SPECIFIC ITEMS
SECTION 3840
related party transactions

Basis for Conclusions

Related Party Transactions, Section 3840 (September 2023)

Related Party Transactions, Section 3840 (December 2025)

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PURPOSE AND SCOPE

.01 This Section establishes standards for the measurement of non-financial items in a related party transaction and disclosure of related party transactions in the financial statements of profit-oriented enterprises.

.02 This Section does not apply to:

(a) Management compensation arrangements, including employee future benefits accounted for in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of operations.

(b) Transactions between an enterprise preparing non-consolidated financial statements and subsidiaries:

(i) that are only controlled through means other than voting interests, potential voting interests, or a combination thereof; and

(ii) for which control is the only basis for the related party relationship.

Transactions with such enterprises are governed by other Sections, such as CONTRACTUAL OBLIGATIONS, Section 3280.

(c) The measurement, recognition or derecognition of a financial asset originated or acquired, or a financial liability issued or assumed in a related party transaction (see FINANCIAL INSTRUMENTS, Section 3856) unless the financial asset is acquired or financial liability is assumed in a transaction when a combination involving a business under common control occurs (see paragraph 3840.44). [Former paragraph 3840.02(c), amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former paragraph

3840.02(c), amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements].

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Carrying amount** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value.

(b) **Exchange amount** is the amount of consideration paid or received as established and agreed to by related parties.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(d) **Control** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

(e) **Joint control** of an economic activity is the contractually agreed sharing of the continuing power to determine its strategic operating, investing and financing policies.

(f) **Significant influence** over an enterprise is the ability to affect the strategic operating, investing and financing policies of the enterprise.

(g) **Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members (see paragraph 3840.04).

(h) A **related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

(i) An **ownership interest** in an item transferred or the benefit of a service provided exists when an enterprise has the right and ability to, directly or indirectly, obtain future economic benefits from the item transferred or the service provided.

(j) A **business** is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Paragraphs 1582.A3-A8 provide guidance on the definition of a business.

IDENTIFICATION OF RELATED PARTIES

.04 The most commonly encountered related parties of a reporting enterprise include the following:

(a) An enterprise that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the reporting enterprise.

(b) An individual who directly, or indirectly through one or more intermediaries, controls the reporting enterprise.

(c) The other party, when an investment is accounted for by the equity method and the reporting enterprise is either the investor or the investee.

(d) Management: any person(s) having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. (In the case of a company, management includes the directors, officers and other persons fulfilling a senior management function. When an independent committee of the board of directors is established in accordance with regulatory requirements, to represent the non-controlling interests of an enterprise, the directors serving on that committee are deemed not to be related parties for the transaction under consideration.)

(e) An individual having an ownership interest in the reporting enterprise that results in significant influence or joint control.

(f) Members of the immediate family of individuals described in (b), (d) and (e). (Immediate family comprises an individual's spouse and those dependent on either the individual or the individual's spouse.)

(g) The other party, when a management contract or other management authority exists and the reporting enterprise is either the managing or managed party.

(h) Any party that is subject to significant influence, whether by reason of an ownership interest, management contract or other management authority, by another party that also has significant influence over the reporting enterprise.

(i) Any party that is subject to joint control by the reporting enterprise. (In this instance, a party subject to joint control is related to each of the other parties that share that joint control. However, the parties themselves are not related to one another solely by virtue of sharing of joint control.)

.05 A transaction between those investors that have joint control and a joint arrangement, involving the exchange of an asset for an interest in the joint arrangement, is considered to be a transaction between the investors. When the investors are unrelated, such a transaction is not a related party transaction and is accounted for in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056. When investors are related, the requirements of this Section apply such that a transaction with a joint arrangement by an investor that is related to other investors is measured at either the exchange amount or the carrying amount, depending on the nature of the transaction. A transaction measured at the exchange amount results in income recognition of any gain or loss in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056 (by virtue of paragraph 3840.46). A transaction measured at the carrying amount results in any difference between the carrying amounts of items exchanged being included as a charge or credit to equity in accordance with paragraph 3840.09.

.06 The degree of influence that one party may exert on another is a major factor in determining whether they are related. In some cases, the degree of influence may be so remote that they need not be considered related. For example, two companies may be unrelated even though one director serves on the board of each company; in such a case, the degree of influence exercised by the director over the strategic policies of each company determines whether the companies are related.

.07 Management shall make reasonable efforts to identify all related parties. Circumstances that might indicate the existence of related parties include abnormal terms of trade or transactions not normally entered into by the reporting enterprise. In identifying related parties, management takes into account any beneficial ownership of an enterprise that it knows is held through nominees. When management has identified circumstances indicating that the other party to a transaction may be related, management has a responsibility to ascertain whether that party is, indeed, related.

MEASUREMENT

.07A *An enterprise shall apply paragraphs* 3840.08-.45 *to determine whether non-financial items transferred in a related party transaction shall be measured at the carrying amount or exchange amount. The term "related party transaction" and references to items transferred shall be read to refer to non-financial items transferred in a related party transaction. Financial instruments transferred in a related party transaction shall be measured in accordance with FINANCIAL INSTRUMENTS, Section* 3856*, unless the financial asset is acquired or financial liability is assumed in a transaction when a combination involving a business under common control occurs (see paragraph* 3840.44*). Financial assets acquired or financial liabilities assumed in these transactions shall be measured using the principles in paragraph* 3840.44. [Former paragraph 3840.07A, amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former paragraph 3840.07A, amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements].

.07B *Except for transactions when a combination involving a business under common control occurs, when a related party transaction includes a financial instrument, any difference between the amounts recognized for the items exchanged in the transaction is accounted for in accordance with FINANCIAL INSTRUMENTS, Section* 3856. [Former paragraph 3840.07B, amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former paragraph 3840.07B, amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements].

.08 *A related party transaction shall be measured at the carrying amount, except as specified in paragraphs* 3840.18 *and* 3840.29*.*

.09 *When a related party transaction is measured at the carrying amount, any difference between the carrying amounts of items exchanged, together with any tax amounts related to the items transferred, shall be included as a charge or credit to equity.*

.10 In a historical cost, transaction-based accounting model, transactions are generally recognized at the amount of cash or cash equivalents paid or received or at the fair value ascribed to them when they took place. Generally, it is presumed that a transaction amount arrived at by parties dealing at arm's length represents the fair value of the items exchanged. Conversely, as related parties do not deal at arm's length, a transaction between related parties cannot be presumed to have been entered into at "fair value".

