

## TOPIC - 18

### ACCOUNTING STANDARD - 18

### RELATED PARTY DISCLOSURES

#### Total No. of Question 19

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#### SERIES 100 – ICAI STUDY MODULE QUESTIONS

##### Q.AS18.SM.101:

Narmada Ltd. sold goods for Rs 90 lakhs to Ganga Ltd. during financial year ended 31-3-20X1. The Managing Director of Narmada Ltd. own 100% of Ganga Ltd. The sales were made to Ganga Ltd. at normal selling prices followed by Narmada Ltd. The Chief accountant of Narmada Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant, correct?



##### Q.AS18.SM.102:

Mr. Raj a relative of key management personnel received remuneration of ₹ 2,50,000 for his services in the company for the period from 1.4.20X1 to 30.6.20X1. On 1.7.20X1, he left the service.

Should the relative be identified as at the closing date i.e. on 31.3.20X2 for the purposes of AS 18?



##### Q.AS18.SM.103:

X Ltd. sold goods to its associate Company for the 1st quarter ending 30.6.20X1. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.



**Q.AS18.SM.104:**

Identify the related parties in the following cases as per AS-18

A Ltd. holds 51% of B Ltd.

B Ltd holds 51% of O Ltd.

Z Ltd holds 49% of O Ltd.

**Q.AS18.SM.105**

Consider a scenario wherein:

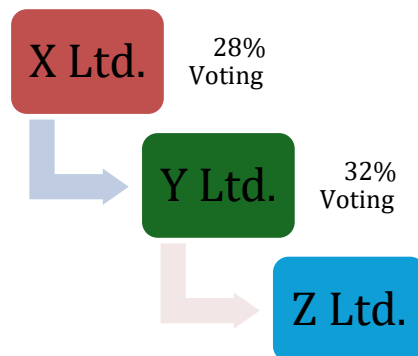
- A Ltd. has 60% voting right in B Ltd.
- A Ltd. also has 22% voting right in C Ltd.; and
- B Ltd. has 30% voting right in C Ltd.

Whether C Ltd. is to be treated under AS-18 as a party related to A Ltd.?

**Q.AS18.SM.106**

Consider a scenario wherein:

- X Ltd. holds 28% voting right in Y Ltd. (and hence Y Ltd. is an associate of X Ltd.)
- Y Ltd. holds 32% voting right in Z Ltd. (and hence Z Ltd. is an associate of Y Ltd.)



In the above case, since Y Ltd. is an associate of X Ltd. – Y Ltd. is a related party to X Ltd.

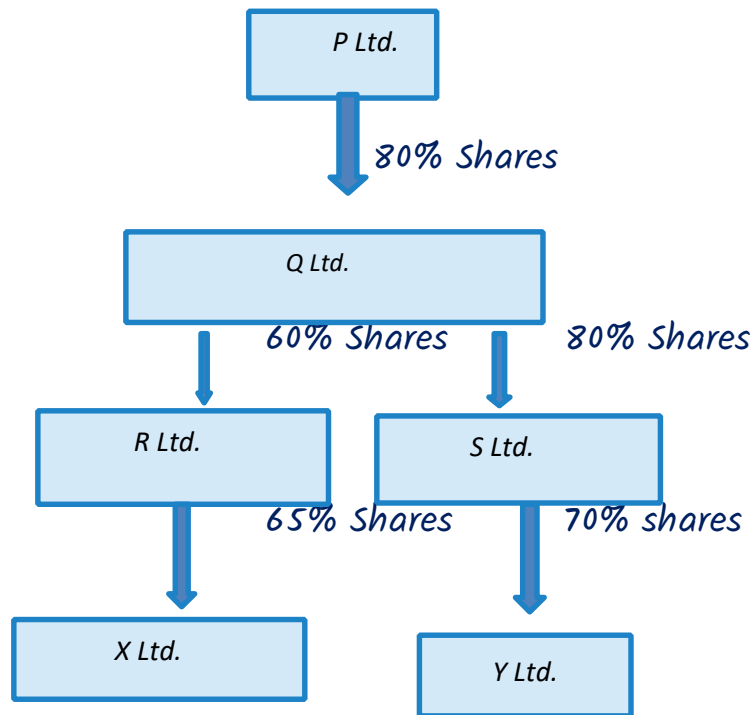
Likewise, since Z Ltd. is an associate of Y Ltd. – Z Ltd. is a related party to Y Ltd.

