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IFRS Foundation: Training Material for the *IFRS® for SMEs*

Module 15 – Investments in Joint Ventures

IFRS Foundation: Training Material for the *IFRS® for SMEs*

including the full text of
Section 15 *Investments in Joint Ventures*
of the International Financial Reporting Standard (IFRS)
for Small and Medium-sized Entities (SMEs)
issued by the International Accounting Standards Board on 9 July 2009

with extensive explanations, self-assessment questions and case studies

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Module 15 – Investments in Joint Ventures

This training material has been prepared by IFRS Foundation education staff and has not been approved by the International Accounting Standards Board (IASB).
The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

INTRODUCTION

This module focuses on the accounting and reporting of investments in joint ventures in accordance with Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs*. It introduces the learner to the subject, guides the learner through the official text, develops the learner's understanding of the requirements through the use of examples and indicates significant judgements that are required in accounting for investments in joint ventures. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case studies to develop the learner's ability to account for investments in joint ventures in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the financial reporting requirements for investments in joint ventures in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, you should have enhanced your ability to account for investments in joint ventures in accordance with the *IFRS for SMEs*. In particular you should, in the context of the *IFRS for SMEs*, be able:

- to identify when an entity has joint control over a venture (ie when a joint venture exists)
- to differentiate among joint ventures taking the form of jointly controlled operations, jointly controlled assets and jointly controlled entities
- to determine assets, liabilities, income and expenses to be recognised in financial statements in respect of interests in jointly controlled operations and jointly controlled assets
- to measure investments in jointly controlled entities on initial recognition and subsequently
- to account for transactions between a venturer and a joint venture
- to present and disclose investments in joint ventures in financial statements
- to demonstrate an understanding of the significant judgements that are required in accounting for investments in joint ventures.

Module 15 – Investments in Joint Ventures

IFRS for SMEs

The *IFRS for SMEs* is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* includes mandatory requirements and other material (non-mandatory) that is published with it.

The material that is not mandatory includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* and explains its purpose, structure and authority.
- implementation guidance, which includes illustrative financial statements and a disclosure checklist.
- the Basis for Conclusions, which summarises the IASB's main considerations in reaching its conclusions in the *IFRS for SMEs*.
- the dissenting opinion of an IASB member who did not agree with the publication of the *IFRS for SMEs*.

In the *IFRS for SMEs* the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* there are appendices in Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* Those appendices are non-mandatory guidance.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. The objective of Section 15 *Investments in Joint Ventures* is to prescribe the financial reporting requirements for investments in joint ventures.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Joint ventures may take the form of:

(a) jointly controlled operations;

(b) jointly controlled assets; or

(c) jointly controlled entities.

The main issues that arise in relation to Section 15 are identification of jointly controlled operations, jointly controlled assets and jointly controlled entities and the measurement of investments in joint ventures.

Jointly controlled operations

In respect of its interests in jointly controlled operations, a venturer recognises in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

In respect of its interest in a jointly controlled asset, a venturer recognises in its financial statements:

- its share of the jointly controlled assets, classified according to the nature of the assets;
- any liabilities that it has incurred;
- its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- any expenses that it has incurred in respect of its interest in the joint venture.

Jointly controlled entities

Section 15 requires an entity to choose one of the following three models to account for its investments in jointly controlled entities:

(a) the cost model, in accordance with which the investment in a joint venture is measured at cost (including transaction costs) less any accumulated impairment losses. However, an investor using the cost model is required to use the fair value model for any investment in a jointly controlled entity for which a published price quotation exists.

(b) the equity method, in accordance with which the investments in a jointly controlled entity is initially recognised at the transaction price (including transaction costs) and adjusted thereafter for the post-acquisition change in the investor's share of profit or loss and other comprehensive income of the jointly controlled entity.

(c) the fair value model, in accordance with which the investment in a jointly controlled entity is initially recognised at the transaction price (excluding transaction costs). After initial recognition, at each reporting date, the investment in the jointly controlled entity is measured at fair value. Changes in fair value are recognised in profit or loss. However, an investor using the fair value model is required to use the cost model for any investment in a jointly controlled entity for which it is impracticable to measure fair value reliably without undue cost or effort.

An entity that uses the fair value model measures its investments in jointly controlled entities by using the procedures in paragraphs 11.27–11.32 of Section 11 *Basic Financial Instruments*. Furthermore, it makes the disclosures required by Section 11.

Paragraph 9.26 establishes the requirements for accounting for jointly controlled entities in separate financial statements, if such financial statements are prepared.

Module 15 – Investments in Joint Ventures

REQUIREMENTS AND EXAMPLES

The contents of Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* are set out below and shaded grey. Terms defined in the Glossary of the *IFRS for SMEs* are also part of the requirements. They are in **bold type** the first time they appear in the text of Section 15. The notes and examples inserted by the IFRS Foundation education staff are not shaded. Other annotations inserted by the IFRS Foundation staff are presented within square brackets in ***bold italics***. The insertions made by the staff do not form part of the *IFRS for SMEs* and have not been approved by the IASB.

Scope of this section

15.1 This section applies to accounting for **joint ventures** in **consolidated financial statements** and in the financial statements of an investor that is not a parent but that has a **venturer**'s interest in one or more joint ventures. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a joint venture in **separate financial statements**.

Notes

The requirements of Section 15 apply to accounting for investments in joint ventures regardless of whether an entity is required to prepare consolidated financial statements (see also paragraph 9.25).

Primary financial statements

If an entity has one or more subsidiaries, its 'primary' financial statements are its consolidated financial statements, unless the exemption in paragraph 9.3 applies. The primary financial statements of an entity that is not required to prepare consolidated financial statements are not separate financial statements.

When an entity has no subsidiaries (and therefore does not prepare consolidated financial statements) it must apply Section 15 to account for its investments in joint ventures in its 'primary' financial statements (see paragraph 9.25). Such an entity may then choose (or be required by the law in its jurisdiction) to prepare separate financial statements in addition to its primary financial statements.

Separate financial statements

The requirements for separate financial statements in Section 9 apply to the accounting for investments in a jointly controlled entity only when, in addition to consolidated financial statements, an entity prepares separate financial statements in accordance with paragraphs 9.24–9.27.

Separate financial statements are those financial statements prepared and presented

in addition to the entity's 'primary' financial statements. The *IFRS for SMEs* does not require an entity to prepare separate financial statements. However an entity may choose (or be required by law) to prepare separate financial statements in addition to its 'primary' financial statements.

Joint ventures defined

15.2 **Joint control** is the contractually agreed sharing of **control** over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

15.3 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or **jointly controlled entities**.

Notes

Joint ventures may take different forms and structures, however, they all share the following characteristics:

(a) a contractual arrangement exists between the parties involved in the venture; and

(b) the contractual arrangement establishes joint control.

In the absence of guidance in the *IFRS for SMEs* an entity is permitted (but is not required) to consider the guidance in full IFRSs. Following is a summary of the guidance in IAS 31 *Interests in Joint Ventures* (as issued at 9 July 2009) on the characteristics of joint ventures:

- The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:
  (a) the activity, duration and reporting obligations of the joint venture;
  (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
  (c) capital contributions by the venturers; and
  (d) the sharing by the venturers of the output, income, expenses or results of the joint venture.
- The contractual arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally.

Therefore, in evaluating whether an entity has joint control over a venture it must be ascertained:

- whether the entity and another party together have control[1] over the economic activity that is the subject of the venture; and
- whether the entity and that other party have contractually agreed to exercise joint control of the economic activity that is the subject of the venture.

Only if both characteristics are satisfied (ie existence of a contractual arrangement and joint control) is the venture a joint venture.

The contractual arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the economic activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

Example – not joint control

Ex 1 **Entities A, B, C, D and E (five unrelated entities) each own 20 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z. Strategic decisions in entity Z require approval by investors holding a simple majority (ie more than 50 per cent) of the voting power.**

No single investor controls entity Z. Neither do entities A–E have joint control over entity Z. For joint control to exist the contractual arrangements would require unanimous consent between those investors sharing joint control. However, the contractual arrangement allows agreement of any combination of three of the five investors to make strategic decisions. Accordingly, no fixed combination of investors have joint control over entity Z.

In the absence of evidence to the contrary, the investors (entities A–E) are required to account for their investments in entity Z in accordance with Section 14 *Investments in Associates*.

If any investor does not have significant influence over entity Z, then it would account for its investment in entity Z in accordance with Section 11 *Basic Financial Instruments*.

Examples – joint control

Ex 2 **The facts are the same as in example 1. However, in this example, entities A, B and C have contractually agreed to exercise joint control of entity Z.**

Entities A, B and C have joint control over entity Z—it is a joint venture (jointly controlled entity). Entities A, B and C are required to account for their investments in entity Z in accordance with paragraphs 15.8–15.17 and 15.19–15.21.

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[1] The Significant Estimates and Other Judgements section of Module 9 *Consolidated and Separate Financial Statements* of this training material describes the judgements that need to be made in assessing whether control exists.

