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IND AS 24

Related Party Disclosures

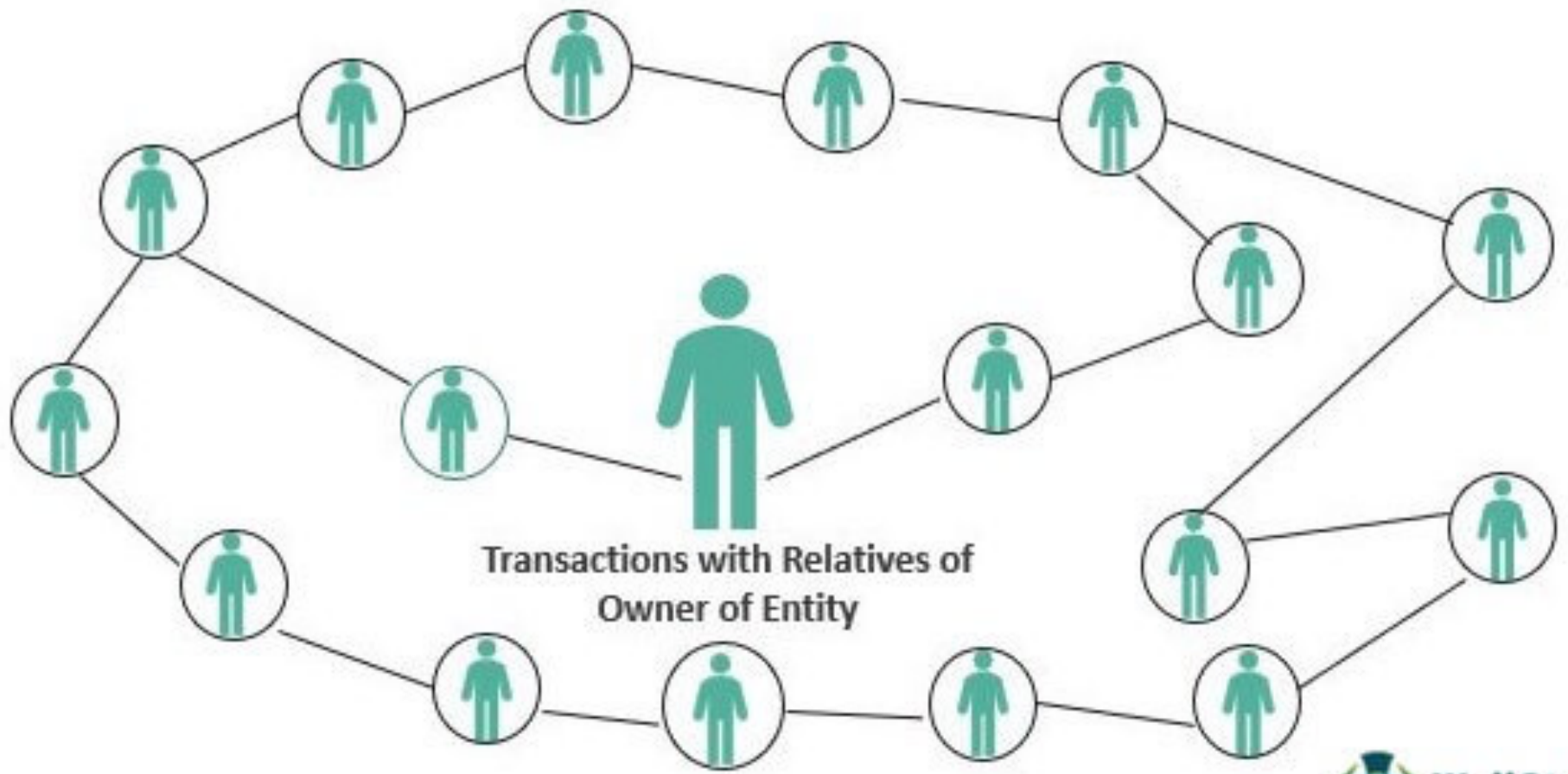


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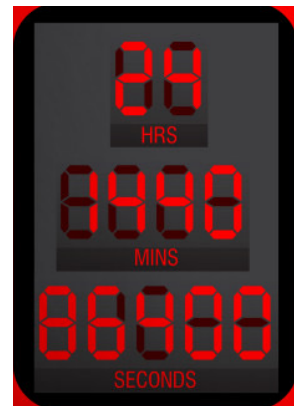


Ind AS



24

- The **Ashoka Chakra** is a depiction of the Dharma Chakra; a wheel represented with 24 spokes.
- 24 is the number of karats representing 100% pure gold.
- The **number 24** symbolizes home, health, healing, security, love, beauty, comfort, relationships, teamwork, romance, diplomacy.
- The **number 24** symbolizes harmony, family, companionship.



