

TOPIC 26

INDAS 24 **RELATED PARTY DISCLOSURES**

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Quote:- Keep Calm, Focus On your Goal



- While doing business it is very common that there may be some transactions with related parties of the entity or transactions with unrelated parties get influenced because of related parties involved.
- 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.
- It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity.

The effect gets manifested through:

a) Transaction 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

B) Transaction 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

Therefore, the users of the financial statements of any entity should have:

(a) the knowledge of:

- related party relationships of an entity;
- entity's transactions, outstanding balances, commitments etc. with such related parties;

(b) as it may affect the users assessments:

- of operations of the entity and
- The risks and opportunities facing the entity.



OBJECTIVE

The objective of the Standard is to ensure that the financial statements of an entity contain necessary disclosures with respect to:

- (a) Related party relationships;
- (b) Related party transactions;
- (c) Outstanding balances with related parties; and
- (d) Commitments with related parties.

The disclosures are to be made in:

- (a) Individual financial statements of the entity.
- (b) Consolidated and separate financial statements of a parent, venturer or an investor prepared in accordance with Ind AS 110 'Consolidated Financial Statements' or Ind AS 27, 'Separate Financial Statements'.

Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements, however, intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

Exception:

If the above intra group related party transactions & outstanding balances are measured at fair value through profit or loss, then not eliminated.

DEFINITIONS

The following definitions are relevant for understanding the Standard:

1. A **related party** is (i) a person or (ii) entity that is related to the reporting entity.
2. A **reporting entity** in this Standard is an entity that is preparing its financial statements.
3. **Close members of the family of a person** are the one who may be expected to influence or be influenced by that person in their dealings with the entity. It includes:
 - (a) that person's children, spouse or domestic partner, brother, sister, father and mother;
 - (b) children of that person's spouse or domestic partner; and
 - (c) dependants of that person or that person's spouse or domestic partner.
4. A **parent** is an entity that controls one or more subsidiaries to present consolidated financial statements.



5. **Control** is the power over the investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns.

6. **Joint Control** is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

7. **Significant influence** is the power to participate in the financial and operating policy decisions of the investee, but is not control of those policies.

The terms 'control', 'joint control' and 'significant influence' are discussed in detail in chapters on Ind AS 110, Consolidated Financial Statements, Ind AS 111 'Joint Arrangements' & Ind AS 28, Investments in Associates & Joint Ventures.

8. **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.

Analysis:

The definition includes executive as well as non-executive directors who have responsibility for the management and direction of a significant part of the business. It is not necessary that these people should have the 'director' designation. The term also includes members of the management committee(s), if those committee(s) has the authority for planning, directing and controlling the entity's activities.

TYPES OF RELATED PARTY RELATIONSHIPS

- ❖ 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.

Type I - In relation to a Person

(A)

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

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



Examples :

1. Mr. A holds 51% in 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.

(B)

Also if a person is having control in any one entity and Control/Sign. Infl./JCKMP in other entity then both the entities shall be related to each other.

Example 5:

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

Example 6:

Mr. A controls A Limited (the reporting entity). He is a non-executive director in B Limited. A Limited and B Limited are related parties.

Type 2 - In relation to another entity

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).

Note: Members of Same group here only means Parent and all subsidiaries. Associate and Joint Ventures shall not become part of members of same group.

Example 7:

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



(B)

One entity is an associate or joint venture of the other entity.

Example 8:

Parent Ltd. has a joint venture in J Ltd. with co-venturer X Ltd. and Parent Ltd. has 35% investment (significant influence) in A Ltd.

Here, Parent Ltd. and J Ltd. are related to each other.

Parent Ltd. and A Ltd. are related to each other.

But Parent Ltd. and X Ltd. (Co-Venturers) are not related to each other.

(C)

If a member of same group has Associate (Significant Influence) or Joint Venture then All members of the same group shall be Related Party with such Associates or Joint Ventures.

But pls note that Co-Associate co. and Co-Venturer Co. shall never be related parties.

Example 9:

AS Limited is an associate of S Limited. S Limited is a subsidiary of H Limited. SH Limited is another subsidiary of H Limited. AS Limited and SH Limited are related parties.

Example 10:

X Ltd. has Subsidiaries Y Ltd., Z Ltd., A Ltd. & B Ltd.

Also B Ltd. has an Associate co. C Ltd. and A Ltd. has an associate co. D Ltd.

Here, Group consist of X, Y, Z, A & B only. Entire group is related party of each other.

