CHAPTER 8

IND AS ON DISCLOSURES IN THE FINANCIAL STATEMENTS



UNIT 1: INDIAN ACCOUNTING STANDARD 24: RELATED PARTY DISCLOSURES

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the objective, scope and purpose of related party disclosures in the financial statements
- Define the terms related party, related party transactions, close members of the family of a person, key management personnel, government related entity and other related terms.
- Ensure the necessary disclosures to be made by an entity in its financial statements.
- Analyse the effect of related party transactions in the financial position & profit or loss due to existence of such related parties.
- Understand the significant differences between Ind AS 24 and AS 18.

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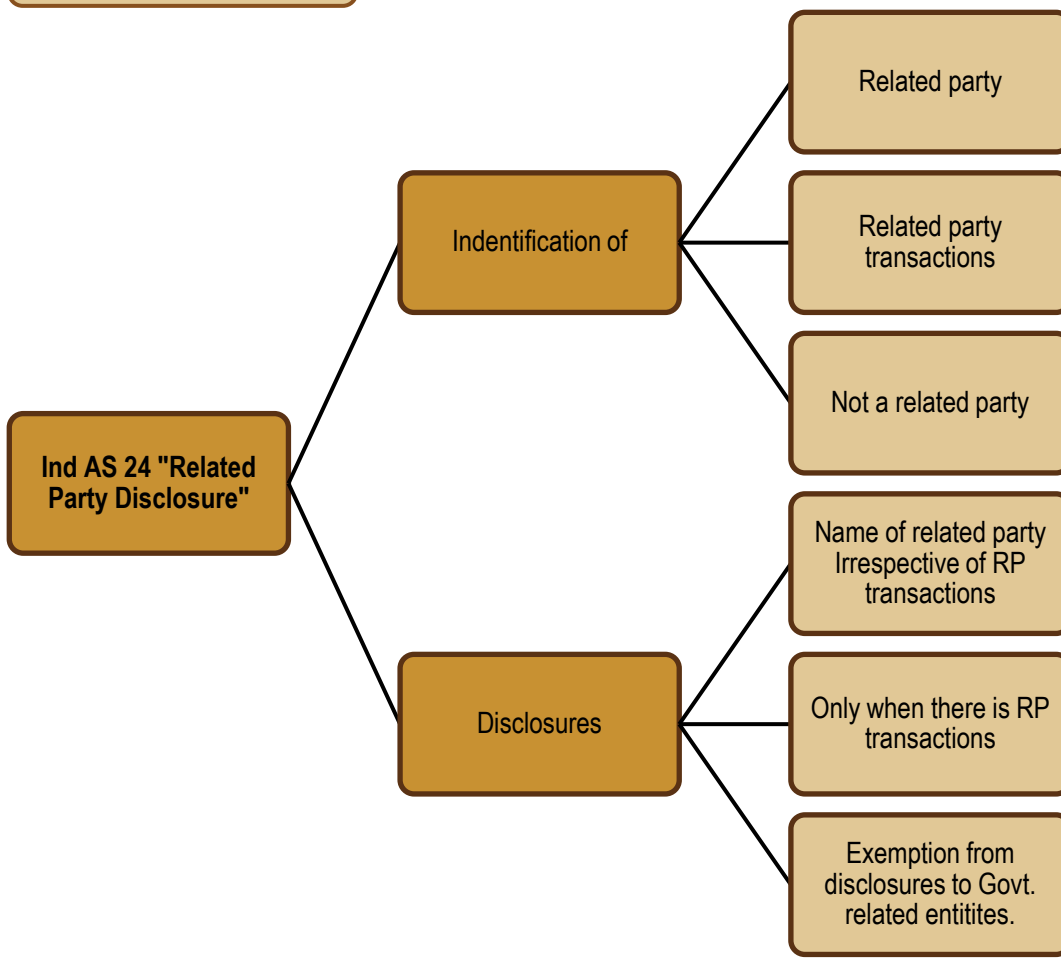
UNIT OVERVIEW



1.1 INTRODUCTION

An entity in the course of its commerce and business enters into numerous transactions and gets impacted by various related party relationships. It is a normal feature of commerce and business to have related party relationships. Entities frequently carry on their business activities through subsidiaries, joint ventures or associates. The entity has the ability to affect the financial and operating policy of a subsidiary generally as it has control over it. In the case of joint venture, it has joint control whereas in the case of an associate it has significant influence.

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It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity. The effect gets manifested through:

(a) Transactions that are entered between related parties may not be entered with unrelated parties;

- **Example :** An entity may sell goods to its parent at cost. It may not sell goods at cost to an unrelated party.

(b) Transactions with unrelated parties get influenced because of related party relationships.

- **Example :** S Limited, a subsidiary of H Limited, in steel manufacturing used to purchase billets from UR Limited. H Limited acquires 100% stake in FS Limited who also manufactures billets. FS Limited is now a fellow subsidiary of S Limited. H Limited instructs S Limited not to purchase billets from UR Limited but from FS Limited.

Therefore, the users of the financial statements of any entity should have:

(a) the knowledge of:

- related party relationships of an entity;
- entity's transactions, outstanding balances, commitments etc. with such related parties;

(b) as it may affect the user's assessments:

- of operations of the entity and
- the risks and opportunities faced by the entity.

1.2 OBJECTIVE

The objective of the Standard is to ensure that the financial statements of an entity contains necessary disclosures with respect to:

(a) related party relationships;
(b) related party transactions;
(c) outstanding balances with related parties; and
(d) commitments with related parties.

The disclosures are necessary so that users' attention could be drawn to the possibility that financial statements may be affected by such related party relationships and other items as mentioned above.

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1.3 SCOPE

The Standard has to be applied in:

(a) identifying related party relationships;

(b) identifying related party transactions;

(c) identifying outstanding balances between an entity and its related parties;

(d) identifying commitments between an entity and its related parties;

(e) identifying the circumstances in which disclosures of above items is to be made; and

(f) determining the disclosures to be made about the above items.

The disclosures are to be made in:

(a) Individual financial statements of the entity.

(b) Consolidated and separate financial statements of a parent, venturer or an investor prepared in accordance with Ind AS 110 'Consolidated Financial Statements' or Ind AS 27, 'Separate Financial Statements'.

- Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements, however, intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

Exception:

If the above intra group related party transactions & outstanding balances between investment entity and its subsidiary are measured at fair value through profit or loss, then not eliminated.

