

## ACCOUNTING STANDARD – 27 FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

### 1. WHY AS 27

- There are so many examples in real life where 2 or more entities are working together to achieve a certain purpose. Hindustan Unilever Ltd (HUL), Tata Starbucks Ltd, Tata SIA Airlines Ltd. (Vistara), etc. are a few popular examples of Joint Ventures.
- Depending on the contractual arrangement, the accounting and reporting for Joint Ventures is done and the same is prescribed in AS 27
- This Standard should 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 and investors, regardless of the structures or forms under which the joint venture activities take place.
- The provisions of this AS need to be referred to for **consolidated financial statement only** when CFS is prepared and presented by the venturer.

## 2. IMPORTANT DEFINITIONS

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

From the above definition we conclude that the essential conditions for any business relation to qualify as joint venture are:

- a. **Two or more parties coming together:** Parties can be an individual or any form of business organization say, BOI, AOP, Company, firm.
  - b. **Venturers undertake some economic activity:** Economic activity means activities with the profit-making motive. Joint venture is separate from the regular identity of the venturers, it may be in the form of independent and separate legal organization other than regular concern of the venturer engaged in the economic activity.
  - c. **Venturers have joint control on the economic activity:** The operating and financial decisions are influenced by the venturers and they also share the results of the economic activity.
  - d. **There exists a contractual agreement:** The relationship between venturers is governed by the contractual agreement. This agreement can be in the form of written and signed agreement or as minutes of venturer meeting or in any other written form.
2. **Joint control** is the contractually agreed sharing of control over an economic activity.
  3. **Control** is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.
  4. A **venturer** is a party to a joint venture and has joint control over that joint venture.
  5. An **investor** in a joint venture is a party to a joint venture and does not have joint control over that joint venture.
  6. **Proportionate consolidation Method** is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

### 3. CONTRACTUAL ARRANGEMENT

The joint venture covered under this statement is governed on the basis of contractual agreement.

Non-existence of contractual agreement will disqualify an organization to be covered in AS 27. Joint ventures with contractual agreement will be excluded from the scope of AS 27 only if the investment qualifies as subsidiary under AS 21, in this case, it will be covered by AS 21. Contractual agreement can be in the form of written contract, minutes of discussion between parties (venturers), articles of the concern or by-laws of the relevant joint venture

The main object of contractual agreement is to distribute the economic control among the venturers, it ensures that no venturer should have unilateral control.

#### Example 1

IDBI gave loan to the joint venture entity of L&T and Tania Construction, they signed an agreement according to which IDBI will be informed for all important decisions of the joint venture entity. This agreement is to protect the right of the IDBI, hence just signing the contractual agreement will not make investor a venturer.

#### Example 2

X Ltd invested ₹ 200 crore as initial capital along with Y Ltd and Z Ltd in GFH Ltd. The purpose of X Ltd making this investment is to grow the business of GFH Ltd along with the other investors. All investors have a right to attend to the meetings and to take decisions with respect to the business of GFH Ltd. All investors are actively involved in running the business of GFH Ltd and have a share in the returns generated by GFH Ltd in an agreed proportion.

GFH Ltd is an example of a Joint Venture and X Ltd, Y Ltd and Z Ltd are all Venturers.

Similarly, just because contractual agreement has assigned the role of a manager to any of the venturer will not disqualify him as venturer.

#### Example 3

Mr. A, M/s. B & Co. and C Ltd. entered into a joint venture, where according to the agreement, all the policies making decisions on financial and operating activities will be taken in a regular meeting attended by them or their representatives. Implementation and execution of these policies will be the responsibility of Mr. A. Here Mr. A is acting as venturer as well as manager of the concern.

#### Note:

Any structure which satisfies the following characteristics can be classified as joint ventures:

- (a) Two or more venturers are bound by a contractual arrangement and
- (b) The contractual arrangement establishes joint control.

## 4. FROM OF JOINT VENTURES

Joint ventures may take many forms and structures, this Statement identifies them in three broad types -

- **Jointly Controlled Operations (JCO),**
- **Jointly Controlled Assets (JCA) and**
- **Jointly Controlled Entities (JCE).**

### 4.1 JOINTLY CONTROLLED OPERATIONS (JCO)

Two or more entities entered into an agreement to undertake a business activity but **without forming a separate legal entity.**

