CA INTERMEDIATE

MARATHON

Advanced Accounting

AS 27:
Financial Reporting of Interest in Joint Ventures

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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 Joint Control

- Joint → Sharing
- Control → 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)
(Eg. 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)
(Eg. 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	(120 x 50%) FV
To Property (given up)	50	(100 x 50%) CA
To Gain (P&L)	10	

B Ltd. Books (CFS)

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

FINANCIAL REPORTING OF INTEREST IN JOINT VENTURES

AS 27

Question 1: ICAI Study Material

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 01.01.2021 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 30.06.2021 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.

Question 2: ICAI Study Material

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gasfrom 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.

Solution

Consolidated Balance Sheet

		Note	(₹)
I	**Equity and liabilities**		
	Shareholders' funds: Capital 90,00,000		
	Share Capital P&L (18,60,000)	1	71,40,000
			71,40,000
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment:	2	71,40,000
			71,40,000

Notes to Accounts

			(₹)
1.	Share capital		
	A Ltd.	23,80,000	
	B Ltd.	23,80,000	
	C Ltd.	23,80,000	71,40,000

2.	Property, Plant and Equipment Land & Building:		
	A Ltd.	3,80,000	
	B Ltd. 1/3	3,80,000	
	C Ltd.	3,80,000	11,40,000
	Plant & Machinery:		
	A Ltd.	17,00,000	
	B Ltd. 1/3	17,00,000	
	C Ltd.	17,00,000	51,00,000
	Computers:		
	A Ltd.	60,000	
	B Ltd. 1/3	60,000	
	C Ltd.	60,000	1,80,000
	Vehicles:		
	A Ltd.	2,40,000	
	B Ltd. 1/3	2,40,000	
	C Ltd.	2,40,000	7,20,000

In the Books of A Ltd.
Extract of statement of Profit & Loss

Particulars	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		2,00,000

1260000/3
6L/3

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	23,80,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	20,000	
	Plant & Machinery	3,00,000	
	Computers	40,000	
	Vehicles	60,000	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	(20,000)	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	(3,00,000)	17,00,000
	Computers	1,00,000	
	Less: Depreciation	(40,000)	60,000
	Vehicles	3,00,000	
	Less: Depreciation	(60,000)	2,40,000
			23,80,000

In the Books of B Ltd. & C Ltd.: Same Presentation as in case of A Ltd.

Question 3: ICAI Study Material

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.

Ass. & Lib = 1:1

Exp. & Rev: 5:4 Profits 1:1 Cap: 49% & 51%

Solution

Consolidated Profit & Loss Account

Particulars	Note No.	(₹)
Revenue from operations	1	13,05,000
Total Revenue (A)		13,05,000
Less: Expenses		
Purchases	2	9,00,000
Other expenses	3	3,06,000
Changes in inventories of finished goods (0 - 1L)	4	(1,00,000)
Total Expenses (B)		11,06,000
Profit Before Tax (A-B)		1,99,000

Consolidated Balance Sheet

		Note No.	(₹)
I	**Equity and liabilities**		
	1. Shareholders' funds:		
	Share Capital	5	4,01,000
	Reserves and Surplus	6	1,99,000
	2. Non-current liabilities		
	Long term borrowings	7	2,00,000
	3. Current Liabilities	8	1,00,000
			9,00,000
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment	9	6,00,000
	Current Assets		
	Inventories	10	1,00,000
	Other current assets	11	2,00,000
			9,00,000