The question is: Whether Z Ltd. is to be treated under AS-18 as a party related to X Ltd.?



**Q.AS18.SM.107**

Consider the following organization structure related to P Ltd.

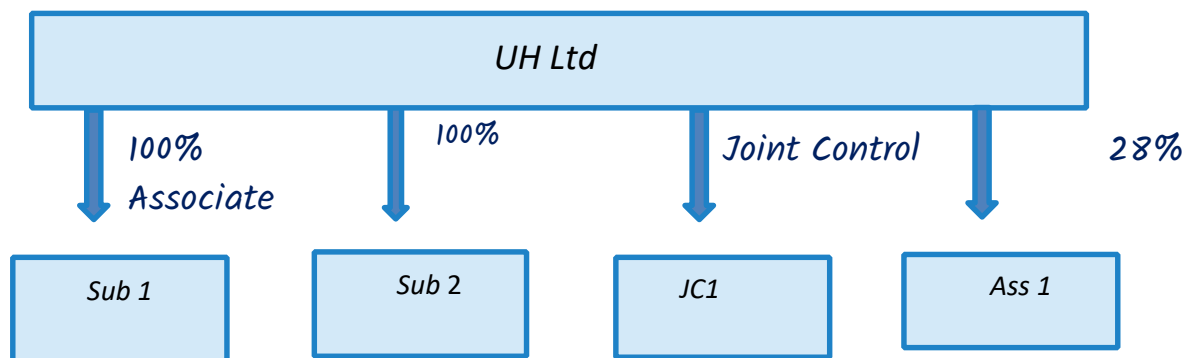


Given the above structure: Identify related party relationships, if R Ltd. is the reporting enterprise

**Q.AS18.SM.108**

Consider the following organization structure related to UH Ltd. (the ultimate parent company of a Group), wherein UH Ltd. has made the following investments:

- Investment in two of the wholly owned subsidiaries, viz. Sub 1 and Sub 2
- Investment in JC 1, in which UH Ltd. has a joint control
- 20% investment in Ass 1 (and hence, Ass 1 is an associate of UH Ltd.)

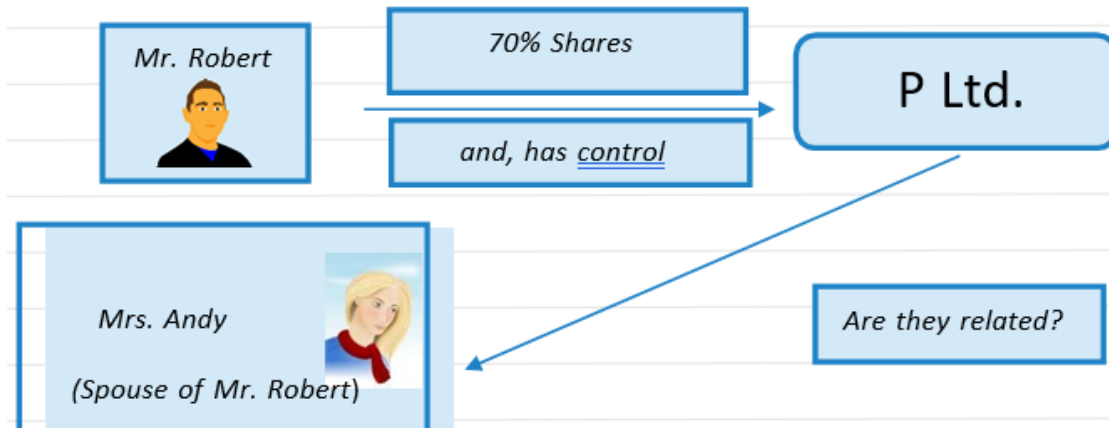


Given the above structure: Identify related party relationships for each of the above entities under AS-18

**Q.AS18.SM.109**

Consider a scenario wherein:

- Mr. Robert holds 70% shares and voting rights in P Ltd

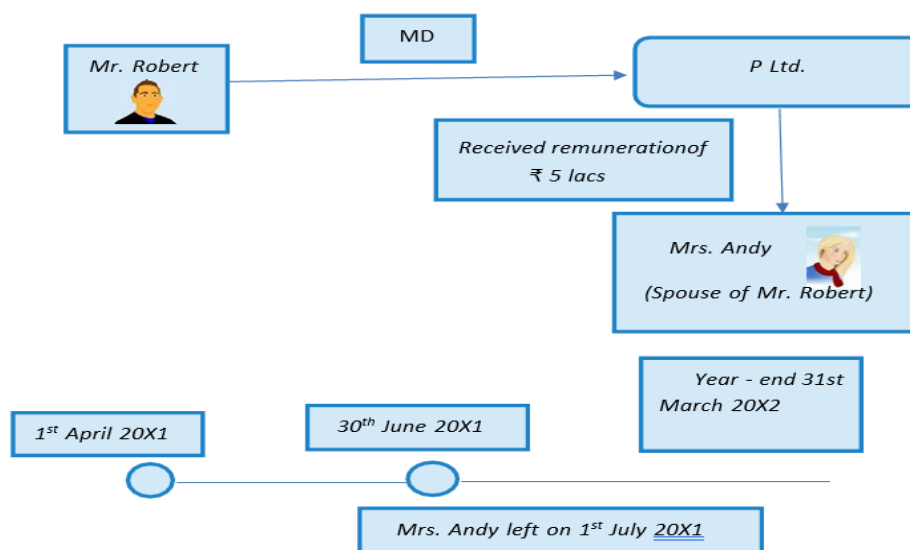


Determine: Whether Andy (spouse of Mr. Robert) is a related party to P Ltd. under AS-18?

**Q.AS18.SM.110**

Consider a scenario wherein:

- Mr. Robert is a Managing Director of P Ltd.
- Andy (spouse of Robert) received a remuneration of Rs 5 lacs from P Ltd. – for the services she rendered to P Ltd. for the period 1<sup>st</sup> April 20X1 through 30<sup>th</sup> June 20X1
- Andy left the services of P Ltd. on 1<sup>st</sup> July 20X1
- Consider 31<sup>st</sup> March 20X2 as the year-end date for P Ltd.



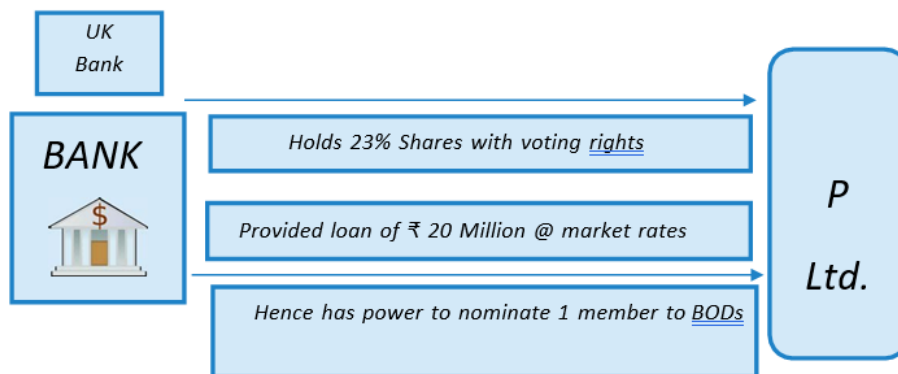
Whether Andy is to be identified as related party at the year-end date (31<sup>st</sup> March 20X2) for the purposes of AS-18?

### Q.AS18.SM.111

Consider a scenario wherein:



- UK Bank holds 23% equity shares with voting rights in P Ltd.
- The bank has provided a loan of Rs. 20 million to P Ltd. at market interest rate
- As per the terms and conditions of the loan agreement, the bank has appointed one person as its nominee to the board of directors of P Ltd. and any major transaction to be entered into by P Ltd. will require the consent of the Bank

