

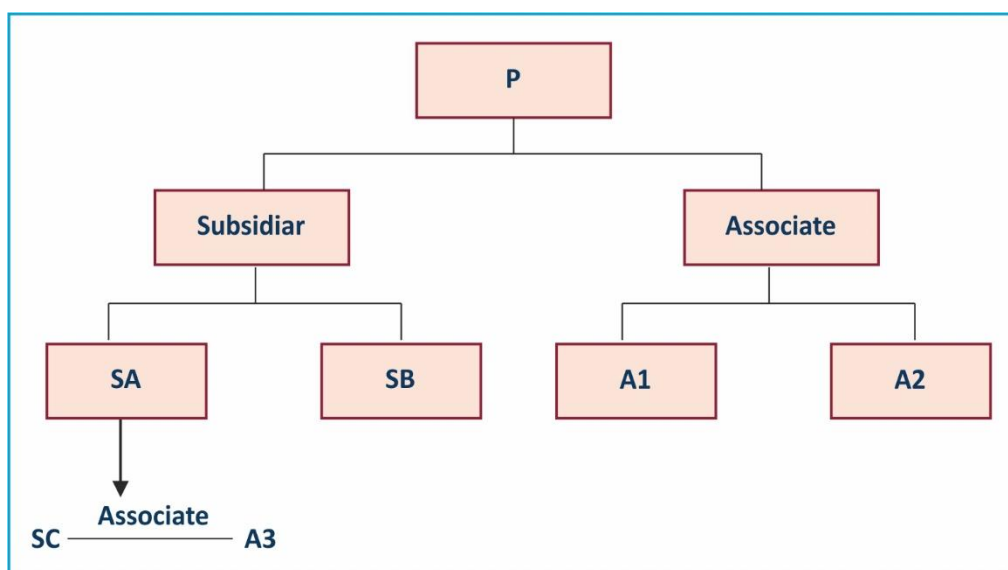
CHAPTER 24

RELATED PARTY DISCLOSURES (IND AS 24)

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: Entity P Limited has a controlling interest in subsidiaries SA Limited and SB Limited and SC Limited. SC Limited is a subsidiary of SB Limited. P Limited also has significant influence over associates A1 Limited and A2 Limited. Subsidiary SC Limited has significant influence over associate A3 Limited. Examine related party relationships of various entities.

Ans:



- In Separate Financial Statements of P Limited, SA Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SA Limited, P Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SB Limited, P Limited, SA Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of SC Limited, P Limited, SA Limited, SB Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- In the Individual Financial Statements of associates A1 Limited, A2 Limited and A3 Limited; P Limited, SA Limited, SB Limited and SC Limited are related parties.
- A1 Limited, A2 Limited and A3 Limited are not related to each other.
- For Parent's consolidated financial statements, A1 Limited, A2 Limited and A3 Limited are related to the Group

Q2: Mr. X has a 100% investment in A Limited. He is also a member of the key management personnel (KMP) of C Limited. B Limited has a 100% investment in C Limited.

Required

- (a) Examine related party relationships from the perspective of C Limited for A Limited.
- (b) Examine related party relationships from the perspective of C Limited for A Limited if Mr. X is a KMP of B Limited and not C Limited.
- (c) Will the outcome in (a) & (b) would be different if Mr. X has joint control over A Limited.
- (d) Will the outcome in (a) & (b) would be different if Mr. X has significant influence over A Limited.

Ans:

- (a) A Limited is related to C Limited because Mr. X controls A Limited and is a member of KMP of C Limited.
- (b) Still A Limited will be related to C Limited.
- (c) No, Still A Limited will be related to C Limited.
- (d) Yes, A Ltd. is not controlled by Mr. X. Therefore, despite Mr. X being KMP of C Ltd., A Ltd., having significant influence of Mr. X, will not be considered as related party of C Limited.

Q3: Mr. X has an investment in A Limited and B Limited.

