



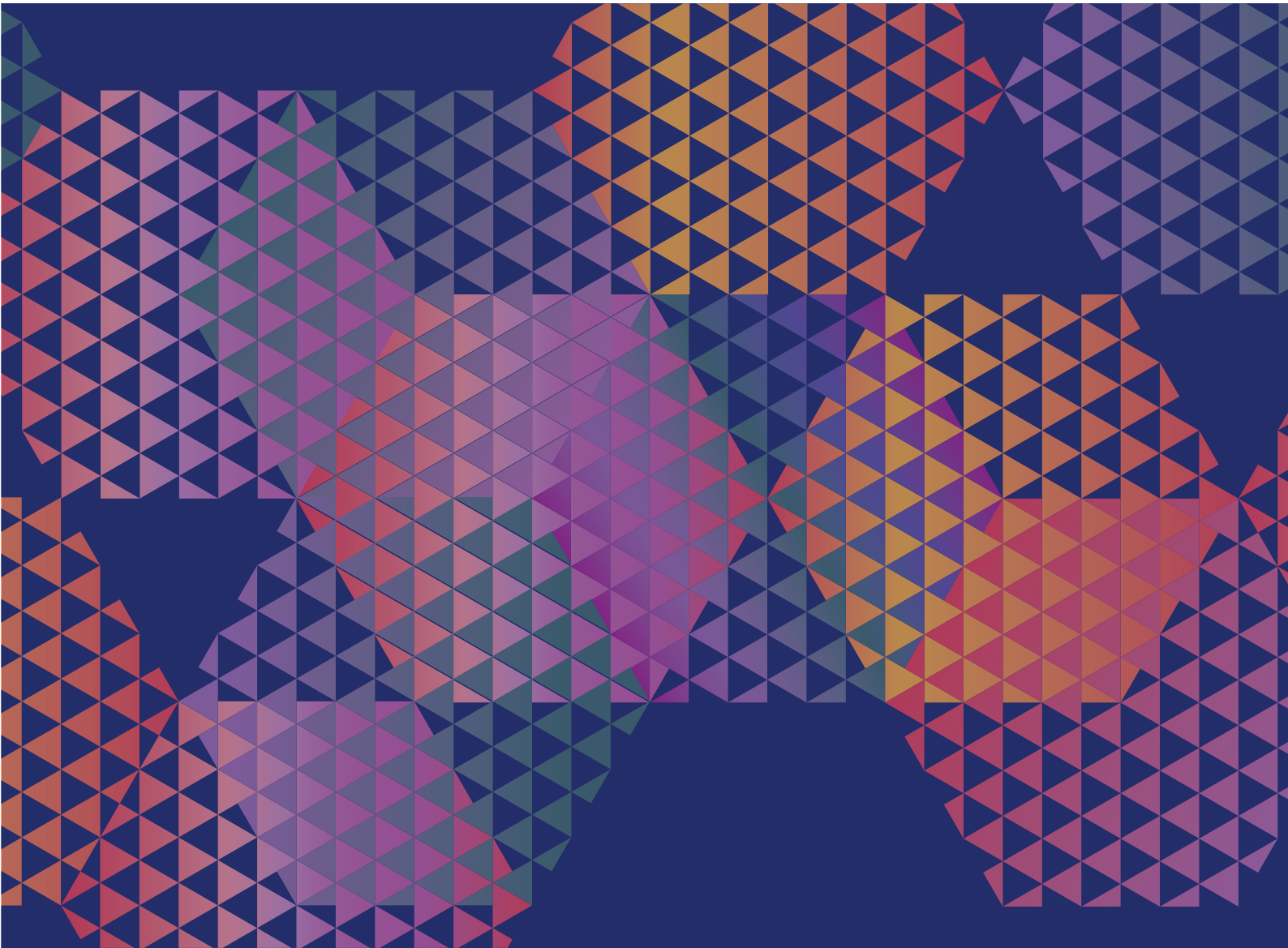
**IFRS<sup>®</sup>**  
Accounting

Educational Module 33  
Related Party Disclosures

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# IFRS for SMEs<sup>®</sup>

Accounting Standard  
Third Edition



International Accounting Standards Board

**IFRS<sup>®</sup> Foundation**  
**Supporting Material for the**  
***IFRS for SMEs<sup>®</sup>* Accounting Standard**

including the full text of  
Section 33 *Related Party Disclosures* of the  
*IFRS for SMEs* Accounting Standard issued by  
the International Accounting Standards Board in February 2025

*with extensive explanations, self-assessment questions and case studies*

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The requirements of Section 33 *Related Party Disclosures* of the *IFRS for SMEs Accounting Standard* are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs Accounting Standard* contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 33.

This module has been prepared by International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs Accounting Standard* and have not been approved by the IASB.

## INTRODUCTION

### What is the *IFRS for SMEs*® Accounting Standard?

The *IFRS for SMEs Accounting Standard* (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities* of the Standard).

The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: [www.ifrs.org](http://www.ifrs.org).

### What does this module cover?

This educational module supports the requirements for related party disclosures applying Section 33 *Related Party Disclosures* of the Standard. This module:

- provides explanations and examples to improve understanding of the requirements in Section 33;
- identifies the significant judgements required in preparing related party disclosures;
- includes questions to test your understanding of the requirements in Section 33; and
- includes case studies that provide a practical opportunity to apply the Section 33 requirements.

After completing the module, you should be able:

- to identify when a party is a related party of a reporting entity;
- to identify key management personnel and disclose their compensation in financial statements;
- to disclose related party relationships and related party transactions in financial statements; and
- to demonstrate an understanding of the significant judgements that are required in identifying related parties and disclosing related party transactions.

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## Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs Accounting Standard*' is to the third edition of the Standard, issued in February 2025.

## What is in the requirements?

Section 33 sets out the disclosure requirements for related party transactions. Such disclosures are necessary to draw attention to the possibility that an entity's financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

In brief, Section 33 requires an entity to disclose information about:

- controlling party relationships;
- key management personnel compensation; and
- related party transactions, outstanding balances and commitments.

## What has changed in the third edition of the Standard?

The IASB updated the requirements in Section 33 of the Standard to align more closely with IAS 24 *Related Party Disclosures* by:

- adding a requirement to disclose the amounts an entity incurred for key management services provided by a separate management entity (see paragraph 33.7A);
- clarifying the requirement to disclose information about commitments between an entity and its related parties (see paragraph 33.9(b));
- replacing the term 'state' with 'government' (see paragraph 33.11);
- adding commitments as an example of a related party transaction (see paragraph 33.12(ha)); and
- adding a disclosure requirement for an entity that applies the exemption from disclosing information about related party transactions and outstanding balances with government-related entities (see paragraph 33.15).

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## REQUIREMENTS AND EXAMPLES

### Scope of this section

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- 33.1 This section requires an entity to include in its **financial statements** the disclosures necessary to draw attention to the possibility that its **financial position** and **profit or loss** have been affected by the existence of **related parties** and by transactions and outstanding balances with such parties.

### Educational notes

Section 33 applies to all types of general purpose financial statements, including individual, separate and consolidated financial statements (if presented).

In consolidated financial statements, Section 33 applies to the related parties of the group. Intragroup transactions (such as transactions between a parent and its subsidiary) and outstanding balances are internal to the group reporting entity. Such transactions and outstanding balances are eliminated in the consolidated financial statements of the group (see paragraph 9.15 of Section 9 *Consolidated and Separate Financial Statements* of the Standard) and therefore are not subject to the requirements in Section 33. However, if the parent also prepares separate financial statements, transactions and outstanding balances with its subsidiary (a related party) would be disclosed in the parent's separate financial statements in accordance with Section 33.

### Related party defined

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- 33.2 A **related party** is a person or entity that is related to 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) is a member of the key management personnel of the reporting entity or of a **parent** of the reporting entity;
    - (ii) has **control** or **joint control** over the reporting entity; or
    - (iii) has significant influence over the reporting entity.

*continued ...*

... continued

- (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 a **jointly controlled entity** of the other entity (or an associate or jointly controlled entity of a member of a group of which the other entity is a member).
  - (iii) both entities are jointly controlled entities of the same third entity.
  - (iv) one entity is a jointly controlled entity 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.
  - (vi) the entity is controlled or jointly controlled by a person identified in (a).
  - (vii) 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.
  - (viii) a person identified in (a)(ii) 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).

## Educational notes

Some key terms from the Glossary that are pertinent to paragraph 33.2 include:

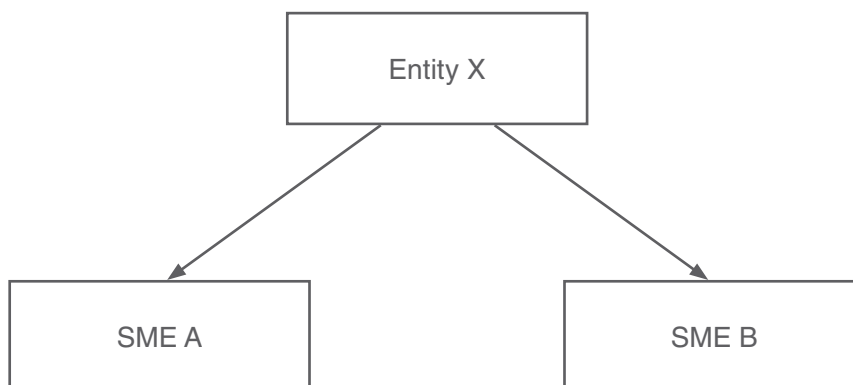
- *associate*—an entity over which the investor has significant influence.
- *close members of the family of a person*—those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:
  - (a) that person's children and spouse or domestic partner;
  - (b) children of that person's spouse or domestic partner; and
  - (c) dependants of that person or of that person's spouse or domestic partner.
- *control* (of an entity)—an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

- *group*—a parent and all its subsidiaries.
- *joint control*—the contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- *jointly controlled entity*—a joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.
- *parent*—an entity that controls one or more entities.
- *post-employment benefit plans*—formal or informal arrangements under which an entity provides post employment benefits for one or more employees.
- *reporting entity*—an entity that is required, or chooses, to prepare general purpose financial statements.
- *subsidiary*—an entity that is controlled by another entity.

In addition to those terms defined in the Glossary, the term ‘key management personnel’ is defined in paragraph 33.6 of Section 33 and the term ‘significant influence’ is defined in paragraph 14.3 of Section 14 *Investment in Associates* of the Standard.

The term ‘fellow subsidiary’ is not defined in the Standard or in full IFRS Accounting Standards. The term refers to another entity that is under the control of the same parent entity as the reporting entity. For example, in the scenario that follows, Entity X is the ultimate parent entity and SME A and SME B are subsidiaries of Entity X. Thus, SME A is a fellow subsidiary of SME B and SME B is a fellow subsidiary of SME A.

In a scenario in which an entity (for example, Entity X) invests in two (or more) entities (for example, SME A and SME B), the conditions for assessing whether SME A and SME B are related parties of each other are set out in paragraph 33.2(b)(i)–(v). The assessment is based on the nature of the investment and the relationships between Entity X, SME A and SME B.



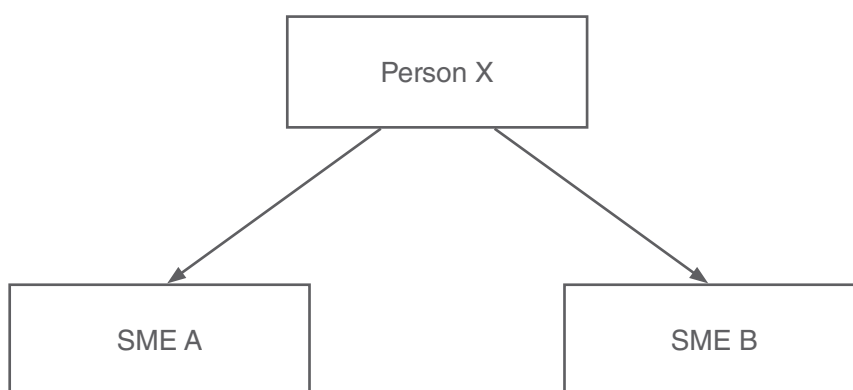
In the case of an indirect horizontal relationship through Entity X (that is, a relationship between SME A and SME B as a result of their relationship with Entity X), in accordance with paragraph 33.2(b)(i)–(v), SME B is deemed to be a related party of SME A (and vice versa) if any of the relationships shaded grey in Table 1 exist:

**Table 1—Are SMEs A and B related parties because of their relationship with Entity X?**

		Entity X's relationship with SME B		
		Control	Joint control	Significant influence
Entity X's relationship with SME A	Control	Yes—33.2(b)(i)	Yes—33.2(b)(ii)	Yes—33.2(b)(ii)
	Joint control	Yes—33.2(b)(ii)	Yes—33.2(b)(iii)	Yes—33.2(b)(iv)
	Significant influence	Yes—33.2(b)(ii)	Yes—33.2(b)(iv)	Not necessarily related

Table 1 lists the cases in which SME B is a related party of SME A (and vice versa) by virtue of the relationship stated. The condition set out in paragraph 33.2(b)(v) is not included in Table 1 because it is specific to the situation in which an entity is a post-employment benefit plan for the benefit of the employees of either entity.

In a scenario in which a person (for example, Person X) or a close member of that person's family invests in two (or more) entities (for example, SME A and SME B), the conditions for assessing whether SME A and SME B are related parties of each other are set out in paragraph 33.2(b)(vi)–(viii).