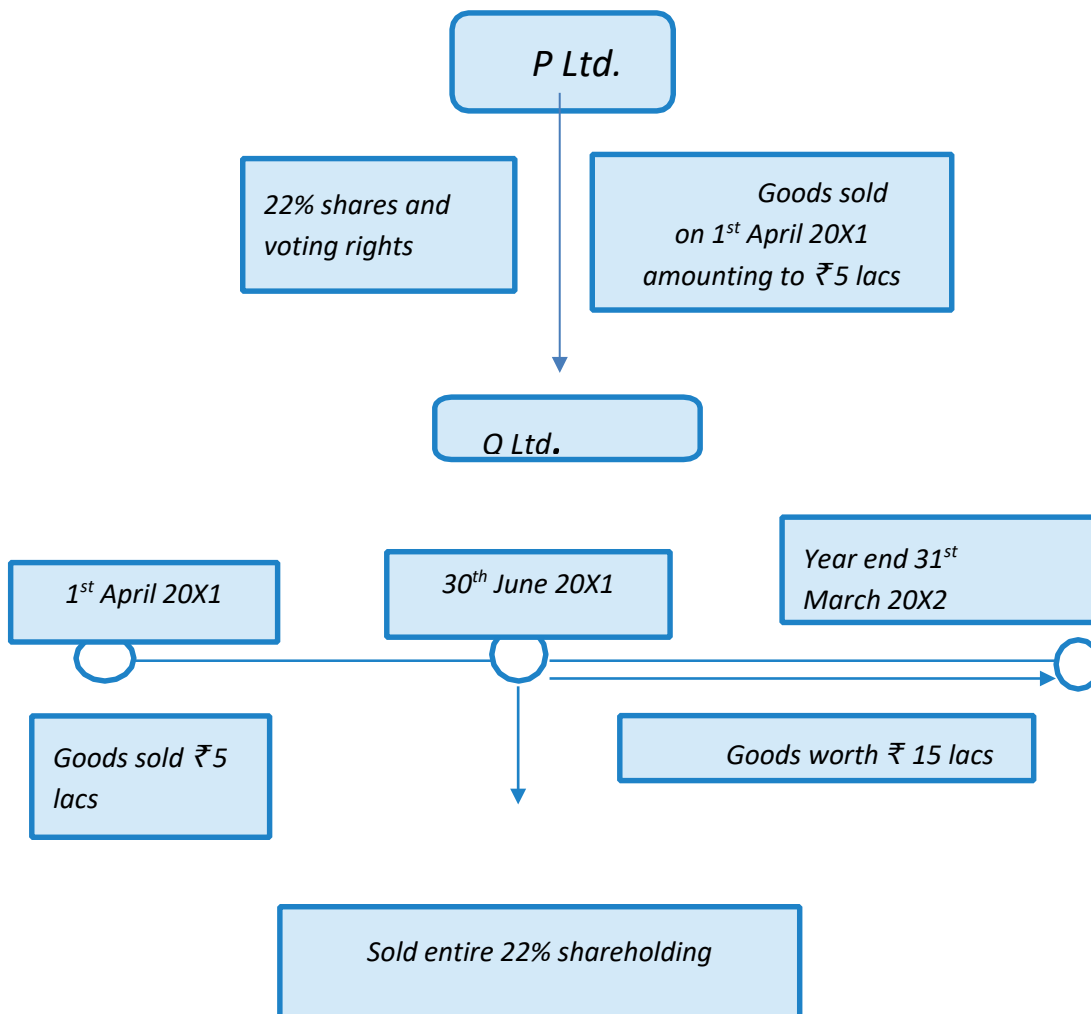


Determine: Whether under AS-18 - UK Bank is a related party to P Ltd. (the reporting enterprise)?

### Q.AS18.SM.112

Consider a scenario wherein:

- P Ltd. hold 22% shares and voting rights in Q Ltd. (and hence Q Ltd. is an associate of P Ltd.)
- On 1<sup>st</sup> April 20X1, P Ltd. sold certain goods to Q Ltd. amounting to Rs. 5 lacs
- On 30<sup>th</sup> June 20X1, P Ltd. sold its entire 22% stake in Q Ltd. (and hence the related party relationship ceased to exist after 30<sup>th</sup> June 20X1)
- However, P Ltd. continued supply goods to Q Ltd. subsequent to 30<sup>th</sup> June 20X1 (just like any other customer) and sold goods worth Rs. 15 lacs during 9-month period ended 31<sup>st</sup> March 20X2
- Consider 31<sup>st</sup> March 20X2 as the year-end date for P Ltd.



