



Oduware Uwadiae

Related party disclosures (Part 1)

The disclosure requirements of IAS 24:13 and IAS 24:18 do not specify whether the related party relationship should exist at the reporting date in order for the two parties to be considered related. Consequently, it is unclear whether related party relationships or transactions between parties should be disclosed if the parties were related during the reporting period, but have ceased to be related at the end of the reporting period

Purpose of related party disclosures

The objective of IAS 24 is to ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by transactions and outstanding balances with related parties. [IAS 24:1] The Standard clarifies that 'outstanding balances' include commitments.

IAS 24 notes that related party relationships are a normal feature of business and commerce. It is common, for example, for entities to operate separate parts of their activities through subsidiaries, associates or joint ventures. Such relationships can have an effect on the operating results and financial position of the reporting entity. They may lead to transactions being entered into between the related parties that would not be entered into between unrelated parties, or to transactions being effected at different amounts from those that would prevail between unrelated parties.

The Standard also considers the implications of the existence of related party relationships – even if there are no transactions between the parties concerned. It acknowledges that the mere existence of the relationship may be sufficient to affect the transactions of the reporting entity with other parties. For example, a subsidiary might terminate relations with a trading partner following the acquisition by its parent of a fellow subsidiary engaged in the same trade as the former partner.

Alternatively, one party might refrain from acting because of the significant influence of another – for example, a subsidiary might be instructed by its parent not to engage in research and development.

For these reasons, the Standard concludes that knowledge of an entity's transactions, outstanding balances, including commitments, and

relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Consolidated financial statements

IAS 24 contains no specific exemptions for intragroup transactions in consolidated financial statements. Such intragroup transactions and outstanding balances are, however, eliminated on consolidation. [IAS 24:4] When intragroup transactions and outstanding balances are eliminated, they do not form part of the consolidated financial statements; consequently, such related party transactions and outstanding balances between group members are not disclosed under IAS 24.

For entities that have adopted the Investment Entities amendments (effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted), IAS 24:4 has been amended to clarify that intragroup related party transactions between an investment entity and its subsidiaries measured at fair value through profit or loss are not eliminated in the preparation of the consolidated financial statements of the group. [IAS 24:4]

Accordingly, transactions and outstanding balances between an investment entity and its unconsolidated subsidiaries are required to be disclosed under IAS 24. Separate and individual financial statements.

When a parent or investor presents separate financial statements in accordance with IAS 27(2011) Separate Financial Statements, IAS 24 applies equally to those separate financial statements.

There are no exemptions available to subsidiaries in respect of transactions and balances with other group entities. Related party transactions and outstanding balances with other

entities in a group are disclosed in an entity's separate or individual financial statements. [IAS 24:4]

Relationships that change during the period

A related party relationship might have commenced or ceased during the reporting period. The question arises as to what impact this has on the related party disclosures required under IAS 24:13 (disclosure of related party relationships when control exists and identification of the parent and ultimate controlling party) and IAS 24:18 (disclosure of transactions between related parties).

The disclosure requirements of IAS 24:13 and IAS 24:18 do not specify whether the related party relationship should exist at the reporting date in order for the two parties to be considered related. Consequently, it is unclear whether related party

relationships or transactions between parties should be disclosed if the parties were related during the reporting period, but have ceased to be related at the end of the reporting period.

However, to ensure a faithful representation of the events and transactions for the reporting period, it is recommended that the disclosures should reflect all related party events and transactions for the period.

In respect of related party relationships when control exists and the identification of the parent and ultimate controlling party, the disclosures should include all entities that were the parent or ultimate controlling party of the reporting entity for any part of the reporting period or at the time of issue of the financial statements. When there has been a change in the parent or ultimate controlling party during the reporting period, disclosure of the identity of both enables external users to access relevant publicly available information for both.

In respect of the disclosures regarding transactions between related parties under IAS 24:18, the amounts of such transactions and details regarding terms and conditions etc. should be disclosed for those transactions if the parties were related at the time of the transaction.

Outstanding balances, including related allowances for doubtful debts, should be disclosed in respect of parties that were related parties either at the end of the reporting period or at the time of the transaction that gave rise to the outstanding balance. If the parties were related at the time of a transaction, disclosure of any outstanding balances provides useful information to external users regarding the settlement of related party transactions, even if the parties are no longer related at the end of the reporting period. Similarly, the disclosure of outstanding balances with parties that are related at the

end of the reporting period, but were not related at the time of the transaction, enables users of the financial statements to assess the potential impact of the related party relationship on the future financial position and performance of the reporting entity.

If parties become related after the reporting date, but before the financial statements are authorised for issue, disclosures regarding the new related party may be required in accordance with paragraph 21 of IAS 10 Events After the Reporting Period. If the new related party relationship is considered to be a material non-adjusting event after the reporting period, IAS 10:21 requires disclosure of the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made).

There are no exemptions available to subsidiaries in respect of transactions and balances with other group entities. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's separate or individual financial statements. [IAS 24:4]

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