IAS 24- **Related Party Disclosures**

1-Overview

IAS 24 *Related Party Disclosures* requires disclosures about transactions and outstanding balances with an entity's related parties.The standard defines various classes of entities and people as related parties and sets out the disclosures required in respect ofthose parties, including the compensation of key management personnel.
IAS 24 was reissued in November 2009 and applies to annual periods beginning on or after 1 January 2011.

2-Objective of IAS 24

The objective of IAS24 *Related Party Disclosures* is to ensure that financial statements contain certain disclosures. These disclosures should draw attention to the possibility that an entity's financial performance and position may have been affected by:
(a) the existence of related parties, and
(b) transactions with those parties.
The standard accepts that relationships with other parties (e.g. subsidiaries) are a normal feature of business and commerce, but points out that related parties might enter into transactions that unrelated parties would not. For instance, a subsidiary company which sells goods to its parent at cost price would probably not sell goods on those terms to any other customer. Such a transaction would of course affect the profit of both the subsidiary and the parent.
In general, transactions between related parties might involve:
(a) the transfer of assets or liabilities at prices which are above or below their true value
(b) the supply of services at reduced or increased prices
(c) the making of loans at interest rates which differ from market rates.

3-Definition of related party and related party transaction

IAS24 states that a party is related to an entity if:
(a) (i) the party controls, is controlled by, or is under common control with the entity (this includes parents, subsidiaries and fellow subsidiaries)
(ii) the party has significant influence over the entity
(iii) the party has joint control over the entity
(b) the party is an associate of the entity, as defined in IAS28

(c) the party is a joint venture in which the entity is a venturer (see IAS31)
(d) the party is a member of the key management personnel of the entity or its parent
(e) the party is a close member of the family of any individual referred to above
(f) the party is an entity which is controlled by, is jointly controlled by or is significantly influenced by any individual referred to in (d) or (e) above.
(g) the party is a post-employment benefit plan (i.e. a pension scheme) for the benefit of the employees of the entity or of any entity which is a related party of the 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.

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 and include :

Compensation includes all employee benefits (as defined in IAS 19 Employee Benefits) including employee benefits to which IFRS 2 Share-based Payment applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.

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.

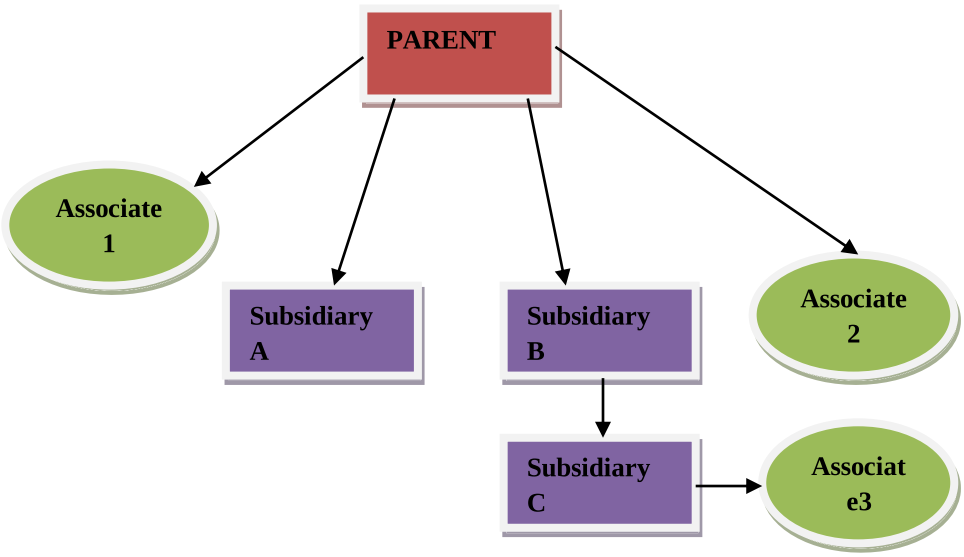
Governmen*t* refers to government, government agencies and similar bodies whether local, national or international.

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

The terms **'control'** and **'investment entity'**, '**joint control'** and **'significant influence**' are defined in IFRS 10, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures respectively and are used in this Standard with the meanings specified in those IFRSs.

Example 1– **Associates and subsidiaries**

Parent entity has a controlling interest in Subsidiaries A, B and C and has significant influence over Associates 1 and 2. Subsidiary C has significant influence over Associate 3.



-For Parent's separate financial statements, Subsidiaries A, B and C and Associates 1, 2 and 3 are related parties.

-For Subsidiary A's financial statements, Parent, Subsidiaries B and C and Associates 1, 2 and 3 are related parties.

-For Subsidiary B's separate financial statements, Parent, Subsidiaries A and C and Associates 1, 2 and 3 are related parties.

-For Subsidiary C's financial statements, Parent, Subsidiaries A and B and Associates 1, 2 and 3 are related parties.

-For the financial statements of Associates 1, 2 and 3, Parent and Subsidiaries A, B and C are related parties. Associates 1, 2 and 3 are not related to each other.

