YOUNG MEMBERS ENPOWERMENT COMMITTEE OF ICAI

August 2, 2014

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AS 11

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

OBJECTIVE AND SCOPE

The enterprises have to deal with foreign exchange rates because they import and export goods and services, borrow and lend money in foreign currencies and they may also have foreign operations conducted through foreign branches or subsidiaries. In order to include foreign currency transaction end foreign operations in the financial statements of an enterprise, these transactions must be expressed in the reporting currency of the enterprise and the financial statements of the foreign operations must be translated in terms of the reporting currency. While doing the above, the enterprises are faced with 2 questions, namely

(i) What exchange rates to be used for translation, and

(ii) How to recognize the financial effects of changes in these rates.

AS-11 (Revised 2003) deals with the accounting for these cases and is applicable:

(a) In accounting for translations in foreign currencies, and

(b) In translating the financial statements of foreign operations.

AS-11 (Revised 2003) is also applicable to foreign currency forward exchange contracts.

DEFINITIONS

The following terms have been used in this standard with the meaning specified:

1. Reporting currency is the currency used in presenting the financial statements of an enterprise.
2. Foreign currency is a currency other than the reporting currency of an enterprise.
3. Exchange rate is the ratio for exchange of two currencies as applicable to the realization of a specific asset or the payment of a specific liability or the recording of a specific transaction.
4. Average rate is the average of the exchange rates in force during a period.
5. Forward rate is the exchange rate established by an agreement for exchange of two currencies at a specified future date.
6. Closing rate is the exchange rate at the balance sheet date.

7. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money e.g., cash, receivables, payables, etc.

8. Non-monetary items are assets and liabilities other than monetary items e.g., fixed assets, inventories, investments in equity shares.

9. Foreign operation is a subsidiary associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

10. Forward exchange contract means an agreement to exchange different currencies at a forward rate.

11. Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.

12. Net investment in a non-integral foreign operation is the reporting enterprise's share in the net asset of that operation.

13. Non-integral foreign operation is a foreign operation that is not an integral foreign operation.

FOREIGN CURRENCY TRANSACTION

Recording Transactions on initial Recognition

A foreign currency transaction may arise when an enterprise:

(a) buys or sells goods/services, the price of which is denominated in foreign currency, or

(b) borrows or lends in foreign currency, or

(c) becomes a party to a forward exchange contract, or

(d) acquires assets or incurs liabilities denominated in foreign currency.

A transaction in a foreign currency should be initially recorded in the reporting currency, by applying to the foreign currency amount.

REPORTING EFFECTS OF CHANGES IN EXCHANGE RATE SUBSEQUENT TO INITIAL RECOGNITION

At each balance sheet date:

(a) Monetary items denominated in a foreign currency (e.g., balances in bank accounts, receivables, payables and loans denominated in a foreign currency) should be reported using the closing rate.

(b) Non-monetary items like fixed assets, which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction;

(c) Non-monetary items like fixed assets, which are carried in terms of fair value or net realizable value, dominated in a foreign currency should be reported using the exchange rates that existed when the fair value or not realizable values were determined.

EXCHANGE DIFFERENCE

The exchange difference arises when there is a change in exchange rate from the transaction date to the date of settlement of monetary item. When both occur in the same accounting period, the exchange difference arises in that period, otherwise, the exchange difference may arise over more than one accounting period.

Exchange differences arising on foreign currency transactions should be recognized as income or expense in the period in which they arise. It may be noted that gain on account of exchange difference though note realized, may be recognized in the Profit & Loss A/c. However, exchange difference arising on repayment of liabilities incurred for the purpose of acquiring fixed asset, which are carried in terms of historical cost, should be adjusted in the carrying amount of the respective fixed assets.

If an exchange difference arises on a monetary item that is part of the net investment in non-integral foreign operations, then such difference should be accumulated in Foreign Currency Translation Reserve, until the disposal of such net investment, at which time, it should be recognized in the Profit & Loss A/c.

FOREIGN OPERATIONS

The foreign operations of an enterprise may be classified into 2 classes:

(i) Integral foreign operations; and

(ii) Non-Integral foreign operations.