C Ltd. is related party of all members of group i.e. X, Y, Z, A & B.

D Ltd. is related party of all members of group i.e. X, Y, Z, A & B.

But C Ltd. and D Ltd. are co-associate and are not related party to each other.

(D)

If any entity is common in two Joint Ventures then the Joint Ventures will be related party with each other.

Example 11:

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.



But H Ltd. and A Ltd. or H Ltd. and B Ltd. are co-ventures and are not related to each other.

(E)

One entity is a joint venture of a third entity and the other entity is an associate of the third entity. (It means an entity has an Associate co. and a Joint Venture co. then both Associate and JV will be related party with each other).

Example 12:

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.

(F)

If an entity's Associate co. has subsidiary co. then such subsidiary shall be related party of the entity.

However, if entity's Associate co. has JV and Associate then such JV and Associate co. of Entity's Associates shall not be related party of Entity.

Example 13:

R Limited has an associate B Limited. B Limited has a subsidiary S Limited, a joint venture J Limited and an associate A Limited. R Limited is the reporting entity. It identifies B Limited and S Limited as its related parties. J Limited and A Limited are not related parties of R Limited.

SOME SPECIAL CASES OF RELATED PARTY RELATIONSHIPS

(A) 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.

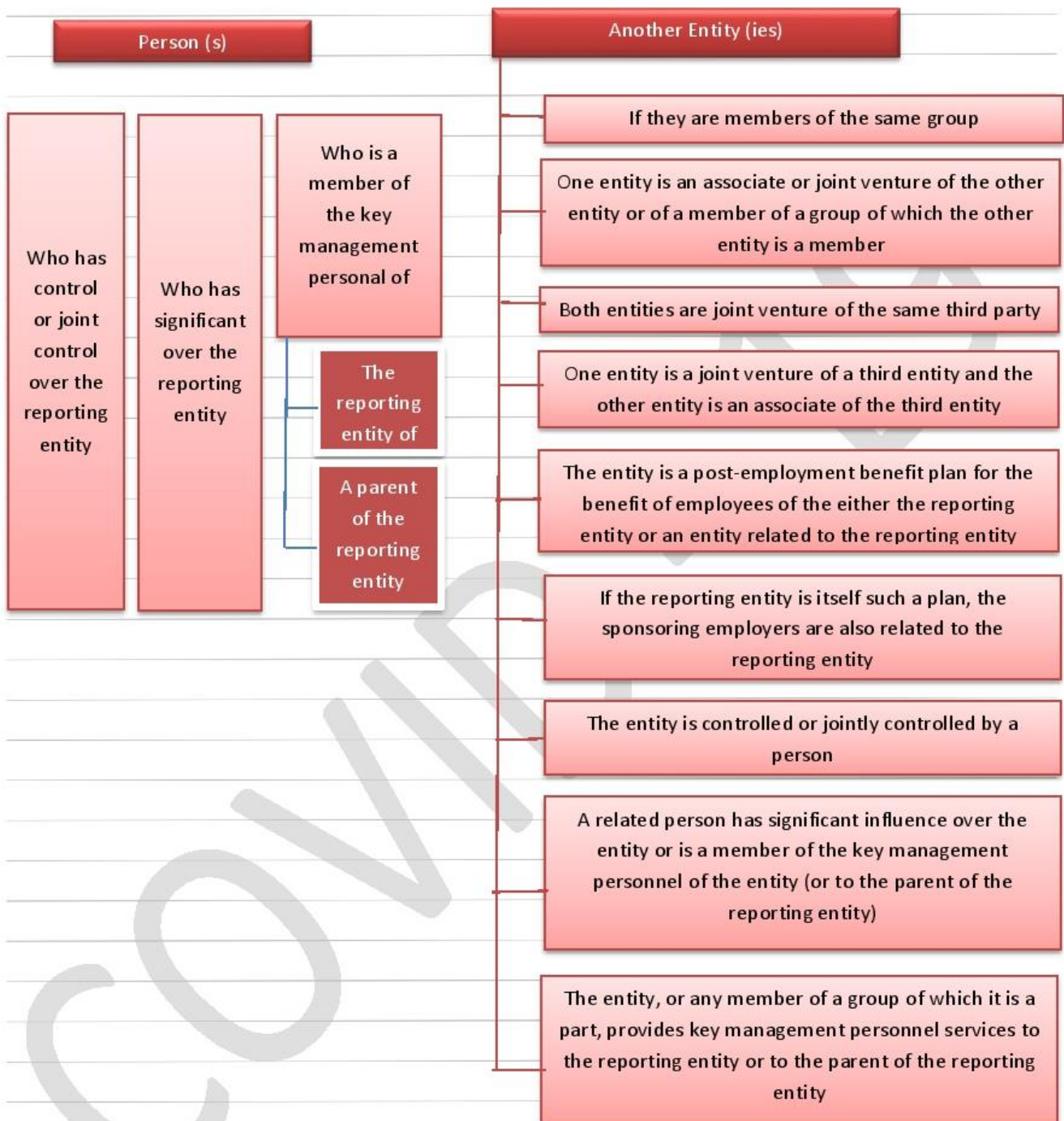
(B) The entity, or any member of a group of which it is a part, provides **key management personnel services** to the reporting entity or to the parent of the reporting entity.