Ex 3 **Entities A and B (two unrelated entities) each own 50 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z. Strategic decisions in entity Z require approval by investors holding a simple majority (ie more than 50 per cent) of the voting power.**

Provided that entities A and B have entered into a contractual arrangement that establishes their joint control of entity Z, it is a joint venture (jointly controlled entity). Entities A and B are required to account for their investments in entity Z in accordance with paragraphs 15.8–15.17 and 15.19–15.21.

Ex 4 **Entities A and B own 55 per cent and 10 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z. Strategic decisions in entity Z require approval by investors holding more than 60 per cent of the voting power.**

Provided that entities A and B have entered into a contractual arrangement that establishes their joint control of entity Z, it is a joint venture (jointly controlled entity). Entities A and B are required to account for their investments in entity Z in accordance with paragraphs 15.8–15.17 and 15.19–15.21.

Ex 5 **Entities A and B own 75 per cent and 25 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z. Strategic decisions in entity Z require the unanimous consent of entities A and B.**

Provided that entities A and B have entered into a contractual arrangement that establishes their joint control of entity Z, it is a joint venture (jointly controlled entity). Entities A and B are required to account for their investments in entity Z in accordance with paragraphs 15.8–15.17 and 15.19–15.21.

Jointly controlled operations

15.4 The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Examples – jointly controlled operation

Ex 6 **Entity A researches and develops drugs. Entity B manufactures drugs and promotes them commercially. Entities A and B enter into a contractual arrangement whereby they equally participate in the results of research and development and the commercial promotion of a particular drug that is yet to be invented.**
In accordance with the contractual arrangement entity A undertakes the research and development activities and entity B undertakes the manufacturing and

commercial activities. The entities share all costs and revenues arising from the jointly controlled operation.

Entities A and B have joint control over the specified research, development, manufacturing and commercial activities—it is a joint venture (jointly controlled operation). Each venturer (ie entities A and B) is required to account for its interest in the jointly controlled operation in accordance with paragraphs 15.4, 15.5, 15.16, 15.17 and 15.19.

Ex 7 **Entities A and B enter into a contractual arrangement whereby they combine their operations, resources and expertise to manufacture, market and distribute aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.**

Entities A and B have joint control over the aircraft manufacturing operations—it is a joint venture (jointly controlled operation). Each venturer (ie entities A and B)is required to account for its interest in the jointly controlled operation in accordance with paragraphs 15.4, 15.5, 15.16, 15.17 and 15.19.

15.5 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs, and

(b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Example – accounting for a jointly controlled operation

Ex 8 **Because the scale of the project exceeded the capacity of entities A and B individually, they tendered jointly for a public contract with a government to construct a motorway between two cities. Following the tender process the government awarded the contract jointly to entities A and B.**

In accordance with the contractual arrangements entities A and B are jointly contracted with the government for delivery of the motorway in return for CU14 million[2] (a fixed price contract).

In 20X1, in accordance with the agreement between entities A and B:

- **entities A and B each used their own equipment and employees in the construction activity**
- **entity A constructed three bridges needed to cross rivers on the route at a cost of CU4 million**
- **entity B constructed all of the other elements of the motorway at a cost of CU6 million.**

[2] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

- **entities A and B shared equally in the CU14 million jointly invoiced to (and received from) the government.**

The arrangement is a jointly controlled operation. Entities A and B have retained control of the assets they use to perform the contract requirements and are responsible for their respective liabilities. They meet their respective contractual obligations by providing construction services to the government.

Entities A and B recognise in their financial statements their own property, plant and equipment and operating assets and their share of any liabilities resulting from the joint arrangement (such as performance guarantees). They also recognise the income and expenses associated with providing construction services to the government.

The venturers account for their interests in the joint venture (jointly controlled operation) as follows:

Entity A—in 20X1

Dr	Profit or loss (construction costs)	CU4,000,000	
	Cr Cash/Accumulated depreciation/Trade payables		CU4,000,000

To recognise the construction costs incurred in 20X1.

Dr	Cash	CU7,000,000	
	Cr Profit or loss (construction revenue)		CU7,000,000

To recognise the construction revenue earned in 20X1.

Entity B—in 20X1

Dr	Profit or loss (construction costs)	CU6,000,000	
	Cr Cash/Accumulated depreciation/Trade payables		CU6,000,000

To recognise the construction costs incurred in 20X1.

Dr	Cash	CU7,000,000	
	Cr Profit or loss (construction revenue)		CU7,000,000

To recognise the construction revenue earned in 20X1.

Jointly controlled assets

15.6 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.

Example—jointly controlled asset

Ex 9 **Entities A and B are independent oil production companies. They enter into a contractual arrangement to control and operate an oil pipeline jointly. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expense of operating the pipeline.**

The two entities A and B have joint control over the oil pipeline—it is a joint venture (jointly controlled asset). Each venturer (ie entities A and B) is required to account for its interest in the jointly controlled pipeline in accordance with paragraphs 15.6, 15.7, 15.16, 15.17 and 15.19.

15.7 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture.

Example – accounting for a jointly controlled asset

Ex 10 **On 1 January 20X1 entities A, B, C, D and E (the venturers) jointly buy a jet aircraft for CU10 million cash. The venturers are the registered as equal joint owners of the aircraft. They enter into an agreement whereby the aircraft is at the disposal of each venturer for 70 days each year. The aircraft is in maintenance for the remaining days each year. The venturers may decide to use the aircraft, or, for example, lease it to a third party.**

Decisions regarding maintenance and disposal of the aircraft require the unanimous consent of the venturers.

The contractual arrangement is for the expected life (20 years) of the aircraft and can be changed only if all of the venturers agree. The residual value of the aircraft is nil.

In 20X1 the venturers each paid CU100,000 to meet the joint costs of maintaining the aircraft (eg hangar rental and aviation licence fees).

In 20X1 each venturer also incurred costs of running the aircraft when they made use of the aircraft (eg entity A incurred costs of CU50,000 on pilot fees, aviation fuel and landing costs). In 20X1 entity A also earned rental income of CU10,000 by renting the aircraft to others.

The jet aircraft is a jointly controlled asset. The joint venture is a way to share the costs of having access to an aircraft. Each venturer owns a share of the aircraft and benefits from having the aircraft at its disposal for some days each year. Each venturer would

recognise its interest in the jointly controlled asset in accordance with paragraph 15.7. For example, in 20X1 entity A would record its interest as follows:

1 January 20X1

Dr	Property, plant and equipment (interest in an aircraft)	CU2,000,000	
	Cr Cash		CU2,000,000

To recognise the purchase of an ownership-interest in a jointly controlled aircraft.

In 20X1

Dr	Cash	CU10,000	
	Cr Profit or loss (rental income)		CU10,000

To recognise income earned in renting to others the use of the aircraft in 20X1.

Dr	Profit or loss (aircraft operating expenses)	CU150,000	
	Cr Cash		CU150,000

To recognise the costs of running an aircraft in 20X1.

Dr	Profit or loss (depreciation expense)	CU100,000	
	Cr Accumulated depreciation (interest in an aircraft)		CU100,000

To recognise depreciation of an ownership-interest in a jointly controlled aircraft in 20X1.

Jointly controlled entities

15.8 A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Measurement—accounting policy election

15.9 A venturer shall account for all of its interests in jointly controlled entities using one of the following:

(a) the cost model in paragraph 15.10.

(b) the equity method in paragraph 15.13.

(c) the **fair value** model in paragraph 15.14.

Cost model

15.10 A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of Assets*. *[Refer: paragraphs 27.5–27.20]*

15.11 The investor shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.

15.12 A venturer shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).

Notes

No published price quotation

An investor that has elected the cost model (see paragraph 15.9(a)) accounts for its investments in jointly controlled entities for which there is no published price quotation using the cost-impairment model. At each reporting date, in accordance with Section 27 *Impairment of Assets* the investor must consider whether there are indicators of impairment for such investments (see paragraphs 27.7–27.9 and 27.29) and, if present, must perform an impairment test (see paragraphs 27.7 and 27.11–27.20). If an investment is found to be impaired (or a prior period impairment is found to have reversed), the entity will recognise an impairment loss (or a reversal of an impairment loss) in profit or loss (see paragraphs 27.6 and 27.30).

Published price quotation

An investor that has elected the cost model (see paragraph 15.9(a)) accounts for its investments in jointly controlled entities for which there is a published price quotation using the fair value model. This is so even when the jointly controlled entity's shares are traded infrequently. Investments carried at fair value are not tested for impairment.

Examples – cost model

The facts in examples 11–16 are the same as in examples 17–22 (equity method) and examples 26–32 (fair value model). However, in examples 11–16 investments in jointly controlled entities are accounted for using the cost model.

Ex 11 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z. For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000.**

On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturers' investment in entity Z is CU425,000. However, there is no published price quotation for entity Z.

Entities A and B (the venturers) must each recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 the venturers must report their investments in entity Z (a jointly controlled entity) at CU300,000 (ie cost). Each venturer must also consider whether

there are any indicators that its investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case there would not be any impairment loss because the fair value (CU425,000) less costs to sell of the investment exceeds its carrying amount (CU300,000).