The method to be used to translate the financial statements of foreign operations depends on whether the foreign operations are Integral or Non-Integral.

INTEGRAL FOREIGN OPERATIONS

The foreign operations are said to be integral if the foreign operations are carried on as if these were an extension of the reporting enterprise's operations. For example, the foreign operation deals only in goods sent by the enterprise and the proceeds are remitted to the enterprise. In this case, the change in exchange rate has an almost immediate effect on the exporting enterprise's net investment in the foreign operations.

NON-INTEGRAL FOREIGN OPERATIONS

The foreign operations are said to be Non-Integral if the foreign operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings all in local currency. It may enter into transactions in foreign currency. If there is change in exchange rate between the reporting currency and the local currency of the foreign operation, there in no direct effect on the present or future cash flows from operations of the reporting enterprise. The change in exchange rate, rather, affects the net investment of the reporting enterprise in the foreign operations.

In the following cases, the foreign operation may be classified as Non-Integral foreign operation:

(a) The activities of foreign operation are carried out with a significant degree of autonomy.

(b) Transactions with the reporting enterprises are not a high proportion of the total activities of the foreign operation.

(c) The activities of the foreign operation are financed basically from its own operation or local borrowings,

(d) All costs and expenses are paid in local currency

(e) Sales are mainly in currencies other than local currencies.

(f) Daily cash flows of the reporting enterprise are not affected by the day to day activities of the foreign operation.

(g) There might be some export by foreign operation but there exists an active local market for goods & services of the foreign operation.

The following procedure may be used to translate the financial statements of Non-Integral foreign operations:

(i) The assets and liabilities, both monetary and non-monetary are translated at closing rate.

(ii) Incomes and expenses items are translated at exchange rates on the dates of the transactions or average rate.

(iii) The resulting exchange difference should be accumulated in a Foreign Currency Translation Reserve until the disposal of the net investment.

(iv) Any goodwill or capital reserve arising on acquisition of a Non-Integral foreign operation is translated at the closing rate.

(v) A contingent liability of a Non-Integral foreign operation is translated at closing rate.

(vi) The exchange difference arising in case of Non-Integral foreign operation is not recognized as income or expense for the period because the change in exchange rates has no effect on the cash flows of the reporting enterprise.

FORWARD EXCHANGE CONTRACTS

The following rules have been prescribed for the forward exchange contracts:

(i) The exchange rate on the date of contract and the forward rate specified in the contract give rise to premium or discount at the inception of a forward exchange contract. The premium or discount arising at the inception of a forward exchange contract should be amortized as expense or income over the life of the contract.

(ii) Exchange difference on a forward exchange rate should be recognized in the Profit & Loss A/c in the reporting period in which the rates change. The exchange difference is the difference between (i) the foreign currency amount at the reporting date or settlement date (if settlement already taken place before the reporting date), and (ii) the same foreign currency amount at exchange rate at the latter of the date of inception or last reporting date.

(iii) Any profit or loss arising on renewal or cancellation of a forward exchange contract should be recognized as income or expense for the period.

(iv) The case, a forward exchange contract in intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet the date the value of the contract is marked to the current market value and the gain or loss, so arising, is recognized.

AMENDMENTS TO AS-11

The central Government, vide Notification dated 31 March 2009, has amended Accounting standard (AS) 11 The Effects of Changes in Foreign Exchange Rates, notified under the Companies (Accounting Standard) Rules, 2006. Pursuant to the amendment, a new paragraph has been inserted in AS 11 to allow amortization/capitalization of foreign exchange difference arising on long-term monetary items.

AS 11, prior to this amendment, required all foreign currency monetary items to be reported using the closing exchange rate. Any exchange gain/loss arising on the restatement/ settlement of such monetary items, except a monetary item that in substance forms part of a company's net investment in a non-integral foreign operation, is recognized as income/ expense in the period in which it arises.

Through this amendment, a new paragraph has been inserted in AS 11 (traditional provisions) that provides the following treatment as an alternative to immediate recognition of foreign exchange gain/loss on long-term foreign currency monetary item:

(i) If the long-term foreign currency monetary item relates to other than an acquisition of a depreciable capital asset, exchange differences should be accumulated in the "Foreign Currency Monetary Item Translation Difference Account" and amortized over the life of the monetary item but not beyond 31 March 2011.