Disclosure Standards – Ind AS 24, 33, 108



DISCLOSURE

Ind AS 24

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References

The Companies Act, 2013

2(76) – Related Party with reference to a [company](#)

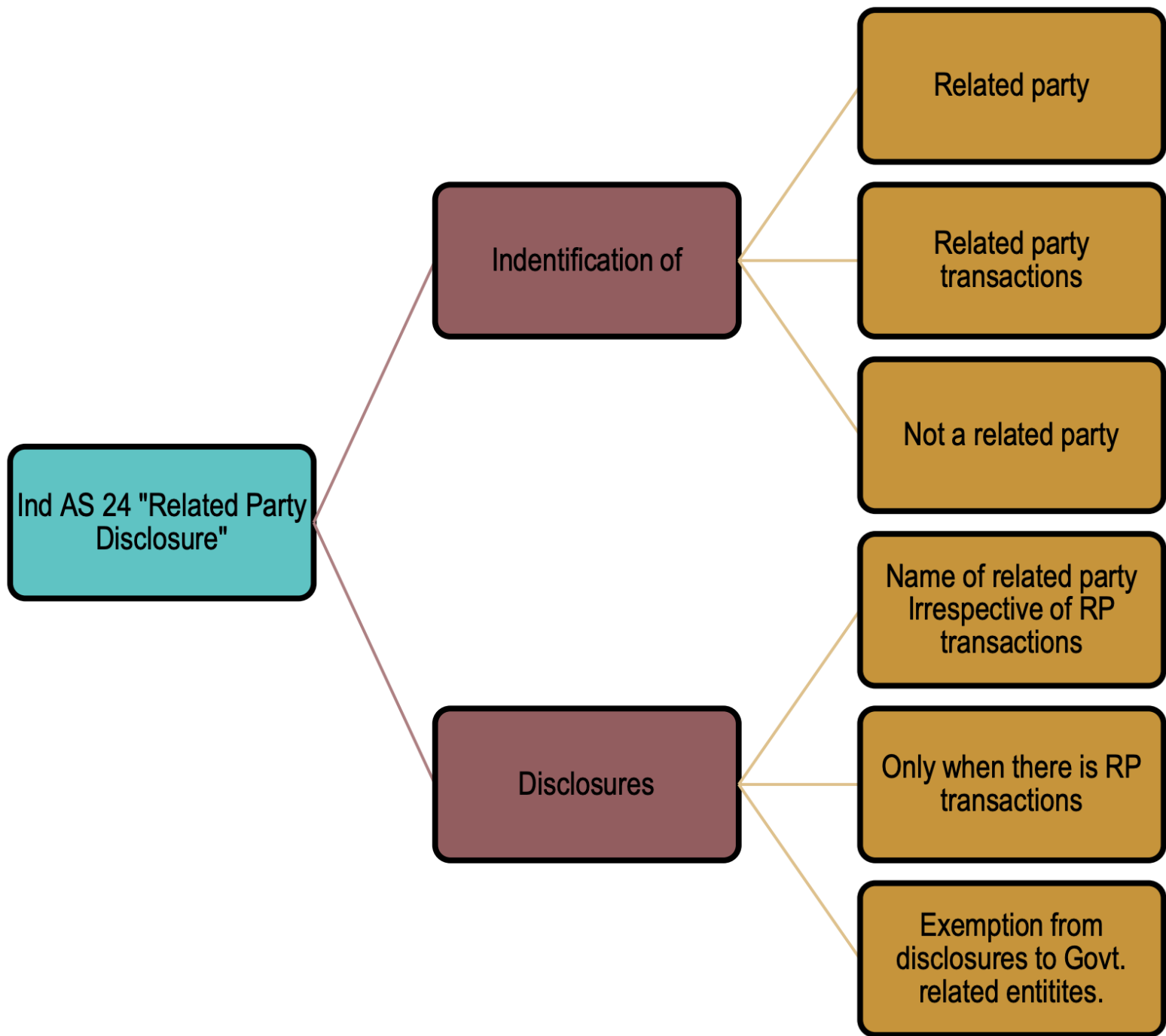
2(77) – Relative with reference to any [person](#)