In the case of an indirect horizontal relationship through Person X (that is, a relationship between SME A and SME B as a result of their relationship with Person X), in accordance with paragraph 33.2(b)(vi)–(viii), SME B is related to SME A (and vice versa) if any of the relationships shaded grey in Table 2 exist.

**Table 2—Are SMEs A and B related parties because of their relationship with Person X?**

		Person X's relationship with SME B			
		Control	JC <sup>(a)</sup>	KMP <sup>(b)</sup>	SI <sup>(c)</sup>
Person X's relationship with SME A	Control	Yes— 33.2(b)(vi)	Yes— 33.2(b)(vi)	Yes— 33.2(b)(vii) and (viii)	Yes— 33.2(b)(vi) and (viii)
	JC <sup>(a)</sup>	Yes— 33.2(b)(vi)	Yes— 33.2(b)(vi)	Yes— 33.2(b)(vi) and (viii)	Yes— 33.2(b)(vi) and (viii)
	KMP <sup>(b)</sup>	Yes— 33.2(b)(vi) and (viii)	Yes— 33.2(b)(vi) and (viii)	Not necessarily related	Not necessarily related
	SI <sup>(c)</sup>	Yes— 33.2(b)(vi) and (viii)	Yes— 33.2(b)(vi) and (viii)	Not necessarily related	Not necessarily related

(a) JC = joint control

(b) KMP = key management personnel

(c) SI = significant influence

The conditions set out in paragraph 33.2 are illustrated in Examples 1–18 of this module as follows:

Parts of paragraph 33.2	Examples
(a)(i)	1, 2, 14, 15 and 16
(a)(ii)	1, 2, 12, 13, 14, 15, 16, 17 and 18
(a)(iii)	1, 17 and 18
(b)(i)	3, 7, 9, 11, 12, 14 and 15
(b)(ii)	3, 4, 5, 8, 9 and 10
(b)(iii)	4
(b)(iv)	10
(b)(v)	6 and 7
(b)(vi)	12, 13, 14, 15, 16, 17 and 18
(b)(vii)	11
(b)(viii)	14, 15, 16, 17 and 18

## Examples—Definition of related parties: a person (paragraph 33.2(a))

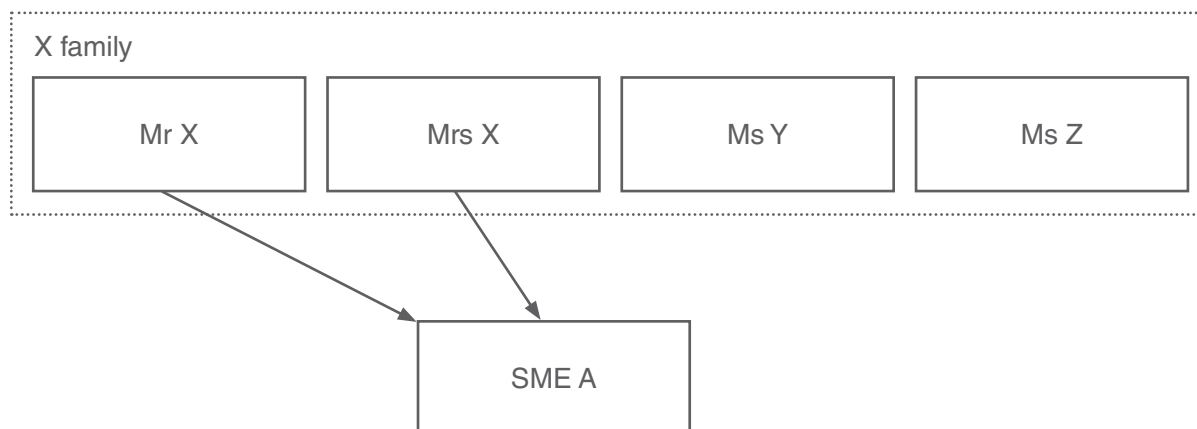
**Ex 1** SME A is owned in equal shares by the members of Family X—Mr and Mrs X and their daughters Ms Y and Ms Z. SME A is managed by the family members, who are all members of its board of directors. Their positions at SME A are: Mr X, administration director; Mrs X, operations director; Ms Y, financial director; and Ms Z, sales director.

Each member of Family X owns 25% of the voting power in SME A and therefore each of them is presumed to have significant influence over SME A, unless the absence of such influence can be clearly demonstrated (see paragraph 14.3(a) of Section 14).

Accordingly, in SME A's financial statements, all four members of the family are related parties of SME A (see paragraph 33.2(a)(iii)). In the case of family shareholdings, it might be that one party (the dominant party) acts for the family as a whole on matters relating to SME A. In such a case, the dominant party could be in control of SME A. However, the close members of that person's family are still related parties of SME A (see paragraph 33.2(a)(ii)). Alternatively, Mr X, Mrs X, Ms Y and Ms Z could contractually agree to share control over SME A. In that case, each member of the family would have joint control over SME A and therefore Mr X, Mrs X, Ms Y and Ms Z would still be related parties of SME A (see paragraph 33.2(a)(ii)).

Furthermore, Mr X, Mrs X, Ms Y and Ms Z are each related parties of SME A because they are all members of the key management personnel of SME A (as members of SME A's board of directors, they each have authority and responsibility for planning, directing and controlling SME A's activities—see paragraphs 33.6 and 33.2(a)(i)).

**Ex 2** The facts are the same as in Example 1. However, in this example, SME A is owned in two equal shares and managed by Mr and Mrs X, who have joint control over SME A and are members of its board of directors. Their daughters do not own shares in, or manage, SME A and are not members of its board of directors.



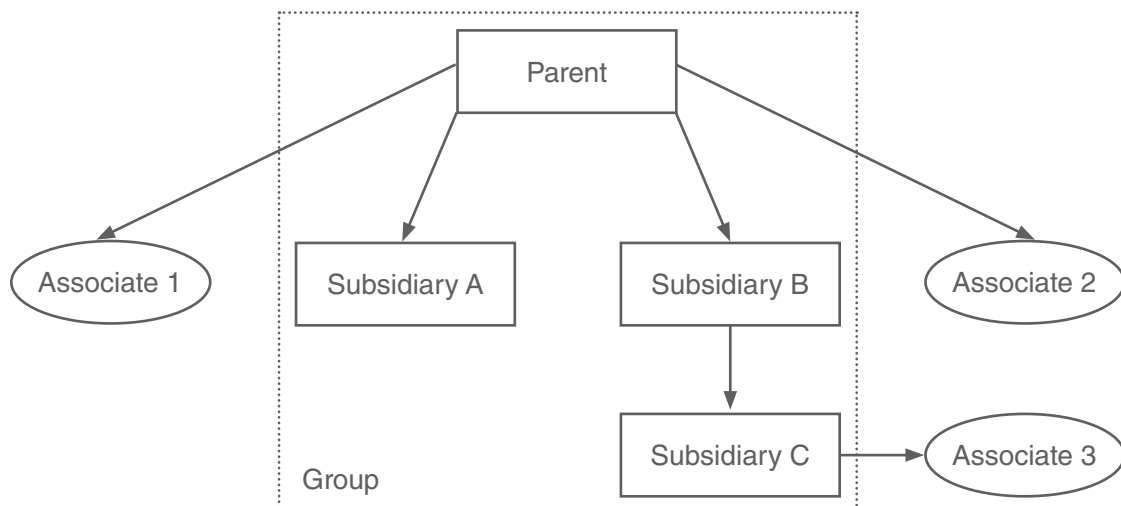
Mr and Mrs X have joint control over SME A. In SME A's financial statements, Mr and Mrs X are both related parties (see paragraph 33.2(a)(ii)).

Furthermore, Mr and Mrs X are each related parties of SME A because they are both members of the key management personnel of SME A (as members of SME A’s board of directors, they each have authority and responsibility for planning, directing and controlling SME A’s activities (see paragraphs 33.6 and 33.2(a)(i))).

Ms Y and Ms Z are also related parties of SME A because they are close members of the family of Mr and Mrs X, who have joint control over SME A (see paragraph 33.2(a)(ii)).

### Examples—Definition of related parties: an entity (paragraph 33.2(b))

**Ex 3** A Parent 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.



In the Parent’s separate financial statements, Subsidiary A, Subsidiary B, Subsidiary C, Associate 1, Associate 2 and Associate 3 are related parties (see paragraph 33.2(b)(i) and (ii)).

In the Parent’s consolidated financial statements, Associate 1, Associate 2 and Associate 3 are related parties of the group reporting entity (see paragraph 33.2(b)(ii)). Given that the Parent controls Subsidiary A, Subsidiary B and Subsidiary C, these subsidiaries are part of the group reporting entity in the Parent’s consolidated financial statements. Consequently, in the Parent’s consolidated financial statements, Section 33 would not apply to intragroup balances and transactions between the Parent, Subsidiary A, Subsidiary B and Subsidiary C.

In Subsidiary A’s financial statements, the Parent, Subsidiary B, Subsidiary C, Associate 1, Associate 2 and Associate 3 are related parties (see paragraph 33.2(b)(i) and (ii)). Similarly:

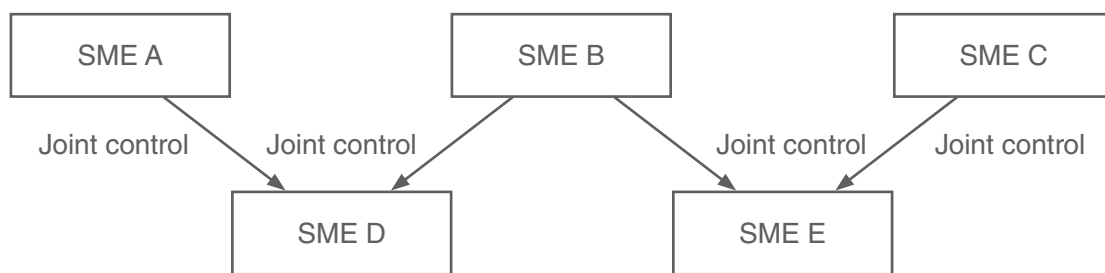
- in Subsidiary B’s separate financial statements, the Parent, Subsidiary A, Subsidiary C, Associate 1, Associate 2 and Associate 3 are related parties; and
- in Subsidiary C’s separate financial statements, the Parent, Subsidiary A, Subsidiary B, Associate 1, Associate 2 and Associate 3 are related parties.

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In the financial statements of Associate 1, Associate 2 and Associate 3, in all three cases, the Parent, Subsidiary A, Subsidiary B and Subsidiary C are related parties (see paragraph 33.2(b)(ii)).

In the absence of other indicators, Associate 1, Associate 2 and Associate 3 are not related to each other.

**Ex 4 SME A and SME B have joint control over SME D. SME B and SME C have joint control over SME E.**



SME A has joint control over SME D. Therefore, SME A and SME D are related parties of each other (see paragraph 33.2(b)(ii)).

SME B has joint control over SME D. Therefore, SME B and SME D are related parties of each other (see paragraph 33.2(b)(ii)). Similarly, SME B has joint control over SME E. Therefore, SME B and SME E are related parties of each other (see paragraph 33.2(b)(ii)).

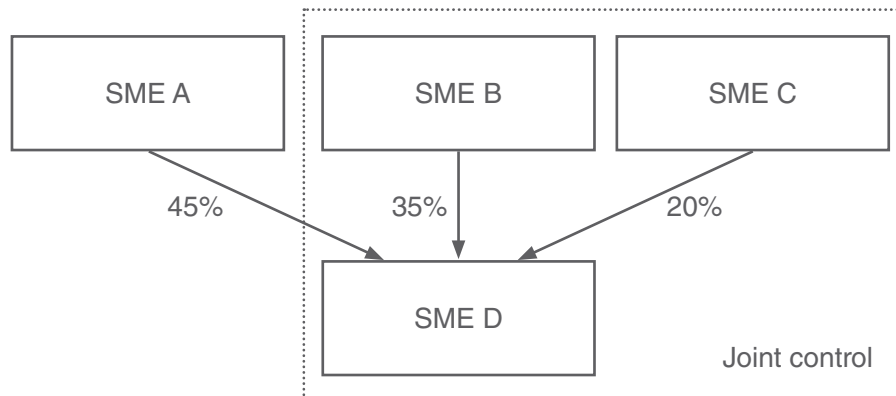
SME C has joint control over SME E. Therefore, SME C and SME E are related parties of each other (see paragraph 33.2(b)(ii)).

SME D and SME E are both jointly controlled entities of the same third party (SME B). Therefore, they are related parties of each other (see paragraph 33.2(b)(iii)).

Although SME A and SME B share joint control over SME D, in the absence of evidence to the contrary, SME A and SME B are not related parties of each other (see paragraph 33.4(b)). Similarly, although SME B and SME C share joint control over SME E, in the absence of evidence to the contrary, SME B and SME C are not related parties of each other (see paragraph 33.4(b)).

Furthermore, in the absence of evidence to the contrary, SME A and SME C are not related parties of each other.

**Ex 5** SME A owns 45%, SME B owns 35% and SME C owns 20% of the ordinary shares that carry equal voting rights at a general meeting of shareholders of SME D. SME B and SME C have contractually agreed to share control over SME D.



Because SME B and SME C have contractually agreed to share control over SME D (joint control), SME D is a related party of SME B and of SME C (see paragraph 33.2(b)(ii)).

However, in the absence of evidence to the contrary, SME B and SME C are not related parties of each other (see paragraph 33.4(b)).

SME A owns 45% of the voting power in SME D and therefore is presumed to have significant influence over SME D, unless absence of such influence can be clearly demonstrated. Accordingly, SME D is an associate of SME A. Consequently, SME A and SME D are related parties (see paragraph 33.2(b)(ii)).