(ii) If the long-term foreign currency monetary item relates to acquisition of a depreciable capital asset, exchange differences arising on such monetary items should be added to or deducted from the cost of the asset.

A company that chooses to adopt the above treatment will have to do it with retrospective effect for accounting periods commencing on or after 7 December 2006 and this choice is irrevocable. Further, transitional provisions do not apply to exchange difference on monetary item that in substance forms part of a company’s net investment in a non-integral foreign operation.

DISCLOSURE

As per AS-11, an enterprise should disclose the following:

(a) the amount of exchange differences included in the net profit or loss for the period, and

(b) net exchange differences accumulated in Foreign Currency Translation Reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

When there is a change in the classification of a significant foreign operation, an enterprise should disclosed:

a. the nature of the change in classification;

b. the reason for the change;

c. the impact of the change in classification on shareholders’ funds; and

d. the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

CASE STUDY

CASE STUDY 1

Foreign currency debtors at the end of the financial year are USD 10 lakhs. Sales were recorded at the exchange rate USD 1=Rs.43.80. As on the balance sheet date, the exchange rate is USD 1=Rs.46 which is not expected to be realized on the collection date. It has been estimated that around the collection time, the exchange rate will possibly be in the range of USD 1=Rs.45.50 to Rs.45.80. At what value should the Debtors be recorded in the Balance Sheet? What is the treatment of unrealized foreign exchange gain?

CASE STUDY 2

A company had imported raw materials worth US dollars 250,000 on 15th January, 2002 when the exchange rate was Rs.46 per US dollar. The company had recorded the transaction at that rate. The payment for the imports was made only on 15th April, 2002 when the exchange rate was Rs.50 per US dollar. The company passed an entry on 31st March, 2002 adjusting the cost of raw materials consumed for the difference between Rs.49 and Rs.46 per US dollar.

CASE STUDY 3

As an Auditor, state your opinion on the following situation: Note No.7 to the Balance Sheet of RNR Ltd. as on 31-12-1998 is as follows: the company had a large engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 1995 and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of Rs.20 Crores could not be released by the foreign government because of temporary foreign exchange crisis in that country. This Rs.20 Crores unrealized at the end, if converted at the year end rate would amount to Rs.20.50 Crores. The company has adopted and followed the following accounting policy: “In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is net loss due to exchange difference, the same is charged off to the profit and loss account but if there is net gain the same is ignored in view of the prudent accounting principle of not recording unrealized gains due to exchange rate fluctuations.” Comment on the appropriateness of above.

CASE STUDY 4

Moon Ltd. has exported goods priced US $ 1,00,000 to USA enters into a Forward Exchange Contract on 05/02/04 to sell $ 1,00,000 on 05/05/04. The rates where as under:

Spot Rate on 05/02/04 – Rs.45.25 = 1$

Spot Rate on 05/05/04 – Rs.45.40 = 1$

Forward Contract Rate on 05/05/04 = Rs.45.38 = 1$

Rate on Balance Sheet 31/03/04 = Rs.45.35 = 1 $

Pass Journal Entries for transactions including the Forward Contract entered by ‘Moon Ltd’.

CASE STUDY 5

A company plans to take a blanket FCL that will be utilized for purchase of imported fixed assets. It has further decided to take a forward cover for the duration of the loan. The Chief Accountant has sought your opinion on the treatment of such foreign currency loans. Further will the treatment be different if the above loan is used for purchase of indigenous fixed assets?

THANK YOU

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AS 17
SEGMENT REPORTING

OBJECTIVE AND SCOPE

Many enterprises produce different groups of goods and services or operate in different geographical areas. The usual financial statements which are prepared in aggregate form, do not throw light on differing rates of profitability, future prospects or risk for different products or geographical areas. What is required, in such cases, is the segment information. AS-17 attempts to establish and prescribe principles for segment reporting for an enterprise. The objectives of AS-17 are- (i) to better understand the performance; (ii) to better assess the risk and return of an enterprise, and (iii) to be better informed about an enterprise. AS-17 deals with the presentation of general purpose financial statements as well as the consolidated financial statements. An enterprise should comply with the AS-17 fully and not selectively.

