

IND AS 24- RELATED PARTY DISCLOSURES

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Introduction

- ▶ An entity in the course of its commerce and business enters into numerous transactions and gets impacted by various related party relationships. It is a normal feature of business and commerce to have related party relationships.
- ▶ Entities frequently carry on their business activities through subsidiaries, joint ventures or associates. The entity has the ability to affect the financial and operating policy of a subsidiary as it has control over it. In the case of joint venture, it has joint control whereas in the case of an associate it has significant influence.

Objective

The objective of this Standard is to ensure that an entity's financial statements contain the **disclosures** with respect to :-

- ▶ Related party relationship
- ▶ Related party transactions
- ▶ Outstanding balance with related parties
- ▶ Commitments with related party

The disclosures are necessary so that users' attention could be drawn to the possibility that financial statements may be affected by such related party relationships and other items as mentioned above.

Purpose of Related Party Disclosures

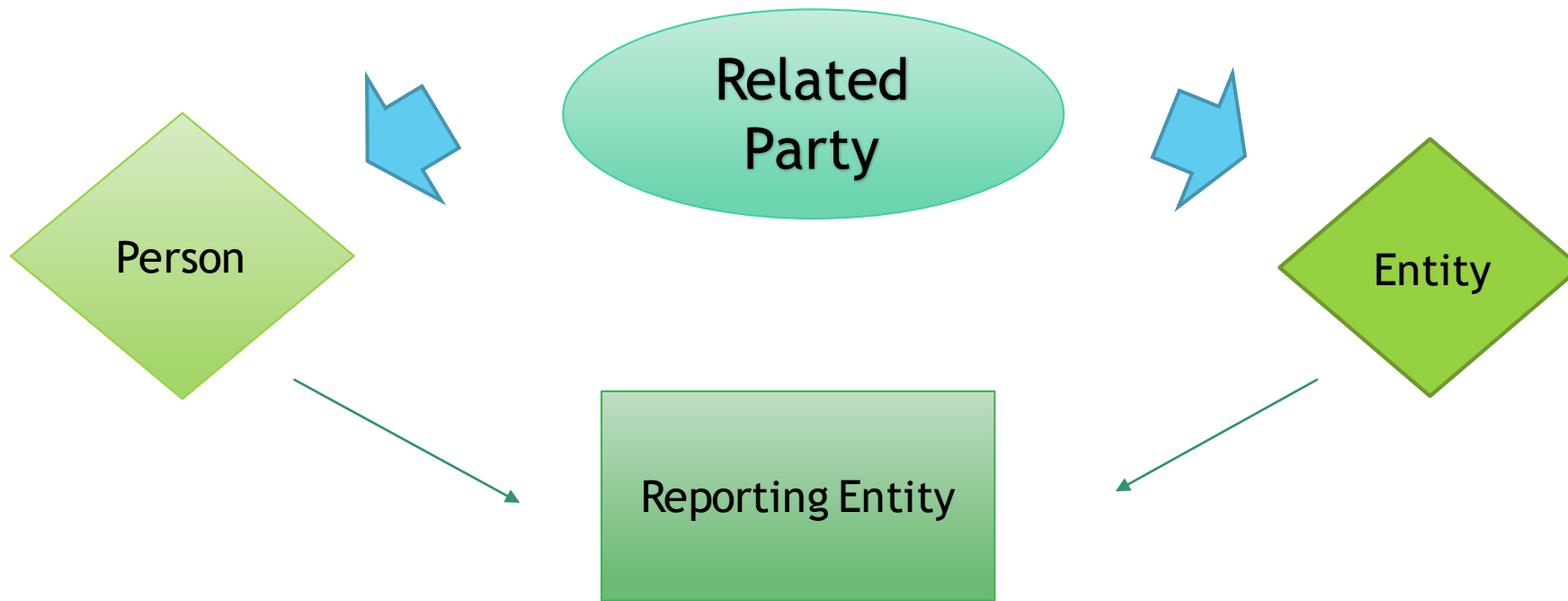
A related party relationship could have an effect on the profit or loss and financial position of an entity.

- ▶ Transactions that are entered between related parties may not be entered with unrelated parties;

Example:- An entity may sell goods to its parent at cost. It may not sell goods at cost to an unrelated party.

- ▶ Transactions with unrelated parties get influenced because of related party relationships.

Example:- S Limited, a subsidiary of H Limited, in steel manufacturing used to purchase billets from UR Limited. H Limited acquires 100% stake in FS Limited who also manufactures billets. FS Limited is now a fellow subsidiary of S Limited. H Limited instructs S Limited not to purchase billets from UR Limited but from FS Limited.



Thus two types of related party relationships are envisaged.

- ▶ One relationship is between the reporting entity and a person or persons.
- ▶ The other relationship is between the reporting entity and another entity or entities

Understanding Related Party Transactions

- A **related party transaction** is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Examples:-

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) leases
- (e) transfers of research and development;
- (f) transfers under licence agreements;
- (g) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

Understanding Relationship Between The Reporting Entity and Person

A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Important Definitions

- ▶ **Close members of the family** of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity which includes (that's person children , spouse , domestic partner , brother , sister , father and mother or children of that person's spouse or domestic partner and dependants of that person or that person's spouse or domestic partner)
- ▶ A **parent** is an entity that controls one or more subsidiaries to present consolidated financial statements.
- ▶ **Key management personnel** are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity

Examples

1. Mr. A holds 51% equity share capital of A Limited. A Limited has no other form of share capital. As Mr. A controls A Limited, he is a related party.
2. Mrs. A is wife of Mr. A. Mr. A holds 51% of equity shares of A Limited. A Limited has no other form of share capital. Mr. A controls A Limited. Since Mr. A is a related party, Mrs. A is also a related party of A Limited.
3. Mr. D is a director of A Limited. Being a member of key management personnel of A Limited, he is related to A Limited.
4. Mr. D is a director of H Limited. S Limited is a subsidiary of H Limited. Mr. D is related to S Limited.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

(a) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).