Ex 12 **The facts are the same as in example 11. However, in this example, on 2 January 20X1 entity Z also declared a dividend of CU100,000 for the year 20X0 and at 31 December 20X1 the fair value of each venturer's investment in entity Z is CU400,000.**

In accordance with paragraph 15.11, the venturers must, without regard to whether the distributions are from Z's accumulated profits arising before or after 1 January 20X1, each recognise dividend income of CU75,000 in profit or loss for the year ended 31 December 20X1 (calculation: 30% × CU100,000 dividend declared on 2 January plus 30% × CU150,000 dividend declared on 31 December).

At 31 December 20X1 each venturer must report its investment in entity Z (a jointly controlled entity) at CU300,000 (ie cost).

The payment of the dividend out of pre-acquisition profits on 2 January 20X1 could be an impairment indicator that, in accordance with Section 27 *Impairment of Assets*, could trigger an impairment test at 31 December 20X1. In this case there would not be any impairment loss because the fair value (CU400,000) less costs to sell of the investment exceeds its carrying amount (CU300,000).

Ex 13 **The facts are the same as in example 11. However, in this example, there is a published price quotation for entity Z.**

The venturers each recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z) and the increase in the fair value of its investment in entity Z of CU125,000 in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 the venturers must each report its investment in entity Z (a jointly controlled entity) at CU425,000 (ie fair value).

Note: Even though the venturers each elected the cost model as its accounting policy for investments in jointly controlled entities they account for their investments in entity Z using the fair value model because entity Z has a published price quotation.

Ex 14 **On 1 March 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

On 31 December 20X1 entity Z declared a dividend of CU100,000 for the year 20X1. Entity Z reported a profit of CU80,000 for the year ended 31 December 20X1. At 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU290,000 (calculation: fair value CU293,000 less costs to sell CU3,000). There is no published price quotation for entity Z.

Entities A and B must each recognise dividend income of CU30,000 in profit or loss (ie 30% × CU100,000 dividend declared by entity Z).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU290,000 (ie cost less accumulated impairment).

The payment of the dividend partly out of pre-acquisition profits on 1 March 20X1 could be an impairment indicator that, in accordance with Section 27 *Impairment of Assets*, could trigger an impairment test at 31 December 20X1. At 31 December 20X1 the carrying amount is therefore reduced to CU290,000 (ie the lower of its recoverable amount and its carrying amount before impairment (ie CU300,000 cost)). Each venturer recognises the impairment loss of CU10,000 in profit or loss for the year ended 31 December 20X1.

Ex 15 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

Entity Z incurred a loss of CU100,000 for the year ended 31 December 20X1 and it did not declare a dividend. Furthermore, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU310,000 (calculation: CU325,000 fair value less CU15,000 estimated costs to sell). There is no published price quotation for entity Z.

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU300,000. Entity Z has no effect on the venturers' profit or loss for the year ended 31 December 20X1, because entity Z did not declare any dividends and the venturers' investments in entity Z are not impaired at 31 December 20X1 (ie the carrying amount (CU300,000) is lower than the recoverable amount (CU310,000)).

Ex 16 **The facts are the same as in example 15. However, in this example, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU265,000 (calculation: CU275,000 fair value less CU10,000 estimated costs to sell).**

Entities A and B must each recognise an impairment loss of CU35,000 in profit or loss for the year ended 31 December 20X1 (ie CU300,000 cost less CU265,000 recoverable amount).

At 31 December 20X1 entity A must report its investment in entity Z (a jointly controlled entity) at CU265,000 (see Section 27).

Equity method

15.13 A venturer shall measure its investments in jointly controlled entities by the equity method using the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Examples – equity method

The facts in examples 17–22 are the same as in examples 11–16 (cost model) and examples 26–32 (fair value model). However, in examples 17–22 investments in jointly controlled entities are accounted for using the equity method.

Ex 17 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000.[3] Entities A and B immediately agreed to share control over entity Z.**

For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000. On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in entity Z is CU425,000. However, there is no published price quotation for entity Z.

Entities A and B must recognise CU120,000 as their share of entity Z's income (ie 30% × CU400,000 entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU375,000 (calculation: CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). The venturers must also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case there would not be any impairment loss because the fair value (CU425,000) less costs to sell of the investment exceeds its carrying amount (CU375,000).

Ex 18 **The facts are the same as in example 17. However, in this example, on 2 January 20X1 entity Z also declared a dividend of CU100,000 for the year 20X0 and at 31 December 20X1 the fair value of each venturer's investment in entity Z is CU400,000.**

Entities A and B must each recognise their share of entity Z's income of CU120,000 (ie 30% × CU400,000 entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU345,000 (calculation: CU300,000 cost + CU120,000 share of earnings less CU30,000 dividend less CU45,000 dividend). The venturers must also conduct an impairment test in accordance with Section 27 *Impairment of Assets*. The payment of the dividend out of pre-acquisition profits on 2 January 20X1 would likely be an impairment indicator that, in accordance with Section 27 would trigger an impairment test at 31 December 20X1 (ie at 31 December 20X1 entities A and B must each calculate the recoverable amount of their investment in entity Z. And, if the recoverable amount is lower than the carrying amount, reduce the carrying amount to the recoverable amount). In this case there would not be any impairment because the fair value (CU400,000) less costs to sell of the investment would exceed its carrying amount (CU345,000).

[3] In examples 17–24 it is assumed that there is no implicit goodwill and no fair value adjustments. Example 25 illustrates implicit goodwill and fair value adjustments.

Ex 19 **The facts are the same as in example 17. However, in this example, there is a published price quotation for entity Z.**

Entities A and B must each recognise their share of entity Z's income of CU120,000 (ie 30% × CU400,000 entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU375,000 (calculation: CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). The venturers must also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case there would not be any impairment because the fair value (CU425,000) less costs to sell of the investment would exceed its carrying amount (CU375,000).[4]

Ex 20 **On 1 March 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

On 31 December 20X1 entity Z declared a dividend of CU100,000 for the year 20X1. Entity Z reported a profit of CU80,000 for the year ended 31 December 20X1. At 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU290,000 (calculation: fair value CU293,000 less costs to sell CU3,000). There is no published price quotation for entity Z.

Assuming that entity Z earned its profit evenly through the year, each venturer must recognise its share of entity Z's income of CU20,000 in profit or loss (ie 30% × CU66,667 profit earned by entity Z for the 10-month period ended 31 December 20X1).

At 31 December 20X1 entities A and B must each report its investment in entity Z (a jointly controlled entity) at CU290,000 (calculation: CU300,000 cost + CU20,000 share of jointly controlled entity's profit less CU30,000 dividend).

The payment of the dividend out of pre-acquisition profits on 1 March 20X1 could be an impairment indicator that, in accordance with Section 27 *Impairment of Assets*, could trigger an impairment test at 31 December 20X1. In this case there would not be any impairment because the recoverable amount (CU290,000) of the investment equals its carrying amount (CU290,000).

Ex 21 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

Entity Z incurred a loss of CU100,000 for the year ended 31 December 20X1 and it did not declare a dividend. Furthermore, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU310,000 (calculation: CU325,000 fair value less CU15,000 estimated costs to sell). There is no published price quotation for entity Z.

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[4] Note: Other than to the extent that fair value is relevant to impairment testing in accordance with Section 27 *Impairment of Assets* market price is not used in accounting for investments using the equity method.

Entities A and B must each recognise their share of the losses of the jointly controlled entity of CU30,000 in profit or loss (ie 30% × CU100,000 loss incurred by entity Z for the year ended 31 December 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at CU270,000 (calculation: CU300,000 cost less CU30,000 share of jointly controlled entity's loss).

The venturer's investments in entity Z are not impaired at 31 December 20X1 (ie the carrying amount of each venturer's investment (CU270,000) is lower than its recoverable amount (CU310,000)).

Ex 22 **The facts are the same as in example 21. However, in this example, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU265,000 (calculation: CU275,000 fair value less CU10,000 estimated costs to sell).**

Entities A and B must each recognise their share of the losses of the jointly controlled entity of CU30,000 (ie 30% × CU100,000 loss incurred by entity Z for the year ended 31 December 20X1) and an impairment of their investments in the joint venture of CU5,000 (calculation: CU300,000 cost less CU30,000 share of joint venture's losses = CU270,000 carrying amount before impairment. CU270,000 less CU265,000 recoverable amount = CU5,000 impairment loss) respectively in profit or loss.

At 31 December 20X1 entities A and B must each report its investment in entity Z (a joint venture) at CU265,000 (calculation: CU300,000 cost less CU30,000 share of joint venture's loss less CU5,000 accumulated impairment loss).

Ex 23 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU100,000. The purchase price is equal to the fair value of 30 per cent of entity Z's identifiable assets less 30 per cent of its identifiable liabilities.**

Entities A and B immediately agreed to share control over entity Z.

For the year ended 31 December 20X1 entity Z recognised a loss of CU600,000. Entities A and B have no constructive or legal obligation in respect of their jointly controlled entity's loss and have made no payments on its behalf.

Entity Z recognised profit for the year ended 31 December 20X2 of CU800,000.

There is no published price quotation for entity Z.