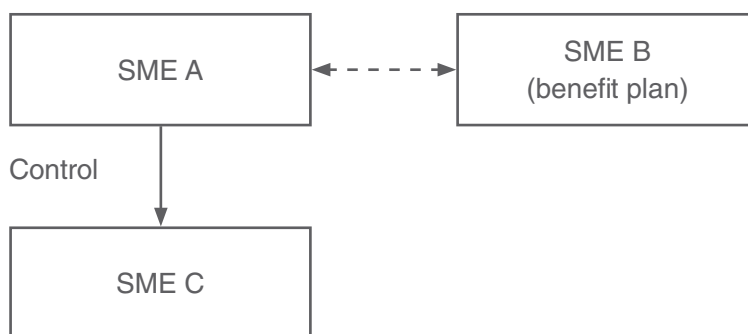
In the absence of evidence to the contrary, SME A is not a related party of SME B or SME C.

**Ex 6** SME B is a post-employment benefit plan for the benefit of employees of SME A.



SME B is a post-employment benefit plan for the benefit of employees of SME A (the reporting entity). Therefore, SME A and SME B are related parties of each other (see paragraph 33.2(b)(v)).

**Ex 7 SME B is a post-employment benefit plan for the benefit of employees of SME A. SME A has control over SME C.**

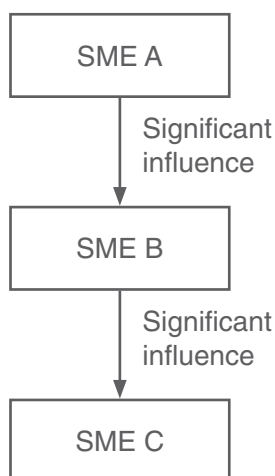


SME A (the parent) has control over SME C (its subsidiary). Therefore, SME A and SME C are related parties of each other (see paragraph 33.2(b)(i)). However, in the consolidated financial statements of SME A, Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

SME B is a post-employment benefit plan for the benefit of employees of SME A. Therefore, SME A and SME B are related parties of each other (see paragraph 33.2(b)(v)).

SME B is a post-employment benefit plan for the benefit of employees of SME A, which is a related party of SME C. Therefore, in SME C's financial statements, SME B is a related party (see paragraph 33.2(b)(v)). However, in SME B's financial statements, in the absence of evidence to the contrary, SME C is not a related party because SME C is not a sponsoring employer of SME B.

**Ex 8 SME A has significant influence over SME B. SME B has significant influence over SME C.**

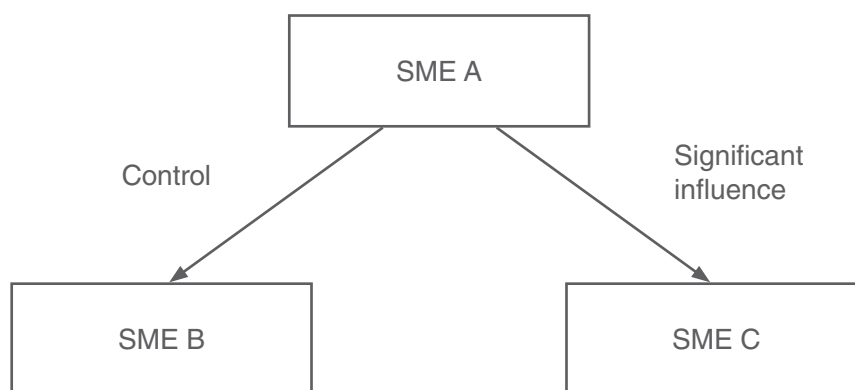


SME B is an associate of SME A. Therefore, SME A and SME B are related parties of each other (see paragraph 33.2(b)(ii)).

SME C is an associate of SME B. Therefore, SME B and SME C are related parties of each other (see paragraph 33.2(b)(ii)).

In the absence of evidence to the contrary, SME A and SME C are not related parties because neither SME A and SME B, nor SME B and SME C, form a group (that is, a parent and all its subsidiaries). Therefore, the condition in paragraph 33.2(b)(ii) (that is, one entity is an associate of a member of a group of which the other entity is a member) is not met.

**Ex 9 SME A has control over SME B and significant influence over SME C.**

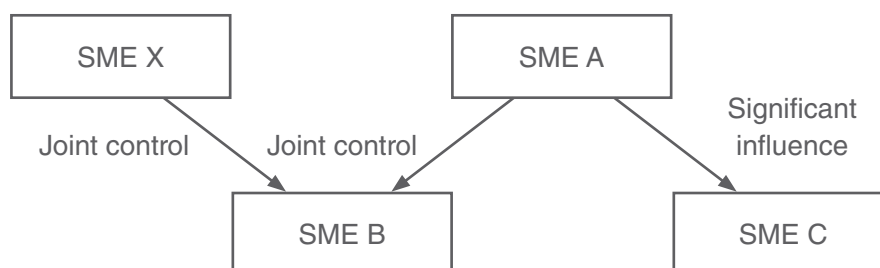


SME A has control over SME B and therefore SME A is the parent of SME B (its subsidiary). Consequently, SME A and SME B are related parties of each other (see paragraph 33.2(b)(i)). However, in SME A's consolidated financial statements, Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

SME A has significant influence over SME C and therefore SME C is an associate of SME A. Consequently, SME A and SME C are related parties of each other (see paragraph 33.2(b)(ii)).

SME B and SME C are related parties of each other because SME C is an associate of SME A, which is a member of the group of which SME B is a member (that is, the group comprising SME A and SME B) (see paragraph 33.2(b)(ii)).

**Ex 10 SME A and SME X have joint control over SME B. SME A has significant influence over SME C.**



SME X has joint control over SME B. Therefore, SME X and SME B are related parties of each other (see paragraph 33.2(b)(ii)).

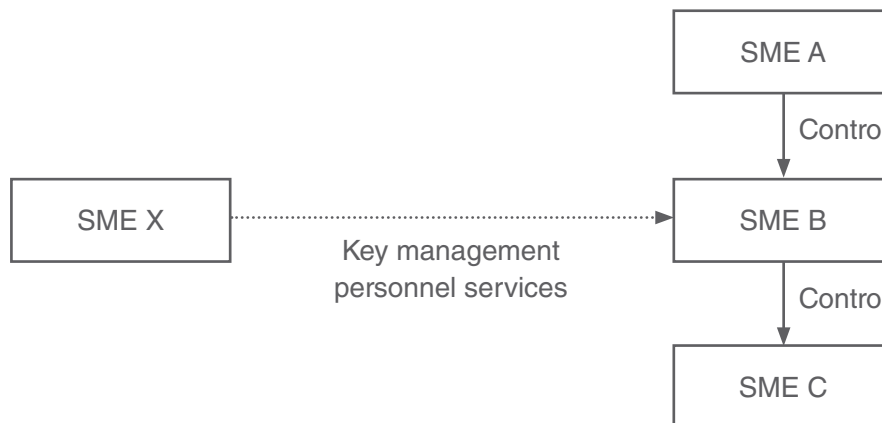
Similarly, SME A has joint control over SME B. Therefore, SME A and SME B are related parties of each other (see paragraph 33.2(b)(ii)).

SME A has significant influence over SME C. Therefore, SME A and SME C are related parties of each other (see paragraph 33.2(b)(ii)).

SME A has joint control over SME B and has significant influence over SME C. Consequently, SME B and SME C are related parties of each other (see paragraph 33.2(b)(iv)).

SME X and SME A have joint control over SME B. However, in the absence of evidence to the contrary, SME X and SME A are not related parties (see paragraph 33.4(b)). In the absence of evidence to the contrary, SME X and SME C are not related parties.

**Ex 11 SME A controls SME B. SME B controls SME C. SME X provides key management personnel services to SME B.**



SME A is the parent of SME B (its subsidiary). Similarly, SME B is the parent of SME C (its subsidiary). SME A is the ultimate parent of SME C (its subsidiary). Therefore, SME A, SME B and SME C are all members of the same group. Consequently, they are related parties of each other (see paragraph 33.2(b)(i)). However, in the consolidated financial statements of SME A and SME B (if prepared), Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

In SME B's financial statements, SME X is a related party of SME B because SME X provides key management personnel services to SME B (see paragraph 33.2(b)(vii)).

In SME C's financial statements, SME X is a related party of SME C because SME X provides key management personnel services to SME C's parent, SME B (see paragraph 33.2(b)(vii)).

In SME A's separate financial statements, in the absence of evidence to the contrary, SME X is not a related party of SME A because SME X does not provide key management personnel services to SME A (see paragraph 33.2(b)(vii)). In SME A's consolidated financial statements, the fact that SME X provides key management personnel services to SME B (a member of the group) does not mean, in itself, that SME X is a member of the key management personnel of the group. The fact that SME X does not provide key management personnel services to SME A suggests that SME X does not have authority or responsibility for planning, directing or controlling the activities of the group headed by SME A, in which case SME X would not be a related party of the group reporting entity.

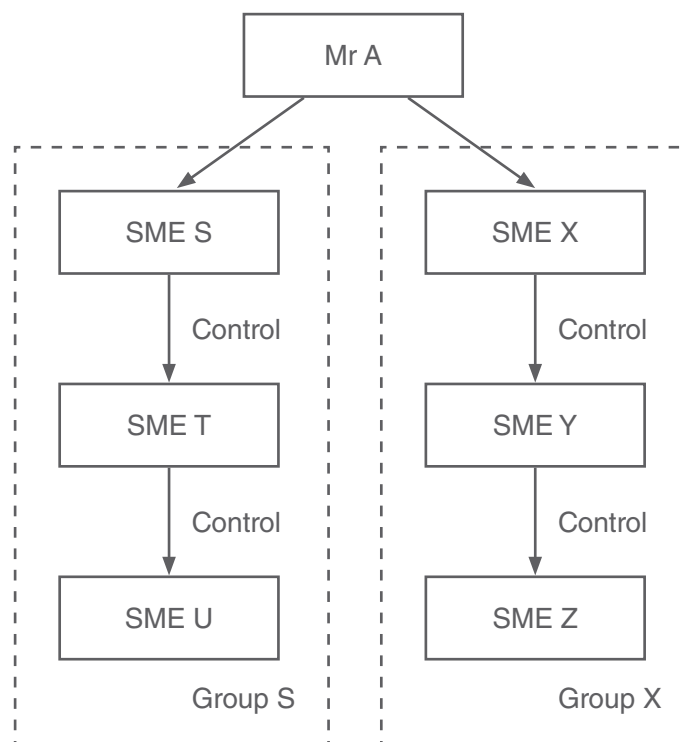
In SME X's financial statements, in the absence of evidence to the contrary, SME A, SME B and SME C are not related parties of SME X. In this case, SME X is the reporting entity and therefore the condition in paragraph 33.2(b)(vii) does not apply.

### Examples—Definition of related parties: a person and an entity

**Ex 12 SME S controls SME T and SME T controls SME U.**

**SME X controls SME Y and SME Y controls SME Z.**

**Mr A controls SME S and SME X.**



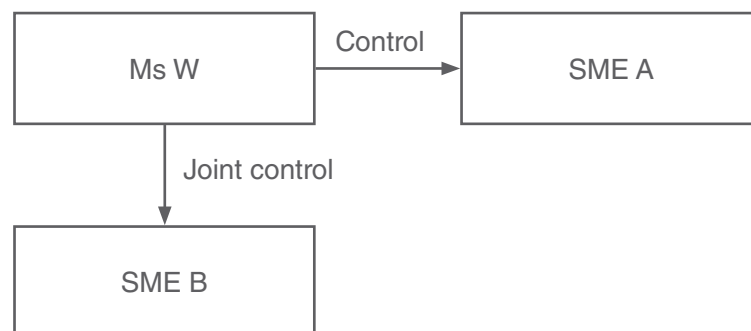
SME S is the parent of SME T (its subsidiary). Therefore, SME S and SME T are related parties of each other (see paragraph 33.2(b)(i)). Similarly, SME T is the parent of SME U (its subsidiary). Therefore, SME T and SME U are related parties of each other (see paragraph 33.2(b)(i)). SME S is the ultimate parent of SME U (its subsidiary). Therefore, SME S, SME T and SME U are all members of the same group (Group S). Consequently, they are all related parties of each other (see paragraph 33.2(b)(i)). However, in the consolidated financial statements of SME S and SME T (if prepared), Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

SME X is the parent of SME Y (its subsidiary). Therefore, SME X and SME Y are related parties of each other (see paragraph 33.2(b)(i)). Similarly, SME Y is the parent of SME Z (its subsidiary). Therefore, SME Y and SME Z are related parties of each other (see paragraph 33.2(b)(i)). SME X is the ultimate parent of SME Z (its subsidiary). Therefore, SME X, SME Y and SME Z are all members of the same group (Group X). Consequently, they are all related parties of each other (see paragraph 33.2(b)(i)). However, in the consolidated financial statements of SME X and SME Y (if prepared), Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

Mr A has direct control over the reporting entities, SME S and SME X. Mr A is also the ultimate controlling party of the other reporting entities, SME T, SME U, SME Y and SME Z. Consequently:

- Mr A is a related party of SME S, SME T, SME U, SME X, SME Y and SME Z (see paragraph 33.2(a)(ii)); and
- SME S, SME T, SME U, SME X, SME Y and SME Z are all related parties of each other (see paragraph 33.2(b)(vi)).

**Ex 13 Ms W controls SME A. She also has joint control over SME B.**



Ms W is a related party of SME A because she controls SME A (see paragraph 33.2(a)(ii)).