Notes to Accounts

	Particulars		(₹)
1.	**Revenue from operations**		
	Sales: A Ltd. 5:4	7,25,000	
	B Ltd.	5,80,000	13,05,000
2.	**Purchases:**		
	A Ltd.	5,00,000	
	B Ltd. 5:4	4,00,000	9,00,000
3.	**Other Expenses:**		
	A Ltd. 5:4	1,70,000	
	B Ltd.	1,36,000	3,06,000
4.	**Closing Inventory:**		
	A Ltd. 1:1	50,000	
	B Ltd.	50,000	1,00,000
5.	**Share Capital:**		
	A Ltd.	1,96,490	
	B Ltd. 49:51	2,04,510	4,01,000
6.	**Reserve & Surplus:**		
	Profit & Loss Account A Ltd.	99,500	
	B Ltd. 1:1	99,500	1,99,000
7.	**Long term Borrowing:**		
	Unsecured Loans A Ltd.	1,00,000	
	B Ltd. 1:1	1,00,000	2,00,000
8.	**Current Liabilities:**		
	A Ltd. 1:1	50,000	
	B Ltd.	50,000	1,00,000
9.	**Property, Plant & Equipment:**		
	A Ltd.	3,00,000	
	B Ltd. 1:1	3,00,000	6,00,000
10.	**Inventories:**		
	A Ltd. 1:1	50,000	
	B Ltd.	50,000	1,00,000
11.	**Other Current Assets:**		
	A Ltd. 1:1	1,00,000	
	B Ltd.	1,00,000	2,00,000

JCE, PCM

A + B = C Ltd.

JV Ltd.

Question 4: ICAI Study Material

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 thethree 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 consolidationmethod.

Question 5: ICAI Study Material

JVR Limited has made investments of ₹ 97.84 crores in equity shares of QSR Limited in pursuance of Joint Venture agreement till 2021-22 (i.e., morethan 12 months). The investment has been made at par. QSR Limited hasbeen 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.

Solution

As per AS 27 "Financial Reporting of Interests in Joint Ventures",in a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment in accordance with AS 13 'Accounting for Investments'.

As per AS 13 "Accounting for Investments", long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Thetype and extent of the investor's stake in the investee are also taken into account. However, where there is a decline, other than temporary, in the carrying amounts of long-term investments, the resultant reduction in the carrying amount is charged to the profit and loss statement.

Since the investment was made in the year 2021-2022 i.e., more than a year,it is a long-term investment. In the given case, though the QSR Ltd. is in continuous losses for past 2 years, yet it has a futuristic and profitable business plans and projections for the coming years. Here, one of the indicators i.e. 'losses incurred to the company' may lead to diminution inthe value of the shares while the other indicator that 'the company has positive expected cash flows from its business plans' does not lead to decline in the value of shares. Considering both the facts, in case the expectation of profitable businessplans and positive cash flows is based reliable presumptions (such as tenderin favour of QSR Ltd., strong order book etc.), the decline will be regardedas temporary in nature and the investment in equity shares will continue tobe carried at cost only.

However, should the aforesaid presumptions be based on projections without reasonable evidence backing the claims, the decline could be regarded as non-temporary in nature in which case the write down of the carrying amount become necessary in line with AS 13, thereby implying the contention of QSR Ltd. to be correct.

1)

Draft consolidated P&L A/c

To Expenses of A		By Flats taken over	
Purchase of Land	60,00,000	A	1000000
Registry fees	60,000	B	1000000
Interest on loan	2,00,000	C	1000000
(50L × 8% × 6/12)			
		By Sale of Flats	
To Expenses of B		A	4000000
Material from Godown	4,50,000	B	2000000
Material Purchased	5,00,000	C	1000000
To Expenses of C			
Advertising, Labour, etc.	900000		
To Profit (B.f.)	18,90,000		
A 630000			
B 630000			
C 630000			
	10000000		10000000

Books of A

Joint Venture A/c

To Bank A/c (Purch. of Land)	60,00,000	By Land & Building A/c	10,00,000
To Bank A/c (Fees)	60000	By Bank A/c	40,00,000
To Bank A/c (Interest)	200000	By Bank A/c (From B)	1420000
To share of Profit	630000	By Bank A/c (From C)	470000

Books of B

Joint Venture A/c

To Purchase/ Stock	450000	By Land & Building A/c	10,00,000
To Bank A/c	500000	By Bank A/c	20,00,000
To share of Profit	630000		
To Bank A/c (B.f.)	1420000		

Books of C

Joint Venture A/c

To Bank A/c (Expenses)	9,00,000	By Land & Building A/c	1000000
To share of Profit	630000	By Bank A/c	1000000
To Bank A/c (B.f.)	470000		