.11 It is possible that the transaction amount may approximate fair value. However, if it does not, it is not necessary for a transacting party to establish what the terms of a non-arm's length transaction would have been had it been bargained on an arm's length basis.

.12 Related parties may have flexibility in the price-setting process that is often not present in transactions between unrelated parties. Further, related parties may enter into transactions that unrelated parties would not necessarily enter into.

.13 In a transaction between related parties, a change in the carrying amount of an item transferred or service provided is justified only when the criteria of paragraph 3840.18 or 3840.29 are met. Transactions between related parties that do not meet the criteria in paragraph 3840.18 or 3840.29 are measured at the carrying amount, which retains the amount attached to the item transferred or the cost of the service provided.

.14 A transferor includes any necessary adjustment in the carrying amount of an item transferred or the cost of a service provided to a related party prior to measuring the transfer. For example, when capital assets are transferred to a related party, any write-down is included by the transferor in determining the net recoverable amount of those assets prior to the transfer (see GOODWILL AND INTANGIBLE ASSETS, Section 3064, and IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063).

.15 When the carrying amount is not available, a reasonable estimate of the carrying amount, based on the transferor's original cost, may be used to measure the transaction.

.16 The carrying amounts of items involved in a related party transaction may differ from each other. Except as specified in paragraph 3840.07B, the difference is accounted for in accordance with paragraph 3840.09.

.17 When a related party transaction is measured at the carrying amount, any difference between the carrying amounts of the items exchanged, together with any tax amounts related to the item transferred, is a contribution of capital to, or a distribution of equity of, the enterprise. A net credit is a capital contribution and is credited to contributed surplus. A net debit is an equity distribution and is charged against any existing credit balance in contributed surplus arising from previous related party transactions, with any excess charged against retained earnings.

Transaction in the normal course of operations

.18 *A monetary related party transaction, or a non-monetary related party transaction that has commercial substance, shall be measured at the exchange amount when it is in the normal course of operations, unless paragraph* 3840.22 *applies.*

.19 A non-monetary related party transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction. The entity's future cash flows are expected to change significantly when:

(a) the configuration, as defined in paragraph 3840.20, of the future cash flows of the asset received differs significantly from the configuration of the future cash flows of the asset given up; or

(b) the entity-specific value of the asset received differs from the entity-specific value of the asset given up and the difference is significant in relation to the exchange amount of the items exchanged.

In some cases, a qualitative assessment will be conclusive in determining that the estimated cash flows of the entity are expected to change significantly as a result of the transaction.

.20 The configuration of future cash flows is composed of the risk, timing and amount of the cash flows. A change in any one of these considerations is a change in the configuration.

.21 Entity-specific value, resulting from entity-specific measurement, differs from fair value. It attempts to capture the value of an item in the context of the reporting entity. The entity uses its expectations about its use of the asset rather than the use assumed by marketplace participants. When a non-monetary related party transaction has commercial substance, it is measured at the exchange amount rather than entity-specific value.

.22 *A non-monetary related party transaction that is an exchange of a product or property held for sale in the normal course of operations for a product or property to be sold in the same line of business, to facilitate sales to customers other than the parties to the exchange, shall be measured at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration received or given* (see NON-MONETARY TRANSACTIONS, paragraph 3831.08, for further guidance).

.23 The exchange amount reflects the actual amount of the consideration given for the item transferred or service provided. It is not necessary, or practical, to record the amount of a transaction in the normal course of operations at the carrying amount. The use of the exchange amount for a transaction in the normal course of operations, accompanied by the disclosure requirements of paragraph 3840.51, assists the financial statement user to understand the circumstances in which the transaction was undertaken.

.24 Examples of transactions in the normal course of operations are: the sale or purchase of an inventory item; the provision or receipt of a recurring service including management and administrative services commonly shared by related parties; a sale or purchase of real estate by an enterprise that is in the business of selling real estate as part of its ongoing activities; and recurring investing activities by an investment company. Matters to be taken into account when determining whether the operations are normal include: type and scope of operations; characteristics of the industry; operating policies of the enterprise; nature of products and services; and the environment in which the enterprise operates.

.25 Usually, a related party transaction that is in the normal course of operations occurs within a normal business relationship and on terms and conditions that are similar to those of transactions with unrelated parties. Generally, an item exchanged in the normal course of operations by related parties is subsequently transferred to unrelated parties within a normal operating cycle and, therefore, the exchange amount is confirmed.

.26 Whether or not a transaction is in the normal course of operations is a question of fact. A related party transaction is presumed not to be in the normal course of operations when it is not of a type that is usually, frequently or regularly undertaken by the enterprise for the purpose of generating revenue. This presumption can be rebutted only by persuasive evidence to the contrary.

.27 Examples of transactions not in the normal course of operations include the sale or purchase of capital assets, settlement of debts, and the issue or redemption of an enterprise's capital.

.28 A transaction that may appear to be in the normal course of operations, such as the sale of inventory, may not be if the transaction is of a size and type not usually undertaken by the enterprise. For example, a transaction is not in the normal course of operations when an enterprise that ordinarily sells its inventory to a number of different unrelated and related enterprises, sells all its inventory in the current period to one particular related enterprise. A transaction involving the sale or purchase of assets that were not acquired for resale is also not in the normal course of operations.

Transaction not in the normal course of operations

.29 *When a monetary related party transaction or a non-monetary related party transaction that has commercial substance is not in the normal course of operations, it shall be measured at the exchange amount when:*

(a) the change in the ownership interests in the item transferred or the benefit of a service provided is substantive; and

(b) the exchange amount is supported by independent evidence.

.30 A related party transaction that is not in the normal course of operations requires additional support for the substance of the transaction in order for the exchange amount to be used for financial reporting purposes. When the criteria in paragraph 3840.29 are satisfied, the exchange amount is more representative of the economic reality of the transaction than the carrying amount and is sufficiently reliable to be used for financial reporting purposes.

.31 When a transaction results in a substantive change in ownership interests in the item transferred, or the benefit of a service provided, there are often sufficient interests by unrelated parties to provide some support for the reliability of the exchange amount. When a substantive change in ownership interests is coupled with independent evidence, there is sufficient support for measurement of the transaction at the exchange amount.