Ms W is a related party of SME B because she has joint control over SME B (see paragraph 33.2(a)(ii)).

SME A and SME B are related parties because Ms W controls SME A and has joint control over SME B (see paragraph 33.2(b)(vi)).

**Ex 14 Mr X controls SME A. Mr X is also a member of the key management personnel of SME B. SME B controls SME C.**



Mr X is a related party of SME A because he controls SME A (see paragraph 33.2(a)(ii)).

Mr X is a related party of SME B because he is a member of the key management personnel of SME B (see paragraph 33.2(a)(i)).

Mr X is a related party of SME C because he is a member of the key management personnel of the parent of SME C (see paragraph 33.2(a)(i)).

SME B and SME C are related parties of each other because SME B (the parent) controls SME C (its subsidiary) (see paragraph 33.2(b)(i)). However, in SME B's consolidated financial statements, Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

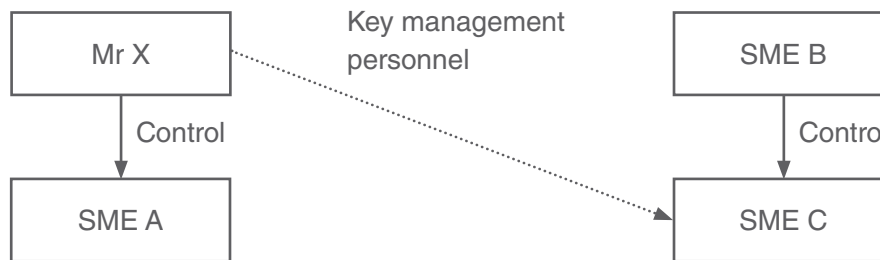
SME A and SME B are related parties of each other because Mr X controls SME A and is a member of the key management personnel of SME B. More specifically:

- in SME A's financial statements, SME B is related to SME A because a person (Mr X) with control over the reporting entity (SME A) is a member of the key management personnel of the entity (SME B) (see paragraph 33.2(b)(viii) and (a)(ii)); and
- in SME B's financial statements, SME A is related to SME B because the entity (SME A) is controlled by a person (Mr X) who is a member of the key management personnel of the reporting entity (SME B) (see paragraph 33.2(b)(vi) and (a)(i)).

SME A and SME C are related parties of each other because Mr X controls SME A and is a member of the key management personnel of the parent of SME C. More specifically:

- in SME A's financial statements, SME C is related to SME A because a person (Mr X) with control over the reporting entity (SME A) is a member of the key management personnel of the parent of the entity (SME C) (see paragraph 33.2(b)(viii) and (a)(ii)); and
- in SME C's financial statements, SME A is related to SME C because the entity (SME A) is controlled by a person (Mr X) who is a member of the key management personnel of the parent of the reporting entity (SME C) (see paragraph 33.2(b)(vi) and (a)(i)).

**Ex 15 Mr X controls SME A. Mr X is also a member of the key management personnel of SME C. SME B controls SME C.**



Mr X is a related party of SME A because he controls SME A (see paragraph 33.2(a)(ii)).

Mr X is a related party of SME C because he is a member of the key management personnel of SME C (see paragraph 33.2(a)(i)).

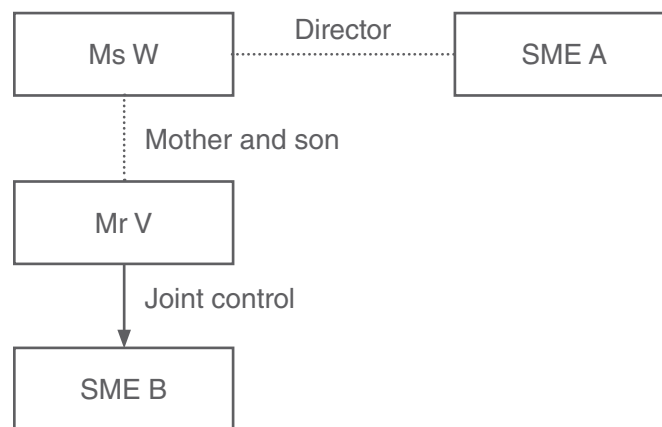
SME A and SME C are related parties of each other because Mr X controls SME A and is a member of the key management personnel of SME C. More specifically:

- in SME A's financial statements, SME C is related to SME A because a person (Mr X) with control over the reporting entity (SME A) is a member of the key management personnel of the entity (SME C) (see paragraph 33.2(b)(viii) and (a)(ii)); and
- in SME C's financial statements, SME A is related to SME C because the entity (SME A) is controlled by a person (Mr X) who is a member of the key management personnel of the reporting entity (SME C) (see paragraph 33.2(b)(vi) and (a)(i)).

SME B and SME C are related parties of each other because SME B controls SME C (see paragraph 33.2(b)(i)). However, in SME B's consolidated financial statements, Section 33 does not apply to intragroup balances and transactions that were eliminated on consolidation (see page 7).

The fact that Mr X is a member of the key management personnel of SME C (a subsidiary of SME B) does not mean, in itself, that he is a member of the key management personnel of SME B (the parent) or of the group (comprising SME B and SME C). The fact that Mr X does not provide key management personnel services to SME B suggests that he does not have authority or responsibility for planning, directing or controlling the activities of SME B or the group headed by SME B, in which case Mr X is not a related party of SME B. Similarly, SME A and SME B are not related parties. For example, in SME A's financial statements, the condition in paragraph 33.2(b)(viii) that determines whether an entity (SME B) is related to a reporting entity (SME A) is not met.

**Ex 16 Ms W is the financial director of SME A and a member of its board of directors. She does not own any shares in SME A. Her son, Mr V, has joint control over SME B.**



Ms W is a related party of SME A. She is a member of the key management personnel of SME A because, as a member of the board of directors of SME A, she has authority and responsibility for planning, directing and controlling the activities of SME A (see paragraphs 33.6 and 33.2(a)(i)).

Mr V is a related party of SME A because he is the son of Ms W and therefore is a close member of Ms W's family (see paragraph 33.2(a)(i)). The definition of 'close members of the family of a person' in the Glossary includes a list of family members who are always considered to be close members of a person's family. That list includes a person's children.

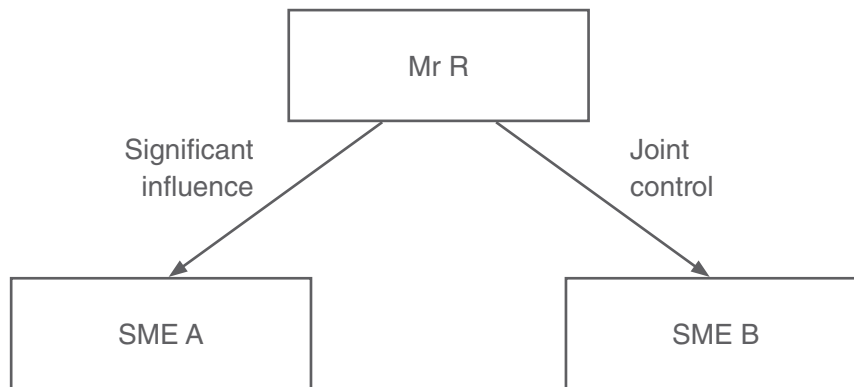
Mr V is a related party of SME B because Mr V has joint control over SME B (see paragraph 33.2(a)(ii)).

Ms W would be a related party of SME B if she is considered to be a close member of Mr V's family (see paragraph 33.2(a)(ii)). Although the definition's list of close family members does not include a person's parents, that list is not exhaustive. The definition is expressed in a principles-based manner and involves the use of judgement. Therefore, other family members, including parents, could qualify as close members of a person's family depending on an assessment of the facts and circumstances. Accordingly, SME B's management would use its judgement to determine whether Ms W is a close member of Mr V's family.

In SME A's financial statements, SME B is a related party of SME A because Mr V has joint control over SME B and is a close member of the family of Ms W, who is a member of the key management personnel of SME A (see paragraph 33.2(b)(vi) and (a)(i)).

In SME B's financial statements, SME A would be a related party of SME B if Ms W is considered to be a close member of Mr V's family. If that is the case, SME A would be a related party of SME B because Ms W is a member of the key management personnel of SME A and is a close member of the family of Mr V, who has joint control over SME B (see paragraph 33.2(b)(viii) and (a)(ii)).

**Ex 17 Mr R has significant influence over SME A and he jointly controls SME B.**



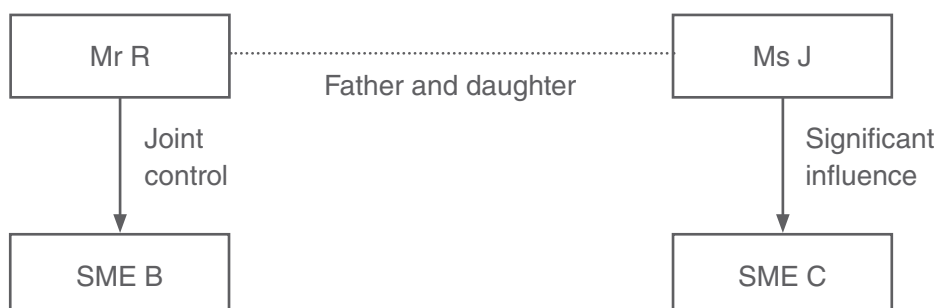
Mr R is a related party of SME A because he has significant influence over SME A (see paragraph 33.2(a)(iii)).

Mr R is a related party of SME B because he has joint control over SME B (see paragraph 33.2(a)(ii)).

SME A and SME B are related parties of each other because Mr R has significant influence over SME A and joint control over SME B. More specifically:

- in SME A's financial statements, SME B is related to SME A because the entity (SME B) is jointly controlled by a person (Mr R) with significant influence over the reporting entity (SME A) (see paragraph 33.2(b)(vi) and (a)(iii)); and
- in SME B's financial statements, SME A is related to SME B because a person (Mr R) with joint control over the reporting entity (SME B) has significant influence over the entity (SME A) (see paragraph 33.2(b)(viii) and (a)(ii)).

**Ex 18 Mr R jointly controls SME B. His daughter Ms J has significant influence over SME C.**



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Mr R is a related party of SME B because he has joint control over SME B (see paragraph 33.2(a)(ii)).

Ms J is a related party of SME B because she is Mr R's daughter and therefore is a close member of the family of Mr R, who has joint control over SME B (see paragraph 33.2(a)(ii)). The definition of 'close members of the family of a person' in the Glossary includes a list of family members who are always considered to be close members of a person's family, which includes a person's children.

Ms J is a related party of SME C because she has significant influence over SME C (see paragraph 33.2(a)(iii)).

Mr R would be a related party of SME C if he is considered to be a close member of the family of Ms J, who has significant influence over SME C (see paragraph 33.2(a)(iii)). Although the definition's list of close family members does not include a person's parents, that list is not exhaustive. The definition is expressed in a principles-based manner and involves the use of judgement. Therefore, other family members, including parents, could qualify as close members of a person's family depending on an assessment of the facts and circumstances. Accordingly, SME C's management would use its judgement to determine whether Mr R is a close member of Ms J's family.

In SME B's financial statements, SME C is a related party of SME B because Ms J has significant influence over SME C and is a close member of the family of Mr R, who has joint control over SME B (see paragraph 33.2(b)(viii) and (a)(ii)).

In SME C's financial statements, SME B would be a related party of SME C if Mr R is considered to be a close member of Ms J's family. If that is the case, SME B would be a related party of SME C because Mr R has joint control over SME B and is a close member of the family of Ms J, who has significant influence over SME C (see paragraph 33.2(b)(vi) and (a)(iii)).

**33.3** In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

## Educational notes

The need to account for and present transactions and other events and conditions in accordance with their substance, and not merely with their legal form, is not exclusive to related parties disclosure, but is a pervasive principle required by the Standard. This principle is part of faithful representation, which is one of the fundamental qualitative characteristics of useful financial information (see paragraph 2.14 of Section 2 *Concepts and Pervasive Principles* of the Standard).

## Example—Assessment of substance over form

**Ex 19** Mr Z controls SME A and is its managing director.

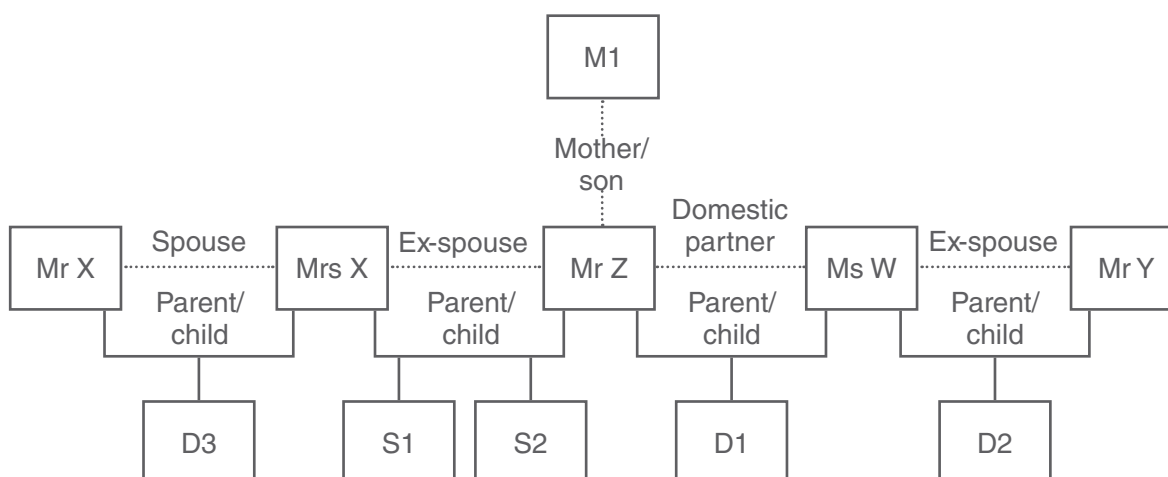
Mrs X (Mr Z's ex-wife) is the mother of their two sons (S1 and S2). S1, a school pupil, lives with Mrs X and spends every second weekend and half of his holidays with Mr Z and Ms W (Mr Z's new partner, with whom he has cohabited for over a decade). Outside of the school term, S1 works as an office assistant at SME A. S2 lives with Mr Z and is serving an apprenticeship with SME A. Ms W is a commission-based sales agent for SME A and mother of Mr Z's daughter (D1). Outside of the school term, D1 occasionally operates a cash register at SME A.

