

What are Related Party Transactions?

Worksheet

Related party transactions are transfers of resources, services, or obligations between an entity and parties connected to it (e.g., parent companies, subsidiaries, directors, or their close family), which must be disclosed under IAS 24 regardless of whether a price was charged.

Questions

1. Which of the following is a related party under IAS 24?

- A) An unrelated supplier
- B) A company's CFO
- C) A random customer
- D) A competitor firm

2. Related party transactions must be disclosed:

- A) Only if priced unfairly
- B) Only if they exceed a monetary threshold
- C) Regardless of whether a price was charged
- D) Only in the notes to interim statements

3. Which US GAAP standard addresses related party disclosures?

- A) ASC 606
- B) ASC 842
- C) ASC 850
- D) ASC 820

4. An arm's-length transaction is best described as one:

- A) Between related parties
- B) Priced independently of any special relationship
- C) Always interest-free
- D) Exempt from all disclosure

5. A CEO's spouse owns a supply company that sells raw materials to the CEO's employer at above-market prices. Is disclosure required?

6. A parent company provides an interest-free loan of \$1,000,000 to its wholly-owned subsidiary. How should this be treated?

7. A company purchases office supplies from an unrelated, publicly listed vendor at standard market prices. Is this a related party transaction?

8. Define: What is a related party transaction?

9. Define: Which standard governs related party disclosures?

10. Define: Does a related party transaction have to be priced unfairly to require disclosure?

Answer Key

1. B) A company's CFO - Key management personnel, like a CFO, are related parties by definition.
2. C) Regardless of whether a price was charged - IAS 24 requires disclosure regardless of price, because the relationship itself is the risk factor.
3. C) ASC 850 - ASC 850 is the US GAAP standard for related party disclosures.
4. B) Priced independently of any special relationship - Arm's-length means negotiated as independent parties would, at fair market terms.
5. The spouse is a close family member of key management personnel - a related party under IAS 24. The transaction (sale of raw materials) involves that related party, regardless of price. Disclosure is required: nature of the relationship, transaction amount, and outstanding balances.
6. The parent-subsidiary relationship is a classic related party relationship. Even though no interest is charged (not arm's length), the transaction must still be disclosed. Disclosure includes the loan amount, terms (interest-free), and relationship (parent/subsidiary).
7. The vendor has no ownership, control, or family connection to the company or its management. The transaction is priced at fair market value through normal competitive terms. This is NOT a related party transaction - no special disclosure is required.
8. A transfer of resources, services or obligations between an entity and a party with control, joint control, or significant influence over it.
9. IAS 24 (Related Party Disclosures) under IFRS; ASC 850 under US GAAP.
10. No - disclosure is required even if the transaction is priced at fair value, simply because of the relationship.

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