.32 When the ownership interests in an item transferred, or the benefit of a service provided, change, the ability to obtain future economic benefits from the item transferred, or the service provided, also changes. When the continuity of influence over an item transferred, or the beneficial interests of a service provided, has not changed, the transaction has insufficient substance to justify a change in measurement for financial reporting purposes and, hence, its carrying amount is retained. Generally, the greater the change in the ownership interests, the more likely the change is substantive.

.33 A change in the continuity of influence occurs when:

(a) the nature of the relationship of the transferor to the item transferred changes (for example, from control to joint control); or

(b) the residual equity ownership interest of the item transferred changes by at least 20 percent (for example, a parent transfers an asset to a partially owned subsidiary when the minority interest consists of a 40 percent interest in the common shares of the investee).

.34 Ownership interests may be represented by such evidence as equity shareholdings or other contractual agreements. In a corporate relationship a related party transaction may result in a change in the legal title of an item exchanged without a substantive change in the equity ownership interests in the item. The continuity of influence over the item transferred is retained and, therefore, the carrying amount is also retained. For example, when an item is transferred between two subsidiary companies, both wholly owned by the same parent, although the legal title to the item transferred may have changed, there has been no change in the ownership interests in the item transferred and, accordingly, the transfer is accounted for at the carrying amount of the item transferred.

.35 A change in the equity ownership interests in an item transferred, or the benefit of a service provided, is presumed to be substantive when a transaction results in unrelated parties having acquired or given up at least 20 percent of the total equity ownership interests in the item or service benefits, unless persuasive evidence exists to the contrary.

.36 A change of less than 20 percent of the total equity ownership interests in the item transferred, or benefit of a service provided, may be substantive when the degree of influence of the parties over the item transferred or service benefits provided has substantively changed. For example, when an investor transfers an item to a joint arrangement, a related investor may not have acquired at least 20 percent of the total ownership interests in the item after the transfer. However, if the item becomes jointly controlled by the various investors as opposed to being controlled by one investor, the rights and obligations to the item have substantially changed.

.37 An enterprise may enter into an arrangement to set up a wholly owned subsidiary and transfer assets to it in contemplation of the subsidiary issuing shares to unrelated parties either before or after the transfer. A financial instrument in such a transfer is measured in accordance with FINANCIAL INSTRUMENTS, Section 3856, and non-financial items are measured at the carrying amount of the assets to the parent company, unless the criteria of COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625, are met, since there was no substantive change in the ownership interests in the transferred assets at the time the transfer was arranged.

.38 Non-voting participating shares issued to unrelated parties in the course of an estate freeze generally do not give rise to a substantive change in the ownership interests.

.39 A substantive change in ownership interests in the item transferred, or the benefit of a service provided, is insufficient, alone, to support measurement of the transaction at the exchange amount. Support for the exchange amount itself, by independent evidence, is necessary to add substance to that amount.

.40 Independent evidence in support of the use of an exchange amount includes at least one of the following:

(a) independent appraisals, valuations or approvals, by appropriately qualified parties that are not related to the enterprise, carried out to determine the exchange amount;

(b) comparable recently quoted market prices, in an open and unrestricted market;

(c) comparable independent bids on the same transaction; or

(d) comparable amounts of similar transactions actually undertaken with unrelated parties.

.41 The sufficiency and appropriateness of independent evidence required to support the exchange amount is a matter of professional judgment. Such evidence may be in the form of independent documentation supporting the exchange amount, or may be a result of the participation of unrelated parties in determining the exchange amount. In some instances, several items of consistent evidence may be required to support the exchange amount. In other instances, one piece of very persuasive evidence may be sufficient. Generally, the more involved unrelated parties are in developing the evidence, the more persuasive it will be.

.42 An enterprise may have a formal policy to bargain with related parties so that the enterprise would reject an offer from a related party if a better offer were received from an unrelated party. When such bargaining involves unrelated parties, or those selected by the unrelated parties, or those appointed pursuant to regulatory requirements, to act on their behalf, it provides independent evidence to support use of the exchange amount.

.43 A non-monetary related party transaction that does not have commercial substance and is not in the normal course of operations is measured at the carrying amount, in accordance with paragraph 3840.08, regardless of whether the criteria in paragraph 3840.29 are met.

.44 Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a combination involving a business under common control is accounted for as follows:

(a) The transaction is accounted for in accordance with BUSINESS COMBINATIONS, Section 1582, when:

(i) the transaction is a monetary transaction, or a non-monetary transaction that has commercial substance;

(ii) the change in the ownership interests transferred is substantive; and

(iii) the amount of consideration paid or received is established and agreed to by related parties and is supported by independent evidence.

(b) When the criteria in paragraph 3840.44(a) are not met, the combined enterprise recognizes the assets and liabilities of the combining enterprises at their carrying amount and, if appropriate, recognizes a non-controlling interest in accordance with NON-CONTROLLING INTERESTS, Section 1602. Any change in the non-controlling interest is recognized as an equity transaction in accordance with Section 1602. For each transaction, the financial statements of the combined enterprise shall present the earnings, assets and liabilities of the combining enterprises in one of the following ways:

(i) from the date that the combination occurred as a new reporting enterprise without comparative information;

(ii) from the date that the combination occurred as a continuation of one of the combining enterprises, and presenting the comparative information of that enterprise; or

(iii) for the entire period in which the combination occurred and for all prior periods.

[Former paragraph 3840.44, amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former paragraph 3840.44, amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements]

Gains and losses

.45 *When a related party transaction is measured at the exchange amount, any gain or loss resulting from the transaction shall be included in income for the period, unless another Section requires alternative treatment.*

.46 Other Sections that require alternative treatment for gains and losses include CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, INVESTMENTS, Section 3051, INTERESTS IN JOINT ARRANGEMENTS, Section 3056, DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, and GOVERNMENT ASSISTANCE, Section 3800.

Consolidation and equity accounting

.47 Gains and losses arising in combining entities as a result of a business combination (as defined in BUSINESS COMBINATIONS, Section 1582) between related parties are reversed on consolidation.

.48 A transaction between a parent and a subsidiary that results in a difference between the carrying amount in the subsidiary and the amount at which the item or service received is measured requires adjustment on consolidation so as to reflect any non-controlling share of the difference. Similarly, a transaction between an investor and its significantly influenced investee requires adjustment, when the equity method of accounting is used, of the investor's equity for the difference between the investee's carrying amount and the amount at which the item or service received is measured in the investee.