Required

- (i) Examine when can related party relationship be established
 - (a) from the perspective of A Limited's financial statements:
 - (b) from the perspective of B Limited's financial statements:
- (ii) Will A Limited and B Limited be related parties if Mr. X has only significant influence over both A Limited and B Limited **[Exam May 2023 (4 Marks)]**

Ans:

- (i)
 - (a) If Mr. X controls or jointly controls A Limited, B Limited is related to A Limited when Mr. X has control, joint control or significant influence over Entity B.
 - (b) If Mr. X controls or jointly controls A Limited, A Limited is related to Entity B when Mr. X has control, joint control or significant influence over Entity B.
- (ii) No, A Ltd. & B Ltd., will not be considered as related party since no direct or indirect control is exercised on each other in any of the manner.

Q4: Government G directly controls Entity 1 and Entity 2. It indirectly controls Entity A and Entity B through Entity 1, and Entity C and Entity D through Entity 2. Person X is a member of the key management personnel in Entity 1.

Required

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

Ans: For Entity A's financial statements, the exemption of Ind AS 24 applies to:

- (a) transactions with Government G; and
- (b) transactions with Entities 1 and 2 and Entities B, C and D. However, that exemption does not apply to transactions with Person X.

Q5: Power Limited is a producer of electricity. Transmission Limited regularly purchases electricity from Power Limited. Power Limited whose financial year ends on March 31, 20X2, acquired 100% shareholding of Transmission Limited on July 15, 20X1. However, the entire shareholding is disposed of on March 21, 20X2. Power Limited and Transmission Limited had transactions when Transmission Limited was a subsidiary of Power Limited and also in the period when it was not a subsidiary of Power Limited.

Required

What related party disclosures should Power Limited make in its financial statements for the year ended March 31, 20X2 with respect to transactions with Transmission Limited.

Ans: Power Limited should in its financial statements for the year ended March 31, 20X2 make related party disclosures for the period from July 15, 20X1 to March 21, 20X2 when Transmission Limited was its subsidiary.

Q6: Mr. X is a domestic partner of Ms. Y. Mr. X has an investment in A Limited and Ms. Y has an investment in B Limited.

Required

- (a) Examine when can a related party relationship is established, from the perspective of A Limited's financial statements:
- (b) Examine when can related party relationship is established, from the perspective of B Limited's financial statements:
- (c) Will A Limited and B Limited be related parties if Mr. X has only significant influence over A Limited and Ms. Y also has significant influence over B Limited:

Ans:

- (a) If Mr. X controls or jointly controls A Limited, B Limited is related to A Limited when Ms. Y has control, joint control or significant influence over B Limited.
- (b) If Mr. X controls or jointly controls A Limited, A Limited is related to B Limited when Ms. Y has control, joint control or significant influence over B Limited.
- (c) No, Significant influence does not lead to direct/indirect control between the A Ltd. & B Ltd.

Q7: A Limited has both (i) joint control over B Limited and (ii) joint control or significant influence over C Limited

Required

- (a) Examine related party relationship from the perspective of C Limited's financial statements:
- (b) Examine related party relationship from the perspective of B Limited's financial statements:

- Ans:** (a) C Limited is related to B Limited
- (b) B Limited is related to C Limited

Q8: ABC Ltd. is a long-standing customer of XYZ Ltd. Mrs. P whose husband is a director in XYZ Ltd. purchased a controlling interest in entity ABC Ltd. on 1st June, 2017. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 2017 to 31st May 2017 totalled ₹ 8,00,000. Following the shares purchased by Mrs. P, XYZ Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, XYZ Ltd.'s normal credit policy). Sales of products from XYZ Ltd. to ABC Ltd. in the ten-month period from 1st June 2017 to 31st March 2018 totalled ₹ 60,00,000. On 31st March 2018, the trade receivables of XYZ Ltd. included ₹ 18,00,000 in respect of amounts owing by ABC Ltd.

Analyse and show how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31 March 2018 and mention the disclosure requirements also as per Ind AS.

[RTP Nov 2018; MTP JAN 2026]

Ans: XYZ Ltd. would include the total revenue of ₹ 68,00,000 (₹ 60,00,000 + ₹ 8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2018 within its revenue and show ₹ 18,00,000 within trade receivables at 31st March 2018.

Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd.

From 1st June 2017, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom XYZ Ltd. has transactions, then XYZ Ltd. should disclose:

- The nature of the related party relationship.
- The revenue of ₹ 60,00,000 from ABC Ltd. since 1st June 2017.
- The outstanding balance of ₹ 18,00,000 at 31st March 2018.

In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favourable terms under which the transactions are carried out.

Q9: Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the Management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of ₹ 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged ₹ 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of

the organisation, their fee should not be disclosed as per related party transaction in accordance with Ind AS 24.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?

[RTP May 2018; MTP May 25]

Ans: As per paragraph 9 of Ind AS 24, Related Party Disclosures, “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.”

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, ‘Employee Benefits’, an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd.

Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors’ fee of (₹ 10,00,000 + ₹ 7,50,000) ₹ 17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

Q10: Mr. X, is the financial controller of ABC Ltd., a listed entity which prepares consolidated financial statements in accordance with Ind AS. Mr. X has recently produced the final draft of the financial statements of ABC Ltd. for the year ended 31st March, 20X2 to the managing director Mr. Y for approval. Mr. Y, who is not an accountant, had raised following query from Mr. X after going through the draft financial statements:

One of the notes to the financial statements gives details of purchases made by ABC Ltd. from PQR Ltd. during the period 20X1-20X2. Mr. Y owns 100% of the shares in PQR Ltd. However, he feels that there is no requirement for any disclosure to be made in ABC Ltd.’s financial statements since the transaction is carried out on normal commercial terms and is totally insignificant to ABC Ltd., as it represents less than 1% of ABC Ltd.’s purchases.

Provide answers to the query raised by the Managing Director Mr. Y as per Ind AS.

Ans: Ongoing through the queries raised by the Managing Director Mr. Y, the financial controller Mr. X explained the notes and reasons for their disclosures as follows:

Related parties are generally characterised by the presence of control or influence between the two parties.

Ind AS 24 'Related Party Disclosures' identifies related parties as, inter alia, key management personnel and companies controlled by key management personnel. On this basis, PQR Ltd. is a related party of ABC Ltd.

The transaction is required to be disclosed in the financial statements of ABC Ltd. since Mr. Y is Key Management personnel of ABC Ltd. Also at the same time, it owns 100% shares of PQR Ltd. ie. he controls PQR Ltd. This implies that PQR Ltd. is a related party of ABC Ltd.

Where transactions occur with related parties, Ind AS 24 requires that details of the transactions are disclosed in Notes to the financial statements. This is required even if the transactions are carried out on an arm's length basis.

Transactions with related parties are material by their nature, so the fact that the transaction may be numerically insignificant to ABC Ltd. does not affect the need for disclosure.

Q11: Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited. ·

- (a) Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies.
- (b) What are the disclosure requirements for the entity which has availed the exemption?

RTP Nov 2019]

Ans: (a) As per para 18 of Ind AS 24, 'Related Party Disclosures', if an entity had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

However, as per para 25 of the standard a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

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

According to the above paras, for Entity P's financial statements, the exemption in paragraph 25 applies to:

- (i) transactions with Government Uttar Pradesh State Government; and
- (ii) transactions with Entities PQR and ABC and Entities Q, A and B.

Similar exemptions are available to Entities PQR, ABC, Q, A and B, with the transactions with UP State Government and other entities controlled directly or indirectly by UP State Government. However, that exemption does not apply to transactions with Mr. KM. Hence, the transactions with Mr. KM needs to be disclosed under related party transactions.

- (b) It shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:
- (a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
 - (b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - (i) the nature and amount of each individually significant transaction; and
 - (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Q12: S Ltd., a wholly owned subsidiary of P Ltd is the sole distributor of electricity to consumers in a specified geographical area. A manufacturing facility of P Ltd is located in the said geographical area and, accordingly, P Ltd is also a consumer of electricity supplied by S Ltd. The electricity tariffs for the geographical area are determined by an independent rate-setting authority and are applicable to all consumers of S Ltd, including P Ltd. Whether the above transaction is required to be disclosed as a related party transaction as per Ind AS 24, Related Party Disclosures in the financial statements of S Ltd.?

