

Related party transactions, Section 3840

- .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.
- .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).

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