- Disclosures not required when either
  - such disclosures are in conflict with the entity's duties of confidentiality in terms of a statute, regulator or similar competent authority governing the entity; or
  - the entity is prohibited by the statute, regulator or similar competent authority to disclose certain information otherwise required to be disclosed as per this Standard.

Example 1

Banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

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1.4 DEFINITIONS

The following definitions are relevant for understanding the Standard:

1. A **related party** is (i) a person or (ii) an entity that is related to the reporting entity.

2. A **reporting entity** in this Standard is an entity that is preparing its financial statements.

Thus two types of related party relationships are envisaged.

- One relationship is between the reporting entity and a person or persons.
- The other relationship is between the reporting entity and another entity or entities.

Note: The Standard clarifies that in considering each possible related party relationship, the attention should be directed to the substance of the relationship and not merely the legal form.

1.4.1 Understanding relationship between the reporting entity and a person(s)

3. A person or a close member of that person's family is related to a reporting entity if that person:

(a) has control or joint control over the reporting entity;

(b) has significant influence over the reporting entity; or

(c) is a member of the key management personnel of

- ❖ the reporting entity or
- ❖ a parent of the reporting entity.

4. **Close members of the family of a person** are the one who may be expected to influence or be influenced by that person in their dealings with the entity. It includes:

(a) that person's children, spouse or domestic partner, brother, sister, father and mother;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

5. A **parent** is an entity that controls one or more entities and present consolidated financial statements.

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Examples 2-5

2. Mr. A holds 51% in equity share capital of A Limited. A Limited has no other form of share capital. As Mr. A controls A Limited, he is a related party.

3. Mrs. A is wife of Mr. A. Mr. A holds 51% of equity shares of A Limited. A Limited has no other form of share capital. Mr. A controls A Limited. Since Mr. A is a related party, Mrs. A is also a related party of A Limited.

4. Mr. D is a director of A Limited. Being a member of key management personnel of A Limited, he is related to A Limited.

5. Mr. D is a director of H Limited. S Limited is a subsidiary of H Limited. Mr. D is related to S Limited.

1.4.2 Understanding relationship between the reporting entity and another entity/entities

6. An entity is related to a reporting entity if any of the following conditions applies:

(a) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

Example 6

SA Limited and SB Limited are subsidiaries of H Limited. SA Limited, SB Limited and H Limited are related to each other.

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

Example 7

AS Limited is an associate of S Limited. S Limited is a subsidiary of H Limited. SH Limited is another subsidiary of H Limited. AS Limited and SH Limited are related parties for S Ltd. and H Ltd.

(c) Both entities are joint ventures of the same third party.

Example 8

H Limited has entered into 2 joint ventures, JHA Limited (joint venture with A Limited) and JHB Limited (joint venture with B Limited). JHA Limited and JHB Limited are related parties.

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(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Example 9

JH Limited is a joint venture of H Limited. AH limited is an associate of H Limited. JH Limited and AH Limited are related parties.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(f) The entity is controlled or jointly controlled by a person identified in 3 above.

Example 10

Mr. A controls A Limited (the reporting entity). He also controls B Limited. A Limited and B Limited are related to each other.

(g) A person identified in 3(a) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Example 11

Mr. A controls A Limited (the reporting entity). He is a non-executive director in B Limited. A Limited and B Limited are related parties.

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Example 12

A Ltd is a parent company with 3 subsidiary companies- B Ltd. C Ltd & D Ltd. It also has an associate company E Ltd. Subsidiary F Ltd of E Ltd provides key management personnel services to A Ltd. F Ltd. is in a related party relationship with A, B, C D & E Ltd.

The aforesaid definition is wide and exhaustive. It is quite possible that the identification of related parties may become an onerous task. The standard, therefore, as has been stated above, lays emphasis on the substance of the relationship rather than legal form.

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7. **Control** exists when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over investee.

8. **Joint Control** is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

9. **Significant influence** is the power to participate in the financial and operating policy decisions of the investee, but is not control of those policies.

The terms 'control', 'joint control' and 'significant influence' are discussed in detail in chapters on Ind AS 110, *Consolidated Financial Statements,* Ind AS 111 J*oint Arrangements*' & Ind AS 28, *Investments in Associates & Joint Ventures.*

10. **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.

Analysis:

The definition includes executive as well as non-executive directors who have responsibility for the management and direction of a significant part of the business. It is not necessary that these people should have the 'director' designation. The term also includes members of the management committee(s), if those committee(s) have the authority for planning, directing and controlling the entity's activities.

The Standard further states that in the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Example 13

R Limited has an associate B Limited. B Limited has a subsidiary S Limited, a joint venture J Limited and an associate A Limited. R Limited is the reporting entity. It identifies B Limited and S Limited as its related parties. J Limited and A Limited are not related parties of R Limited.

