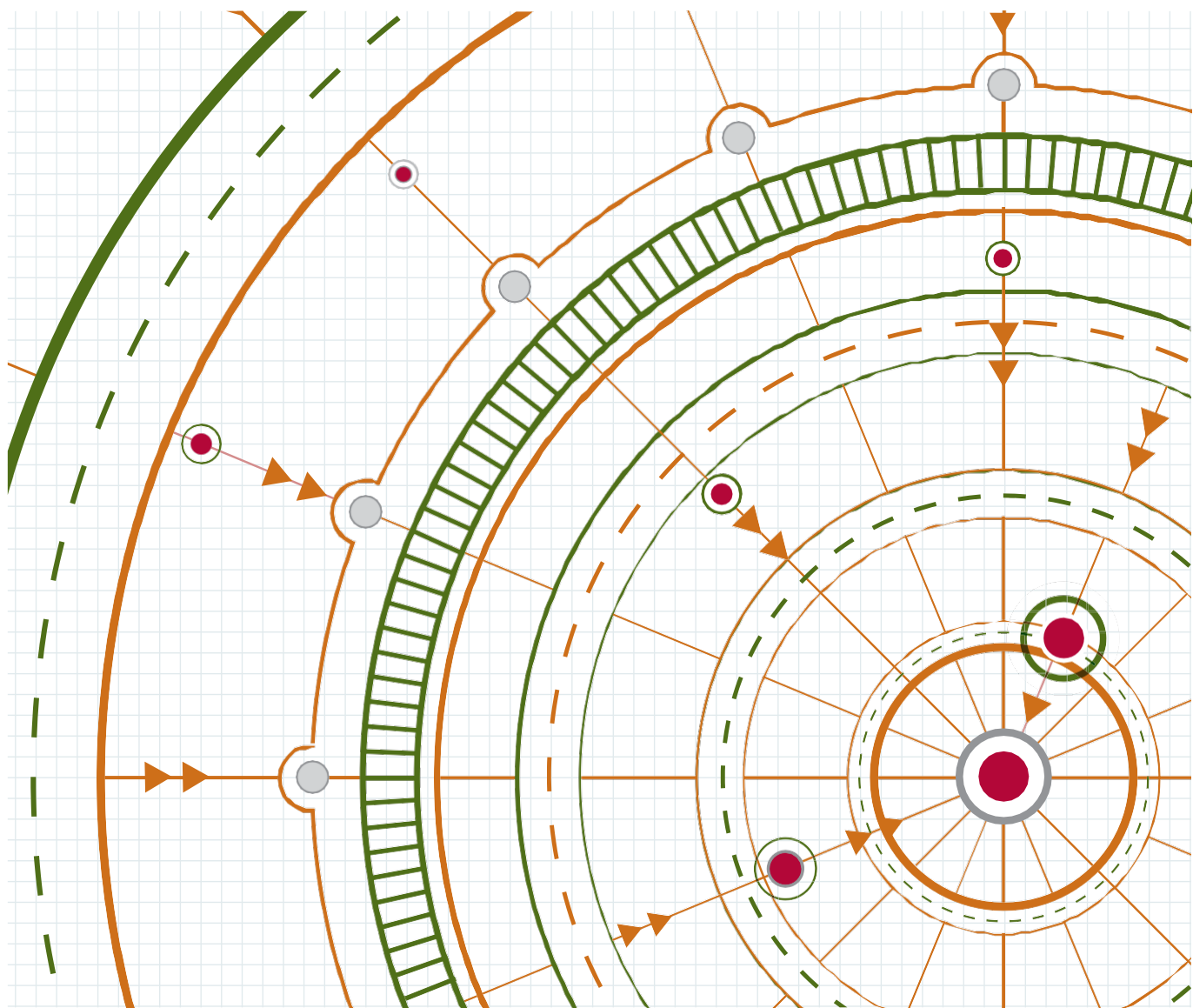


# Module 33—Related Party Disclosures



# **IFRS<sup>®</sup> Foundation**

## **Supporting Material**

### **for the *IFRS for SMEs*<sup>®</sup> Standard**

including the full text of  
Section 33 *Related Party Disclosures*  
of the *IFRS for SMEs* Standard  
issued by the International Accounting Standards Board in October 2015

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

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# Module 33—Related Party Disclosures

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.

This module has been prepared by IFRS Foundation education staff.

The contents of Section 33 *Related Party Disclosures* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also 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. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

## INTRODUCTION

### Which version of the *IFRS for SMEs*<sup>®</sup> Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

### This module

This module focuses on the presentation of related party disclosures in the financial statements applying Section 33 *Related Party Disclosures* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in presenting related party disclosures in the financial statements. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provide a practical opportunity to apply the requirements of the *IFRS for SMEs* Standard.

## Module 33—Related Party Disclosures

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

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

### **IFRS for SMEs Standard**

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue*. These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (January 2019) the SMEIG has not issued any Q&As relevant to this module.

# Module 33—Related Party Disclosures

## Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 33 is to prescribe the disclosure requirements for related party transactions so that users of the financial statements can see information about an entity's related parties and form a view about the possibility that an entity's financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. In other words, knowledge of transactions, outstanding balances and relationships with related parties may affect assessments of an entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In these circumstances, the entity's ability to affect the financial and operating policies of the investee is established through the presence of control, joint control or significant influence. Furthermore, many private entities are owner-managed and frequently transact with close members of the family of the owner-manager and with entities that are controlled, jointly controlled or significantly influenced by those close family members.

A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that routinely sells goods to its owner at cost would probably not routinely enter into transactions to sell goods to its other customers at cost. In addition, transactions between related parties may not be made at the same amounts as between unrelated parties. An example would be an entity that sells goods to its wholly owned subsidiary at a 20% discount on the price that it sells those goods to its other customers.

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

## What has changed since the 2009 *IFRS for SMEs* Standard

The main change to Section 33 of the *IFRS for SMEs* Standard was to align the definition of 'related party' with IAS 24 *Related Party Disclosures*, including incorporation of the amendment to the definition in IAS 24 from Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, which include a management entity providing key management personnel services in the definition of a related party (see paragraph 33.2 and the definition in the Glossary).

In addition, this module reproduces other editorial changes.

# Module 33—Related Party Disclosures

## REQUIREMENTS AND EXAMPLES

### Scope of this section

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.

### Notes

Section 33 applies to primary financial statements (including individual and consolidated financial statements if presented - see the Glossary).

A primary financial statement is a complete set of financial statements of an entity and includes:

- a statement of financial position;
- a single statement of comprehensive income (or a separate income statement and a separate statement of comprehensive income);
- a statement of changes in equity;
- a statement of cash flows; and
- notes comprising a summary of significant accounting policies and other explanatory information.

(see paragraph 3.17).

When separate financial statements and combined financial statements<sup>1</sup> are also prepared (ie in addition to primary financial statements) then Section 33 applies to those financial statements too.

In consolidated financial statements, Section 33 applies to the related parties of the group. Therefore, in consolidated financial statements intragroup transactions (eg transactions between the parent and its subsidiary) are internal to the group reporting entity. Such transactions are eliminated in the consolidated financial statements of the group (see paragraph 9.15) and are not subject to the requirements of 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.

The definition of a related party clearly states that it can be either a person or an entity (see the Glossary). When presenting consolidated financial statements, Section 9 *Consolidated and Separate Financial Statements* focuses only on an entity that holds control over another entity. However, the controlling party could be a person (or group of persons) holding control over the controlling entity.

Because of the nature of related party relationships, a significant amount of this section is focussed on disclosure (paragraphs 33.5 – 33.14). These disclosures cover both the nature of the relationships and any transactions.

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<sup>(1)</sup> Combined financial statements are a single set of financial statements of two or more entities under common control (as described in paragraph 19.2(a) – see paragraph 9.28).



## Module 33—Related Party Disclosures

### Related party defined

- 33.2 A **related party** is a person or entity that is related to the entity that is preparing its financial statements (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.
  - (b) an entity is related to a reporting entity if any of the following conditions applies:
    - (i) the entity and the reporting entity are members of the same **group** (which means that each parent, **subsidiary** and fellow subsidiary is related to the others).
    - (ii) one entity is an **associate** or **joint venture** of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    - (iii) both entities are joint ventures of the same third entity.
    - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    - (v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    - (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).

### Notes

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

- *associate*—an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
- *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)—the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- *group*—a parent and all its subsidiaries.

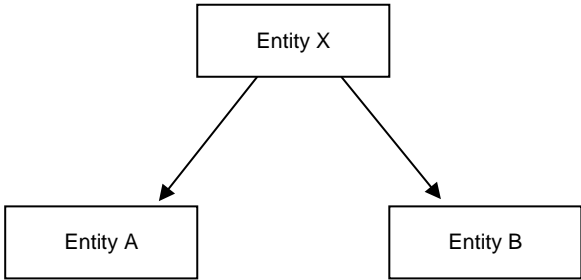
# Module 33—Related Party Disclosures

- *joint control*—the contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
- *joint venture*—a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.
- *parent*—an entity that has one or more subsidiaries.
- *post-employment benefit plans*—formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
- *subsidiary*—an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

In addition to those terms found in the Glossary, *key management personnel* is defined in paragraph 33.6 and *significant influence* is defined in paragraph 14.3.

The term ‘fellow subsidiaries’ is neither defined in the *IFRS for SMEs* Standard nor in the full IFRS Standard. It is taken to mean two or more entities are fellow subsidiaries when they are under the control of the same parent entity. For example, in the scenario below, X is the ultimate parent entity and A and B are subsidiaries of X. Thus, A is a fellow subsidiary of B and B is a fellow subsidiary of A.

In a scenario where an entity (say, Entity X) invests in two (or more) different entities (for example, entities A and B) the conditions for assessing whether entities A and B are related parties of each other are stated in paragraph 33.2(b)(i–v). The assessment is based on the nature of the investment and the consequential influence Entity X has over entities A and B.



# Module 33—Related Party Disclosures

In the case of an indirect horizontal relationship through Entity X (ie the relationship between entities A and B), in accordance with paragraph 33.2(b)(i–v), Entity B is deemed to be a related party of Entity A (and vice versa) when any of the relationships shaded grey in the following table exist:

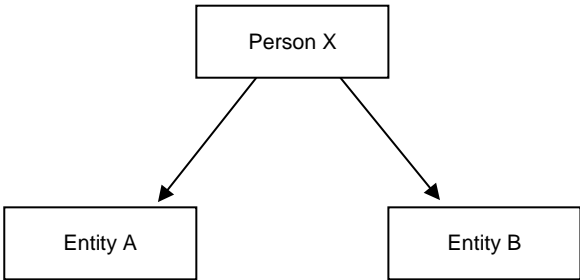
Table 1 - Are entities A and B related parties?

		Entity X's level of influence over Entity B		
		Control	Joint control	Significant influence
Entity X's level of influence over Entity 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 when Entity B is a related party of Entity A (and vice versa) by virtue of the relationship stated. The condition stated in paragraph 33.2(b)(v) is not included in Table 1 because it is specific to whether an entity is a post-employment benefit plan of the employees of either entity.

Table 1 does not consider whether entities A and B are related parties of each other from the perspective of Group X's consolidated financial statements (which present financial information about the group as a single economic entity). If Entity X controls both entities A and B, in Group X's consolidated financial statements entities X, A and B are not related parties because the group reporting entity is made up of those entities. Consequently, Section 33 would not apply to intragroup transactions between entities A, B and X in the Group X's consolidated financial statements.

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



# Module 33—Related Party Disclosures

In the case of an indirect horizontal relationship through Person X (ie the relationship between entities A and B), in accordance with paragraph 33.2(b)(vi–viii), Entity B will be related to Entity A (and vice versa) when any of the relationships shaded grey in the following table exist.

Table 2 - Are entities A and B related parties?

