

**Compiled Accounting Standard**

**AASB 124**

# **Related Party Disclosures**

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This compilation was prepared on 27 April 2005 taking into account amendments made up to and including 22 December 2004.

Prepared by the staff of the Australian Accounting Standards Board.

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## CONTENTS

COMPILATION DETAILS

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### ACCOUNTING STANDARD

#### AASB 124 *RELATED PARTY DISCLOSURES*

	<i>Paragraphs</i>
Objective	1
Application	Aus1.1 – Aus1.14
Scope	2 – 4
Purpose of Related Party Disclosures	5 – 8
Definitions	9 – 11
Disclosure	12 – 22

BASIS FOR CONCLUSIONS ON IAS 24

(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 124 *Related Party Disclosures* (as amended at 22 December 2004) is set out in paragraphs 1 – 22. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 124 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## COMPILATION DETAILS

### **Accounting Standard AASB 124 *Related Party Disclosures* as amended**

This compilation takes into account amendments up to and including 22 December 2004 and was prepared on 27 April 2005 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 124 (July 2004) as amended by other Accounting Standards, which are listed in the Tables below.

**Table of Standards**

Standard	Date made	Date of notification in Gazette or FRLI registration	Application date (annual reporting periods)	Application, saving or transitional provisions
AASB 124	15 Jul 2004		(beginning) 1 Jan 2005	
AASB 2004-3	22 Dec 2004	23 Dec 2004	(beginning) 1 Jan 2006	see (a) below

(a) The amendment to paragraph 20 is a consequence of the reissue of AASB 119 *Employee Benefits* (December 2004). It applies from 1 January 2005 to those entities that choose to early-adopt AASB 119 and AASB 2004-3 prior to 1 January 2006.

**Table of Amendments**

Paragraph affected	How affected	By ... [paragraph]
20	amended	AASB 2004-3 [10]

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 124 and IAS 24**

AASB 124 as amended is equivalent to IAS 24 *Related Party Disclosures* as issued and amended by the IASB.

Paragraphs that have been added to this Standard (and do not appear in the text of IAS 24) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

### **Compliance with IAS 24**

The notes for the consolidated financial statements of a corporate or for-profit entity that comply with AASB 124 will simultaneously be in compliance with the requirements of IAS 24 for consolidated financial statements.

When the key management personnel of a parent entity within a consolidated group are the same individuals that would be so classified in respect of the consolidated group and the entity wishes to claim that the parent entity financial statements comply with IAS 24, it would be necessary to repeat in the notes to the parent financial statements the relevant disclosures made in the notes to the consolidated financial statements involving key management personnel.

When the key management personnel of a parent entity within a consolidated group are different from those individuals so classified in respect of the consolidated group, additional disclosures in the notes to the parent entity financial statements (in respect of the different key management personnel and those related to the entity through them) would be required in order to claim that the parent entity financial statements comply with the requirements of IAS 24.

Not-for-profit, non-corporate entities are not required to apply AASB 124 but may choose to do so. The above comments in respect of parent and consolidated financial statements of corporate and for-profit entities apply equally to the financial report of a not-for-profit, non-corporate entity that chooses to apply AASB 124.

### **AASB 124 and IPSAS 20**

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 20 *Related Party Disclosures* (October 2002) is drawn primarily from the 1994 version of IAS 24. Apart from the fact that AASB 124 is not required to be applied by not-for-profit public sector entities, the main differences between IPSAS 20 and AASB 124 are:

- (a) IPSAS 20 contains additional commentary clarifying application to public sector entities;
- (b) IPSAS 20 does not distinguish between parent entity financial statements and consolidated financial statements;
- (c) AASB 124 includes post-employment benefit plans in the definition of related parties and identifies former key management personnel as a category of related party requiring separate disclosure;
- (d) AASB 124 contains additional direction on the composition of the key management personnel group, identifying this as comprising the specified directors and specified executives of the entity;
- (e) AASB 124 defines compensation as comprising five components (the four used in AASB 119 *Employee Benefits* and the fifth as in AASB 2 *Share-based Payment*) and requires disclosure of the aggregate remuneration of key management personnel for each component;
- (f) IPSAS 20 requires additional disclosures about key management personnel, including the number of individuals included in the remuneration disclosures as well as specific details relating to loans to individuals;
- (g) IPSAS 20 does not require the disclosure of information about transactions between related parties that occurred on normal terms and conditions;
- (h) IPSAS 20 does not explicitly require disclosure of any balances with related parties; and
- (i) AASB 124 requires disclosures about transactions and balances with related parties to be separated by category of related party and specifies disclosures in greater detail (for example, aggregate amounts of items of similar nature for each category).