20X1

Entities A and B must each recognise CU100,000 loss from their jointly controlled entity in profit or loss for the year ended 31 December 20X1 (ie 30% × CU600,000 entity Z's loss for the year = CU180,000. However, the entity limits the loss recognised to its CU100,000 investment in the jointly controlled entity in accordance with paragraph 14.8(h)).

At 31 December 20X1 each venturer must measure its investment in the joint venture (entity Z) at CU0 (calculation: CU100,000 cost less CU100,000 share of losses). Hence in 20X1 each venturer does not recognise CU80,000 of its share of entity Z's losses.

20X2

Entities A and B must each recognise CU160,000 as its share of the jointly controlled entity's earnings in profit or loss for the year ended 20X2 (ie 30% × CU800,000 entity Z's profit for the year = CU240,000 share of joint venture's profit. CU240,000 share of joint venture's profit less CU80,000 loss not recognised in 20X1).

At 31 December 20X2 entities A and B must each measure their investment in their joint venture (entity Z) at CU160,000 (calculation: CU100,000 cost less CU100,000 share of losses recognised in 20X1 + CU160,000 share of profit recognised in 20X2).

Ex 24 **The facts are the same as in example 17. However, in this example, on 31 December 20X1 entities A and B lost joint control over entity Z when entity A reduced its shareholding in entity Z to 15 per cent by selling half of its shares in entity Z to an independent third party for CU212,500. Transaction costs of CU5,000 were incurred in selling the shares.**

Entity A must recognise in profit or loss for the year ended 31 December 20X1:

- income from its joint venture of CU120,000 (ie 30% × CU400,000 entity Z's profit for the year = CU120,000).
- a gain on derecognition of an investment in jointly controlled entities of CU45,000 (calculation: (CU212,500 proceeds from sale of shares less CU5,000 transactions costs + CU212,500 fair value of the retained interest) less CU375,000 carrying amount of investment in entity Z when significant influence was lost). To account for this transaction, entity A recognises the following journal entry:

Dr	Cash	CU207,500[(a)]	
Dr	Financial instrument—equity investment (shares of entity B)	CU212,500[(b)]	
	Cr Investment in joint venture (entity B)		CU375,000[(c)]
	Cr Profit or loss		CU45,000

To recognise the gain on derecognition of investment in joint venture (entity B).

(a) CU212,500 proceeds from sale of shares less CU5,000 transaction costs incurred.

(b) The fair value of the retained interest in entity B.

(c) The carrying amount of investment in joint venture derecognised (calculation: CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend).

At 31 December 20X1, in accordance with Section 11 *Basic Financial Instruments*, entity A must classify its investment in entity Z as a financial asset and in accordance with paragraph 14.8(i)(ii) measure its investment in entity Z at CU212,500 (ie fair value on the date when joint control was lost). Thereafter, entity A would account for its investment in entity Z in accordance with paragraph 11.14(c)).

Entity B must recognise in profit or loss for the year ended 31 December 20X1 income from its joint venture of CU120,000 (ie 30% × CU400,000 entity Z's profit for the year).

At 31 December 20X1, in the absence of evidence to the contrary, it is presumed that entity B has significant influence over entity Z (see paragraph 14.3). Therefore, entity B

must account for its investment in entity Z as an investment in an associate in accordance with Section 14 *Investments in Associates*. In accordance with paragraph 14.8(i)(iii), on 31 December 20X1 entity B measures its investment in its associate (entity Z) at CU375,000 (ie carrying amount on the date that joint control was lost). Thereafter, entity B would account for its investment in entity Z in accordance with the model that it uses to account for its investments in associates (see paragraph 14.4).

Ex 25 **The facts are the same as in example 17. However, in this example, on 1 January 20X1 each venturer's share of the fair values of the net identifiable assets of entity Z is CU280,000 and the fair value of one of entity Z's assets (a machine) exceeded its carrying amount (in entity Z's statement of financial position) by CU50,000. That machine is depreciated on the straight-line method to a nil residual value over its remaining five-year useful life.**

Entities A and B estimated the useful life of the implicit goodwill as five years.

Entities A and B must recognise income from their jointly controlled entity of CU113,000 in profit or loss for the year ended 31 December 20X1 (ie 30% × CU400,000 entity Z's profit for the year less CU4,000 amortisation of implicit goodwill (calculation: CU300,000 cost of acquisition less CU280,000 share of the fair values of the net identifiable assets = CU20,000 implicit goodwill. CU20,000 implicit goodwill ÷ 5-year useful life = CU4,000 amortisation expense) less 30% × CU10,000 depreciation adjustment (calculation: CU50,000 'additional' cost of machine ÷ 5-year useful life = CU10,000 depreciation)).[5]

At 31 December 20X1 the venturers must each report their investment in entity Z (a jointly controlled entity) at CU368,000 (calculation: CU300,000 cost + CU113,000 share of earnings less CU45,000 dividend). Entities A and B must also consider whether there are any indicators that the investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*.

Fair value model

15.14 When an investment in a jointly controlled entity is recognised initially, a venturer shall measure it at transaction price. Transaction price excludes transaction costs.

15.15 At each **reporting date**, a venturer shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in profit or loss, using the fair valuation guidance in paragraphs 11.27–11.32. A venturer using the fair value model shall use the cost model for any investment in a jointly controlled entity for which it is impracticable to measure fair value reliably without undue cost or effort.

[5] In this example the tax effects of the fair value adjustments and implicit goodwill have been ignored.

Examples – fair value model

The facts in examples 26–32 are the same as in examples 11–16 (cost model) and examples 17–22 (equity method). However, in examples 26–32 investments in jointly controlled entities are accounted for using the fair value model.

Ex 26 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000. On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in entity Z is CU425,000. However, there is no published price quotation for entity Z.

In determining profit or loss for the year ended 31 December 20X1 entities A and B must each:

- recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z);[6] and
- recognise the increase in the fair value of its investment in entity Z of CU125,000 (ie CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU425,000.

Ex 27 **The facts are the same as in example 26. However, in this example, on 2 January 20X1 entity Z also declared a dividend of CU100,000 for the year 20X0 and at 31 December 20X1 the fair value of each venturer's investment in entity Z is CU400,000.**

In determining profit or loss for the year ended 31 December 20X1 entities A and B must each recognise:

- dividend income of CU75,000 (ie CU30,000 from the first distribution + CU45,000 from the second distribution); and
- an increase in fair value of CU100,000 of its investment in entity Z (ie CU400,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU400,000.

Ex 28 **The facts are the same as in example 26. However, in this example, there is a published price quotation for entity Z.**

In determining profit or loss for the year ended 31 December 20X1 entity A and B must:

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[6] In this example, and in all other examples in this module in which a venturer accounts for its interests in jointly controlled entities using the fair value model, the venturer recognises a dividend from its jointly controlled entity in profit or loss when its right to receive the dividend is established.

- recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z); and
- recognise the increase in the fair value of its investment in entity Z of CU125,000 (ie CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU425,000.

Ex 29 **On 1 March 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

On 31 December 20X1 entity Z declared a dividend of CU100,000 for the year 20X1. Entity Z reported a profit of CU80,000 for the year ended 31 December 20X1. At 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU290,000 (calculation: fair value CU293,000 less costs to sell CU3,000). There is no published price quotation for entity Z.

In determining profit or loss for the year ended 31 December 20X1 entities A and B must each:

- recognise dividend income of CU30,000 (ie 30% × CU100,000 dividend declared by entity Z); and
- recognise the decrease in the fair value of their investment in entity Z as an expense of CU7,000 (ie CU293,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU293,000.

Note: Investments in jointly controlled entities that are carried using the fair value model are not tested for impairment. Accordingly the CU3,000 estimated costs to sell are not deducted in determining the investment's fair value.

Ex 30 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000. Entities A and B immediately agreed to share control over entity Z.**

Entity Z incurred a loss of CU100,000 for the year ended 31 December 20X1 and it did not declare a dividend. Furthermore, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU310,000 (calculation: CU325,000 fair value less CU15,000 estimated costs to sell). There is no published price quotation for entity Z.

In determining profit or loss for the year ended 31 December 20X1 entities A and B must each recognise income of CU25,000 for the increase in the fair value of its investment in entity Z (ie CU325,000 fair value at 31 December 20X1 less CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU325,000 (note: unlike when determining

recoverable amount, costs to sell are not deducted from fair value when using the fair value model).

Ex 31 **The facts are the same as in example 30. However, in this example, at 31 December 20X1 the recoverable amount of each venturer's investment in entity Z is CU265,000 (calculation: CU275,000 fair value less CU10,000 estimated costs to sell).**

In determining profit or loss for the year ended 31 December 20X1 entities A and B must each recognise an expense of CU25,000 for the decrease in the fair value of its investment in entity Z (ie CU275,000 fair value at 31 December 20X1 less CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in entity Z (a jointly controlled entity) at its fair value of CU275,000.[7]

Ex 32 **The facts are the same as in example 26. However, in this example, it was impracticable to determine the fair value of the investment in entity Z without undue cost or effort.**

Entities A and B must each recognise dividend income of CU45,000 (ie 30% × CU150,000 dividend declared by entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report their investment in entity Z (a joint venture) at CU300,000 (ie cost). Entities A and B must also consider whether there are any indicators that their investments are impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*. In this case it is unlikely that the profitable jointly controlled entities would be impaired.

