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Exposure Draft

Accounting Standard (AS) 111

Financial Reporting of Interests in Joint Ventures

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Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 111, *Financial Reporting of Interests in Joint Ventures*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 111, *Financial Reporting of Interests in Joint Ventures*, taking AS 27, *Financial Reporting of Interests in Joint Ventures*, notified by MCA as the base. Major differences between draft of AS 111 and Ind AS 111, *Joint Arrangements*, are included in the Appendix 1 of the Standard. Major differences between draft of AS 111 and AS 27 are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the Accounting Standard (AS) 111, *Financial Reporting of Interests in Joint Ventures*, issued by the ASB, for comments.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
Comments can be submitted using one of the following methods so as to receive not later than ***February 3, 2022.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 111

Financial Reporting of Interests in Joint Ventures[1]

[This Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*

Objective

The objective of this Standard is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers.

Scope

1. **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers, regardless of the structures or forms under which the joint venture activities take place.**

Definitions

2. **For the purpose of this Standard, the following terms are used with the meanings specified:**

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

Joint control is the contractually agreed sharing of control over an economic activity.

Control -as defined in AS 110, *Consolidated and Separate Financial Statements*.

A venturer is a party to a joint venture and has joint control over that joint venture.

Forms of Joint Venture

3. Joint ventures take many different forms and structures. This Standard identifies three broad types - jointly controlled operations, jointly controlled assets and jointly controlled entities - which are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

   (a) two or more venturers are bound by a contractual arrangement; and

   (b) the contractual arrangement establishes joint control.

Contractual Arrangement

4. The existence of a contractual arrangement distinguishes interests which involve joint control from investments in associates in which the investor has significant influence (see Accounting Standard (AS) 28, *Accounting for Investments in Associates and Jointly Controlled Entities*). Activities which have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.

5. The contractual arrangement may be evidenced in a number of ways, for example by a

[1] In respect of consolidated financial statements of an entity, this Standard is mandatory in nature where the entity prepares and presents the consolidated financial statements.

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 normally 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.

6. The contractual arrangement establishes joint control over the joint venture. Such an arrangement ensures that no single venturer is in a position to unilaterally control the activity. The arrangement exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

7. 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 which have been agreed to by the venturers in accordance with the contractual arrangement and delegated to the operator.

Jointly Controlled Operations

8. 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's activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides means by which the revenue from the jointly controlled operations and any expenses incurred in common are shared among the venturers.

9. An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise in order to manufacture, market and distribute, jointly, a particular product, such as an 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.

10. In respect of its interests in jointly controlled operations, a venturer shall recognise in its separate financial statements and consequently in its consolidated 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 joint venture.**

11. Because the assets, liabilities, income and expenses are already recognised in the separate

financial statements of the venturer, and consequently in its consolidated financial statements, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

12. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare accounts for internal management reporting purposes so that they may assess the performance of the joint venture.

Jointly Controlled Assets

13. 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. The assets are used to obtain economic benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

14. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share in the jointly controlled asset.

15. An example of a jointly controlled asset is an oil pipeline jointly controlled and operated by a number of oil production companies. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

16. In respect of its interest in jointly controlled assets, a venturer shall recognise, in its separate financial statements, and consequently in its consolidated financial statements:

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

(b) any liabilities which 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 which it has incurred in respect of its interest in the joint venture.

17. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises in its separate financial statements and consequently in its consolidated financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment, for example, a share of a jointly controlled oil pipeline is classified as a property, plant and equipment;

(b) any liabilities which it has incurred, for example, those incurred in financing its share of the assets;

(c) its share of any liabilities incurred jointly with 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 which it has incurred in respect of its interest in the joint venture, for example, those related to financing the venturer's interest in the assets and selling its share of the output.

Because the assets, liabilities, income and expenses are already recognised in the separate financial statements of the venturer, and consequently in its consolidated financial statements, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

18. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare accounts for internal management reporting purposes so that they may assess the performance of the joint venture.

