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Control : Direct

1) Holding Co. $\xrightarrow{\text{Controls}}$ Subsidiary Co.

(Girl) → FS (Boy) → RP

2) Subsidiary Co. $\xrightarrow{\text{Controlled by}}$ Holding Co.

(Boy) → FS (Girl) → RP

3) Holding Co. (Girl)

Controls → Subsidiary Co. 1 → FS

Controls → Subsidiary Co. 2 → RP

{ Under Common Control } → RP, → FS

Subsidiary Co. 2 ← Holding Co. $\xrightarrow{\text{controls}}$ Subsidiary Co. 1

FS $\xrightarrow{\text{controls}}$ RP → CASE I

RP ← controlled by — FS → CASE II

Under Common Control

FS RP

RP FS → CASE III

DIRECT CONTROL

INDIRECT CONTROL

Holding Company $\xrightarrow{\text{control}}$ Subsidiary Co. $\xrightarrow{\text{Control}}$ Subsidiary Co 2

Girl Boy Boy: Bestfriend

FS RP

RP FS

Indirect Control

Subsidiary of a subsidiary is a subsidiary of the holding company.

Holding company

- S1
  - SS1
  - SS2
  - SS3
- S2
  - SSS1
  - SSS2
  - SSS3
- S3
  - SSSS1
  - SSSS2

↓

All under common control

↓

All related parties

CONTROL IS ACQUIRED IN 3 WAYS :-

$\geq$ 20% VP → Substantial Interest

⊕

Power to direct

Operating OR Finance

} Control 3.

Control of Composition of BOD → Control 2.

(9 BOD → majority appt / removal
↓
controlled by me)

> 50% VP → Control 1.

Once control is acquired, Holding Subsidiary relationship exists.

"Significant Influence"

1. $\geq$ 20% VP → "Substantial Interest" → Significantly Influence

↓

"Right to Participate in

Financial Decisions OR Operating Decisions

what is significant influence?

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$\geq 20\%$ VP = $\boxed{\text{RTP}}$ + PTD } control ⇢ Significant Influence

2. **Statute**.

3. **Agreement**.

① **Investor / Investing Company** ⇢ Invest $\geq 20\%$ ⇢ **Associate company**

(jo paise lagata hein) (jisme paise lagai jaate hein)

↓

FS	RP
RP	FS

* If a person/entity holds $\geq 20\%$ V.P. but doesnot exercise significant influence, the reporting entity will have to prove the same.

* If a person/entity doesnot hold $\geq 20\%$ VP but still exercises significant influence, the reporting entity will have to prove the same.

A ltd. ⇢ 55% VP → control ⇢ Baby ltd.

B ltd. ⇢ 45% VP → significant Influence ⇢ Baby ltd.

Just because one company has controlling power, doesnot mean another company cannot exercise significant influence.

A ltd. $\xrightarrow{35\%}$ B ltd. $\xrightarrow{40\%}$ C ltd.

Q→ Are A ltd and C ltd. related parties ?

A→ Associate of an associate is not an associate of the Investing Company.

$A\ ltd. \xrightarrow{30\%} B\ ltd.$

$A\ ltd. \xrightarrow{35\%} C\ ltd.$

Q → Are B ltd. and C ltd. related ?

A → If a company has more than 1 associate companies then such companies are not related to each other.

$A\ ltd. \xrightarrow[\text{control}]{60\%} B\ ltd. \xrightarrow[\text{significant influence}]{30\%} C\ ltd.$

Q → Are A ltd. and C ltd. related ?

A → C ltd and A ltd. are not related parties.
Associate of a subsidiary is not an associate of the Holding Company.

$A \xrightarrow{60\%} B \xrightarrow{30\%} C \xleftarrow{25\%} D$

Q → In the financial Statements of C ltd, identify related parties.

Ans → B & D

$A \xrightarrow{60\%} B \xrightarrow{51\%} C \xleftarrow{30\%} D$

Q → Identify related parties in the financial statements of A, C and D.

Ans →
A → B & C
C → A, B & D
D → C

JOINT VENTURE

Co-venturers ← Santa

FS : RP

Banta → Co-venturers

FS : RP

SantaBanta ltd.