## ACCOUNTING STANDARD AASB 124

The Australian Accounting Standards Board made Accounting Standard AASB 124 *Related Party Disclosures* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 124 incorporates subsequent amendments contained in other AASB Standards made by the AASB up to and including 22 December 2004 (see Compilation Details).

## ACCOUNTING STANDARD AASB 124

### *RELATED PARTY DISCLOSURES*

#### Objective

1. The objective of this Standard is to ensure that an entity's financial report contains the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of *related parties* and by transactions and outstanding balances with such parties.

#### Application

**Aus1.1** This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
- (b) each for-profit, non-corporate reporting entity; and
- (c) each for-profit entity that prepares financial reports that are, or are held out to be, general purpose financial reports.

**Aus1.2** This Standard applies to annual reporting periods beginning on or after 1 January 2005.

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

**Aus1.3** This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

- Aus1.4**      **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
- Aus1.5**      **When applicable, this Standard supersedes AASB 1017 *Related Party Disclosures* as notified in the *Commonwealth of Australia Gazette* No S 66, 28 February 1997.**
- Aus1.6      AASB 1017 remains applicable until superseded by this Standard.
- Aus1.7**      **Non-corporate entities that apply this Standard are exempted from applying AAS 22 *Related Party Disclosures*.**
- Aus1.8**      **An entity that is not a parent entity in a group (and not subject to AASB 127 *Consolidated and Separate Financial Statements*) shall provide in its financial report the disclosures required by this Standard.**
- Aus1.9**      **An entity that is a parent entity within a group and presents, in its financial report, its financial statements together with the consolidated financial statements in accordance with AASB 127 shall provide in that report the disclosures required by this Standard:**
- (a)    **in relation to the consolidated financial statements; and**
- (b)    **in relation to the parent entity financial statements, in respect of all related parties other than its *key management personnel* and entities related through them to the parent entity.**
- Aus1.10      The key management personnel of a parent entity may comprise the same individuals that would be included in respect of the consolidated group. In such cases, it is unnecessary to repeat in relation to parent entity financial statements the same disclosures about key management personnel required in the notes in relation to the consolidated financial statements, unless the entity wishes to ensure that its parent entity financial statements are compliant with the equivalent IASB Standard, IAS 24 *Related Party Disclosures*.
- Aus1.11      A difference between the key management personnel of an entity on a consolidated basis from the group of individuals that would be determined in respect of the parent entity alone (excluding



executives employed by subsidiaries and including other executives employed by the parent) means that the disclosures required by paragraphs 16, 18(f) and 18(g) will be different from disclosures on a parent entity basis. In such cases, an entity that wishes to ensure that its parent entity financial statements are compliant with the equivalent IASB Standard, IAS 24, would need to provide additional disclosures in the notes to the parent entity financial statements in respect of the different key management personnel and those related to the parent entity through them.

**Aus1.12** *Disclosing entities that provide the disclosures required by AASB 1046 Director and Executive Disclosures by Disclosing Entities shall be taken to have satisfied the requirements of paragraph Aus1.9(a) in respect of its key management personnel and entities related through them to the entity.*

Aus1.13 Disclosing entities complying with AASB 1046 are not required by this Standard to provide additional disclosures in the notes to the consolidated financial statements in respect of their key management personnel and those related parties who are related to the entity through those individuals. However, disclosing entities must apply the requirements of this Standard to all other related parties, including:

- (a) the key management personnel of an entity that is the (external) parent of a disclosing entity;
- (b) related parties who are related through the individuals in (a); and
- (c) *former key management personnel* of the disclosing entity.

Aus1.14 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

## Scope

**2. This Standard shall be applied in:**

- (a) **identifying related party relationships and transactions;**
- (b) **identifying outstanding balances between an entity and its related parties;**

- (c) **identifying the circumstances in which disclosure of the items in (a) and (b) is required; and**
  - (d) **determining the disclosures to be made about those items.**
- 3. [Deleted by the AASB. For application in Australia, see paragraphs Aus1.1 – Aus1.13]
- 4. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial report. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

## **Purpose of Related Party Disclosures**

- 5. Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In these circumstances, the entity's ability to affect the financial and operating policies of the investee is through the presence of *control, joint control or significant influence*.
- 6. A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.
- 7. The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another – for example, a subsidiary may be instructed by its parent not to engage in research and development.
- 8. For these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial reports, including assessments of the risks and opportunities facing the entity.

## Definitions

9. The following terms are used in this Standard with the meanings specified.

*Close members of the family of an individual* are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependants of the individual or the individual's domestic partner.

*Compensation* includes all employee benefits (as defined in AASB 119 *Employee Benefits*) including employee benefits to which AASB 2 *Share-based Payment* 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, 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 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.

