Accounting standard no 27 Interests in Joint Ventures

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Comparative international standards and highlights

- IAS 31
- Deals with
  - Accounting for interests in Joint ventures:
    - Joint ventures are not subsidiaries, nor associates, and hence, do not call for consolidation
- The scheme of standards is as follows:
  - Investments in subsidiaries:
    - Calls for consolidation
  - Investment in associates in consolidated financial statements
    - AS 23
  - Investment in associates in separate financial statements
    - AS 30
  - Investments in entities under joint control, in separate financial statements
    - AS 30
  - Investment in joint ventures
    - Dealt with by this standard depending on the type of joint venture
    - In separate financial statements:
      - Applying A 30
    - In consolidated financial statements
      - This standard AS 27
- Highlights:
  - Provides for meaning of joint venture, jointly controlled assets, jointly controlled operations, and so on
  - Provides for proportional consolidation

Scope

- Applies to interest in partnerships also
  - Partnership may not be a separate legal entity, but is a separate business entity
  - AS 27.24 clearly makes a mention of partnership too

Types of joint ventures

- 3 broad types
  - Jointly controlled operations
  - Jointly controlled assets
  - Jointly controlled entities
- All JVs have the following features
  - There is a contractual arrangement binding the venturers
    - This means existence of a binding contractual arrangement
    - Merely behavioral or habitual consultations among persons or say, factions of a family, does not mean JV
  - Contractual arrangement establishes joint control
- Joint ventures and significant influence
  - Lack of a contractual arrangement for common control may mean a significant influence
    - A having control over B is a significant influence
    - A and B jointly controlling an entity, operations or assets is a case of JV
- The jointly-controlled entity may even be the subsidiary of another entity; if by contractual arrangement, joint control has been ceded, it is still a JV for the person acquiring joint control [para 6]

Indicators of joint control

- Existence of some arrangement or understanding
  - Usually a written document, may be in form of minutes or agreement
    - Commonly, in case of companies, provisions in articles of association
  - Providing for joint control
  - While one person may be the operator, but single person does not have control over the entity
- 3 examples of joint ventures:
  - Jointly controlled operations – no separate entity, but each venturer using his own assets, finances etc to carry on joint operations
  - Jointly controlled assets – jointly owned assets
  - Jointly controlled entities
- The 3 types of JVs represent 3 degrees of entities coming together
  - Separate ownership of resources, only pooling of operations
  - Joint ownership of resources, no separate entity
  - Separate entity, controlled jointly
- The need for applying consolidation principles will depend on the type of JV it is

Jointly controlled operations

- Each venturer has his own assets and own finances
  - Each venturer also his liabilities
  - As the assets and liabilities pertaining to the venturer are already on the balance sheet, there is no need for any consolidation
- The share of assets controlled or liabilities incurred by the venturer are accounted for on the venturer books
- The expenses incurred and the share of income is taken as income of venturer
- No need for any consolidation
- No financial statements for the venture itself

Jointly controlled assets

- Jointly owned assets
  - No separate legal entity or partnership
  - Assets are jointly owned and used for common benefit
- Distinction between joint operations and joint ownership
  - In the last case, assets were separately owned, only used jointly
- As there are jointly owned assets/joint liabilities, question of computing shares of the venturer comes
- Hence, venturer will report
  - Its share in the assets
  - Liabilities separately incurred
  - Share in common liabilities
  - Share of income/expenses
  - Share of expenses
- Question of consolidation does not arise as there are no separate financial statements for the JV

Jointly controlled entities

- Meaning – a separate legal entity comes into existence, under joint control
- E.g,
  - Partnership, jointly controlled company,
- As there is a separate entity, there is need to prepare the statements of the venture itself
- Separate books of the venturer
  - Treated as investment as per AS 30
- Consolidated books of the venturer
  - Apply proportionate consolidation method

Proportionate consolidation method

- Where economic substance is that the venturer has a proportional interest in the assets/liabilities/income/expenses of the venture, that substance is best reflected in proportional consolidation
- To the extent of the interest of the venturer, the assets/liabilities/income/expenses of the JV are incorporated, using the same principles as in case of consolidation, in the books of the venturer
- Date of the Fin statements of the venture
  - Should usually be the same as that of the venturer
  - If not, should be prepared on that date
  - Where that is not practical, consolidation based on diff dates, with gap not exceeding 6 months, may be done, giving disclosure of significant changes that may have happened in meantime
- Largely uniform accounting policies
  - In case not practical to draw up accounting using similar accounting policies, disclosure of that fact
- No offsetting of assets against liabilities, unless a right of netting off exists in law
- Treatment of goodwill/ capital reserve
  - Same principle as in case of consolidation
  - Excess of proportional net assets over investment of the venturer – capital reserve
  - Vice versa, goodwill

Discontinuation of proportional consolidation

- Shall discontinue
  - If venturer ceases to have joint control
  - The use of consolidation is not appropriate because the JV suffers from long term restrictions on transfer of funds
- From the said date
  - Either a JV becomes a unilaterally controlled entity, that is subsidiary
  - Or ceases to be JV at all
- Accordingly, either
  - AS 21 is applied
  - Or AS 30 is applied
- From the date of cessation, the net assets of the JV, adjusted against goodwill/capital reserve, are treated as investment in the venture

Transactions between the venturer and the venture

- Upon sale of any individual asset to the JV, only proportional gain (that is, interest of other venturers) should be recognised by the venturer
  - Example: in a venture, A has 30% interest, others have the remaining 30%. A sells an asset, having carrying value of Rs 1000 for a price of Rs 1500.
- In separate financial statements, A would book a gain of Rs 500
- In consolidated financial statements, A would book a gain of only 70% of 500 – correspondingly, the value of the asset bought will stand reduced in consolidated statements
- If an asset is sold for a loss
  - If the loss represents impairment, it is booked fully
  - As a loss in separate accounting statements
  - As impairment in consolidated fin statements

disclosures

- List of all joint ventures, proportion of interest, name and country of incorporation etc
- In separate financial statements, the aggregate amounts of assets, liabilities, incomes, expenses pertaining to the venturer
- Contingent liabilities
  - Contingent liabilities pertaining to the JV
  - Share of contingent liabilities of the JV to which the venturer may be liable
  - Contingent liabilities, if any, for the liabilities of other joint venturers (say, in case of a partnership)
- Capital commitments
  - Capital commitments of the venturer
  - Share in capital commitments of the venturer