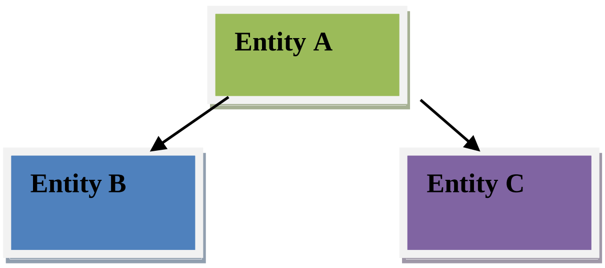
-For Parent's consolidated financial statements, Associates 1, 2 and 3 are related to the Group.

Example 2 – Entity with joint control

Entity A has both

(i) joint control over Entity B and

(ii) (ii) joint control or significant influence over Entity C.



For Entity B's financial statements, Entity C is related to Entity B. Similarly, for Entity C's financial statements, Entity B is related to Entity C.

4-Parties that are not necessarily related :

The following are not necessarily related parties, though it is always important to examine the substance of each relationship and not merely its legal form:

(**a**) two entities simply because they have a director in common, or some other member of their key management personnel in common
(b) two venturers simply because they share joint control over a joint venture
(**c**) providers of finance, trade unions, public utilities and government departments and agencies, simply by virtue of their normal dealings with an entity
(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

5- **Disclosures required by IAS24**
IAS24 is principally a disclosure standard and therefore its disclosure requirements are quite extensive. The main disclosures that are required are as follows:
(a) Parent-subsidiary relationships must be disclosed whether or not there have been any transactions between these parties. An entity should disclose the name of its parent and, if different, the name of the ultimate controlling party.
(b) The entity should disclose key management personnel compensation in total and for each of the following categories:
(i) short-term employee benefits
(ii) post-employment benefits
(iii) other long-term benefits
(iv) termination benefits.
These categories of employee benefits are all defined in IAS19 Employee Benefits.

(c) If there have been transactions with a related party, the entity should disclose the nature of the relationship and provide information about the transactions and any outstanding balances, as necessary for an understanding of the effect of the relationship on the financial statements.
As a minimum, the entity should disclose:

(i) the amount of the transactions
(ii) the amount of any outstanding balances and their terms and conditions, together with any guarantees given or received
(iii) any allowances for doubtful debts relating to these outstanding balances and the amount of any expense recognised during the period in respect of bad or doubtful debts due from related parties.
These disclosures must be made separately for each of:
(i) the parent
(ii) entities with joint control or significant influence over the entity
(iii) subsidiaries
(iv) associates
(v) joint ventures in which the entity is a venturer
(vi) key management personnel
(vii) other related parties.

d) IAS24 gives examples of transactions that should be disclosed if they are with a related party. These include:
(i) purchases or sales of goods
(ii) purchases or sales of property and other assets
(iii) the rendering or receiving of services
(iv) leases
(v) loans and equity contributions
(vi) provision of guarantees or collateral
(vii) settlement of liabilities on behalf of the entity or by the entity of behalf of another party.

Illustrative examples : The following examples a company, but are not part of, IAS 24 Related Party Disclosures.
They illustrate:
● the partial exemption for government-related entities; and
● how the definition of a related party would apply in specified circumstances.
In the examples, references to 'financial statements' relate to the individual, separate or consolidated financial statement
Partial exemption for government-related entities
Example 1 – Exemption from disclosure (paragraph 25) IE1 Government G directly or indirectly controls Entities 1 and 2 and Entities A, B, C and D. Person X is a member of the key management personnel of Entity 1.

Ex 1: Close family members

A major shareholder of an entity A, Mr. Jones has a wife who owns an entity B. An entity B is a sole customer of an entity A, but there is no ownership of an entity B by an entity A or vice versa.

Who are related parties of an entity A?

Solution

Major shareholder and his wife are related parties, because they are a person or a close family member of that person (wife) who control the entity A.

Entity B is a related party of an entity A, because it is controlled by close family member of a major shareholder of A (not because it is the sole custom

Ex 2: Key management personnel compensation

Entity A has an associate, entity B, over which it has significant influence. Mr. Smith is a CEO of both A and B and shares his time 50% with entity A and 50% with entity B.

Both A and B pay him a salary for the services provided and he has separate contracts with both A and B.

What should A disclose in terms of remuneration paid to Mr. Smith?

Solution:

A should disclose only the remuneration paid to Mr. Smith by A, and not include remuneration paid by B.

The reason is that IAS 24 requires disclosing remuneration for services paid by the entity for services rendered to the entity – thus to A only.

Also, B is only associate, thus not part of the group (which is defined as a parent and its subsidiaries by IFRS 10.)

If A is a parent and B is a subsidiary, then in the consolidated financial statements of A group, total remuneration paid by both A and B would need to be disclosed.

Ex 3: Joint venture

The company A and the company B established a joint venture C. Each A and B have 50% share.

Who is a related party to A?

Solution:

The joint venture C is a related party to A, because it is under joint control of A.

The company B is NOT a related party to