***Control*** is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

***Joint control*** is the contractually agreed sharing of control over an economic activity.

***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.

***Related party*** – a party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
  - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in AASB 128 *Investments in Associates*) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (see AASB 131 *Interests in Joint Ventures*);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

**A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.**

***Significant influence* is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.**

**Aus 9.1     The following terms are also used in this Standard with the meaning specified.**

***Director* means:**

- (a)     a person who, regardless of the name that is given to the position, is appointed:**
  - (i)     to the position of a director; or**
  - (ii)    to the position of an alternate director and is acting in that capacity; or**
  - (iii)   in the case of entities governed by bodies not called a board of directors, to the position of member of the governing body, council, commission or authority;**
- (b)     unless the contrary intention appears, a person who is not validly appointed as a director if:**
  - (i)     the person acts in the position of a director; or**
  - (ii)    the directors of the entity are accustomed to act in accordance with the person's instructions or wishes (except where the directors act on advice given by the person in the proper performance of functions attaching to the person's professional capacity, or the person's business relationship with the directors or the entity).**

***Disclosing entity* is defined in the Corporations Act.**

***Executive*** means a person who is directly accountable and responsible for the strategic direction and operational management of the entity.

***Former key management personnel*** means a person who was a specified director or specified executive in the immediately preceding reporting period but is not specified in the current reporting period.

***Specified director*** means a person who was, at any time during the reporting period, a director of the entity required to prepare the financial report.

***Specified executive*** means one of the five or more executives who:

- (a) have the greatest authority for managing the consolidated group or, where there are no subsidiaries, the entity required to prepare the financial report;
- (b) are employed at any time during the reporting period by the entity or any of its subsidiaries; and
- (c) are not specified directors.

Aus9.2 For the purposes of this Standard, the key management personnel comprise the *specified directors* and at least five *specified executives*.

Aus9.3 Former specified directors and specified executives of an entity are not included in the key management personnel group for this period. They are treated as an additional, separate class of related parties.

10. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

11. In the context of this Standard, the following are not necessarily related parties:

- (a) two entities simply because they have a *director* or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party';

- (b) two venturers simply because they share joint control over a joint venture;
- (c)
  - (i) providers of finance,
  - (ii) trade unions,
  - (iii) public utilities, and
  - (iv) government departments and agencies,
 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); and
- (d) 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 dependence.

## Disclosure

- 12. Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial reports available for public use, the name of the next most senior parent that does so shall also be disclosed.**

**Aus12.1 When any of the parent entities and/or ultimate controlling parties named in accordance with paragraph 12 is incorporated or otherwise constituted outside Australia, an entity shall:**

- (a) **identify which of those entities is incorporated overseas and where; and**
  - (b) **disclose the name of the ultimate controlling entity incorporated within Australia.**
13. To enable users of financial reports to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

14. The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in AASB 127, AASB 128 and AASB 131, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.
15. When neither the entity's parent nor the ultimate controlling party produces financial reports available for public use, the entity discloses the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
16. **An entity shall disclose key management personnel *compensation* in total and for each of the following categories:**
  - (a) short-term employee benefits;
  - (b) post-employment benefits;
  - (c) other long-term benefits;
  - (d) termination benefits; and
  - (e) share-based payment.
- Aus16.1 An entity shall disclose the names of the specified directors for the reporting period and, where a director has not occupied this position for the entire period, the date of appointment or resignation as appropriate.**
17. **If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:**
  - (a) the amount of the transactions;
  - (b) the amount of outstanding balances and:
    - (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 doubtful debts related to the amount of outstanding balances; and
  - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- 18. The disclosures required by paragraph 17 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 venturer;
  - (f) key management personnel of the entity or its parent; and
  - (g) other related parties.
- Aus18.1 When there exist transactions or balances with former key management personnel that would otherwise be included in the aggregates disclosed in respect of category (g), paragraph 18, an entity shall make separate disclosures in respect of those former key management personnel.
- Aus18.2 In respect of disclosing entities, category (f), paragraph 18, comprises the key management personnel only of the (external) parent of the disclosing entity, and does not include those key management personnel about whom disclosures are made in accordance with AASB 1046. Likewise, entities related to the key management personnel of the disclosing entity (clauses (e) and (f) of the definition of related party in paragraph 9) are excluded from disclosures under category (g), paragraph 18.
- 19. The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 18 is an extension of the disclosure requirement in AASB 101 *Presentation of Financial Statements* for information to be presented either on 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.

20. The following are examples of transactions that are disclosed if they are with a related party:
- (a) purchases or sales of goods (finished or unfinished);
  - (b) purchases or sales of property and other assets;
  - (c) rendering or receiving of services;
  - (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; and
  - (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of AASB 119 as issued in December 2004).

21. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
22. **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.**

## **Effective Date of IAS 24**

23. [Deleted by the AASB]

## **Withdrawal of IAS 24 (reformatted 1994)**

24. [Deleted by the AASB]