188 – Related party Transactions

The Insolvency & Bankruptcy Code, 2016

2(24) – Related Party

2(24A) – Related Party



Objective

The objective of the Standard is to ensure that the financial statements of an entity contains 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 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.

Para 1: **WHY?**

- The objective of this Standard is to **ensure** that an entity's financial statements **contain the disclosures necessary to draw attention** to the possibility that its financial position and profit or loss may have been affected by the **existence of related parties and** by **transactions and outstanding balances**, including **commitments**, with such parties.

Scope

Para 2 : Who; What; How; Which; Why

This Standard shall be applied in:

- (a) identifying related party relationships (who) and transactions (what) ;
- (b) identifying outstanding balances, including commitments, between an entity and its related parties; (how)
- (c) identifying the circumstances (which) in which disclosure of the items in (a) and (b) is required; and
- (d) determining the disclosures to be made about those items.

Para 3

- **This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with Ind AS 110, Consolidated Financial Statements, or Ind AS 27, Separate Financial Statements.**
- **This Standard also applies to individual financial statements.**

Para 4

- Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements.
- **Intra group related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss,** in the preparation of consolidated financial statements of the group.

This Ind AS was notified vide G.S.R. 111(E) dated 16th February, 2015.

Para 4A : SRA

- Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of **confidentiality** as specifically required in terms of a **Statute or by any Regulator or similar competent Authority**.

Example 3

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.

Para 4B : No Override

- In case a statute or a regulator or a similar competent authority governing an entity prohibits the entity to disclose certain information which is required to be disclosed as per this Standard, disclosure of such information is not warranted.
- For example, 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.

Purpose of related party disclosures

WHY?

Para 5

- **Related party relationships (who)** are a **normal feature** of commerce and business.
- For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates.
- In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence.

Para 6

- A related party relationship could have an effect on the profit or loss and financial position of an entity.
- Related parties may enter into transactions that unrelated parties would not.
- For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer.
- Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

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) 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.

(b) 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.

Para 7

- The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur.
- The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.
- For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner.
- Alternatively, one party may refrain from acting because of the significant influence of another — for example, a subsidiary may be instructed by its parent not to engage in research and development.

Para 8

- 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.

Definitions

Related Party

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graph TD; A[Related Party] --> B[Person (3)]; A --> C[Entity (8)];
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Person (3)

Entity (8)

Para 9 : The following terms are used in this Standard with the meanings specified:

1. A related party (who) is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

- **(a) A person or a close member of that person’s family is related to a reporting entity if that person:**
 - (i) has control (51%) or joint control (together) of the reporting entity;
 - (ii) has significant influence (20%) 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.

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

- (i) 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).
- (ii) 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).

A **parent** is an entity that controls one or more entities and present consolidated financial statements.

Examples 4-7

4. 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.
5. 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.
6. Mr. D is a director of A Limited. Being a member of key management personnel of A Limited, he is related to A Limited.
7. Mr. D is a director of H Limited. S Limited is a subsidiary of H Limited. Mr. D is related to S Limited.

Example 8

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

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 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.

Both entities are joint ventures of the same third party.

Example 10

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.

- (iii) Both entities are joint ventures of the same third party.**
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.**
- (v) 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.**

Example 11

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.

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.

The entity is controlled or jointly controlled by a person identified in 3 above.

Example 12

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

A person identified in 3(a) above 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 13

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.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).**
- (vii) A person identified in (a)(i) 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).**
- (viii) 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.**

2. 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.**

Para 9

3. 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:

- (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.**

Domestic Partner : a person who is living with another in a close personal and sexual relationship.