Determine whether the transaction for the entire year (ending on 31<sup>st</sup> March 20X2) is required to be disclosed under AS-18 as related party transaction.

## SOLUTIONS OF ABOVE QUESTIONS OF SERIES 100

### Solution Q101

As per AS 18 'Related Party Disclosures', Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprise that have a member of key management in common with the reporting enterprise.

In the given case, **Narmada Ltd. and Ganga Ltd** are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Narmada Ltd is **wrong**.

### Answer: Q102

According to AS 18 on 'Related Party Disclosures', parties are considered to be related if **at any time** during the reporting period one party has the ability to control the other party or exercise significant influence

over the other party in making financial and/or operating decisions. Hence, **Mr. Raj, a relative of key management personnel should be identified as relative as at the closing date i.e. on 31.3.20X2.**

### Answer Q103

As per AS 18, transactions of X Ltd. with its associate company for the first quarter ending 30.06.20X1 only are required to be disclosed as related party transactions. **The transactions for the period in which related party relationship did not exist need not be reported.**

### Solution: Q104

Reporting entity- A Ltd.

- B Ltd. (subsidiary) is a related party
- O Ltd. (subsidiary) is a related party

Reporting entity- B Ltd.

- A Ltd. (holding company) is a related party
- O Ltd. (subsidiary) is a related party

Reporting entity- O Ltd.

- A Ltd. (holding company) is a related party
- B Ltd. (holding company) is a related party
- Z Ltd. (investor/ investing party) is a related party

Reporting entity- Z Ltd.

- O Ltd. (associate) is a related party

### SOLUTION Q105

**Yes** – in relation to A Ltd. (the reporting enterprise), C Ltd. is a related party under AS-18. This is because A Ltd. **indirectly controls** C Ltd.

In this case, A Ltd. (together with its subsidiary B Ltd.) controls more than one half of the voting rights of C Ltd.

### SOLUTION Q106

**No** – in relation to X Ltd. (the reporting enterprise), Z Ltd. is a **not** a related party. This is because as per the requirements of AS-18, 'associate of an associate' is **not** a related party.

### Solution Q107

The following table identifies the related party relationships for R Ltd. (being the reporting enterprise):

Party Name	Relationship under AS-18
P Ltd.	<ul style="list-style-type: none"> <li>◆ P Ltd. has indirect control on R Ltd. (through Q Ltd.)</li> <li>◆ Hence R Ltd. is related to P Ltd.</li> </ul>
Q Ltd.	<ul style="list-style-type: none"> <li>◆ Q Ltd. has direct control of R Ltd.</li> <li>◆ Hence R Ltd. is related to Q Ltd.</li> </ul>
S Ltd.	<ul style="list-style-type: none"> <li>◆ R Ltd. and S Ltd. are under common control of Q Ltd.</li> <li>◆ Hence R Ltd. is related to S Ltd.</li> </ul>
X	<ul style="list-style-type: none"> <li>◆ X Ltd. is controlled by R Ltd.</li> </ul>

Ltd.	◆ Hence R Ltd. is related to X Ltd.
Y Ltd.	◆ Y Ltd. is the sub-subsidiary of Q Ltd. ◆ Both R Ltd. and Y Ltd. are under common control of Q Ltd. ◆ Hence R Ltd. is related to Y Ltd.

**Solution Q108**

The following table identifies the related party relationships for each of the entities in the Group:

Reporting enterprise	Related Party as per AS-18
UH Ltd.	All the four entities (viz. Sub 1, Sub 2, JC 1 and Ass 1)
Sub 1	Only two of the entities in the Group (viz. UH Ltd. and Sub 2)
Sub 2	Only two of the entities in the Group (viz. UH Ltd. and Sub 1)
JC 1	Only UH Ltd.
Ass 1	Only UH Ltd.

**Solution Q109**

**Yes** – Andy is a related party to P Ltd., in view of the requirements of AS-18.

It may be recalled that under AS-18 'relatives of individuals owning an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise' are **considered as related parties**.

