

**Accounting Standards Interpretation (ASI) 13<sup>1</sup>**  
**Interpretation of paragraphs 26 and 27 of**  
**AS 18**

**Accounting Standard (AS) 18, Related Party**  
**Disclosures**

*[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 2/2002, issued in May 2002 stands withdrawn.]*

**ISSUES**

1. Paragraph 23 of AS 18 requires certain disclosures in respect of transactions between related parties. Paragraph 26 of AS 18, inter alia, provides that items of a similar nature may be disclosed in aggregate by type of related party. The issue is as to what is the meaning of type of related party for this purpose.
2. Paragraph 27 of AS 18 provides that “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. Hence, 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**” (emphasis added). The issue is as to how the test of the materiality should be applied for this purpose.

**CONSENSUS**

3. The type of related party for the purpose of aggregation of items of a similar nature should be construed to mean the related party relationships given in paragraph 3 of AS 18.

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<sup>1</sup> Published in ‘The Chartered Accountant’, March 2004, pp. 952-954. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

The manner of disclosure required by paragraph 23 of AS 18, read with paragraph 26 thereof, in accordance with the above requirement, is illustrated in the Appendix to this Interpretation.

4. Materiality primarily depends on the facts and circumstances of each case. In deciding whether an item or an aggregate of items is material, the nature and the size of the item(s) are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. As regards size, for the purpose of applying the test of materiality as per paragraph 27 of AS 18, ordinarily a related party transaction, the amount of which is in excess of 10% of the total related party transactions of the same type (such as purchase of goods), is considered material, unless on the basis of facts and circumstances of the case it can be concluded that even a transaction of less than 10% is material. As regards nature, ordinarily the related party transactions which are not entered into in the normal course of the business of the reporting enterprise are considered material subject to the facts and circumstances of the case.

#### **BASIS FOR CONCLUSIONS**

5. Paragraphs 23 and 26 of AS 18 provide as below:

*“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:*

- (i) the name of the transacting related party;*
- (ii) a description of the relationship between the parties;*
- (iii) a description of the nature of transactions;*
- (iv) volume of the transactions either as an amount or as an appropriate proportion;*
- (v) any other elements of the related party transactions necessary for an understanding of the financial statements;*
- (vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and*

*(vii) amounts written off or written back in the period in respect of debts due from or to related parties.”*

*“26. Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.”*

6. Paragraph 3 of AS 18 provides as under:

“This Statement deals only with related party relationships described in (a) to (e) below:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- (d) key management personnel and relatives of such personnel; and
- (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.”

7. In view of the above, for the purpose of providing disclosures under paragraph 23 of AS 18, the items of a similar nature may be aggregated by the type of related parties described in paragraph 3 of AS 18, e.g., subsidiaries, joint ventures, associates etc. However, the aggregation cannot be done when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

8. Paragraph 30 of the Framework for the Preparation and Presentation of Financial Statements, provides as follows:

“30. The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which the information must have if it is to be useful”.

In the context of paragraph 27 of AS 18, a rebuttable presumption of 10% is considered appropriate for application of the test of materiality so far as size is concerned. Further, since materiality not only depends on the size but also depends on the nature of the transaction, the related party transactions, which are not entered into in the normal course of the business are considered material on the basis of facts and circumstances of the case. An example of such a transaction is purchase of an asset by an enterprise from an outside party and selling the same to its subsidiary when the parent is not primarily engaged in the purchase and sale of such assets. Another example could be granting a loan by a parent enterprise to its subsidiary when the parent is not primarily engaged in the financial activities.

## Appendix

*Note: This appendix is illustrative only and does not form part of the Accounting Standards Interpretation. The purpose of this appendix is to illustrate the application of the Interpretation to assist in clarifying its meaning.*

The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated as below. It may be noted that the format given below is merely illustrative in nature and is not exhaustive.

	Holding Company	Subsidiaries	Fellow Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Purchases of goods							
Sale of goods							
Purchase of fixed assets							
Sale of fixed assets							
Rendering of services							
Receiving of services							
Agency arrangements							
Leasing or hire purchase arrangements							
Transfer of research and development							
Licence agreements							

Finance (including loans and equity contributions in cash or in kind)							
Guarantees and collaterals							
Management contracts including for deputation of employees							

Note:

*Names of related parties and description of relationship:*

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|--|---|
| 1. Holding Company                       | A Ltd.  |
| 2. Subsidiaries                          | B Ltd. and C (P) Ltd.                           |
| 3. Fellow Subsidiaries                   | D Ltd. and Q Ltd.                               |
| 4. Associates                            | X Ltd., Y Ltd. and Z (P) Ltd.                   |
| 5. Key Management Personnel              | Mr. Y and Mr. Z                                 |
| 6. Relatives of Key Management Personnel | Mrs. Y (wife of Mr. Y), Mr. F (father of Mr. Z) |