UNIT 5
DISCLOSURE STANDARDS

Ind AS (IAS 24): Related Parties
Definition of Related Party

The party may be an individual, or a firm. It may be a shareholder, parent or group company. A party is related to an undertaking if:

(1) directly, or indirectly through one or more intermediaries, the party:
   - (i) controls, is controlled by, or is under common control with, the undertaking (this includes parents, subsidiaries and fellow subsidiaries;
   - (ii) has an interest in the undertaking that gives it significant influence over the undertaking; or
   - (iii) has joint control over the undertaking;

(2) the party is an associate of the undertaking;
(3) the party is a joint venture in which the undertaking is a venturer;
(4) the party is a member of the key management personnel of the undertaking, or its parent;
(5) the party is a close member of the family of any individual referred to in (1) or (4);
(6) the party is an undertaking that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such undertaking resides with, directly or indirectly, any individual referred to in (4) or (5); or
(7) the party is a post-employment benefit plan (pension fund) for the benefit of employees of the undertaking, or of any undertaking that is a related party of the undertaking.

*Under Ind AS, **Close members** of the family of a person are those family members who may be 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) dependants of that person or that person's spouse or domestic partner.

Adopted children would be included as close family members. Companies, investment vehicles owned by family members would also be considered as related parties, if they had any interaction with the undertaking.

Close members are included to avoid related parties disguising their activities by using family members.

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

<u>Example</u>: The Govt. has a small shareholding in a defence company, but has the right to appoint and dismiss all directors. The Govt. has control, even if it decides not to exercise it. It may let the company appoint its own directors, but retains the right to dismiss any directors it chooses. The benefits the Govt. derives from this structure may be political, rather than economic. The control may be needed to avoid the company being controlled by a foreign power.

***Joint control** is the contractually-agreed sharing of control over an economic activity.*
<u>Example</u>: ABC Ltd. has a joint venture agreement with a foreign sales agent. It provides the goods, which its agent sells in a foreign territory. It shares the profits, with 40% belonging to it and 60% to the agent. This is an example of joint control.

***Key management personnel** include all directors and their equivalents. It also includes persons having authority and responsibility for planning, directing and controlling the activities of the undertaking, directly or indirectly.*
<u>Example</u>: Executives from an enterprise parent company may give instructions to its staff in important matters, such as strategic planning and treasury functions. For this enterprise, these are key management personnel.

***Significant influence** is the power to participate in the financial and operating policy decisions of an undertaking, but is not control over those policies. It may be gained by share ownership, statute or agreement.*
<u>Example</u>: Significant influence may be reflected in board membership, and/or a substantial shareholding of between 20% and 50%. A majority shareholding is more than a significant influence, as it would yield control, in most circumstances.

Related party disclosure
Relationships between parents and subsidiaries shall be disclosed, whether or not there have been transactions between those related parties. An undertaking shall disclose the name of the undertaking's parent and, if different, the ultimate controlling party.

If the undertaking's parent is itself a subsidiary of another company, the parent is not the controlling party. It is necessary to establish which company is at the top of the group structure to identify the controlling party.

The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in Ind AS (IAS) 27, Ind AS (28) and Ind AS (IAS) 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled undertakings. If neither the undertaking's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall be disclosed. The next most senior parent is the first parent in the group above the immediate parent that produces consolidate financial statements available for public use.

An undertaking shall disclose key management personnel compensation in total and for each of the following categories:

(1) 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 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;
(2) Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
(3) 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 12 months after the end of the period, profit-sharing, bonuses and deferred compensation;
(4) Termination benefits; and
(5) Equity compensation benefits (share-based payments).

An undertaking shall also disclose the following if there have been transactions between related parties.

(1) the amount of transactions;
(2) 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;
(3) provisions for doubtful debts related to the amount of outstanding balances; and
(4) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

<u>Example</u>: In addition to the standard compensation recorded for the key management personnel, three executives have subsidized loans for Rs. 50,000, Rs. 65,000 and Rs. 95,000. These will be disclosed, with the detailed terms of the loans. Any overdue repayment of any loan will also be noted. The loans would also be detailed, even if the rates were not subsidized.

Related party transaction *is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.*
<u>Example</u>: A parent company may provide some of its key staff to a subsidiary without cost. The subsidiary is being subsidized at the expense of the parent.

The disclosures shall be made separately for each of the following categories:

(1) the parent;
(2) undertakings with joint control or significant influence over the undertaking;
(3) subsidiaries;
(4) associates;

(5) joint ventures in which the undertaking is a venturer;
(6) key management personnel of the undertaking or its parent; and
(7) other related parties, including major shareholders.

The classification of amounts payable to, and receivable from, related parties in the different categories as required in this paragraph is an extension of the disclosure requirement in Ind AS (IAS) 1 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.

In the Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.
Example: 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.

As per Ind AS 24, 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.

