

CHAPTER 11

AS 27: FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

C6: JOINTLY CONTROLLED OPERATIONS

Problem.6.1

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.20X1 and for the purpose he took loan from a bank for ₹50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture.

Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.20X1 each of the venturer agreed to take away one flat each to be valued at ₹10,00,000 each flat and rest were sold by them as follow:

Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer.

[SM.1]

C7: JOINTLY CONTROLLED ASSETS

Problem.7.1

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them.

For the purpose following expenditure was incurred by them:

Buildings ₹ 12,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for ₹ 3,00,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 9,00,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 6,00,000 each year.

You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

[SM.2]

C9: SEPARATE FINANCIAL STATEMENTS OF A VENTURER**Problem.9.1**

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

[SM.3]

C10: CONSOLIDATED FINANCIAL STATEMENTS OF A VENTURER**Problem.10.1**

A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	16,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	-
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.

[SM.4]

Problem.10.2

JVR Limited has made investments of ₹ 97.84 crores in equity shares of QSR Limited in pursuance of Joint Venture agreement till 20X1-X2 (i.e., more than 12 months). The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to reassess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investments.

However, QSR Limited has a futuristic and profitable business plans and projection for the coming years. Discuss whether the contention of JVR Limited to bring down the carrying amount of investment in QSR Limited is in accordance with the Accounting Standard. [T.8]

C13: MULTIPLE CHOICE QUESTIONS

1. What is the primary objective of AS 27?
 - (a) To regulate stock markets
 - (b) To provide guidelines for financial reporting in joint ventures
 - (c) To govern international trade
 - (d) To manage individual investments
2. AS 27 applies to which of the following?
 - (a) Sole proprietorships
 - (b) Government entities
 - (c) Joint ventures
 - (d) Non-profit organizations
3. Which of these is a form of joint venture recognized by AS 27?
 - (a) Jointly Controlled Operations
 - (b) Solely Controlled Operations
 - (c) Uncontrolled Entities
 - (d) Independent Partnerships
4. Under AS 27 joint control of a joint venture means:
 - (a) Control by a single venturer
 - (b) Control by external regulators
 - (c) Shared control between the venturers
 - (d) No control over the venture
5. AS 27 is an accounting standard related to:
 - (a) Income tax
 - (b) Inventory management
 - (c) Financial reporting of interests in joint ventures
 - (d) Employee benefits
6. The equity method of accounting is used in which type of joint venture according to AS 27?
 - (a) Jointly Controlled Entities
 - (b) Jointly Controlled Operations
 - (c) Jointly Controlled Assets
 - (d) All of the above
7. How does a Jointly Controlled Entity differ from a Jointly Controlled Operation?
 - (a) In the method of sharing profits
 - (b) In the existence of a separate legal entity
 - (c) In the percentage of ownership
 - (d) In the type of industry they operate in

8. What does 'proportionate consolidation' involve according to AS 27?
- (a) Combining a portion of each joint venture's assets and liabilities
 - (b) Consolidating 100% of a joint venture's financial statements
 - (c) Ignoring the joint venture's financial statements
 - (d) Using the market value of the joint venture's assets
9. Why is disclosure of joint venture activities important in financial statements?
- (a) To provide transparency and a true view of the financial position
 - (b) To calculate the tax liability
 - (c) To assess the market share of the venture
 - (d) To determine the salary of employees
10. Under AS 27, what is the significance of 'Joint control'?
- (a) It ensures equal profit distribution
 - (b) it allows for unilateral decision-making
 - (c) It requires unanimous consent for strategic financial and operational decisions
 - (d) It is relevant only for tax purposes
11. If a venturer owns 25% of a Jointly Controlled Entity, and the entity declares a profit of ₹400,000, what is the venturer's share of profit?
- (a) ₹ 100,000
 - (b) ₹ 200,000
 - (c) ₹ 125,000
 - (d) ₹ 1,600,000
12. For a Jointly Controlled Asset, if two venturers contribute ₹ 50,000 and ₹ 50,000 respectively, what is the total contribution?
- (a) ₹ 200,000
 - (b) ₹ 100,000
 - (c) ₹ 75,000
 - (d) ₹ 300,000
13. Assess the impact of using equity method on the balance sheet of a venturer in a Jointly Controlled Entity.
- (a) Increases both assets and liabilities
 - (b) Increases assets but has no effect on liabilities
 - (c) Decreases assets and increases liabilities
 - (d) No impact on the balance sheet
14. Jointly Controlled Entity versus a Jointly Controlled Operation affects the income statement.
- (a) Different methods of profit recognition
 - (b) No difference in profit recognition
 - (c) Only affects the balance sheet, not the income statement
 - (d) Affects the revenue but not the expenses
15. Evaluate the effectiveness of proportionate consolidation in reflecting a venturer's actual share in a joint venture.
- (a) Highly effective
 - (b) Somewhat effective
 - (c) Ineffective
 - (d) Cannot be determined

