

What is Elimination of Intra-Group Transactions?

Worksheet

Elimination of intra-group transactions means fully removing intercompany revenue, expenses, receivables/payables, loans, interest and dividends on consolidation, and stripping out any unrealized profit remaining in group inventory at year-end.

Questions

1. Why must intra-group sales be eliminated?

- A) To increase consolidated profit
- B) To avoid double-counting transactions within the group
- C) Because tax law requires it
- D) To reduce NCI

2. A parent sells to a subsidiary at a 20% margin; \$30,000 of this inventory remains at year-end. What is the unrealized profit?

- A) \$30,000
- B) \$6,000
- C) \$24,000
- D) \$20,000

3. In an upstream sale, how is the unrealized profit adjustment allocated?

- A) Entirely to the parent
- B) Entirely to NCI
- C) Between parent and NCI by ownership %
- D) It is not allocated

4. Which of these is eliminated on consolidation?

- A) Sales to external customers
- B) Intercompany loan and interest
- C) Cost of goods sold to third parties
- D) Dividends paid to external shareholders

5. A parent sells goods to its subsidiary at a 25% margin for \$100,000. At year-end the subsidiary still holds \$40,000 of this inventory (at transfer price). What is the unrealized profit?

6. A subsidiary sells goods to its parent (upstream) for \$200,000 at a 30% margin. At year-end, \$50,000 of this inventory remains in the parent's warehouse.

7. During the year, a parent lends its subsidiary \$500,000 at 5% interest.

8. Define: Why eliminate intra-group transactions?

9. Define: What is unrealized profit?

10. Define: What common intra-group items get eliminated?

Answer Key

1. B) To avoid double-counting transactions within the group - Consolidation shows the group as one entity, so internal transactions can't be counted as revenue/expense.
2. B) $\$6,000 - 30,000 \times 20\% = \$6,000$.
3. C) Between parent and NCI by ownership % - Upstream profit originates with the subsidiary, so it affects both parent and NCI shares.
4. B) Intercompany loan and interest - Only transactions within the group - like intercompany loans and interest - are eliminated.
5. URP = I M URP = $40,000 \times 25\% = \$10,000$ Consolidated inventory and retained earnings/COGS are reduced by $\$10,000$.
6. URP = $50,000 \times 30\% = \$15,000$ Because it's an upstream sale, this profit adjustment is split between the parent and NCI based on ownership %.
7. Interest income/expense = $500,000 \times 5\% = \$25,000$ Both the $\$500,000$ loan balance and the $\$25,000$ interest are eliminated in full on consolidation - they fully offset within the group.
8. To avoid double-counting revenue/costs and reflect the group as a single economic entity.
9. Profit on goods sold within the group that are still on hand (not yet sold to a third party) at period end.
10. Sales/purchases, receivables/payables, loans and interest, dividends, and unrealized profit in inventory or fixed assets.

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