DEFINITION

The following terms have been used in this standard:

1. A business segment of an enterprise is one which is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from other business segments. Whether products or services are related or not, depends on:

(a) the nature of the products or services;

(b) the nature of the production processes;

(c) the type or class of customers for the products or services;

(d) the methods used to distribute the goods or services.

2. A geographical segment of an enterprise is one which is engaged in providing products or services within a particular economic and political environment and that is subject to risks and returns that are different from other economic/ political environments. Geographical segments depends on:

(a) Similarity of economic and political conditions;

(b) Relationships between operations in different geographical areas;

(c) Proximity of operations; and

(d) Exchange control regulations, etc.

3. A Reportable segment is a business segment or a geographical segment for which segment information is required by AS-17.

4. Enterprise revenue is revenue from total sales to external customers as reported in the statement of profit and losses of the enterprise.

5. Segment revenue is the aggregate of:

(i) revenue that is directly attributable to a segment,

(ii) expense that can be allocated on a reasonable basis to a segment, and

(iii) revenue from inter segment transactions

6. Segment expense is the aggregate of

(i) the expense directly attributable to the segment,

(ii) expense that can be allocated on a reasonable basis to the segment,

However, segment expense does not include : interest expense, losses on sales of investments or losses on extinguishments of debt unless the operations of the segment are primarily of a financial nature; income tax expense; and general administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. Such costs are part of segment expense if they can be directly attributed or allocated to the segment.

7. Segment result is excess of segment revenue over segment expense.
8. Segment assets are those operating assets that are employed by a segment or are directly attributable to the segment or can be allocated to the segment.
9. Segment Liabilities are those which arise from the operating activities of a segment or are directly attributable to the segment, or can be allocated on a reasonable basis to the segment.

Type of segments:

In an enterprise, the segments can be classified as:

(i) Primary and Secondary segments, and

(ii) Business and Geographical segments

PRIMARY AND SECONDARY SEGMENTS

If the risks and returns of an enterprise are affected predominately by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically.

However, if the risks and returns of the enterprise are affected by geographical areas, its primary format for reporting segment information should be geographical segments, with secondary information reported for goods and services.

BUSINESS AND GEOGRAPHICAL SEGMENTS

Business and geographical segments should be earmarked as those for which information is reported to the board of directors and to the chief executive officer for the purpose of evaluating the unit’s performance and for future allocations of resources. The management can select the primary segment reporting format based on its assessment of primary source of risk and return of the enterprise.

IDENTIFYING THE REPORTABLE SEGMENT

A segment should be identified as a reportable segment if:

(a) The revenue from its turnover is 10 per cent or more of the total revenue of all segments; or

(b) The segment result, whether profit or loss, is 10 per cent or more of-

(i) the combined result of all segments earning profit, or

(ii) the combined result of all segments making loss, whichever is greater in absolute amount, or

(c) The segment assets are 10 per cent or more of the total assets of all segments.

If a segment, business or geographical, is not designated as a reportable segment then it should be included as an unallocated reconciling item.

In case, the total external revenue of all reportable segments is less than 75% of the total enterprise revenue, then additional segments should be identified as reportable segments even if 10% threshold limit is not satisfied until at least 75% of the total enterprise revenue is include in reportable segment.

PRIMARY REPORTING FORMAT

AS-17 requires that an enterprise should disclose the following for each of primary reportable segment:

(i) Segment revenue, classified into external sales and inter-segment transactions;

(ii) Segment result;

(iii) Total carrying amount of segment assets and liabilities;

(iv) Cost incurred to acquire segment assets;

(v) Amount of significant non-cash expenses, other than depreciation, that were deducted in measuring segment result.

SECONDARY REPORTING FORMAT

If the primary reportable segments are classified as business segments, the following should also be reported for each of geographical segment whose revenue from sales to external customers is 10% or more of enterprise total revenue, or whose assets are 10% or more of the enterprise assets.

(a) Segment revenue from geographical areas based on location of customers;

(b) Carrying amount of segment assets by geographical location of assets, and

(c) Cost incurred during the year to acquire segment assets by geographical location of assets.