		Person X's level of influence over Entity B			
		Control	JC <sup>(a)</sup>	KMP <sup>(b)</sup>	SI <sup>(c)</sup>
Person X's level of influence over Entity 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 presented in paragraph 33.2 are illustrated in Examples 1–24 as follows:

Items of paragraph 33.2	Examples
(a)(i)	1, 2, 3, 19, 20, 21 and 22
(a)(ii)	1, 2, 3, 16, 18, 19, 20, 21, 22, 23 and 24
(a)(iii)	1, 2, and 24
(b)(i)	4, 6, 7, 8, 11, 12, 14, 16, 17, 19, 21, and 22
(b)(ii)	4, 5, 6, 7, 8, 9, 12, 13, 14, and 15
(b)(iii)	5
(b)(iv)	15
(b)(v)	10 and 11
(b)(vi)	16, 18, 19, 20, 21, 22, and 24
(b)(vii)	17
(b)(viii)	17, 19, 21, 22 and 24

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

**Ex 1 Entity J is owned in equal shares by the members of the Family X—Mr and Mrs X and their daughters Ms Y and Ms Z. The entity is managed by the family members. Their positions at Entity J are: Mr X, administration director; Mrs X, operations director; Ms Y, financial director; and Ms Z, sales director.**

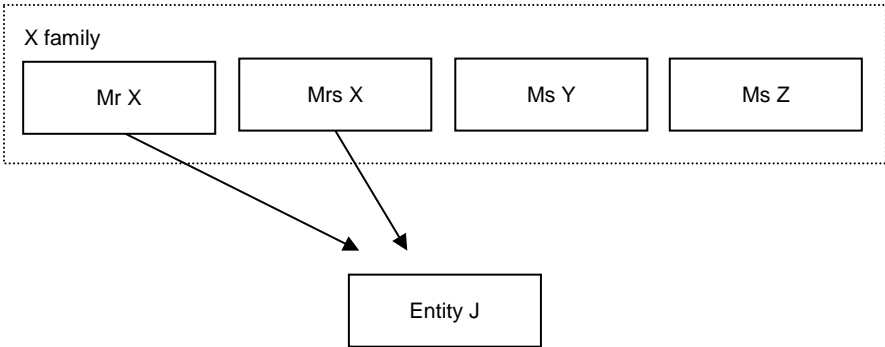
Each member of Family X owns 25% of the voting power in Entity J. In the absence of evidence to the contrary, each of them has significant influence over Entity J (paragraph 14.3(a)). For Entity J's financial statements, all members of the family are related parties (see paragraph 33.2(a)(iii)). In the case of family shareholdings, it may be that one party (the dominant party) acts for the family as a whole on matters relating to the entity. In such a case, the dominant party would be in control of Entity J (see

# Module 33—Related Party Disclosures

paragraph 33.2(a)(ii)). However, the close members of that person’s family are still related parties, see example 2. Alternatively, Mr X, Mrs X, Ms Y and Ms Z could agree to share control over Entity J. In that case, Entity J would be a jointly controlled entity of each of the X family members. Therefore, Entity J, Mr X, Mrs X, Ms Y and Ms Z would still be related parties (see paragraph 33.2(a)(ii)).

Moreover, Mr X, Mrs X, Ms Y and Ms Z are each related parties of Entity J, because they are all members of the key management personnel of Entity J (ie through their directorships in Entity J they each have authority and responsibility for planning, directing and controlling the activities of Entity J—see paragraph 33.2(a)(i)).

**Ex 2 The facts are the same as in Example 1. However, in this example, Entity J is owned in equal shares and managed by Mr and Mrs X. Their daughters neither own shares in, nor manage, Entity J.**



Mr and Mrs X each own 50% of the voting power in Entity J. In the absence of evidence to the contrary, it is determined that each of them has joint control over Entity J. For Entity J’s financial statements, Mr and Mrs X are both related parties (see paragraph 33.2(a)(i) and (ii)). In the case of family shareholdings, it may be that one party (the dominant party) acts for the family as a whole on matters relating to the entity. In such a case, the dominant party would be in control of Entity J (see paragraph 33.2(a)(ii)).

Moreover, Mr and Mrs X are each related parties of Entity J, because they are both members of the key management personnel of Entity J (through their directorships in Entity J they each have authority and responsibility for planning, directing and controlling the activities of Entity J (see paragraph 33.2(a)(i))).

Ms Y and Ms Z are also related parties of Entity J, because they are close members of the family of Mr and Mrs X who, in the absence of evidence to the contrary, have joint control over Entity J (see paragraph 33.2(a)(ii)).

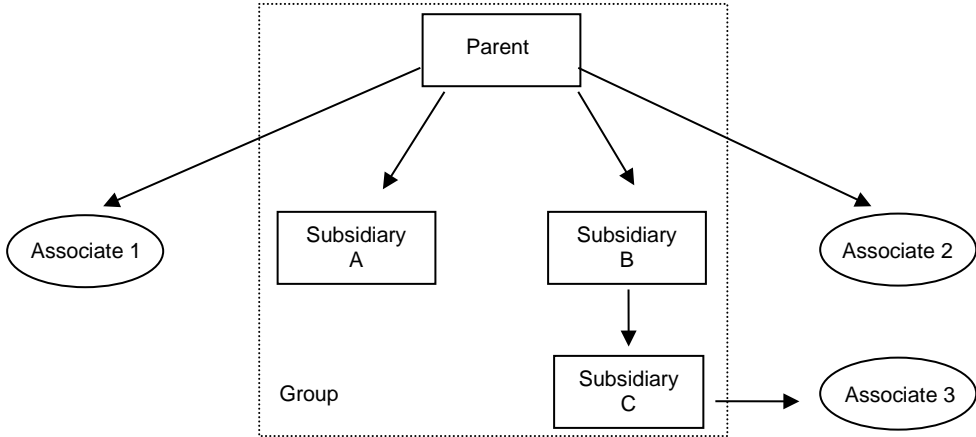
**Ex 3 The facts are the same as in Example 2. However, in this example, neither Mr and Mrs X nor either of their daughters manages Entity J.**

Mr and Mrs X each own 50% of the voting power in Entity J. In the absence of evidence to the contrary, it is determined that each of them has joint control over Entity J. For Entity J’s financial statements, each of Mr and Mrs X are related parties (see paragraph 33.2(a)(i) and (ii)). As in Example 2, Ms Y and Ms Z are also related parties of Entity J, because they are close members of the family of Mr and Mrs X who, in the absence of evidence to the contrary, have joint control over Entity J (see paragraph 33.2(a)(ii)).

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

Ex 4 Parent entity has a controlling interest in subsidiaries A, B and C and has significant influence over associates 1 and 2. Subsidiary C has significant influence over Associate 3.



For Parent’s separate financial statements, subsidiaries A, B and C and associates 1, 2 and 3 are related parties (see paragraph 33.2(b)(i) and (ii)).

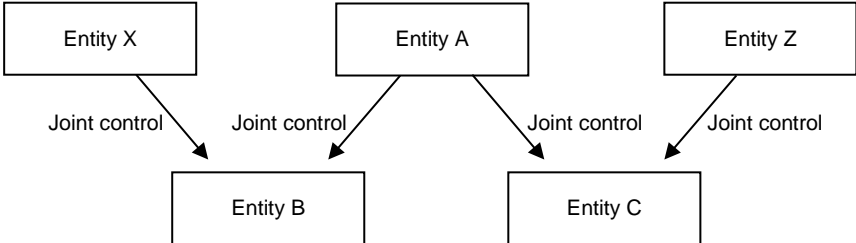
For Subsidiary A’s financial statements, Parent, subsidiaries B and C and associates 1, 2 and 3 are related parties. For Subsidiary B’s separate financial statements, Parent, subsidiaries A and C and associates 1, 2 and 3 are related parties. For Subsidiary C’s financial statements, Parent, subsidiaries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

For the financial statements of associates 1, 2 and 3, Parent and subsidiaries A, B and C are related parties (see paragraph 33.2(b)(ii)). In the absence of other indicators, associates 1, 2 and 3 are not related to each other.

For Parent Group’s consolidated financial statements, associates 1, 2 and 3 are related to the Group (see paragraph 33.2(b)(ii)). Given the Parent controls subsidiaries A, B and C, in Parent Group’s consolidated financial statements, Parent, subsidiaries A, B and C are not related parties because the group reporting entity is made up of those entities. Consequently, Section 33 would not apply to intragroup transactions between the Parent and subsidiaries A, B and C in Parent Group’s consolidated financial statements.

# Module 33—Related Party Disclosures

**Ex 5 Entities A and X jointly share control over Entity B. Entities A and Z jointly share control over Entity C.**



Entity X has joint control over Entity B. Entities X and B are related parties (see paragraph 33.2(b)(ii)).

Entity A has joint control over Entity B. Entities A and B are related parties (see paragraph 33.2(b)(ii)). Similarly, Entity A has joint control over Entity C. Entities A and C are related parties (see paragraph 33.2(b)(ii)).

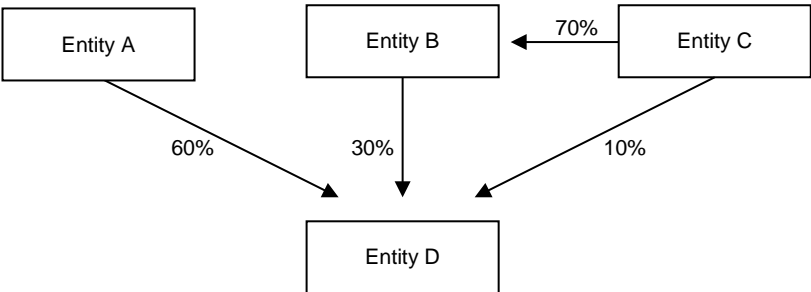
Entities B and C are both joint ventures of the same third party (entity A), and so they are related parties of each other (see paragraph 33.2(b)(iii)).

Entity Z has joint control over Entity C. Entities Z and C are related parties (see paragraph 33.2(b)(ii)).

Note: entities X and A are two venturers that share joint control over Entity B. In the absence of evidence to the contrary, entities X and A are not related parties (see paragraph 33.4(b)). Similarly, entities A and Z are two venturers that share joint control over Entity C. In the absence of evidence to the contrary, entities A and Z are not related parties (see paragraph 33.4(b)).

In the absence of evidence to the contrary, entities X and Z are not related parties.

**Ex 6 Entities A, B and C own 60%, 30% and 10% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity C also owns 70% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity B. All ordinary shares carry equal voting rights.**



Entity A owns more than half of the voting power in Entity D. In the absence of evidence to the contrary, Entity A controls Entity D. Entity A is the parent of Entity D (its subsidiary). Entities A and D are related parties (see paragraph 33.2(b)(i)).

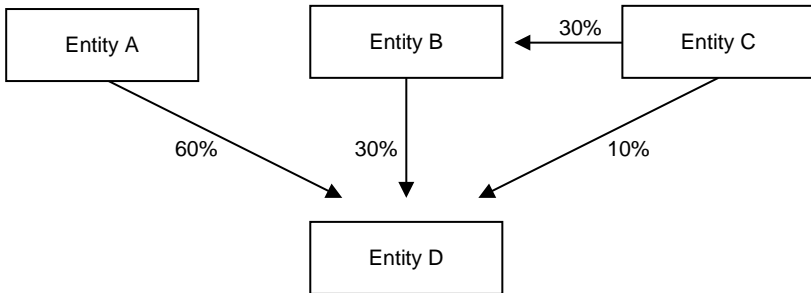
Similarly, Entity C owns more than half of the voting power in Entity B. In the absence of evidence to the contrary, Entity C controls Entity B. Entity C is the parent of Entity B (its subsidiary). Entities C and B are related parties (see paragraph 33.2(b)(i)).

# Module 33—Related Party Disclosures

In the absence of evidence to the contrary, Entity D is an associate of Entity B (with 30% of voting rights) and is an associate of Entity C (40% of the voting rights = 10% directly + 30% indirectly through its subsidiary B). Entities B, C and D are related parties of each other (see paragraph 33.2(b)(ii)).

In the absence of evidence to the contrary, Entity A is not a related party of entities B and C.

**Ex 7** The facts are the same as in Example 6. However, in this example, Entity C owns only 30% of the ordinary shares of Entity B.



Entity A owns more than half of the voting power in Entity D. In the absence of evidence to the contrary, Entity A controls Entity D. Entity A is the parent of Entity D (its subsidiary). Entities A and D are related parties (see paragraph 33.2(b)(i)).

Entity C owns less than half of the voting power in Entity B. In the absence of evidence to the contrary, Entity C does not control Entity B, but has significant influence over it (more than 20% of voting power). Therefore, Entity B is an associate of Entity C. Entities C and B are related parties (see paragraph 33.2(b)(ii)).

