

Related Party Disclosures (IAS 24)

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1. Objective and purpose of IAS 24

IAS 24 exists to make sure users of financial statements are aware when:

- **Relationships** between the reporting entity and other parties could influence decisions.
- **Transactions and balances** with those parties might affect the entity's financial position and performance.

In one sentence: IAS 24 wants transparency about who can influence the entity and how that influence shows up in transactions and balances—even if those transactions look “normal”.

2. Scope of IAS 24

IAS 24 applies to all entities that prepare financial statements under IFRS, and covers:

- **Identification of related parties and related party transactions.**
- **Identification of outstanding balances and commitments** with related parties.
- **Circumstances requiring disclosure** of those relationships, transactions and balances.
- **The nature and detail of disclosures** that must be made.

It applies to:

- **Consolidated financial statements** (e.g. group accounts under IFRS 10).
- **Separate financial statements** (e.g. parent-only accounts under IAS 27).

There is **no exemption** simply because transactions are at market terms or are small—materiality and relevance still govern.

3. Key definitions in IAS 24

3.1 Related party

A **related party** is a person or entity that is related to the reporting entity (the “entity” that prepares the financial statements).

Broadly, a party is related if there is:

- **Control or joint control** over the entity.
- **Significant influence** over the entity.
- **Key management personnel (KMP)** relationship with the entity or its parent.
- **Common control or significant influence** between entities.

3.1.1 Control and joint control

- **Control:** Power over the investee, exposure or rights to variable returns, and ability to use power to affect returns.
- **Joint control:** Contractually agreed sharing of control, where decisions about relevant activities require unanimous consent.

If Entity A controls Entity B, they are related parties. If two entities are under **common control** (same parent), they are also related parties.

3.1.2 Significant influence

- **Significant influence:** Power to participate in financial and operating policy decisions, but not control.
- Typically evidenced by:
 - **Shareholding** (usually around 20% or more, but not a bright line).
 - **Board representation.**
 - **Participation in policy-making processes.**
 - **Material transactions** between the entities.

An investor with significant influence over an entity (e.g. an associate) is a related party.

3.1.3 Key management personnel (KMP)

- **KMP:** Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.
- Includes:
 - Executive directors.
 - Non-executive directors (if they participate in key decisions).
 - Senior management (e.g. CEO, CFO, COO).

KMP of the entity and of its parent are related parties.

3.1.4 Close members of the family

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

- **Spouse or domestic partner.**
- **Children and dependants.**
- **Children of the spouse or domestic partner.**
- **Dependants of the spouse or domestic partner.**
- Sometimes parents and siblings, depending on circumstances.

If a KMP's spouse owns a company that transacts with the entity, that company may be a related party because of the family connection.

3.1.5 Related entities

Entities are related if:

- **One entity is a parent, subsidiary, or fellow subsidiary** of another.
- **One entity is an associate or joint venture** of another entity (or of a group member).
- **Both entities are joint ventures of the same third party.**
- **One entity is a joint venture and the other is an associate** of the same third party.
- **The entity is a post-employment benefit plan** for the employees of the entity or of a related entity.
- **The entity is controlled or jointly controlled by a person** who is a related party.
- **A person with control or joint control over the entity has significant influence over another entity** or is a KMP of that other entity.

4. What is NOT a related party?

IAS 24 explicitly excludes certain relationships from being automatically treated as related parties:

- **Two entities simply because they share a director or KMP** (without control, joint control, or significant influence).
- **Providers of finance, trade unions, public utilities, and government agencies** in the normal course of their dealings, simply by virtue of those dealings.
- **Customers, suppliers, franchisors, distributors, or general agents** with whom the entity has significant volume of business, if there is no control, joint control, or significant influence.

However, if any of these parties **also have control, joint control, significant influence, or KMP status**, they may become related parties.

5. Related party transactions

5.1 Definition

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

This includes both:

- **Recognised transactions** (recorded in the financial statements).
- **Unrecognised transactions** (e.g. guarantees, commitments, or arrangements not yet recognised as assets or liabilities).