Example 14:

A Ltd is a parent company with 3 subsidiary companies B Ltd. C Ltd & D Ltd. It also has an associate company E Ltd. Subsidiary F Ltd of E Ltd provides key management personnel services to A Ltd. F Ltd. is in a related party relationship with A, B, C D & E Ltd.



Relationship of an entity with



NO RELATED PARTY RELASHIOSHIPS

The Standard clarifies that certain relationships are not related party relationships. These are as follows:

- (a) Two entities are not related parties 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.

Example 15:

Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. There are no transactions between these two entities. X Limited and Y Limited are not related parties.

Example 16:

Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. Y Limited purchases the entire production of X Limited. The transactions are always at arm's length. X Limited and Y Limited may be related parties as it is quite possible that Y Limited may be able to exercise control/significant control over X Limited. As per this Standard substance is more important than mere legal form.

- (b) Two venturers are not related parties simply because they share joint control over a joint venture.

Example 17:

JV Limited is an equal joint venture of J Limited and V Limited. J Limited and V Limited are not related parties.

- (c)(i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does **not** control, jointly control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).



Government refers to government, government agencies and similar bodies whether local, national or international.

A **government-related entity** is an entity that is controlled, jointly controlled or significantly influenced by a government.

Example 18:

A Bank and B Bank has provided finance to XY Limited. By virtue of loan agreement, they occupy a non-executive observer seat on the Board of Directors of XY Limited. A Bank and B Bank are not related parties of XY Limited.

(d) 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.

Example 19:

A Limited is an auto ancillary of an automobile company. It supplies all its production to the automobile company. Automobile company has no other interest in A Limited. A Limited and automobile company are not related parties.

Not a related parties

Two entities are not related parties simply because they have a director or other member of key management personal in common or because a member of key management personal of one entity has significant influence over the other entity

b) Two ventures are not related parties simply because they share joint control over a joint venture

C) i) Providers of finance, ii) trade unions, iii) public utilities, and iv) departments and agencies of a government that does not control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process))

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



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.

Example 20:

- (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) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) provision of guarantees or collateral;
- (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised);
- (j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party; and
- (k) management contracts including for deputation of employees.**

Note: It is **not necessary for any consideration to be passed** for related party transactions. Also, participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties.



Student Notes:-



DISCLOSURES IN RESPECT OF RELATED PARTIES

The disclosure requirements can be broadly classified into two categories.

- (a) **Category 1** requires disclosures of relationships even though there are no related party transactions between the disclosed related parties.
- (b) **Category 2** requires disclosures of relationships and items only when there are related party transactions.

CATEGORY 1

Disclosure- Relationships between parent and subsidiaries

The following disclosures of relationships, if exist, must be made irrespective of the fact whether there have been related party transactions by the entity:

- Under this an entity is required to disclose the name of its parent and, if different, the ultimate controlling party. It may be noted that the ultimate controlling party may be a person also.

Example 21:

S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. S4 Limited must disclose the name and relationship with S3 Limited and H Limited.

- 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.

Example 22:

S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. Only S2 Limited and S1 Limited produces consolidated financial statements for public use. S4 Limited must disclose the name and relationship with S3 Limited, S2 Limited and H Limited

Example 23:

S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. S3 Limited, S2 Limited, S1 Limited and H Limited all produces consolidated financial statements



for public use. S4 Limited must disclose the name and relationship with S3 Limited and H Limited.

- The disclosure of relationship between a parent and its subsidiary (reporting entity) is important because the existence of control relationship may prevent the reporting entity from being independent in making its financial and operating decisions. The disclosure of the name of the related party and the nature of the related party relationship where control exists may sometimes be at least as relevant in appraising an entity's prospects as are the operating results and the financial position presented in its financial statements. Such a related party may establish the entity's credit standing, determine the source and price of its raw materials, and determine to whom and at what price the product is sold.
- The Standard clarifies that the requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in Ind AS 110, Consolidated Financial Statements, Ind AS 28, Investments in Associates, and Joint Ventures.

