

Ind AS 24

Related Party Disclosure

Agenda

- ▶ Objective and Scope
- ▶ Definitions
- ▶ Disclosure Requirements
- ▶ Key Differences

Objective and Scope

Purpose of related party disclosures-

- ▶ The profit or loss and financial position of an entity may be affected by a related party relationship
- ▶ For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Objective and Scope

- ▶ Ind AS 24 is applied to identify:



Related party relationships and transactions

Outstanding balances with the related parties

Disclosure requirements

Definitions

What is a related party?

A *related party* is a **person** or an **entity** that is related to the reporting entity

A person or a close family member is related if he:

- ▶ Has control/joint control;
 - ▶ Has significant influence;
 - ▶ Is a member of the key management personnel (KMP);
- of the reporting entity or its parent.

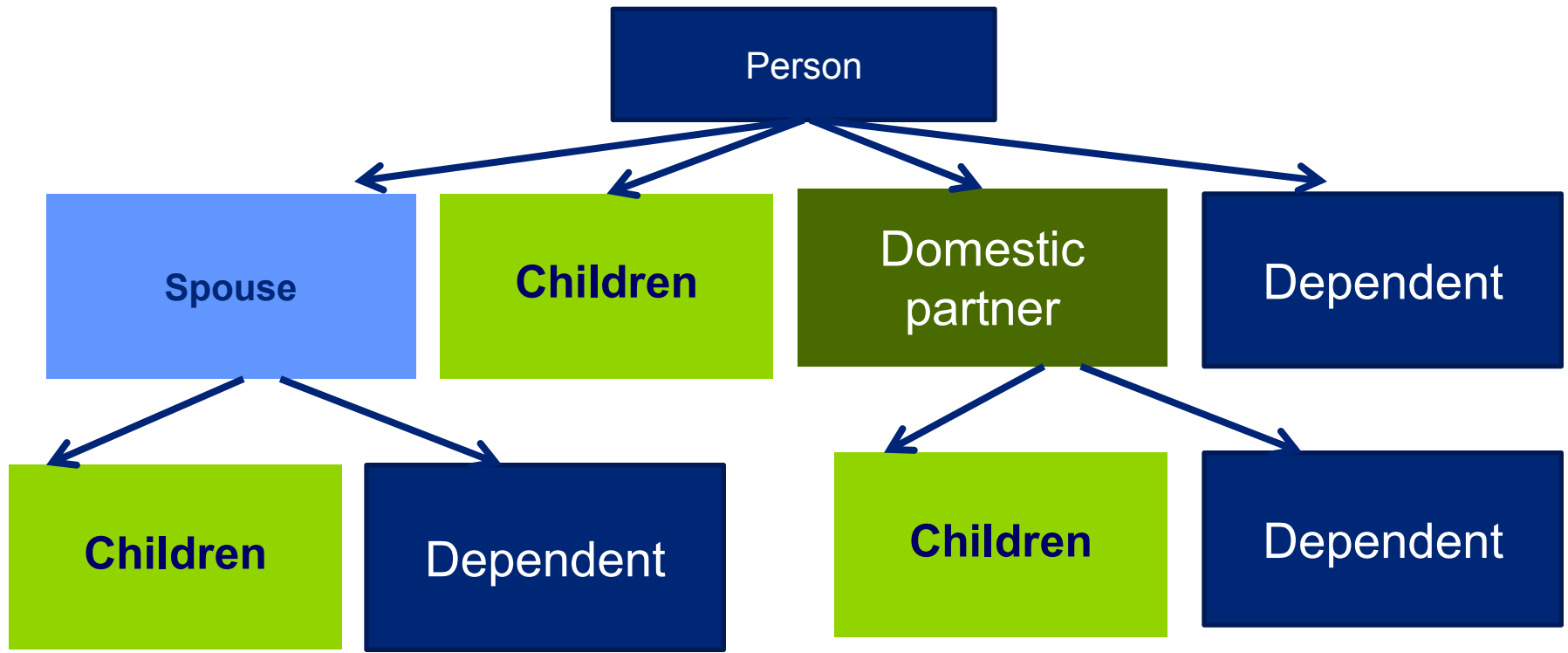
Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:

- ▶ that person's children, spouse or domestic partner, brother, sister, father and mother;
- ▶ children of that person's spouse or domestic partner; and
- ▶ dependants of that person or that person's spouse or domestic partner.

