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CASE STUDY - IAS 24 RELATED PARTY DISCLOSURES

Introduction

An entity can become partners with other entities in its business life. Entities can engage in commercial activities with their partner. These activities may be non-arm's length transactions. The commercial activities carried out in this way affect the financial position and performance of one of the entities positively and the other negatively. Even if related entities do not carry out commercial activities with each other, an entity that has control or significant influence can affect other entities' financial and operational policies. Due to the existence of these possibilities, users of financial statements should be informed about the related parties of the enterprises while making their decisions.

The aim of this case study is to discuss who the related parties are, what related party transaction is, and which information about related parties and related party transactions should be disclosed in financial statements.

The Case Information

Stylish Company was founded in Istanbul in 1985. It is a ready-to-wear manufacturer. Thanks to a high-quality brand image, the Stylish Company has grown rapidly. The stylish company has many offices and showrooms and has been publicly traded since 2015.

Alfred Stylish owns 55% shares of the Stylish Company. Alfred Stylish is the founder of Stylish Company. He is the head of the Stylish Company board of directors. Alfred Stylish has 80% of Fabloth Company. Fabloth Company manufactures fabric.

25% of the Stylish Company's shares has owned by Moon Stylish. Moon Stylish is the daughter of Alfred Stylish. Despite his father's intense insistence, she did not want to be a part of the family business and got a bachelor's degree in art history. She founded her entity, Moonstyle, in 2010 and provides consultancy services to private collections, galleries, and artists.

The Stylish Company's board of directors consists of 5 members. Three of these members are independent. One of the independent board members, Alicia Shine, is an independent director of Tyger Company.

The Stylish Company has two subsidiaries and an associate. The name of these companies and the ownership rate of the Stylish Company can be seen below.

Name of the company	Ownership rate of the Stylish Company
Stylish-holl Company	65%
Stylish-ing Company	57%
Carnagy Company	30%

The Stylish Company has bought fabric from the Fabloth Company since 2017. In 202X, a total of CU100,000 of fabric were purchased from the Fabloth Company. At the end of the 202X, the Stylish Company owes CU20,000 to Fabloth Company.

The Stylish Company has sold a total of CU250.000 goods to Stylish-holl Company in 202X. At the year-end, Stylish-holl Company still owes The Stylish Company CU25,000 for the goods. The Stylish Company is doubtful to realize this amount because due to the worsening financial situation of Stylish-holl Company.