Note: Even though entities A and B elected the fair value model as their accounting policy for investments in jointly controlled entities they account for their investment in entity Z using the cost model because it is impracticable to determine the fair value of their investment in entity Z without undue cost and effort.

Transactions between a venturer and a joint venture

15.16 When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

[7] Note: unlike when determining recoverable amount when using the cost model (see Section 27 *Impairment of Assets*), costs to sell are not deducted from fair value when using the fair value model.

Notes

When a venturer sells to its joint venture the transaction is sometimes called a downstream transaction.

Example – venturer contributes an asset to its jointly controlled entity

Ex 33 **On 1 January 20X1 entities A and B (the venturers) form a joint venture (entity Z). Upon incorporation of entity Z, entities A and B each take up 50 per cent of the share capital of entity Z. In return for their interests in entity Z entities A and B each contribute CU100,000 to entity Z. Entity A contributes a machine with a fair value of CU100,000 and a carrying amount of CU80,000. Entity B's contribution is CU100,000 cash.**

The machine contributed by entity A has an estimated useful life of 10 years with nil residual value.

Entity Z's profit for the year ended 31 December 20X1 is CU30,000 (after deducting depreciation expense of CU10,000 on the machine contributed by entity A).

Entity A accounts for jointly controlled entities using the equity method.

Entity A's journal entries for the year ended 31 December 20X1:[8]

1 January 20X1

Dr	Investment in jointly controlled entity	CU90,000[a]	
	Cr Property, plant and equipment		CU80,000
	Cr Profit or loss (realised gain on contributing machine to a jointly controlled entity)		CU10,000

To recognise the formation of a jointly controlled entity by contributing a machine to the joint venture.

For the year ended 31 December 20X1

Dr	Investment in jointly controlled entity	CU15,000	
	Cr Profit or loss (share of jointly controlled entities profit)		CU15,000

To recognise the entity's share (50%) of the jointly controlled entity's profits.

Dr	Investment in jointly controlled entity	CU1,000[b]	
	Cr Profit or loss (realisation of gain on machine contributed to a jointly controlled entity)		CU1,000

To recognise the realisation of the machine contributed by the entity to the jointly controlled entity.

(a) CU80,000 carrying amount of machine contributed to the jointly controlled entity + CU10,000 gain realised from the other venturer on contributing the machine to the jointly controlled entity = CU90,000.

(b) CU10,000 unrealised profit on contribution of machine to jointly controlled entity ÷ 10 years = CU1,000 realised in 20X1.

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[8] In this example the tax effects of the unrealised profit in respect of the asset contributed by the venturer to its jointly controlled entity have been ignored.

Example—venturer sells an asset to its jointly controlled entity

Ex 34 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000.[9] Entities A and B immediately agreed to share control over entity Z.**

For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000. On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturers' investment in entity Z is CU425,000. However, there is no published price quotation for entity Z.

On 31 December 20X1 entity A sells goods for CU60,000 to entity Z. At 31 December 20X1 the goods purchased from entity A were in entity Z's inventories (ie they had not been sold by entity Z). Entity A sells goods at a 50 per cent mark-up on cost.

Entities A and B account for jointly controlled entities using the equity method.

Entity A

Entity A must recognise income from its jointly controlled entity of CU120,000 (ie 30% × CU400,000 entity Z's profit for the year).

At 31 December 20X1 entity A would report its investment in entity Z (a joint venture) at CU369,000 (calculation: CU300,000 cost + CU120,000 share of earnings from joint venture less CU6,000 (ie 30% × CU20,000[10], [11] elimination of the unrealised profit) less CU45,000 dividend). Entity A must also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*.

Entity A must also eliminate the unrealised profit from its profit for the year. This could be achieved by eliminating CU18,000 from its sales (ie 30% × CU60,000) and CU12,000 from its cost of goods sold (ie 30% × CU40,000) for the year ended 31 December 20X1.

Entity B

Entity B must recognise CU120,000 as its share of entity Z's income (ie 30% × CU400,000 entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 entity B would report its investment in entity Z (a jointly controlled entity) at CU375,000 (calculation: CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). Entity B would also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*.

15.17 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from

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[9] In this example it is assumed that there is no implicit goodwill and no fair value adjustments.

[10] Unrealised profit = CU20,000 (calculation: 50% ÷ 150% × CU60,000 inventory held by entity Z).

[11] In this example the tax effects of eliminating the unrealised profit have been ignored.

these transactions in the same way as profits except that losses shall be recognised immediately when they represent an **impairment loss**.

Notes

When a joint venture sells to a venturer the transaction is sometimes called an upstream transaction.

Example – venturer buys an asset from its jointly controlled entity

Ex 35 **On 1 January 20X1 entities A and B each acquired 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z for CU300,000.[12] Entities A and B immediately agreed to share control over entity Z.**

For the year ended 31 December 20X1 entity Z recognised a profit of CU400,000. On 30 December 20X1 entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in entity Z is CU425,000. However, there is no published price quotation for entity Z.

In 20X1 entity A purchased goods for CU100,000 from entity Z. At 31 December 20X1 CU60,000 of the goods purchased from entity Z were in entity A's inventories (ie they had not been sold by entity A). Entity Z sells goods at a 50 per cent mark-up on cost.

Entities A and B account for jointly controlled entities using the equity method.

Entity A

Entity A must recognise income from its jointly controlled entity of CU114,000 (ie 30% × CU400,000 entity Z's profit for the year = CU120,000. CU120,000 less 30% × CU20,000[13],[14] unrealised profit = CU114,000) in profit or loss for the year ended 31 December 20X1.

In this example it is assumed that entity A follows an accounting policy of eliminating the unrealised profits from upstream transactions with its jointly controlled entity against the carrying amount of its investment in the jointly controlled entity.[15]
At 31 December 20X1 entity A would report its investment in entity Z (a joint venture) at CU369,000 (calculation: CU300,000 cost + CU114,000 share of earnings (after adjusting for the elimination of the unrealised profit) less CU45,000 dividend). Entity A must also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*.

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(12) In this example it is assumed that there is no implicit goodwill and no fair value adjustments.

(13) Unrealised profit = CU20,000 (calculation: 50% ÷ 150% × CU60,000 inventory held by entity A).

(14) In this example the tax effects of eliminating the unrealised profit have been ignored.

(15) An alternative accounting policy would be to eliminate the unrealised profit in upstream transactions against the asset transferred (in this case the inventories).

Entity B

Entity B must recognise CU120,000 as its share of entity Z's income (ie 30% × CU400,000 entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 entity B would report its investment in entity Z (a jointly controlled entity) at CU375,000 (calculation: CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). Entity B would also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test in accordance with Section 27 *Impairment of Assets*.

If investor does not have joint control

15.18 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 or, if it has significant influence in the joint venture, in accordance with Section 14 *Investments in Associates*.

Example – investor in a joint venture that does not have joint control

Ex 36 **Entities A, B and C own 20 per cent, 25 per cent and 30 per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of entity Z. Entities B and C (the venturers) have contractually agreed to jointly control entity Z.**

Entity Z is a joint venture (jointly controlled entity)—it is controlled jointly by the venturers (entities B and C).

Entity A is not a party that has joint control over entity Z. In the absence of evidence to the contrary, it is presumed that entity A has significant influence over entity Z (ie entity Z is an associate of entity A) and accounts for its investment in entity Z in accordance with Section 14 *Investments in Associates*.

If it is determined that entity A does not have significant influence over entity Z, then entity A would account for its investment in entity Z as an equity instrument in accordance with Section 11 *Basic Financial Instruments*.

Entities B and C are required to account for its investment in entity Z in accordance with paragraphs 15.8–15.17 and 15.19–15.21.

Disclosures

15.19 An investor in a joint venture shall disclose:

(a) the **accounting policy** it uses for recognising its interests in jointly controlled entities.

(b) the **carrying amount** of investments in jointly controlled entities (see paragraph 4.2(k)).

(c) the fair value of investments in jointly controlled entities accounted for using the equity method for which there are published price quotations.

(d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.

[Refer: paragraph 9.27 for disclosures in separate financial statements]

[Refer: paragraph 9.30(e) for disclosures in combined financial statements]

[Refer: paragraphs 33.8–33.14 for related party disclosures]

Example – cost model disclosures and fair value model disclosures

Ex 37 On 1 January 20X0 entities A and B each acquired 30 per cent of the equity of entity Z for CU120,000. Entities A and B immediately contractually agreed to share control over entity Z.

Entity Z's loss for the year ended 31 December 20X1 is CU60,000 (20X0: profit of CU80,000).

On 31 December 20X0 entity Z declared and paid a dividend of CU40,000. It did not declare a dividend in 20X1.

Entity A uses the cost model to account for its investments in the jointly controlled entity. At 31 December 20X1 the recoverable amount of entity A's investment in entity Z was estimated at CU97,000. Entity A did not determine the recoverable amount of its investment at 31 December 20X0 because there were no indications that the investment might be impaired.