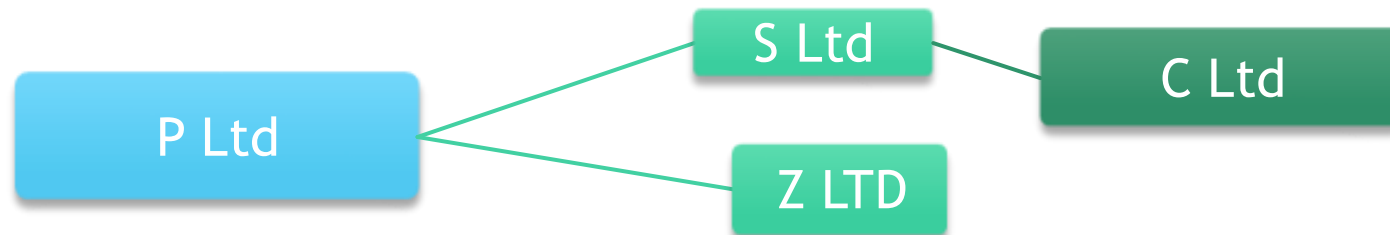
Example:-
SA Limited and SB Limited are subsidiaries of H Limited. SA Limited, SB Limited and H Limited are related to each other.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

Example:-

C Limited is an associate of S Limited. S Limited is a subsidiary of P Limited. Z Limited is another subsidiary of P Limited. C Limited and Z Limited are related parties.



Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

(c) Both entities are joint ventures of the same third party.



Example :- H Limited has entered into 2 joint ventures, JHA Limited (joint venture with A Limited) and JHB Limited (joint venture with B Limited). JHA Limited and JHB Limited are related parties.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.



Example:- JH Limited is a joint venture of H Limited. AH limited is an associate of H Limited. JH Limited and AH Limited are related parties.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

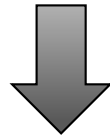
An entity is related to a reporting entity if any of the following conditions applies:

(e) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

(f) The entity is controlled or jointly controlled by a person identified above

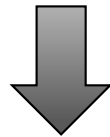


Example:- Mr. A controls C Limited (the reporting entity). He also controls B Limited. C Limited and B Limited are related to each other.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

(f) A person identified above in (i) (refer slide 7) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)



Example:- Mr. A controls C Limited (the reporting entity). He also has significant influence over B Limited. A Limited and B Limited are related to each other.

Understanding Relationship Between The Reporting Entity and Another Entity / Entities

An entity is related to a reporting entity if any of the following conditions applies:

The Standard further states that in the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture

(g) The entity, or any member of a group of which it is a part, provides KMP services to the reporting entity or to the parent of the reporting entity.

Example:- A Ltd is a parent with 3 subsidiary companies i.e B Ltd , C Ltd & D Ltd. It also has an associate company i.e E Ltd. F Ltd is subsidiary of E Ltd which provides KMP services to A Ltd. So F Ltd. Is related party of A, B, C D & E Ltd.

Understanding Who are Not Related Parties

Two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity

(i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of Government that does not control , significant influence the reporting entity

Not Related parties

Two venturers are not related parties simply because they share joint control over a joint venture

A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Disclosures

- ▶ Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed
- ▶ The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in Ind AS 27 and Ind AS 112, Disclosure of Interests in Other Entities.
- ▶ An entity shall disclose KMP compensation in total and for each of the following categories:- (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; (e) share-based payments
- ▶ In case KMP services are obtained from a 'management entity', the requirements do not apply to compensation paid or payable by the management entity to its employees or directors.

Disclosures

In case there has been related party transactions during the periods covered by the financial statements, disclosure of information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements, including the following at a minimum:

- ▶ Nature of related party relationship,
- ▶ Amount of transactions,
- ▶ Amount of outstanding balances (including commitments), and:
 - I. their terms and conditions, including whether they are secured, and nature of the consideration to be provided in settlement,
 - II. Details of any guarantees given or received,
- ▶ Provisions for doubtful debts related to outstanding balances,
- ▶ Expense recognised in respect of bad or doubtful debts due from related parties, and
- ▶ Amounts incurred for provision of key management personnel services that are provided by a separate entity.

Disclosures Requirement Exemption

A reporting entity is **exempt** from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

- ▶ a **government** that has control or joint control of, or significant influence over, the reporting entity; and
- ▶ another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

If a **reporting entity** applies the exemption then, it shall disclose the following about the transactions and related outstanding balances as **follows**:-

- ▶ the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
- ▶ the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - i) the nature and amount of each individually significant transaction; and
 - ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent

Significant Difference Between Ind AS 24 and AS18

Particulars	INDIAN ACCOUNTING STANDARDS	INDIAN GAAP
Relevant Standard	Ind AS 24 “ Related party disclosures”	AS 18 “ Related party disclosures”
Definition of Relative	Ind AS 24 uses the term “a close member of the family of a person”.	AS 18 uses the term “relatives of an individual”
Key management personnel	Ind AS 24 covers KMP of the parent as well.	AS 18 covers KMP of the entity only.
Post-employment Benefits	Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.	AS 18 does not specifically cover entities that are postemployment benefit plans, as related parties.
Next Most Senior Parent	Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces CFS for public use	AS 18 has no such requirement