FINANCIAL ACCOUNTING 321 **Group statements: Intragroup transactions** **Class examples** ***HC Verster***	**DEPARTMENT OF ACCOUNTING** **UP**

CLASS EXAMPLE 1

On 1 January 20.1 Nissan Limited acquired a 60% interest in the issued equity share capital of Sani Limited for R45 000, when the retained earnings of Sani Limited was R10 000. Nissan Limited has controlled Sani Limited since this date.

TRIAL BALANCES FOR THE YEAR ENDED 31 DECEMBER 20.5

	Nissan Limited R	**Sani Limited R**
Ordinary share capital (Issued at R1 each)	100 000	60 000
Mark-to-market reserve: Equity instruments	8 135	-
Retained earnings	50 000	30 000
Deferred tax	16 865	5 000
Sales	105 000	70 000
	280 000	165 000
Investment in Sani Limited at fair value	55 000	-
Property, plant and equipment	100 000	77 000
Inventories	38 000	30 000
Income tax expense	12 000	8 000
Cost of sales	60 000	40 000
Operating expenses	15 000	10 000
	280 000	165 000

Since 1 January 20.1 Nissan Limited has purchased a portion of its inventories from Sani Limited at cost plus 20%. Total sales by Sani Limited to Nissan Limited amounted to R50 000 for the year ended 31 December 20.5. Inventories purchased from Sani Limited still in the books of Nissan Limited at 31 December amounted to:

20.4: R12 000
20.5: R15 000

Nissan Limited irrevocably elected to classify the investment in the subsidiary as a financial asset at fair value through other comprehensive income.

The Nissan Limited Group chose to measure any non-controlling interest on acquisition of the subsidiary at its proportionate share of the acquiree's identifiable net assets.

REQUIRED:

PART 1: Ignore tax implications

Prepare the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity of the Nissan Limited Group for the year ended 31 December 20.5, as well as the consolidated statement of financial position of the group at that date, in accordance with International Financial Reporting Standards (IFRS). (Comparative amounts are not required.)

PART 2: Take tax implications into consideration

Prepare the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity of the Nissan Limited Group for the year ended 31 December 20.5, as well as the consolidated statement of financial position of the group at that date, in accordance with International Financial Reporting Standards (IFRS). (Comparative amounts are not required.)

Assume a corporate tax rate of 28% and that 66.6% of capital gains are taxable.

Do you know:

During 20.5, R9 000 of the R12 000 inventories on hand at 31 December 20.4 was sold to third parties. The remaining portion of the R12 000 inventories was still on hand at 31 December 20.5 and included in the R15 000 inventories still on hand at 31 December 20.5.

How is this going to affect your answer in part 2?

The purpose of education is to replace an empty mind with an open mind

CLASS EXAMPLE 2

A Limited acquired its interest in B Limited on incorporation of B Limited at 1 January 20.1. A Limited has controlled B Limited since this date. The individual financial statements of A Limited and B Limited at 31 December 20.2 are as follows:

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 20.2

	A Limited	B Limited
	R	R
ASSETS		
Non-current assets		
Investment in subsidiary (8 000 ordinary shares)	8 000	-
Machinery	8 000	16 000
- Cost	10 000	20 000
- Accumulated depreciation	(2 000)	(4 000)
Current assets	11 000	2 000
	27 000	18 000
EQUITY AND LIABILITIES		
Total equity		
Ordinary share capital – issued at R1 each	20 000	10 000
Retained earnings	7 000	8 000
	27 000	18 000

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.2

	A Limited	B Limited
	R	R
Revenue	40 000	35 000
Cost of sales	(24 000)	(20 000)
Gross profit	16 000	15 000
Other expenses	(6 000)	(5 000)
Profit before tax	10 000	10 000
Income tax expense	(5 000)	(5 000)
Profit for the year	5 000	5 000

On 1 January 20.1 A Limited purchased all its machinery from B Limited at carrying amount plus 33⅓%. The machinery was property, plant and equipment in the books of B Limited. A Limited uses the machinery for administrative purposes and provides for depreciation at 10% per annum on cost. The machinery was available for use as intended by management from the date of sale.

Assume that the tax allowance allowed by SARS in respect of machinery, is the same as depreciation in respect of machinery for accounting purposes.

Assume that the fair value of the investment in the subsidiary is equal to the original cost of the investment.

REQUIRED:

PART 1: Ignore tax implications

Prepare the consolidated statement of profit or loss and other comprehensive income of the A Limited Group for the year ended 31 December 20.2, as well as the consolidated statement of financial position of the group at that date, in accordance with International Financial Reporting Standards (IFRS). (Comparative amounts are not required.)

PART 2: Take tax implications into consideration

Prepare the consolidated statement of profit or loss and other comprehensive income of the A Limited Group for the year ended 31 December 20.2 as well as the consolidated statement of financial position of the group at that date, in accordance with International Financial Reporting Standards (IFRS). (Comparative amounts are not required.)

Assume a corporate tax rate of 28%.

CLASS EXAMPLE 3

if S sells = This will be included in the analysis of equity (Child)
if H sells = not included (Parent)

H Limited acquired an 80% interest in the issued equity share capital of S Limited on 1 January 20.5. H Limited has controlled S Limited since this date. On 2 January 20.5 S Limited sold machinery with a carrying amount of R30 000 to H Limited for R45 000. The machinery was property, plant and equipment in the books of S Limited. H Limited uses the machinery in the production of inventory. H Limited provides depreciation on machinery at 20% per annum in accordance with the reducing balance method. The machinery was available for use as intended by management from the date of sale.

On 30 June 20.6 H Limited sold the machinery to a company outside the group for R40 000.

Assume that the tax allowance allowed by SARS in respect of machinery, is the same as depreciation in respect of machinery for accounting purposes.

Assume a corporate tax rate of 28%.

REQUIRED:

Prepare the consolidation journal entries i.r.o. the above intragroup transactions for the years ended 31 December 20.5 and 20.6.