**Solution Q110**

**Yes** – This is because as per AS-18, parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence Andy (being the spouse and relative of the KMP of P Ltd.) **needs to be reported** as related party at the year-end date (i.e., 31<sup>st</sup> March 20X2). This is because the remuneration Andy received from P Ltd. (for the period April 20X1 to 30 June 20X1) **falls within the reporting year April 20X1 to March 20X2**.

**Solution Q111**

In the instant case, the UK Bank holds 23% shares with voting rights in P Ltd. and hence is **deemed to exercise significant influence** over P Ltd.

The bank is also a provider of finance to P Ltd. (the reporting enterprise) and as per AS-18, parties **like providers of finance are deemed not to be considered** as a related party in the course of normal dealings with an enterprise by virtue **only of those dealings**.

However, **this exemption will not be available** to UK Bank in this case – since it exercises significant influence over P Ltd. (by virtue of holding 23% shares with voting rights in P Ltd.)

Accordingly, for P Ltd. (the reporting enterprise), the UK Bank is a related party and it will be required to disclose the transactions with UK Bank in its financial statements.

**Solution Q112**

**No** – This is because as per AS-18, the disclosure requirements under the Standard relate only to the period **during related party relationship existed**.

Accordingly, only transactions between P Ltd and Q Ltd till 30<sup>th</sup> June 20X1 (being sale of goods worth Rs. 5 lacs) are required to be reported / disclosed under AS- 18.

Transactions entered into after 30<sup>th</sup> June 20X1 are **NOT required** to be disclosed under AS-18.

**SERIES 200 – QUESTIONS OF RTPs/MTPs/PAST EXAMS****Q.AS18.RMP.201: (RTP – May'24, Nov'22, Nov'19, May'19 & May'25 and Exam July'21)**

SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited”?

**Q.AS18.RMP.202: (RTP May22)**

- (a) In respect of a key supplier who is dependent on the company for its existence and the company enjoys influence over the prices of this supplier (which may not be formally demonstrable), can the supplier and the company be considered as related parties?
- (b) Define “Key management personnel” in the context of AS 18.

**Q.AS18.RMP.203: (RTP Nov21)**

- (a) Omega Bank Limited holds 25 percent of the voting power of B Limited. Omega Bank Limited also provides finance by way of a loan to B Limited at market rates of interest, on account of which, Omega Bank Limited would have the power to nominate one person to the board of directors of B Limited. Any major transactions proposed to be entered into by B Limited would need the consent of Omega Bank Limited. Would Omega Bank Limited be considered as related party for B Ltd. (reporting enterprise)?
- (b) A Limited has two Associates, B Limited and C Limited, and owns 25 percent of the voting power of B Limited and 30 per cent of the voting power of C Limited. Would B Limited be considered a related party for the purpose of financial statements of C Limited?

**Q.AS18.RMP.204: (RTP May18)**

Is remuneration paid to Board of Directors a related party transaction? Explain.

**Q.AS18.RMP.205: (RTP May'24 & MTP May'22)**

- (i) Mr. Arnav a relative of key management personnel received remuneration of Rs. 3,00,000 for his services in the company for the period April 1, 2019 to June 30, 2019. On July 1, 2019 he left the job. Should Mr. Arnav be identified as Related Party at the closing date i.e., March 31, 2020 for the purposes of AS 18?
- (ii) A limited company sold goods to its associate company for the 1st quarter ending June 30, 2020. After that, the related party relationship ceased to exist. However, goods were supplied continuously

even after June 30, 2020 as was supplied to another ordinary customer. Does this require disclosure as related party transaction for the entire financial year?

### Q.AS18.RMP.206: (EXAM July21)

Shri Bhanu a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1<sup>st</sup> April, 2020 to 30<sup>th</sup> June, 2020. On 1<sup>st</sup> July, 2020, he left the service. You are required to suggest how the above transactions will be treated as at the closing date i.e., on 31<sup>st</sup> March, 2021 for the purposes of AS 18- Related Party Disclosure

### Q.AS18.RMP.207: (RTP Jan'25)

Will transactions with related parties, for services provided/received free of cost, be required to be disclosed?

A Limited has a corporate communications department, which centralises the public relations function for the whole group of A Limited and its subsidiaries. No charges are, however, levied by A Limited on its subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute related party transactions requiring disclosure under AS 18 in the standalone financial statements of A Limited?