**Following are the key features of JCO:**

- a. Each venturer has his own separate business.
- b. There is **no separate entity** for joint venture business.
- c. All venturers are creating their own assets and maintain them.
- d. **Each venturer record only his own transactions without any separate set of books** maintained for the joint venture business.
- e. Venturers use their assets for the joint venture business.
- f. Venturers met the liabilities created by them for the joint venture business.
- g. Venturers met the expenses of the joint venture business from their funds.
- h. Any revenue generated or income earned from the joint venture **is shared by the venturers as per the contract.**

#### **Example 4**

Mr. A (dealer in tiles and marbles), Mr. B (dealer in various building materials) and Mr. C (Promoter) enters into a joint venture business, where any contract for construction received will be completed jointly, say, Mr. A will supply all tiles and marbles, Mr. B will supply other materials from his godown and Mr. C will look after the completion of construction. As per the contractual agreement, they will share any profit/loss in a predetermined ratio. None of them are using separate staff or other resources for the joint venture business and neither do they maintain a separate account. Everything is recorded in their personal business only.

Venturer doesn't maintain a separate set of books but they record only their own transactions of the joint venture business in their books. Any transaction of joint venture recorded separately is only for internal reporting purpose. Once all transactions recorded in venturer financial statement, they don't need to be adjusted for in consolidated financial adjustment.

## 4.2 JOINTLY CONTROLLED ASSETS (JCA)

- Venturers have purchased or invested in an Asset which will be jointly controlled by venturers.
- Separate legal entity is not created in this form of joint venture.
- Joint Asset will be used by them for the purpose of generating economic benefit to each of them.
- They take up any expenses and liabilities related to the joint assets as per the contract.
- In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.
- In consolidated financial statements, no adjustments are required in respect of these items when the venturer presents consolidated financial statements.

### Example 5

ABC Ltd., BP Ltd. and HP Ltd. having the same point of oil refinery and same place of customers agreed to spread a pipeline from their unit to customers place jointly. They agreed to share the expenditure on the pipeline construction and maintenance in the ratio 3:3:4 respectively and the time allotted to use the pipeline was in the ratio 4:3:3 respectively.

For the joint venture, each venturer will record his share of joint assets as classified according to the nature of the assets rather than as an investment and any expenditure incurred or revenue generated will be recorded with other items similar to JCO.

#### Following are the few differences between JCO and JCA for better understanding:

- In JCO, venturers use their own assets for joint venture business but in JCA they jointly own the assets to be used in joint venture.
- JCO is an agreement to joint carry on the operations to earn income whereas, JCA is an agreement to jointly construct and maintain an asset to generate revenue to each venturer.
- Under JCO all expenses and revenues are shared at an agreed ratio, in JCA only expenses on joint assets are shared at the agreed ratio.

## 4.3 JOINTLY CONTROLLED ENTITIES (JCE)

- This is the format where venturer creates a new entity for their joint venture business. 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.
- All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity.

- The net result of the entity is **shared by the venturers in the ratio agreed upon** in the contractual agreement.
- A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements applicable to that jointly controlled entity.
- **The investors who don't have joint control over the entity recognized his share of net results and his investments in joint venture as per AS 13.** In the consolidated financial statement it is recognized as per AS 13, AS 21 or AS 23 as appropriate.

#### Example 6

A Ltd and B Ltd are two infrastructure companies operating in City A. The local authority has issued a tender to construct a metro stretch for ₹ 2,000 crore and had invited bidders to apply for the tender. A Ltd and B Ltd, jointly form a new entity AB Ltd that bids for the tender. All machinery and equipment will be the responsibility of A Ltd. All funding will be managed and controlled by B Ltd. Revenue and operating expenses will be shared jointly by A Ltd and B Ltd in the proportion of 60:40.

In the above example AB Ltd constitutes a Jointly Controlled Entity (JCE).

#### Example 7 (Jointly Controlled Entity (JCE))

Three separate aerospace companies form a separate entity, Aero Ltd, to jointly manufacture an aircraft. They carry responsibility for different areas of expertise, such as: manufacturing engines; manufacturing fuselage and wings; and aerodynamics.

The companies carry out different parts of the manufacturing process, each using its own resources and expertise in order to manufacture, market and distribute the aircraft jointly. The three entities share the revenues from the sale of aircraft and jointly incur expenses.

The revenues and common costs are shared, as agreed in the consortium contract. Parties also incur their own separate costs, such as labour costs, manufacturing costs, supplies, inventory of unused parts and work in progress. Each party recognises its separately incurred costs in full.

Aero Ltd maintains separate accounting records. The consortium agreement comprises the following: Aero Ltd will invoice the customers on the investors' behalf. The allocation of revenue from the aircraft's sale is in proportion to the investors' interests.