5.2 Examples of related party transactions

Common examples include:

- **Purchases or sales of goods** (finished or unfinished).
- **Purchases or sales of property and other assets.**
- **Rendering or receiving services** (management services, IT support, consulting).
- **Leases** between related parties.
- **Transfers of research and development.**
- **Licence agreements** (e.g. trademarks, patents).
- **Financing arrangements** (loans, guarantees, collateral).
- **Settlement of liabilities** on behalf of another party.
- **Contributions to or from post-employment benefit plans.**

Example 1 — Sale of goods to a subsidiary: Parent Co sells inventory to Subsidiary Co at normal market prices. Even though the terms are market-based, this is a related party transaction and must be disclosed because Parent Co and Subsidiary Co are related parties.

Example 2 — Loan from parent to subsidiary at below-market interest: Parent Co provides a loan to Subsidiary Co at 1% interest when market rates are 8%. This is a related party transaction, and the below-market terms are particularly relevant to users and must be disclosed.

6. Disclosure requirements — general

6.1 Disclosure of relationships

Even if **no transactions** have occurred, IAS 24 requires disclosure of:

- **The entity's parent.**
- **The ultimate controlling party** (if different from the parent).

This helps users understand who ultimately controls the entity.

Example 3 — No transactions, but control exists: Entity X is wholly owned by Parent Y. During the year, there are no transactions between X and Y. IAS 24 still requires Entity X to disclose that Parent Y is its parent and, if applicable, the ultimate controlling party.

6.2 Disclosure when related party transactions occur

When related party transactions have occurred, the entity must disclose:

1. **Nature of the related party relationship.**
2. **Information about the transactions and outstanding balances**, including commitments, necessary for users to understand the potential effect on the financial statements.

At a minimum, disclosures must include:

- **Amount of the transactions.**
- **Amount of outstanding balances**, including commitments.

- **Terms and conditions of the balances**, including whether they are secured and the nature of the consideration.
- **Details of guarantees** given or received.
- **Provisions for doubtful debts** related to outstanding balances.
- **Expense recognised for bad or doubtful debts** from related parties.

Disclosures must be made **separately for each category of related party**, such as:

- **Parent.**
- **Entities with joint control or significant influence over the entity.**
- **Subsidiaries.**
- **Associates.**
- **Joint ventures.**
- **Key management personnel of the entity or its parent.**
- **Other related parties.**

Example 4 — Disclosure of loan to associate: Entity A has an associate, Entity B. During the year, A grants a loan of R1 000 000 to B at 3% interest, repayable over 5 years. At year-end, the outstanding balance is R950 000.

Entity A should disclose:

- The relationship (associate).
- The amount of the loan and outstanding balance.
- Interest rate and repayment terms.
- Any security provided.
- Any provisions for doubtful debts, if applicable.

6.3 Aggregation and materiality

- **Aggregation:** Similar transactions may be aggregated, but only if separate disclosure is not necessary for understanding their effect.
- **Materiality:** IAS 24 works with the general IFRS concept of materiality—immaterial transactions may not need detailed disclosure, but relationships should still be disclosed.

7. Disclosure of key management personnel (KMP) compensation

IAS 24 requires disclosure of **KMP compensation** in total and by category:

- **Short-term employee benefits** (salaries, bonuses, non-monetary benefits).
- **Post-employment benefits** (pensions, other retirement benefits).
- **Other long-term benefits** (long-service leave, long-term bonuses).
- **Termination benefits.**
- **Share-based payment** (e.g. share options, restricted shares).

These disclosures help users understand how those who control or influence the entity are being rewarded.

Example 5 — KMP compensation disclosure: Entity Z discloses that total KMP compensation for the year was R5 000 000, comprising:

- Short-term benefits: R3 000 000
- Post-employment benefits: R1 000 000
- Share-based payments: R1 000 000

8. Government-related entities

8.1 Special considerations

IAS 24 provides **partial exemption** for entities that are:

- **Controlled, jointly controlled, or significantly influenced by a government.**

Because governments may control many entities, full disclosure of all transactions between government-related entities could be overwhelming and not always useful.

8.2 Exemption

A government-related entity is **exempt from disclosing detailed information** about transactions with:

- The **government** itself.
- Other **government-related entities** (controlled, jointly controlled, or significantly influenced by the same government).

However, the entity must still disclose:

- **The nature of its relationship with the government.**
- **Information about individually significant transactions** with the government or other government-related entities.
- **Information about collectively significant transactions** with such entities.

Example 6 — Government-related entity disclosure Entity A is a utility company in which Government G indirectly owns 75% of the shares. Entity A sells electricity to many other government-controlled entities.