Ind AS 33 (IAS 33): Earnings Per Share
Disclosure
Ind AS 33 requires EPS related information of the parent company to be disclosed both in consolidated financial statements and separate financial statements.

An undertaking that discloses EPS, based upon its separate financial statements, shall present such information only on the face of its separate income statement.

The following disclosures shall be made with respect to EPS:

- Basic and Diluted EPS should be presented on the face of the income statement for each class of ordinary shares;
- Basic and Diluted EPS are presented with equal prominence;
- If an entity reports a discontinued operation, it should report the basic and diluted amounts per share for the discontinued operation;
- An entity should report Basic and Diluted EPS even if it is a loss per share;
- The amounts used as the numerators in calculating Basic and Diluted EPS, and reconciliation of those amounts to profit or loss attributable to the parent for the period;
- The weighted average number of ordinary shares used as the denominator in calculating Basic and Diluted EPS, and reconciliation of these denominators to each other.

*An undertaking shall calculate **Basic EPS** amounts for profit attributable to ordinary equity shareholders of the parent undertaking and, if presented, profit from continuing operations, attributable to those equity share holders.*
<u>Example</u>: ABC Limited retail business is being sold, and has been classified as held-for sale (as per IFRS 5). The remaining business is a wholesale operation. This is the continuing operation. It will show the EPS for the whole business, and a separate calculation for the EPS, based on the continuing operation alone.

***Basic EPS** shall be calculated by dividing profit attributable to ordinary shareholders of the parent undertaking (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.*
<u>Example</u>: ABC Limited follows a calendar year. On January 1st there were 400 shares. This rose to 600 on April 1st. The net profit after tax, preference dividends and minority interests is Rs. 5,50,000. Calculation of weighted average number of ordinary shares outstanding and Basic EPS is as follows.

Number of shares (x)	**Time factor (Weights) (w)**	**wx**
400	3 months	1200
600	9 months	5400
	Σw = 12 months	**Σwx = 6600**

Weighted average number of ordinary shares outstanding $\bar{X}_w = \dfrac{\Sigma wx}{\Sigma w}$

$$= \frac{6600}{12}$$

$$= 550$$

Basic EPS = $\dfrac{\text{Rs. } 5{,}50{,}000}{550}$ = Rs. 1,000

***Dilution** is a reduction in EPS resulting from the assumption that convertible instruments are converted, that options (or warrants) are exercised, or that shares are issued upon the satisfaction of specified conditions.*
<u>Example</u>: LMN Limited converts some low-interest debt to ordinary shares. The interest saved (earnings) decreases the EPS, as the additional shares in issue increase substantially.

***Options, Warrants and their Equivalents** are financial instruments that give the holder the right to purchase shares.*
<u>Example</u>: To reduce the interest rate of its bonds, ABC Limited offered a warrant with each bond. Each warrant allows the holder to buy a share at Rs. 55 in 3 years' time. If the market price is above Rs. 55 at that time, the holder will exercise the warrant to buy a share at a discount. If not, the warrant will not be exercised, as the holder can buy a share cheaper in the market.

Ind AS 34 (IAS 34): Interim Financial Reporting
Interim period is a financial reporting period shorter than a financial year.

Interim financial report means a financial report containing either a complete set of financial statements, or a set of condensed financial statements, for an interim period.

Contents of an Interim financial report
Ind AS (IAS) 1 defines a complete set of financial statements as including the following components:

(i) Balance Sheet;
(ii) Income Statement;
(iii) Statement showing either (1) all changes in equity or (2) changes in equity, other than those arising from capital transactions with owners, and distributions to owners;
(iv) Cash Flow Statement; and
(v) Accounting policies and explanatory notes.

Minimum components of an Interim financial report
1. Condensed Balance Sheet,
2. Condensed Income Statement,
3. Condensed Cash Flow Statement,
4. Condensed Statement showing changes in equity, and
5. Selected explanatory notes.

Form and content of Interim Financial Statements
A complete set of financial statements in an interim financial report should conform to the requirements of Ind AS (IAS) 1 for a complete set of financial statements.

Condensed statements should include, at a minimum, each of the headings and subtotals that were included in its most recent annual statements and the selected explanatory notes as required by Ind AS (IAS) 34. Additional line items or notes should be included if their omission would make the condensed interim statements misleading.

Basic and diluted EPS should be presented on the face of an income statement, complete or condensed, for an interim period. Ind AS (IAS) 1 provides guidance on major headings and subtotals.

An undertaking follows the same format in its interim statement showing changes in equity as it did in its most recent annual statement. An interim report is prepared on a consolidated basis if the undertaking's most recent annual statements were consolidated statements. The inclusion of the parent's separate statements in the interim report is optional.