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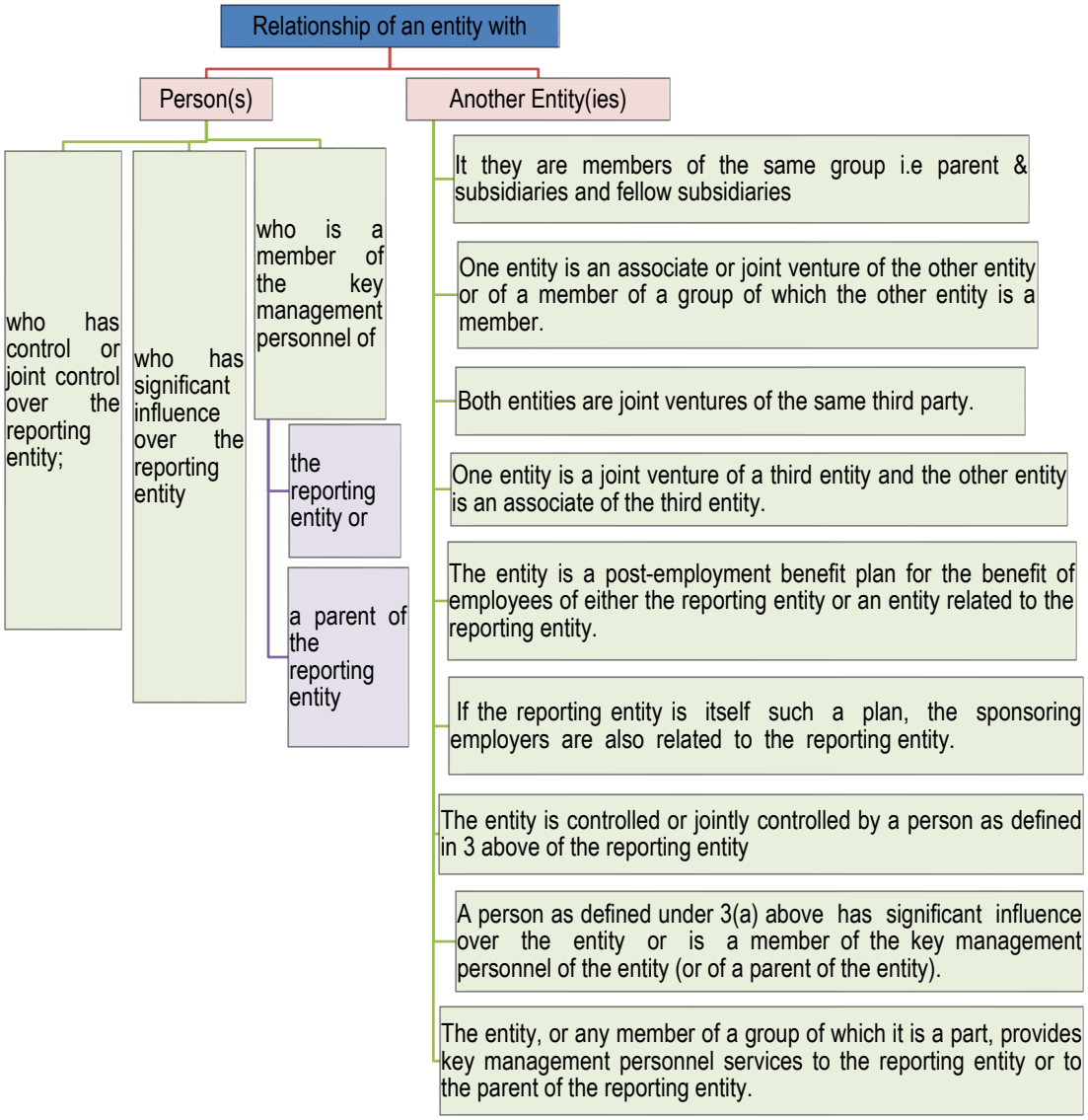

1.4.3 Understanding who are not related parties

The Standard clarifies that certain relationships are not related party relationships. These are as follows:

(a) Two entities are not related parties simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

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Examples 14 & 15

14. Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. There are no transactions between these two entities. X Limited and Y Limited are not related parties.

15. Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. Y Limited purchases the entire production of X Limited. The transactions are always at arm's length. X Limited and Y Limited may be related parties as it is quite possible that Y Limited may be able to exercise control/significant control over X Limited. As per this Standard substance is more important than mere legal form. Further information and analysis are required here to conclude; by virtue of the transaction only, it cannot be said that they are related parties.

(b) Two venturers are not related parties simply because they share joint control over a joint venture.

Example 16

JV Limited is an equal joint venture of J Limited and V Limited. J Limited and V Limited are not related parties.

(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, are not related parties 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).

Example 17

A Bank and B Bank has provided finance to XY Limited. By virtue of loan agreement, they occupy a non-executive observer seat on the Board of Directors of XY Limited. A Bank and B Bank are not related parties of XY Limited.

(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.

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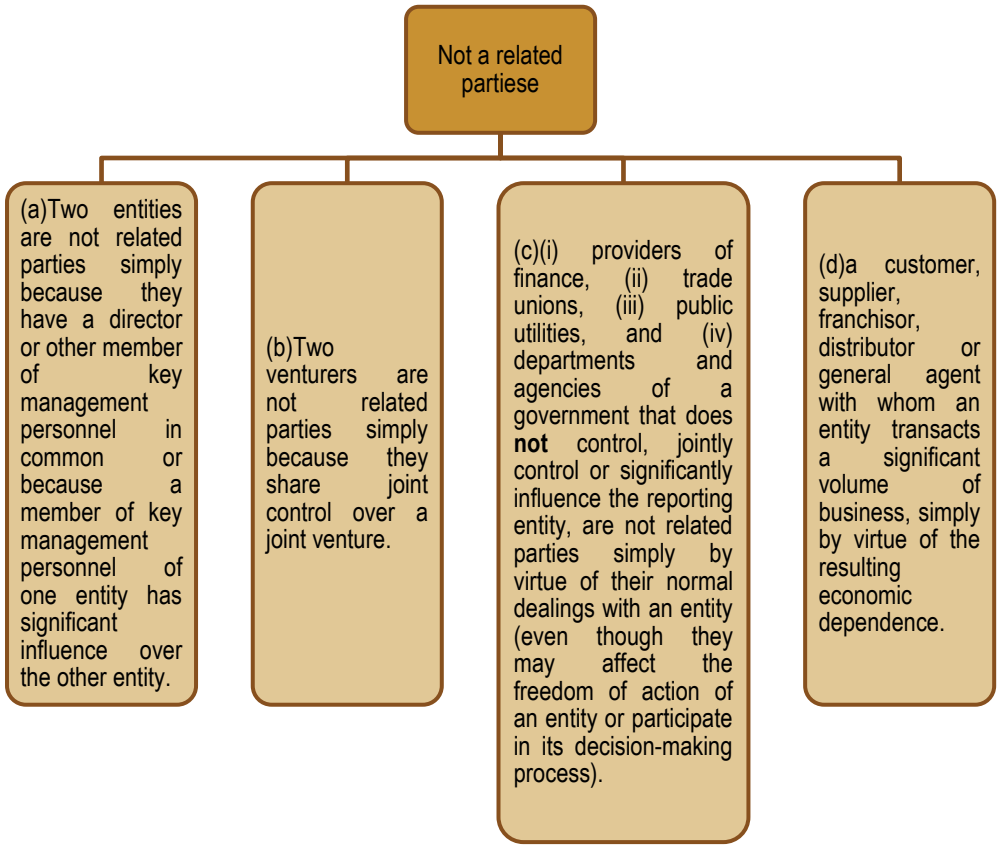
Example 18

A Limited is an auto ancillary of an automobile company. It supplies all its production to the automobile company. Automobile company has no other interest in A Limited. A Limited and automobile company are not related parties.



1.4.4 Understanding related party transactions

11. 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.

Examples

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services;

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(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral;

(i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts1 (recognised and unrecognised);

(j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party; and

(k) management contracts including for deputation of employees.

Note: It is not necessary for any consideration to be passed for the related party transactions.

Also, participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties.

