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Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD
FOR COMMERCIAL ORGANISATIONS №25**

"Related party Disclosure"

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NASCO 25

Related party Disclosure

General Provisions

Purpose of Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 24 “Related Party Disclosure”

Objective

2. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. .

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in:
 - (a) identifying related party relationships and transactions;
 - (b) identifying outstanding balances between an entity and its related parties;
 - (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
 - (d) determining the disclosures to be made about those items.
6. This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor presented in accordance with NASCO 19 *Consolidated and Separate Financial Statements*.
7. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

Purpose of related party disclosures

8. Related party relationships are a normal feature of commerce and business frequently, although not exclusively, in the form of subsidiaries, joint ventures and associates. Such related party relationship could have an effect on the profit or loss and financial position of an entity by related parties entering into transactions that unrelated parties would not or by making transactions between related parties at amounts that are not the same as they would be between unrelated parties. In addition, the profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.
9. For these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Definitions

10. The following terms are used in this Standard with the meanings specified:

Related party A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in NASCO 20 *Investments in Associates*) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (see NASCO 21 *Interests in Joint Ventures*);
- (d) the party is a member of the key management personnel of the entity or its parent;

- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) dependants of the individual or the individual's domestic partner.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

- 11 In considering each possible related party relationship, the principle of the substance of the relationship takes precedent over the legal form.
- 12 In the context of this Standard, the following are not necessarily related parties:
- (a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.
 - (b) two venturers simply because they share joint control over a joint venture.
 - (i) providers of finance,
 - (ii) trade unions,
 - (iii) public utilities, and
 - (iv) government departments and agencies,
 simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
 - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosure

- 13 Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
- 14 The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in NASCOs 19, 20, and 21.
- 15 An entity shall disclose key management personnel compensation in total and for each of the following categories:
- (a) short-term employee benefits;
 - (b) post-employment benefits;
 - (c) other long-term benefits; and
 - (d) termination benefits;
- 16 If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 15 to disclose key management personnel compensation. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
 - (b) the amount of outstanding balances and:

- (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- 17 The disclosures required by paragraph 16 shall be made separately for each of the following categories:
- (a) the parent;
 - (b) entities with joint control or significant influence over the entity;
 - (c) subsidiaries;
 - (d) associates;
 - (e) joint ventures in which the entity is a venturer;
 - (f) key management personnel of the entity or its parent; and
 - (g) other related parties.
- 18 The following are examples of transactions that are disclosed if they are with a related party:
- (a) purchases or sales of goods (finished or unfinished);
 - (b) purchases or sales of property and other assets;
 - (c) rendering or receiving of services;
 - (d) leases;
 - (e) transfers of research and development;
 - (f) transfers under licence agreements;
 - (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
 - (h) provision of guarantees or collateral; and
 - (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.
- 19 Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
- 20 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Effective date

- 21 This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic

Appendix 1 - Comparison with IAS 24 Related Party Interests

This National Accounting Standard for Commercial Organisations (NASCO) 25 – Related Party Interests is drawn primarily from International Accounting Standard (IAS) 24 (2006) – Related Party Interests. The main differences between NASCO 25 and IAS 24 are as follows

- There are no significant differences between NASCO 25 and IAS 24
- The general provisions set out in paragraph 1 of the NASCO has been added and relates the Standard to the Accounting Law of the Republic of Azerbaijan
- Paragraphs 3 and 4 of the NASCO defines the scope of the organisations required to apply the Standard as set out in the Accounting Law of the Republic of Azerbaijan
- All explanations and examples in IAS 24 have been omitted in the NASCO in line with established policy
- Paragraphs in IAS 24 that refer to other IASs for which there is no comparable NASCO have been omitted.