Entity A may be exempt from disclosing each individual transaction, but must disclose:

- That Government G controls Entity A.
- The nature of the transactions (e.g. sales of electricity).
- Individually significant transactions (e.g. sale of land to another government utility at non-market terms).

- Collectively significant transactions (e.g. a large portion of its sales and purchases are with government-related entities).

The exemption **does not apply** to transactions with **individuals** who are related parties (e.g. KMP of the entity or government).

9. Practical application and common pitfalls

9.1 Identifying related parties

Pitfall: Focusing only on legal form and ignoring substance.

- **Good practice:** Consider who actually has power to influence decisions, even if they do not hold formal titles or majority shareholdings.

Pitfall: Ignoring close family relationships.

- **Good practice:** Maintain a register of KMP and their close family members' interests.

9.2 Transactions at market terms

Pitfall: Assuming that transactions at market terms do not need disclosure.

- **Reality:** IAS 24 requires disclosure of related party transactions **regardless of whether terms are market-based**. The relationship itself is relevant.

9.3 Incomplete disclosure of balances and commitments

Pitfall: Disclosing only transaction amounts, not outstanding balances or commitments.

- **Good practice:** Always include outstanding balances, terms, security, and commitments (e.g. undrawn loan facilities, guarantees).

9.4 Over-aggregation

Pitfall: Aggregating all related party transactions into one line.

- **Good practice:** Disaggregate by category of related party (parent, subsidiaries, associates, joint ventures, KMP, others) and by type of transaction where necessary.

10. Illustrative disclosure example (narrative style)

Below is a narrative-style example one can adapt according to circumstances:

Related party disclosures

Parent and ultimate controlling party

The Company is a wholly owned subsidiary of ABC Holdings (Pty) Ltd. ABC Holdings (Pty) Ltd is controlled by Mr J Smith.

Transactions with parent

During the year, the Company received management services from ABC Holdings (Pty) Ltd amounting to R500 000 (2025: R450 000). At year-end, an amount of R80 000 (2025: R60 000) was outstanding and is unsecured, interest-free, and payable on demand.

Transactions with subsidiaries

The Company sold goods to its subsidiary, XYZ (Pty) Ltd, amounting to R1 200 000 (2025: R1 000 000). At year-end, trade receivables from XYZ (Pty) Ltd totalled R150 000 (2025: R120 000). These receivables are unsecured, interest-free, and are settled on normal commercial terms.

Key management personnel compensation

Total compensation to key management personnel of the Company and its parent was R3 500 000 (2025: R3 200 000), comprising short-term employee benefits of R2 500 000 (2025: R2 300 000), post-employment benefits of R700 000 (2025: R650 000), and share-based payments of R300 000 (2025: R250 000).

11. Summary for exam and practice focus

For IAS 24, exam questions and practical issues usually centre on:

- **Correct identification of related parties** (including KMP and close family).
- **Determining whether a transaction is a related party transaction.**
- **Understanding that disclosure is required even for:**
 - Relationships without transactions (parent/ultimate controlling party).
 - Transactions at market terms.
- **Preparing clear, category-based disclosures of:**
 - Nature of relationship.
 - Transaction amounts.
 - Outstanding balances and commitments.
 - Terms, conditions, and security.
 - KMP compensation by category.
- **Applying the government-related entity exemption** correctly, while still providing meaningful information.

12. Multiple-Choice Questions (with Answers)

1. Which of the following best describes the objective of IAS 24?

- A. To prescribe recognition and measurement of related party transactions
- B. To ensure disclosure of related party relationships and transactions
- C. To regulate consolidation procedures
- D. To define control for IFRS 10

➤ **Answer: B**

2. A related party transaction must be disclosed:

- A. Only if it is not at market terms
- B. Only if it is material
- C. Regardless of whether a price is charged
- D. Only if it results in a recognised asset or liability

➤ **Answer: C**

3. Which of the following is *always* a related party?

- A. A major customer
- B. A government department
- C. The entity's parent
- D. A supplier with long-term contracts

➤ **Answer: C**

4. Significant influence is generally presumed when shareholding is:

- A. 10% or more
- B. 20% or more
- C. 40% or more
- D. 50% or more

➤ **Answer: B**

5. Key management personnel (KMP) include:

- A. All employees
- B. Only executive directors
- C. Persons with authority over planning and directing activities
- D. Only shareholders with voting rights