Category 2

Disclosure – Relationship other than Parent and Subsidiary

Under this category, two types of disclosures are required. The first requires disclosures related to compensation to key management personnel. The second requires other disclosures where there have been related party transactions during the year.

Disclosures of compensation to key management personnel

An entity is required to disclose

(a) total compensation to key management personnel and

(ii) Compensation 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.

If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements to the compensation paid or payable by the management entity to the management entity's employees or directors.



Disclosures where there have been related party transactions during the year

- Where an entity has had related party transactions during the periods covered by the financial statements, it shall disclose, in addition to disclosures listed above, the following for the users to understand the potential effect of these relationships and transactions on the financial statements:
 - (a) the nature of the related party relationship;
 - (b) the information about these related party transactions and outstanding balances, including commitments.
- The disclosures, at a minimum, shall include:
 - (a) the amount of the transactions;
 - (b) the amount of outstanding balances, including commitments, and:
 - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - details of any guarantees given or received;
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.
- Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.
- The aforesaid disclosures shall be made separately for each of the following categories:
 - (a) the parent;
 - (b) entities with joint control or significant influence over the entity;
 - (c) subsidiaries;
 - (d) associates;
 - (e) joint ventures in which the entity is a joint venturer;
 - (f) key management personnel of the entity or its parent; and
 - (g) other related parties.
- The classification of amounts payable to, and receivable from, related parties in the different categories is an extension of the disclosure requirements in Ind AS 1, *Presentation of Financial Statements*, for information to be presented either in the balance sheet or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

- However, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated.
- Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.
- Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions.

Example 24:

Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

Disclosures not required when either

- ❖ such disclosures are in conflict with the entity's duties of confidentiality in terms of a statute, regulator or similar competent authority governing the entity; or
- ❖ the entity is prohibited by the statute, regulator or similar competent authority to disclose certain information otherwise required to be disclosed as per this Standard.

Example 25:

Banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.



EXEMPTION TO GOVERNMENT-RELATED ENTITIES

- A reporting entity is also exempt from the disclosure requirements in relation to (i) related party transactions (ii) outstanding balances and (iii) commitments with:
 - (a) a government that has control, joint control or significant influence over the reporting entity; and
 - (b) another entity that is a related party because the same government has control, joint - control or significant influence over both the reporting entity and the other entity.
- However, it shall disclose:
 - (a) the name of the government;
 - (b) the nature of the government's relationship with the entity (whether the government has control, joint control or significant influence over the entity);
 - (c) to enable the users of the entity's financial statements to understand the effect of related party transactions on its financial statements, the following information in sufficient details:
 - the nature and amount of each individually significant transaction;
 - For other transactions that are not significant individually but are significant when aggregated, either a qualitative or quantitative indication of their extent.
 - Thus the reporting entity is expected to apply its judgment to determine the level of details it is required to disclose as per above. To enable the reporting entity to arrive at decision, it shall consider:
 - (a) the closeness of the related party relationship;
 - (b) whether the transaction is significant in size;
 - (c) whether the transaction is carried out on non-market terms;
 - (d) whether these are outside the normal day to day business operations;
 - (e) whether they are disclosed to regulatory or supervisory authorities;
 - (f) whether they are reported to senior management;
 - (g) whether they are subject to shareholder approval.



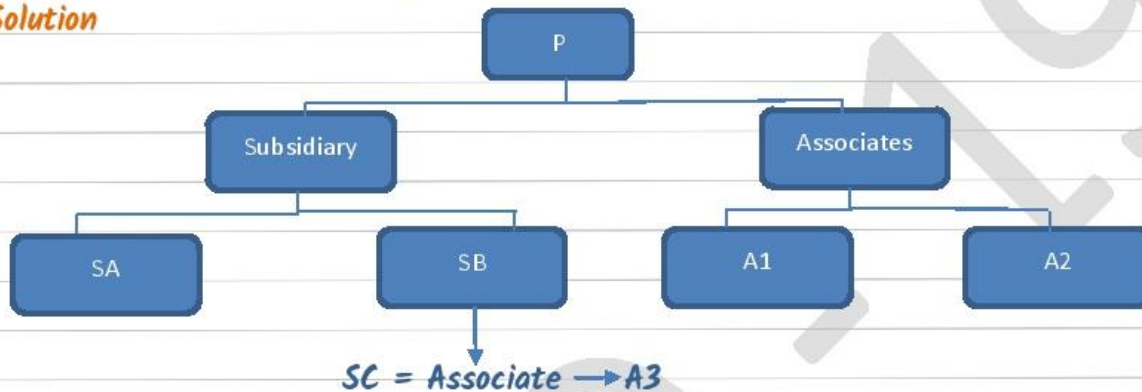
Questions:

Q393. (Associates and subsidiaries)

Entity P Limited has a controlling interest in subsidiaries SA Limited and SB Limited and SC Limited. SC Limited is a subsidiary of SB Limited. P Limited also has significant influence over associates A1 Limited and A2 Limited. Subsidiary SC Limited has significant influence over associate A3 Limited

Required: Examine related party relationships of various entities.

Solution



- In Separate Financial Statements of P Limited, SA Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SA Limited, P Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SB Limited, P Limited, SA Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SC Limited, P Limited, SA Limited, SB Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of associates A1 Limited, A2 Limited and A3 Limited; P Limited, SA Limited, SB Limited and SC Limited are related parties.
- A1 Limited, A2 Limited and A3 Limited are not related to each other.
- In Consolidated Financial Statements of P Limited, A1 Limited, A2 Limited and A3 Limited are not part of the Group since Group includes only parent and subsidiaries.

Q394.

A Limited has both (i) joint control over B Limited and (ii) joint control or significant influence over C Limited

Required

- (a) Examine related party relationship from the perspective of C Limited's financial statements
- (b) Examine related party relationship from the perspective of B Limited's financial statements

Solution:

- a. C Limited is related to B Limited
- b. B Limited is related to C Limited

Q395. (person as investor)

Mr. X has an investment in A Limited and B Limited.

Required

- (i) Examine when can related party relationship be established
 - (a) from the perspective of A Limited's financial statements:
 - (b) from the perspective of B Limited's financial statements:
- (ii) Will A Limited and B Limited be related parties if Mr. X has only significant influence over both A Limited and B Limited

Solution

I.

- (a) If Mr. X controls or jointly controls A Limited, B Limited is related to A Limited when Mr. X has control, joint control or significant influence over Entity B.
- (b) If Mr. X controls or jointly controls A Limited, A Limited is related to Entity B when Mr. X has control, joint control or significant influence over Entity B.

II. No, A Ltd. & B Ltd., will not be considered as related party since no direct or indirect control is exercised on each other in any of the manner.

Q396. (key management personnel)

Mr. X has a 100% investment in A Limited. He is also a member of the key management personnel (KMP) of C Limited. B Limited has a 100% investment in C Limited.

Required

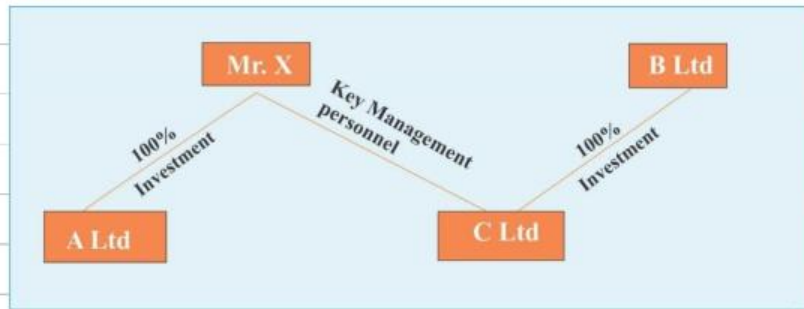
- (a) Examine related party relationships from the perspective of C Limited for A Limited.
- (b) Examine related party relationships from the perspective of C Limited for A Limited if Mr. X is a KMP of B Limited and not C Limited.



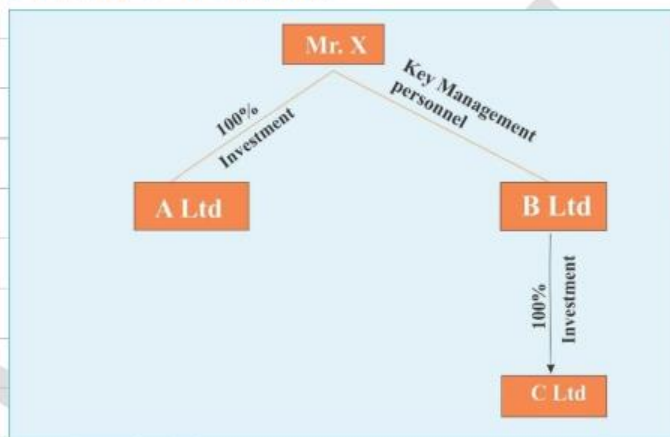
(c) Will the outcome in (a) & (b) would be different if Mr. X has joint control over A Limited.
 (d) Will the outcome in (a) & (b) would be different if Mr. X has significant influence over A Limited.