Similarly, in the absence of evidence to the contrary, Entity D is an associate of Entity B (with 30% of the voting rights). Entities B and D are related parties of each other (see paragraph 33.2(b)(ii)).

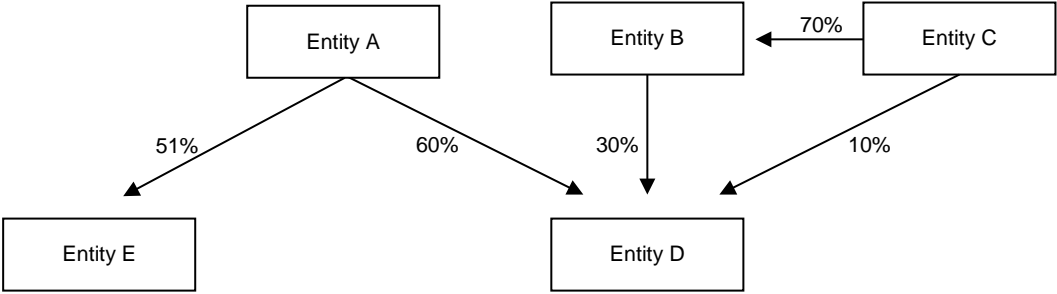
In the absence of evidence to the contrary, entities C and D are not related parties. This is because Entity C does not control Entity B. Therefore, the holding of Entity B in Entity D is ignored when assessing whether Entity C is related to Entity D.

Note: in the absence of evidence to the contrary, Entity A is not a related party of entities B and C.



# Module 33—Related Party Disclosures

**Ex 8** Entities A, B and C own 60%, 30% and 10% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity C also owns 70% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity B. All ordinary shares carry equal voting rights. Entity A also owns 51% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity E.



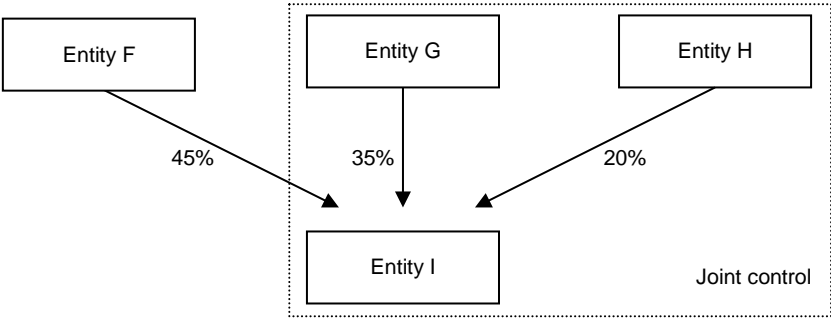
Entity A owns more than half of the voting power in Entity D and Entity E. Consequently, in the absence of evidence to the contrary, Entity A controls entities D and E. Entity A is the parent of entities D and E (entities D and E are fellow subsidiaries—they are under the control of the same parent entity, Entity A). Entities A, D and E are all related parties (see paragraph 33.2(b)(i)).

Similarly, Entity C owns more than half of the voting power in Entity B. In the absence of evidence to the contrary, Entity C controls Entity B. Entity C is the parent of Entity B (its subsidiary). Entities C and B are related parties (see paragraph 33.2(b)(i)).

In the absence of evidence to the contrary, Entity D is an associate of Entity B (with 30% of voting rights) and is an associate of Entity C (40% of the voting rights = 10% directly + 30% indirectly through its subsidiary B). Entities B, C and D are related parties of each other (see paragraph 33.2(b)(ii)).

Note: in the absence of evidence to the contrary, entities A and E are not related parties of entities B and C.

**Ex 9** Entities F, G and H own 45%, 35% and 20% respectively of the ordinary shares that carry equal voting rights at a general meeting of shareholders of Entity I. Entities G and H have contractually agreed to share control over Entity I.



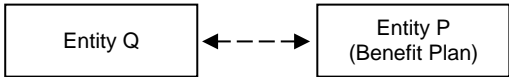
# Module 33—Related Party Disclosures

Entities G and H jointly own more than half of the voting power in entity I (ie 35% + 20% = 55%). Furthermore, they have contractually agreed to share control over Entity I (joint control). Entity I is a related party of Entity G and of Entity H (see paragraph 33.2(b)(ii)). However, in the absence of evidence to the contrary, entities G and H are not related parties of each other (see paragraph 33.4(b)).

Entity F owns 45% of the voting power in Entity I. In the absence of evidence to the contrary, Entity F has significant influence over Entity I. Entity I is an associate of Entity F. Entities F and I are related parties (see paragraph 33.2(b)(ii)).

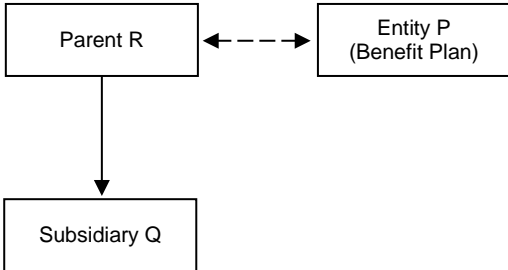
Note: in the absence of evidence to the contrary, Entity F is not a related party of Entity G or Entity H.

**Ex 10 Entity P is a post-employment benefit plan for the benefit of employees of Entity Q.**



Entity P is a post-employment benefit plan for the benefit of employees of Entity Q (the reporting entity). Entity P and Entity Q are related parties (see paragraph 33.2(b)(v)).

**Ex 11 Entity P is the post-employment benefit plan for the benefit of employees of Entity R. Entity R is the parent of Entity Q.**



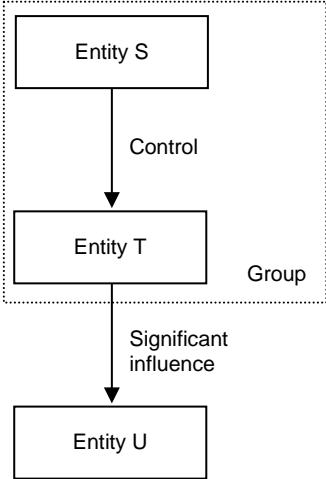
Entities Q and R are related parties—Entity R (the parent) has control over Entity Q (its subsidiary) (see paragraph 33.2(b)(i)).

Entity P is a related party of Entity R. Entity P is a post-employment benefit plan for the benefit of employees of Entity R (see paragraph 33.2(b)(v)).

Entity P is a related party of Entity Q. Entity P is a post-employment benefit plan for the benefit of employees of the Parent R, which is a related party of Entity Q (see paragraph 33.2(b)(v)).

# Module 33—Related Party Disclosures

**Ex 12 Entity S controls Entity T. Entity T has significant influence over Entity U.**

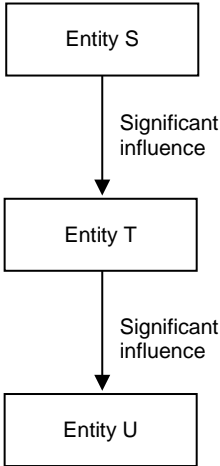


Entity S is the parent of Entity T (its subsidiary). Entities S and T are related parties (see paragraph 33.2(b)(i)).

Entity U is an associate of Entity T. Entities T and U are related parties (see paragraph 33.2(b)(ii)).

Entities U and S are related parties, because Entity U is an associate of Entity T, which is a member of the group of which Entity S is a member (ie the group is formed by entities S and T) (see paragraph 33.2(b)(ii)).

**Ex 13 Entity S has significant influence over Entity T. Entity T has significant influence over Entity U.**



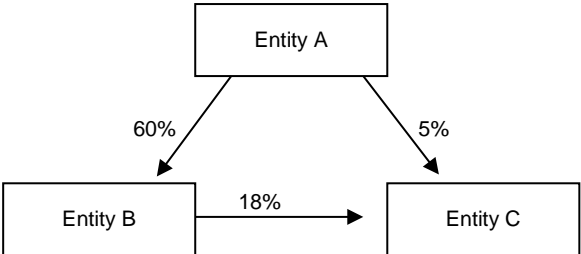
Entity T is an associate of Entity S. Entities S and T are related parties (see paragraph 33.2(b)(ii)).

Entity U is an associate of Entity T. Entities T and U are related parties (see paragraph 33.2(b)(ii)).

Note: in the absence of evidence to the contrary, entities S and U are not related parties because neither entities S and T, nor entities T and U, form a group (ie a group is a parent and all its subsidiaries – see the Glossary). Therefore, the condition in paragraph 33.2(b)(ii) (ie an associate of a member of a group of which the other entity is a member) is not met.

# Module 33—Related Party Disclosures

**Ex 14 Entity A owns 60% and 5% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity B and Entity C. Entity B also owns 18% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. All ordinary shares carry equal voting rights.**

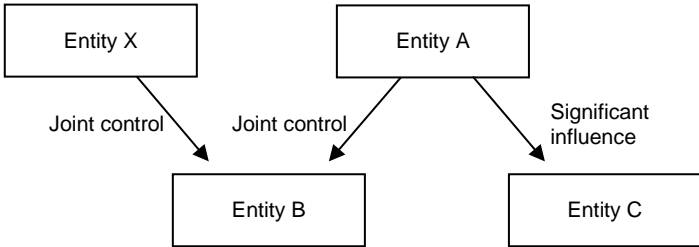


Entity A owns more than half of the voting power in Entity B. In the absence of evidence to the contrary, Entity A controls Entity B. Entity A is the parent of Entity B (its subsidiary). Entities A and B are related parties (see paragraph 33.2(b)(i)).

Entity A owns more than 20% of the voting power in Entity C (ie 5% directly + 18% indirectly through its subsidiary Entity B = 23%). In the absence of evidence to the contrary, Entity A has significant influence over Entity C. Entity C is an associate of Entity A. Entities A and C are related parties (see paragraph 33.2(b)(ii)).

Entity B has less than 20% of the voting power in Entity C. In the absence of evidence to the contrary, Entity B does not have significant influence over Entity C. However, entities B and C are related parties, because Entity C is an associate of Entity A, which is a member of the group of which Entity B is a member (ie the group comprises entities A and B) (see paragraph 33.2(b)(ii)).

**Ex 15 Entities A and X jointly share control over Entity B. Entity A has significant influence over Entity C.**



Entity X has joint control over Entity B. Entities X and B are related parties (see paragraph 33.2(b)(ii)).

Similarly, Entity A has joint control over Entity B. Entities A and B are related parties (see paragraph 33.2(b)(ii)).

Entity A has significant influence over Entity C. Entities A and C are related parties (see paragraph 33.2(b)(ii)).

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

Entities X and A are two venturers which share joint control over Entity B. In the absence of evidence to the contrary, entities X and A are not related parties (see paragraph 33.4(b)). In the absence of evidence to the contrary, entities X and C are not related parties.

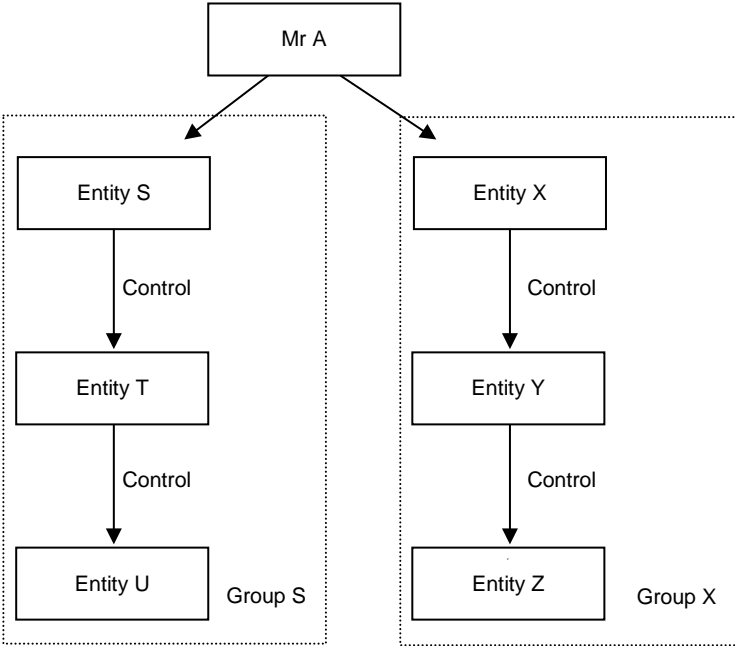
# Module 33—Related Party Disclosures

## Examples—definition of related parties—a person and an entity

Ex 16 Entity S controls Entity T. Entity T controls Entity U.