If the primary reportable segments are classified as geographical segments (based on location of assets or customers), the following information should also be reported for each business segment whose revenue from sales to external customers is 10% or more of the enterprise sale or whose assets are 10% or more of the enterprise.

DISCLOSURE

Primary format is Business segment/ Geographical segment by location of assets/ Geographical segment by location of customers.

- Revenue from external customers by business segment.
- Revenue from transactions with other segments by business segment.
- Segment result by business segment.
- Carrying amount of segment assets by business segment
- Segment liabilities by business segment
- Cost to acquire tangible and intangible fixed assets by business segment.
- Depreciation and amortization expense by business segment.
- Non-cash expense other than depreciation and amortization by business segment.
- Reconciliation of revenue, result, assets, and liabilities by business segment.

In measuring and reporting the segment revenue from inter-segment transactions, the transfers should be measured on the basis that the enterprise actually used to price those transfers. The basis of pricing inter-segment transfers should be disclosed in the financial statements. Changes in accounting policies adopted for segment reporting should be disclosed giving a description of the nature of the change, and the financial effect of the change.

Required secondary disclosures:

- Revenue from external customers by business segment.
- Carrying amount of the segment assets by business segment
- Cost to acquire tangible and intangible fixed assets by business segment.
- Carrying amount of segment assets by location of assets if different from location of customers.
- Cost to acquire tangible and intangible fixed assets by location of assets if different from location of customers.

Other Required Disclosures:

Basis of pricing inter-segment transfers and any change therein

- Change in segment accounting policies
- Type of products and services in each business segment
- Composition of each geographical segment.

METHODS OF PRESENTATION

Information about the reportable segments can be presented in any of the following ways:

(i) Within the body of financial statement, with appropriate explanation in the Notes to Accounts.

(ii) Entirely in the Notes to Accounts.

(iii) In a separate schedule and included as an integral part of the financial statements.

CASE STUDY

CASE STUDY 1

Following is the data regarding six segments of Z Ltd

Rs. '000 (losses are in negative sign)

Particulars	**A**	**B**	**C**	**D**	**E**	**F**
Segment revenue	150	310	40	30	40	30
Segment results	25	-95	5	5	-5	15
Segment assets	20	40	15	10	10	5

The Finance Director is of the view that it is sufficient that segments A and B alone be reported. Advice.

CASE STUDY 2

A company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost.

Is the policy adopted by the company correct?

CASE STUDY 3

Good Pharma Ltd produces and sells a wide range of drugs which are grouped by their end-use and reported as a separate business segments in its financial statements. It has a central R&D division in order to develop new drugs purely for

(a) internal purposes

(b) external purposes

(c) internal and external purposes.

Should R&D division be reported as a separate business segment?

CASE STUDY 4

The Company is governed by the Warehousing Corporations Act, 1962. It has apart from other warehouses, Container Freight Stations (CFS) and Inland Clearance Depots (ICD) wherein exportable/imported commodities transported through containers are warehoused. These are under license from Customs as custodian of goods. In respect of Management Warehouses, the undertaking acts as a warehouse keeper within the premises of the importer and goods are released from custodianship of the undertaking to the user as per their demand. Insofar as other ancillary services are concerned, it also undertakes marketing facilitation operations in the form of loading, unloading, book-keeping and transportation of goods offered for storage, on the request of depositors, who choose not to undertake such services on their own. The company also has 17 regional offices. Advise on business and geographical segmentation.

CASE STUDY 5

A company imported crude oil fro internal consumption (refining and marketing) and also for direct selling. Whether trading activity is a separate segment?

CASE STUDY 6

M/s XYZ Ltd. has three segments namely X, Y, Z. The total assets of the company are Rs.10.00 crores. Segment X has Rs.2.00 crores, segment Y has 3.00 crores and segment Z has 5.00 crores. Deferred tax included in the assets of each segments are X-Rs. 0.50 crores, Y-Rs. 0.40 crores and Z-Rs. 0.30 crores. The accountant contends that all the segments are reportable segments.

Comment.