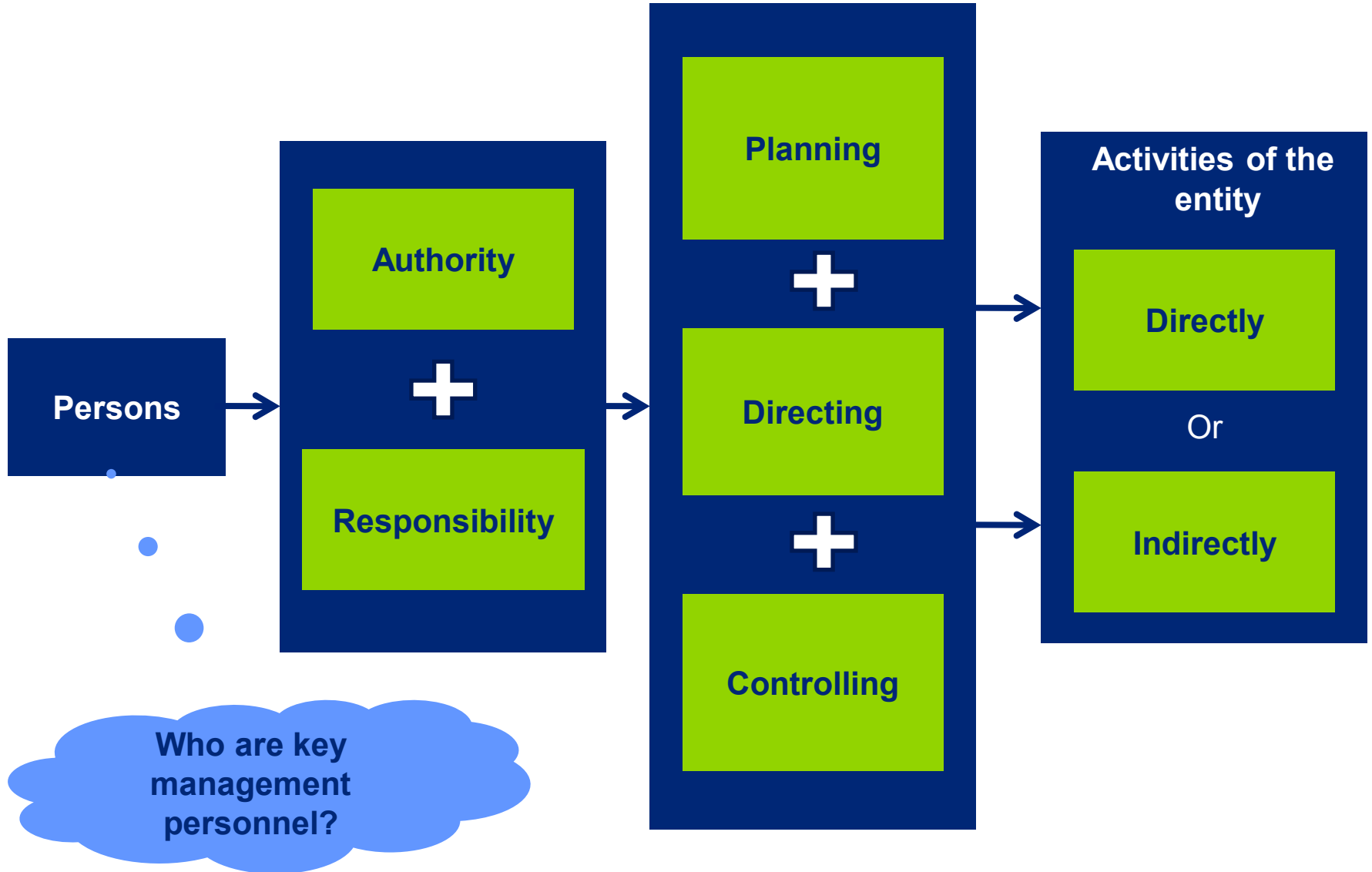
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Definition of “close members of family”

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.



Key management personnel



What is a related party?

An entity is related to a reporting entity if any of the below conditions are met:

- ▶ They belong to the same group
- ▶ One entity is JV or an associate of the other entity
- ▶ Both parties are JV of the same third party
- ▶ One entity is a joint venture of a third party and the other entity is an associate of the third entity.
- ▶ The entity is a post-employment benefit plan for the employees
- ▶ The entity is controlled or jointly controlled by a related person
- ▶ A person having control or joint control of the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity.
- ▶ The entity provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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.**

Key terms

Related Party Transaction

A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Control

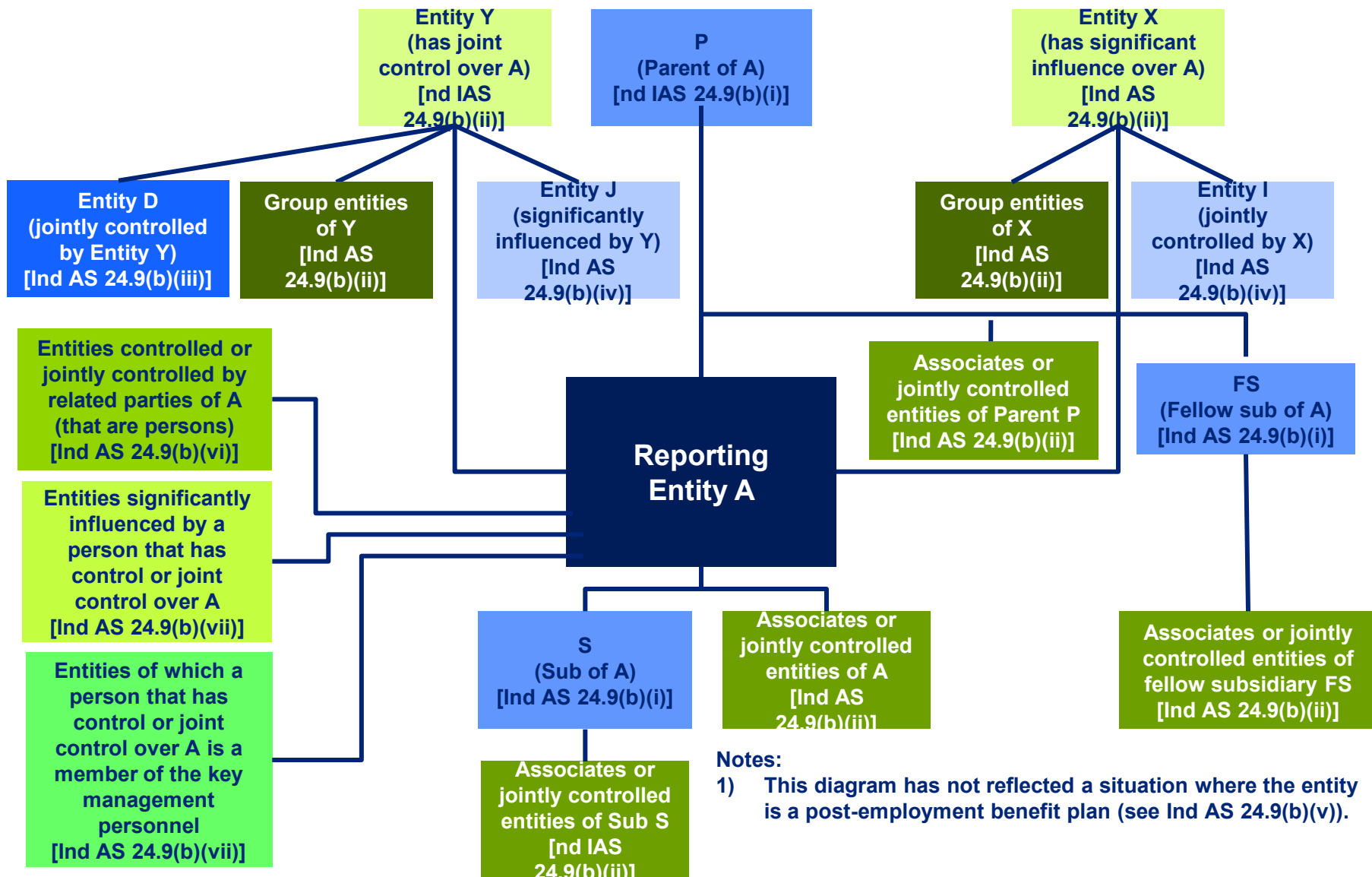
Control arises when an investor:

- Has power over the investee;
- Rights to variable returns; and
- The ability to affect those returns

Significant Influence

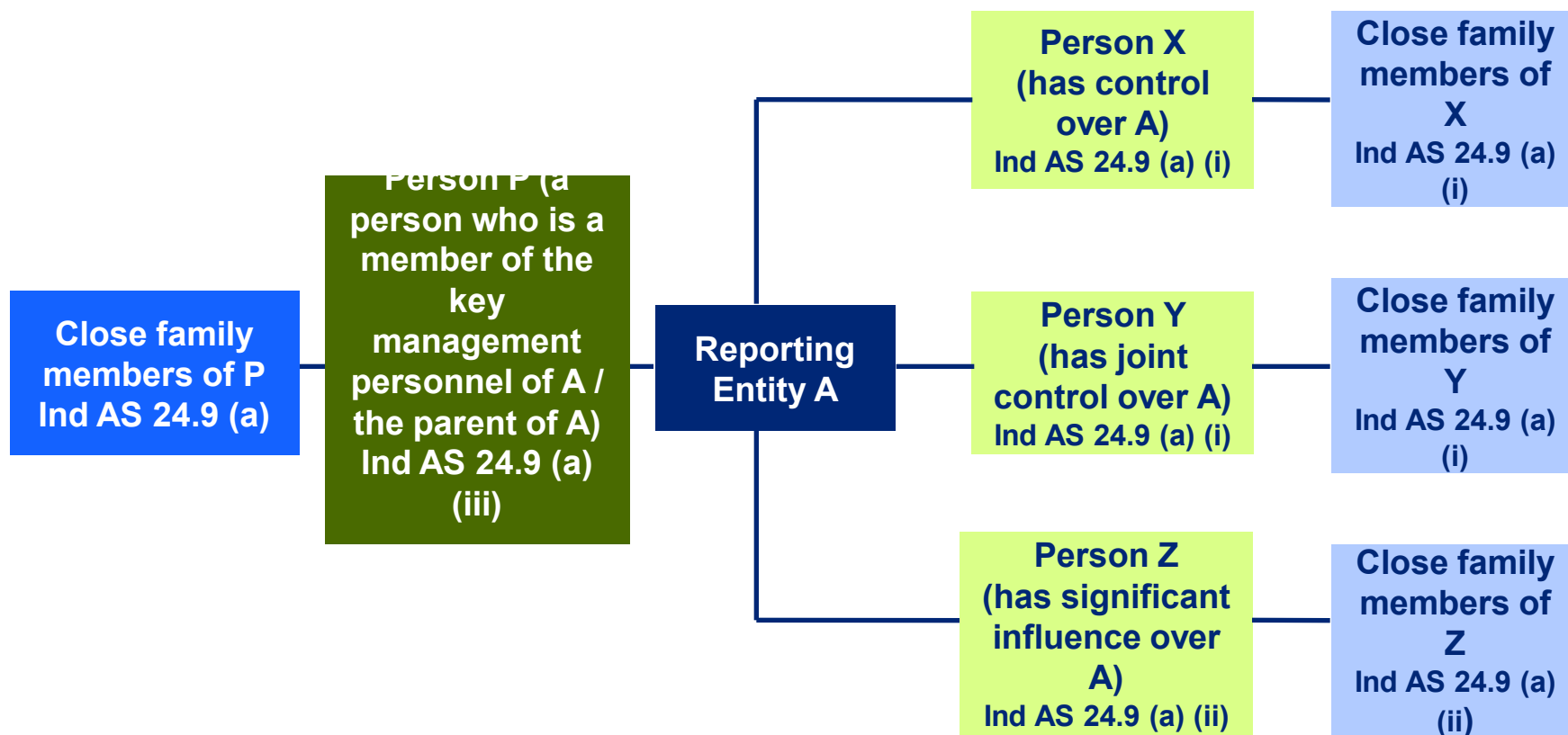
Power to participate in, but not control of, the entity's financial and operating policy decisions.

