Question 5

On 1st July 2013 Hazelnut Ltd acquires 100% of the equity of Chestnut Ltd at a cost of $1,100,000. At the date of acquisition, all assets of Chestnut Ltd are fairly stated except for the Property, Plant and Equipment which has a cost of $900,000, accumulated depreciation of $250,000 and a fair value of $800,000. The shareholder's funds at the date of acquisition are:

Share capital	700,000
Retained earnings	230,000
	930,000

Additional information

1. All companies in the group recognised dividend revenue on the accruals basis and used a perpetual inventory system.
2. Goodwill was determined to be impaired by $2,000 last year (30/6/2014) and $4,000 this year (30/6/2015).
3. Hazelnut Ltd sold inventory to Chestnut Ltd for $70,000 during the period. This inventory had originally cost Hazelnut Ltd $30,000. Chestnut Ltd sold three-quarters of this inventory during the period to parties external to the group.
4. Both companies depreciate their assets using 10% straight line.
5. Chestnut has paid an interim dividend of $7,000 and declared a final dividend of $9,000.
6. In May 2014, Chestnut Ltd sold goods to Hazelnut Ltd for $50,000. This inventory had cost Chestnut Ltd $20,000. At that time none of the inventory had been sold to external parties. The inventory has now been sold by the group.
7. During the year Chestnut Ltd paid Hazelnut Ltd management fees of $4,000.
8. The rate of company income tax is 30%.
9. All other consolidation journal entries (i.e. other than those required for the above intra-group transactions) have no effect on the calculation of group profit.

Required:

Prepare the consolidation elimination journal entries required for the above intra-group transactions for 30th June 2015. **NB**: Narrations are not required

[Total for Question 5 = 35 marks]