Ans: As per paragraph 9(b)(i) of Ind AS 24, each parent, subsidiary and fellow subsidiary in a 'group' is related to the other members of the group. Thus, in the case under discussion, P Ltd is a related party of S Ltd from the perspective of financial statements of S Ltd.

Paragraph 11 of Ind AS 24 states as follows:

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

- a) two entities simply because they have a director or other member of management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- b) two joint venturers simply because they share joint control of a joint venture.
- c) (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence."

Being engaged in distribution of electricity, S Ltd is a public utility. Had the only relationship between S Ltd and P Ltd been that of a supplier and a consumer of electricity, P Ltd would not have been regarded as a related party of S Ltd. However, as per the facts of the given case, this is not the only relationship between S Ltd and P Ltd. Apart from being a supplier of electricity to P Ltd., S Ltd is also a subsidiary of P Ltd; this is a relationship that is covered within the related party relationships to which the disclosure requirements of the standard apply. In view of the above, the supply of electricity by S Ltd to P Ltd is a related party transaction that attracts the disclosure requirements contained in paragraph 18 and other relevant requirements of the standard. This is notwithstanding the fact that P Ltd is charged the electricity tariffs determined by an independent rate-setting authority (i.e., the terms of supply to P Ltd are at par with those applicable to other consumers)

Ind AS 24 does not exempt an entity from disclosing related party transactions merely because they have been carried out on an arm's length basis.

QUESTIONS FROM RTP/MTP/EXAMS

Q13: An Indian company has a parent company outside India. Parent company negotiates software licenses with end vendor and based on number of licences, parent company gets its reimbursement from Indian company. Say, license cost of ₹ 12 Lac is charged for calendar year of 2018. Parent company generates its invoice in February'18. Indian company accounts full invoice in February'18 and then for Indian financial year, accounts Reimbursement expense of ₹ 3.00 Lac during FY 1718 (for licencing cost relating to period January'18 to March'18) and Prepaid expenses of ₹ 9 Lac for licencing cost reimbursement relating to April'18 to December'18. Prepaid expense is subsequently reversed and expense of ₹9 Lac is accounted for in FY 18-19. What amount should be disclosed at Related party transaction? [MTP May 2019]

Ans: Paragraph 9 of Ind AS 24 Related Party Disclosures defines Related Party Transactions as under:

“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.”

Paragraph 6 of Ind AS 24 states as under:

“6 A related party relationship could have an effect on the profit or loss and financial position of an entity...”

In the given case, there is a transfer of resources to the extent of ₹12 lac from the company to the parent towards software license. Of this transfer of resources, the company has consumed the benefits relating to ₹3 lac of software license cost which is recognised in profit or loss. The benefits relating to ₹9 lac of software license cost will be consumed in the next reporting period and therefore is recognised in balance sheet as prepaid expenses.

Paragraph 18 of Ind AS 24 states as under:

“18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments necessary for users to understand the potential effect of the relationship of the financial statements. At a minimum, disclosures shall include:

- a. The amount of the transactions;
- b. The amount of outstanding balances, including commitments, and;
 - (i) Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) Details of any guarantees given or received;
- c. Provisions for doubtful debts related to the amount of outstanding balances; and
- d. The expense recognised during the period in respect of bad and doubtful debts due from related parties.”

Therefore, the company has to disclose:

1. The amount of transaction with the parent of ₹12 lac towards software license;
2. Outstanding balance of ₹9 lac presented as prepaid expense along with the terms and conditions and state that the same will be settled in the next reporting period by receipt of software licensing services.
3. The amount of ₹3 lac recognised as software license expense in profit or loss for the benefits consumed during the period to make it understandable to users.

Paragraph 113 of Ind AS 1 Presentation of Financial Statements states as under:

“113 An entity shall present notes in a systematic manner. An entity shall cross-reference each line items in the balance sheet and in the statement of profit and loss, and in the statement of changes in equity and of cash flows to any related information in the notes.”