Entities that are related parties of Reporting Entity A

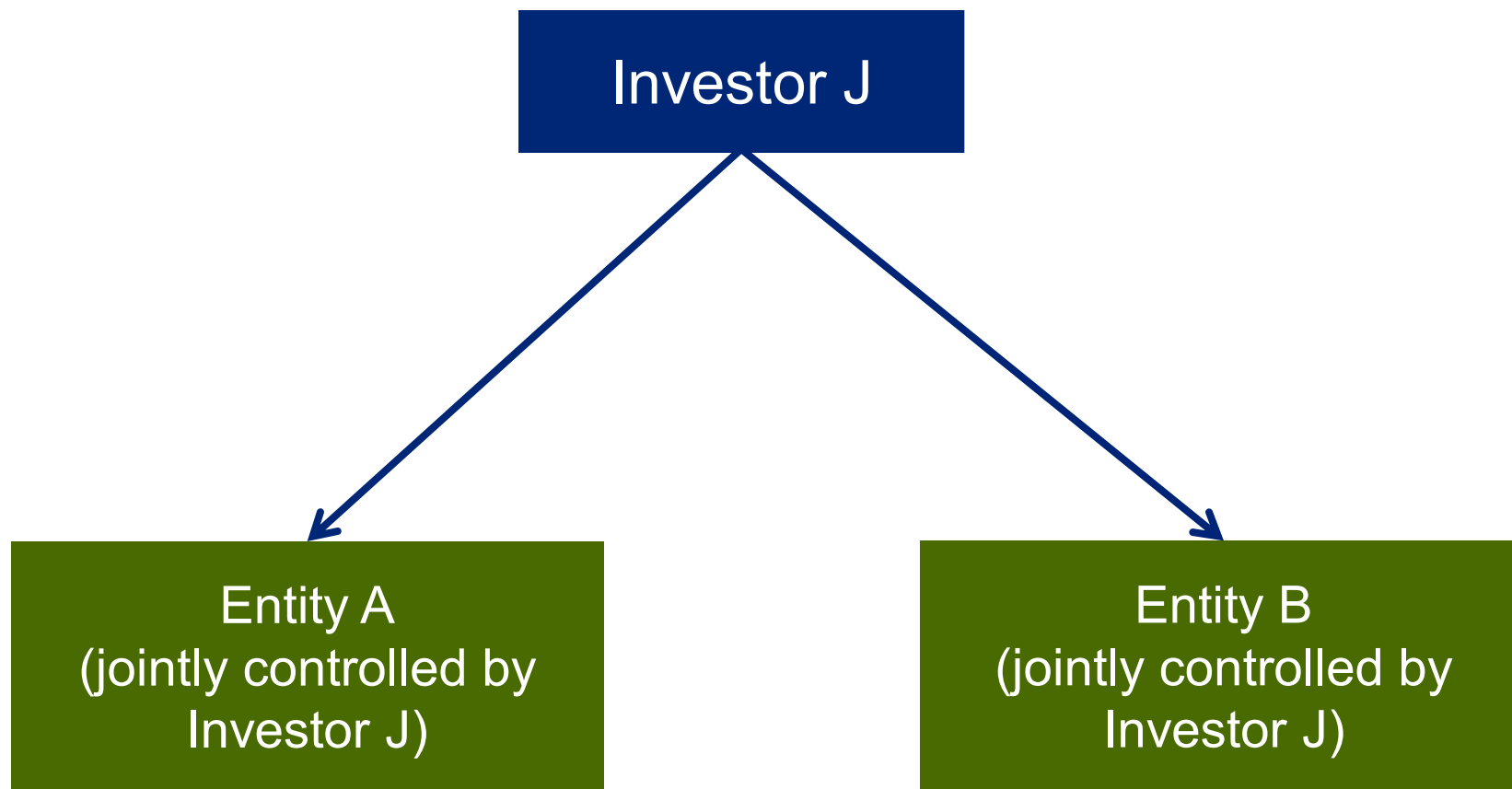


- Notes:**
- 1) This diagram has not reflected a situation where the entity is a post-employment benefit plan (see Ind AS 24.9(b)(v)).