1.4.5 Other Important Definitions

12. **Compensation** includes all employee benefits (as defined in Ind AS 19, *Employee Benefits*) including employee benefits to which Ind AS 102, *Share-based Payments,* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

(a) short-term employee benefits, monetary such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non—monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long service leave or sabbatical leave, jubilee or other long service benefits, long-term disability benefits and, if they are not

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payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(d) termination benefits; and

(e) share-based payment.

13. **Government** refers to government, government agencies and similar bodies whether local, national or international.

14. A **government-related entity** is an entity that is controlled, jointly controlled or significantly influenced by a government.

1.5 DISCLOSURES

The disclosure requirements can be broadly classified into two categories.

(a) Category 1 requires disclosures of relationships even though there are no related party transactions between the disclosed related parties.

(b) Category 2 requires disclosures of relationships and transactions only when there are related party transactions.

1.5.1 Disclosure- Relationships between parent and subsidiaries

The following disclosures of relationships, if exist, must be made irrespective of the fact whether there have been related party transactions by the entity:

- Under this an entity is required to disclose the name of its parent and, if different, the ultimate controlling party. It may be noted that the ultimate controlling party may be a person.

Example 19

S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. S4 Limited, S3 Limited, S2 Limited and S1 Limited must disclose the name and relationship with S3 Limited, S2 Limited and S1 Limited respectively and with H Limited.

- If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

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Examples 20 & 21

20. S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. Only S2 Limited and S1 Limited produces consolidated financial statements for public use. S4 Limited must disclose the name and relationship with S3 Limited, S2 Limited, S1 Limited and H Limited.

21. S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. S3 Limited, S2 Limited, S1 Limited and H Limited all produces consolidated financial statements for public use. S4 Limited must disclose the name and relationship with S3 Limited and H Limited.

- The disclosure of relationship between a parent and its subsidiary (reporting entity) is important because the existence of control relationship may prevent the reporting entity from being independent in making its financial and operating decisions. The disclosure of the name of the related party and the nature of the related party relationship where control exists may sometimes be at least as relevant in appraising an entity's prospects as are the operating results and the financial position presented in its financial statements. Such a related party may establish the entity's credit standing, determine the source and price of its raw materials, and determine to whom and at what price the product is sold.

- The Standard clarifies that the requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in Ind AS 110, *Consolidated Financial Statements,* Ind AS 28, *Investments in Associates,* and *Joint Ventures*.

1.5.2 Category 2 Disclosure

Under this category, two types of disclosures are required. The first requires disclosures related to compensation to key management personnel. The second requires other disclosures where there have been related party transactions during the year.

1.5.2.1 Disclosures of compensation to key management personnel

An entity is required to disclose

(i) total compensation to key management personnel and

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(ii) Compensation for each of the following categories:

(a) short–term employee benefits;

(b) post–employment benefits;

(c) other long-term benefits;

(d) termination benefits;

(e) share–based payments.

If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements to the compensation paid or payable by the management entity to the management entity's employees or directors.

1.5.2.2 Disclosures where there have been related party transactions during the year

- Where an entity has had related party transactions during the periods covered by the financial statements, it shall disclose, in addition to disclosures listed above, the following for the users to understand the potential effect of these relationships and transactions on the financial statements:

  (a) the nature of the related party relationship;

  (b) the information about these related party transactions and outstanding balances, including commitments.

- The disclosures, at a minimum, shall include:

  (a) the amount of the transactions;

  (b) the amount of outstanding balances, including commitments, and:

    - ❖ their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
    - ❖ details of any guarantees given or received;

  (c) provisions for doubtful debts related to the amount of outstanding balances; and

  (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

- Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

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- The aforesaid disclosures shall be made separately for each of the following categories:
  - (a) the parent;
  - (b) entities with joint control or significant influence over the entity;
  - (c) subsidiaries;
  - (d) associates;
  - (e) joint ventures in which the entity is a joint venturer;
  - (f) key management personnel of the entity or its parent; and
  - (g) other related parties.
- The classification of amounts payable to, and receivable from, related parties in the different categories is an extension of the disclosure requirements in Ind AS 1, *Presentation of Financial Statements,* for information to be presented either in the balance sheet or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.
- However, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated.
- Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.
- Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions.

Example 22

Purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

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Following is the extract from the financial statements of the listed entity 'ITC Limited' for the financial year 2021-2022 with respect to 'Related Party disclosure as per Ind AS 24'.

29. Related Party Disclosures

1. ENTERPRISES WHERE CONTROL EXISTS:

Subsidiaries:

a) Srinivasa Resorts Limited
b) Fortune Park Hotels Limited
c) Bay Islands Hotels Limited
d) WelcomHotels Lanka (Private) Limited, Sri Lanka
e) Landbase India Limited
f) Russell Credit Limited and its subsidiary
    Greenacre Holdings Limited
g) Technico Pty Limited, Australia and its subsidiaries
    Technico Technologies Inc., Canada
    Technico Asia Holdings Pty Limited, Australia and its subsidiary
        Technico Horticultural (Kunming) Co. Limited, China
h) Technico Agri Sciences Limited
i) Wimco Limited
j) Pavan Poplar Limited
k) Prag Agro Farm Limited
l) ITC Infotech India Limited and its subsidiaries
    ITC Infotech Limited, UK
    ITC Infotech (USA), Inc. and its subsidiary
        Indivate Inc., USA
m) Gold Flake Corporation Limited

2. OTHER RELATED PARTIES WITH WHOM THE COMPANY HAD TRANSACTIONS

i) Associates & Joint Ventures:

Associates

a) Gujarat Hotels Limited
b) International Travel House Limited
c) Delectable Technologies Private Limited
    – being associates of the Company, and
d) Tobacco Manufacturers (India) Limited (of which the Company is an associate)
    and the subsidiaries of its ultimate parent company (British American Tobacco p.l.c.)

