Relates Party Example Disclosures – Full FRS 102 and Section 1A

Example 1: Mr X who is a director owns 50% of Company A and 100% of Company B

- Company A is a connected person of Company B and vice versa. Therefore all transactions with this entity must be disclosed.

Section 33 of FRS 102 and Section 307 to 309 of CA 2014 refers.

Example 2: Mr X a director gets paid €100k from Company A. Company A also employs his adult son, Mr Y pays him €25,000

- Disclosures in the financial statements with regard to directors remuneration should disclose the €125k (can put a disclosure note to state that included within the amount is amounts paid to the directors children and specify the amount if preferred).

  (Section 305 CA 2014 and Section 33.2a of FRS 102)

- Any transaction other than wages with Mr Y should also be disclosed.

  (Section 307-309 CA 2014 and Section 33.2a of FRS 102)

Example 3: Mr X, is a director of Parent A and also a director of Subsidiary B which is 100% owned by Parent A. Does transactions with this company need to be disclosed?

- No as Schedule 3 paragraph 65(3) (and Schedule 3A para 55 of CA 2014 for Section 1A of FRS 102) confirms that transactions with wholly owned group companies are not required to be disclosed (Section 33.1A of fRS 102 also provides this exemption. It is important to note the year end balance in total must be disclosed in any event.

  If this were a 99% subsidiary then transactions would need to be disclosed under full FRS 102. Under Section 1A of FRS 102 in this case (where not wholly owned), disclosure would only be required where the transactions were concluded under terms that were not under normal market conditions.

Example 4: Mr X a director of Parent A and subsidiary B which is 100% owned. During the year Sub B paid Mr X for his services to Parent A but did not recharge this. Disclosure should be made in the parent financial statements of the fact that Mr X has a contract of service with Sub B and the costs are not recharged by Sub B to Parent A, disclosure should also be given of the wage paid to Mr X for his services to Parent A.

Section 305(13) CA 2014 refers and Section 33.6 FRS 102 refers.

Example 5: Mr X owns 100% of Company A which in turn owns 100% Company B. Company A has Mr X on the books as an employee and pays €100,000 for his services to both companies. €20,000 of this relates to services provided for Company B which is recharged to Company B.

- In Company A's financial statements it should disclose directors remuneration as €80,000.
- In Company B, it should disclose directors' remuneration of €20,000 and detail the fact that the contract of service is with a related company and costs are recharged. (Section 305(13) CA 2014 and Section 33.6 FRS 102 refers)
- If Co. B was only 95% owned by Co. A then the same disclosure would be required but in addition all transactions with Co. B would also have to be disclosed. (Section 305(13) CA 2014 and Section 33.6 FRS 102 refers)
- If we take this example and this time assume that a management charge is made but the wage element could not be determined this fact would need to be disclosed in Co. B as well as disclosing the total management charge recharged. Note however, for Section 1A of FRS 102, event if there is less than 100% ownership within the group, as long as the transactions were concluded under normal market terms, then no disclosure is required.

Example 6: Mr X is a director who owns 100% of Unlimited Company A, an unlimited company which in turn owns Company B, a limited liability company. Unlimited Company A employs the director and recharges his costs on a cost plus basis.

- In Company B disclosure must be made in the financial statements of the management recharge from Unlimited Company in relation to his remuneration and this should be disclosed as directors' remuneration. (Section 305(13) CA 2014 and Section 33.6 of FRS 102 refers). Transaction between both of these companies other than this are not required to be disclosed as it is 100% owned within the group (Schedule 3 para 65(3) of CA 2014 refers and the small companies regime - Schedule 3A para 55 of CA 2014 (i.e. Section 1A of FRS 102 refers). Note 33.1A of FRS 102 also refers.
- If Co. A was owned by Mrs X, Mr X's wife or his children then the same answer would be arrived at. (Section 305 & 220 CA 2014 & Section 33.2(a) & 33.2(b) of FRS 102 refers)

Example 7: Mr X and Mrs X are married. Mr X owns 25% of Company A and Mrs X owns 25% of Company B –

- Any transactions between these two companies are not considered related party transactions as neither party controls either company (i.e. they own less than 50% of the ordinary share capital in relation to Section 1A and company law). They are not related parties under Section 33.2(b)(vi)(vii) of FRS 102 as no one party control any of the companies.

  Transactions between Mr X and Mrs X and the company themselves are disclosable under Section 33.2 FRS 102 and also Section 309 CA 2014 where Mr X and Mrs X are directors.

- If Mr X also owned 50% of Company B, then in the books of Company B transactions would need to be disclosed but not in Company A as it is not controlled by Mr X.

Example 8: Where shares are held in trust for a shareholder, then transactions with that shareholder should be disclosed.

Example 9: Mr X owns 100% of Co. A and is a director. Mr X also runs a business as a sole trader which is a completely different business than the business of the company. Co. A loans money to the sole trader business.

- The transaction with Co. A is a related party transaction as effectively the sole trader business is Mr X who is the director of the Co. Section 33.2 of FRS 102 refers (even if the person was not a director) and Section 307 and 220 CA 2014 refers (as it is a director).
- Therefore the disclosure required in the financial statements in relation to this loan and disclosure requirements of S.307. Disclosure would also be required if this was a loan to Co. A under S.309 CA 2014 and Section 33.9 of FRS 102.
- Also comes within remit of S.239 CA 2014 and depending on its level may be in breach of S.239. Disclosure required of normal trade transactions also if these were entered into between both parties.