Therefore, the company shall cross-reference the software license expense recognised in profit or loss and prepaid expenses recognised in balance sheet to the notes disclosing related party transactions.

Q14: Mr. X owns 95% of entity A and is its director. He is also beneficiary of a trust that owns 100% of entity B, of which he is a director.

Whether entities A and B are related parties?

Would the situation be different if:

- a) Mr. X resigned as a director of entity A, but retained his 95% holding?
- b) Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust?

[RTP Nov 2020]

Ans: Entities A and B are related parties, because the director (Mr. X) controls entity A and is a member of the key management personnel of entity B.

Answers to different given situations would be as under:

- a) **Mr. X resigned as a director of entity A, but retained his 95% holding:** Mr. X continues to control entity A through his 95% holding even though he is not (nominally) a director of the entity. Entities A and B are related if Mr. X controls the trust. Mr. X controls entity

A and also, through the trust, controls entity B. Entities A and B are controlled by the same person, and so they are related parties.

Mr. X might still be a member of 'key management personnel' even though he is not (nominally) a director of entity A. Key management personnel includes, but is not restricted to, directors, which include those who are executive 'or otherwise' provided they had authority and responsibility for planning, directing and controlling the activities of the entity. There could be two reasons why entities A and B would continue to be related parties: Mr. X being a member of 'Key management personnel' of entity A and Mr. X controlling entity A.

- b) **Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust:** If Mr. X controls the trust, he controls entities A and B through the trust, so they will be related parties (see reason in (a) above)

Mr. X is a member of 'key management personnel' of the two entities (see (a) above) if, as seems likely, he continues to direct their operating and financial policies. The substance of the relationship and not merely the legal form should be considered. If Mr X is regarded as a member of the key management personnel of, say, entity A, entity B is a related party, because he exercises control or significant influence over entity B by virtue of his control over the trust.

Q15: Entity A owns 30% of the share capital of entity B and has the ability to exercise significant influence over it.

Entity B holds the following investments:

- 70% of the share capital of its subsidiary, entity C; and
- 30% of the share capital of entity D, with the ability to exercise significant influence.

Entity A transacts with entities C and D. Should entity A disclose these transactions as related party transactions in its separate financial statements? Also explain the disclosure of such transactions in the financial statements of C and D as related party transaction.

[RTP May 2022; IBS MTP Nov 24]

Ans: Entity A should disclose its transactions with entity C in entity A's separate financial statements. Entity C is a related party of entity A, because entity C is the subsidiary of entity A's associate, entity B.

Entity A's management is not required to disclose entity A's transactions with entity D in its financial statements. Entity D is not a related party of entity A, because entity A has no ability to exercise control or significant influence over entity D.

Entity C is required to disclose its transactions with entity A in its financial statements, because entity A is a related party.

Entity D is not required to disclose transactions with entity A, because they are not related parties.

Q16: SEL has applied for a term loan from a bank for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of SEL to be executed. In case of default by SEL, the director will be required to compensate for the loss that bank incurs. Mr. Pure Joy, one of the directors had given guarantee to the bank pursuant to which the loan was sanctioned to SEL. SEL does not pay premium or fees to its director for providing this financial guarantee.

Whether SEL is required to account for the financial guarantee received from its director? Will there be any disclosures under Ind AS 24? **[RTP May 2023]**

Ans: Ind AS 109 'Financial Instruments', defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.'

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

- the reference obligation is a debt instrument (term loan);
- the holder i.e. Bank is compensated only for a loss that it incurs (arising on account of non-repayment); and
- the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, SEL is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee. Accordingly, SEL will not be required to account for such financial guarantee in its financial statements considering the unit of account as being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that SEL received.