The definition of a domestic partnership is when two people live together and are involved in an interpersonal relationship sharing their domestic life as if married, however they are not legally married. Domestic partner (DP) is a term that refers to an unmarried partner of the same or opposite sex.

Particulars	Ind AS 24	AS 18
<i>Definition of Relative</i>	Ind AS 24 uses the term “a close member of the family of a person”.	AS 18 uses the term “relatives of an individual”
	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: (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) dependents of that person or that person’s spouse or domestic partner. Hence, the definition as per Ind AS 24 is much wider.	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.

Para 9

4. Compensation includes all employee benefits (as defined in Ind AS 19, Employee Benefits) including employee benefits to which Ind AS 102, Share based Payments, 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.
- **Compensation includes:**

Para 9

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

Para 9

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(d) termination benefits; and

(e) share-based payment.

Para 9

5. 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.

Independent Director

Para 9

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

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

Para 9

8. The terms ‘control’ and ‘investment entity’, ‘joint control’ and ‘significant influence’ are defined in Ind AS 110, Ind AS 111, Joint Arrangements, and Ind AS 28, Investments in Associates and Joint Ventures, respectively and are used in this Standard with the meanings specified in those Ind ASs.

Para 10

- In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Para 11

In the context of this Standard, the following are **not related parties**:

- (a) 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.
- (b) two joint venturers** simply because they share joint control of a joint venture.

Para 11

(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, 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).

Para 11

(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.

Say: 20%

Para 12

- In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.
- Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures

Para 13 : All entities

- 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.

Para 14

- To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to **disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.**
- This is because the existence of control relationship may prevent the reporting entity from being independent in making its financial and operating decisions.

Para 14

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.

Para 15

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.

Para 16

- Paragraph 13 refers to the **next most senior parent**.
- This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

Para 17

An entity shall disclose key management personnel 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; and**
- (e) share-based payment.**

Para 17A

If an entity obtains key management personnel services from another entity (the ‘management entity’), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity’s employees or directors.

Para 18

- **If** an entity has had related party transactions during the periods covered by the financial statements, it **shall** disclose the **nature** of the related party relationship as well as **information** about those transactions and **outstanding balances**, including **commitments**, necessary for users to understand the potential effect of the relationship on the financial statements.
- These disclosure requirements are in addition to those in paragraph 17.
- At a minimum, **disclosures shall include:**

Para 18

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:

- (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and**
- (ii) details of any guarantees given or received;**

Para 18

- (c) provisions for doubtful debts related to the amount of outstanding balances; and**
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.**

Para 18A

Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

Para 19

The disclosures required by paragraph 18 shall be made separately for each of the following categories:

- (a) the parent;**
- (b) entities with joint control of, 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**

Para 21

The following are **examples of transactions** that are disclosed **if** they are with a related party:

- (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);

Para 21

- (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 contracts¹ (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.

Para 22 #

Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 42 of Ind AS 19).

Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, defines executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

Para 23

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

Para 24

- 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.

Para 24A

- 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.
- 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.

Para 25 : Government-related entities

A reporting entity is **exempt** from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:

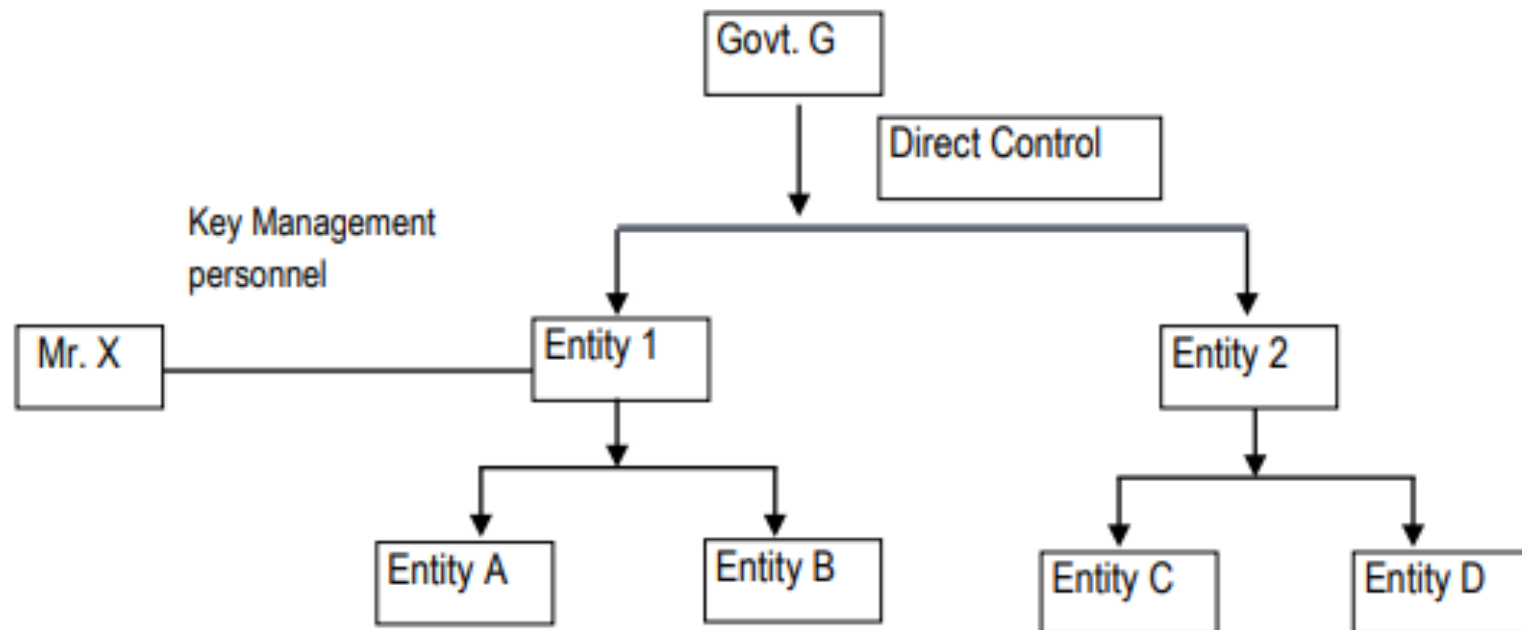
- (a) a government that has control or joint control of, or significant influence over, the reporting entity; **and**
- (b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Illustration

- 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.

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

Illustrated Diagrammatically



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.

Para 26

If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:

- (a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);**
- (b) 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:**

Para 26

- (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. Types of transactions include those listed in paragraph 21.**