Jointly Controlled Entities

19. A jointly controlled entity is a joint venture which 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.

20. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the results of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

21. An example of a jointly controlled entity is when two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity which is jointly controlled by the entity and the government or agency.

22. Many jointly controlled entities are similar to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as an oil pipeline, into a jointly controlled entity. Similarly, the venturers may contribute, into a jointly controlled entity, assets which will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.

23. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with the requirements applicable to that jointly controlled entity.

Consolidated Financial Statements of a Venturer

24. In its consolidated financial statements, a venturer shall report its interest in a jointly controlled entity using equity method prescribed under AS 28, *Accounting for Investments in Associates and Jointly Controlled Entities*.

Operators of Joint Ventures

25. Operators or managers of a joint venture shall account for any fees in accordance with Accounting Standard (AS) 18, Revenue.

26. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

27. A venturer shall disclose the information required by paragraphs 28, 29, and 30 in its separate financial statements as well as in consolidated financial statements.

28. A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturers;

(b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

(c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

29. A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

(a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and

(b) its share of the capital commitments of the joint ventures themselves.

30. A venturer shall disclose a list of all joint ventures and description of interests in significant joint ventures including name and country of incorporation or residence. For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make disclosures required under AS 28.

Appendix 1

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 111 and the corresponding revised Accounting Standard (AS) 111, Financial Reporting of Interests in Joint Ventures.

Note 2: Paragraph numbers appearing in Revised AS 111 can be different as compared to those in Ind AS 111.

Comparison with Ind AS 27, *Joint Arrangements*

1. Unlike Ind AS 111, Revised AS 111 does not mandate the preparation of consolidated financial statements. However, if an entity presents consolidated financial statements, it is required to apply revised AS 111 in preparing and presenting such financial statements.

2. AS 111 defines the term 'joint venture' as "a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control". Ind AS 111 defines the term 'joint arrangement' as "an arrangement of which two or more parties have joint control." Essentially, Ind AS 111 uses the term 'joint venture' in a restrictive sense to refer to one type of joint arrangement (the other type being a joint operation).

3. AS 111 classifies joint venture into three categories, namely, jointly controlled operations, jointly controlled assets and jointly controlled entities. Under Ind AS 111, on other hand, a joint arrangement is either a joint operation or a joint venture. Arrangements that are classified as jointly controlled operations or jointly controlled assets under AS 111 would be classified as 'joint operations' under Ind AS 111. An arrangement that is classified as a jointly controlled entity under AS 111 would be classified as either a joint operation or a joint venture under Ind AS 111. The classification of joint arrangement depends on whether the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (a joint operation) or whether those parties have rights to the net assets of the arrangement (a joint venture).

Appendix 2

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Revised Accounting Standard (AS) 111 and the Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures.

Note 2:Paragraph numbers appearing in Revised AS 111 can be different as compared to those in AS 27.

Comparison with AS 27, *Financial Reporting of Interests in Joint Ventures*

1. AS 27 required a venturer to account for its interest in a jointly controlled entity in its (i.e., venturer's) consolidated financial statements using proportionate consolidation method. Revised AS 111 requires such interest to be accounted for in the venturer's consolidated financial statements using equity method of accounting in accordance with revised AS 28 that elaborates requirements for application of equity method (which is also used to account for interests in associates under revised AS 28).

2. AS 27 contained certain exemptions from consolidation (application of proportionate consolidation method) of jointly controlled entities, i.e, if an interest in a jointly controlled entity is intended to be temporary or it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the venturer. However, similar exemptions from application of equity method are not there in AS 28, *Accounting for Investments in Associates and Jointly Controlled Entities*.

3. AS 27 dealt with accounting for reporting interests in joint ventures by an investors and also defined the term 'investors' as party to the Joint Venture not having joint control. Revised AS 111 does not deal with the same.