Entity X controls Entity Y. Entity Y controls Entity Z.

Mr A owns all of the ordinary shares that carry voting rights at a general meeting of shareholders of entities S and X.



Entity S is the parent of Entity T (its subsidiary). Entities S and T are related parties (see paragraph 33.2(b)(i)). Entity T is the parent of Entity U (its subsidiary). Entities T and U are related parties (see paragraph 33.2(b)(i)). Entity S is the ultimate parent of Entity U (its subsidiary). Entities S, T and U are all member of the same group (Group S), and so they are related parties (see paragraph 33.2(b)(i)).

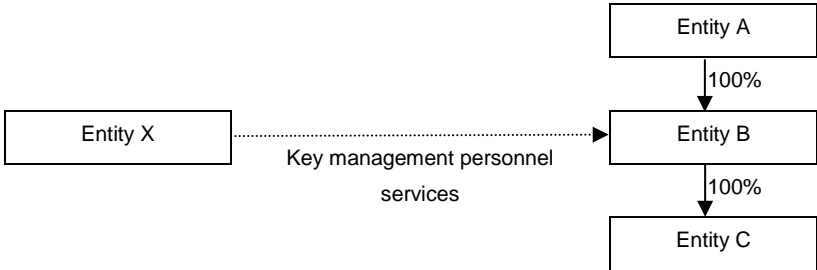
Similarly, Entity X is the parent of Entity Y (its subsidiary). Entities X and Y are related parties (see paragraph 33.2(b)(i)). Entity Y is the parent of Entity Z (its subsidiary). Entities Y and Z are related parties (see paragraph 33.2(b)(i)). Entity X is the ultimate parent of Entity Z (its subsidiary). Entities X, Y and Z are all member of the same group (Group X), and so they are related parties (see paragraph 33.2(b)(i)).

Mr A is the person who has control over the reporting entities S and X (see paragraph 33.2(a)(ii)). Mr A is the ultimate controlling party of Group S (entities S, T and U) and Group X (entities X, Y and Z). Consequently, Mr A and entities S, T, U, X, Y and Z are all related parties (see paragraph 33.2(b)(vi)).

# Module 33—Related Party Disclosures

**Ex 17 Entity A controls Entity B. Entity B controls Entity C.**

**Entity X provides key management personnel services to Entity B.**



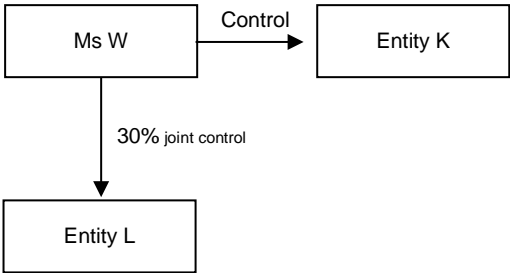
Entity A is the parent of Entity B (its subsidiary). Entities A and B are related parties (see paragraph 33.2(b)(i)). Entity B is the parent of Entity C (its subsidiary). Entities B and C are related parties (see paragraph 33.2(b)(i)).

Entity A is the ultimate parent of Entity C (its subsidiary). Entities A, B and C are all members of the same group, and so they are related parties (see paragraph 33.2(b)(i)). Entity X is a related party of Entity B because Entity X provides key management personnel services to Entity B (see paragraph 33.2(b)(vii)).

Entity X is a related party of Entity C because it provides key management personnel services to its parent, Entity B (see paragraph 33.2(b)(vii)).

In the absence of evidence to the contrary. Entities X and A are not related parties (see paragraph 33.2(b)(vii)).

**Ex 18 Ms W controls Entity K. She owns 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity L and she exerts the contractually agreed sharing of control over Entity L.**



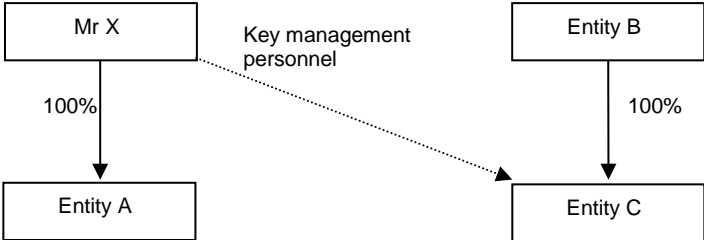
Ms W is a related party of Entity K. She controls Entity K (see paragraph 33.2(a)(ii)).

Because Ms W exerts joint control over Entity L, she is a related party of Entity L (see paragraph 33.2(a)(ii)).

Entities K and L are related parties because Ms W controls Entity K and has joint control over Entity L (see paragraph 33.2(b)(vi)).

# Module 33—Related Party Disclosures

**Ex 19** Mr X owns 100% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity A and is a member of the key management personnel of Entity C. Entity B owns 100% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C.



Mr X is a related party of Entity A, because, in the absence of evidence to the contrary, his holding of a 100% investment in Entity A means that he controls Entity A (see paragraph 33.2(a)(ii)).

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

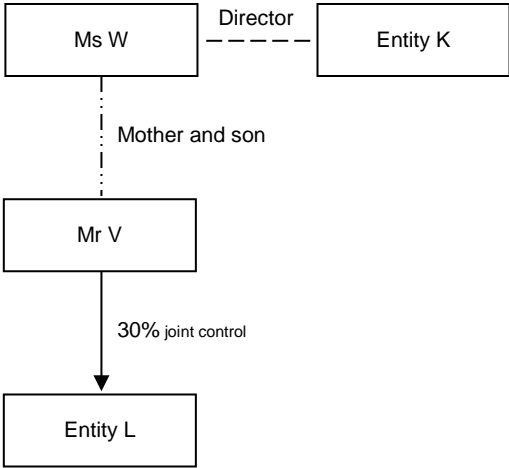
Entities A and C are related parties, because Mr X controls Entity A and is one of the key management personnel of Entity C. As stated in paragraph 33.2(a)(i) and (b)(vi), an entity (Entity A) is related to a reporting entity (Entity C) if the entity (Entity A) is controlled by a person (Mr X) who is a member of the key management personnel of the reporting entity (Entity C).

Entity B is a related party of Entity C because, in the absence of evidence to the contrary, holding a 100% investment in Entity C indicates that Entity B controls Entity C (see paragraph 33.2(b)(i)).

Note: the fact that Mr X is a member of the key management personnel of Entity C (a subsidiary of Entity B) does not, automatically, make him part of the key management personnel of Entity B or of the group (entities B and C consolidated). Therefore, in the absence of evidence to the contrary, the conditions in paragraph 33.2(b)(viii) to determine whether an entity (Entity A) is related to a reporting entity (Entity B) are not met.

# Module 33—Related Party Disclosures

**Ex 20 Ms W is the financial director of Entity K. She does not own any shares in Entity K. Her son, Mr V owns 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity L and he exerts the contractually agreed sharing of control over Entity L.**

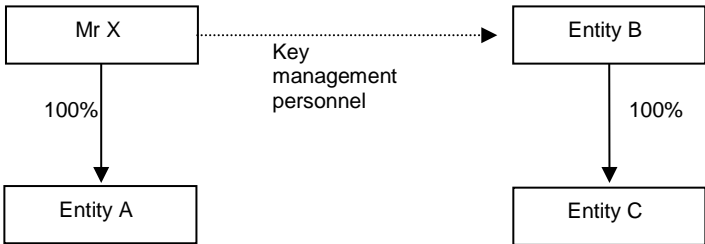


Ms W is a related party of Entity K. She is a member of the key management personnel of Entity K, because through her directorship in Entity K she has authority and responsibility for planning, directing and controlling the activities of Entity K (see paragraph 33.2(a)(i)). Because Mr V is a close member of Ms W’s family, he is also a related party of Entity K.

Because Mr V exerts joint control over Entity L, he is a related party of Entity L (see paragraph 33.2(a)(ii)). Because Ms W is a close member of Mr V’s family, she is also a related party of Entity L.

Mr V has joint control over Entity L. Because he is a close member of the family of Ms W, who is a member of the key management personnel of Entity K, entities L and K are related parties (see paragraph 33.2(b)(vi)).

**Ex 21 Mr X owns 100% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity A and is a member of the key management personnel of Entity B. Entity B owns 100% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C.**



Mr X is a related party of Entity A, because, in the absence of evidence to the contrary, holding a 100% investment in Entity A, he controls Entity A (see paragraph 33.2(a)(ii)). Mr X is a related party of Entity B. He is a member of the key management personnel of Entity B (see paragraph 33.2(a)(i)).



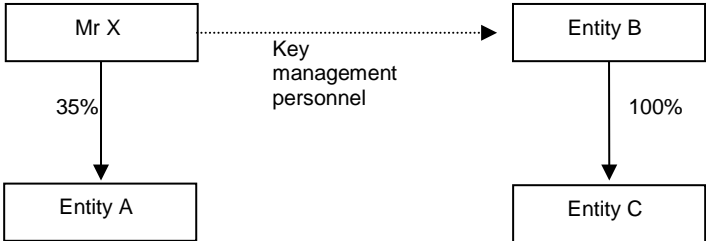
# Module 33—Related Party Disclosures

Entity B is a related party of Entity C, because, in the absence of evidence to the contrary, holding a 100% investment in Entity C, Entity B (the parent) controls Entity C (its subsidiary) (see paragraph 33.2(b)(i)).

Entities A and B are related parties, because a member of the key management personnel (Mr X) of Entity B has control over Entity A (see paragraph 33.2(b)(viii)).

Entities A and C are related parties, because Mr X controls Entity A and is a member of the key management personnel of the parent of Entity C (see paragraph 33.2(b)(vi) and 33.2(b)(viii)).

**Ex 22 Mr X holds 35% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity A and is a key management personnel of Entity B. Mr X and another individual exert the contractually agreed sharing of control over Entity A. Entity B has 100% investment in Entity C.**



Mr X is a related party of Entity A, because he exerts joint control over Entity A (see paragraph 33.2(a)(ii)).

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

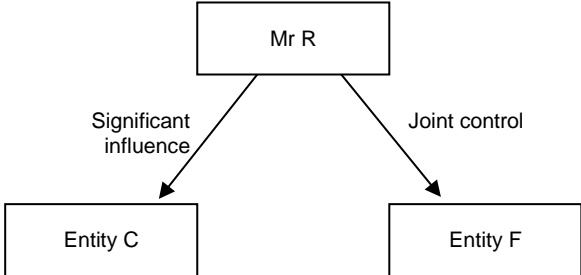
Entity B is a related party of Entity C, because, in the absence of evidence to the contrary, Entity B controls Entity C (see paragraph 33.2(b)(i)).

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

Entities A and B are related parties, because a member of the key management personnel (Mr X) of Entity B has joint control over Entity A (see paragraph 33.2(b)(vi) and (viii)).

# Module 33—Related Party Disclosures

**Ex 23 Mr R has significant influence over Entity C and he jointly controls Entity F.**

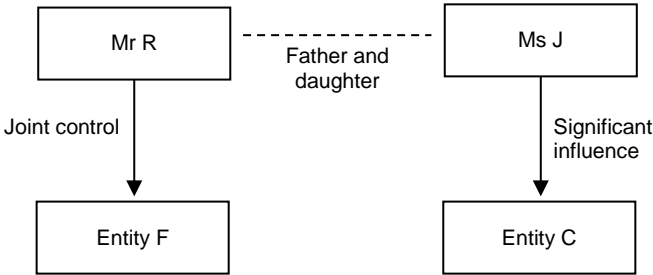


Mr R is a related party of Entity C, because he has significant influence over Entity C (see paragraph 33.2(a)(iii)).

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

Entity C is a related party of Entity F, because Mr R has joint control over Entity F (see paragraph 33.2(a)(ii)) and significant influence over Entity C (see paragraph 33.2(a)(iii)). Similarly, Entity F is a related party of Entity C.

**Ex 24 Mr R jointly controls Entity F. His daughter, Ms J has significant influence over Entity C.**



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

Ms J is a related party of Entity F, because she is a close member of the family of Mr R (her father), who has joint control over Entity F (see paragraph 33.2(a)(ii)).