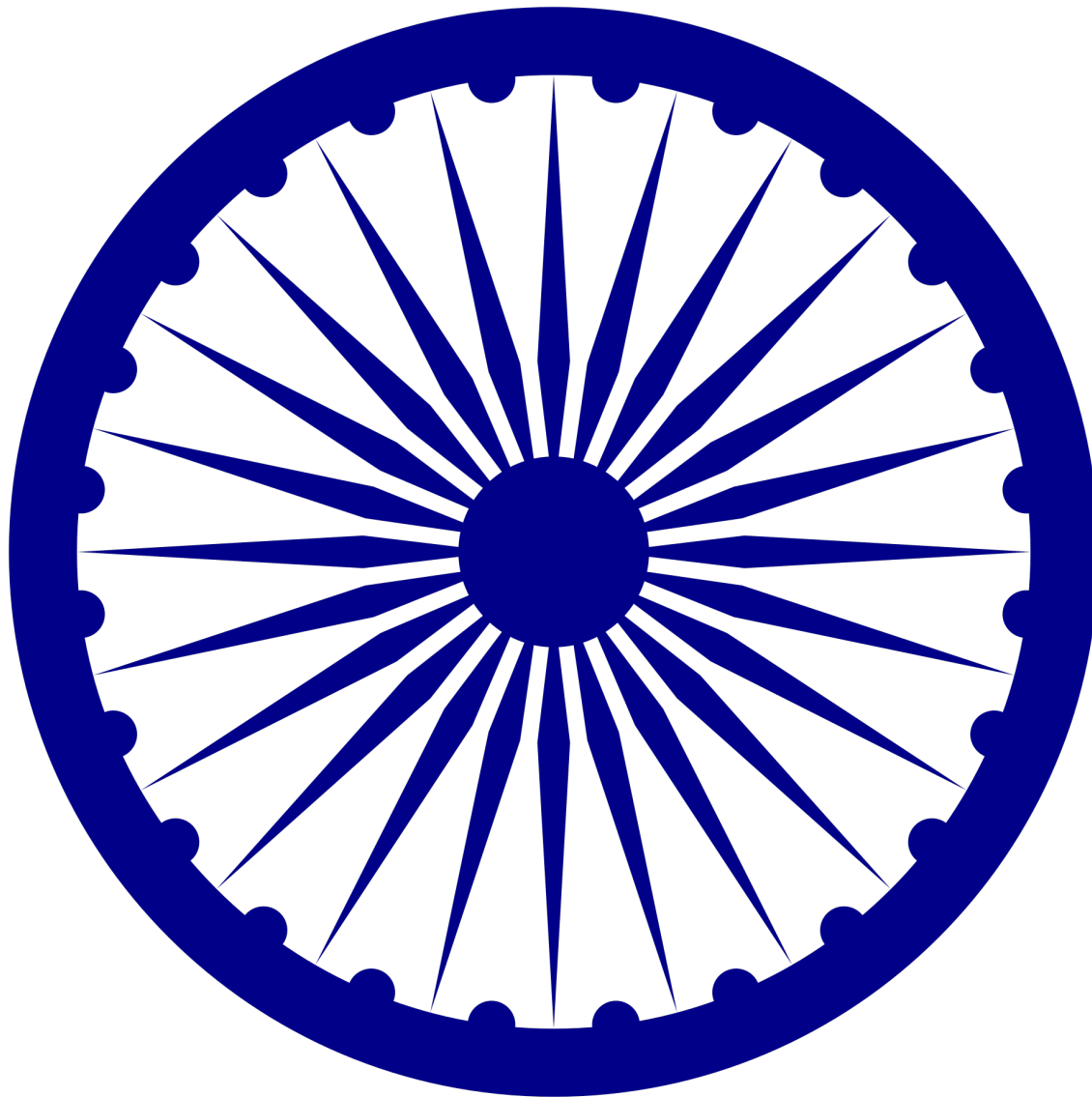
Para 27

In using its judgement to determine the level of detail to be disclosed in accordance with the requirements in paragraph 26(b), the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is:

- a) significant in terms of size;
- b) carried out on non-market terms;
- c) outside normal day-to-day business operations, such as the purchase and sale of businesses;

Para 27

- (d) disclosed to regulatory or supervisory authorities;
- (e) reported to senior management;
- (f) subject to shareholder approval.



24

- The Ashoka Chakra is a depiction of the Dharma Chakra; a wheel represented with **24 spokes**.
- The 24 spokes represent the twelve causal links taught by the Buddha and paṭiccasamuppāda (Dependent Origination, Conditional Arising) in forward and then reverse order.
 - The first 12 spokes represent 12 stages of suffering.
 - Next 12 spokes represent no cause no effect. So, due to awareness of mind, formation of mental conditioning stops. This process stops the process of birth and death i.e. nibbāna.
- It also depicts the “wheel of time” i.e the **24 hours** of a day according to the 24 saints of The Great Himalayas.

1. A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party;

- a) regardless of whether a price is charged**
- b) Provided the price charged is less than the fair value**
- c) Provided the price charged is less than its cost**
- d) Provided the price charged is more than its cost**

2. Ind AS 24 Related Party Disclosures Standard shall be applied in; **except**

- a) identifying related party relationships and transactions
- b) identifying outstanding balances, including commitments, between an entity and its related parties
- c) identifying the circumstances in which disclosure of the items in (a) and (b) is required
- d) determining the disclosures to be made about those items.
- e) where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority

3. A related party is that is related to the entity (reporting entity) that is preparing its financial statements

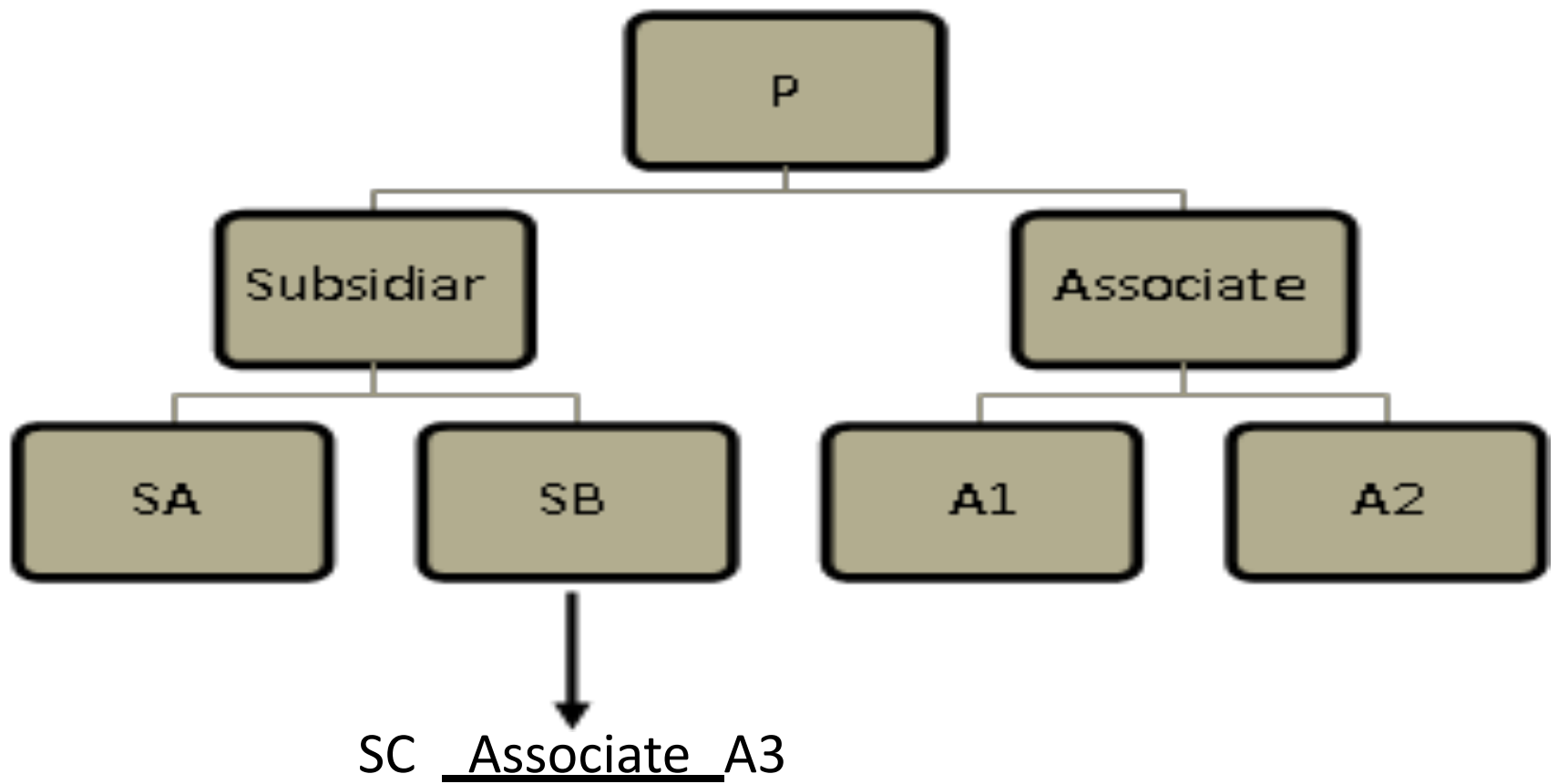
- a) A person**
- b) An entity**
- c) Both (a) and (b)**
- d) Either (a) or (b)**

4. A person or a close member of that person's family is related to a reporting entity if that person has;

- a) Control of the reporting entity**
- b) Joint Control of the reporting entity**
- c) Significance influence over the reporting entity**
- d) Any of the above**

5. 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**

Examine related party relationships of various entities.