(paragraphs 3840.49-.50 deleted)

DISCLOSURE

.51 *An enterprise shall disclose the following information about its transactions with related parties:*

(a) a description of the relationship between the transacting parties;

(b) a description of the transaction(s), including those for which no amount has been recognized;

(c) the recognized amount of the transactions classified by financial statement category;

(d) the measurement basis used;

(e) amounts due to or from related parties and the terms and conditions relating thereto;

(f) contractual obligations with related parties, separate from other contractual obligations;

(g) contingencies involving related parties, separate from other contingencies; and

(h) in applying paragraph 3840.44(b), for each transaction, the option chosen to present the earnings, assets and liabilities of the combining enterprises.

[Former paragraph 3840.51, amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements]

.52 Related party transactions may be entered into on the same terms as if the parties were unrelated, or they may be entered into on terms differing from those that might have prevailed if the parties had been unrelated to one another. Without disclosure of information about related party transactions, financial statement readers would be justified in assuming that the transactions reported in the financial statements took place at prices bargained with unrelated parties.

.53 Information about related party transactions is often of more significance to a financial statement user than information about unrelated party transactions, regardless of the size of such transactions. When considering disclosure of related party transactions, the qualitative as well as the quantitative characteristics of materiality are considered.

Description of relationship

.54 Terms such as "affiliate", "associate" and "related company" are insufficiently precise to describe relationships. With additional explanation, the effect of the related party relationship on the enterprise is more understandable. Terms such as "controlled investee", "significantly influenced investee", "jointly controlled enterprise", "common control enterprise", "management", "shareholder", "member of the immediate family of the shareholder or management", and "director" describe the relationships better.

.55 An explanation of how significant influence, joint control or control is exercised between the reporting enterprise and a related party clarifies the nature of their relationship. The entity may clarify the nature of the relationship by including the percentage ownership between the transacting parties, the extent of representation on the board of directors of either party, or details of management contracts between the parties, depending upon the factor that establishes the relationship.

Description of transaction

.56 A clear description of a related party transaction that sets out the significance of the transaction to the operations of the enterprise clarifies the effects of the transaction on the enterprise. Such a description includes information about the nature of the items exchanged and whether the exchange is in the normal course of operations.

.57 An exchange of goods or services between related parties that has not been given accounting recognition is also a related party transaction. For example, an enterprise may provide a related party with management services, or use of a patent or license, in the normal course of operations, without receiving consideration in exchange. An explanation of the nature of such a transaction and the fact that no consideration has been received or paid is useful to explain the effect of the transaction on the enterprise.

Amount of transactions

.58 To convey the extent of related party transactions, the recognized amounts of such transactions are disclosed. Disclosure of information aggregated by financial statement category (for example, revenue, purchases, major operating costs, interest expense or income, and management fee income or expense) and nature of relationship is more useful than disclosure of individual transactions with related parties, except for individually significant transactions.

Consolidated financial statements

.59 In consolidated financial statements, intercompany transactions are eliminated and disclosure of such transactions is normally not required. However, when an enterprise participates in transactions with an investee accounted for by the equity method, the transactions between the investor and the investee are disclosed even though the associated profit or loss is eliminated from the financial statements.

Representations about fair value

.60 Representations that the exchange amount is equivalent to fair value (or an arm's length equivalent value) are not made unless they can be substantiated. When an enterprise has undertaken a related party transaction on the same terms as current transactions with unrelated parties, with similar volumes, terms and conditions, that fact is disclosed. In many cases, a fair value cannot be determined unless there are identical transactions and the values of the items exchanged are determined by the market (for example, the fair value of an exchange of gold and cash is determined by the market).

EFFECTIVE DATE AND TRANSITION

.61 Except as specified in paragraphs 3840.62-.64, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.62 New paragraph 3840.02(b) and amendments to paragraphs 3840.04(c), 3840.04(i), 3840.05, 3840.36 and 3840.46, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.63 Amendments to paragraph 3840.44, issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018, and may be applied prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). Earlier application is permitted.

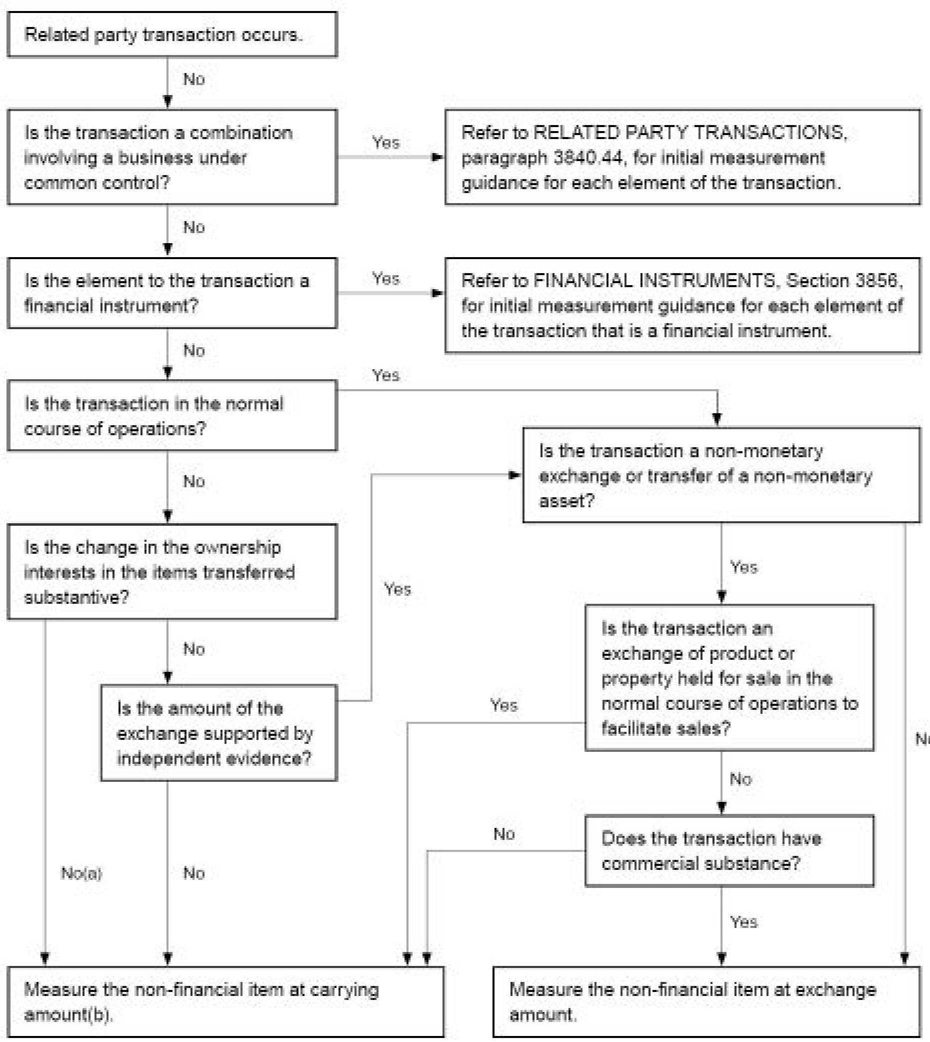
.64 Amendments to paragraphs 3840.01-.02, 3840.16, and 3840.37 and new paragraphs 3840.03(g)(i), 3840.07A and 3840.07B, issued in December 2018, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