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

Mr R is a related party of Entity C, because he is a close member of the family of Ms J (his daughter), who has significant influence over the entity C (see paragraph 33.2(a)(iii)).

Entity F is a related party of Entity C, because Mr R has joint control over Entity F and is a close member of the family of Ms J (his daughter), who has significant influence over Entity C (see paragraph 33.2(b)(viii)). Similarly, Entity C is a related party of Entity F (see paragraph 33.2 (b)(vi)).

# Module 33—Related Party Disclosures

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

### 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 concept required by the *IFRS for SMEs* Standard. This principle enhances the reliability of the financial statements (see Section 2 *Concepts and Pervasive Principles*, paragraphs 2.7 and 2.8).

### Examples—assessment of substance over form

**Ex 25** Mr Z (owner manager) and Mr V (venture capitalist) own 60% and 40% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. All ordinary shares carry equal voting rights.

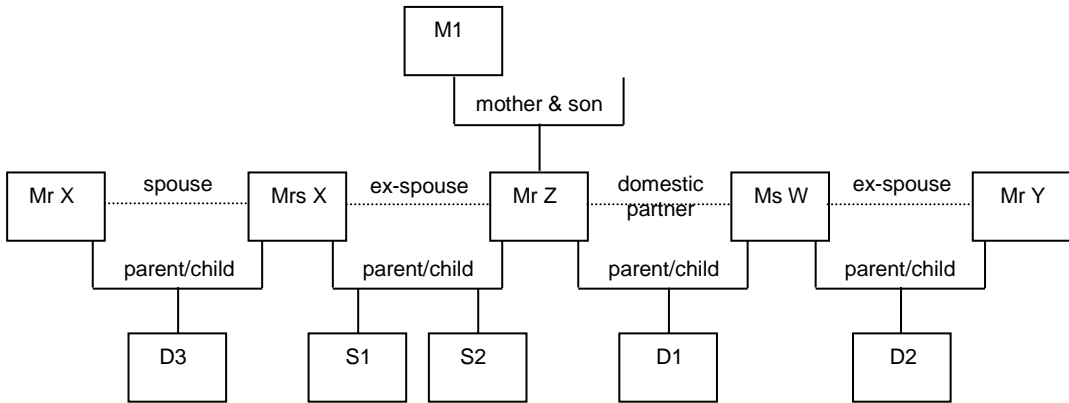
Mrs X (Mr Z’s ex-wife) is the mother of their 2 sons (S1 and S2). S1, a school pupil, lives with Mrs X and spends every second weekend and half of his holidays with Mr Z and Ms W (Mr Z’s new partner, with whom he has cohabited for over a decade). Outside of the school term S1 works as an office assistant at Entity Z. S2 lives with Mr Z and is serving an apprenticeship with Entity Z. Ms W is a commission-based sales agent for Entity Z, and mother of Mr Z’s daughter (D1). Outside of the school term D1 occasionally operates a cash register at Entity Z.

Ms W’s daughter (D2) from a previous marriage (ie 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. She runs Mr Z and Ms W’s home including caring for the children.

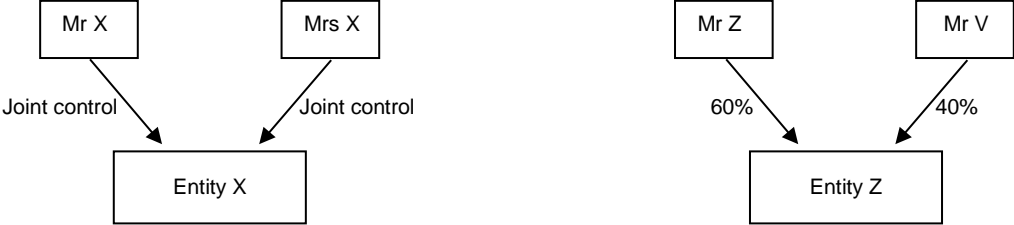
Mr Z and Mrs X parted amicably and their extended families frequently socialise together. Mrs X is remarried and has a daughter (D3) with her new husband (Mr X). Mr and Mrs X share the control of their business (Entity X) which is one of the suppliers of raw materials to Entity Z.

For ease of reference, the families’ relationships are summarised in the family tree below:



# Module 33—Related Party Disclosures

The investment relationships over entities X and Z are as follows:



Mr Z the owner manager (see paragraph 33.2(a)(i) and (ii)) and Mr V the venture capitalist who, in the absence of evidence to the contrary, has significant influence (with well over the 20% holding that would normally indicate significant influence) are related parties of Entity Z (see paragraph 33.2(a)(iii)). 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 Entity Z in accordance with the conditions stated in paragraph 33.2(a).

Close members of the family of Mr Z are those family members who may be expected to influence, or be influenced by, Mr Z in their dealings with Entity Z (see Glossary). Judgement needs to be applied in determining which people are close members of the family of Mr Z. In the absence of evidence to the contrary it appears that at least the following are close members of the family of Mr Z:

- 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 of ‘close members of the family of a person’ in the Glossary)
- the child of his domestic partner—D2 (see item (b) of the definition of ‘close members of the family of a person’ in the Glossary)
- his mother—M1 (see item (c) of the definition of ‘close members of the family of a person’ in the Glossary).

Judgement must be applied in determining whether Mrs X (his former wife) is also a close member of the family of Mr Z. She was his domestic partner 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 was concluded that Mr Z could reasonably be expected to influence, or be influenced by, Mrs X in his dealings with Entity Z, then focusing on the substance of the relationship not merely on the legal form, Mrs X would be a related party of Entity Z (see paragraph 33.2(a)(i) and (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 his dealings with Entity Z, then Mrs X would not be a related party of Entity Z.

Mrs X is a related party of Entity X, because she has joint control over it (see paragraph 33.2(a)(ii)).

Because Mrs X is a related party of Entity X, and assuming that she is considered a close member of the family of Mr Z (the owner manager of Entity Z), entities X and Z would be related parties of each other (see paragraph 33.2(b)(viii)).

# Module 33—Related Party Disclosures

**Note**

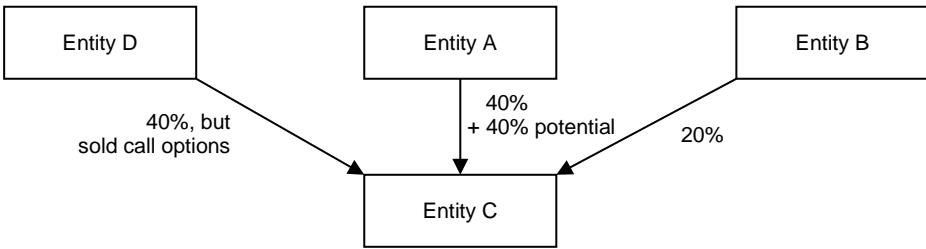
If only the legal form were to be considered (ie the substance of the relationship was ignored), Mrs X would not be considered a close member of the family of Mr Z, and neither would she be considered a related party of Entity Z, and entities X and Z would not be considered related parties—in this scenario the financial statements of both entities could omit relevant information.

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

**Ex 26 Entity R established a special purpose entity (Entity S) for the sole purpose of conducting scientific research for the benefit of Entity R. Entity R does not own any of the issued share capital of Entity S.**

Entity S is a subsidiary of Entity R (see Section 9 *Consolidated and Separate Financial Statements*, paragraph 9.4) because the substance of the relationship indicates that the SPE is controlled by Entity R. Entities R and S are therefore related parties (see paragraph 33.2(b)(i)).

**Ex 27 Entities A and B own 80% and 20% respectively of the ordinary shares that carry equal voting rights at a general meeting of shareholders of Entity C. Entity A sells one half of its interest to Entity D and buys call options from Entity D (in respect of the ordinary shares of Entity C) that are exercisable at any time at a premium to the market price. If the options were to be exercised, Entity A would again hold an 80% ownership interest and voting rights in Entity C.**



The existence of the potential voting rights, as well as the other factors, are considered and it is determined that Entity B has significant influence over Entity C. Although the options are exercisable at a premium to the market price, they are currently exercisable and in effect give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraph 9.5, are considered and it is determined that Entity A controls Entity C. In the absence of evidence to the contrary, entities A and B are related parties of Entity C (see paragraphs 33.2(b)(i) and (ii)).

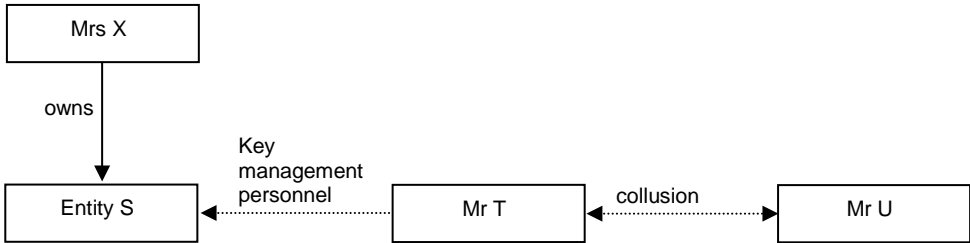
Whether Entity D has significant influence over Entity C is judged by other factors. The sale of call options to Entity A, giving rise to the potential voting rights to Entity A,

# Module 33—Related Party Disclosures

can provide evidence that Entity D may not exert significant influence over Entity C. However, all factors must be considered in determining whether Entity D has significant influence over Entity C. If Entity D is found to have significant influence (ie the power to participate in the financial and operating policy decisions of C but is not control or joint control over those policies) over Entity C then Entity D is also a related party of Entity C (and vice versa).

**Ex 28 Entity S is owned by Mrs X. She entrusts the management of Entity S to Mr T. Unbeknown to Mrs X, Entity S, at Mr T’s instruction, sold a motor vehicle with a market value of CU1,000,000<sup>(2)</sup> to Mr U for CU200,000. In accordance with an agreement between Mr T and Mr U, Mr U immediately sold the vehicle to Mr T for CU250,000.**

**Mr U is not a member of Mr T’s family.**



Mr T has colluded with Mr U to defraud Entity S. It appears that Mr U is the conduit through which Mr T is defrauding entity S. From Entity S’s perspective, Mr T is a related party (see paragraph 33.2(a)(i)). In this transaction, Mr U is acting for Mr T in his dealings with entity S. In accordance with paragraph 33.3, the transaction is in substance with Mr T (a related party of Entity S). Consequently, the transaction is a related party transaction.

**Ex 29 Mr X is the manager and sole owner of Entity M. He has fathered no children. However, following the death of his sister, he is raising his sister’s daughter (Miss N).**

Mr X (the owner-manager) is a related party of Entity M (see paragraph 33.2(a)(i) and (ii)).

In the absence of evidence to the contrary, it appears that Miss N (Mr M’s niece) is a close member of his family (Miss N is a dependant of Mr X), because it seems reasonable that Mr X may be influenced by Miss N in his dealings with entity M (and Miss N might be influenced by Mr X in her dealings with entity M). Miss N is therefore a related party of entity M (see paragraph 33.2(a)(i) and (ii)).

<sup>(2)</sup> In this example, and in all other examples in this module, monetary amounts are denominated in ‘currency units (CU)’.

## Module 33—Related Party Disclosures

- 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 **venturers** simply because they share joint control over a joint venture;
  - (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.

### Notes

Paragraph 33.4 (b) states that two venturers are not necessarily related parties simply because they share joint control over a joint venture. Examples 5, 9, and 15 illustrate this related party relationship.

### Examples—not necessarily related parties

- Ex 30 Ms B is the financial director of Entity K. She is also a non-executive director of Entity L. She does not own any shares in entities K and L.**

In the absence of evidence to the contrary, entities K and L are not related parties (see paragraph 33.4(a)).

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

- Ex 31 Entity J operates in a country in which a state-owned entity (Entity K) has a legally protected monopoly over the supply of electricity in that country. Accordingly, Entity J depends on Entity K to provide the energy needed to operate its plant.**

**Recently, the demand has exceeded the supply of electricity in that country. 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 Entity J to operate at suboptimal levels.**

Simply by virtue of its normal dealings with Entity J, the electricity supplier (Entity K) does not become a related party (see paragraph 33.4(c)(iii)).