- 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.
- For Parent's consolidated financial statements, A1 Limited, A2 Limited and A3 Limited are related to the Group

6. 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: **except**

- a) that person's children, spouse or domestic partner, brother, sister, father and mother**
- b) children of that person's spouse or domestic partner**
- c) dependants of that person or that person's spouse or domestic partner**
- d) Children of brother, sister**

7. Who is a related party?

- a) two joint venturers share joint control of a joint venture**
- b) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, resulting in economic dependence**
- c) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity**
- d) domestic partner**

8. Relationships between a parent and its subsidiaries;

- a) shall be disclosed irrespective of whether there have been transactions between them**
- b) shall be disclosed only when there have been transactions between them**
- c) shall be disclosed only when transactions between them are material**
- d) shall not be disclosed**

Case Study

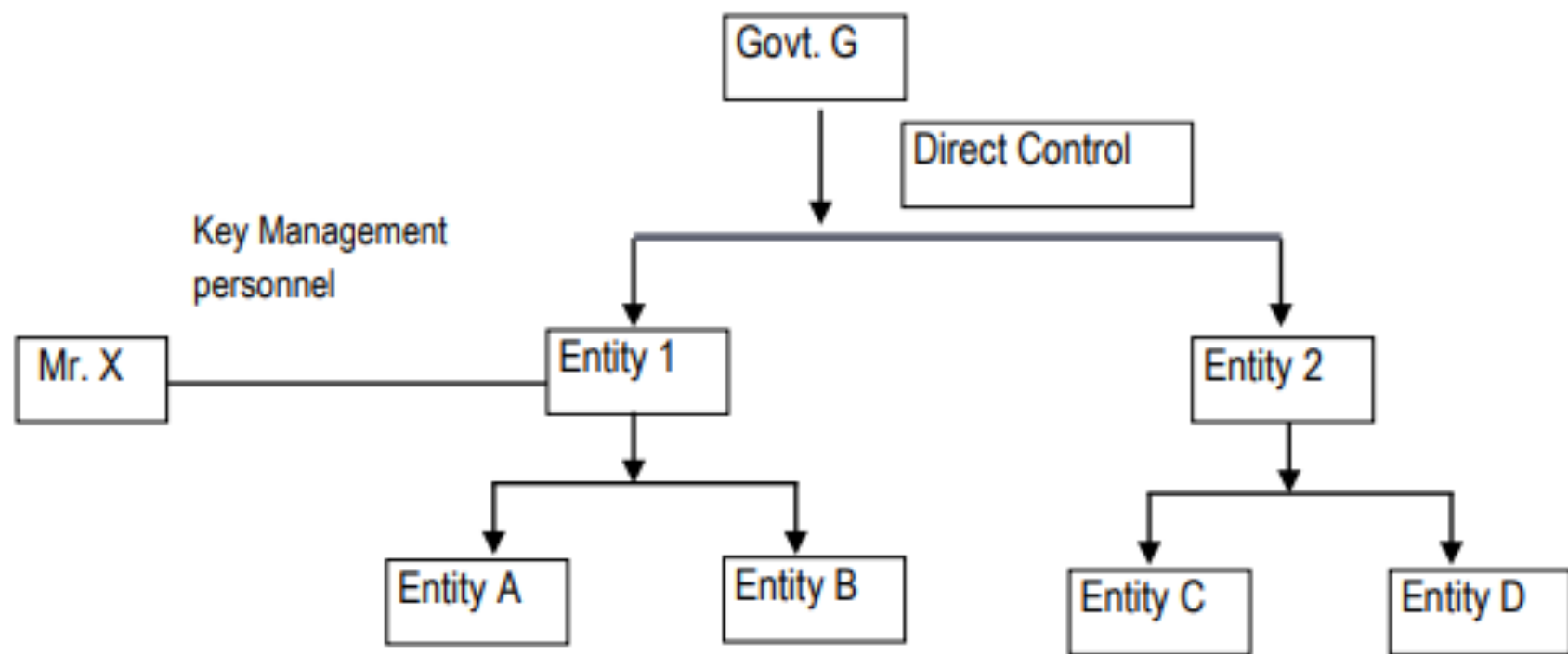
9. Government G directly controls Entity 1 and Entity 2. It indirectly controls Entity A and Entity B through Entity 1, and Entity C and Entity D through Entity 2. Person X is a member of the key management personnel in Entity 1.

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

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.





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