Entity B uses the fair value model to account for its investments in the jointly controlled entity. The fair value of entity B's investment in entity Z at 31 December 20X1 was determined to be CU102,000 (20X0: CU144,000) by multiplying the entity's earnings by the adjusted price/earnings ratio of a similar entity for which a published price quotation exists. The market price/earnings ratio was reduced by 2 basis points because entity Z's equity is not traded in a public market.

Entity A (cost model)

Entity A could present its investment in entity Z in its financial statements as follows:

Entity A statement of financial position at 31 December 20X1

	Note	*20X1*	*20X0*
ASSETS		*CU*	*CU*
Non-current assets			
Investments in jointly controlled entity	15	97,000	120,000
…			

Entity A statement of comprehensive income for the year ended 31 December 20X1

	Note	20X1	20X0
		CU	CU
…			
Other income—dividend from jointly controlled entity		–	12,000
Other expenses—impairment of jointly controlled entity		(23,000)	–
…			

Entity A notes to the financial statements for the year ended 31 December 20X1

Note 2 Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for at cost less any accumulated impairment losses. However, investments for which a published price quotation exists are accounted for at fair value with changes in fair value recognised in profit or loss of the period of the change.

Dividend income from jointly controlled entities is recognised when the shareholder's right to receive payment has been established and is shown as other income.

Note 15 Investments in jointly controlled entities

	20X1	20X0
	CU	CU
Cost less accumulated impairment losses	97,000	120,000

Entity A owns 30 per cent of the equity of jointly controlled entity Z.

Entity B (fair value model)

Entity B could present its investment in entity Z in its financial statements as follows:

Entity B statement of financial position at 31 December 20X1

	Note	20X1	20X0
ASSETS		CU	CU
Non-current assets			
Investment in jointly controlled entity	15	102,000	144,000
…			

Entity B statement of comprehensive income for the year ended 31 December 20X1

	Note	*20X1*	*20X0*
		CU	*CU*
…			
Other income—dividend from jointly controlled entity		–	12,000
Change in the fair value of investment in jointly controlled entity		(42,000)	24,000
…			

Entity B notes to the financial statements for the year ended 31 December 20X1

Note 2 Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for at fair value with changes in fair value recognised in profit or loss of the period. However, the cost model is used to measure investments in jointly controlled entities for which it is impracticable to measure fair value reliably without undue cost or effort.

Dividend income from jointly controlled entities is recognised when the shareholder's right to receive payment has been established and is shown as other income.

Note 15 Investment in jointly controlled entity

	20X1	*20X0*
	CU	*CU*
Fair value at 31 December	102,000	144,000

Entity B owns 30 per cent of the equity of a jointly controlled entity (entity Z).[16]

15.20 For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.

Examples – equity method disclosures

Ex 38 **The facts are the same as in example 37. However, in this example entity A uses the equity method to account for its investment in the jointly controlled entity.**

Entity A could present its investments in its jointly controlled entity (entity Z) in its financial statements as follows:

[16] In addition, entity A would also disclose the information required by paragraph 15.21.

Entity A statement of comprehensive income for the year ended 31 December 20X1

	20X1		20X0	
	CU		CU	
…				
Other expenses—impairment of investment in jointly controlled entity	(17,000)	(a)	–	
Share of jointly controlled entity's profit (loss) for the year	(18,000)	(b)	24,000	(c)
…				

Entity A statement of financial position at 31 December 20X1

	Note	20X1		20X0	
ASSETS		CU		CU	
Non-current assets					
Investment in jointly controlled entity	15	97,000	(d)	132,000	(e)
…					

Entity A notes to the financial statements for the year ended 31 December 20X1

Note 2 Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for using the equity method. The carrying amount of the investment in joint venture is calculated at cost plus the entity's subsequent share of the joint venture's comprehensive income. If at the end of a reporting period there is an indication that an investment in a jointly controlled entity may be impaired, the entire carrying amount of the investment is tested for impairment. If the carrying amount of the investment is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

Note 15 Investment in jointly controlled entities

	20X1	20X0
	CU	CU
Cost plus share of jointly controlled entities comprehensive income less any accumulated impairment losses	97,000	132,000

Entity A owns 30 per cent of the equity of its jointly controlled entity (entity Z).

The calculations and explanatory notes below do not form part of the disclosures:

(a) CU114,000[g] carrying amount at 31 December 20X1 before impairment less CU97,000 recoverable amount = CU17,000 impairment.

(b) 30% × CU60,000 loss for the year = CU18,000 share of entity Z's loss for the year ended 31 December 20X1.

[(c)] 30% × CU80,000 profit for the year = CU24,000 share of entity Z's profit for the year ended 31 December 20X0.

[(d)] CU114,000[(g)] carrying amount at 31 December 20X1 before impairment less CU17,000[(a)] accumulated impairment of investment in entity Z = CU97,000 carrying amount at 31 December 20X1.

[(e)] CU120,000 cost + CU24,000[(c)] profit for the year ended 31 December 20X0 less CU12,000[(f)] dividend received from entity Z = CU132,000 carrying amount at 31 December 20X0.

[(f)] 30% × CU40,000 dividend declared and paid by entity Z = CU12,000 dividend received from entity Z.

[(g)] CU132,000[(e)] carrying amount at 31 December 20X0 less CU18,000[(b)] share of entity Z's loss for the year ended 31 December 20X1 = CU114,000 carrying amount at 31 December 20X1 before impairment.

15.21 For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* to transactions and events often requires judgement. Information about significant judgements and key sources of estimation uncertainty are useful in assessing the financial position, performance and cash flows of an entity. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Furthermore, in accordance with paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* require disclosure of information about particular judgements and estimation uncertainties. Some of the most significant judgements that may be required in classifying and accounting for investments in joint ventures are set out below.

Classification

In evaluating whether an entity has joint control over a venture it must first be ascertained whether the entity and its fellow venturers collectively have control[17] over the venture (ie the power to govern the strategic financial and operating decisions of the venture so as to obtain benefits from its activities).

If the venturers collectively have control over the venture then it must be determined whether the contractual arrangement gives rise to joint control over the venture. Joint control exists when the strategic financial and operating decisions require the unanimous consent of the venturers.

Assessing whether a venture is governed under joint control among its parties or whether it is controlled unilaterally by one of its parties is a matter of judgement. As a result of this assessment, a party may conclude that:

- the venture is governed under joint control (ie the venture is a joint venture);
- it controls the venture (ie the venture is a subsidiary accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*); or
- it is an investor to the venture. (If the investor has significant influence[18] then the venture is an associate accounted for in accordance with Section 14 *Investments in Associates*. If it is determined that the investor does not have significant influence then the investment is a financial asset accounted for in accordance with Section 11 *Basic Financial Instruments*.)

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[17] The Significant Estimates and Other Judgements section of Module 9 *Consolidated and Separate Financial Statements* of this training material describes the judgements that need to be made in assessing whether control exists.

[18] The Significant Estimates and Other Judgements section of Module 14 *Investments in Associates* of this training material describes the judgements that need to be made in assessing whether significant influence exists.

When there is a large disparity between the parties' interests in the venture and their power to govern its strategic financial and operating policies, the economic robustness of the requirement of unanimous consent and ultimately its capacity to operate effectively could be questionable.

For example, two parties are involved in a venture that requires unanimous consent over its strategic decisions. One party holds an 85 per cent interest in the venture and the other holds a 15 per cent interest in the venture. The apparent lack of balance between the power held by each of the parties (ie any one party could prevent the other from making a strategic decision without its consent) and each party's individual interests (85%:15%) could be an indicator that the venture is not governed under joint control.

Measurement

After initial recognition an entity must measure all investments in jointly controlled entities using the cost model, the equity method or the fair value model.

Cost model and equity method

When the cost model or the equity method is used, significant judgements relating to accounting for an impairment of a jointly controlled entity include:

- assessing whether there is any indication that an investment in a jointly controlled entity may be impaired (see paragraph 27.7); and
- if there is any indication that the investment in an joint venture may be impaired—estimating the recoverable amount of that investment (see paragraph 27.11).

Equity method

When the equity method is used, significant judgements might be necessary to estimate the fair value of the jointly controlled entity's identifiable assets and identifiable liabilities at the date of attaining joint control.

Many judgements are necessary to apply the equity method. For example:

- If the fair value of the jointly controlled entity's identifiable assets and identifiable liabilities were different from their carrying amounts (as recorded by the jointly controlled entity) at the date of attaining joint control—judgements must be made about the extent of the valuation adjustments. For the accounting after acquisition the venturer makes judgements about the timing of the realisation of the valuation adjustment in profit or loss (see paragraphs 15.13 and 14.8(c)).
- If on acquisition there is a difference (positive or negative) between the cost of acquisition and the venturer's share of the fair values of the net identifiable assets of the jointly controlled entity (eg implicit goodwill)—for accounting after acquisition judgements must be made about the timing of the realisation of the 'implicit goodwill' in profit or loss (see paragraphs 15.13 and 14.8(c)).
- If the entity and its jointly controlled entity have different reporting dates (ie different accounting period ends) and it is impracticable for the jointly controlled entity to prepare financial statements with the same reporting period as the venturer—judgements must be

made about the effects of any significant transactions or events occurring between the accounting period ends (see paragraphs 15.13 and 14.8(f)).