Sol. 2

Assets	Cash Cost	Dep. (%)	P&L Dep. Amount	B/s Clos. value
Buildings	1200000	5%	60000	1140000
Pipeline	6000000	15%	900000	5100000
Computers	300000	40%	120000	180000
Vehicles	900000	20%	180000	720000
	8400000		1260000	7140000
Maintenance Exp.	600000		600000	
	9000000		1860000	

1) Bank A/c - Dr 90L
   To Capital 90L

2) PPE A/c - Dr 84L
   To Bank 84L

3) Maint. Exp. 6L
   To Bank 6L

4) Dep. 12.60L
   To PPE 12.60L

5) P&L A/c - Dr 18.60L
   To Maint. Exp. 6L
   To Depreciation 12.60L

JCE

X Ltd. + Y Ltd. = $\boxed{\text{Z Ltd.}}$ → JCE

X Ltd. (SFS)

Inv. in J.V. xxx

Y Ltd. (SFS)

Inv. in J.V. xxx

(separate entity)

Z Ltd.

Capital xxx

↓

B/S, P/L

Sol. 4

Joint Ownership Ratio 50 : 50 = 1:1

For preparing Balance sheets by A Ltd. & B Ltd.

Journal Entry to be passed

Proportionate Consolidation Method

	A Ltd.		B Ltd.	
PPE A/c - Dr	975000		975000	
Current Assets A/c - Dr	25000		25000	
To Current L's.		50000		50000
To Loans		100000		100000
To Res. & Surplus		600000		600000
To Inv. in J.V.		250000		250000

[Incomes - Expenses]

Balance sheet of A Ltd. (Consolidated)

	Note No.	Amount
Equity & Liabilities		
1) Shareholder funds		
a) Share capital		10,00,000
b) Reserves & surplus	1	24,00,000
2) Non current liabilities		
a) Long Term Borrowings	2	4,00,000
3) Current liabilities	3	450000
TOTAL		4250000
Assets		
1) Non current Assets		
a) PPE & Intangible Assets		
i) PPE	4	40,25,000
2) Current Assets	5	225000
TOTAL		42,50,000

Notes to Accounts

1) Reserves & Surplus

A Ltd.	1800000	
C Ltd. (J.V.)	600000	24,00,000

2) LTB

Loans

A Ltd.	300000	
C Ltd. (J.V.)	100000	400000

3) Current Lia's.

A Ltd.	400000	
C Ltd. (J.V.)	50000	4,50,000

4) PPE

A Ltd.	30,50,000	
C Ltd. (J.V.)	975000	40,25,000

5) Current Assets

A Ltd.	200000	
C Ltd. (J.V.)	25000	2,25,000

Balance sheet of B Ltd. (Consolidated)

	Note No.	Amount
Equity & Liabilities		
1) Shareholder funds		
a) Share capital		750000
b) Reserves & surplus	1	2200000
2) Non current liabilities		
a) Long Term Borrowings	2	500000
3) Current liabilities	3	300000
TOTAL		37,50,000
Assets		
1) Non Current Assets		
a) PPE & Intangible Assets		
i) PPE	4	3600000
2) Current Assets	5	150000
TOTAL		37,50,000

Notes to Accounts

1) Reserves & Surplus

B Ltd.	1600000	
C Ltd.	600000	2200000

2) Long Term Borrowings

B Ltd.	400000	
C Ltd.	100000	500000

3) Current Liabilities

B Ltd.	250000	
C Ltd.	50000	300000

4) PPE

B Ltd.	2625000	
C Ltd.	975000	3600000

5) Current Assets

B Ltd.	125000	
C Ltd.	25000	150000

$\boxed{\text{X Ltd.}}$

	When X Ltd. prepares	
	Standalone Financial statements	Consolidated Financial statements
Inv in 70% shares of A Ltd. (subsidiary)	AS 13	AS 21 (Full consolidation)
Inv in 30% shares of B Ltd. (Associate)	AS 13	AS 23 (Equity Method)
Inv in 5% shares of C Ltd. (Normal)	AS 13	AS 13
Inv in Joint venture (X Ltd. + Y Ltd. = Z Ltd.)	AS 13	AS 27 (Proportionate consolidation Method)

> 50%	→ Subsidiary
≥ 20% & upto 50%	→ Associate
< 20%	→ Normal Investment