In the given case based on the limited facts provided, SEL will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24 as follows:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments, and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

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

Q17: One of the directors of Build well Ltd. Mr. Ben Jones has informed Central Finance team that on 1st January 20X3, his spouse acquired a controlling interest in one of Build well Ltd.'s major suppliers, Candour Ltd. Mr. Jones seemed to think that this would have implications on the financial statements of Build well Ltd. Build well Ltd. has been purchasing goods from Candour Ltd. Rs. 1.5 million per month of the year ended 31st March 20X3.

As per the financial statements of Build well Ltd. This is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. Were made at normal market rates.

How the effect of acquisition of controlling interest in Candour Ltd. By Mr. Ben Jones is to be reflected in the financial statements for the year ending 31st March 20X3? **[MTP Nov 2024]**

Ans: In accordance with Ind AS 24 'Related Party Disclosures', effective 1st January 20X3, Candour Ltd. Would be regarded as a related party of Build well Ltd. This is because Candour Ltd. Is controlled by the close family member of one of Build well Ltd.'s key management personnel. This means that from 1st January 20X3, the purchases from Candour Ltd. Would be regarded as related party transactions.

As per the provisions of Para 18 of Ind AS 24, transactions with related parties need to be disclosed in the notes to the financial statements, together with the nature of the relationship. It is irrelevant whether or not these transactions are at normal market rates. As per para 23 of the standard, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

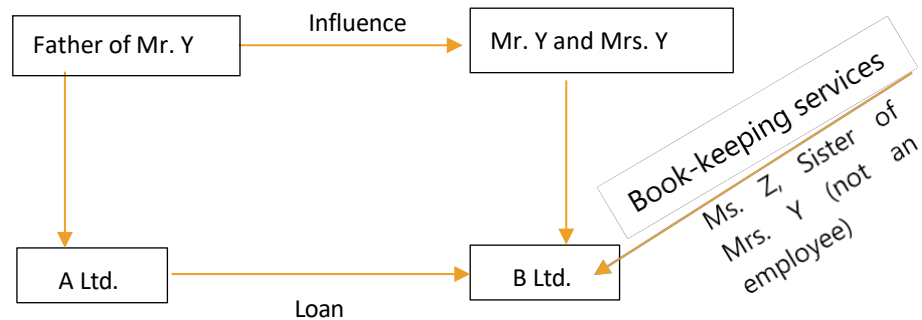
The disclosure is required to state that Candour Ltd., controlled by the spouse of a director, supplied goods to the value of Rs.4.5million (3 X Rs.1.5 million) in the current accounting period.

Q18: Mr. Y's father owns 100% of the shares in A Ltd. Mr. Y and Mrs. Y own 100% of the shares in B Ltd. Ms. Z who is Mrs. Y's sister, provides book-keeping services from time to time to B Ltd. However, Ms. Z is not an employee of B Ltd. A Ltd. has increased its loan of ₹ 1,50,000 to B Ltd. to ₹ 2,00,000 during the year, for which A Ltd. charges a below market rate of interest.

Required:

- a) State whether Mr. Y's father & Mrs. Y's sister are related party of B Ltd.
- b) What disclosure is to be made in the financial statements of both A Ltd. & B Ltd. with respect to the loan given by A Ltd. to B Ltd.?
- c) Whether B Ltd. is required to disclose the dealings with the sister of Mrs. Y in its financial statements? **[RTP Nov 2025]**

Ans:



- a) Mr. Y's father and Mrs. Y's sister are related parties of B Ltd., if they are 'close family' of either Mr. Y or Mrs. Y. They are close family if they might be expected to influence, or be influenced by, Mr. Y or Mrs. Y in their dealing with B Ltd. Mr. Y's father and Mr. Y and Mrs. Y are 'close family', so Mr. Y's father is a related party of B Ltd., which is controlled by Mr. Y and Mrs. Y.