16. Create a scenario where a Jointly Controlled Asset is more advantageous than a Jointly Controlled Entity.
- (a) For large-scale manufacturing operations
 - (b) For sharing specific technology or equipment
 - (c) For long-term strategic partnerships
 - (d) For ventures requiring significant capital investment
17. Devise a simple joint venture agreement for two companies, one contributing technology and the other contributing market knowledge. Outline a key term that should be included.
- (a) Profit-sharing based on capital contribution
 - (b) Equal decision-making rights
 - (c) Non-compete clauses
 - (d) Duration of the joint venture
18. Which one of the following is NOT a type of joint venture as per AS 27?
- (a) Jointly Controlled Operations
 - (b) Jointly Managed Partnerships
 - (c) Jointly Controlled Assets
 - (d) Jointly Controlled Entities
19. In AS 27, 'control' is defined as:
- (a) The power to govern financial and operating policies
 - (b) Holding a majority of voting rights
 - (c) The ability to influence significantly the venture
 - (d) Sole management of the business
20. Which form of joint venture involves shared control over an entity?
- (a) Jointly Controlled Operations
 - (b) Jointly Controlled Assets
 - (c) Jointly Controlled Entities
 - (d) Collaborative Agreements
21. The method of 'proportionate consolidation' is primarily used for:
- (a) Jointly Controlled Operations
 - (b) Jointly Controlled Assets
 - (c) Jointly Controlled Entities
 - (d) Associate Companies
22. AS 27 requires the disclosure of:
- (a) Only financial interests in the joint venture
 - (b) Only operational activities in the joint venture
 - (c) Both financial interests and operational activities in the joint venture
 - (d) None of the above
23. 'Joint Control' in a joint venture refers to:
- (a) Unilateral control by one venturer
 - (b) Shared control among venturers
 - (c) Control by external regulators
 - (d) Control by the majority shareholder
24. How does AS 27 define a 'Joint venture'?
- (a) A contractual arrangement where two parties share control
 - (b) A partnership with shared profits and losses
 - (c) An entity engaged in business under joint control
 - (d) A contractual arrangement where two or more parties undertake an economic activity

25. Which scenario best illustrates a Jointly Controlled Operation?
- (a) Two companies sharing control over a new manufacturing plant
 - (b) A joint venture entity where two companies have equal shares
 - (c) Companies pooling resources without establishing a separate entity
 - (d) A strategic alliance without shared control or risks
26. In a Jointly Controlled Asset arrangement, how are the assets and liabilities treated?
- (a) They are divided based on the agreement
 - (b) Each venturer recognizes its share of assets and liabilities
 - (c) They are recognized in full by the dominant venturer
 - (d) They are not recognized in the financial statements
27. A joint venture entity reports a net income of ₹ 500,000. If a venturer owns 40% interest in the joint venture, what is the venturer's share of profit?
- (a) ₹ 200,000
 - (b) ₹ 20,000
 - (c) ₹ 200
 - (d) ₹ 2,000,000
28. Refer to the table below showing the investment and expenses of two venturers in a Jointly Controlled Operation. What is the total investment by Venturer A and B?

Venturer	Investment (₹)	Expenses (₹)
A	300,000	50,000
B	200,000	30,000

- (a) ₹ 300,000
 - (b) ₹ 500,000
 - (c) ₹ 530,000
 - (d) ₹ 250,000
29. Examine the following joint venture structure. Which type of joint venture does it represent? Entity A and B share control of the venture. A separate legal entity is formed. Both A and B share profits and losses.
- (a) Jointly Controlled Operations
 - (b) Jointly Controlled Assets
 - (c) Jointly Controlled Entities
 - (d) Strategic Alliance
30. Consider a scenario where a venturer contributes an asset to a joint venture at fair value. How does this impact the financial statements of the venturer?
- (a) Increases assets and equity
 - (b) Decreases assets and increases liabilities
 - (c) No impact on the balance sheet
 - (d) Decreases assets and increases income
31. Design a joint venture agreement between two companies where one provides technology and the other provides market access. Outline a fair profit-sharing mechanism.
- (a) Equal sharing of profits and losses
 - (b) Profit sharing based on capital contribution
 - (c) Profit sharing based on value of technology and market access
 - (d) Profit sharing based on operational involvement

32. Create a hypothetical scenario where a Jointly Controlled Asset arrangement is more beneficial than a Jointly Controlled Entity.
- (a) When the venture involves significant capital investment
 - (b) When the venture requires shared use of specific assets
 - (c) When the venture is expected to last for many years
 - (d) When one party wishes to retain full control
33. Identify the incorrect statement regarding Jointly Controlled Entities in AS 27.
- (a) They are a type of joint venture.
 - (b) They always require the creation of a separate legal entity.
 - (c) They involve sharing control over the economic activity.
 - (d) They require the use of the equity method for reporting in venturer's financial statements.
34. Which of these is not a required disclosure under AS 27 for a Jointly Controlled Entity?
- (a) The venturer's interest in the joint venture.
 - (b) The structure of the joint venture.
 - (c) The financial statements of the joint venture.
 - (d) The capital commitments of the joint venture.
35. In AS 27, which term describes the situation where two or more parties have control over a venture?
- (a) Joint control
 - (b) Significant influence
 - (c) Absolute control
 - (d) Unified management
36. How does AS 27 differentiate between Jointly Controlled Entities and Jointly Controlled Operations?
- (a) By the method of reporting in the venturer's financial statements.
 - (b) By the existence of a separate legal entity.
 - (c) By the nature of the risks and rewards shared.
 - (d) All of the above.
37. What does 'Joint control' imply in the context of Jointly Controlled Assets, as per AS 27?
- (a) Shared control over decision-making but separate control over assets.
 - (b) Shared decision-making and shared control over assets.
 - (c) Individual control over assets but shared financial interest.
 - (d) Equal financial contributions to the assets.
38. Under AS 27, when a venture contributes non-monetary assets to a joint venture, how is it usually measured?
- (a) At carrying amount
 - (b) At lower of cost or market value
 - (c) At fair value at the date of contribution
 - (d) At historical cost