Ms W's daughter (D2) from a previous marriage (to Mr Y) is a university student. D2 lives with Mr Z and Ms W.

Mr Z's mother (M1) also lives with Mr Z and Ms W, and is financially supported by Mr Z. She helps to run Mr Z and Ms W's home, including caring for the children.

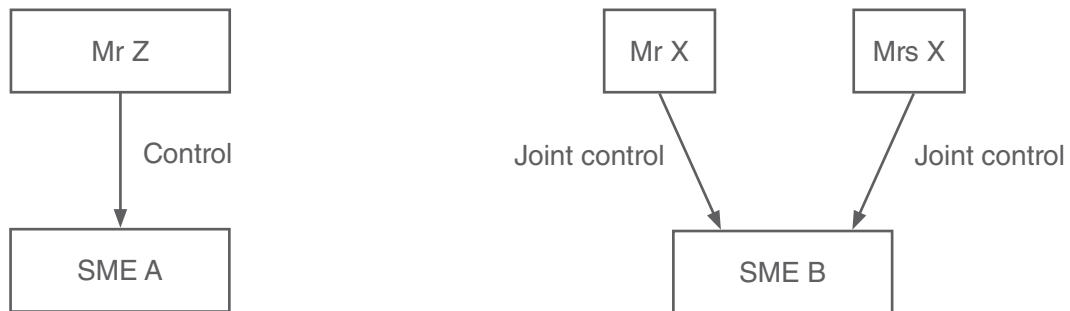
Mr Z and Mrs X parted amicably and their extended families frequently socialise together. Mrs X is remarried and has a daughter (D3) with her new husband (Mr X). Mr and Mrs X have joint control over their business (SME B), which is one of the suppliers of raw materials to SME A.

For ease of reference, the families' relationships are summarised in this family tree:



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The investment relationships in SME A and SME B are:



For simplicity, the analysis in this example discusses the related parties of SME A, not SME B. However, some of the considerations outlined in identifying the related parties of SME A would also be considerations in identifying the related parties of SME B.

Mr Z is a related party of SME A because he is the managing director of SME A and controls SME A (see paragraph 33.2(a)(i)–(ii)). It is less clear whether some members of Mr Z’s extended family are close members of his family and are therefore also related parties of SME A in accordance with the conditions stated in paragraph 33.2(a).

Close members of Mr Z’s family are those family members who may be expected to influence, or be influenced by, Mr Z in their dealings with SME A (see the Glossary). Judgement is required to determine which people are close members of Mr Z’s family. The close members of Mr Z’s family include:

- his domestic partner—Ms W (see item (a) of the definition of ‘close members of the family of a person’ in the Glossary);
- his children—S1, S2 and D1 (see item (a) of the definition);
- the child of his domestic partner—D2 (see item (b) of the definition); and
- his mother—M1 (see item (c) of the definition).

Judgement must be applied in determining whether Mrs X (his former wife) is also a close member of Mr Z’s family. She is not Mr Z’s spouse or domestic partner. However, she was his spouse and is raising one of their children (S1). Furthermore, they appear to have maintained a strong friendship and a business relationship. If, based on the assessment of all facts and circumstances, it is concluded that Mr Z could reasonably be expected to influence, or be influenced by, Mrs X in their dealings with SME A, then focusing on the substance of the relationship and not merely on the legal form, Mrs X is a related party of SME A (see paragraph 33.2(a)(i)–(ii)). On the other hand, if it is concluded that it is unlikely that Mr Z could influence, or be influenced by, Mrs X in their dealings with SME A, then Mrs X is not a related party of SME A.

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SME B would be a related party of SME A if Mrs X were considered to be a close member of Mr Z's family. In that situation, SME B would be an entity that is jointly controlled by a person (Mrs X), a close member of the family of another person (Mr Z) who has control over the reporting entity (SME A) and is a member of its key management personnel (see paragraph 33.2(b)(vi) and (a)(i)–(ii)).

In the absence of evidence to the contrary, the related party relationship between Mrs X and SME B and the related party relationship between SME A and SME B do not necessarily extend to Mr X (Mrs X's second husband and business partner) and D3 (Mr and Mrs X's daughter). Consequently, Mr X and D3 are probably not close members of Mr Z's family. Accordingly, in the absence of evidence to the contrary, they are not related parties of SME A.

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

- (a) two entities simply because they have a director or other member of key management personnel in common;
- (b) two parties simply because they share joint control over a jointly controlled entity;
- (c) any of the following 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):
  - (i) providers of finance;
  - (ii) trade unions;
  - (iii) public utilities; or
  - (iv) government departments and agencies.
- (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.

## Educational notes

Paragraph 33.4(b) states that two parties are not necessarily related parties simply because they share joint control over a jointly controlled entity. Examples 4, 5 and 10 illustrate this requirement.

## Examples—Not necessarily related parties

**Ex 20 Ms K is the managing director of SME A. She is also a non-executive director of SME B. She does not own any shares in SME A or SME B.**

In the absence of evidence to the contrary, SME A and SME B are not related parties (see paragraph 33.4(a)).

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However, Ms K is a related party of both SME A and SME B. She is a member of the key management personnel of both entities—that is, through her directorships she has authority and responsibility for planning, directing and controlling the activities of SME A and SME B (see paragraph 33.2(a)(i)).

**Ex 21 SME A operates in a jurisdiction in which a state-owned entity (Entity K) has a legally protected monopoly over the supply of electricity in that jurisdiction. Accordingly, SME A depends on Entity K to provide the energy necessary to operate its plant.**

**Recently, the demand has exceeded the supply of electricity in that jurisdiction. In response to the shortfall, Entity K has rationed the supply of electricity in the jurisdiction that it supplies. The shortage of power has caused SME A to operate at suboptimal levels.**

The electricity supplier (Entity K) is not a related party of SME A simply by virtue of its normal dealings with SME A (see paragraph 33.4(c)(iii)).

**Ex 22 SME A is funded mostly by a loan from a commercial bank (Bank L). The terms of the loan place a number of restrictions on SME A, including solvency requirements and restrictions on the extent to which SME A can distribute accumulated profits to its owners.**

Bank L is not a related party of SME A simply by virtue of its normal dealings with SME A (see paragraph 33.4(c)(i)).

## Disclosures

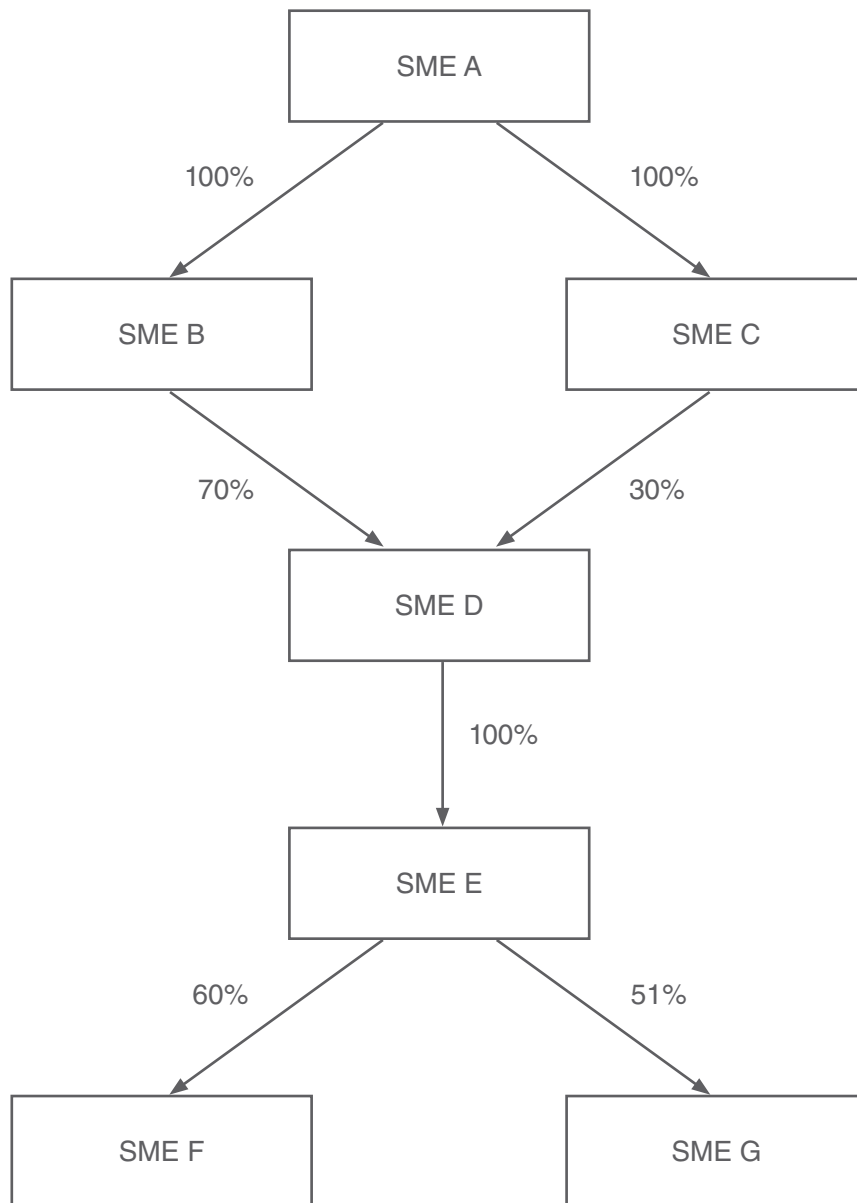
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### Disclosure of controlling party relationships

33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been **related party transactions**. 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 financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

## Examples—Controlling party relationships

**Ex 23 SME E controls, and owns 60% of, SME F. Also, SME E controls, and owns 51% of, SME G. SME E is a wholly owned subsidiary of SME D. SME D is a subsidiary of SME B and is owned 70% by SME B and 30% by SME C. SME B and SME C are wholly owned subsidiaries of SME A. All the entities prepare general purpose financial statements in accordance with the *IFRS for SMEs Accounting Standard*. SME E prepares separate financial statements, not consolidated financial statements, as permitted by Section 9 of the Standard.**



**Notes to SME E's financial statements (extract)**

**Note 10 Related party transactions (extract)**

SME E is the parent of subsidiaries SME F and SME G.

SME D is the immediate parent of SME E. SME A is the ultimate parent of SME E.

**Ex 24** The facts are the same as in Example 23. However, in this example, neither SME A nor SME D produces financial statements available for public use. SME B produces financial statements available for public use.

**Notes to SME E's financial statements (extract)**

**Note 10 Related party transactions (extract)**

SME E is the parent of subsidiaries SME F and SME G.

SME D is the immediate parent of SME E. SME A is the ultimate parent. However, neither SME A nor SME D produces financial statements available for public use. SME B is SME E's next most senior parent that produces financial statements available for public use.

**Ex 25** The facts are the same as in Example 23. However, in this example, only SME A does not produce financial statements available for public use.

**Notes to SME E's financial statements (extract)**

**Note 10 Related party transactions (extract)**

SME E is the parent of subsidiaries SME F and SME G.

SME D is the immediate parent of SME E. SME A is the ultimate parent.

## Disclosure of key management personnel compensation

33.6 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. Compensation includes all employee benefits (as defined in Section 28 *Employee Benefits*) including those in the form of share-based payment (see Section 26 *Share-based Payment*). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example by its parent or by a shareholder), 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 goods or services provided to the entity.

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## Educational notes

Key management personnel of an entity or of a parent of the reporting entity, or a close member of that person's family, are related parties of the entity (see paragraph 33.2(a)(i)).

The disclosure requirement relating to key management personnel compensation set out in paragraph 33.7 is in addition to the disclosure requirements about related party transactions set out in paragraphs 33.8–33.15. Consequently, an entity also needs to comply with the other disclosure requirements set out in paragraphs 33.8–33.15 to disclose information about transactions between the entity and its key management personnel.

## Examples—Key management personnel

**Ex 26 SME A issued 100,000 of its own ordinary shares to its key management personnel as compensation for services rendered to SME A in the period.**

The share-based payment is compensation paid to a related party (see paragraphs 33.2(a)(i) and 33.6). SME A accounts for and reports the share-based payment in accordance with the requirements in Section 26 *Share-based Payment* of the Standard.

For the purpose of disclosing key management personnel compensation in accordance with paragraph 33.7, the share-based payment expense can be aggregated with all other compensation paid to key management personnel.

**Ex 27 The owner of SME B paid CU100,000 directly to SME B's key management personnel as compensation for services rendered to SME B in the current reporting period.**

The disclosure of key management personnel compensation includes amounts that are paid by another party on SME B's behalf, such as amounts paid by SME B's parent or shareholder (see paragraph 33.6). Therefore, SME B's disclosure of key management compensation would include the amount of CU100,000 paid by its owner.