Ind AS 104 (IFRS 4): Insurance Contracts

Definition of Insurance Contract

Insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Disclosures

Information should be disclosed that helps the user to understand the amounts in the insurer's financial statements that arise from insurance contracts. Insurers also need to give details about the insurance risk to which they are exposed, including any concentration of risk and the impact of changes in variables on the key assumptions that are used.

Information that helps users understand the amount, timing and uncertainty of future cash flows is required. The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows also have to be disclosed. Information about the actual claims as compared with previous estimates needs disclosure and information about interest rate risk and credit rate risk that IAS 32 would require should be disclosed. Information about exposures to interest rate risk or market risk under embedded derivatives contained in a host insurance contract should be shown if the insurer does not show the embedded derivatives at fair value. However, insurers do not need to disclose the fair value of their insurance contracts at present but need to disclose the gains and losses from purchasing reinsurance contracts.

*An **embedded derivative** is a component of a hybrid security that is embedded in a non-derivative instrument. An embedded derivative can modify the cash flows of the host contract because the derivative can be related to an exchange rate, commodity price, consumer price or some other variable which frequently changes.*
<u>Example</u>: Rental contract concluded for several years in advance with rental price adjustments according to inflation measured as consumer price index in European Union.
Non-derivative part in this case is the rent of some property or facility. An embedded derivative part is the forward contract indexed to the consumer price index in EU.

Ind AS 108 (IFRS 8): Operating Segments

Definition of Operating Segment

An operating segment is a component of an undertaking:

(1) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same undertaking;

(2) whose operating results are regularly reviewed by the undertaking's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
(3) for which discrete financial information is available.

An operating segment may engage in business activities for which it is yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Not every part of an undertaking is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the undertaking and would not be operating segments. An undertaking's pension plans are not operating segments.

*The term **'Chief operating decision maker'** identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an undertaking. Often the chief operating decision maker of an undertaking is its Chief Executive Officer or Chief Operating Officer but, for example, it may be a group of executive directors or others.*

Reportable Segments

An undertaking shall report separately information about each operating segment that:
(1) has been identified, or results from aggregating two or more of those segments and
(2) exceeds the quantitative thresholds.

Aggregation criteria

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of Ind AS 108 (IFRS 8), the segments have similar economic characteristics and the segments are similar in each of the following respects:
(1) the nature of the products and services;
<u>Example</u>: ABC limited group includes cobblers' shops and banks. These would not be included in the same segment.
(2) the nature of the production processes;
(3) the type or class of client for their products and services;
<u>Example 1</u>: ABC limited group provides pharmaceuticals to all areas of the world. Countries where tropical diseases will have different characteristics from those where cold and influenza dominate would not be included in the same segment.
<u>Example 2</u>: XYZ Limited production facilities are all in the southern hemisphere. Its clients are all in the northern hemisphere. Its segments can either be based on its

production facilities or the locations of its clients. The group's reporting structure will indicate which choice to take.

(4) the methods used to distribute their products or provide their services; and

(5) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds

An undertaking shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(1) Its reported revenue, including both sales to external clients and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments;

(2) The absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of

- (i) the combined reported profit of all operating segments that did not report a loss and
- (ii) the combined reported loss of all operating segments that reported a loss.

(3) Its assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable and separately disclosed, if the management believes that information about the segment would be useful to users.

Disclosure – General information

An undertaking shall disclose the following general information:

(1) factors used to identify the undertaking's reportable segments, including the basis of organization (for example, whether management has chosen to organize the undertaking around differences in products and services, geographical areas, regulatory requirements, or a combination of factors and whether operating segments have been aggregated) and

(2) types of products and services from which each reportable segment derives its revenues.

Disclosure – Specific information

An undertaking shall disclose information to enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. An undertaking shall disclose the following for each period for which an income statement is presented:

(1) general information as described above;

(2) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement; and

(3) reconciliations of the totals:
   - of segment revenues,
   - reported segment profit or loss,
   - segment assets,
   - segment liabilities and
   - other material segment items to total undertaking amounts.

Reconciliations of Balance Sheet amounts for reportable segments to the undertaking's Balance Sheet amounts are required for each date at which a Balance Sheet is presented. Information for prior periods shall be restated.

Disclosure – Information about profit or loss, assets and liabilities
An undertaking shall report a measure of profit or loss and total assets for each reportable segment. It shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.

It shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(1) revenues from external clients;
(2) revenues from transactions with other operating segments of the same undertaking;
(3) interest revenue;
(4) interest expense;
(5) depreciation and amortization;
(6) material items of income and expense;
(7) the undertaking's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
(8) income tax expense or income; and
(9) material non-cash items other than depreciation and amortization.

An undertaking shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets:

(1) the amount of investment in associates and joint ventures accounted for by the equity method and
(2) the amounts of additions to non-current assets (assets that include amounts expected to be recovered more than 12 months after the Balance Sheet date) other than financial instruments, deferred tax assets, pension assets and rights arising under insurance contracts.