.65 Amendments to paragraphs 3840.02, 3840.03, 3840.07A, 3840.07B and 3840.44, issued in September 2023, apply prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2025. Earlier application is permitted. An entity applies these amendments to transactions entered into from the beginning of the fiscal year in which the amendments are first applied.

.66 Amendments to paragraphs 3840.02(c), 3840.07A, 3840.07B, 3840.44 and 3840.51(h) issued in December 2025, apply prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted. An enterprise applies these amendments to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

DECISION TREE

This Decision Tree is illustrative only.



(a) Carrying amount is used for both monetary and non-monetary transactions in these circumstances.

(b) In rare circumstances, when the carrying amount of the item received is not available, a reasonable estimate of the carrying amount, based on the transferor's original cost, may be used to measure the exchange.

[Former Decision Tree, amended by amendments to Section 3840 (September 2023), retained in Archived Pronouncements] [Former Decision Tree, amended by amendments to Section 3840 (December 2025), retained in Archived Pronouncements]

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Accounting for related party transactions

Example 1 — Accounting for a purchase and subsequent sale of a capital asset

Example 2 — Accounting for an exchange of capital assets

Tax aspects of related party transactions

Example 3 — Sale of building without a special tax election

Example 4 — Sale of building with a Section 85 rollover election

Application of the disclosure requirements

Example 5 — Transactions entered into in the normal course of operations with related parties

Example 6 — (deleted)

Example 7 — (deleted)

Measurement of financial assets and financial liabilities arising from related party transactions

Example 8 — (deleted)

Example 9 — (deleted)

Example 10 — (deleted)

Example 11 — (deleted)

ACCOUNTING FOR RELATED PARTY TRANSACTIONS

Two situations are considered in Examples 1 and 2. In Situation I, the transaction is measured at the carrying amount. In Situation II, the transaction has met the criteria set out in paragraph 3840.29 (for a real estate enterprise, the transaction may be in the normal course of operations). Therefore, the transaction is measured at the exchange amount unless the transaction is non-monetary and does not have commercial substance (as noted in Example 2). Income taxes are not taken into account.

Example 1 — Accounting for a purchase and subsequent sale of a capital asset

Company A owns 75 percent of Company B. During 20X1, Company A purchased a building from Company B for \$1,000. The building's carrying amount in Company B's financial statements is \$700. Company A's contributed surplus account contains a credit balance of \$200 from previous related party transactions. Company B's contributed surplus account is nil.

Following this transaction, during 20X2, Company A sells the building to an unrelated party for \$1,100.

Accounting for the purchase is as follows:

Company A
Non-Consolidated Parent Company

Situation I — Transaction measured at carrying amount		
Dr. Building	700	
Dr. Retained earnings	100	
Dr. Contributed surplus	200	
Cr. Cash		1,000
To record purchase of building from Company B		

Situation II — Transaction measured at exchange amount		
Dr. Building	1,000	
Cr. Cash		1,000
To record purchase of building from Company B		

Company B
Non-Consolidated Subsidiary Company

Situation I — Transaction measured at carrying amount		
Dr. Cash	1,000	
Cr. Building		700

Situation II — Transaction measured at exchange amount		
Dr. Cash	1,000	
Cr. Building		700

Cr. Contributed surplus		300	Cr. Gain on sale of building		300
To record sale of building to Company A			To record sale of building to Company A		

Notes

(a) In Situation I, the adjustment to contributed surplus / retained earnings is considered to be a capital payment by Company A and a capital receipt by Company B.

(b) In Situation II, the transaction has met the criteria set out in paragraph 3840.29; therefore it is appropriate to recognize a gain of $300.

(c) In Situation I, if Company A had purchased the building at an amount less than the carrying amount on Company B's financial statements, consideration would be given to whether the value of the building is impaired and should be written down in Company B's books prior to transfer at the reduced carrying amount.

(d) In both Situation I and Situation II, on consolidation, the enterprise should follow the guidance in CONSOLIDATED FINANCIAL STATEMENTS, Section 1601.

Accounting for the sale is as follows:

Company A
Non-Consolidated Parent Company

Situation I — Transaction measured at carrying amount			Situation II — Transaction measured at exchange amount		
Dr. Cash	1,100		Dr. Cash	1,100	
Cr. Building		700	Cr. Building		1,000
Cr. Gain on sale of building		400	Cr. Gain on sale of building		100
To record sale of building to unrelated party			To record sale of building to unrelated party		

Notes

(a) In Situation I, a gain of $400 on sale of the building is recognized in income by Company A. (It is not appropriate to reverse the original debit of $300 made to equity by the parent and recognize a gain in the subsidiary now that Company A has sold the building.)

(b) In Situation II, Company A recognizes income of $100 on the sale of the building that it purchased for $1,000. Together with the original $300 gain recognized in income by Company B on the intercompany transaction, a total gain of $400 has been recognized, at the individual company level.

(c) In Situation II, on consolidation, the enterprise shall follow the guidance in CONSOLIDATED FINANCIAL STATEMENTS, Section 1601.

Example 2 — Accounting for an exchange of capital assets

Company A owns 75 percent of Company B. During 20X1, Company A acquired Machine X from Company B in exchange for Machine Y. The agreed exchange amount is $1,000. Machine X's carrying amount in the accounts of Company B is $700. Machine Y's carrying amount in the accounts of Company A is $900. Neither Company A nor Company B has a balance in the contributed surplus account relating to previous related party transactions.