➤ **Answer: C**

6. Close family members include:

- A. Friends and distant relatives
- B. Spouse, children, dependants
- C. All relatives up to third generation
- D. Only spouse

➤ **Answer: B**

7. Which of the following is *not automatically* a related party?

- A. A subsidiary
- B. An associate
- C. A major supplier
- D. A parent

➤ **Answer: C**

8. IAS 24 requires disclosure of the parent entity:

- A. Only if transactions occurred
- B. Only if the parent prepares IFRS financial statements
- C. Only if the parent owns more than 50%
- D. Even if no transactions occurred

➤ **Answer: D**

9. A loan from a parent to a subsidiary at below-market interest:

- A. Must be disclosed as a related party transaction
- B. Does not need disclosure if documented
- C. Is exempt from disclosure
- D. Is treated as equity

➤ **Answer: A**

10. KMP compensation must be disclosed:

- A. In total only
- B. By category (short-term, post-employment, etc.)
- C. Only for executive directors
- D. Only if paid in cash

➤ **Answer: B**

11. Government-related entities are exempt from:

- A. Disclosing individually significant transactions
- B. Disclosing collectively significant transactions
- C. Disclosing all related party transactions
- D. Disclosing detailed information about transactions with other government-related entities

➤ **Answer: D**

12. A related party transaction includes:

- A. Only sales of goods
- B. Only transactions recognised in the financial statements
- C. Transfers of resources or obligations, with or without price
- D. Only transactions above a materiality threshold

➤ **Answer: C**

13. Which of the following must be disclosed for related party balances?

- A. Terms and conditions
- B. Security provided
- C. Provisions for doubtful debts
- D. All of the above

➤ **Answer: D**

14. Two entities are related if:

- A. They share a director
- B. They have significant transactions with each other
- C. They are under common control
- D. They operate in the same industry

➤ **Answer: C**

15. A post-employment benefit plan for employees of the entity is:

- A. Not a related party
- B. A related party
- C. A related party only if contributions exceed a threshold
- D. A related party only if controlled by the entity

➤ **Answer: B**

16. Disclosure of related party transactions must be:

- A. Aggregated without exception
- B. Disaggregated by category of related party
- C. Provided only in the note on financial instruments
- D. Provided only if requested by shareholders

➤ **Answer: B**

17. A guarantee provided by a related party:

- A. Is not a related party transaction
- B. Must be disclosed
- C. Is disclosed only if exercised
- D. Is disclosed only if material

➤ **Answer: B**

18. Which of the following is an example of a related party?

- A. A competitor
- B. A trade union
- C. A joint venture of the entity
- D. A customer with long-term contracts

➤ **Answer: C**

19. Transactions with close family members of KMP:

- A. Are never disclosed
- B. Are disclosed only if the family member is an employee
- C. Are disclosed if the family member's entity is influenced by the KMP
- D. Are disclosed only if above market value

➤ **Answer: C**

20. IAS 24 requires disclosure of:

- A. Only the nature of related party relationships
- B. Only the amounts of transactions
- C. Both relationships and details of transactions/balances
- D. Only outstanding balances

➤ **Answer: C**

13. Comprehensive Question Bank (with Solutions)

SECTION A — Conceptual / Theory Questions

1. What is the primary objective of IAS 24?

Solution: To ensure that an entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by related party relationships and transactions.

2. Define a related party according to IAS 24.

Solution: A related party is a person or entity that has control, joint control, significant influence, or is key management personnel of the reporting entity or its parent. It also includes close family members of such individuals and entities under common control or significant influence.

3. Explain “significant influence” and provide two indicators.

Solution: Significant influence is the power to participate in financial and operating policy decisions but not control them. Indicators include:

- Representation on the board of directors
- Participation in policy-making processes
- Material transactions between the parties
- Shareholding of around 20% or more

4. Who qualifies as key management personnel (KMP)?

Solution: Individuals with authority and responsibility for planning, directing, and controlling the activities of the entity. Includes executive directors, non-executive directors involved in key decisions, and senior management.

5. List three examples of related party transactions.

Solution:

- Sale or purchase of goods
- Loans and guarantees
- Rendering or receiving management services
- Transfer of assets
- Lease arrangements

6. Are transactions at market terms exempt from disclosure? Explain.

Solution: No. IAS 24 requires disclosure of related party transactions regardless of whether they are at market terms. The relationship itself is relevant to users.

