

CHAPTER 22

RELATED PARTY DISCLOSURES



22.1 INTRODUCTION

- Objective of financial reporting
- *Conceptual Framework for Financial Reporting (2010)*
- Transactions presumed to have been undertaken on an arm's length basis
- Financial performance influenced by relationships

22.2 WHAT IS A RELATED PARTY

- A ***person or close family member*** is related to a reporting entity if that person:
 - Has control or joint control of the reporting entity
 - Has significant influence over the reporting entity
 - Is a member of key management of the reporting entity or of a parent of the reporting entity

What is a close family member?

- Family member who may be expected to influence or be influenced by that person in their dealings with the entity:
 - Includes person's children, spouse or domestic partner
 - Children of that person's spouse or domestic partner
 - Dependants of that person or that person's spouse or domestic partner

What is a related party?

- An **entity** is related to a reporting entity if:
 - Entity and reporting entity are members of the same group
 - One entity is an associate or joint venture of the other
 - Both entities are joint ventures 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 party
 - 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
 - Entity is controlled or jointly controlled by a person identified in the preceding slides
 - A 'person' identified in the preceding slides as having control or joint control over the reporting entity has significant influence over the entity or is a member of key management personnel of the entity

Related party transactions

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

Examples of related party transactions that require disclosure

- Purchase or sale of goods
- Purchase or sale of property and other assets
- Rendering or receiving services
- Guarantees or collateral provided
- Settling the liabilities on behalf of a related party (or vice versa)
- Leases
- Transfers of research and development
- Transfers under licence agreements
- Transfers under finance arrangements (including loans and equity contributions in cash or in kind)

Example 22.1: Related parties

Mr. Grant is a director and major shareholder of MORTAR. His son, Fergus, is an independent tax consultant and he advised MORTAR on certain issues associated with the acquisition of both PESTLE and POWDER for which he was paid €100,000 during 2012, with a further €20,000 due to him at 31 December 2012. Both these amounts are included in MORTAR's draft financial statements for the year ended 31 December 2012. Mr. Grant's daughter, Emer, is employed in MORTAR's Personnel Department, receiving an annual salary of €30,000.

Requirement

Illustrate the disclosures required in MORTAR's group financial statements in accordance with IAS 24 *Related Party Disclosures*.

Example 22.1: Related parties

Solution

Fergus and Emer Grant, through their relationship with their father (who is a director and therefore considered to be 'key management'), Mr Grant, are also related parties of MORTAR.

Fergus is not an employee of MORTAR and therefore amounts paid to him of €100,000, together with the amount outstanding at 31 December 2012 of €20,000 should be disclosed in the 2012 financial statements. The following information should be provided:

- Description of the relationship;
- Details of the transaction;
- Amounts involved; and
- Amounts due at 31 December 2012.

Emer is an employee of MORTAR (but not key management) and therefore there is no requirement to disclose the emoluments paid to her.

Disclosure Note:

Mr Grant is a director and major shareholder of MORTAR. His son, Fergus, is an independent tax consultant and he advised MORTAR on certain issues associated with the acquisition of both PESTLE and POWDER for which he was paid €100,000 during 2012, with a further €20,000 due to him at 31 December 2012. Both these amounts are included in MORTAR's draft financial statements for the year ended 31 December 2012. Mr Grant's daughter, Emer, is employed in MORTAR's Personnel Department.

Parties deemed not to be related

The following are deemed **not** to be related:

- two entities simply because they have a director or key manager in common;
- two venturers who share joint control over a joint venture;
- providers of finance, trade unions, public utilities, and 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);
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

22.3 WHY ARE RELATED PARTY DISCLOSURES NECESSARY?

- A related party relationship could affect a reporting entity's performance and financial position. For example, transactions between related parties may not be made at the same amounts as between unrelated parties, and knowledge of this is likely to be important to readers of the financial statements.
- Knowledge of related party transactions may affect a user's assessment of the reporting entity's operations, or risks and opportunities facing the entity
- A related party relationship could have an effect on the reporting entity's results
- Transaction between related parties may not be made at arm's length

22.4 POTENTIAL RELATED PARTY INDICATORS

- Arrangements whereby one party agrees to pay expenses on behalf of another
- Circular arrangements between parties
- Engaging in business deals (e.g. leases) at more or less than market value
- Payments for services at inflated prices
- Sale of land with arranged financing
- Sale of securities
- Unusual transactions close to end of reporting period

See Chapter 22, Example 22.2

22.5 DISCLOSURE REQUIREMENTS

- Where ***related party transactions*** have occurred, disclose
 - Nature of relationship
 - Amounts of transactions
 - Amount of outstanding balances, including terms/conditions
 - Provisions for doubtful debts on outstanding balances
 - Irrecoverable debts written off during the period on amounts due from related parties
- Key management compensation in total for: Short-term employee benefits; Post-employment benefits; Other long-term benefits; Termination benefits; and Share-based payment