THANK YOU

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AS 18

RELATED PARTY DISCLOSURE

OBJECTIVE AND SCOPE

Different enterprise operate in their individual capacity. However, when they transact with some other related enterprise, the nature, quantum and other financial implications of such transactions should be reported by the two enterprises. The objective of AS-18 is to establish and prescribe the disclosure requirements of related party relationships and transactions between related parties. AS-18 deals with the following related party relationships:

(a) The enterprise that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise including companies, subsidiaries and fellow subsidiaries;

(b) Associates and joint ventures of the reporting enterprise;

(c) Individuals owning, a controlling interest in the reporting enterprise, and relatives of any such individual;

(d) Key management personnel and relatives of such personnel; and

(e) Enterprise over which any person described in (c) or (d) is able to exercise significant influence.

However, the following are not related parties:

(a) Two companies simply because they have a director in common,

(b) A single customer, supplier, distributor, or general agent with whom an enterprise transacts a significant volume of business; and

(c) The financiers, trade unions; public utilities; and, government departments and government agencies.

So, AS-18 is a disclosure standard. It applies to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company. No disclosure is required in consolidated financial statements in respect of intra-group transactions.

DEFINITION

The following terms have been used in the Standard:

1. Related party: The parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making operating decisions.

2. Related Party Transactions: It is a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

3. Control: results when there is ownership, directly or indirectly, of more than one half of the voting power, or control of the composition of the board of directors, or a substantial interest (20% or more) in voting power and the power to direct, the financial and other policies.

4. An associate is an enterprise in which a reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party.

5. Significant influence: Refers to the participation in the financial and/ or operating policies of an enterprise but not control over these policies.

6. Joint control: Refers to the sharing of power to govern the financial and operating policies of an enterprise.

7. Relative: Relative of an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

8. Related Party Transactions:

Any of the following transactions between transactions between related parties qualifies for being a related party transaction:

- Purchase or sale of goods or service,
- Purchase or sale of fixed assets,
- Leasing or hire purchase agreements,
- Finance transactions,
- Guarantees and collaterals,
- Agency and licenses arrangements,
- Transfer of research and development, etc.

SIGNIFICANT INFLUENCE

Determining the ability of the investor to exercise the influence is always not clear and application of judgement is necessary. Normally, an investment (direct or indirect) of 20% or more of voting power may be taken as the ability to exercise significant influence over the investee. Conversely, investment of less than 20% could lead to a presumption that the investor does not have the significant influence unless the ability to exercise significant influence can be demonstrated.

Significant influence by one party can be exercised over other related party by representation on the Board of Directors, participation in the decision process, entering into a material contract, etc.

DISCLOSURE

AS-18 requires that Name of the related party and nature of the related party relationship where control exists, should be disclosed irrespective of whether or not there have been transactions between the related parties. If there are transactions between related parties, the reporting enterprise should disclose the following:

(i) The name of the related party;

(ii) A description of the relationship with the related party;

(iii) A description of the nature of transactions;

(iv) Volume of the transactions;

(v) Any other information, if necessary;

(vi) The amounts due on balance sheet date and provisions for doubtful debts due from such parties at the date; and

(vii) Amounts written off or written back in respect of debts due from or related parties.

CASE STUDY

CASE STUDY 1

Your client a Manufacturing Company does not want to give AS-18 related party disclosures on the grounds that it is bound by contracts with its customers not to do so.

Advice your client.

CASE STUDY 2

If A is holding 60% in B and B is holding 60% in C, for AS-18 purposes does A have control over C, though the ownership mathematically of A in C is only 36%?

CASE STUDY 3

Parent company A owns 100% of subsidiary B and 49% of C. Subsidiary B in turn, owns 10% of C. Is company A related to C? If yes, is the relationship based on control or significant influence?

CASE STUDY 4

Company A owns 99% of subsidiaries X and 40% in Y. X and Y hold 50% each in Z. Describe the relationship of A&Z.

CASE STUDY 5

Your client argues that since it does not charge any price in respect of services shared with related parties, the same is not required to be disclosed under AS-18.

Advice your client

CASE STUDY 6

Are transactions between two companies related party transactions,

(i) If they have a common executive chairman

(ii) if a person is a non-executive director in both the companies?

THANK YOU