

STRENGTH MATTERS® Financial Statement Disclosures Sample #7: Related Party Transactions

The seventh paper generated from the **STRENGTH MATTERS®** Financial Statement Disclosures Project **Lindquist, von Husen & Joyce LLP** led in 2014 (to read previous issues on *Restricted & Designated Net Assets*, *List of Affiliates*, *Notes Payable*, *Commitments & Contingencies*, *Investments and Property & Equipment* papers, [click here](#)), provides a suggested format for the disclosure of an organization's **related party transactions**.

A real estate developer's consolidated financial statement may not reflect any related party transactions when all inter-company transactions have been eliminated through the consolidation process. In many such cases, supplemental consolidating schedules provide enough information about the eliminated inter-company transactions that are displayed on each consolidated entity's column.

The disclosure format that we created with the help of lenders and CFOs from organizations across the nation reflects **the gross amount of related party transactions prior to eliminating entries, as well as the net amount after eliminations**. This format is suggested when related party transactions are a significant part of the parent company's financial statement. Lenders are interested in identifying revenue streams available to the parent company for debt service. Since supplemental consolidating schedules are not a required part of the financial statements, the note disclosure should reflect significant related party transactions affecting the parent company when this information isn't readily available elsewhere in the financial statements.

Here are some of the additional insights and suggestions included in the paper:

- Terms for paying significant balances due to or from related parties should be described so that readers understand the impact of such transactions on future cash flows for affected entities.
- Disclosure of the nature of relationships among related parties is generally included in the list of consolidated entities (Read a previous issue on the *List of Affiliates* [here](#)).
- Although only significant un-eliminated related party transactions are required to be disclosed, some judgment is needed to determine which other related party transactions are helpful to disclose. For example, payroll and overhead expense reimbursement charges or allocations among consolidated entities need not be disclosed.
- Major categories of related party revenue and receivables recognized by the parent company and similar corporate entities are likely to be of greatest interest to financial statement users.

Click [here](#) to download a copy of *Related Party Transactions* best practice paper on the Strength Matters website (www.strengthmatters.net). Subscription is required.



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