MANG3003: FINANCIAL ACCOUNTING 3
LECTURE: 5
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CONSOLIDATED INCOME STATEMENT

PRINCIPLES

1) Single entity concept applied
2) From revenue to profit for the year include all of P's income and expenses PLUS all of S's income and expenses
3) Transactions between group members should be eliminated
4) After profit for year show split of profit between amounts attributable to the parent's shareholders and the non-controlling interest

ADJUSTMENTS TO EXPENSES

1) Sales and Purchases
   - Intra group trading must be eliminated from Consolidated Income Statement (CIS)
   - *Consolidated Revenue = P's Revenue + S's Revenue – Intra Group Sales*
   - *Consolidated Cost of Sales = P's COS + S's COS – Intra Group Sales*
   - Sales and Cost of Sales should only include goods sold to a third party

TOTAL INTER COMPANY SALES

DEBIT (DR) - SALES	
	CREDIT (CR) - COST OF SALES

UNREALISED PROFIT (URP)

DEBIT (DR) - COST OF SALES	
	CREDIT (CR) - STOCK

- Adjustment for URP should be shown as an increase to cost of sales (return inventory back to original cost to group and eliminate URP

EXAMPLE 1: ADJUSTMENTS TO SALES

During the year P had sold £84,000 worth of goods to S. These goods had cost P £56,000. At the end of the year, S still had £36,000 worth of these goods in inventories.

REQUIRED: Calculate the adjustment to sales and cost of sales