Solution

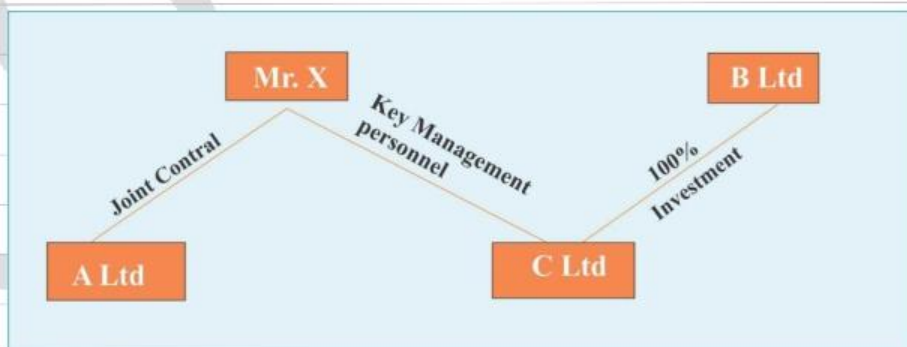
(a) A Limited is related to C Limited because Mr. X controls A Limited and is a member of KMP of C Limited.



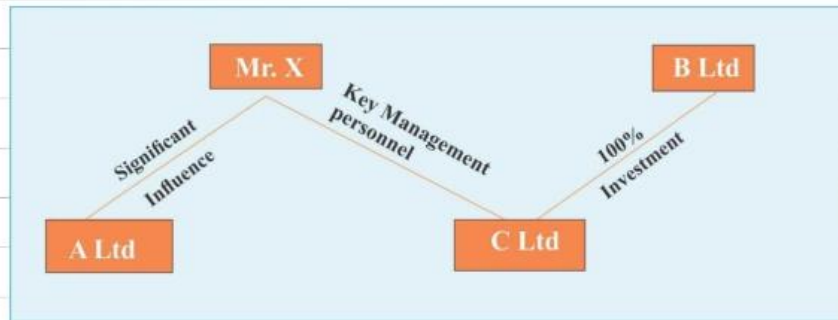
(b) Still A Limited will be related to C Limited.



(c) No, Still A Limited will be related to C Limited.



(d) Yes, A Ltd. is not controlled by Mr. X. Therefore, despite Mr. X being KMP of C Ltd., A Ltd., having significant influence of Mr. X, will not be considered as related party of C Limited.



Q397. (Partial exemption for government related entities):

Government G directly controls Entity 1 and Entity 2. It indirectly controls Entity A and Entity B through Entity 1, and Entity C and Entity D through Entity 2. Person X is a member of the key management personnel in Entity 1.

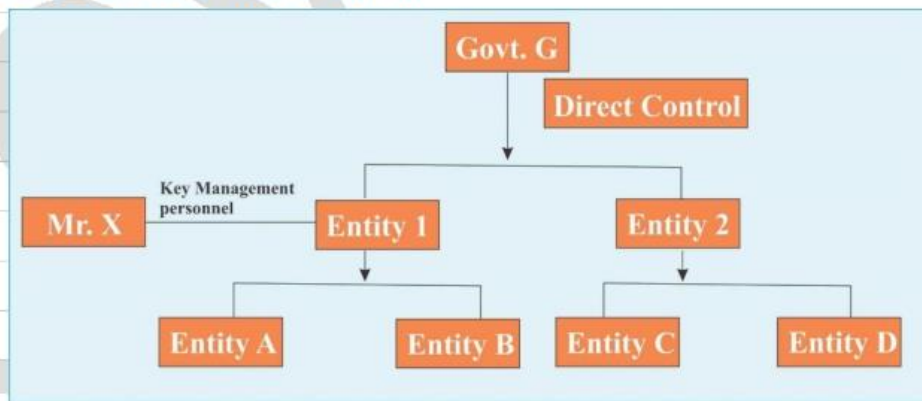
Required

Examine the entity to whom the exemption for disclosure to be given and for transaction with whom.

