AS 27: Financial Reporting of Interests in Joint Ventures

1. Definition

A) Joint Venture (JV)

- A Joint Venture is a contractual agreement whereby two or more parties undertake an economic activity which is subject to joint control.

B) Venturers

- Parties to the Joint Venture.

2. Types of Joint Venture

Type	Full Form	Meaning / Features	Accounting
JCO	Jointly Controlled Operations	* Contractual agreement is there but they have not formed a separate legal entity. * Each venturer has its own separate business. * No separate legal entity for Joint Venture. * All venturers use their own assets, incur expenses, meet the liabilities for Joint Venture. * Any revenue generated is shared by the venturers as per the contract.	* Under JCO, each venturer should recognise its own share of asset, liability, income, expense. * We will also prepare a Consolidated Profit and Loss Account of JCO (it is like rough extract).
JCA	Jointly Controlled Assets	* Venturers come together to construct a common asset for their own use. * There is common control over the joint asset.	* Under JCA, each venturer will record their share of asset/expense/liability/Income.
JCE	Jointly Controlled Entities	* Venturers create a separate legal entity for their business. * Joint Venture in case of JCE will maintain its own accounting records.	**Accounting by Venturers:** * We will record Investment in Joint Venture (As per AS 13). * Proportionate consolidation method (AS 27). * Here venturers record asset, liability, income, expense of JCE in Consolidated Financial Statements (CFS) only to the extent of own share. * Procedure is same as AS 21 (Except there is no Minority Interest).

3. Cases where AS 27 does not allow use of Proportionate Consolidation

- Where Investment is intended to be temporary.
- There are severe long-term restrictions which significantly restrict the transfer of funds to the venturer.

4. Discontinuance of Proportionate Consolidation Method

The method is discontinued when:

- Venturers cease to have joint control in the Joint Venture. OR
- The Joint Venture has started operating in severe long-term restrictions.

After discontinuance of proportionate consolidation method:

- If stake is more than 50% → Apply AS 21.
- If stake is 20% to 50% → Apply AS 23.
- If stake is less than 20% → Apply AS 13.

5. Transactions Between a Venturer & Joint Venture

- When a venturer sells any asset to the Joint Venture or purchases from the Joint Venture, in that case the venturer in its books should record the transaction only to the extent of other parties' share.

When both venturers contribute an asset to Joint Venture (JCE - Separate Entity, e.g., J Ltd., 50:50):

- **Rule:**
    - Asset given up will be de-recognised at Carrying Amount (CA) to the extent of other parties' share.
    - Asset received via Joint Venture will be recorded at Fair Value (FV) to the extent of own share.
- **Journal Entry (J.E.) in the Books of A Ltd. (Consolidated Financial Statements - CFS):**
    - Asset Received Account Debit (FV × 50%)
    - Profit and Loss Account Debit (Calculated as: Asset given up @ CA × 50% - Asset received @ FV × 50%)
    - To Asset Given Up (CA × 50%)
- **Journal Entry (J.E.) in the Books of B Ltd. (Consolidated Financial Statements - CFS):**
    - Asset Received Account Debit (FV × 50%)
    - To Asset Given Up (CA × 50%)
    - To Profit and Loss Account (Calculated as: Asset Received @ FV × 50% - Asset given up @ CA × 50%)