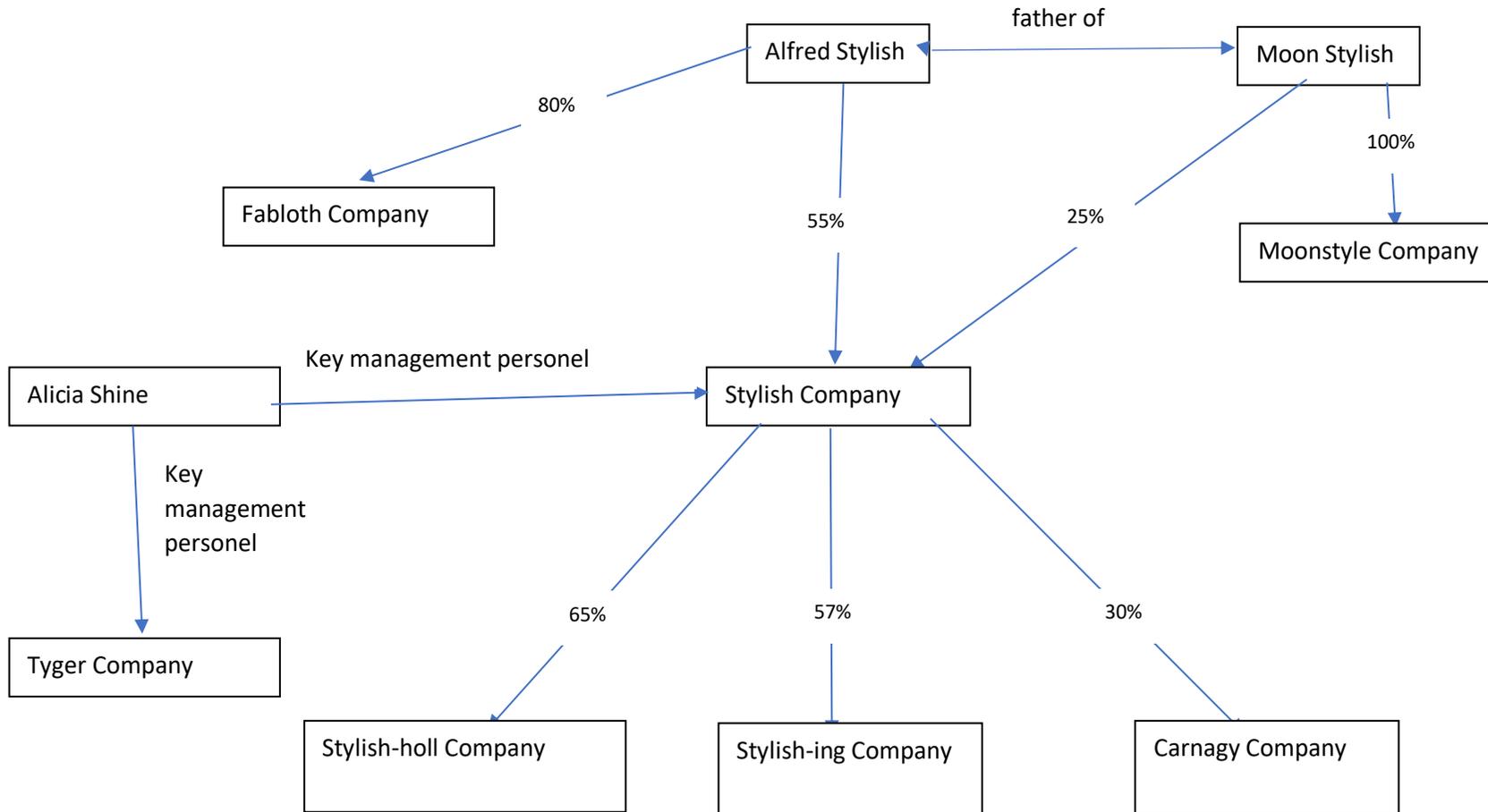
Discussion Questions

Please explain

1. The related parties
2. The related party transaction

that should be disclosed in the Stylish Company's financial report.

SOLUTION OF CASE STUDY – IAS 24 RELATED PARTY DISCLOSURES



1- Related parties

Alfred Stylish, the founder of the Stylish Company, has 55% of the Stylish Company. He has control of the Stylish Company. Thus, he is a related party of the Stylish Company.

Moon Stylish, who is the daughter of Alfred Stylish, has 25% of the Stylish Company. She has significant influence over the Stylish Company. Thus she is the related party of the company. Moon Stylish would be a related party, even if she did not have significant influence over the Stylish Company. Because she is a close family member of Alfred Stylish who has control of the Stylish Company.

Alfred Stylish controls both the Stylish Company and the Fabloth Company. Thus The Stylish Company and Fabloth Company are related parties.

Moonstyle Company and the Stylish Company are related parties. Because Moon Stylish has significant influence over the Stylish Company and has control of the Moonstyle Company. And also Moon Stylish is the daughter (close family member) of Alfred Stylish who has control over the Stylish Company.

Alicia Shine is a related party of the Stylish Company because she is the key management personnel of the Stylish Company. She is key management personnel of the Tyger Company at the same time. Tyger Company and Stylish Company are not related parties because they have only key management personnel in common.

Stylish Company has 65% of Stylish-holl Company and 57% Stylish-ing Company. They are subsidiaries of the Stylish Company. Thus, the Stylish-holl and the Stylish-ing Companies are related parties of the Stylish Company.

Stylish Company has 30% of Carnagy Company. The Carnagy Company is an associate of the Stylish Company. So, The Carnagy Company and the Stylish Company are related parties.

In the financial reports of the Stylish Company, all related parties who are mentioned above should be disclosed. And, the total compensation paid to key management personnel should be disclosed. Moreover, entities should also provide information about related party transactions in their financial reports.

2. Related Party Transaction

Disclosure of information regarding transactions between the Stylish Company and the Fabloth Company:

Transaction amount: CU100,000

The outstanding balance: CU20,000

Disclosure of information regarding transactions between the Stylish Company and the Stylish-holl Company:

The transaction amount: CU250,000

The outstanding credit balance: CU25,000

Provision for doubtful debts: CU25,000