Accounting for the exchange is as follows:

Company A
Non-Consolidated Parent Company

Situation I — Transaction measured at carrying amount			Situation II — Transaction measured at exchange amount assuming commercial substance		
Dr. Machine X	700		Dr. Machine X	1,000	
Dr. Retained earnings	200		Cr. Machine Y		900
Cr. Machine Y		900	Cr. Gain on sale of Machine Y		100
To record exchange of Machine Y for Machine X			To record exchange of Machine Y for Machine X		

Company B
Non-Consolidated Subsidiary Company

Situation I — Transaction measured at carrying amount			Situation II — Transaction measured at exchange amount assuming commercial substance		

Dr. Machine Y	900		Dr. Machine Y	1,000	
Cr. Contributed surplus		200	Cr. Machine X		700
Cr. Machine X		700	Cr. Gain on sale of Machine X		300
To record exchange of Machine X for Machine Y			To record exchange of Machine X for Machine Y		

Notes

(a) In Situation I, the adjustment to retained earnings is considered to be a capital payment by Company A and a capital receipt by Company B.

(b) In Situation II, since the criteria of paragraph 3840.29 are met, it is appropriate for Company B to realize a gain of $300. Company A sold an asset worth $1,000 for a $100 gain.

(c) A non-monetary transaction that does not have commercial substance is be measured at the carrying amount and the entries are identical to those in Situation I of this example. In such a case, the adjustment to retained earnings is considered to be a capital payment by Company A and a capital receipt by Company B.

(d) On consolidation, the enterprise shall follow the guidance in CONSOLIDATED FINANCIAL STATEMENTS, Section 1601.

TAX ASPECTS OF RELATED PARTY TRANSACTIONS

Examples 3 and 4 illustrate how the income tax aspects of a sale of a depreciable capital asset to a related party are accounted for with and without the use of a special tax election. It is assumed that the parties in the examples do not deal at arm's length for income tax purposes and are related for accounting purposes.

Related parties often take part in tax-driven transactions. The income tax aspects of these transactions are accounted for using the principles in INCOME TAXES, Section 3465. (References in these examples to temporary differences and future income taxes only apply if the enterprise uses the future income taxes method rather than the taxes payable method of accounting for income taxes.) As required by paragraphs 3465.59 and 3840.09, when the difference between the carrying amounts of items exchanged is treated as a capital transaction, any income tax amounts related to the item(s) transferred are also treated as a capital transaction.

Special tax election not used

Transaction measured at the exchange amount by the seller

When a depreciable capital asset is sold to a related party for an amount that differs from its carrying amount, the seller recognizes a gain or loss if the conditions of paragraph 3840.18 or 3840.29 are satisfied. Example 3 (column 1) illustrates the accounting in this situation. A current tax expense or recovery is accrued on this gain or loss, and to the extent that the gain or loss for tax purposes differs from the gain or loss for accounting purposes, a temporary difference is created or reverses.

Transaction measured at the exchange amount by the buyer

The buyer measures the asset at an amount equal to the consideration paid. In certain cases, as in Example 3, this may differ from its tax basis (i.e., the amount added to the capital cost allowance class). This difference is a temporary difference for which a future income tax liability or asset must be recognized. This future income tax asset or liability is included in the carrying amount of the asset, as required by paragraph 3465.41.

Transaction measured at the carrying amount by the seller

When the conditions of paragraph 3840.18 or 3840.29 are not satisfied, and the transaction is measured at the carrying amount of the item transferred, the following occurs in the seller's accounts (see Example 3 (column 2) for an illustration):

(a) No gain or loss occurs for accounting purposes. The difference between the consideration received and the carrying amount is a capital transaction and is included in the relevant component of equity (in accordance with paragraph 3840.17).

(b) An income tax payment or recovery arises on any gain or loss arising for income tax purposes. For accounting purposes, these taxes relate to the capital transaction and, therefore, they are recognized in the relevant component of equity (in accordance with paragraphs 3465.59 and 3840.17).

(c) Future income taxes are recognized to reflect the change in temporary differences related to the difference between any reduction in the undepreciated capital cost of the assets and the reduction in the carrying amount of the assets. The related cost or benefit of future income tax is recognized in the relevant component of equity (in accordance with paragraphs 3465.59 and 3840.17).

Transaction measured at the carrying amount by the buyer

The buyer measures the asset at the seller's carrying amount. To the extent that the consideration paid differs from the carrying amount of the asset received, the buyer records a capital transaction in the relevant component of equity (in accordance with paragraph 3840.17).

The buyer also makes a future income tax entry to record any income tax benefit or cost acquired. Consistent with the treatment of the difference between the carrying amount and the exchange amount in the transaction and, in accordance with paragraph 3465.59, the income tax benefit or cost is treated as a capital transaction and is credited or charged to equity.

Special tax election used (for example, Section 85 (or similar) "Rollover")

Under a rollover in accordance with Section 85 of the Income Tax Act (ITA), the seller transfers property to a Canadian corporation in return for consideration that includes shares of the buyer. This ITA Section allows the transfer of various properties to a corporation at the property's cost or adjusted cost base, thereby avoiding any immediate gain for income tax purposes.

Generally, in order to have a tax-deferred rollover, the consideration is composed of the following:

Non-share consideration:	up to the elected transfer price (elected transfer price is usually equal to the cost or adjusted cost base of the property).
Share consideration:	equal to the arm's length equivalent value of the property transferred, less the elected transfer price.

Transaction measured at the exchange amount by the seller

When the transaction is measured at the exchange amount (as illustrated in Example 4 (column 1)), an accounting gain or loss results for the seller. The seller adjusts the future income tax balance to reflect any difference in the tax and accounting bases of the assets.

Transaction measured at the exchange amount by the buyer

From the buyer's perspective, the property received and the consideration paid are measured at the exchange amounts. Any future income taxes arising are treated as part of the cost of the asset acquired, as required by paragraph 3465.41.

Transaction measured at the carrying amount by the seller

When the transaction is measured at the carrying amount, the seller removes the transferred assets and the related future income tax balances from its financial statements (as illustrated in Example 4 (column 2)). No income tax expense arises unless the elected amount is in excess of the adjusted cost base (tax basis) of the asset. The seller adjusts the future income tax balance to reflect any difference in the tax and accounting bases of the assets transferred.

Any difference between the amount of the consideration received and the carrying amount of the property transferred is allocated to the relevant component of equity, as required by paragraph 3840.17. The future income tax adjustment is also recognized in the relevant component of equity (in accordance with paragraph 3840.17).