Associates of the Company's subsidiaries

a) ATC Limited
    – being associate of Gold Flake Corporation Limited
b) Divya Management Limited, and
c) Antrang Finance Limited
    – being associates of Russell Credit Limited

Joint Ventures

Maharaja Heritage Resorts Limited

Joint Venture of the Company's subsidiary

ITC Essentra Limited
– being joint venture of Gold Flake Corporation Limited

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ii) a) Key Management Personnel:

S. Puri	Chairman & Managing Director
N. Anand	Executive Director
B. Sumant	Executive Director
R. Tandon	Executive Director
S. Banerjee#	Non-Executive Director
H. Bhargava#	Non-Executive Director @
N. Doda	Non-Executive Director (w.e.f. 11.08.2021)
A. Duggal#	Non-Executive Director
M. Gupta	Non-Executive Director (w.e.f. 27.10.2021)
S. Mukherjee#	Non-Executive Director (w.e.f. 11.08.2021)
A. Nayak#	Non-Executive Director
S. Panray	Non-Executive Director (w.e.f. 11.08.2021)
N. Rao#	Non-Executive Director
A. K. Seth#	Non-Executive Director
M. Shankar#	Non-Executive Director
D. R. Simpson	Non-Executive Director
A. Jerath	Non-Executive Director (up to 30.04.2021)
S. B. Mathur#	Non-Executive Director (up to 14.09.2021)

@ Non-Executive Director up to 22.08.2021. Appointed as Independent Director w.e.f. 20.12.2021.
# Independent Directors

Chief Financial Officer
S. Dutta
Company Secretary
R. K. Singhi

b) Relatives of Key Management Personnel:

T. Anand (wife of N. Anand)
R. Tandon (wife of R. Tandon)
N. Singhi (wife of R. K. Singhi)

iii) Employee Trusts:

a) IATC Provident Fund
b) ITC Defined Contribution Pension Fund
c) ITC Management Staff Gratuity Fund
d) ITC Employees Gratuity Fund
e) ITC Gratuity Fund 'C'
f) ITC Pension Fund
g) ILTD Seasonal Employees Pension Fund
h) ITC Platinum Jubilee Pension Fund
i) ITC Bhadrachalam Paperboards Limited Management Staff Pension Fund
j) ITC Bhadrachalam Paperboards Limited Gratuity Fund 'A'
k) ITC Bhadrachalam Paperboards Limited Gratuity Fund 'C'
l) ITC Hotels Limited Employees Superannuation Scheme
m) Sunrise Spices Limited Employees Gratuity Fund

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29. Related Party Disclosures (Contd.)

3. DISCLOSURE OF TRANSACTIONS BETWEEN THE COMPANY AND RELATED PARTIES AND THE STATUS OF OUTSTANDING BALANCES AS AT 31.03.2022

(₹ in Crores)

	RELATED PARTY TRANSACTIONS SUMMARY	Enterprises where control exists – Subsidiaries		Associates		Joint Ventures		Key Management Personnel		Relatives of Key Management Personnel		Employee Trusts		Total	
		2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
1.	Sale of Goods/Services	322.83	255.72	1080.07	773.43	54.19	34.04							1457.09	1063.19
2.	Purchase of Goods/Services	394.12	422.08	66.18	60.37	280.30	229.79							740.60	712.24
3.	Acquisition cost of Property, Plant and Equipment	10.58	2.07											10.58	2.07
4.	Sale of Property, Plant and Equipment	–	12.62											–	12.62
5.	Investment in Subsidiaries/Associate	427.24	360.57	1.87	–									429.11	360.57
6.	Renunciation of Rights Issue entitlement	–	6.45											–	6.45
7.	Value of Share Based Payment														
7A.	Capital Contribution for Share Based Payments	(22.06)	(9.80)											(22.06)	(9.80)
7B.	Reimbursement for Share Based Payments	1.66	1.94	0.41	0.39	0.08	0.09							2.15	2.42
8.	Rent Received	25.60	25.86	0.72	0.63									26.32	26.49
9.	Rent Paid*	9.89	8.05	2.51	1.17			1.05	0.58	0.32	0.32			13.77	10.12
10.	Remuneration of Managers on Deputation reimbursed	2.41	2.50	5.36	6.00									7.77	8.50
11.	Remuneration of Managers on Deputation recovered	36.32	30.65	6.83	6.23	1.43	1.29							44.58	38.17
12.	Contribution to Employees' Benefit Plans											178.43	112.98	178.43	112.98
13.	Dividend Income	857.14	723.43	0.31	0.43									857.45	723.86
14.	Dividend Payments			3981.58	5483.72			5.70	5.51					3987.28	5489.23
15.	Interest Income	2.42	2.70											2.42	2.70
16.	Expenses Recovered	10.01	10.75	21.59	4.98	0.11	0.20							31.71	15.93
17.	Expenses Reimbursed	2.81	3.08	0.26	0.23			0.05	0.02					3.12	3.33
18.	Advances Given during the year	0.45	–	–	0.06									0.45	0.06
19.	Adjustment/Receipt towards Refund of Advances	0.45	–	...	0.11									0.45	0.11
20.	Advances Received during the year	85.32	127.76	1496.60	598.34									1581.92	726.10
21.	Adjustment/Payment towards Refund of Advances	152.01	108.61	972.02	659.70									1124.03	768.31
22.	Deposits Given during the year							...	–					...	–
23.	Deposits Refunded during the year			–	0.02									–	0.02
24.	Remuneration to Key Management Personnel (KMP)[1]														
24A.	– Short term benefits							69.33	49.64					69.33	49.64
24B.	– Other remuneration							10.51	8.96					10.51	8.96
24C.	– Stock options granted[2]														
25.	Outstanding Balances[#]														
	i) Receivables	68.76	50.40	78.17	59.16	14.66	11.13							161.59	120.69
	ii) Advances Given			–	...									–	...
	iii) Deposits Given	0.60	0.60					0.08	0.08	0.07	0.07			0.75	0.75
	iv) Advance Taken	147.83	214.52	692.41	167.83									840.24	382.35
	v) Deposits Taken			0.04	0.04									0.04	0.04
	vi) Payables	12.17	10.58	5.91	5.72	13.83	20.98					29.20	130.53	61.11	167.81
26.	Commitments	1.51	0.07											1.51	0.07

* Includes rent pertaining to leases classified as Right of Use Assets.

\# The amounts outstanding are unsecured and will be settled in cash.

[1] Post employment benefits are actuarially determined on overall basis and hence not separately provided.

[2] During the year, the Company granted Stock Options to eligible employees, including Executive Directors and KMPs, under its Employee Stock Option Schemes at 'market price' [within the meaning of the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021]. The Company has also granted Employee Stock Appreciation Linked Reward Units (ESAR Units) to the aforesaid persons in the previous years under the 'ITC Employee Cash Settled Stock Appreciation Linked Reward Plan'. Since such Stock Options and ESAR Units are not tradeable, no perquisite or benefit is immediately conferred upon the employee by grant of such Stock Options/ESAR Units, and accordingly the said grants have not been considered as remuneration. However, in accordance with Ind AS-102, the Company has recorded employee benefits expense by way of share based payments to employees at ₹ 61.20 Crores for the year ended 31st March, 2022 (2021 - ₹ 56.69 Crores), of which ₹ 23.14 Crores (2021 - ₹ 27.71 Crores) is attributable to Executive Directors and KMPs.

