

## RELATED PARTY TRANSACTIONS: ASPE 3840

### Definition

- **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
- **Exchange amount** is the amount of **consideration paid or received** as established and agreed to by related parties
- **Fair value** is the amount of the consideration that would be agreed in an arm's length transaction
- **Commercial substance** exists when
  - risk, timing and amount of the cash flows of the asset received differs significantly from that of the asset given up; or
  - the entity-specific value of the asset received differs from the entity-specific value of the asset given up

### Measurement

- A related party transaction is measured at the **exchange amount when one of the following applies**:
  1. A **monetary or a non-monetary** related party transaction **in the normal course of operations** that has **commercial substance**, is measured at the **exchange amount**, except when:
    - A non-monetary related party transaction is an exchange of a product held for sale in the normal course of operations for a product to be sold in the same line of business, to facilitate sales to customers ; such transaction measured at the **carrying amount of the asset given up**
  2. When a **monetary or a non-monetary related party transaction** that **has commercial substance is not in the normal course of operations**, is 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
      - 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
      - i.e. you transferred an item to a company where non-related parties own more than 20% of the shares
    - (b) the **exchange amount is supported by independent evidence**

- When a related party transaction is measured at the **exchange amount**, any gain or loss resulting from the transaction is included in income
- Related party transactions that do not meet the conditions above are measured at the **carrying amount of the asset received**
  - When a related party transaction is measured at the carrying amount, the difference between the items exchanged is **charged to equity** (rather than income) by both the buyer and seller
  - A parent buys building from a wholly owned company for \$10,000; the building has book value of \$8,000 and fair value of \$12,000. Assuming the carrying value is used.
    - Parent makes the following entry

|  |        |
|--|--------|
| Building.....  | 8,000  |
| Equity (contributed surplus or Retained Earnings)..... | 2,000  |
| Cash.....  | 10,000 |

**Comparison with IFRS:**

- Related party disclosures are covered under IAS 24
- Under IFRS, related party transactions are measured just like any other transaction; however, you need to disclose the details of the related party transaction