- If the venturer and its jointly controlled entity use different accounting policies—judgements about the effects of applying the different accounting policies (see paragraphs 15.13 and 14.8(g)).

Fair value model

When the fair value model is adopted for measurement of an investment in a jointly controlled entity subsequent to initial recognition, significant judgements might be necessary in:

- assessing whether the fair value of an investment in a particular jointly controlled entity can be measured with sufficient reliability without undue cost or effort for the fair value model to be applied to particular jointly controlled entities (see the notes below paragraph 14.10 and also paragraphs 15.15 and 11.27–11.32); and
- deciding which valuation model to use and determining the inputs for that model in the case when the jointly controlled entity's shares are not quoted in an active market (for application guidance on fair value measurement see paragraphs 11.27–11.32).

Module 15 – Investments in Joint Ventures

COMPARISON WITH FULL IFRSs

A high level overview of differences between the requirements as issued at 9 July 2009 for accounting and reporting investments for joint ventures in accordance with full IFRSs (see IAS 31 *Investments in Joint Ventures*) and the *IFRS for SMEs* (see Section 15 *Investments in Joint Ventures*) includes:

- The *IFRS for SMEs* is drafted in plain language and includes significantly less guidance on how to apply the principles.
- The *IFRS for SMEs* permits an entity to choose to account for investments in jointly controlled entities in its primary financial statements using one of three different models—the equity method, the cost model and the fair value model. The chosen model is applied to all its investments in jointly controlled entities. Full IFRSs require investments in jointly controlled entities to be accounted for using the equity method in an investor's primary financial statements or proportionate consolidation (an accounting policy choice).
- Under the equity method, the *IFRS for SMEs* requires that implicit goodwill be systematically amortisation throughout its expected useful life (see paragraphs 15.13 and 14.8(c)). Full IFRSs does not allow the amortisation of goodwill (see IAS 28, paragraph 23(a)).

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting investments in joint ventures in accordance with the *IFRS for SMEs* by answering the questions below.

Once you have completed the test check your answers against those set out below this test.

Assume all amounts are material.

Mark the box next to the most correct statement.

Question 1

A joint venture is:

☐ (a) an entity whose equity is owned in equal shares (ie 20 per cent each) by five investors.

☐ (b) an entity whose equity is owned in equal shares (ie 25 per cent each) by four investors.

☐ (c) a contractual arrangement whereby two or more parties undertake an economic activity.

☐ (d) a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Question 2

Two entities enter into a contractual arrangement to exercise joint control of a property, each taking a share of the rents received and bearing a share of the expenses. The entities are the registered joint owners of the property.

The two entities have:

☐ (a) a jointly controlled asset.

☐ (b) a jointly controlled operation.

☐ (c) a jointly controlled entity.

Question 3

An jointly controlled entity is:

☐ (a) an entity over which the investor has significant influence.

☐ (b) an entity over which the investor has joint control.

☐ (c) an entity over which the investor has significant influence or joint control and that is not a subsidiary.

☐ (d) an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Question 4

Joint control is:

- ☐ (a) the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
- ☐ (b) active participation in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
- ☐ (c) the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- ☐ (d) the contractually agreed sharing of control over an economic activity.

Question 5

An entity must account for its investments in jointly controlled entities after initial recognition using:

- ☐ (a) either the cost model or the fair value model (using the same accounting policy for all investments in jointly controlled entities).
- ☐ (b) either the cost model or the fair value model (model can be elected on an investment-by-investment basis).
- ☐ (c) either the cost model, the equity method or the fair value model (using the same accounting policy for all investments in jointly controlled entities).
- ☐ (d) either the cost model, the equity method or the fair value model (model can be elected on an investment-by-investment basis).

Question 6

Investments in jointly controlled entities must be tested for impairment in accordance with Section 27 *Impairment of Assets*, if the entity uses:

- ☐ (a) the cost model, equity method or fair value model.
- ☐ (b) the cost model or the equity method.
- ☐ (c) the cost model or the fair value model.
- ☐ (d) the equity method or the fair value model.

Question 7

On 31 December 20X1 entity A acquired 30 per cent of the ordinary shares that carry voting rights of entity Z for CU100,000. In acquiring those shares entity A incurred transaction costs of CU1,000.

Entity A has entered into a contractual arrangement with another party (entity C) that owns 25 per cent of the ordinary shares of entity Z, whereby entities A and C jointly control entity Z.

Entity A uses the cost model to account for its investments in jointly controlled entities. A published price quotation does not exist for entity Z.

In January 20X2 entity Z declared and paid a dividend of CU20,000 out of profits earned in 20X1. No further dividends were paid in 20X2, 20X3 or 20X4.

At 31 December 20X1, 20X2 and 20X3, in accordance with Section 27 *Impairment of Assets*, management assessed the fair values of its investment in entity Z as CU102,000, CU110,000 and CU90,000 respectively. Costs to sell are estimated at CU4,000 throughout.

Entity A measures its investment in entity Z on 31 December 20X1, 20X2 and 20X3 respectively at:

☐ (a) CU100,000, CU100,000, CU100,000.

☐ (b) CU101,000, CU101,000, CU90,000.

☐ (c) CU98,000, CU106,000, CU86,000.

☐ (d) CU98,000, CU101,000, CU86,000.

☐ (e) CU102,000, CU110,000, CU90,000.

☐ (f) CU101,000, CU101,000, CU101,000.

Question 8

The facts are the same as in Question 7. However, in this example, a published price quotation exists for entity Z.

Entity A measures its investment in entity Z on 31 December 20X1, 20X2 and 20X3 respectively at:

☐ (a) CU100,000, CU100,000, CU100,000.

☐ (b) CU95,000, CU95,000, CU86,000.

☐ (c) CU98,000, CU106,000, CU86,000.

☐ (d) CU98,000, CU101,000, CU86,000.

☐ (e) CU102,000, CU110,000, CU90,000.

☐ (f) CU101,000, CU101,000, CU101,000.

Question 9

An investor in a joint venture that does not have joint control accounts for that investment:

☐ (a) in accordance with Section 11 *Basic Financial Instruments*.

☐ (b) in accordance with Section 14 *Investments in Associates*.

☐ (c) in accordance with Section 11 *Basic Financial Instruments* or, if it has significant influence in the joint venture, in accordance with Section 14 *Investments in Associates*.

☐ (d) in accordance with Section 9 *Consolidated and Separate Financial Statements*.

Question 10

Which of the following statements is false?

☐ (a) Joint control over an entity can be gained or lost without a change in absolute or relative ownership levels.

☐ (b) In determining whether two or more entities jointly control another entity, the existence and effect of potential voting rights that they hold that are currently exercisable or convertible are considered.

☐ (c) An entity considers the existence and effect of potential voting rights held by other parties that are currently exercisable or convertible when determining whether it together with its co-venturers jointly controls another entity.

☐ (d) In determining whether an entity and its co-venturers jointly control another entity, only present ownership interests are considered. The possible exercise or conversions of potential voting rights are not considered.

Module 15 – Investments in Joint Ventures

Answers

Q1 (d) see paragraph 15.3
Q2 (a) see paragraph 15.6
Q3 (b) see paragraph 15.8
Q4 (d) see paragraph 15.2
Q5 (c) see paragraph 15.9
Q6 (b) see paragraphs 15.10 and 15.13 read with paragraph 14.8(d)
Q7 (d) see paragraphs 15.10 and 15.11
20X1: CU98,000 because recoverable amount—fair value less costs to sell (CU98,000) is less than cost (CU101,000).
20X2: CU101,000 because cost is less than recoverable amount.
20X3: CU86,000 because recoverable amount (CU86,000) is less than cost (CU101,000).
Q8 (e) see paragraphs 15.12, 15.14 and 15.15
Q9 (c) see paragraph 15.18
Q10 (d) see paragraph 15.2 read with paragraph 9.6 (potential voting rights that are currently exercisable must be taken account of).

Module 15 – Investments in Joint Ventures

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting investments in joint ventures in accordance with the *IFRS for SMEs* by solving the case studies below.

Once you have completed the case studies check your answers against those set out below this test.

Case study 1

Two real estate companies (the parties) form a separate legal entity (the venture) for the purpose of operating a shopping centre. The venture buys the land and buildings that constitute the shopping centre. The purchase of the shopping centre is financed with a bank loan.

The activities of the venture include renting the retail units, managing the car park, maintaining the centre and equipment such as lifts, and building the reputations and customer numbers for the centre as a whole. Strategic decisions relating to the operations require the consent of both parties.

How should the parties account for their interests in the shopping centre business operated by the limited liability partnership?

Answer to case study 1

The venture is a joint venture (jointly controlled entity).

In accordance with their respective accounting policies for jointly controlled entities the parties recognise their interest in the venture using either:

- the cost model
- the equity method
- the fair value model.