" Joint Venture "

RP FS RP

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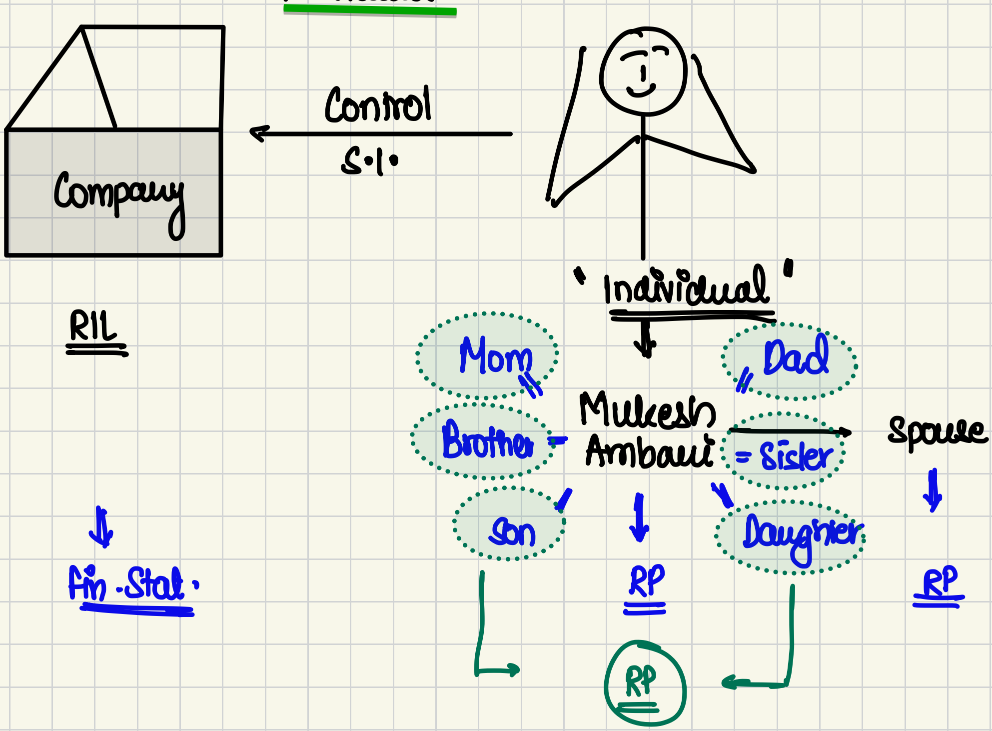
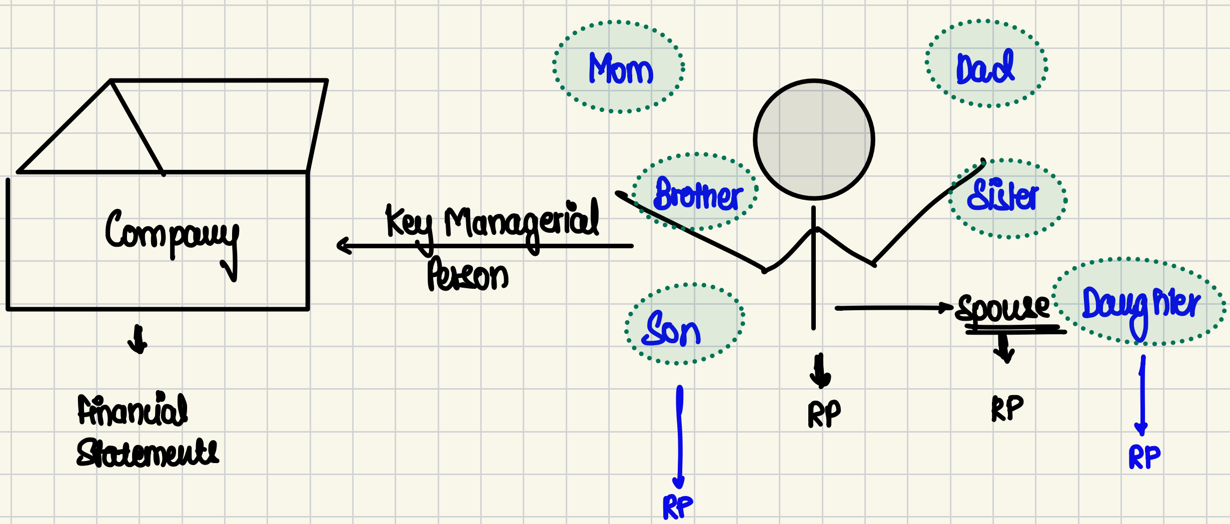
Santa Banta (FS) → Santa and Banta → RP
Santa (FS) → Santabanta → RP
Banta (FS) → Santabanta → RP