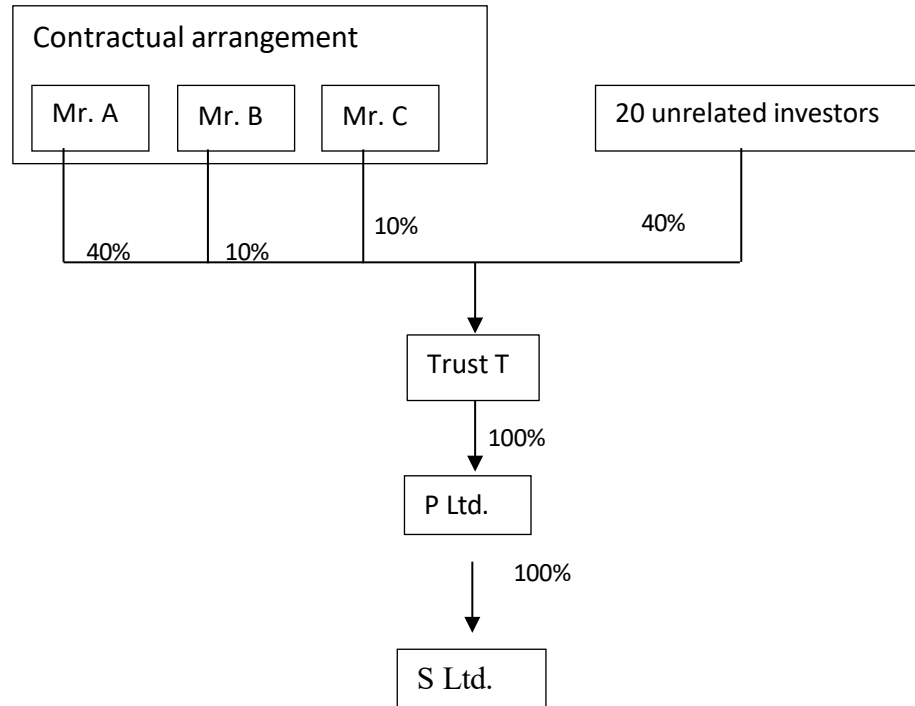
Mr. Y's father has a controlling interest in A Ltd. A Ltd. is a related party of B Ltd.

- b) Both entities should disclose the necessary details regarding the increase in the loan to ₹ 2,00,000 in their financial statements. A Ltd. should also disclose the amounts due to it from B Ltd. on the balance sheet date, together with any provisions and amounts written off. B Ltd. should disclose the amount that it owes to A Ltd. at the balance sheet date.
- c) B Ltd. would have to disclose the transactions with Mrs. Y's sister if the sister might be expected to influence, or be influenced by, either Mr. Y or Mrs. Y in their dealings with B Ltd. based on further facts of the case. In case the influence exists, following disclosures to be made as per para 18A of Ind AS 24 which states that amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

Q19: Mr. A, Mr. B and Mr. C have direct interests of 40%, 10% and 10% respectively, of Trust T. The remaining 40% interest in Trust T is held by 20 unrelated investors. Mr. A, Mr. B and Mr. C wish to control the trust, and so they enter into a contractual arrangement to act together. In this situation, assume that 1% interest constitutes one voting right. S Ltd. is a wholly owned subsidiary of P Ltd. and P Ltd. is wholly owned by Trust T.

Required: Should a group of persons be disclosed as the ultimate controlling party where they have a contractual arrangement to act together? **[RTP Jan 2026]**

Ans: The following diagram shows the structure of the Group:



S Ltd.'s management should disclose Mr. A, Mr. B and Mr. C as the ultimate controlling party (as a group) of S Ltd. where they have a contractual arrangement to act together, irrespective of whether there were transactions between them and S Ltd. during the year.

The agreement between Mr. A, Mr. B and Mr. C provided them with a collective control over 60% (40%+10%+10%) of Trust T's voting rights. Mr. A, Mr. B and Mr. C form a group that controls Trust T, which controls P Ltd. and S Ltd.

Trust T should also be disclosed as the ultimate parent entity of S Ltd. in the notes to the financial statements, if this information is not disclosed elsewhere in information published with the financial statements.

Trust T would be the ultimate controlling party of S Ltd. and only Mr. A would be a related party of S Ltd. if the contractual arrangement to act together did not exist. Mr. A is related to S Ltd. because his 40% interest in Trust T gives him significant influence over S Ltd.