  Section 33.9 of FRS 102 and Section 309 CA 2014 refers.
- If the transaction with Co. A and the sole trader business was carried out in the ordinary course of business then may not come within the remit of S.239/S.240 CA 2014.

Example 10: Mr X and Mr Y is in partnership and runs a business. Mr X owns 100% of Co. A. The business run in partnership is completely different that the business carried out in the Co.

- Any transactions with these two entities must be disclosed in the financial statements in line with the requirements of Section 33.9 of FRS 102 and Section 309 of CA 2014. Funds advanced to the partnership will come within the remit of S.239 CA 2014.

Example 11: Mr A is a director of Co. A and Co. B but does not own any shareholding in either of these companies.

- No disclosure required in the financial statements of any transaction entered into between the two companies as the directors do not own 50% or more of either company

Example 12: Mr X owns 100% of Co. A and 50% of Co. B. Any transaction between both of these companies is a related party and requires disclosure in both sets of financial statements.

- Comes within the remit of S.305-S.309 disclosures and Section 33.2(b)(vi) FRS 102 and S.239 CA 2014.

Example 13: Company B provides directors to Company C. There is no related parties in each of these companies. Company B invoices Company C.

Under Section 305(A) CA 2014 and Section 33.2(b)(vii) FRS 102, the remuneration charged by Company B to Company C must be disclosed. This would apply if an entity within Company B's group transacted with Company C also.

Example 14:

Company A is owned 100% by Mr X who is also a director and Company B is owned 40% by Mr X and 60% by Mrs Y (Mr X's wife) – Mrs Y is the only director of Company B. Company A provides a loan to Company B.

In this case, this loan comes within the remit of Section 239 of Companies Act 2014 as although Mr X does not own 50% or more of the shares of Company A personally, he does when his connected person (as defined in 220 of Companies Act 2014)/close family member (as defined in Section 33.2 of FRS 102); Mrs Y is taken into consideration.

Therefore the transactions between these entities must be disclosed. Section 307 & 308 of CA 2014 will require more disclosure than what would be required under FRS 102 i.e who it was with, full movement in the year etc. etc.

Example 15:

Company A is owned 100% by Mr X (who is the sole appointed director) and Company B is owned 100% by Mr Y (who is the sole appointed director) an unconnected party of Mr X (when considering the definition in Section 220 of Companies Act 2014 and Section 33.2 of FRS 102 where close family members are defined). Mr X holds the shares in bare trust for Mr Z. Mr Y also holds the shares in bare trust for Mr Z.

The director of Company A, Mr X acts on the instructions of Mr Z and the director of Company B also acts on the instructions of Mr Z.

Company A provides a loan to Company B.

In this case, this loan comes within the remit of Section 239 of Companies Act 2014 for the following reasons:

- Step 1 is to assess whether there is a common director/shadow/de facto director in each company. Mr Z is a shadow/de facto director of Company A and B as Mr X and Y act on the instructions of Mr Z and therefore meets the definition of a shadow/de facto director in Section 221 and 222 of Companies Act 2014.
- As it has now been established that Mr Z is a shadow/de facto director of both companies, then there is a possibility that the prohibitions in Section 239 may apply. So one would need to move on to the step 2 to assess whether Mr Z owns 50% or more of the equity share capital or is entitled to exercise or control the exercise of 50% or more of the voting rights. Here Mr Z indirectly owns 50% or more of company B as Mr Y does not beneficially own the shares in Company B as there is a bare trust agreement in place. Therefore, under Section 220 of the Act, Company B is deemed to be a connected person of Mr Z.
  In addition to coming within the remit of Section 239 CA 2014, disclosure is also required of this transaction between the entities under Section 307/308 CA 2014. Section 33.2(b)(vii) FRS 102 would also require this as the company is controlled by the same persons.

Example 16:

Company A is owned 100% by Mr X (who is the sole appointed director) and Company B is owned 100% by Mr Y (who is the sole appointed director) an unconnected party of Mr X (when considering the definition in Section 220 of Companies Act 2014). Mr X and Mr Y are beneficial owners of the shares (i.e. they do not hold the shares in trust for anyone else).

The director of Company A, Mr X acts on the instructions of Mr Z and the director of Company B also acts on the instructions of Mr Z.

Company A provides a loan to Company B.

In this case, this loan does not come within the remit of Section 239 of Companies Act 2014 or within the disclosure requirements in Sections 307 to 309 of CA 2014 and Section 33 of FRS 102. The below provides the basis for this decision:

- Step 1 is to assess whether there is a common director/shadow/de facto director in each company. Although Mr Z is a shadow/de facto director of Company A and B as Mr X and Y act on the instructions of Mr Z and therefore meets the definition of a shadow/de facto director in Section 221 and 222 of Companies Act 2014. Section 33.6 of FRS 102 refers.
- As it has now been established that Mr Z is a shadow/de facto director of both companies, then there is a possibility that the prohibitions in Section 239 may apply. So one would need to move on to the step 2 to assess whether Mr Z owns 50% or more of the equity share capital or is entitled to exercise or control the exercise of 50% or more of the voting rights. In this example, Mr Z directly or indirectly does not own 50% or more of company B as Mr Y is the beneficial owner of the shares in Company B (Mr Y does not hold these as part of a trust agreement with Mr Z). Therefore under Section 220 of the Act, Company B is not deemed to be a connected person of Mr Z and therefore the rules in Section 239 of Companies Act 2014 do not apply.

  In relation to Section 33 of FRS 102, Section 33.4 of FRS 102 makes it clear that common directors or key management personnel in both entities alone, do not make them related parties.