All administrative costs incurred by Aero Ltd are shared by the parties in proportion to their interests; Aero Ltd will recharge these, with no additional margin.

The companies carry out different parts of the manufacturing process, each using its own resources and expertise to manufacture, market and distribute the aircraft jointly.

Each company incurs its own separate costs, such as labour costs, manufacturing costs, supplies, inventory of unused parts and work in progress. Each company recognises its separately incurred costs in full.

### Difference Between Jointly Controlled Operation and Jointly Controlled Entity

S.No.	Jointly Controlled Operation (JCO)	Jointly Controlled Entity (JCE)
1.	No Separate Entity	Separate Entity
2.	Each Venturer records his own Share of Assets/ Liabilities, Revenue/Expenses in its own Books.	Assets, Liabilities, Revenue & Expenses belongs to JCE. Venturer has right to share in Net Assets & Profits of JCE.
3.	No Separate Books Of JCO	Separate Books are maintained for JCE
4.	Here Venturer is recording in his own Books its share in Assets/Liability in JCO.	Here Venturer co. in its books is showing Investment in JCE

## 5. CONSOLIDATED FINANCIAL STATEMENTS OF A VENTURER

**Proportionate consolidation** is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

Proportionate consolidation method of accounting is to be followed **except in the following cases**:

- Investment is intended to be **temporary** because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. And
- Joint venture operates under **severe long-term restrictions**, which significantly impair its ability to transfer funds to the venturers.

In both the above cases, investment of venturer in the share of the investee is treated as investment according to AS 13.

From the date of discontinuing the use of the proportionate consolidation method,

- If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statement.
- If interest is 20% or more but upto 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statement.
- For all other cases investment in joint venture is treated as per AS 13, Accounting for Investment.
- For this purpose, the carrying amount of the investment at the date on which joint venture relationship ceases to exist should be regarded as cost thereafter.

**Most of the provisions of Proportionate Consolidation Method are similar to the provisions of AS 21.**

**Example 8 (JCE & Proportionate Consolidation Method)****Balance Sheet of J Ltd. (31/3/24)**

Equity Share Capital	10,00,000
Reserves and Surplus	6,00,000
Liabilities	14,00,000
	<b>30,00,000</b>
Non-Current Assets	18,00,000
Current Assets	12,00,000
	<b>30,00,000</b>

- J Ltd. is a J.V. Of A Ltd. & B Ltd. with 50% Investment by each.
- A Ltd. Invested in J Ltd. on 1/4/23, When R&S Balance of J Ltd. was 2,00,000/-
- Investment made by A Ltd. Was 6,50,000
- How A Ltd Shall accounts for this Investment in J Ltd. in its Consolidated Financial Statement.

**Solution:-**

A Ltd. (Venturer) Shall apply Proportionate Consolidation Method as under :-

**Working Note 1 - Cost of Control as on DOA**

Investment Cost	6,50,000
(-) 50% of Net Assets	
ESC 10 Lacs × 50%	(5,00,000)
Pre-Acquisition Profit 2 Lacs × 50%	(1,00,000)
<b>Goodwill</b>	<b>50,000</b>

**Working Note 2 - Share in Post Acquisition Profit of JCE :-**

$$4,00,000 \times 50\% = 2,00,000$$

(Note: Minority Interest will never be Calculated)

**A Ltd.**

**Consolidation B/s (Extract)**

Equity Share Capital	XXX
Consolidated R&S :-	
A's Balance	XXX
+ Post Acquisition Profit Share	2,00,000
Liability A Ltd.	XXX
Share in JV	7,00,000
Non-Current Assets	
A Ltd.	XXX
JV	9,00,000
Goodwill	50,000
Current Assets	
A Ltd.	XXX
JV	6,00,000

## 6. TRANSACTION BETWEEN A VENTURER AND JOINT VENTURER

- When venturer transfers or sells assets to Joint Venture, the venturer should recognise **only that portion of the gain or loss which is attributable to the interests of the other venturers.**
- The venturer should recognise the **full amount of any loss only** when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.
- When the venturer from the joint venture purchases the assets, **venturer will not recognized his share of profits in the joint venture of such transaction unless he disposes off the assets.**
- A venturer should recognise his share of the losses resulting from these transactions in the same way as profits except that losses will be recognised in full immediately only when they represent a reduction in the net realisable value of current assets or an impairment loss.

**Example 9**

A and B established a separate vehicle i.e. entity J, wherein each operator has a 50% ownership interest and each takes 50% of the output. On formation of the joint venture, A contributed a property with fair value of ₹ 110 crore and agreed to contribute his experience over the years towards this venture; and B contributed equipment with a fair value of ₹ 120 crore. The carrying values of the contributed assets were ₹ 100 crore and ₹ 80 crore, respectively.