33.7 An entity shall disclose key management personnel compensation in total.

## Example—Key management personnel compensation

Ex 28 SME A could present the related party disclosure for key management personnel compensation required by paragraph 33.7 as follows:

Notes to SME A's financial statements for the year ended 31 December 20X1 (extract)		
Note 10 Related party transactions (extract)		
...		
	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Total key management personnel compensation	<b>1,100,000</b>	<b>808,000</b>

33.7A An entity that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph 33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors. However, the amounts incurred by the entity for the provision by a separate management entity of such services shall be disclosed.

## Educational notes

The definition of a related party includes an entity (or any member of a group of which it is a part) that provides key management personnel services to the reporting entity or to the parent of the reporting entity (see paragraph 33.2(b)(vii)). The disclosure of key management personnel compensation in accordance with paragraph 33.7 does not include any compensation paid or payable by the management entity to the management entity's employees or directors. In other words, an entity receiving key management personnel services from a management entity is not required to look through the management entity to determine the individuals involved in managing the management entity.

However, the entity is required to disclose the amounts incurred for key management personnel services provided by the management entity. Therefore, these amounts are included in the information disclosed about related party transactions, balances and commitments in accordance with paragraph 33.8.

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## Disclosure of related party transactions

- 33.8 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 are common to SMEs include, but are not limited to:
- (a) transactions between an entity and its principal **owner(s)**;
  - (b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and
  - (c) transactions in which an entity or person that controls the reporting entity incurs **expenses** directly that otherwise would have been borne by the reporting entity.

### Examples—Related party transactions

**Ex 29 SME A sells a vehicle that it no longer requires to its managing director at its market value.**

The managing director is a related party of SME A—she is a member of the entity’s key management personnel (see paragraphs 33.2(a)(i) and 33.6).

The related party transaction is the exchange of the vehicle for cash or another financial asset (see paragraph 33.8(a)).

**Ex 30 The facts are the same as in Example 29. However, in this example, the managing director took ownership of the vehicle as a bonus for services carried out during the period.**

The managing director is a related party of SME A—she is a member of SME A’s key management personnel (see paragraphs 33.2(a)(i) and 33.6). The bonus for services performed is an employee benefit and part of key management personnel compensation to be disclosed as part of the total key management personnel compensation in accordance with paragraph 33.7.

**Ex 31 The facts are the same as in Example 29. However, in this example, the owner (and controlling party) of SME A took ownership of the vehicle without compensating SME A. The owner is not an employee of SME A.**

The owner controls SME A and therefore is a related party (see paragraph 33.2(a)(ii)).

The related party transaction is the transfer of the vehicle as a dividend or other return of equity to the owner (see paragraph 33.8(a)).

**Ex 32 The facts are the same as in Example 29. However, in this example, SME A sold the vehicle to another entity owned by its owner.**

The transferor and the transferee are under the common control of the single owner. They are related parties (see paragraph 33.2(b)(vi)).

The related party transaction is the exchange of the vehicle for cash or another financial asset (see paragraph 33.8(b)).

**Ex 33 The owner (and controlling party) of SME B transferred ownership of his vehicle to SME B at no charge.**

The owner controls SME B and therefore is a related party (see paragraph 33.2(a)(ii)).

The related party transaction is the transfer of the vehicle as a contribution of equity to SME B (see paragraph 33.8(a)).

**Ex 34 The owner (and controlling party) of SME C engaged a consultant to review aspects of SME C's operations and provide advice on potential operational efficiencies that SME C could implement. The owner used his personal funds to settle the consultant's invoice for services provided.**

The owner controls SME C and therefore is a related party (see paragraph 33.2(a)(ii)).

The owner has incurred an expense that otherwise would have been borne by SME C. The consultancy services paid by its owner is a related party transaction (see paragraph 33.8(c)).

**Ex 35 SME D declared and paid a cash dividend to its owner (and controlling party).**

The owner is a related party of SME D (see paragraph 33.2(a)(ii)).

The declaration of the dividend is a related party transaction. It creates an obligation for SME D to distribute cash to its owner (see paragraph 33.8(a)).

The payment of the dividend settles the related party obligation (see paragraph 33.8(a)).

33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:

- (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.
- (c) provisions for uncollectable receivables 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.

Such transactions could include purchases, sales or transfers of goods or services; **leases**; guarantees; and settlements by the entity on behalf of the related party or vice versa.

## Examples—Disclosure of related party transactions

**Ex 36** SME B earns commission of 20% of the selling price on distributing the goods manufactured by its parent (SME A). SME B is, in substance, acting as an agent of SME A.

In 20X1 SME B sold goods manufactured by SME A on behalf of SME A to customers for CU2,000,000 (20X0: CU1,500,000).

At 31 December 20X1 SME A owed SME B CU30,000 (31 December 20X0: CU20,000) in commission for goods sold.

Commission is paid one month after the end of the month in which the sale takes place.

### Notes to SME B's financial statements for the year ended 31 December 20X1 (extract)

#### Note 10 Related party transactions (extract)

SME B earns commission from SME A (its parent) on selling goods manufactured by SME A on behalf of SME A. Commission of 20% of sales to customers is received one month after the end of the month in which the sale takes place.

	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Commission earned from SME A in the year	400,000	300,000
Amount due from SME A at the end of the year	30,000	20,000

### Notes to SME A's separate financial statements for the year ended 31 December 20X1 (extract)

#### Note 10 Related party transactions (extract)

SME B (a subsidiary) earns commission from SME A for selling SME A's goods on its behalf. Commission of 20% of sales to customers is due one month after the end of the month in which the sale takes place.

	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Commission earned by SME B in the year	400,000	300,000
Amount due to SME B at the end of the year	30,000	20,000

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In SME A's consolidated financial statements, SME A (the parent) and SME B (its subsidiary) are part of the group reporting entity. Therefore, the commission arrangement is an intragroup arrangement. Section 33 does not apply to intragroup commission transactions and outstanding balances because those consolidated financial statements present financial information about the group as a single economic entity (see paragraph 9.13 of Section 9) and, accordingly, transactions and outstanding balances between the parent (SME A) and its subsidiary (SME B) are eliminated on consolidation (see paragraph 9.15 of Section 9).

**Ex 37** Mr X is the owner manager of SME A. On 1 January 20X1 Mr X lent CU1,000,000 to SME A. The loan bears interest at the fixed rate of 10% per year, compounded annually. SME A has a contractual obligation to repay the loan and accrued interest on 31 December 20X9. The loan is unsecured.

**Notes to SME A's financial statements for the year ended 31 December 20X1 (extract)**

**Note 10 Related party transactions (extract)**

In 20X1 SME A borrowed CU1,000,000 from Mr X, its owner manager. The loan bears interest at the fixed rate of 10% per year, compounded annually. In 20X1 CU100,000 interest accrued on the loan.

At 31 December 20X1 the amount due to Mr X was CU1,100,000.

SME A has a contractual obligation to settle the loan and accrued interest on 31 December 20X9.

The loan is unsecured.

**Ex 38** The facts are the same as in Example 37. However, in this example, SME A borrowed CU1,000,000 from Bank B and Mr X guaranteed repayment of the capital and accrued interest on the loan from Bank B.

**Notes to SME A's financial statements for the year ended 31 December 20X1 (extract)**

**Note 10 Related party transactions (extract)**

In 20X1 Mr X, the owner manager of SME A, guaranteed repayment of the capital and accrued interest on the loan of CU1,000,000 obtained from Bank B (see note X on borrowings).<sup>1</sup>

At 31 December 20X1 Mr X guaranteed the CU1,100,000 liability (principal and interest) the entity owes to Bank B.

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<sup>1</sup> Unless Bank B is also a related party, details of the loan would be disclosed in the note on borrowings.

**Ex 39** In 20X1 SME A sold goods to SME B for CU500,000 (20X0: CU250,000). SME B is controlled by Mrs Z, the spouse of SME A’s managing director.

The terms and conditions of sales by SME A to SME B are on terms equivalent to those that prevail in arm’s length transactions, which in this example are sale at the list price on 30 days’ interest-free credit.

In December 20X1 SME B filed for insolvency.

At 31 December 20X1 SME B owed SME A CU80,000 (20X0: nil).

In January 20X2, before SME A’s financial statements for the year ended 31 December 20X1 were approved for issue, SME A received a final liquidation distribution of CU30,000 from the liquidator of SME B.

Notes to SME A’s financial statements for the year ended 31 December 20X1 (extract)		
<b>Note 10 Related party transactions (extract)</b>		
In 20X1 SME A sold goods to SME B, which was controlled by the spouse of the managing director of SME A (a related party) at list price on 30 days’ interest-free credit. These terms are available to all of SME A’s customers; that is, these related party sales are made on terms equivalent to those that prevail in arm’s length transactions.		
	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Sales of goods to SME B in the year	500,000	250,000
Impairment loss (bad debt—SME B) recognised as an expense in 20X1	50,000	nil
Gross amount of CU80,000 (20X0: nil) due from SME B at 31 December net of CU50,000 (20X0: nil) impairment loss	30,000	nil
The amount due from SME B is unsecured. In January 20X2 CU30,000 was recovered from the liquidator of SME B in full and final settlement of the debt.		

- 33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:
- (a) entities with control, joint control or significant influence over the entity;
  - (b) entities over which the entity has control, joint control or significant influence;
  - (c) key management personnel of the entity or its parent (in the aggregate); and
  - (d) other related parties.

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## Example—Categorisation of disclosed transactions with related parties

**Ex 40** In 20X1 SME A sold goods to its subsidiaries (SME B and SME C) as follows:

	<i>20X1</i>	<i>20X0</i>
SME B	CU500,000	CU250,000
SME C	CU400,000	CU350,000

In 20X1 SME A sold goods to its associates (SME D and SME E) as follows:

	<i>20X1</i>	<i>20X0</i>
SME D	CU50,000	CU55,000
SME E	CU40,000	CU45,000

Amounts owed to SME A by its subsidiaries and associates are as follows:

	<i>At 31 December 20X1</i>	<i>At 31 December 20X0</i>
SME B	CU200,000	CU140,000
SME C	CU100,000	CU140,000
SME D	CU20,000	CU20,000
SME E	CU10,000	CU14,000

The terms and conditions of the sales to SME B, SME C, SME D and SME E are on terms equivalent to those that prevail in arm's length transactions, that is, list price on 30 days' interest-free credit.

In 20X1 SME A purchased raw materials from its owner (Mr A) for CU125,000 (20X0: CU146,000). Mr A supplies raw materials to SME A at a discount of 20% on the price at which he supplies other customers that purchase similar quantities of raw materials. In common with other customers, Mr A supplies SME A with raw materials on 30 days' interest-free credit.

At 31 December 20X1 SME A owed Mr A CU40,000 (20X0: CU14,000) for goods supplied.

**Notes to SME A's separate financial statements for the year ended 31 December 20X1 (extract)**

**Note 10 Related party transactions (extract)**

...

	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Purchase of raw materials from Mr A (controlling party) in the year	125,000	146,000
Sales of goods to subsidiaries and associates in the year	990,000	700,000
Amount due to Mr A (controlling party) at 31 December	40,000	14,000
Amount due from subsidiaries and associates at 31 December	330,000	314,000

SME A acquires raw materials from Mr A (the owner) on 30 days' interest-free credit at a discount of 20% on the list price of the raw materials acquired.

SME A sells goods to its subsidiaries and associates at list price on 30 days' interest-free credit. These terms are available to all of SME A's customers; that is, these related party sales are made on terms equivalent to those that prevail in arm's length transactions.

None of the related party balances are secured, none of the related parties have defaulted on their obligations and none are in arrears with their payments.

33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions and outstanding balances, including 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.

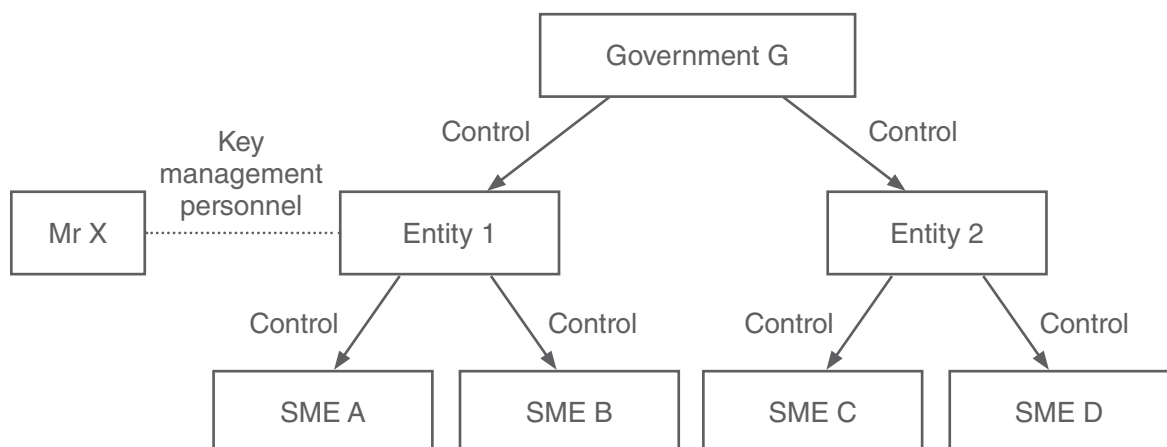
## Educational notes

The exemption in paragraph 33.11 is based on a similar exemption in IAS 24 *Related Party Disclosures*, which was provided to address concerns about complying with related party disclosure requirements in environments in which government control is pervasive. A ‘government’ could be a local, national or international government, a government agency or a similar body (see the Glossary).