(Source: Annual Report for 2021-2022 of 'ITC Limited')

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1.6 EXEMPTION TO GOVERNMENT–RELATED ENTITIES

- A reporting entity is exempt from the disclosure requirements in relation to (i) related party transactions (ii) outstanding balances and (iii) commitments with:

  (a) a government that has control, joint control or significant influence over the reporting entity; and

  (b) another entity that is a related party because the same government has control, joint – control or significant influence over both the reporting entity and the other entity.

- However, in case the reporting entity opts to apply the exemption, it shall disclose:

  (a) the name of the government;

  (b) the nature of the government's relationship with the entity (whether the government has control, joint control or significant influence over the entity);

  (c) to enable the users of the entity's financial statements to understand the effect of related party transactions on its financial statements, the following information in sufficient details:

    - ❖ the nature and amount of each individually significant transaction;
    - ❖ for other transactions that are not significant individually but are significant when aggregated, either a qualitative or quantitative indication of their extent.

- Thus, the reporting entity is expected to apply its judgment to determine the level of details it is required to disclose as per above. To enable the reporting entity to arrive at decision, it shall consider:

  (a) the closeness of the related party relationship;

  (b) whether the transaction is significant in size;

  (c) whether the transaction is carried out on non-market terms;

  (d) whether these are outside the normal day to day business operations, such as purchase and sales of businesses

  (e) whether they are disclosed to regulatory or supervisory authorities;

  (f) whether they are reported to senior management;

  (g) whether they are subject to shareholder approval.

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Following is the extract from the financial statements of the listed entity 'Cochin Shipyard Limited' for the financial year 2021-2022 with respect to 'Related Party disclosure as per Ind AS 24'.

Nature of transaction - Transaction with other related parties

As CSL is a Government company under the control of Ministry of Shipping (MoS), the Company has availed exemption from detailed disclosures prepared under Ind AS 24 with respect to related party transactions with Government and Government related entities. However, as required under Ind AS 24, following are the individually significant transactions:

Transactions/balances with Government and Government related entities by the parent company.

(₹ in Lakhs)

Particulars	As at March 31, 2022	As at March 31, 2021
Secondment to subsidiary - Hooghly Cochin Shipyard Ltd.(HCSL)	0.00	6.15
Secondment to subsidiary - Udupi Cochin Shipyard Limited	0.00	13.05
Investment in NCDs issued by subsidiary - HCSL	7500.00	4400.00
Investment in NCDs issued by subsidiary - UCSL	1000.00	-
Investment in Right Issue in subsidiary - HCSL	2800.00	2800.00

(Source: Annual Report for 2021-2022 of 'Cochin Shipyard Limited')

Disclosure requirements when exemption applies

In Entity A's financial statements, an example of disclosure to comply for **individually** significant transactions could be:

- **Example** of disclosure for individually significant transaction carried out on non-market terms

Example 23

On 15 January, 20X1 Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, sold a 10-hectare piece of land to another government-related utility company for ₹ 5 million. On 31, December 20X0 a plot of land in a similar location, of a similar size and with similar characteristics, was sold for ₹ 3 million. There had not been any appreciation or depreciation of the land in the intervening period. See note X [of the financial statements] for disclosure of government assistance as required by Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* and notes Y and Z [of the financial statements] for compliance with other relevant Indian Accounting Standards.

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- **Example** of disclosure for individually significant transaction because of **size** of transaction

Example 24

In the year ended December 20X1 Government G provided Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, with a loan equivalent to 50 percent of its funding requirement, repayable in quarterly instalments over the next five years. Interest is charged on the loan at a rate of 3 per cent, which is comparable to that charged on Entity A's bank loans.* See notes Y and Z [of the financial statements] for compliance with other relevant Indian Accounting Standards.

- **Example** of disclosure of collectively significant transactions in Entity A's financial statements, an example of disclosure to comply with for **collectively** significant transactions could be:

Example 25

Government G, indirectly, owns 75 per cent of Entity A's outstanding shares. Entity A's significant transactions with Government G and other entities controlled, jointly controlled or significantly influenced by Government G are [a large portion of its sales of goods and purchases of raw materials] or [about 50 per cent of its sales of goods and about 35 per cent of its purchases of raw materials]. The company also benefits from guarantees by Government G of the company's bank borrowing. See note X [of the financial statements] for disclosure of government assistance as required by Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* and notes Y and Z [of the financial statements] for compliance with other relevant Indian Accounting Standards.

1.7 SIGNIFICANT DIFFERENCES IN IND AS 24 VIS-A-VIS AS 18

S. No.	Particulars	Ind AS 24	AS 18
1.	*Definition of Relative*	Ind AS 24 uses the term "a close member of the family of a person".	AS 18 uses the term "relatives of an individual"
		Definition of close members of family as per Ind AS 24 includes those family members, who may be	AS 18 covers the spouse, son, daughter, brother, sister, father and mother

*If the reporting entity had concluded that this transaction constituted government assistance it would have needed to consider the disclosure in Ind AS 20.

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S. No.	Particulars	Ind AS 24	AS 18
		expected to influence, or be influenced by, that person in their dealings with the entity, including: (a) that person's children, spouse or domestic partner, brother, sister, father and mother; (b) children of that person's spouse or domestic partner; and (c) dependents of that person or that person's spouse or domestic partner. Hence, the definition as per Ind AS 24 is much wider.	who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.
2.	*State Controlled Enterprise:*	Ind AS 24, has extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is controlled, jointly controlled or significantly influenced by a government." Further, "Government refers to government, government agencies and similar bodies whether local, national or international."	AS 18 defines state-controlled enterprise as *"an enterprise which is under the control of the Central Government and/or any State Government(s)"*.
3.	*Key Management Personnel*	Ind AS 24 covers KMP of the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity. Further definition of KMP under Ind AS 24 specifically includes Directors whether executive or not and also those KMP who control the entity indirectly.	AS 18 covers key management personnel (KMP) of the entity only

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S. No.	Particulars	Ind AS 24	AS 18
4.	*Related Parties in case of Joint Venture*	Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate.	As per AS 18, co-venturers or co-associates are not related to each other.
5.	*Effect of influences which do not lead to transactions*	Ind AS 24 does not specifically mention this.	AS 18 mentions that where there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required. (Paragraph 18 of AS 18)
6.	*Post-employment Benefits*	Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.	AS 18 does not specifically cover entities that are post-employment benefit plans, as related parties.
7.	*Next Most Senior Parent*	Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use. (Paragraph 13 of Ind AS 24)	AS 18 has no such requirement.
8.	*Disclosure for Compensation*	Ind AS 24 requires extended disclosures for compensation of KMP under different categories viz. short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, share-based payments.	AS 18 does not specifically require
9.	*Disclosure of 'Amount of the Transactions' vs 'Volume of the Transactions*	Ind AS 24 requires "the amount of the transactions" need to be disclosed. (Paragraph 18 (a) of Ind AS 24)	AS 18 gives an option to disclose the "Volume of the transactions either as an amount or as an appropriate proportion". (Paragraph 23(iv) of AS 18)