## Module 33—Related Party Disclosures

**Ex 32 Entity J is funded mostly by a loan from a commercial bank (Bank A). The terms of the loan place a number of restrictions on Entity J, including solvency requirements and restrictions on the extent to which Entity J can distribute accumulated profits to its owners.**

Simply by virtue of its normal dealings with Entity J, Bank A does not become a related party (see paragraph 33.4(c)(i)).

**Ex 33 The facts are the same as in Examples 31 and 32. However, in this example, Entity K and Bank A each own 25% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity J and have the right to appoint 1 member each to the management board of Entity J.**

In the absence of evidence to the contrary, Entity K and Bank A are related parties of Entity J, because they both can exert significant influence over Entity J (see paragraph 33.2(b)(ii)).



# Module 33—Related Party Disclosures

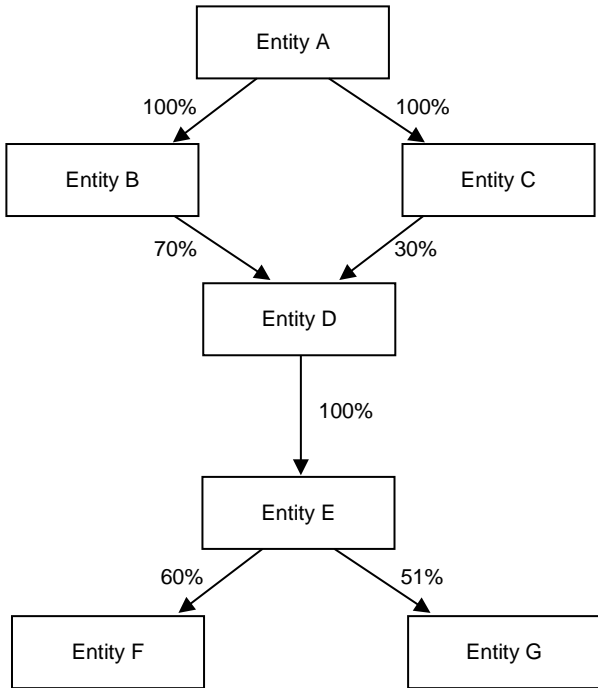
## Disclosures

### Disclosure of parent-subsidiary 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—parent-subsidiary relationships

Ex 34 Entity E owns 60% of Entity F and 51% of Entity G. Entity E is wholly owned by Entity D. Entity D is owned 70% by Entity B and 30% by Entity C. Entities B and C are wholly owned by Entity A. All the entities prepare general purpose financial statements in accordance with the *IFRS for SMEs* Standard.



*Extract from Note 10 Related party transactions in Entity E’s financial statements*

Entity E is the parent of subsidiaries Entity F (60% ownership interest) and Entity G (51% ownership interest).

Entity D is the sole owner and immediate parent of Entity E.

Entity A is the ultimate parent of Entity E.

## Module 33—Related Party Disclosures

**Ex 35** The facts are the same as in Example 34. However, in this example, neither Entity A nor Entity D produces financial statements available for public use. Entity B produces financial statements available for public use.

*Extract from Note 10 Related party transactions in Entity E's financial statements*

Entity E is the parent of subsidiaries Entity F (60% ownership interest) and Entity G (51% ownership interest).

Entity D is the sole owner and immediate parent of Entity E. Entity A is the ultimate parent. However, neither Entity A nor Entity D produces financial statements available for public use. Entity B (in which Entity A holds a 70% ownership interest) is Entity E's next most senior parent that produces financial statements available for public use.

**Ex 36** The facts are the same as in Example 34. However, in this example, only Entity A does not produce financial statements available for public use.

*Extract from Note 10 Related party transactions in Entity E's financial statements*

Entity E is the parent of subsidiaries Entity F (60% ownership interest) and Entity G (51% ownership interest).

Entity D is the sole owner and immediate parent of Entity E. Entity 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.

### Notes—definition of key management personnel

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 in paragraph 33.7 is in addition to the 'normal' related party transaction disclosures. Consequently, an entity needs to comply with the other disclosure requirements set out in paragraphs 33.8–33.14 to disclose transactions between the entity and its key management personnel.

# Module 33—Related Party Disclosures

## Examples—key management personnel

**Ex 37** An entity issued 100,000 of its own ordinary shares to its key management personnel as compensation for services rendered to the entity in the period.

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

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 38** The owner of an entity paid CU100,000 directly to the entity’s key management personnel as compensation for services rendered to the entity in the current reporting period.

In effect two transactions have taken place. First, the owner has contributed cash to the entity (sometimes called a capital contribution) which, if it meets the definition of equity in Section 22 *Liabilities and Equity*, is recognised directly in equity. Second, the entity has paid its employees for services rendered during the current reporting period.

The first transaction is a related party transaction (see paragraphs 33.2(a)(ii), 33.8(a) and 33.12(i)) that is disclosed in accordance with paragraphs 33.9 and 33.10(a). The second transaction is also a related party transaction (see paragraphs 33.2(a)(i) and 33.6); the compensation is disclosed in accordance with paragraphs 33.7, 33.9 and 33.10(c).

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

## Example—key management personnel compensation

**Ex 39** Entity A could present the related party disclosure for key management personnel compensation required by paragraph 33.7 as follows:

**Extract from notes to Entity A’s financial statements for the year ended 31 December 20X1**

**Note 10 Related party transactions**

...

	20X1	20X0
	CU	CU
Total key management personnel compensation	<b>1,100,000</b>	<b>808,000</b>

# Module 33—Related Party Disclosures

Alternatively, Entity A could present the related party disclosures for key management personnel compensation in more detail as follows:

Extract from notes to Entity A’s financial statements for the year ended 31 December 20X1

**Note 10 Related party transactions**

...

Key management personnel compensation:

	20X1	20X0
	<i>CU</i>	<i>CU</i>
Short-term employee benefits	900,000	700,000
Post-employment benefits	100,000	80,000
Other long-term benefits	10,000	10,000
Termination benefits	70,000	–
Share-based payment	20,000	18,000
	<b>1,100,000</b>	<b>808,000</b>

### 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 40 An entity sells a vehicle that it no longer requires to its managing director at its market value.**

The managing director is a related party of the entity—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 other financial asset, ie a transfer of economic resources between the related parties (see paragraph 33.8).

**Ex 41 The facts are the same as in Example 40. However, in this example, the managing director took ownership of the vehicle as a bonus for services performed during the period.**

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

The related party transaction is the exchange of the vehicle for services performed by the managing director in the period (ie a transfer of economic resources between the related parties).

## Module 33—Related Party Disclosures

- Ex 42** The facts are the same as in Example 40. However, in this example, the owner of the entity took ownership of the vehicle without compensating the entity. The owner is not an employee of the entity.

The owner controls the entity 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/return of equity to the owner (ie a transfer of economic resources between the related parties) (see paragraph 33.8(a)).

- Ex 43** The facts are the same as in Example 40. However, in this example, the entity 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 other financial asset (ie a transfer of economic resources between the related parties) (see paragraph 33.8(b)).

- Ex 44** The owner of an entity transferred ownership of his vehicle to the entity at no charge.

The owner controls the entity 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 the entity (ie a transfer of economic resources between the related parties) (see paragraph 33.8(a)).

- Ex 45** The owner of an entity used his personal funds to settle an obligation of the entity directly with a creditor of the entity.

The owner controls the entity and therefore is a related party (see paragraph 33.2(a)(ii)). In effect two transactions took place. First, the owner contributed the funds to the entity and then the entity used the fund to settle its obligation with the creditor. The first transaction is a related party transaction (ie the transfer of economic resources from the owner to the entity as a contribution of equity to the entity) (see paragraph 33.8(c)).

Note: in the absence of evidence to the contrary, the second transaction (settlement of obligation with a creditor) is not a related party's transaction.

- Ex 46** An entity declared and paid a cash dividend to its owner.

The owner is a related party of the entity (see paragraph 33.2(a)(ii)).

The declaration of the dividend is a related party transaction. It creates an obligation for the entity 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)).

# Module 33—Related Party Disclosures

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

**In 20X1 Entity B sold goods manufactured by Entity A to customers for CU2,000,000 (20X0: CU1,500,000).**

**At 31 December 20X1 and 31 December 20X0 respectively Entity A owed Entity B CU30,000 and CU20,000 commission for goods sold.**

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

### Entity B’s financial statements

**Extract from notes to Entity B’s financial statements for the year ended 31 December 20X1**

#### Note 10 Related party transactions

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

	20X1	20X0
	CU	CU
Commission earned from Entity A in the year	400,000	300,000
Amount due from Entity A at the end of the year	30,000	20,000

# Module 33—Related Party Disclosures

## Entity A’s consolidated financial statements

### Entity A’s separate financial statements

**Extract from notes to Entity A’s separate financial statements for the year ended 31 December 20X1**

**Note 10 Related party transactions**

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

	20X1	20X0
	CU	CU
Commission earned by Entity B in the year	400,000	300,000
Amount due to Entity B at the end of the year	30,000	20,000

Note: in Group A’s consolidated financial statements entities A (the parent) and B (its subsidiary) comprise the group. Therefore, the commission arrangement is intragroup rather than a related party transaction. Therefore, Section 33 does not apply to the internal commission transaction because those consolidated financial statements present financial information about the group as a single economic entity (see paragraph 9.13) and accordingly, transactions between the parent (Entity A) and its subsidiary (Entity B) are eliminated on consolidation (see paragraph 9.15).

**Ex 48 Mr C is the owner manager of Entity C. On 1 January 20X1 Mr C lent CU1,000,000 to Entity C. The loan bears interest at the fixed rate of 10% per year, compounded annually. Entity C has a contractual obligation to repay the loan and accrued interest on 31 December 20X9. The loan is unsecured.**

*Extract from notes to Entity C’s financial statements for the year ended 31 December 20X1*

*Note 10 Related party transactions*

In 20X1, Entity C borrowed CU1,000,000 from Mr C—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 C was CU1,100,000.

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

The loan is unsecured.

**Ex 49 The facts are the same as Example 48. However, in this example Entity C borrowed CU1,000,000 from Bank A and Mr C guaranteed repayment of the capital and accrued interest on the loan from Bank A.**

*Extract from notes to Entity C’s financial statements for the year ended 31 December 20X1*

*Note 10 Related party transactions*

In 20X1 Mr C, the owner manager of Entity C, guaranteed repayment of the capital and accrued interest on the loan of CU1,000,000 obtained from Bank A (see note X on borrowings<sup>(3)</sup>).

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

<sup>(3)</sup> Unless Bank A is also a related party, details of the loan would be disclosed in the note on borrowings.

# Module 33—Related Party Disclosures

**Ex 50** In 20X1 Entity D sold goods to Entity E for CU500,000 (20X0: CU250,000). Entity E is controlled by Mrs E, the spouse of Entity D’s sales director.

The terms and conditions of sales by Entity D to Entity E are on terms equivalent to those that prevail in arm’s-length transactions, ie at list price on 30 days’ interest-free credit.

In December 20X1 Entity E filed for insolvency.

At 31 December 20X1 Entity E owed entity D CU80,000 (20X0: nil).

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

**Extract from notes to Entity D’s financial statements for the year ended 31 December 20X1**

**Note 10 Related party transactions**

In 20X1 Entity D sold goods to Entity E which was controlled by the spouse of the sales director (a related party) at list price on 30 days’ interest-free credit. These terms are available to all of Entity D’s customers, ie these related party sales are made on terms equivalent to those that prevail in arm’s-length transactions.

	20X1	20X0
	CU	CU
Sales of goods to Entity E in the year	500,000	250,000
Impairment loss (bad debt—Entity E) recognised as an expense in 20X1	50,000	nil
Gross amount of CU80,000 (20X0: 0) due from Entity E at 31 December net of CU50,000 (20X0: 0) impairment loss	30,000	nil

The amount due from Entity E is unsecured. In January 20X2, CU30,000 was recovered from the liquidator of Entity E 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.

**Example—categorisation of disclosed transactions with related parties**

**Ex 51** In 20X1 Entity A sold goods to its subsidiaries (entities B and C) as follows:

	20X1	20X0
Entity B	CU500,000	CU250,000
Entity C	CU400,000	CU350,000



## Module 33—Related Party Disclosures

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

	20X1	20X0
Entity D	CU50,000	CU55,000
Entity E	CU40,000	CU45,000

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

	At 31 December 20X1	At 31 December 20X0
Entity B	CU200,000	CU140,000
Entity C	CU100,000	CU140,000
Entity D	CU20,000	CU20,000
Entity E	CU10,000	CU14,000

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

In 20X1 Entity A purchased raw materials from its owner (Mr A) for CU125,000 (20X0: CU146,000). Mr A supplies raw materials to entity 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 Entity A with raw materials on 30 days' interest-free credit.

