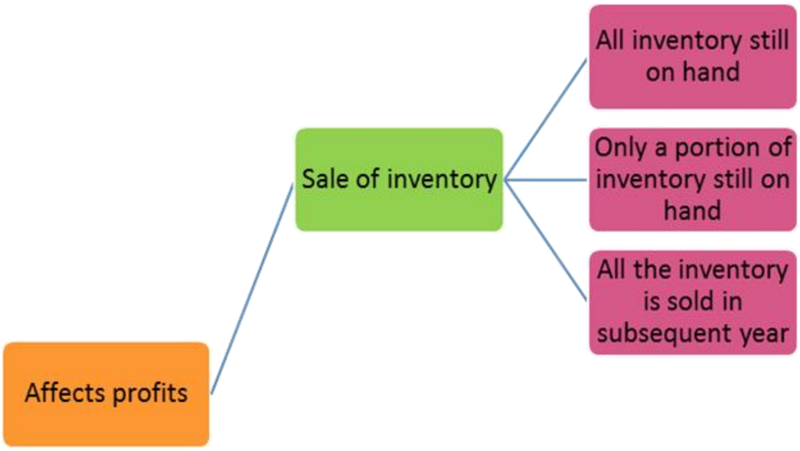
Question 5:

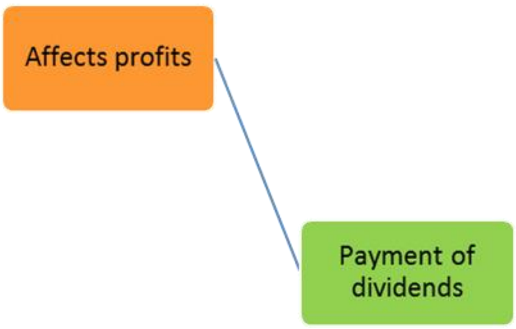


On 1 August 20X7, Son Ltd (subsidiary) sold inventory costing $15,000 to Father Ltd (parent) for $20,000. Both companies have a 31 December year end.

Required:

a) Assuming all the inventory was on hand on 31 December 20X7, what will the consolidation elimination journals be?
b) Assuming 25% the inventory was on hand on 31 December 20X7, what will the consolidation elimination journals be?
c) Following from (b), what would be the elimination journals on 31 December 20X8 if the remaining inventory was sold in the 20X8 financial year?

Question 6:



On 20 December 20X1, Low Ltd (subsidiary) declared and paid dividends of $15,000. 90% of the dividends paid was made to High Ltd (parent) while the remaining 10% was made to individual non-controlling shareholders.

What would be the journal entry to eliminate the intra-group dividend? (Ignore the effects of tax)

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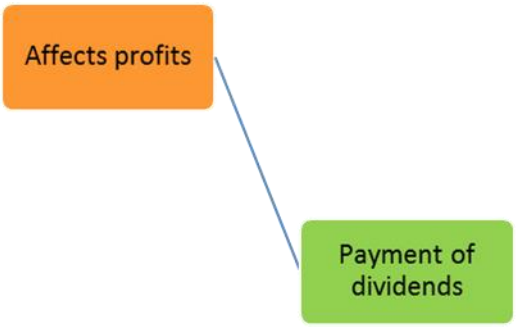
Question 7:

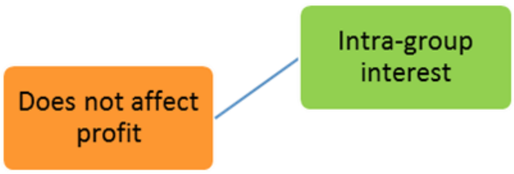


Sad Ltd is a wholly owned subsidiary of Happy Ltd and both companies have a 31 December year end. On 20 December 20X1, Sad Ltd declared dividends of $30,000. On 16 January, Sad Ltd paid the dividend. Happy Ltd recognised the dividend declared on the accrual basis.

What would be the journals to eliminate the intra-group dividend? (Ignore the effects of tax)

PART B: Intra-group transactions that DO NOT affect profits

Question 8:

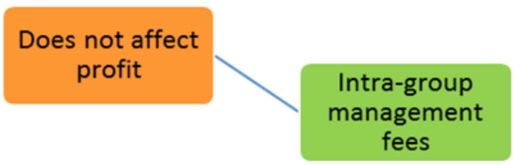


On 1 January 20X3 Entity A (parent) loaned $40,000 to Entity B (subsidiary).

The terms of the loan indicated that no interest would be charged provided that Entity B repays half the loaned by 31 December 20X3. This condition was satisfied since Entity B repaid $20,000 of the loan to Entity A on 21 December 20X3.

What are the consolidation elimination journals in respect of the intra-group loan?

Question 9:



Alpha Ltd (parent) agreed to perform all the human resources functions for Omega Ltd (subsidiary) in return for a management fee of $25,000. On 31 December 20X3 (yearend date), Omega Ltd was still owing an amount of $6,000 of the agreed fee.

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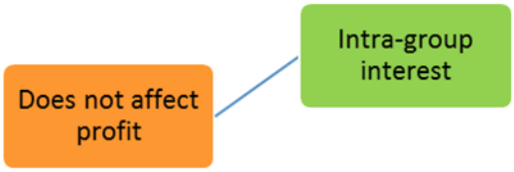
Required:

a. What would be the journals to eliminate the intra-group transaction?
b. What are the tax effect relating to the elimination of this intra-group transaction?

Question 10:



P Ltd (parent) provided a loan of $100,000 to S Ltd (subsidiary) on 1 January 20X3. The interest on the loan is 10% per annum. On 30 June 20X3 (yearend date) the interest on the loan was not yet paid.

Required:

What would be the journals to eliminate the intra-group transaction?