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S. No.	Particulars	Ind AS 24	AS 18
10.	*Government Related Entities:*	Ind AS 24 requires disclosures of certain information by the government related entities.	AS 18 exempts the disclosure of such information.
11.	*Clarification of Control, Substantial Interest and Significant Influence*	Ind AS 24 neither defines these terms nor it includes such clarificatory text and allows respective standards to deal with the same.	AS 18 includes definition and clarificatory text, primarily with regard to control, substantial interest (including 20% threshold), significant influence (including 20% threshold).

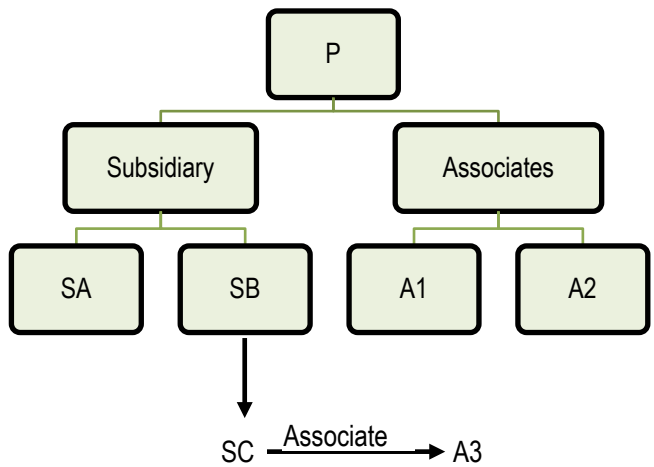
Note: It is strongly advised to draw the diagrams of related party relationships for the following illustrations to test the understanding of the subject matter.

Illustration 1 : Associates and subsidiaries

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.

Solution



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- 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

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Illustration 2 : Key management personnel

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 Ltd. for A Ltd.

(b) Examine related party relationships from the perspective of C Ltd. for A Ltd. if Mr. X is a KMP of B Ltd. and not C Ltd.

(c) Will the outcome in (a) & (b) would be different if Mr. X has joint control over A Ltd.

(d) Will the outcome in (a) & (b) would be different if Mr. X has significant influence over A Ltd.

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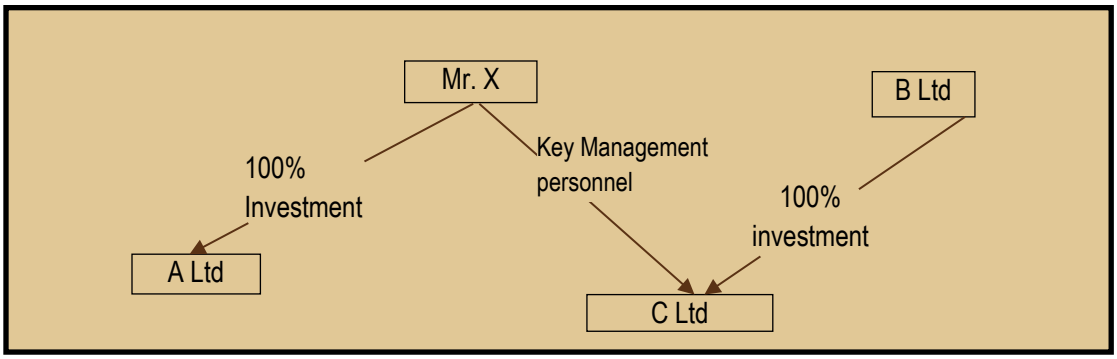
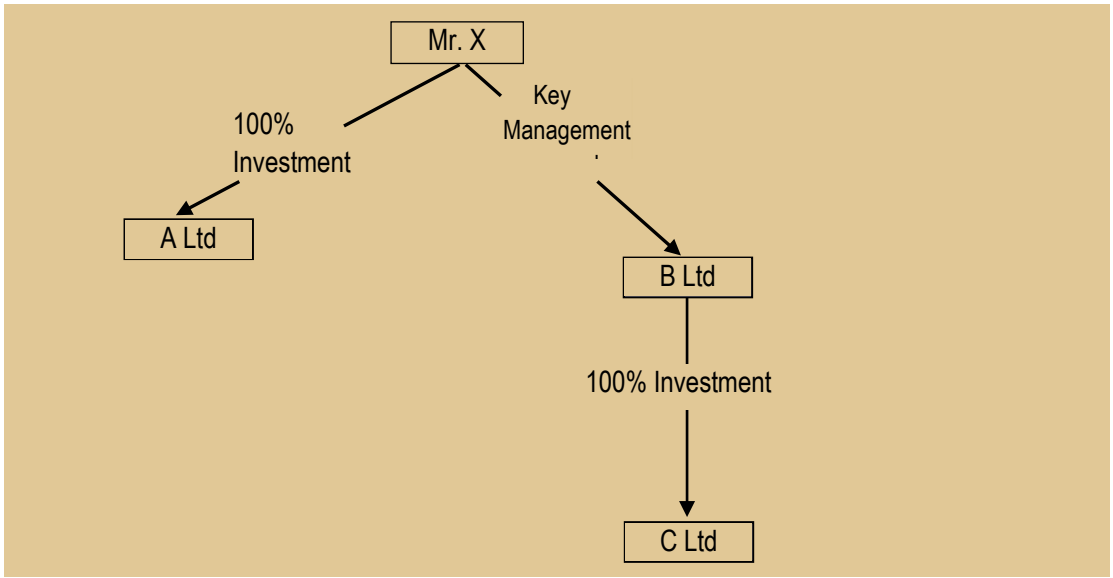
Solution