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

**Extract from notes to Entity A's separate financial statements for the year ended 31 December 20X1**

### Note 10 Related party transactions

...

	20X1	20X0
	CU	CU
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

Entity 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.

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

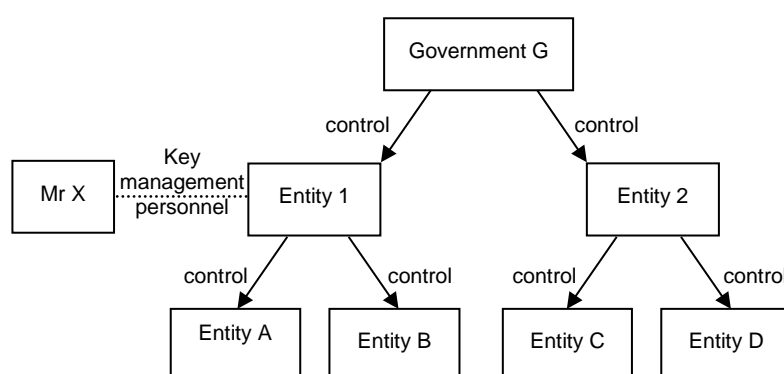
None of the related party balances are secured, none of the related parties have defaulted on their obligations and none are in arrears with their payments.

## Module 33—Related Party Disclosures

- 33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to:
- a **state** (a national, regional or local government) that has control, joint control or significant influence over the reporting entity; and
  - another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.
- However, the entity must still disclose a parent-subsidary relationship as required by paragraph 33.5.

### Example—exemption from disclosure

- Ex 52 **Government G directly or indirectly controls entities 1 and 2 and entities A, B, C and D. Mr X is a member of the key management personnel of Entity 1.**



For Entity A's financial statements, the exemption in paragraph 33.11 applies to:

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

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.

Despite the exemption, Entity A must disclose that its parent is Entity 1 and its ultimate controlling party is Government G (see paragraph 33.5 and paragraph 33.11).

- 33.12 The following are examples of transactions that shall be disclosed if they are with a related party:
- purchases or sales of goods (finished or unfinished);
  - purchases or sales of property and other **assets**;
  - rendering or receiving of services;
  - leases;
  - transfers of **research and development**;
  - transfers under licence agreements;
  - transfers under finance arrangements (including loans and equity contributions in cash or in kind);
  - provision of guarantees or collateral;
  - settlement of **liabilities** on behalf of the entity or by the entity on behalf of another party; and
  - participation by a parent or subsidiary in a **defined benefit plan** that shares risks between group entities.

# Module 33—Related Party Disclosures

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

The entity may state in its disclosures that the related party transaction was made on terms equivalent to those that prevail in an arm’s length transactions. These terms are substantiated by similar transactions with unrelated parties.

**Ex 54 The facts are the same as in Example 53. However, in this example, the related party was granted a 10% trade discount that is not available to independent third parties.**

The entity must not state that the related party transactions were made on terms equivalent to those that prevail in an arm’s length transactions. The assertion cannot be substantiated.

**Ex 55 The facts are the same as in Example 53. However, in this example, only the related party purchased the good from the entity. The goods were not available for sale to others on the same terms and conditions.**

The entity must not state that the related party transaction was made on terms equivalent to those that prevail in an arm’s length transactions. In this case an assertion that the related party transactions were made on term equivalent to those that prevail in an arm’s length transaction could not 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—aggregate/disaggregation**

**Ex 56 In 20X1, Entity A sold goods to its associates as follows:**

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

## Module 33—Related Party Disclosures

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

Amounts owed to Entity A by the its associates are as follows:

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

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

Entity 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). Entity A's net assets at 31 December 20X1 are CU10,000,000 (20X0: CU8,000,000).

Extract from notes to Entity A's separate financial statements for the

### Note 10 Related party transactions

...

	20X1	20X0
	CU	CU
<i>Related party transactions in the year</i>		
Sales of goods and services to associates		
- Entity 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		
- Entity B	500,000	640,000
- other associates	53,000	59,000
Amount due from Mr X, owner manager at 31 December	5,000	-

Transactions with Associate B are disclosed separately due to its size.

# Module 33—Related Party Disclosures

## SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Therefore, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its 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, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning 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 *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

Examples of the judgements that are required to apply Section 33 of the *IFRS for SMEs* Standard are set out under separate headings below.

### 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 may be necessary in evaluating whether a particular party is a related party. Examples that might require judgement include:

- determining whether a person or entity has control, joint control or significant influence over another entity (see Modules 9, 14 and 15);
- determining whether a person is a close member of the family of another person; and
- determining 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*

When a party controls another, the parties are related parties. In evaluating whether an entity has control over another it must first be ascertained whether the entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns directly, or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. The application guidance provided in paragraph 9.5 is useful in clarifying when an entity owns half or less of the voting power of an entity but still has control.

The facts of each individual case must be carefully considered in judging whether control exists. The Significant Estimates and Other Judgements section of Module 9 *Consolidated and Separate Financial Statements* of this training material describes in more detail the judgements that need to be made in assessing whether control exists.

## Module 33—Related Party Disclosures

### *Joint control*

In evaluating whether an entity has joint control over a venture, it must first be ascertained whether the entity and its fellow venturers collectively have control over the venture (ie the power to govern the strategic financial and operating decisions of the venture so as to obtain benefits from its activities).

If the venturers collectively have control over the venture, then it must be determined whether the contractual arrangement gives rise to joint control over the venture. Joint control is the contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions require the unanimous consent of the venturers.

The facts of each individual case must be carefully considered in judging whether joint control exists. The Significant Estimates and Other Judgements section of Module 15 *Investments in Joint Ventures* of this training material describes in more detail the judgements that need to be made in assessing whether joint control exists.

### *Significant influence*

When a party has significant influence over another, the parties are related parties.

In evaluating whether a party has significant influence over another, it must first be ascertained whether the party has the power to participate in the financial and operating policy decisions of the other entity. If the entity does have that power, then the party must establish that its power constitutes neither control nor joint control over those policies, before concluding that it has significant influence. These related party relationships are not as close as a relationship of control or joint control.

The application guidance provided in paragraph 14.3 is useful in clarifying whether an entity has significant influence over another. However, that guidance does not eliminate the need for judgement. That guidance requires the entity to judge whether it has significant influence ‘unless it can be clearly demonstrated that this is not the case’.

The facts of each individual case must be carefully considered in judging whether significant influence exists. The Significant Estimates and Other Judgements section of Module 14 *Investments in Associates* of this training material describes in more detail the judgements that need to be made in assessing whether significant influence exists.

### *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 level of authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly? This assessment is straightforward in many cases (eg paragraph 33.6 includes directors, whether executive or otherwise, in the key management personnel of an entity). However, in other cases the assessment may require significant judgement.

### *Close member of the family of a related party*

In assessing whether an individual is a close member of the family of a related party (and is therefore also a related party) the question is: might that family member be expected to influence, or be influenced by, that individual in their dealings with the entity? This assessment is straightforward in many cases. In the absence of evidence to the contrary, the following are close members of the family of a related party: the individual’s children and

## Module 33—Related Party Disclosures

spouse or domestic partner; children of the individual's spouse or domestic partner; and dependants of the individual or of the individual's spouse or domestic partner. However, in other cases the assessment may require significant judgement.

When, for example, 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 difficulty is encountered in determining how a related party transaction shall be disclosed. However, in a few cases significant judgement may be necessary in determining how related party transactions are to be classified within the categories listed in paragraph 33.10 and how information shall be aggregated and disaggregated (see paragraph 33.14).

# Module 33—Related Party Disclosures

## COMPARISON WITH FULL IFRS STANDARDS

When accounting for related party disclosures for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 24 *Related Party Disclosures*) and the *IFRS for SMEs* Standard (see Section 33 *Related Party Disclosures*) are:

- The *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards.
- Full IFRSs (see IAS 24 *Related Party Disclosures*) and the *IFRS for SMEs* Standard (see Section 33 *Related Party Disclosures*) as issued in October 2015 share the same principles for presenting related party disclosures. However, the *IFRS for SMEs* Standard is drafted in plain language and includes significantly less guidance on how to apply the principles.
- IAS 24 paragraph 17 requires the disclosure of key management personnel compensation both in total and also classified in the following categories: short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, and share-based payment. Paragraph 33.7 requires the disclosure of key management personnel compensation in total only—it does not explicitly require any categorisation of such compensation.
- Paragraph 33.10(a) groups into a single category the entities that are listed separately in IAS 24 paragraph 19(a) and (b), and paragraph 33.10(b) groups into a single category the entities that are listed separately in IAS 24 paragraph 19(c)–(e).
- Both IAS 24 and Section 33 provide exemptions from general related party disclosures for government related entities. However, when an entity applies those exemptions IAS 24 requires more disclosures than those specified in paragraph 33.11 of the *IFRS for SMEs* Standard). For example, full IFRS Standards require disclosure of the nature and amount of each individually significant transaction in sufficient details to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements. The *IFRS for SME* Standard does not include this disclosure requirement.



# Module 33—Related Party Disclosures

## TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for preparing related party disclosures applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

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

### Question 1

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 a joint venture.
- (d) one entity has joint control over the other.

### Question 2

Disclosure of a related party relationship is required:

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

### Question 3

Which of the following disclosures is **NOT** required by Section 33 *Related Party Disclosures*?

- (a) Relationships between a parent and its subsidiaries irrespective of whether there have been related party transactions.
- (b) Name of its parent and, if different, the ultimate controlling party.
- (c) Names of all the associates the entity has 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.

## Module 33—Related Party Disclosures

### Question 4

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

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

### Question 5

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

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

### Question 6

Entity A has control over Entity B. Entity B has control over Entity C.

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

### Question 7

Entity A has control over entity B. Entity B has significant influence over Entity C.

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

## Module 33—Related Party Disclosures

### Question 8

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

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

### Question 9

Mr A is the financial director of Entity A. He does not own any shares in Entity A. However, he owns 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity B. He and Mr Z (who also owns 30% of Entity B) have contractually agreed to jointly control Entity B.

From Entity A's perspective:

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

### Question 10

Which disclosure requirement Section 33 *Related Party Disclosures* exempts an entity from disclosing in relation to a state (national, regional or local government) that has control, joint control or significant influence over the reporting entity?

- (a) the requirement to disclose a parent-subsidiary relation.
- (b) information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.
- (c) information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements and the requirement to disclose a parent-subsidiary relation.
- (d) Section 33 does not provide any relief to such entities from certain disclosure requirements.

## Module 33—Related Party Disclosures

### Answers

- Q1 (c) see paragraph 33.4(b)
- Q2 (d) see paragraphs 33.5, and 33.9
- Q3 (c) See paragraph 33.5
- Q4 (a) see paragraph 33.2(b)(ii). Note: Entity C is not a related party of Entity A because Entity A does not control Entity B.
- Q5 (c) see paragraph 33.2(b)(ii)
- Q6 (d) see paragraph 33.2(b)(i)
- Q7 (d) see paragraphs 33.2(b)(i) and (ii)
- Q8 (d) see paragraphs 33.2(b)(i) and (ii). Note: Entity A has significant influence over Entity B, which controls Entity C, so, in the absence of evidence to the contrary, Entity A has significant influence over the group formed by entities B and C, and therefore has significant influence over Entity C, and is its related party.
- Q9 (c) see paragraph 33.2(a)(i) and 33.2(b)(vi).
- Q10 (b) See paragraph 33.11

# Module 33—Related Party Disclosures

## APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for presenting related party disclosures in applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

### Case study 1

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At 1 January 20X0 Mr A, Mrs B and Ms C owned 60%, 30% and 10% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of SME A. All ordinary shares carry equal voting rights.

Mr A is the finance director of SME A. Mrs B is the operations director. Mr A and Mrs B each earn a salary of CU200,000 per year from SME A.