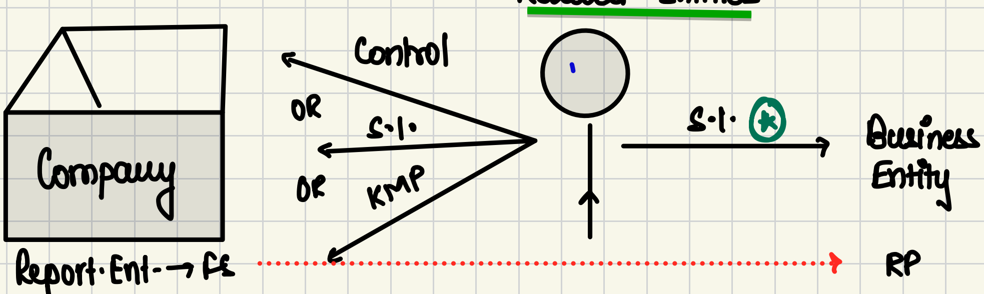
Individual



Key Managerial Person



Related Entities



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Example :-

My Company — C/SI/KMP — C — Company

Report Ent - FS

RP

?

YES

(*) significant influence is the bare minimum. If the individual has control on the other business entity, it means he has already fulfilled the bare minimum criteria of exercising significant influence.

AS-18: SUMMARY CHART

1) Identification of Related Parties

CONTROL

1. How to establish control?

1. > 50% VP.
2. Control of composition of BOD.
3. ≥ 20% VP (substantial interest)

+

Power to Direct
Operating Decisions OR Financial Decisions

Related Parties in case of control

Direct Control

CASE I :- Holding Co. (RE-FS) —control→ Subsidiary Co. (RP)

CASE II :- Subsidiary Co. (RE-FS) —controlled by→ Holding Co. (RP)

CASE III :- Holding Co. → S Co.1 (RE-FS) RP ↕ Under common control → S Co.2 RP (RE-FS)

Indirect Control

Holding Co. —Controls→ Subsidiary Co.1 —Controls→ S Co.2

"related parties"

(RE-FS) RP ... RP (RE-FS)

Subsidiary of a subsidiary is a subsidiary of the holding co.

DISCLOSURES

Relationship is in the nature of :-

CONTROL		ANY OTHER TYPE	
NO TRANSACTION	TRANSACTION		NO TRANS
→ Disclose : 1. Name of RP 2. Nature of Relation	1. Name 2. Nature of relation 3. Nature of Trans. 4. Volume 5. O/s amt 6. P.D.D. 7. Baddebts w/off		No disclosure.

SIGNIFICANT INFLUENCE

How does significant influence arise?

→ ≥ 20% VP
→ Agreement
→ Statute

* If despite having ≥ 20% there is no significant influence, the Reporting Entity will have to prove the same.

* If despite not having ≥ 20% VP there is significant influence, the Reporting Entity will have to prove the same.

Related Parties in case of Significant Influence

Investor / Investing Company —Significant Influence→ Associate company

(Jo paisa lagata hein) (RE→FS) RP | (Jisme paisa laga hein) RP (RE-FS)

* If Holding company control a subsidiary company, an investor / investing company can still exercise significant influence over the subsidiary company.

* Associate of an Associate Co. is not an associate of the Investor / Investing Company.

* Associate of a Subsidiary Co. is not an associate of the Holding Co.

JOINT VENTURE

In the books of Coventurers, the Joint Venture is a related party.

In the books of Joint Venture, the Coventurers are related party.

In the books of any coventurer, the other coventurer is not a related party.

INDIVIDUAL

→ If an individual controls or exercises significant influence on the company, such individual is a related party.

→ The spouse of such individual, mom, dad, brother, sister, son, daughter are all related parties of the company.

Company (RE-FS) ←control / S.I.— Individual (RP) → M/D → RP; B/S → RP; S/D → RP; Spouse → RP

KEY MANAGERIAL PERSON

→ A KMP of the company is considered a related party of the company.

→ Spouse of KMP, mother, father, brother, sister, son, daughter all will be considered related parties.

Company (RE-FS) ← KMP (RP) → M/D → RP; B/S → RP; S/D → RP; Spouse → RP

RELATED ENTITY

→ If a person exercises control or significant influence over the reporting entity or is a KMP of the reporting entity and such person also exercises significant influence over some other entity, such other entity will be considered a related party to the reporting entity.

Company (RE→FS) ← Control / S.I. / KMP — Individual —S.I. (min. req.)→ Other Entity RP