Transaction measured at the carrying amount by the buyer

The buyer records the assets received at the seller's carrying amounts, with any difference being allocated to the relevant component of equity. The buyer also sets up future income taxes to reflect the future income tax effects resulting from differences in the carrying amount and the tax basis of the asset. The related cost or benefit of the future income tax amount is also recognized in the relevant component of equity (in accordance with paragraphs 3465.59 and 3840.17).

Example 3 — Sale of building without a special tax election

Company A owns a building purchased from an unrelated party for $800. At the end of 20X1, the net book value of the building is $700 and the tax class containing the building has a balance of $2,000. At the end of 20X1, Company A sells the building to Company B, a related party. The consideration received comprises cash of $800 and newly issued shares of Company B with an assigned value of $200. There is no balance in either the seller's or buyer's contributed surplus accounts resulting from previous related party transactions.

Each Company's tax rate is 40 percent. The transaction gives rise to a capital gain and the inclusion rate for taxable capital gains is 50 percent.

For the purposes of this example, assume that Company A has control, joint control or significant influence over Company B and therefore is not in the scope of FINANCIAL INSTRUMENTS, Section 3856.

Entries by Company A (Seller)

Transaction measured at exchange amount			Transaction measured at carrying amount		
Dr. Cash	800		Dr. Cash	800	
Dr. Investment in Co. B	200		Dr. Investment in Co. B	1	
Cr. Building		700	Cr. Building		700
Cr. Gain		300	Cr. Contributed surplus		101
To record sale of building. The gain on sale is recognized in income			To record sale of building. The difference between the carrying amount of cash and shares received and the carrying amount of the building given up is credited to contributed		

Dr. Future income tax expense	40	
Cr. Future income tax liability		40

To record future income taxes related to the sale of the building. The UCC pool has been credited with $100 [$800 – $700] more than has the NBV of the assets [$100 x .40]

Dr. Current income tax expense	40	
Cr. Current income taxes payable		40

To record current taxes on the taxable gain on sale [$200 x .50 x .40].

surplus. (The carrying amount attributed to the shares of Company B is a nominal value of $1.)

Dr. Contributed surplus	40	
Cr. Future income tax liability		40

To record future incomes taxes related to the sale of the building. The UCC pool has been credited with $100 [$800 – $700] more than has the NBV of the assets. The tax charge [$100 x .40] is debited to contributed surplus, being the same location as the difference in the first journal entry is recorded (in accordance with paragraph 3840.17).

Dr. Contributed surplus	40	
Cr. Current income taxes payable		40

To record current taxes on the taxable gain on sale [$200 x .50 x .40]. The tax charge is debited to contributed surplus, being the same location as the difference in the first journal is recorded (in accordance with 3840.17).

Even though the accounting gain is zero, and the tax for accounting purposes is zero, a tax entry results. This is because, for tax purposes, the transaction is considered to be a sale from one legal enterprise to another. However, for accounting purposes, the difference is treated as a capital receipt. The enterprise has simply moved its asset to another account (i.e., another company).

Dr. Future income tax asset	40	
Cr. Contributed surplus		40

To record future income taxes related to the shares.

A deductible temporary difference arises for the difference between the tax basis of the shares of $200 and the carrying amount of $1. If the investment in Company B represents an investment subject to significant influence, a future income tax asset would be recognized.

Where the investment in Company B represents an investment in a subsidiary or an interest in a joint arrangement, no future income tax asset or liability is recognized when it is apparent that the temporary difference will not reverse in the foreseeable future (paragraph 3465.35).

Worksheet 1

	Accounting	Tax
Proceeds	$1,000	$1,000
Net book value / ACB	700	800
Gain	300	200
Temporary difference	100	—
	200	200
	x 0.50	x 0.50
Taxable portion	100	100
Tax rate	x 0.40	x 0.40
	$ 40	$ 40

	Accounting	Tax
Proceeds	$ 700	$1,000
Net book value / ACB	700	800
Gain	—	200
		x 0.50
Taxable portion		100
Tax rate		x 0.40
		$ 40
		====

====	====

The difference between the seller's accounting in each transaction is that in the transaction measured at the exchange amount the gain and resulting tax effects are accounted for in the income statement whereas in the transaction measured at the carrying amount the difference between the carrying amounts of the assets transferred, and the related transfer of tax amounts, are accounted for in equity. (Note that the equity entry is to contributed surplus since it is a net credit.)

Entries by Company B (Buyer)

Measured at exchange amount			Measured at carrying amount		
Dr. Building	1,000		Dr. Building	700	
Cr. Cash		800	Dr. Retained earnings	101	
Cr. Share capital		200	Cr. Cash		800
			Cr. Share capital		1
To record purchase of building.			To record purchase of building. The difference between the carrying amount of cash and shares given up and the carrying amount of the building received is debited to retained earnings.		

Worksheet 2

Calculations:			**Calculations:**		
UCC to buyer:			UCC to buyer:		
Seller's ACB		$800	Seller's ACB		$800
Plus capital gain:			Plus capital gain:		
Transfer price	$1,000		Transfer price	$1,000	
Seller's ACB	800		Seller's ACB	800	
	200			200	
	0.50	100		0.50	100
UCC (tax basis) to buyer		$900	UCC (tax basis) to buyer		$900
		=====			=====

The difference between the transfer price of $1,000 and the tax basis of $900 is a taxable temporary difference. In accordance with paragraph 3465.41, the cost of future income taxes is added to the carrying amount of the asset. The cost of future income taxes is determined as $100 x (.40) / (1 – .40) = $67.

The journal entry is:

Dr. Building	67	
Cr. Future income tax liability		67

To record future income taxes on purchase of building.

The difference between the carrying amount of $700 and the tax basis of $900 is a deductible temporary difference. In accordance with paragraph 3465.59, since the difference between the carrying amount of the asset acquired and the exchange amount is charged to retained earnings, the future income tax benefit of $80 ($200 x .40) related to the transaction is credited to retained earnings.

The journal entry is:

Dr. Future income tax asset	80	
Cr. Retained earnings		80

To record future income taxes on purchase of building.

The tax basis of the asset acquired is the same whether the transaction is measured at the exchange amount or at the carrying amount by the buyer since no special tax election has been claimed.

There are three differences between the accounting, by the buyer, in each of these transactions:

(i) In the transaction measured at the exchange amount, the carrying amount of the asset is increased. The income tax effects of the temporary difference between the transfer price and the tax basis is included in the carrying amount of the asset in accordance with paragraph 3465.41.

(ii) In the transaction measured at the carrying amount, the difference between the transferor's carrying amounts of the assets transferred is accounted for in equity in accordance with 3840.17. The net effect on equity is a decrease of $1, the book value of the shares issued by Company B.