Persons who are related parties of Reporting Entity A

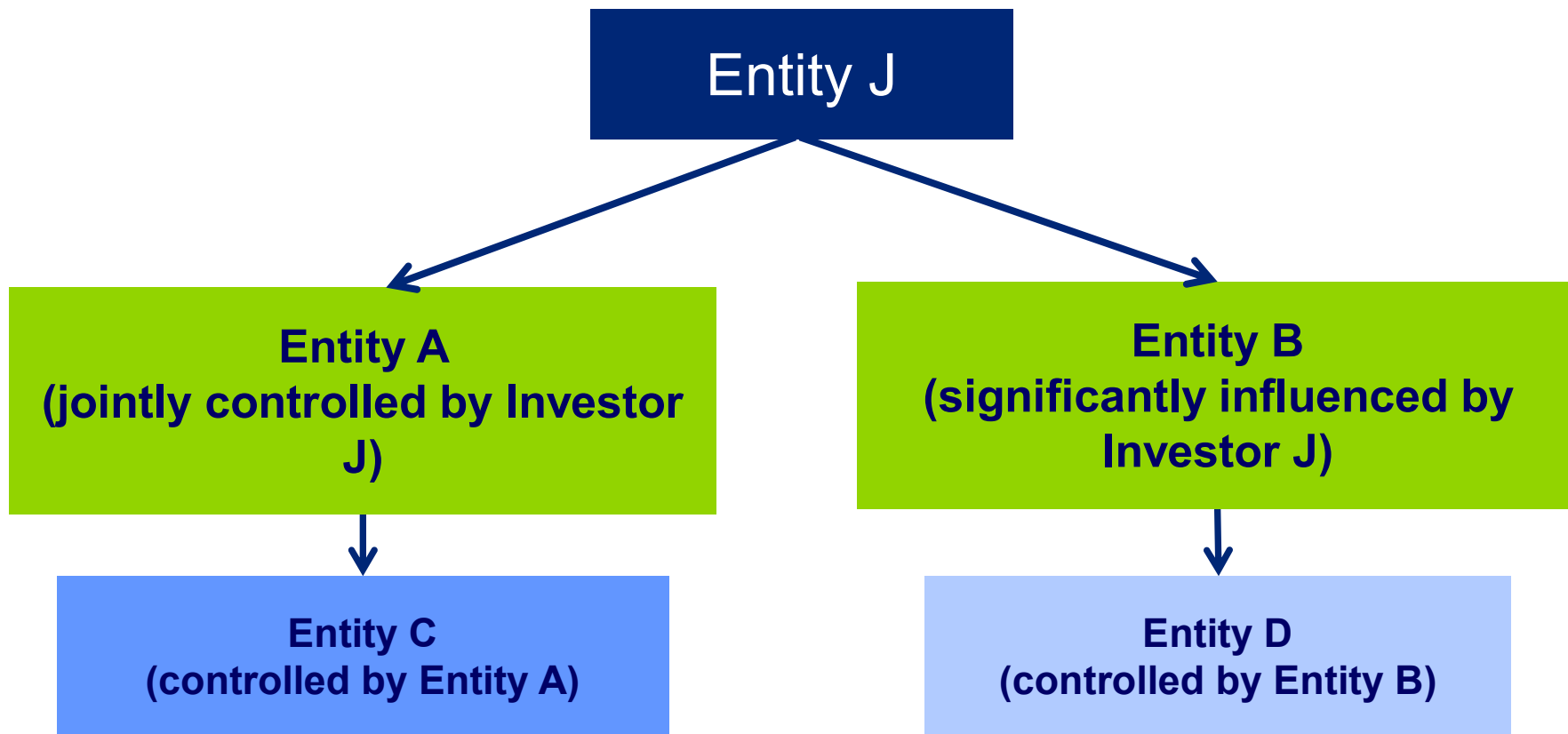


Example 1



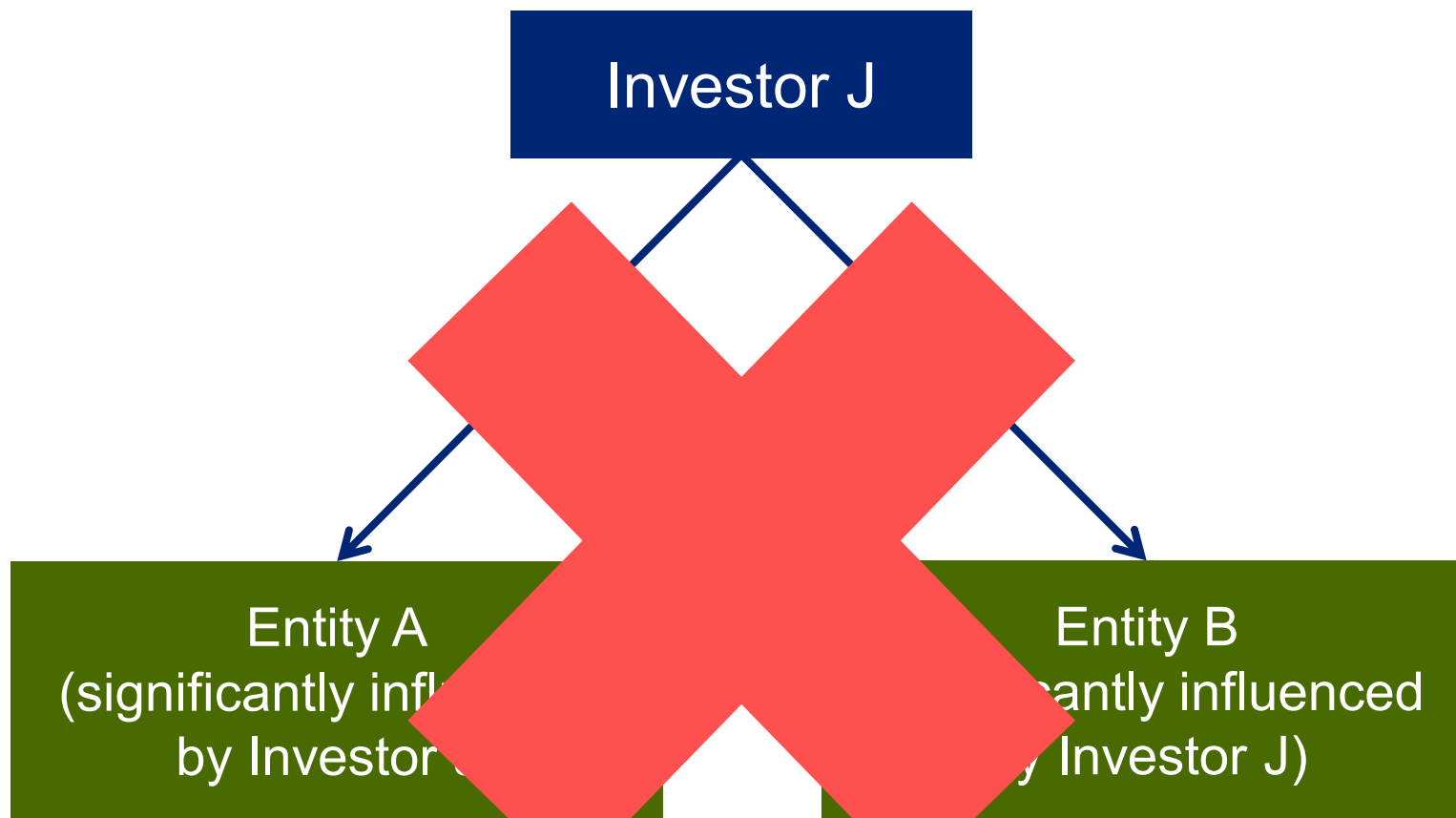
Entity A and Entity B are related parties in accordance with Ind AS 24.9(b)(iii).

Example 2



- Entities A and B are related parties in accordance with Ind AS 24.9(b)(iv).
- Entities A and D are related parties in accordance with Ind AS 24.9(b)(iv) and Ind AS 24.12.
- Entities B and C are related parties in accordance with Ind AS 24.9(b)(iv) and Ind AS 24.12.
- Entities C and D are related in accordance with Ind AS 24.12

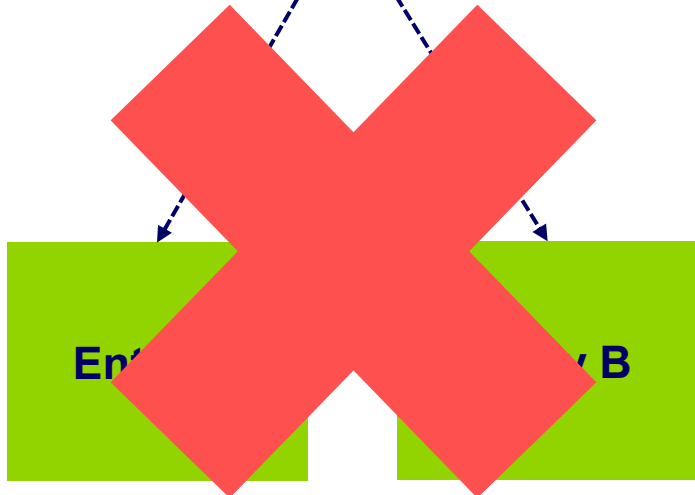
Example 3 – Entities that are significantly influenced by an entity



Entity A and Entity B are NOT related parties in accordance with paragraph BC 25 of IAS 24.