Solution

For Entity A's financial statements, the exemption of Ind AS 24 applies to:

- (a) transactions with Government G; and
- (b) transactions with Entities 1 and 2 and Entities B, C and D. However, that exemption does not apply to transactions with Person X.



Q398.

Power Limited is a producer of electricity. Transmission Limited regularly purchases electricity from Power Limited. Power Limited whose financial year ends on March 31, 20X2, acquired 100% shareholding of Transmission Limited on July 15, 20X1. However, the entire shareholding is disposed of on March 21, 20X2. Power Limited and Transmission Limited had transactions when Transmission Limited was a subsidiary of Power Limited and also in the period when it was not a subsidiary of Power Limited.

Required

For which period, related party disclosure should Power Limited make in its financial statements for the year ended March 31, 20X2 with respect to transactions with Transmission Limited?

Solution

Power Limited should in its financial statements for the year ended March 31, 20X2 make related party disclosures for the period from July 15, 20X1 to March 21, 20X2 when Transmission Limited was its subsidiary.

Q399.

Mr. X is a domestic partner of Ms. Y. Mr. X has an investment in A Limited and Ms. Y has an investment in B Limited.

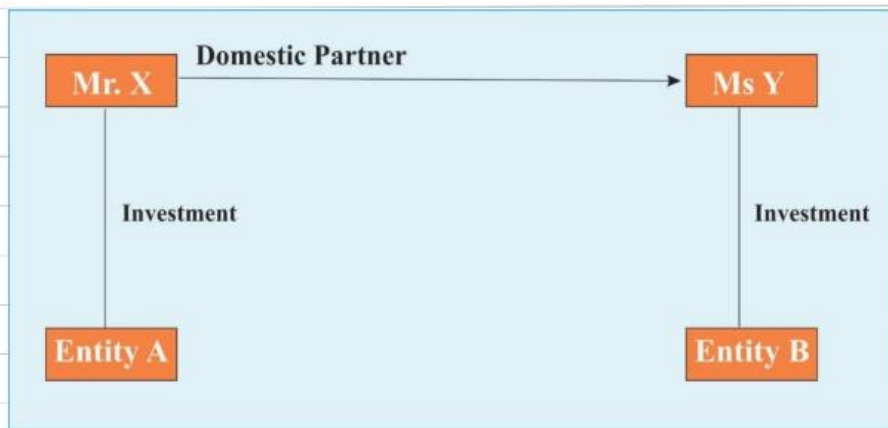
Required

- (a) Examine when can a related party relationship is established, from the perspective of A Limited's financial statements:
- (b) Examine when can related party relationship is established, from the perspective of B Limited's financial statements:
- (c) Will A Limited and B Limited be related parties if Mr. X has only significant influence over A Limited and Ms. Y also has significant influence over B Limited:

Solution:

- (a) If Mr. X controls or jointly controls A Limited, B Limited is related to A Limited when Ms. Y has control, joint control or significant influence over B Limited.
- (b) If Mr. X controls or jointly controls A Limited, A Limited is related to B Limited when Ms. Y has control, joint control or significant influence over B Limited.
- (c) No, Significant influence does not lead to direct/indirect control between the A Ltd. & B Ltd.





Q400. (RTP - MAY18)

Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the Management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of Rs 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged Rs 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction in accordance with Ind AS 24.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?

Solution:

As per paragraph 9 of Ind AS 24, Related Party Disclosures, "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."

Accordingly, key management personnel (KMP) include any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, 'Employee Benefits', an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.



Therefore, contention of the Accountant is wrong that they are not employees of X Ltd. Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors' fee of (Rs10,00,000 + Rs7,50,000) Rs17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

Q400. (RTP - NOV 18)

ABC Ltd. is a long-standing customer of XYZ Ltd. Mrs. P whose husband is a director in XYZ Ltd. purchased a controlling interest in entity ABC Ltd. on 1st June, 2017. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 2017 to 31st May 2017 totaled Rs8,00,000. Following the shares purchased by Mrs. P, XYZ Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, XYZ Ltd.'s normal credit policy). Sales of products from XYZ Ltd. to ABC Ltd. in the ten-month period from 1st June 2017 to 31st March 2018 totalled Rs60,00,000. On 31st March 2018, the trade receivables of XYZ Ltd. included Rs18,00,000 in respect of amounts owing by ABC Ltd.

Analyse and show how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31 March 2018 and mention the disclosure requirements also as per Ind AS.

Solution:

XYZ Ltd. would include the total revenue of Rs 68,00,000 (Rs 60,00,000 + Rs8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2018 within its revenue and show Rs 18,00,000 within trade receivables at 31st March 2018.

Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd. From 1st June 2017, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom XYZ Ltd. has transactions, then XYZ Ltd. should disclose:

- The nature of the related party relationship.



- The revenue of Rs 60,00,000 from ABC Ltd. since 1st June 2017.
- The outstanding balance of Rs 18,00,000 at 31st March 2018.
- In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favorable terms under which the transactions are carried out.

Q401. (MTP - AUG 18)

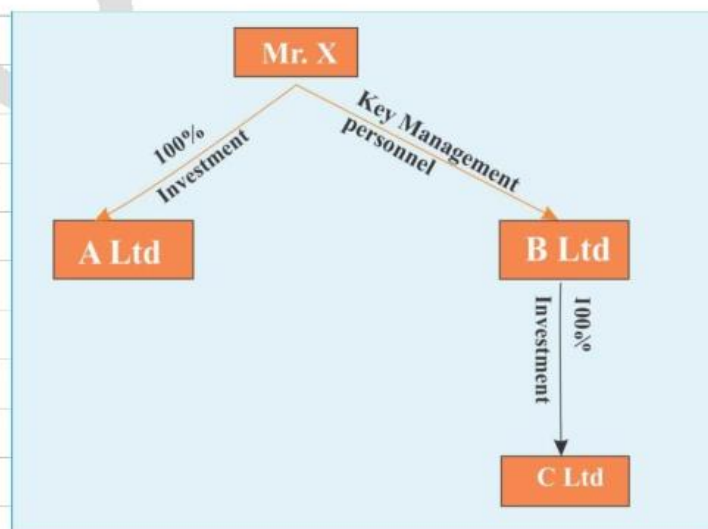
Mr. X has a 100% investment in A Ltd. He is also a member of the key management personnel (KMP) of B Ltd. B Ltd has a 100% investment in C Ltd.

Examine related party relationship of A Ltd., as per Ind AS 24, in the financial statements of C Ltd. (4 Marks)

Solution:

Para 9 of Ind AS 24 defines the term "key management personnel" as persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any director (whether executive or not). Further, significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Therefore, a key management personnel (KMP) has significant influence over the entity. Accordingly, Mr. X has significant influence over B Ltd. since he is a key management personnel of B Ltd. Now, para 9(vii) of the standard states that an entity is related to a reporting entity if the person identified in para 9(a)(i) (here KMP ie. Mr. X) 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)" Therefore, if C Ltd. is a reporting entity, A Ltd. is related to C Ltd. because a key management personnel of parent B Limited has control over A Limited. Therefore, the relationship of C Ltd. and A Ltd. will be "Entities controlled by key management personnel of the Parent Entity".



SIGNIFICANT DIFFERENCES IN IND AS 24 VIS-A-VIS AS 18

S. No.	Particulars	Ind AS 24	AS 18
1.	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"
2.	Definition of close members	<p>Definition of close members of family as per Ind AS 24 includes those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:</p> <p>(a) that person's children, spouse or domestic partner, brother, sister, father and mother;</p> <p>(b) children of that person's spouse or domestic partner; and</p> <p>(c) Dependants of that person or that person's spouse or domestic partner.</p> <p>Hence, the definition as per Ind AS 24 is much wider.</p>	AS 18 covers the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.
3.	State Controlled Enterprise:	Ind AS 24, there is extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is	AS 18 defines state-controlled enterprise as "an enterprise which is under the control of the Central Government and/or any State Government(s)".



		controlled, jointly controlled or significantly influenced by a government.” Further, “Government refers to government, government agencies and similar bodies whether local, national or international.”	
4.	Key Management Personnel	Ind AS 24 covers KMP of the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity	AS 18 covers key management personnel (KMP) of the entity only
5.	Related Parties in case of Joint Venture	Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate.	As per AS 18, co-venturers or co-associates are not related to each other
6.	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 post-employment benefit plans, as related parties.



7.	Disclosure for Compensation	Ind AS 24 requires extended disclosures for compensation of KMP under different categories.	AS 18 does not specifically require
8.	Disclosure of 'Amount of the Transactions' vs 'Volume of the Transactions	Ind AS 24 requires "the amount of the transactions" need to be disclosed.	AS 18 gives an option to disclose the "Volume of the transactions either as an amount or as an appropriate proportion".
9.	Government Related Entities:	Ind AS 24 requires disclosures of certain information by the government related entities.	AS 18 presently exempts the disclosure of such information.



Student Notes:-



Student Notes:-

COVID-19