Although paragraph 33.11 provides an exemption from the disclosure requirements in paragraph 33.9 relating to related party transactions and outstanding balances (including commitments), an entity that applies the exemption is nevertheless required to provide some information about those transactions and balances, as set out in paragraph 33.15 (see page 45).

## Example—Exemption from disclosure

**Ex 41** Government G controls Entity 1 and Entity 2 and SME A, SME B, SME C and SME D. Mr X is a member of the key management personnel of Entity 1.



In SME A’s financial statements, the exemption in paragraph 33.11 applies to:

- transactions with Government G; and
- transactions with Entity 1, Entity 2, SME B, SME C and SME D.

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However, that exemption does not apply to transactions with Mr X (see paragraphs 33.2(a)(i) and 33.6) because the exemption in paragraph 33.11 applies to entities only and not to individuals.

Also, despite the exemption, SME A is required to disclose that its parent is Entity 1 and its ultimate controlling party is Government G (see paragraph 33.5) and to disclose specific information about significant transactions with the other entities in the group controlled by Government G (see paragraph 33.15 and page 45).

33.12 The following are examples of transactions that shall be 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);
- (h) provision of guarantees or collateral;
- (ha) commitments to do something if a particular event occurs or does not occur in the future;
- (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; and
- (j) participation by a parent or subsidiary in a **defined benefit plan** that shares risks between group entities.

33.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

## Examples—Arm's length related transactions

**Ex 42** In 20X1 SME A sold a homogeneous good to a related party at the same price (published list price) and under the same conditions (cash on delivery) as it sold that good to all of its other customers.

SME A is permitted to state in its disclosures that the related party transaction was made on terms equivalent to those that prevail in arm's length transactions. These terms are substantiated by similar transactions with unrelated parties.

**Ex 43** The facts are the same as in Example 42. However, in this example, the related party was granted a 10% trade discount that is not available to independent third parties.

SME A is prohibited from stating that the related party transaction was made on terms equivalent to those that prevail in arm's length transactions. Such an assertion cannot be substantiated.

**Ex 44** In 20X1 SME A sold goods to a related party, which was the only purchaser of those goods. The goods were not available for sale to other parties.

SME A is prohibited from stating that the related party transaction was made on terms equivalent to those that prevail in arm's length transactions. Such an assertion cannot be substantiated.

33.14 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

### Example—Aggregation and disaggregation

**Ex 45** In 20X1 SME A sold goods to its associates as follows:

	20X1	20X0
SME B	CU1,000,000	CU745,000
SME C	CU50,000	CU55,000
SME D	CU40,000	CU45,000
SME E	CU5,000	CU5,000

SME A also rendered information technology services to its owner manager (Mr X) for CU10,000 (20X0: CU3,000) and to SME C for CU2,000 (20X0: CU3,000).

Amounts owed to SME A by its associates are as follows:

	At 31 December 20X1	At 31 December 20X0
SME B	CU500,000	CU640,000
SME C	CU20,000	CU30,000
SME D	CU23,000	CU15,000
SME E	CU10,000	CU14,000

At 31 December 20X1 Mr X owed SME A CU5,000 (20X0: nil).

SME A's total revenue for 20X1 is CU15,000,000 (20X0: CU13,000,000) and profit for 20X1 is CU3,500,000 (20X0: CU2,000,000). SME A's net assets at 31 December 20X1 are CU10,000,000 (20X0: CU8,000,000).

Notes to SME A's financial statements for the year ended 31 December 20X1 (extract)		
Note 10 Related party transactions (extract)		
...		
	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
<i>Related party transactions in the year</i>		
Sales of goods and services to associates		
- SME B	1,000,000	745,000
- Other associates	97,000	108,000
	<u>1,095,000</u>	<u>850,000</u>
Services rendered to Mr X, owner manager	10,000	3,000
Amounts due from associates at 31 December		
- SME B	500,000	640,000
- Other associates	53,000	59,000
Amount due from Mr X, owner manager, at 31 December	5,000	–

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- 33.15 If a reporting entity applies the exemption in paragraph 33.11, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 33.11:
- (a) the name of the government and the nature of its relationship with the reporting entity (that is, control, joint control or significant influence).
  - (b) the nature and amount of each individually significant transaction.
  - (c) for transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 33.12.

### Examples—Disclosure when exemption is applicable

**Ex 46 SME A could present the disclosure required by paragraph 33.15 for an individually significant transaction as follows:**

In December 20X1 Government G, the ultimate controlling party of SME A, provided SME A with a loan of CU10,000,000, which is equivalent to 50% of SME A's funding requirements. The loan is repayable in quarterly instalments over the next five years and interest is charged at a rate of 8%, which is comparable to that charged on SME A's bank loans.

**Ex 47 SME A could present the disclosure required by paragraph 33.15 for collectively significant transactions as follows:**

During the year ended 31 December 20X1, about 35% of SME A's purchases of raw materials were from entities that are controlled by Government G, the ultimate controlling party of SME A (20X0: 40%).

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## SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs Accounting Standard* to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of the entity's financial statements assessing the entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of Section 8 *Notes to the Financial Statements* of the Standard, an entity discloses the judgements management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7 of Section 8, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties.

### Classification

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Usually, little difficulty is encountered in determining whether a party is a related party of another entity. However, in some cases, significant judgement might be necessary in evaluating whether a particular party is a related party. For example, in some specific circumstances, judgement might be required to:

- determine whether a person or entity has control, joint control or significant influence over another entity;
- determine whether a person is a close member of the family of another person; or
- determine whether a person is a member of the key management personnel of the entity.

In considering each possible related party relationship, an entity assesses the substance of the relationship and not merely the legal form.

#### *Control, joint control and significant influence*

For the judgements that might be required to determine whether a person or entity has control, see Section 9 *Consolidated and Separate Financial Statements* and its related educational module; for joint control judgements, see Section 15 *Joint Arrangements* and its related module; and for significant influence judgements, see Section 14 *Investments in Associates* and its related educational module.

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### *Key management personnel*

The key management personnel of an entity are related parties of the entity. In assessing whether a person is a member of the key management personnel of an entity, the question is: does the individual have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly? This assessment is straightforward in many cases (for example, paragraph 33.6 includes directors, whether executive or otherwise, in the key management personnel of an entity). However, in other cases, the assessment might require significant judgement.

### *Close member of the family of a person who is a related party*

In assessing whether an individual is a close member of the family of a person who is a related party (and therefore is also a related party) the question is: might that family member be expected to influence, or be influenced by, that person in their dealings with the entity? This assessment is straightforward in many cases. Close members of the family of a person include: that person's children and spouse or domestic partner; children of that person's spouse or domestic partner; and dependants of that person or of that person's spouse or domestic partner. However, in other cases, the assessment might require significant judgement.

For example, if shares that carry voting rights in an entity are dispersed widely between descendants of the founder of an entity, it can be particularly challenging to identify which descendants, if any, are related parties of the entity.

## **Disclosures**

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Usually, little judgement is required in determining how to disclose a related party transaction. However, in some cases, significant judgement might be necessary in determining how related party transactions are to be classified within the categories listed in paragraph 33.10 and how information is aggregated and disaggregated (see paragraph 33.14).

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## TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs Accounting Standard* is effective for annual reporting periods beginning on or after 1 January 2027. Early application is permitted. Changes made to Section 33 *Related Party Disclosures* from the second edition of the Standard are summarised on page 6. Appendix A of the Standard includes requirements for entities making the transition from the second to the third edition of the Standard.

An entity is required to apply the changes to Section 33 retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the Standard (see paragraph A2). Given that Section 33 contains disclosure requirements only, retrospective application means updating comparative information to comply with changes made to Section 33. For example, an entity that applies the exemption in paragraph 33.11 in relation to related party transactions and outstanding balances with government-related entities is required to disclose the information specified in paragraph 33.15 for the current period and for all prior periods presented.

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## COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

When disclosing information about related party transactions and outstanding balances for periods beginning on 1 January 2027, the main differences between the requirements in full IFRS Accounting Standards (see *IAS 24 Related Party Disclosures*) and the *IFRS for SMEs Accounting Standard* (see *Section 33 Related Party Disclosures*) are:

- the *IFRS for SMEs Accounting Standard* is drafted in simpler language than that used in full IFRS Accounting Standards.
- IAS 24 and Section 33 share the same principles for presenting related party disclosures. However, Section 33 includes significantly less guidance on how to apply the principles.
- paragraph 17 of IAS 24 requires the disclosure of key management personnel compensation both in total and by category: short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payment. Paragraph 33.7 of Section 33 requires the disclosure of key management personnel compensation in total only—it does not require categorisation of such compensation.
- paragraph 33.10(a) of Section 33 groups into a single category the entities that are listed separately in paragraph 19(a)–(b) of IAS 24, and paragraph 33.10(b) of Section 33 groups into a single category the entities that are listed separately in paragraph 19(c)–(e) of IAS 24.

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## TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 33 *Related Party Disclosures* of the *IFRS for SMEs* Accounting Standard by answering the questions provided.

Assume all amounts mentioned are material.

Once you have completed the test, check your answers against those supplied on page 53.

**Mark the box next to the most correct statement.**

### Question 1

SME A has control over SME B. SME B has control over SME C.

- (a) From SME A's perspective, SME B and SME C are both related parties.
- (b) From SME B's perspective, SME A and SME C are both related parties.
- (c) From SME C's perspective, SME A and SME B are both related parties.
- (d) All of the above are true.
- (e) None of the above is true.

### Question 2

SME A has significant influence over SME B. SME B has significant influence over SME C. Assuming SME A does not have significant influence over SME C, from SME A's perspective:

- (a) SME B is a related party (but SME C is not a related party).
- (b) SME C is a related party (but SME B is not a related party).
- (c) SME B and SME C are both related parties.
- (d) neither SME B nor SME C is a related party.

### Question 3

SME A has significant influence over SME B. SME B has significant influence over SME C. From SME B's perspective:

- (a) SME A is a related party (but SME C is not a related party).
- (b) SME C is a related party (but SME A is not a related party).
- (c) SME A and SME C are both related parties.
- (d) neither SME A nor SME C is a related party.

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### Question 4

SME A has control over SME B. SME B has significant influence over SME C.

- (a) From SME A's perspective, SME B and SME C are both related parties.
- (b) From SME B's perspective, SME A and SME C are both related parties.
- (c) From SME C's perspective, SME A and SME B are both related parties.
- (d) All of the above are true.
- (e) None of the above is true.

### Question 5

SME A has significant influence over SME B. SME B has control over SME C.

- (a) From SME A's perspective, SME B and SME C are both related parties.
- (b) From SME B's perspective, SME A and SME C are both related parties.
- (c) From SME C's perspective, SME A and SME B are both related parties.
- (d) All of the above are true.
- (e) None of the above is true.

### Question 6

Mr A is the financial director of SME A. He does not own any shares in SME A. Mr A and Mr Z have joint control over SME B.

From SME A's perspective:

- (a) Mr A is a related party (but SME B is not a related party).
- (b) SME B is a related party (but Mr A is not a related party).
- (c) both Mr A and SME B are related parties.
- (d) neither Mr A nor SME B is a related party.

### Question 7

Two entities are not necessarily related parties if:

- (a) one entity has significant influence over the other.
- (b) one entity has control over the other.
- (c) the entities share joint control over another entity.
- (d) one entity has joint control over the other.

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## Question 8

Disclosure of a related party relationship is required:

- (a) if a related party exists, even if there have been no related party transactions.
- (b) if a control relationship exists, even if there have been no related party transactions.
- (c) if a transaction with a related party has occurred.
- (d) both (b) and (c).

## Question 9

Which of the following disclosures is NOT required by Section 33?

- (a) Relationships between a parent and its subsidiaries irrespective of whether there have been related party transactions.
- (b) The name of its parent and, if different, the ultimate controlling party.
- (c) The names of all the associates the entity has had transactions with during the year.
- (d) If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so.

## Question 10

The reporting entity applies the exemption in paragraph 33.11. What information is it required to disclose in relation to related party transactions and outstanding balances, including commitments, with a government that has control over the reporting entity?

- (a) The name of the government and the nature of its relationship with the reporting entity.
- (b) The nature and amount of each individually significant transaction.
- (c) A qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.
- (d) All of the above information.
- (e) No information, because Section 33 exempts the entity from providing related party disclosures in relation to the government.

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## Answers

- Q1 (d)—see paragraph 33.2(b)(i).
- Q2 (a)—see paragraph 33.2(b)(ii). SME C is not a related party of SME A because SME A does not control SME B.
- Q3 (c)—see paragraph 33.2(b)(ii).
- Q4 (d)—see paragraph 33.2(b)(i)–(ii).
- Q5 (d)—see paragraph 33.2(b)(i)–(ii). SME A and SME C are related parties because SME A has significant influence over SME B, which controls SME C; consequently, in the absence of evidence to the contrary, SME A has significant influence over the group formed by SME B and SME C, and therefore has significant influence over SME C.
- Q6 (c)—see paragraph 33.2(a)(i) and (b)(vi).
- Q7 (c)—see paragraph 33.4(b).
- Q8 (d)—see paragraphs 33.5 and 33.9.
- Q9 (c)—see paragraph 33.5 in relation to the disclosures in (a), (b) and (d).
- Q10 (d)—see paragraph 33.15.