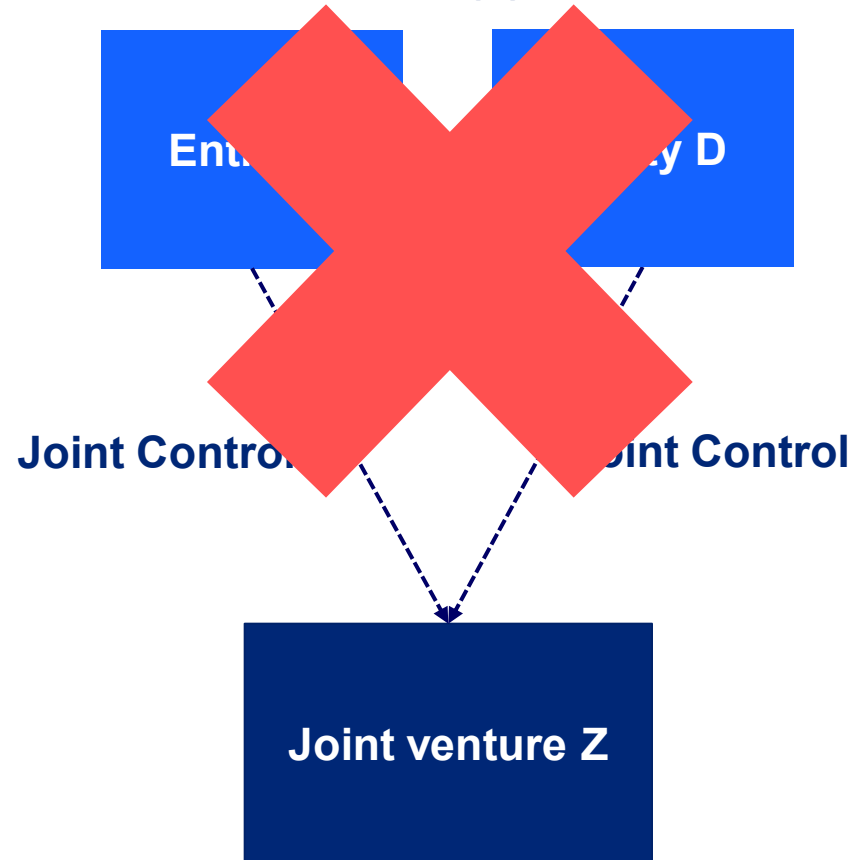
Example 4

Director or other member of key management personnel in common



Entities A and B are NOT NECESSARILY related parties in accordance with Ind AS 24.11(a).

Entities C and D are NOT related parties in accordance with Ind AS 24.11(b).



Example 5 - Person as investor

Mrs. X has an investment in Entity A and Entity B.

For entity A's financial statements, if Mrs. X controls or jointly controls Entity A, Entity B is related to Entity A when Mrs. X has control, joint control or significant influence over Entity B.

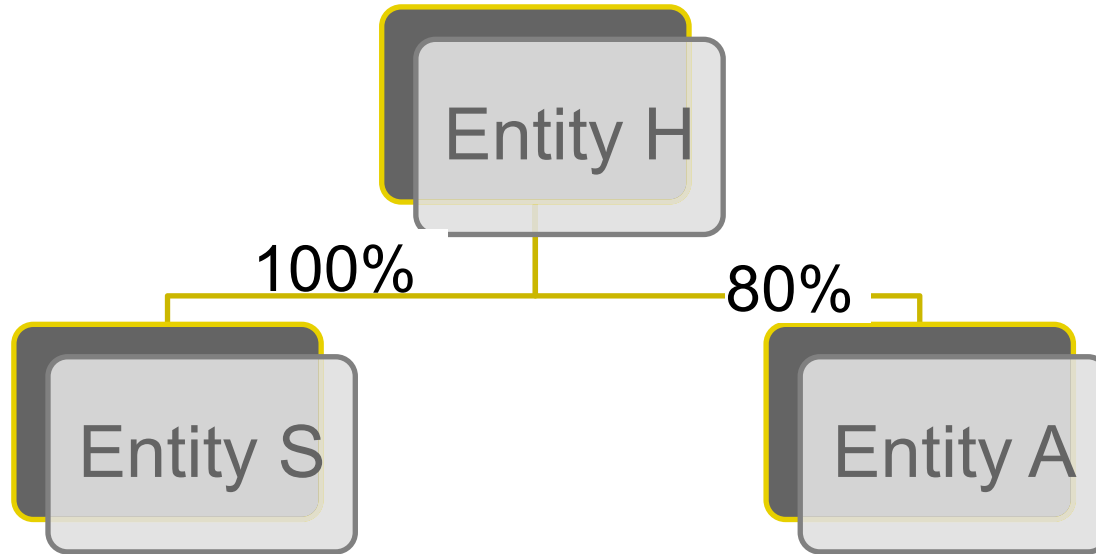
For entity B's financial statements, if Mrs. X controls or jointly controls Entity A, Entity A is related to Entity B when Mrs. X has control, joint control or significant influence over Entity B.

Example 5 - Person as investor (Contd.)

If Mrs. X has significant influence over both Entity A and Entity B, Entities A and B are not related to each other.