(iii) Also, in the transaction measured at the carrying amount, the buyer has acquired a tax benefit that is recognized (provided there is sufficient assurance of recovery) in accordance with INCOME TAXES, Section 3465.

Example 4 — Sale of building with a Section 85 rollover election

Assume the same facts as those presented in Example 3, except that in this example, Company A sells the building to Company B using a rollover election, in accordance with Section 85 of the ITA.

The consideration received is equal to the arm's length equivalent value of the building of $1,000 and is composed of cash (equal to the elected transfer price of $800) and retractable or mandatorily redeemable shares with a redemption value of $200 (which is equal to the arm's length equivalent value of the building of $1,000 less the elected transfer price of $800). The retractable and mandatorily redeemable shares are not quoted in an active market and do not have inputs that are significant to the determination of their fair value that are observable.

Entries by Company A (Seller)

Transaction measured at exchange amount (elected transfer price = $800)			Transaction measured at carrying amount (elected transfer price = $800)		
Dr. Cash	800		Dr. Cash	800	
Dr. Investment in Co. B	200 [2]		Dr. Investment in Co. B	200 [2]	
Cr. Building		700	Cr. Building		700
Cr. Gain		300	Cr. Contributed surplus		300
To record sale of building.			To record sale of building.		
Dr. Future income tax expense	40		Dr. Contributed surplus	40	
Cr. Future income tax liability		40	Cr. Future income tax liability		40
To record future income taxes related to the sale of the building.			To record future income taxes related to the sale of the building.		
Dr. Future income tax expense	40		Dr. Contributed surplus	40	
Cr. Future income tax liability		40	Cr. Future income tax liability		40
To record future income taxes as a result of the difference between the tax basis of the shares received [$0] and the amount for financial statement purposes [$200 x .50 x .40] (Note that this entry would not be recorded when Company B is a subsidiary or joint arrangement of Company A and it is apparent that the temporary difference will not reverse in the foreseeable future.)			To record future income taxes as a result of the difference between the tax basis of the shares received [$0] and the amount for financial statement purposes [$200 x .50 x .40] (Note that this entry would not be recorded when Company B is a subsidiary or joint arrangement of Company A and it is apparent that the temporary difference will not reverse in the foreseeable future.)		

Entries by Company B (Buyer)

Transaction measured at exchange amount (elected transfer price = $800)			Transaction measured at carrying amount (elected transfer price = $800)		
Dr. Building	1,000		Dr. Building	700	
Cr. Cash		800	Dr. Retained earnings or Other equity [3]	200	
			Dr. Retained earnings	100	
Cr. Retractable or mandatorily redeemable shares issued in a tax planning arrangement		200 [4]	Cr. Cash		800
			Cr. Retractable or mandatorily redeemable shares issued in a tax planning arrangement		200 [4]
To record purchase of building.			To record purchase of building		

Dr. Building	133		Dr. Future income tax asset	40	
Cr. Future income tax liability		133	Cr. Retained earnings		40
To record future income taxes on purchase of building.			To record future income taxes on purchase of building.		
The difference between the carrying amount of the building of \$1,000 and its tax basis of \$800 is a taxable temporary difference. In accordance with paragraph 3465.41, the cost of future income tax is added to the carrying amount of the asset. The cost of future income taxes is determined as \$200 x (.40) / (1 – .40) = \$133.			The difference between the carrying amount of the building of \$700 and its tax basis of \$800 is a deductible temporary difference. In accordance with paragraph 3465.59, since the difference between the carrying value of the asset acquired and the exchange amount is charged to retained earnings, the future income tax benefit of \$40 (\$100 x .40) related to the transaction is credited to retained earnings.		

The main difference between Example 4 and Example 3 is that, in the transaction measured at the carrying amount without a rollover election, in Example 3, there is a tax cost to the seller and a related increased amount of potential recovery for the buyer. In Example 4, a portion of the tax liability is transferred to the buyer, which reduces the future income tax benefit to the buyer by \$60.

APPLICATION OF THE DISCLOSURE REQUIREMENTS

Example 5 — Transactions entered into in the normal course of operations with related parties

The following table summarizes the Company's related party transactions for the year:

(\$ thousands)	20X1	20X0
Revenue		
Sales of product to:		
Direct parent company	\$100	\$150
Wholly owned subsidiary of parent company	\$125	\$190
Selling, general and administrative expense		
Engineering, technical, marketing and other services received from a Director's 100-percent-owned company	\$200	\$145

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At the end of the year, the amounts due to and (from) related entities are as follows:

Direct parent company	\$(25)	\$(45)
Wholly owned subsidiary of parent company	\$(50)	\$(34)
Director's company	\$ 30	\$ 35

These balances are payable on demand.

Footnotes

2. The investment in Company B is a financial instrument in the scope of FINANCIAL INSTRUMENTS, Section 3856. The instrument is not quoted in an active market and does not have inputs that are significant to the determination of the fair value of the instrument; therefore, the instrument is initially measured at cost. The instrument has repayment terms; therefore, per paragraph 3856.08(a), the cost of the financial instrument is determined using the undiscounted cash flow(s), excluding interest and dividend payments, of the instrument. These retractable or mandatorily redeemable shares are redeemable at \$200 (the redemption amount), which represents the undiscounted cash flows of the instrument.

2. The investment in Company B is a financial instrument in the scope of FINANCIAL INSTRUMENTS, Section 3856. The instrument is not quoted in an active market and does not have inputs that are significant to the determination of the fair value of the instrument; therefore, the instrument is initially measured at cost. The instrument has repayment terms; therefore, per paragraph 3856.08(a), the cost of the financial instrument is determined using the undiscounted cash flow(s), excluding interest

and dividend payments, of the instrument. These retractable or mandatorily redeemable shares are redeemable at $200 (the redemption amount), which represents the undiscounted cash flows of the instrument.

3. In accordance with EQUITY, paragraph 3251.06A, the resulting difference from classifying retractable or mandatorily redeemable shares as a financial liability is recognized in either retained earnings or a separate component of equity.

4. In accordance with FINANCIAL INSTRUMENTS, paragraph 3856.23, the retractable or mandatorily redeemable shares issued in a tax planning arrangement are a financial liability.

4. In accordance with FINANCIAL INSTRUMENTS, paragraph 3856.23, the retractable or mandatorily redeemable shares issued in a tax planning arrangement are a financial liability.