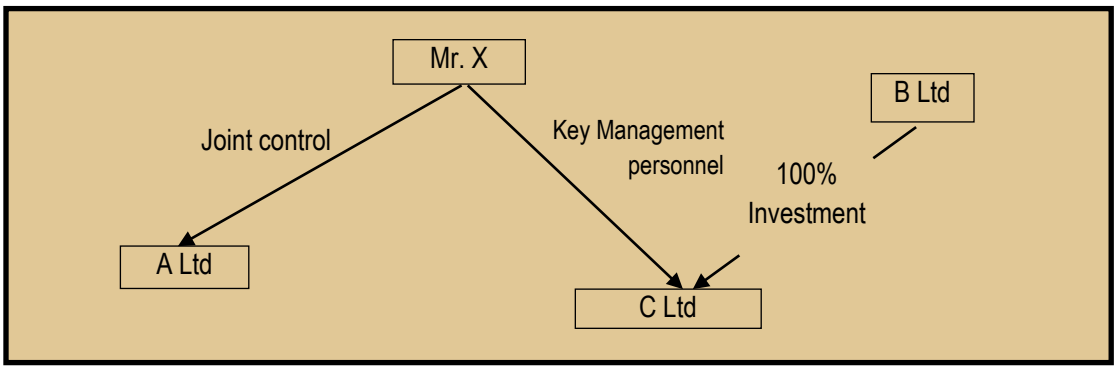
(a) A Ltd. is related to C Ltd. because Mr. X controls A Ltd. and is a member of KMP of C Ltd.



(b) Still A Ltd. will be related to C Ltd.



(c) No, Still A Ltd. will be related to C Ltd.



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(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 Ltd.

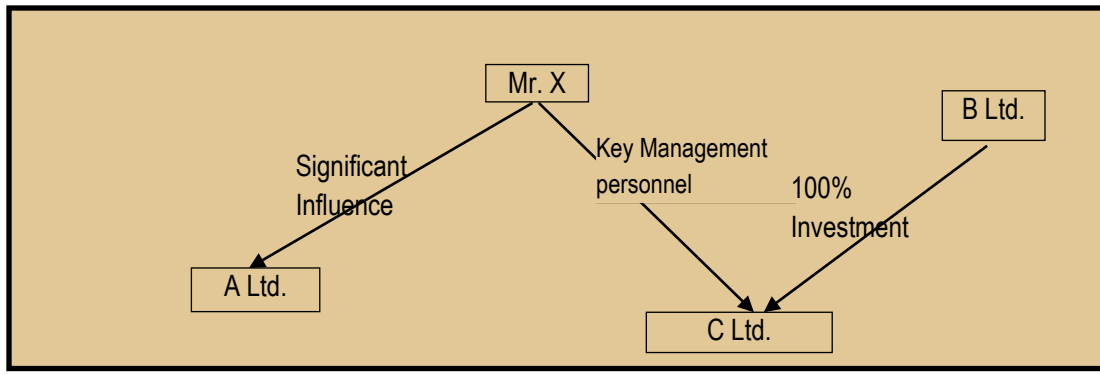

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Illustration 3 : Person as investor

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

Solution

(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.

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Illustration 4 : Partial exemption for government related entities

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.

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

Solution

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.

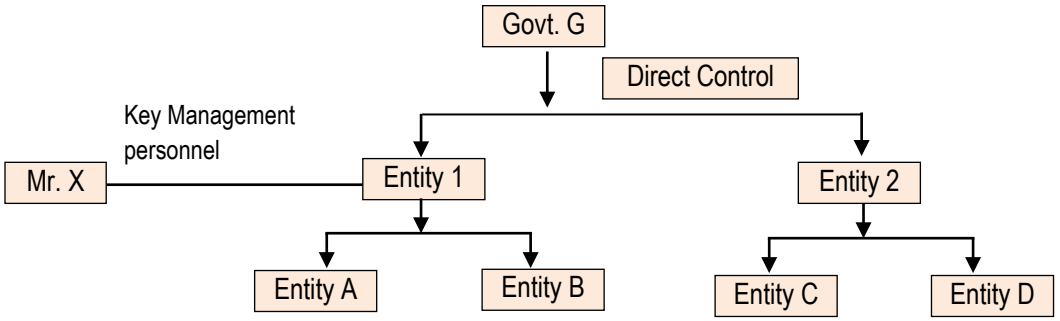

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Illustration 5

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.

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

Solution

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.

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TEST YOUR KNOWLEDGE

Questions

1. 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:

2. 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.

3. 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, 20X1. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 20X1 to 31st May 20X1 totalled ₹ 8,00,000. Following the share purchase 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 20X1 to 31st March 20X2 totalled ₹ 60,00,000. On 31st March 20X2, the trade receivables of XYZ Ltd. included ₹ 18,00,000 in respect of amounts owing by ABC Ltd.

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Analyse and show (where possible by quantifying amounts) how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31st March 20X2 as per Ind AS. You are required to mention the disclosure requirements as well.

4. 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?

5. 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.

Answers

1. (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. i.e., if Mr. X has significant influence (but not control or joint control) over Entity A and Ms. Y has significant influence (but not control or joint control) over Entity B, Entities A and B are not related to each other.

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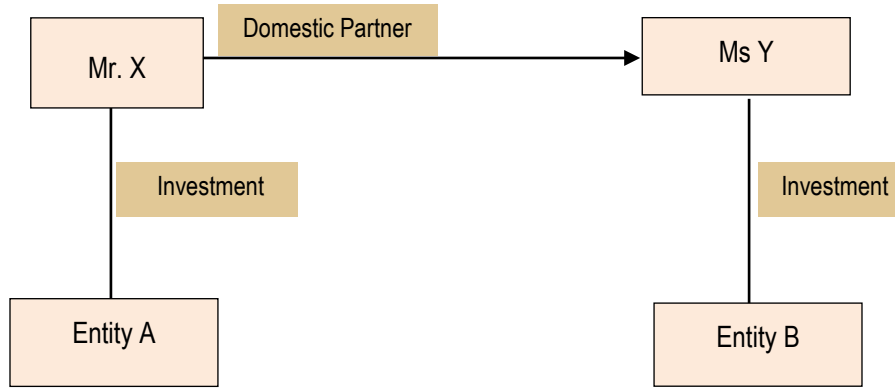

If Mr X is a member of the key management personnel of Entity A and Ms Y is a member of the key management personnel of Entity B, Entities A and B are not, in the absence of any other indicator of a related party relationship, related to each other.

2. (a) C Limited is related to B Limited and A Limited

(b) B Limited is related to C Limited and A Limited.

3. 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 20X2 within its revenue and show ₹ 18,00,000 within trade receivables at 31st March 20X2.

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 20X1, 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 20X1.
- The outstanding balance of ₹ 18,00,000 at 31st March 20X2.

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.

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4. 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. Hence, they should be reported as related party.

Further, 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.

5. 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.

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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. i.e. 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.

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