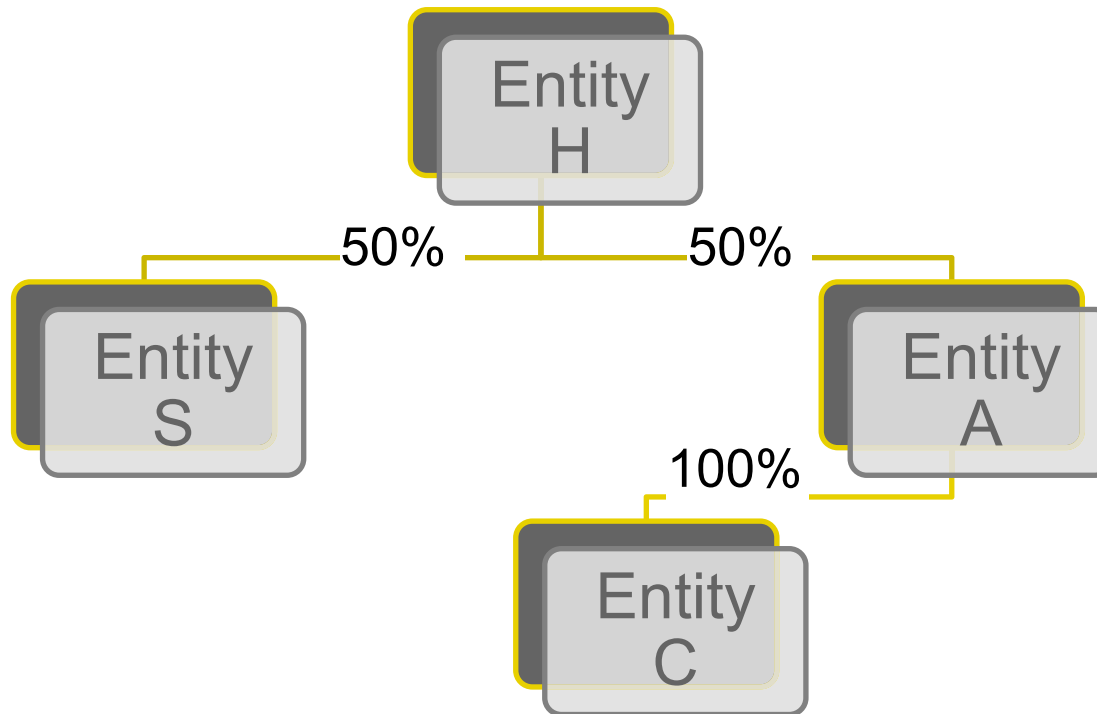
If Mrs. X is a member of the key management personnel of both Entity A and Entity B, entities A and B are not related to each other (if there is no other indicator of the related party relationship)

Example 6 - Member of same group



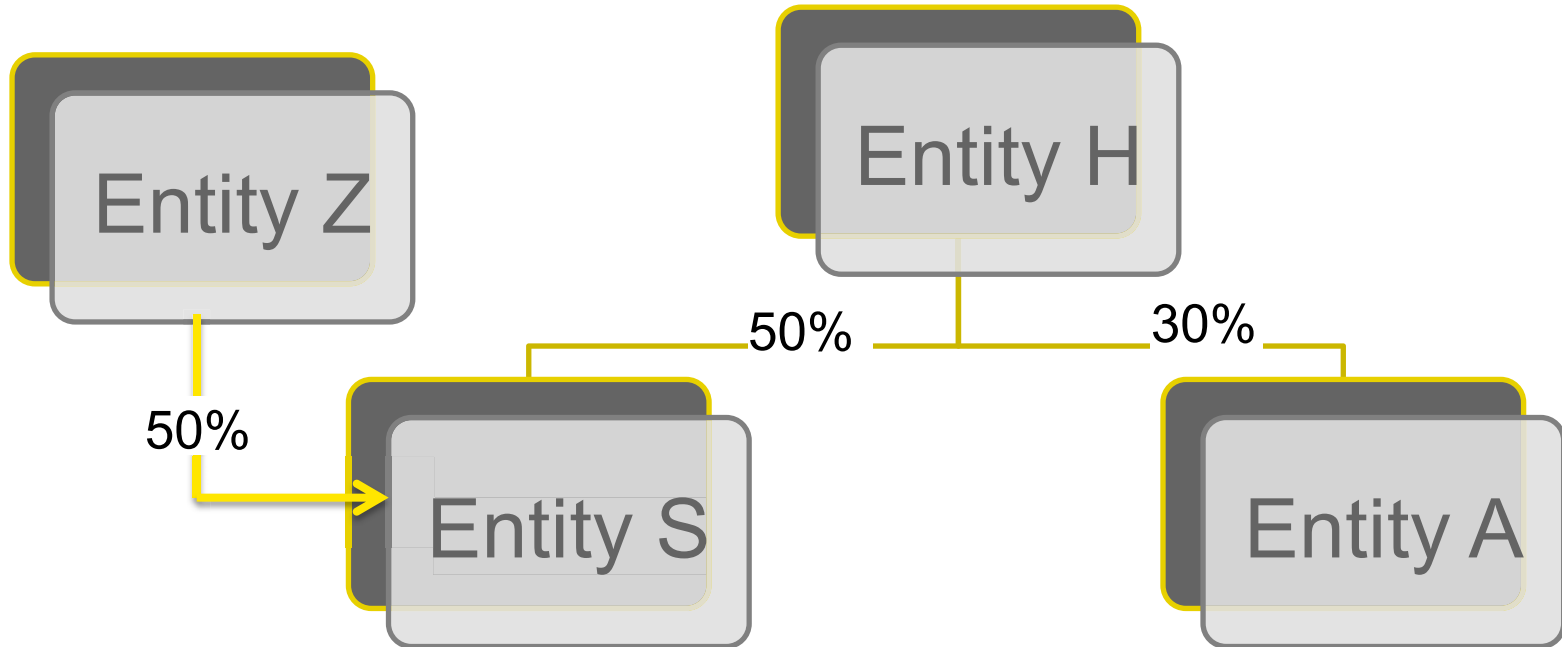
Entities H, S and A are all related parties to each other as they are members of the same group. Both Entity S and Entity A are subsidiaries of Entity H.

