

Accounting Standards Interpretation (ASI) 23¹

Remuneration paid to key management personnel – whether a related party transaction

Accounting Standard (AS) 18, Related Party Disclosures

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 15/2002, issued in October 2002, stands withdrawn.]

ISSUES

1. The issue is whether remuneration paid to key management personnel is a related party transaction. Another related issue is whether remuneration paid to non-executive directors on the Board of Directors is a related party transaction.

CONSENSUS

2. Remuneration paid to key management personnel should be considered as a related party transaction requiring disclosures under AS 18. In case non-executive directors on the Board of Directors are not related parties (see Accounting Standards Interpretation 21), remuneration paid to them should not be considered a related party transaction.

BASIS FOR CONCLUSIONS

3. AS 18 defines “related party transaction” as under:

“Related party transaction - a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.”

¹ Published in ‘The Chartered Accountant’, March 2004, pp. 966-967. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

Paragraph 24 of AS 18 provides as under:

“24. The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- purchases or sales of goods (finished or unfinished);
- purchases or sales of fixed assets;
- rendering or receiving of services;
- agency arrangements;
- leasing or hire purchase arrangements;
- transfer of research and development;
- licence agreements;
- finance (including loans and equity contributions in cash or in kind);
- guarantees and collaterals; and
- management contracts including for deputation of employees.”

As per the definition of the related party transaction, the transaction should be between related parties to qualify as a related party transaction.

Since key management personnel are related parties under AS 18, remuneration paid to key management personnel is a related party transaction requiring disclosures under AS 18. Further, in case non-executive directors on the Board of Directors are not related parties (see Accounting Standards Interpretation 21), remuneration paid to them is not considered a related party transaction.