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## APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements in Section 33 Related Party Disclosures of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those on pages 56–57 and 59–62.

### Case study 1

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Mr A has control over SME A. Mr A is the finance director and a member of the board of directors of SME A. Mr A earns a salary of CU200,000 per year from SME A.

Mr A's spouse (Mrs A) is the sales director and a member of the board of directors of SME A. She receives a salary of CU100,000 per year from SME A.

On 1 January 20X1 Mr and Mrs A's son (Master A) began serving an apprenticeship with SME A. Like other apprentices at SME A, he is paid CU20,000 per year for his services.

Mrs B is the operations director and a member of the board of directors of SME A. She receives a salary of CU200,000 per year from SME A.

In 20X1 Mrs B acquired a motor vehicle from SME A for its market value of CU100,000. The purchase price was settled on the date of sale. Before its sale to Mrs B, the motor vehicle had been used by SME A's sales staff.

Mrs B's spouse (Mr B) is the human resources director and a member of the board of directors of SME A. He receives a salary of CU100,000 per year from SME A.

Ms C is the daughter of the founder of SME A (Mrs C). She owns 10% of the ordinary shares of SME A, which she inherited from Mrs C. Ms C lives abroad and is a passive investor.

The building in which SME A manufactures its goods is owned by SME B, a company that is controlled by Mrs B. In accordance with the rental agreement, SME A pays SME B a market rental of CU100,000 per year for its right of use of the factory. The 10-year rental agreement expires on 30 June 20X5. Rent is paid annually in arrears on 30 June.

On 1 January 20X1 Bank A lent CU1,000,000 to SME A. Repayment of the principal and interest is secured by a guarantee registered in favour of the bank against the private home of Mr A. The loan bears interest at the fixed rate of 10% per year, compounded annually. SME A has a contractual obligation to repay the loan and accrued interest on 31 December 20X9.

SME A has control over SME C.

Mr A, Mrs B and Mr D are the members of the board of directors of SME C. Mr A and Mrs B each receive a salary of CU10,000 per year from SME C. In addition to being a director, Mr D is responsible for the day-to-day management of SME C. He receives a salary of CU110,000 per year from SME C.

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In 20X1 SME C sold a machine with a carrying amount of CU75,000 to SME A at its market value of CU90,000.

In 20X1 Mr D acquired a motor vehicle from SME A for its market value of CU80,000. The purchase price was settled on the date of sale. Before its sale to Mr D, the motor vehicle had been used by SME A's sales staff.

SME A and Mr E have joint control over SME D. SME A's accounting policy is to account for investments in jointly controlled entities using the cost method (see paragraphs 15.9–15.10 of Section 15 *Joint Arrangements* of the Standard).

SME D manufactures a good from the by-product of SME A's production process. In 20X1 SME D took delivery of 20 tonnes (20X0: 15 tonnes) of by-product from SME A at its scrap value (which is also its market value) of CU1,000 per tonne (20X0: CU950 per tonne).

At 31 December 20X1 SME D owed SME A CU4,000 (20X0: CU1,000) for raw materials supplied.

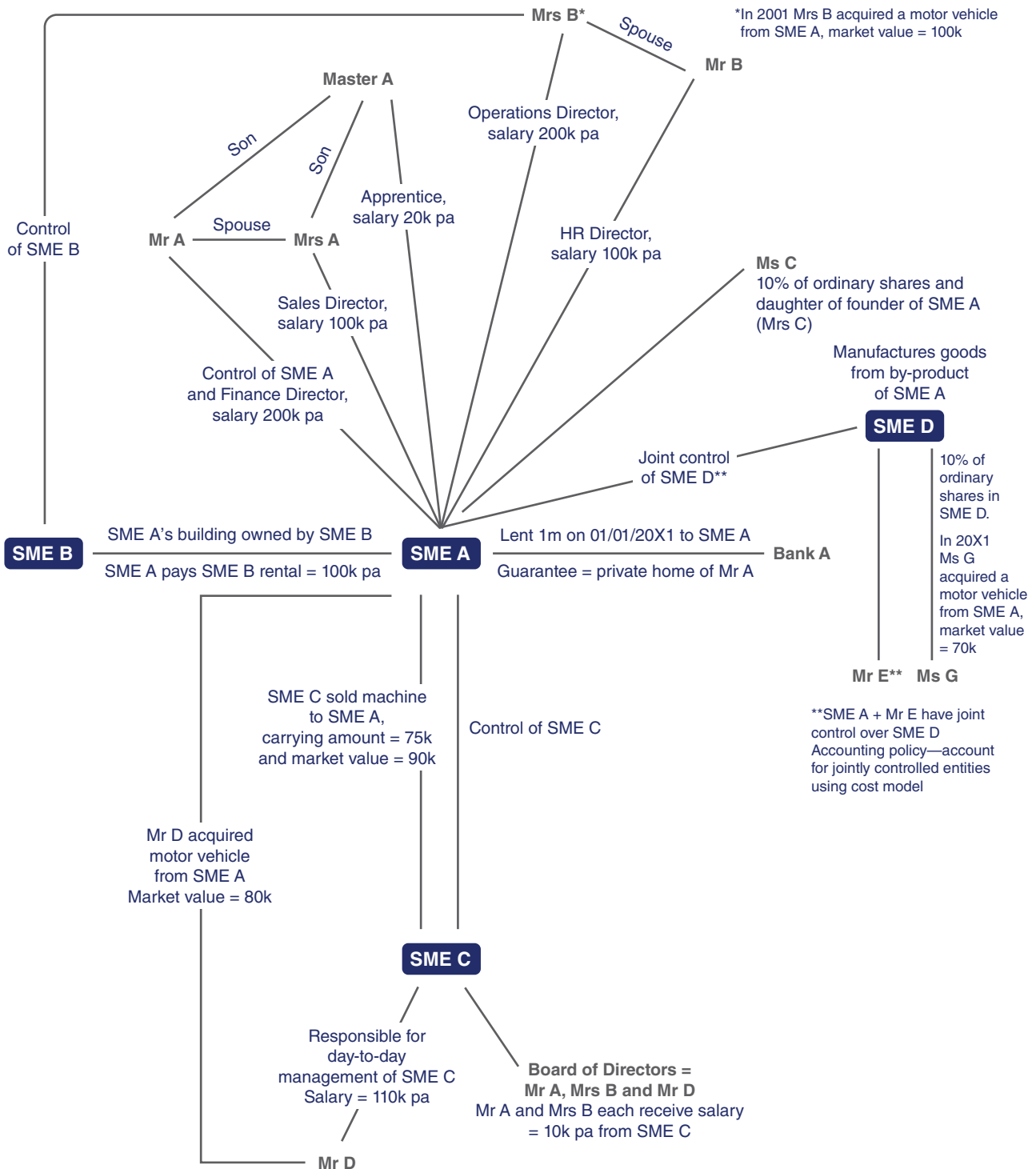
Ms G owns 10% of the ordinary shares in SME D. In 20X1 Ms G acquired a motor vehicle from SME A for its market value of CU70,000. The purchase price was settled on the date of sale. Before its sale to Ms G, the motor vehicle had been used by SME A's sales staff.

## **REQUIRED**

**Identify the parties that are related parties of SME A for the purpose of preparing SME A's separate financial statements.**

## Answer to Case study 1

For ease of reference, the related party relationships and the related party transactions are summarised in the chart:



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Mr A is a related party of SME A. He has control over SME A (see paragraph 33.2(a)(ii)). Furthermore, Mr A is the finance director and a member of the board of directors of SME A, so is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)).

Mrs A is a related party of SME A. She is the sales director and a member of the board of directors of SME A, so is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)). She is also a close member (spouse) of Mr A's family (see paragraph 33.2(a)(i)–(ii)).<sup>(a)</sup>

Master A is a related party of SME A. He is a close member (son) of Mr and Mrs A's family (see paragraph 33.2(a)(i)–(ii)).<sup>(a)</sup>

Mrs B is a related party of SME A. She is the operations director and a member of the board of directors of SME A, so is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)).

Mr B is a related party of SME A. He is the human resources director and a member of the board of directors of SME A, so is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)). He is also a close member (spouse) of Mrs B's family (see paragraph 33.2(a)(i)).<sup>(a)</sup>

SME B is a related party of SME A. SME B is under the control of Mrs B, who is a member of the key management personnel of SME A (see paragraph 33.2(b)(vi)).

SME C is a related party of SME A. SME C is under the control of SME A (see paragraph 33.2(b)(i)).

SME D is a related party of SME A. SME D is under the joint control of SME A and Mr E (see paragraph 33.2(b)(ii)).

## Notes:

In the absence of evidence to the contrary:

- Bank A is not a related party of SME A. The fact that Bank A provides finance to SME A does not mean that Bank A is a related party of SME A (see paragraph 33.4(c)(i)).
- Ms C is not a related party of SME A. She is a passive investor who does not appear to have significant influence over SME A.
- Mr D is not a related party of SME A. The fact that he is a member of the board of directors of SME C (a subsidiary of SME A) and therefore is a member of its key management personnel does not mean he is a member of the key management personnel of SME A or the group headed by SME A.
- Mr E is not a related party of SME A. The fact Mr E and SME A share joint control over SME D does not mean that Mr E is a related party of SME A (see paragraph 33.4(b)).
- Ms G is not a related party of SME A. The fact that she owns 10% of the ordinary shares of SME D (an entity under the joint control of SME A) does not mean that she is a related party of SME A.

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(a) Refer to the Glossary for the definition of close members of a person's family.

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## **Case study 2**

The facts are the same as in Case study 1.

### **Part A:**

**Draft an extract showing how related party transactions could be disclosed in the separate financial statements of SME A for the year ended 31 December 20X1.**

### **Part B:**

**Draft an extract showing how related party transactions could be disclosed in the consolidated financial statements of SME A for the year ended 31 December 20X1.**

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## Answer to Case study 2—Part A

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Note: this answer provides one way of presenting the requirements. Another method of presentation might be appropriate provided it satisfies all the disclosure requirements in Section 33.

### SME A

#### Notes to the separate financial statements for the year ended 31 December 20X1

##### Note 10 Related party transactions

Mr A controls SME A. He is also the finance director and a member of the key management personnel of SME A.

Mrs B is the operations director of SME A and a member of its key management personnel.

SME B is controlled by Mrs B. SME A rents a factory from SME B under an operating lease.

SME C is controlled by SME A.

SME D is under the joint control of SME A. SME D manufactures a good from the by-product from SME A's manufacturing process. SME A supplies the by-product to SME D at its scrap value.

SME A entered into the following related party transactions in the year:

	20X1	20X0
	CU	CU
Key management personnel compensation	600,000	600,000
Transactions with Mr A and close members of his family (other than key management personnel compensation):		
Remuneration of Master A (Mr A's son)—short-term employee benefits (salary)	20,000	—
Guarantees provided by Mr A to SME A's creditors at 31 December:		
Personal guarantee of a loan from Bank A registered against Mr A's private residence	1,100,000	—

*continued ...*

**Note 10 Related party transactions**

	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Transactions with Mrs B and entities under her control (other than key management personnel compensation):		
Sale of a motor vehicle to Mrs B, on terms equivalent to those that prevail in arm's length transactions	100,000	–
Rent to SME B	100,000	100,000
Transactions with entities under the control of SME A:		
Purchase of a machine from SME C (the transacted price was 16.7% lower than its market value)	75,000	–
Transactions with entities under the joint control of SME A:		
Sales of by-products to SME D at scrap value	20,000	14,250
Amount due from (or to) related parties at 31 December		
- SME D (see above)	4,000	1,000
- SME B (see above)	(50,000)	(50,000)

None of the related party balances are secured, none of the related parties have defaulted on their obligations and none are in arrears with their payments.

## Answer to Case study 2—Part B

Notes:

1. The answer provides one way of presenting the requirements.
2. In this example, it is assumed that the key management personnel of SME A are also the key management personnel of the SME A Group.

### SME A Group

Notes to the consolidated financial statements for the year ended 31 December 20X1

<b>Note 10 Related party transactions</b>		
Mr A controls SME A. He is also the finance director and a member of the key management personnel of the SME A Group.		
Mrs B is the operations director of the SME A Group and a member of its key management personnel.		
SME B is controlled by Mrs B. SME A rents a factory from SME B under an operating lease.		
SME D is under the joint control of the SME A Group. SME D manufactures a good from the by-product from SME A's manufacturing process. SME A supplies the by-product to SME D at its scrap value.		
The SME A Group entered into the following related party transactions in the year:		
	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Key management personnel compensation	600,000	600,000
Transactions with Mr A and close members of his family (other than key management personnel compensation):		
Remuneration of Master A (Mr A's son)—short-term employee benefits (salary)	20,000	—
Guarantees provided by Mr A to SME A's creditors at 31 December:		
Personal guarantee of a loan from Bank A registered against Mr A's private residence	1,100,000	—
		<i>continued ...</i>

<b>Note 10 Related party transactions</b>		
	<i>20X1</i>	<i>20X0</i>
	<i>CU</i>	<i>CU</i>
Transactions with Mrs B and entities under her control (other than key management personnel compensation):		
Sale of a motor vehicle to Mrs B	100,000	–
Rent to SME B	100,000	100,000
Transactions with entities under the joint control of SME A:		
Sales of by-products to SME D at scrap value	20,000	14,250
Amount due from (or to) related parties at 31 December		
- SME D (see above)	4,000	1,000
- SME B (see above)	(50,000)	(50,000)
None of the related party balances are secured, none of the related parties have defaulted on their obligations and none are in arrears with their payments.		

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## NOTES



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