Case study 2

Four entities (the parties) each have rights to extract minerals from adjacent areas. The entities have financed their respective acquisitions. The parties enter into a contract to explore, develop and extract minerals from the combined area (the field). Each entity retains its legal ownership of the extractive rights for its defined area.

The contract is for the economic extraction life of the defined area. The participation percentage of each party is based on the mineral reserves expected to be extracted from that party's acreage held and contributed to the geological area. The respective participation percentages are subsequently adjusted on the basis of the findings of an independent survey of the reserves. The parties receive output from the joint venture in the form of minerals that each can then hold, use or sell at its own discretion.

One party has been designated as the operator. The parties establish a five-year strategic plan, which is updated annually on approval of all of the parties. The operator acquires equipment and allocates employees to the joint activities according to the strategic plan. The operator invoices the other parties for their share of expenses and capital expenditure on the basis of their respective participations. The terms of the arrangement are such that each party is contractually responsible for a share of all costs and therefore each party has rights to a share of any assets purchased for the joint activities. Parties have joint and several liability for obligations such as decommissioning and environmental clean-up.

Part A: What form of joint venture, if any, is the contractual arrangement described above?

Part B: How should the parties account for their interests in the contractual arrangement describe above?

Answer to case study 2

Part A

The joint venture involves jointly controlled operations and jointly controlled assets. It is set up for the purposes of sharing costs. The contractual arrangement is an extension of each party's operating activities to produce and sell minerals.

The parties retain their right to the economic benefits generated from the mineral rights—the benefits (usually received in the form of minerals) are directly related to the amount of mineral reserves contributed by each party to the contractual arrangement. The parties have joint and several liability for obligations such as decommissioning, and also have obligations to reimburse their share of the costs incurred by the operator.

Each party has rights to its share of the joint production equipment and other resources by directing the use of the equipment for the extraction of minerals. That share of the equipment and resources is equivalent to each party's mineral rights as a proportion of the total mineral rights of the field. Put another way, each party receives benefits from the assets in proportion to that party's mineral rights relative to the mineral rights of the combined field.

Part B

The parties recognise as assets and liabilities their respective interests in the mineral rights, production equipment, minerals extracted, liabilities incurred, decommissioning liabilities and financing of the operations.

The operator recognises receivables from the other parties (representing the other parties' share of expenses and capital expenditure borne by the operator). The non-operator parties recognise payables to the operator.

Case study 3

On 1 January 20X1 SME A and SME B each acquired 25 per cent of the equity of entities X, Y and Z for CU10,000, CU15,000 and CU28,000 respectively. SME A and SME B have joint control over the strategic financial and operating decisions of entities X, Y and Z. Transaction costs of 1 per cent of the purchase price of the shares were incurred by SME A and SME B.

On 2 January 20X1 entity X declared and paid dividends of CU1,000 for the year ended 20X0. On 31 December 20X1 entity Y declared a dividend of CU8,000 for the year ended 20X1. The dividend declared by entity Y was paid in 20X2.

For the year ended 31 December 20X1, entities X and Y recognised profit of respectively CU5,000 and CU18,000. However, entity Z recognised a loss of CU20,000 for that year.

Published price quotations do not exist for the shares of entities X, Y and Z. Using appropriate valuation techniques the venturers (ie SME A and SME B) determined the fair value of each of their investments in entities X, Y and Z at 31 December 20X1 as CU13,000, CU29,000 and CU15,000 respectively. Costs to sell are estimated at 5 per cent of the fair value of the investments.

Neither SME A nor SME B prepares consolidated financial statements because they do not have any subsidiaries.

Part A:
Assume SME A measures its investments in jointly controlled entities using the cost model and SME B measures its investments in jointly controlled entities using the fair value model

Prepare accounting entries to record the investments in the jointly controlled entities in the accounting records of SME A and SME B for the year ended 31 December 20X1.

Part B:
Assume instead that SME A measures all its investments in jointly controlled entities using the equity method.

Prepare accounting entries to record the investments in jointly controlled entities in the accounting records of SME A for the year ended 31 December 20X1.

Answer to case study 3 – Part A

SME A (cost model)

1 January 20X1

Dr	Investment in jointly controlled entity (entity X)	CU10,000	
Dr	Investment in jointly controlled entity (entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Investment in jointly controlled entity (entity X)	CU100	
Dr	Investment in jointly controlled entity (entity Y)	CU150	
Dr	Investment in jointly controlled entity (entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Profit or loss (other income, dividend received)		CU250

To recognise dividends received from entity X (ie 25% of CU1,000 dividend paid by entity X).

31 December 20X1

Dr	Receivable (entity Y)	CU2,000	
	Cr Profit or loss (other income, dividend received)		CU2,000

To recognise the dividend receivable from entity Y (ie 25% of CU8,000 dividend paid by entity Y).

Dr	Profit or loss (impairment loss)	CU14,030[a]	
	Cr Investment in jointly controlled entity (entity Z)		CU14,030

To recognise the impairment of the investment in entity Z.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) CU28,280 cost less CU14,250[b] = CU14,030 impairment loss.

(b) CU15,000 fair value at 31 December 20X1 less estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value less costs to sell of SME A's investment in entity Z at 31 December 20X1.

SME B (fair value model)

1 January 20X1

Dr	Investment in jointly controlled entity (entity X)	CU10,000	
Dr	Investment in jointly controlled entity (entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Profit or loss	CU530[(a)]	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU250

To recognise dividends received from entity X (ie 25% of CU1,000 dividend paid by entity X).

31 December 20X1

Dr	Receivable (entity Y)	CU2,000	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU2,000

To recognise the dividend receivable from entity Y (ie 25% of CU8,000 dividend paid by entity Y).

Dr	Profit or loss (change in fair value)	CU13,000[(b)]	
	Cr Investment in jointly controlled entity (entity Z)		CU13,000

To recognise the decrease in fair value of investment in entity Z, a jointly controlled entity, in the year.

Dr	Investment in jointly controlled entity (entity X)	CU3,000[(c)]	
Dr	Investment in jointly controlled entity (entity Y)	CU14,000[(d)]	
	Cr Profit or loss (change in fair value)		CU17,000

To recognise increase in fair value of investments in jointly controlled entities (entities X and Y), in the year.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) 1% (CU10,000 entity X + CU15,000 entity Y + CU28,000 entity Z) = CU530 transaction costs.

(b) CU28,000 cost less CU15,000 fair value at 31 December 20X1 = CU13,000 decrease in the fair value of the investment in entity Z for the year ended 31 December 20X1.

(c) CU13,000 fair value at 31 December 20X1 less CU10,000 cost = CU3,000 increase in the fair value of the investment in entity X for the year ended 31 December 20X1.

(d) CU29,000 fair value at 31 December 20X1 less CU15,000 cost = CU14,000 increase in the fair value of the investment in entity Y for the year ended 31 December 20X1.

Answer to case study 3 – Part B

SME A (equity method)

1 January 20X1

Dr	Investment in jointly controlled entity (entity X)	CU10,000	
Dr	Investment in jointly controlled entity (entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entitie*s.*

Dr	Investment in jointly controlled entity (entity X)	CU100	
Dr	Investment in jointly controlled entity (entity Y)	CU150	
Dr	Investment in jointly controlled entity (entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Investment in jointly controlled entity (entity X)		CU250

To recognise dividends received from entity X (ie 25% of CU1,000 dividend paid by entity X).

31 December 20X1

Dr	Receivable (entity Y)	CU2,000	
	Cr Investment in jointly controlled entity (entity Y)		CU2,000

To recognise the dividend receivable from entity Y (ie 25% of CU8,000 dividend paid by entity Y).

Dr	Investment in jointly controlled entity (entity X)	CU1,250[(a)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU1,250

To recognise the share of entity X's (a jointly controlled entity) profit for the year.

Dr	Investment in jointly controlled entity (entity Y)	CU4,500[(b)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU4,500

To recognise the share of entity Y's (a jointly controlled entity) profit for the year.

Dr	Profit or loss (share of jointly controlled entity's earnings)	CU5,000[(c)]	
	Cr Investment in jointly controlled entity (entity Z)		CU5,000

To recognise the share of entity Z's (a jointly controlled entity) loss for the year.

Dr	Profit or loss (impairment loss)	CU9,030[d]	
	Cr Investment in jointly controlled entity (entity Z)		CU9,030

To recognise the impairment of the investment in entity Z.

The calculations and explanatory notes below do not form part of the answer to this case study:

[a] 25% × CU5,000 profit for the year (entity X) = CU1,250 SME A's share of entity X's profit for the year.

[b] 25% × CU18,000 profit for the year (entity Y) = CU4,500 SME A's share of entity Y's profit for the year.

[c] 25% × CU20,000 loss for the year (entity Z) = CU5,000 SME A's share of entity Z's loss for the year.

[d] CU28,280 cost less CU5,000[c] SME A's share of entity Z's loss for the year less CU14,250[e] = CU9,030 impairment loss.

[e] CU15,000 fair value at 31 December 20X1 less estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value less costs to sell of SME A's investment in entity Z at 31 December 20X1.