7. What disclosures are required for outstanding related party balances?

Solution:

- Amount of outstanding balances
- Terms and conditions (including whether secured)
- Nature of consideration
- Details of guarantees
- Provisions for doubtful debts
- Expense recognised for bad debts

8. What is the requirement for disclosing the parent entity?

Solution: The reporting entity must disclose its parent and, if different, the ultimate controlling party — even if no transactions occurred during the period.

9. Explain the exemption available to government-related entities.

Solution: Government-related entities are exempt from disclosing detailed information about transactions with the government or other government-related entities. However, they must disclose the nature of the relationship and information about individually or collectively significant transactions.

10. What categories of KMP compensation must be disclosed?

Solution:

- Short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Share-based payments

SECTION B — Applied / Scenario-Based Questions

11. Entity A owns 25% of Entity B and has board representation. Is Entity B a related party? Why?

Solution: Yes. Entity A has significant influence over Entity B due to shareholding and board representation, making Entity B an associate and therefore a related party.

12. The CEO's spouse owns a consulting firm that provides services to the entity. Is this a related party transaction?

Solution: Yes. The spouse is a close family member of KMP, and the spouse's entity is considered related if the spouse can influence it. The consulting services are a related party transaction.

13. Entity X sells goods to its subsidiary at market prices. Must this be disclosed?

Solution: Yes. Transactions with subsidiaries must be disclosed regardless of whether they are at market terms.

14. Entity Y receives a loan from its parent at 0% interest. What must be disclosed?

Solution:

- Nature of relationship (parent)
- Loan amount
- Outstanding balance
- Terms (interest-free)
- Any security
- Any commitments or guarantees

15. Entity Z has no transactions with its parent during the year. Must it disclose anything?

Solution: Yes. IAS 24 requires disclosure of the parent and ultimate controlling party even if no transactions occurred.

16. A government-controlled entity sells electricity to another government-controlled entity at standard tariffs. What must be disclosed?

Solution: The nature of the relationship with the government and information about individually or collectively significant transactions. Detailed transaction-by-transaction disclosure is not required.

17. Entity A and Entity B share a director but have no other relationship. Are they related parties?

Solution: No. Sharing a director alone does not create a related party relationship unless the director has control, joint control, or significant influence over both entities.

18. Entity M guarantees a bank loan for its associate. Is this a related party transaction?

Solution: Yes. Guarantees provided to or received from related parties must be disclosed.

19. Entity P has a doubtful debt provision relating to receivables from its joint venture. What must be disclosed?

Solution:

- Relationship (joint venture)
- Outstanding balance
- Terms
- Provision for doubtful debt
- Expense recognised for bad debts

20. Entity Q leases office space from a company controlled by its CFO. What must be disclosed?

Solution:

- Nature of relationship (close family/KMP influence)
- Lease payments
- Outstanding balances
- Terms and conditions
- Any commitments

SECTION C — Advanced / Exam-Style Questions

21. Discuss why related party disclosures are important for users of financial statements.

Solution: Related party relationships may influence the entity's operations, financial position, and performance. Transactions may not occur on market terms, and users need transparency to assess risks, bias, and potential conflicts of interest. Disclosures enhance accountability and comparability.

22. Explain how IAS 24 interacts with IFRS 10 (Consolidated Financial Statements).

Solution: IFRS 10 determines control relationships, which directly identify related parties under IAS 24. Even though transactions between parent and subsidiary are eliminated in consolidation, IAS 24 still requires disclosure of the parent and ultimate controlling party.

23. Describe the difference between “control” and “significant influence” and explain how each affects related party identification.

Solution: Control involves power over an entity's relevant activities and ability to affect returns, leading to parent-subsidiary relationships. Significant influence allows participation

in policy decisions but not control, creating associate relationships. Both result in related party status but with different levels of influence.

24. Explain why close family members are included in related party definitions.

Solution: Close family members may influence or be influenced by the individual in their dealings with the entity. Their relationships and transactions can indirectly affect the entity and must be disclosed to ensure transparency.

25. Provide a comprehensive list of disclosures required when related party transactions occur.

Solution:

- Nature of relationship
 - Amount of transactions
 - Amount of outstanding balances
 - Terms and conditions
 - Security provided
 - Guarantees given or received
 - Provisions for doubtful debts
 - Expense recognised for bad debts
 - Commitments
 - Category-based disclosure (parent, subsidiaries, associates, joint ventures, KMP, others)
-