



1

THE FINANCIAL REPORTING WORKSHOP

24TH NOVEMBER 2016

RHINO HOTEL, NYERI

**RELATED PARTY DISCLOSURES
AMONG SMALL AND MEDIUM
TERM ENTITIES/ENTITIES**

1. Definition
2. Purpose of related party disclosures
3. Disclosure of parent-subsidiary relationship
4. Disclosure of Key management personnel compensation
5. Disclosure of related party transactions

1. Definition

3

A related party is a person or an entity that is related to the entity that is preparing its financial statements (reporting entity).

(a) A person or a **close member** of that person's family is **related** to a reporting entity if that person:

- (i) has **control or joint control** over the reporting entity
- (ii) has **significant influence** over the reporting entity;
- (iii) is a **member of the key management personnel** of the reporting entity or a parent of the reporting entity.

1. Definition

4

- Family member who may be expected to influence or be influenced by that person in their dealings with the entity:
 - Includes person's children, spouse or domestic partner
 - Children of that person's spouse or domestic partner
 - Dependants of that person or that person's spouse or domestic partner

1. Definition

5

An **entity** is related to a reporting entity if:

- Entity and reporting entity are members of the same group
- One entity is an associate or joint venture of the other
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third party and the other entity is an associate of the third party
- 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
- Entity is controlled or jointly controlled by a person identified in the preceding slides
- A 'person' identified in the preceding slides as having control or joint control over the reporting entity has significant influence over the entity or is a member of key management personnel of the entity

1. Definition

6

- A person identified as a person or close member of that person's family who has control or joint control and 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).
- 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

1. Definition

7

In considering each possible related party relationship, an entity shall assess substance of the relationship and not merely the legal form

1. Definition

8

The following are deemed **not** to be related:

- two entities simply because they have a director or key manager in common;
- two venturers who share joint control over a joint venture;
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process);
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

1. Definition

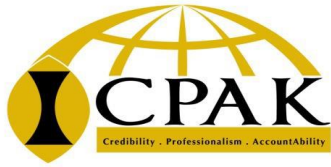
9

- 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

2. Purpose of Related Party Disclosures

10

- A related party relationship could affect a reporting entity's performance and financial position. For example, transactions between related parties may not be made at the same amounts as between unrelated parties, and knowledge of this is likely to be important to readers of the financial statements.
- Knowledge of related party transactions may affect a user's assessment of the reporting entity's operations, or risks and opportunities facing the entity
- A related party relationship could have an effect on the reporting entity's results
- Transaction between related parties may not be made at arm's length



3. Disclosure of parent-subsidiary relationship

11

- The relationship shall be disclosed irrespective of whether there have been related party transactions or not
- An entity shall disclose
 - i. Name of its parent and, if different, the ultimate controlling party
 - ii. If neither the entity's parent nor ultimate controlling party produces financial statements for public use, the name of next most senior most parent that does so shall be disclosed

3. Disclosure of Key Management Personnel

12

- *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.
- An entity shall disclose key management personnel compensation in total

4. Disclosure of related party transaction

13

If an entity has related party transactions, for each category it shall disclose the nature of the related party relationship as well as information about the transactions outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances;
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
- (c) provisions for uncollectible receivables 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.

4. Disclosure of related party transaction

14

An entity shall make the disclosures above separately for each of the following categories:

- (a) entities with control, joint control or significant influence over the entity;
- (b) key management personnel of the entity or its parent (in the aggregate);and
- (c) other related parties

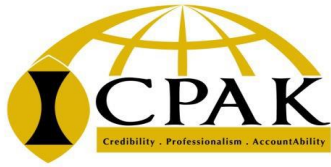
4. Disclosure of related party transactions

15

An entity is exempt from the disclosure requirements above in relation to

- a. A state (a national, regional or local government) that has control or significant influence over the reporting entity,**
- b. Another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and other entity**

However, the entity must disclose the parent-subsidiary relationship



4. Disclosure of related party transactions

16

- An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.
- An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity

Questions

17

QUESTIONS?

End

18

THANK YOU