Example 7 - JV of the same third party



Entities S and A are joint ventures of Entity H and are therefore related parties. Entity C, as a subsidiary of Entity A, is also a related party of Entity H and Entity S.

Example 8 - JV and associates of the same third party

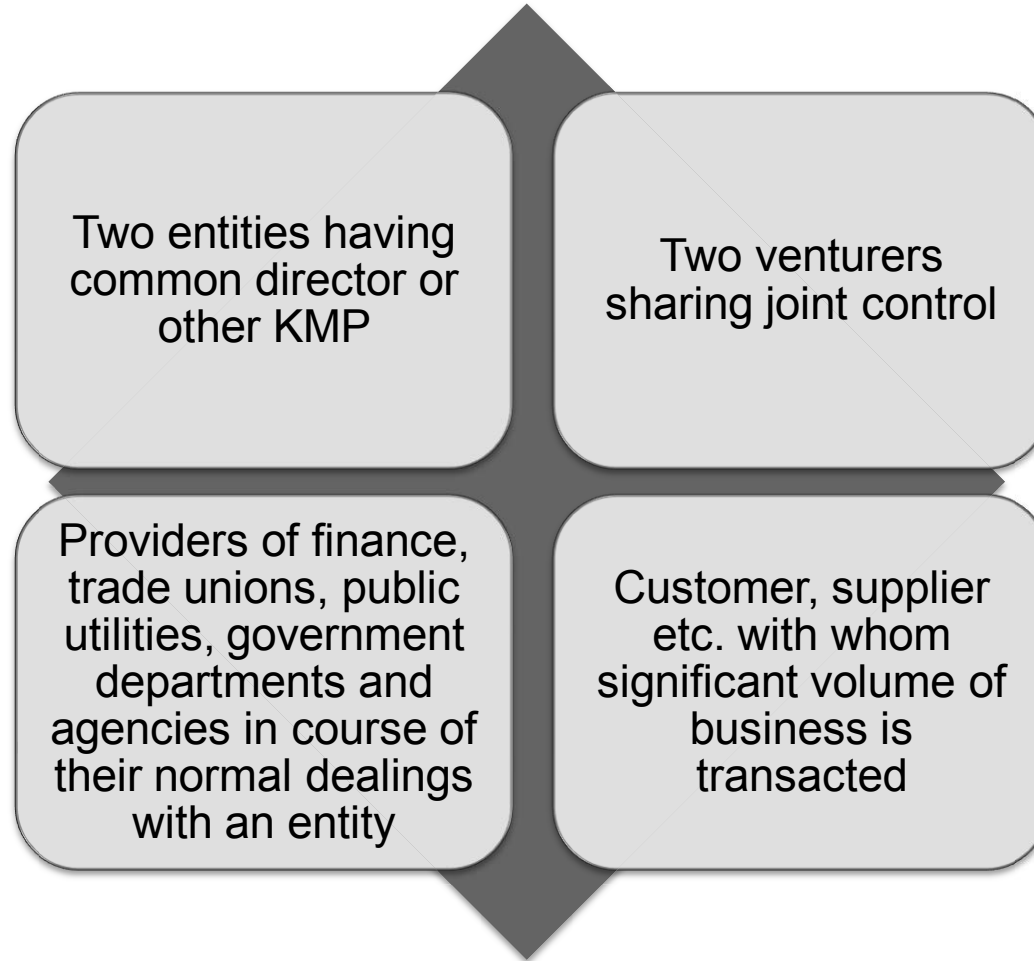


Entity S is a joint venture of Entity H and Entity A is an associate of Entity H. Therefore, entities S and A are related parties.

However, Z and H are not related parties

Exceptions

- ▶ Below parties are deemed not to be related:



Examples of Related party transactions

- 
- Purchases or sales of goods, property and other assets
 - Rendering or receiving of services;
 - Leasing arrangements
 - Transfer of research and development, licence agreements
 - Finance (including loans and equity contributions, guarantees and collaterals).

Disclosure

Disclosure requirements

Disclosure requirements for related parties

- ▶ All related party relationships where control exists irrespective of transactions held
- ▶ Name of the entity's parent and the ultimate controlling party
- ▶ Key management compensation must be disclosed in total for each of the benefits
- ▶ Separate disclosure for each of the related party category (e.g., parent, subsidiary etc.)

Disclosure requirements

Disclosure requirements for related party transactions

- ▶ Amount of related party transactions
- ▶ Amount of outstanding balances including commitments and their terms and conditions, guarantees given or received
- ▶ Provision for doubtful debts related to outstanding amounts
- ▶ The expense recognised during the period in respect of bad or doubtful debts due from related parties

Disclosure – KMP Compensation

An entity shall disclose key management personnel compensation in total and for each of the following categories:

- ▶ short-term employee benefits;
- ▶ post-employment benefits;
- ▶ other long-term benefits;
- ▶ termination benefits; and
- ▶ share-based payment

Disclosure – KMP Compensation

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

Key differences between Ind AS and IGAAP

Issue	Ind AS 24	IGAAP
Definition of Related party	Wider definition of related party (as discussed earlier)	Parties are related if one party has the ability to control the other party or exercise significance influence over it.
Definition of close member of family	Defined in Ind AS 24	No definition of close member of the family.
Post employment benefit plans	These are included as related parties.	These are not included as related parties.

Key Differences between Ind AS and IGAAP

Issue	Ind AS 24	IGAAP
Items to be disclosed	Amount of transactions and the amount of outstanding balances including commitments need to be disclosed.	Volume of transactions and outstanding items to be disclosed as an amount or appropriate proportions.

Thank You