## SOLUTIONS OF ABOVE QUESTIONS OF SERIES 200

### SOLUTION Q201

Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual".

In the above case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

### Solution Q202

(a) The supplier and the company cannot be considered to be related parties merely because the latter is able to influence the transaction price between the parties. Paragraph 3 of AS 18 states that "enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise" are considered to be related party relationships. However, the conditions which define the existence of control, as follows, are not satisfied in the given case.

- **Ownership**, directly or indirectly, of more than one-half of the voting power of an enterprise, or
- **Control** of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or
- **a substantial interest in voting power and the power to direct**, by statute or agreement, the financial and/or operating policies of the enterprise”.

Paragraph 10 of the standard defines significant influence as “participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies”. In the given case, although the supplier and the company have entered into a commercial transaction, the terms of which are influenced by the latter because of its better bargaining power in the specific market for such goods, **it cannot be concluded that there is participation in the financial and/or operating policy decisions.** Therefore, as the conditions specified by the Standard for being classified as a related party are not satisfied in the given case, the company cannot be said to be related to the supplier. This view is supported by paragraph 4 (b) of the Standard which states that “a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence” would not be deemed to be related parties.

- (b) In context of AS 18, “Key management personnel” are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

### **SOLUTION Q203**

- (a) Omega Bank Limited would be a related party of B Limited. As per AS 18 “associates and joint ventures of the reporting enterprise and the investing party of venture in respect of which the reporting enterprise is an associate or a joint venturer” are related party relationship. Further, an associate has been defined as “an enterprise in which an investing reporting party has significant influence, and which is neither a subsidiary nor a joint venture of the party”. Significant influence has been defined to be “participation in the financial and /or operating policy decisions of an enterprise, but not control of those policies”. Further, it is given in the standard that significant influence may be gained by share ownership, agreement or statute. As regards share ownership, there is a presumption that ownership of 20 percent or more of the voting power enables the enterprise to exercise significant influence, unless it could be clearly demonstrated otherwise.

**In the given case, Omega Bank Limited exercises significant influence over B Limited by virtue of ownership of 25 per cent of the voting power.**

Omega Bank Limited is also a provider of finance for B Limited (as it has provided a loan to B Limited), and as per the standard, a provider of finance is deemed not to be a related party during its normal dealings with the enterprise by virtue only of those dealing. However, in this case, the exemption would not be available to Omega Bank Limited as the exercise of significant influence of Omega Bank Limited over B Limited has been demonstrated on account of ownership of more than 20 per cent of voting power. Accordingly, Omega Bank Limited would be construed to be a related party in the financial statements of B Limited and consequently, the latter would be required to disclose the transactions with Omega Bank Limited in its financial statements.

- (b) Both B Limited and C Limited are ‘associates’ of A Limited. Follow-associates cannot be regarded as a related parties only by virtue of the relationship. AS 18 states that “enterprise that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise” are related parties. Further, it is given that “associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venturer” are also related parties. **As B Limited is not an associate of C Limited, nor is it being controlled, directly or indirectly, by C Limited or is not so controlling C Limited, it is not a related party of C Limited.**

**SOLUTION Q204**

In case of a Company, the **Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).**

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, **persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.**

Further, as per Sec 2(76) of Companies Act, 2013, a related party includes a director or his relative. Sec 2(34) defines a director as a director appointed to the Board of a Company.

**Hence, remuneration paid to Board of Directors will be considered as related party transaction.**

**SOLUTION Q205**

(i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, **Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e., on 31.3.2020.**

(ii) As per AS 18, transactions of company with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. **The transactions for the period in which related party relationship did not exist need not be reported.**

**SOLUTION Q206**

According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021 as he received remuneration for his services in the company for the period from 1<sup>st</sup> April, 2020 to 30<sup>th</sup> June, 2020.

**SOLUTION Q207**

These transactions would require disclosure under AS 18 in the standalone financial statements of A Limited. As per paragraph 10 of AS 18, a related party transaction is "a transfer of resources or obligations between related parties, regardless of whether or not a price is charged". In the given situation, there is a transfer of resources from A Limited to its subsidiaries, though no price is charged for the same. Hence, it will constitute as related party transaction and will require disclosure in the financial statements of A Ltd.