AS27: Financial Reporting of Interest in Joint Ventures

Definition of Joint Venture :
→ Contractual Arrangement
→ Between 2 or more parties for Economic Activity
→ which is subject to $\underbrace{\text{Joint}}_{\text{Sharing}}$ $\underbrace{\text{Control}}_{\text{Power to govern Financial \& operating policies so as to obtain benefits.}}$

* Parties to joint venture are called venturers.

Forms/Types of Joint Ventures

Jointly controlled Operations (JCO)

(E.g. Construction Activity)

* No separate entity
* Use their own Assets
* No separate Books of J.V. maintained
  (Draft Cons. P&L prepared to ascertain Profit/Loss)
* Maintain own books & record only his own transactions.
* Venturers met expenses of J.V. business from their funds
* Any Income earned from J.V. is shared by venturers as per contract

Jointly controlled Assets (JCA)

(E.g. Construction of Gas pipeline by Bharat & Hindustan Petroleum)

* No separate entity
* Common control over joint assets
* No separate Books of J.V.
  (Draft Cons. B/S & P&L A/c prepared)
* Venturer shows only their share of asset & total income earned & expenses incurred by them
* Expenses on jointly held assets shared by venturers as per contract

Jointly controlled Entities (JCE)

(Eg. X Ltd. + Y Ltd. = Z Ltd.)

* Separate entity is formed
* Entity prepares its own Books of Accounts & Financial Statements.

Jointly Controlled Entity (JCE)

Entity (Firm, Company, etc.)

- Own Books of Accounts as per Double Entry System
- Own Financial Statements in normal manner (B/S, P&L, etc.)

Partner, Venturer etc.

Separate Financial statements

↓

Apply AS 13

Investment in J.V. A/c - Dr
To Bank A/c

Consolidated Financial statements

↓

Apply AS 27 (Proportionate Consolidation Method)

Assets, Liabilities, Expense, Income shown on line by line basis for proportionate amount (venturer share)

Share in Asset A/c - Dr
Share in Expense A/c - Dr
To Share in Income A/c
To Share in Liability A/c
To Investment in J.V. A/c

Cases where Proportionate Consolidation Method is not followed

a) Investment is intended to be temporary OR

b) Joint venture operates under long Term restrictions which significantly restricts transfer of funds to venturer.

Discontinuance of Proportionate Consolidation Method

a) When venturers ceases to have joint control in Joint venture OR

b) Joint venture operates under long Term restrictions which significantly restricts transfer of funds to venturer.

After discontinuance of above method → If stake is

- > 50% - Apply AS 21
- 20% to 50% - Apply AS 23
- < 20% - Apply AS 13

Thereafter carrying Amount of Investment is regarded as cost

Transactions between Venturer & Joint venture

When venturer sells asset to Joint venture, venturer should recognise only that portion of gain/loss which is attributable to interests of other venturers.

* Gain or loss can be recorded on share of assets sold to other venturer
* Do not record gain or loss on share of assets transferred to itself.

Gain/Loss = Fair value of what we get vs Book value of what we give

Note: If decline in market prices/NRV or Impairment Loss have been reported, then loss can be recorded on own share of asset also.

Example: A Ltd. & B Ltd. established a separate entity J Ltd. (50% & 50% ownership interest)
A Ltd. contributed Property to J Ltd. Fair value = 110 Carrying Amt. = 100
B Ltd. contributed Equipment to J Ltd. Fair value = 120 Carrying Amt. = 80

A Ltd. Books (CFS)

Equipment (Received) A/c - Dr	60	FV (120 x 50%)
To Property (given up)	50	(100 x 50%) CA
To Gain (P&L)	10	

B Ltd. Books (CFS)

Property (Received) A/c - Dr	55	FV (110 x 50%)
To Equipment (given up)	40	CA (80 x 50%)
To Gain (P&L)	15	