Ms C is the daughter of the founder of SME A (Mrs C). She inherited her shares in SME A from Mrs C. Ms C lives abroad and is a passive investor.

On 30 June 20X1 Mrs B sold 100 ordinary shares in SME A to Mr A for CU1,000,000. After this transaction Mr A owns 65% of the ordinary shares in SME A.

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

Mrs and Mr B's daughter (Ms B) is a full-time university student.

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.

The building in which SME A manufactures its goods is owned by SME B. In accordance with the rental agreement SME A pays SME B 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.

The Family A Trust and the Family B Trust own 60% and 40% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of SME B. Master A and Ms B are the only beneficiaries of the Family A Trust and the Family B Trust respectively. Mr A and Mrs B are the Trustees of Family A Trust and Family B Trust respectively.

## Module 33—Related Party Disclosures

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 and Mr D own 75% and 25% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of SME C. All ordinary shares carry equal voting rights.

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.

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, Mr E and Ms G own 45%, 45% and 10% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of SME E. All ordinary shares carry equal voting rights. SME A and Mr E have contractually agreed to share control over SME E. SME A's accounting policy is to account for investments in jointly controlled entities using the cost method (see paragraph 15.10).

SME E manufactures a good from the by-product of SME A's production process. In 20X1 SME E 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 E owed SME A CU4,000 (20X0: CU1,000) for raw materials supplied.

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.

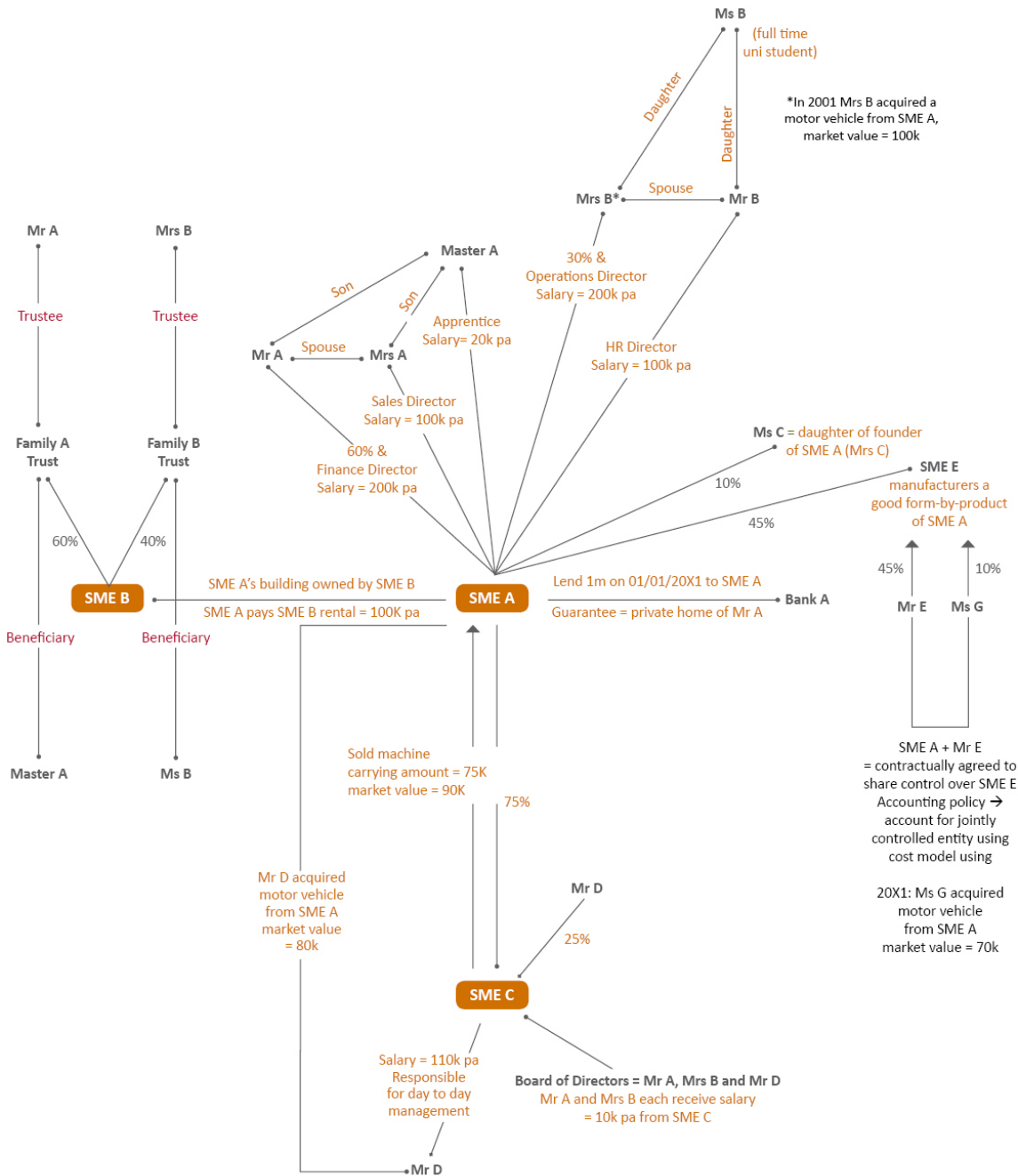
### **REQUIRED**

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

# Module 33—Related Party Disclosures

## Answer to case study 1

For ease of reference, the related party relationships and the related party transactions have been summarised in the chart below:



## Module 33—Related Party Disclosures

Mr A is a related party of SME A. He owns more than half of the voting power in SME A. In the absence of evidence to the contrary, he controls SME A (see paragraph 33.2(a)(ii)). Furthermore, Mr A is the finance director of SME A, ie he 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 of SME A, ie she is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)) and is a close member<sup>(a)</sup> (spouse) of the family of Mr A (see paragraph 33.2(a)(i) and (ii)).

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

Mrs B is a related party of SME A. She owns more than 20% of the voting power in SME A. In the absence of evidence to the contrary, Mrs B has significant influence over SME A (see paragraph 33.2(a)(iii)). Furthermore, Mrs B is the operations director of SME A, ie she 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 of SME A, ie he is a member of the key management personnel of SME A (see paragraph 33.2(a)(i)) and he is a close member<sup>(a)</sup> (spouse) of the family of Mrs B (see paragraph 33.2(a)(i) and (iii)).

Ms B is a related party of SME A. She is a close member<sup>(a)</sup> (daughter) of the family of Mr and Mrs B (see paragraph 33.2(a)(i) and (iii)).

The Family A Trust is a related party of SME A (see paragraph 33.2(b)(vi)). The Family A Trust is controlled by a related party of SME A (Mr A, the Trustee) for the benefit of a close member<sup>(a)</sup> of his family (Master A).

The Family B Trust is a related party of SME A (see paragraph 33.2(b)(vi)). The Family B Trust is controlled by a related party of SME A (Mrs B, the Trustee) for the benefit of a close member<sup>(a)</sup> of her family (Ms B).

SME B is a related party of SME A (see paragraph 33.2(b)(x)). SME B is under the control of the Family A Trust—the Family A Trust owns more than half of the voting power in SME B. Moreover, the Family A Trust is controlled by a related party of SME A (see above) and is under the significant influence of another related party of SME A—the Family B Trust (see above).

SME C is a related party of SME A (see paragraph 33.2(b)(i)). SME C is under the control of SME A—SME A owns more than half of the voting power in SME C.

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

Notes:

In the absence of evidence to the contrary, Ms C is not a related party of SME A. She is a passive investor who does not appear to exert significant influence over SME A.



## Module 33—Related Party Disclosures

In the absence of evidence to the contrary, Mr D is not a related party of SME A. He exerts significant influence over a subsidiary of SME C, but he does not exert significant influence over SME A. However, he is a related party of SME C (see paragraph 33.2(a)(i) and (iii)).

In the absence of evidence to the contrary, Mr E is not a related party of SME A (see paragraph 33.4(b)). However, he is a related party to SME E (see paragraph 33.2(a)(iii)).

In the absence of evidence to the contrary, Ms G is not a related party of SME A, and she is not a related party to SME E either.

<sup>(a)</sup> Refer to the Glossary for definition of close members of the family of a person.

## Module 33—Related Party Disclosures

### Case study 2

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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.**

# Module 33—Related Party Disclosures

## Answer to case study 2 – Part A

Note: the answer below provides one way of presenting the requirements. Other, less detailed presentation may 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 is the controlling shareholder and finance director of SME A. SME A has entered into a number of related party transactions with entities under his control and with close members of his family. Furthermore, Mr A personally guarantees the obligation of SME A to repay a loan from Bank A (principal CU1,000,000 and accrued interest CU100,000). The personal guarantee is registered against the title deeds of Mr A's private residence.

Mrs B exerts significant influence over SME A through her investment in over 20% of the voting rights and through her position of operations director. SME A has entered into a number of related party transactions with entities under her control and with close members of her family.

SME C is controlled by SME A. SME A owns 75% of the ordinary shares in SME C.

SME E (an entity under the joint control of SME A) manufactures a good from the by-product from SME A's manufacturing process. SME A supplies the by-product to SME E at its scrap value.

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

	20X1 CU	20X0 CU
Transactions with Mr A, close members of his family and entities under their control:		
Remuneration Mr A—short-term employee benefits (salary)	200,000	200,000
Remuneration Mrs A (Mr A's spouse)—short-term employee benefits (salary)	100,000	100,000
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	–
Transactions with Mrs B, close members of her family and entities under their control:		
Remuneration Mrs B—short-term employee benefits (salary)	200,000	200,000
Remuneration Mr B (Mrs B's spouse)—short-term employee benefits (salary)	100,000	100,000
Sale of a motor vehicle to Mrs B (director and shareholder that exerts significant influence over SME A), on terms equivalent to those that prevail in arm's-length transactions	100,000	–
Transactions with entities under the control and significant influence of Mr A and Mrs B respectively:		
SME A rented a factory from SME B under an operating lease. SME B is owned (60%) by the Family A Trust and (40%) by the Family B Trust. The Family A Trust is under the control of Mr A for the benefit of Master A. The Family B Trust is under the control of Mrs B for the benefit of Ms 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 E at scrap value	20,000	14,250
Amount due from (or to) related parties at 31 December		
- SME E (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.		

# Module 33—Related Party Disclosures

## Answer to case study 2 – Part B

Notes:

1. The answer below provides one way of presenting the requirements. Other, less detailed presentation may be appropriate provided it satisfies all the disclosure requirements in Section 33.
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

##### Note 10 Related party transactions

Mr A is the controlling shareholder and finance director of the SME A Group. The Group has entered into a number of related party transactions with entities under his control and with close members of his family. Furthermore, Mr A personally guarantees the obligation of SME A to repay a loan from Bank A (principal CU1,000,000 and accrued interest CU100,000). The personal guarantee is registered against the title deeds of Mr A's private residence.

Mrs B exerts significant influence over the SME A Group through her control over 25% of the voting rights in SME A and through her position of operations director of the Group. The Group has entered into a number of related party transactions with entities under her control and with close members of her family.

SME E (an entity under the joint control of the SME A Group) manufactures a good from the by-product from SME A's manufacturing process. SME A supplies the by-product to SME E at its scrap value.

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

	20X1 CU	20X0 CU
Transactions with Mr A, close members of his family and entities under their control:		
Remuneration Mr A—short-term employee benefits (salary)	200,000	200,000
Remuneration Mrs A (Mr A's spouse)—short-term employee benefits (salary)	100,000	100,000
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	–
Transactions with Mrs B, close members of her family and entities under their control:		
Remuneration Mrs B—short-term employee benefits (salary)	200,000	200,000
Remuneration Mr B (Mrs B's spouse)—short-term employee benefits (salary)	100,000	100,000
Sale of a motor vehicle to Mrs B	100,000	–
Transactions with entities under the control and significant influence of Mr A and Mrs B respectively:		
SME A rented a factory from SME B under an operating lease. SME B is owned (60%) by the Family A Trust and (40%) by the Family B Trust. The Family A Trust is under the control of Mr A for the benefit of Master A. The Family B Trust is under the control of Mrs B for the benefit of Ms B.	100,000	100,000
Transactions with entities under the joint control of SME A:		
Sales of by-products to SME E at scrap value	20,000	14,250
Amount due from (or to) related parties at 31 December		
- SME E (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.		