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RELATED PARTY DISCLOSURES IN LINE WITH THE IFRS FOR SMEs

The IFRS for SMEs 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. (Paragraph 33.1)

In this week's Q & A session, we have gathered frequently asked questions on related party disclosures:

1. Who is a related party?

A person or entity that is related to the entity that is preparing its financial statements (the reporting entity) and as mentioned under Paragraph 33.2 of the IFRS for SMEs includes a member of key management personnel or a close member of that person's family, has control, joint control or significant influence etc.

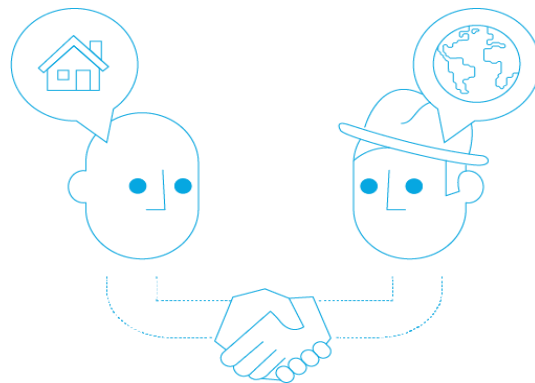
In the context of the IFRS for SMEs Paragraph 33.4, the following are not necessarily related parties:

- Two entities simply because they have a director or other member of key management personnel in common.
- Two venturers simply because they share joint control over a venture.
- Providers of finance, trade unions, public utilities and government departments simply by virtue of their normal dealings with an entity (even though they may affect the entity's freedom of action or participate in its decision-making process).
- 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 independence.

2. What is a related party transaction?

Paragraph 33.8 states that 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. Common examples include:

- transactions between an entity and its owner.
- transactions between an entity and another entity when both entities are under the common control of a single entity or person.
- 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.



3. What do you need to disclose?

a) Parent–subsidiary relationships

Disclose the name of the reporting entity's parent and the ultimate controlling party irrespective of whether there have been any related party transactions. (Paragraph 33.5)

b) Key management personnel compensation

Disclose key management personnel compensation in total. 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 Paragraph 28) including those in the form of share-based payments as per Paragraph 26. (Section 33.6)

c) Details of related party transactions

Disclose the nature of the related party relationship, transactions, outstanding balances and commitments necessary to understand the potential effect of the relationship on the financial statements and are in addition to the requirements in Paragraph 33.7. The disclosures include:

- the nature of the relationship.
- the nature of the transactions e.g., purchases or sales.
- the amount of the transactions.

- the amount of outstanding balances including their terms and conditions, security, nature of consideration provided and details of any guarantees given or received.
- provisions for uncollectable receivables related to the amount of outstanding balances.
- expense recognised in respect of bad or doubtful debts during the period.

These disclosures are required separately for each of the following:

- entities with control, joint control or significant influence over the entity.
- entities over which the entity has control, joint control or significant influence.
- key management personnel.
- other related parties.

The standard requires that an entity does not state that the related party transactions were at arm's length unless such terms can be substantiated.

The Standard allows for aggregation of items of a similar nature except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity

Caveat

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