**Answer**

A's share in the fair value of assets contributed by entity B (50% × 120)	60
A's share in the carrying value of asset contributed by A to the joint venture (50% × 100)	(50)
<b>Gain recognised by A</b>	<b>10</b>

**Example 10**

A Ltd. is a Venturer has invested in a JV AB Ltd. with 50% Share. Another Venturer is B Ltd. A Ltd. sold one Asset to JV (AB Ltd.) whose cost is Rs. 1,00,000 and Sold at 1,25,000. How to treat this transaction in the books of A Ltd. and B Ltd. Describe with the help of Journal Entry.

**Answer**

A Ltd. has total Gain of 25,000 out of which 12,500 (50% share) earned from B Ltd. (i.e. Outside party) and rest 12,500 earned from itself. A Ltd. shall not record its own share of Gain earned from itself.

Books of JV (AB Ltd. - Purchaser)	Books of B Ltd. (Venturer)	Books of A Ltd. (Seller and Venturer)
Asset A/c Dr. 1,25,000 To A Ltd. 1,25,000	Share in JV's Asset Dr. 62,500 To Share in JV's Liability (A Ltd.) A/c 62,500	B Ltd. A/c Dr. 62,500 Share in JV's Asset Dr. 50,000 To Assets A/c 1,00,000 To Gain on Sale A/c 12,500

**Example 11**

AB Ltd. (JV of A Ltd. and B Ltd.) sold one Asset costing Rs. 1,00,000 to A Ltd. at 1,30,000. Pass necessary journal entries.

**Answer**

JV Ltd. has total Gain of 30,000 out of which 15,000 (50% share) of B Ltd. (i.e. Outside party) and 15,000 of A Ltd. A Ltd. shall not record its own share of Gain earned from itself.

Books of JV (AB Ltd. - Seller)	Books of B Ltd. (Venturer)	Books of A Ltd. (Purchaser and Venturer)
A Ltd. A/c Dr. 1,30,000 To Asset A/c 1,00,000 To Gain A/c 30,000	A Ltd. A/c Dr. 65,000 To Share in Asset A/c 50,000 To Gain A/c 15,000	Asset A/c Dr. 1,15,000 To B Ltd. A/c 65,000 To Share in Asset A/c 50,000

## 7. (MCQ's from ICAI Material)

1. State which of the following statements are incorrect.
  - (i) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.
  - (ii) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.
  - (iii) An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23 as the case may be.
    - (a) Point (i) is incorrect.
    - (b) Point (ii) is incorrect.
    - (c) Point (iii) is incorrect.
    - (d) None of the above.
  
2. Identify which of the following is not a feature of a Jointly controlled operations (JCO):
  - a. Each venturer has his own separate business.
  - b. There is a separate entity for joint venture business.
  - c. Each venturer record only his own transactions without any separately set of books maintained for the joint venture business.
  - d. There is a common agreement between all of them.
  
3. Identify which of the following is/are not a feature of a Jointly controlled assets (JCA):
  - (i) There is a separate legal identity.
  - (ii) There is a common control over the joint assets.
  - (iii) Expenses on jointly held assets are shared by the venturers as per the contract.
  - (iv) In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.
    - (a) Point no. (i) only.
    - (b) Point no. (i) and (iii).
    - (c) Point no. (iii) and (iv).
    - (d) Point (i) and (ii).
  
4. Identify which is/ are features of a Jointly controlled entity (JCE):
  - (i) Venturer creates a new entity for their joint venture business.
  - (ii) All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity.
  - (iii) The revenues and expenses of the entity is shared by the venturers in the ratio agreed

upon in the contractual agreement.

- (a) Point no. (i) only.
- (b) Point no. (i) and (ii).
- (c) Point no. (iii).
- (d) Point no. (iii).

**5. Identify the correct statements.**

From the date of discontinuing the use of the proportionate consolidation method:

- (i) If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statements.
  - (ii) If interest is 20% or more but upto 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statements.
  - (iii) For all other cases investment in joint venture is treated as per AS 13, Accounting for Investments.
  - (iv) For this purpose, the fair value of the investment at the date on which joint venture relationship ceases to exist should be regarded as cost thereafter.
- (a) Point no. 1 and 2.
  - (b) Point no. 1, 2 and 3.
  - (c) Point no. 1, 2, 3 and 4.
  - (d) None of the above.

<b>Answers</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	b	b	a	c	b