

TOPIC – 24

ACCOUNTING STANDARD – 27

FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

TOTAL NO. QUESTION - 06

Q.AS27.SM.01 (Jointly Controlled Operation)

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase 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.



Q.AS27.SM.02 (Jointly Controlled Asset)

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.



Q.AS27.SM.03 (Jointly Controlled Entity)

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.

Q.AS27.SM.04 (JCE – Proportionate Consolidation Method)

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.

Q.AS27.SM.05

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.



Q.AS27.OM.06 (Master Question)

Standalone Balance sheets on 31/03/24

Particular	H	S	JV	ASS
ESC 10/- Face Value	10,00,000	8,00,000	6,00,000	50,000
R&S	9,00,000	75,000	4,50,000	3,00,000
Liability	11,00,000	6,50,000	5,50,000	4,00,000
	30 Laksh	22 Laksh	16 Laksh	12 Laksh
Investments:				
In S 80%	11,00,000	-	-	-
In JV 50%	5,00,000	-	-	-
In Ass. 30%	1,60,000	-	-	-
Other Assets	12,40,000	22,00,000	16,00,000	12,00,000



- 1) Date of Acquisition of all Investments is 01/07/23.
- 2) Opening Balance of R&S on 01/04/23

S Ltd.	4,80,000
JV Ltd.	1,50,000
Associate Ltd.	1,20,000

Prepare Consolidated Balance Sheet for H Ltd.

SOLUTIONS OF ABOVE QUESTIONS

Solution Q01

Draft Consolidated Profit & Loss Account

Particulars	₹	₹	Particulars	₹	₹
To Purchase of Land:			By Sale of Flats:		
Mr. A		60,00,000	Mr. A	40,00,000	
To Registration Fees:			Mr. B	20,00,000	
Mr. A		60,000	Mr. C	<u>10,00,000</u>	70,00,000
To Materials:			By Flats taken by		
Mr. B		9,50,000	Venturers:		
To Other Expenses:			Mr. A	10,00,000	
Mr. C		9,00,000	Mr. B	10,00,000	
To Bank Interest:			Mr. C	<u>10,00,000</u>	30,00,000
Mr. A		2,00,000			
To Profits:					
Mr. A	6,30,000				
Mr. B	6,30,000				
Mr. C	<u>6,30,000</u>	18,90,000			
		<u>1,00,00,000</u>			<u>1,00,00,000</u>

In the Books of Mr. A Joint Venture Account

Particulars	₹	Particulars	₹
To Bank Loan (Purchase of Land)	50,00,000	By Bank (Sale of Flats)	40,00,000
To Bank:(Purchase of Land)	10,00,000	By Land & Building	10,00,000
To Bank (Registration Fees)	60,000	By Bank (Received from Mr. B)	14,20,000
To Bank (Bank Interest)	2,00,000	By Bank (Received from Mr. C)	4,70,000
To Profit on JV	6,30,000		
	<u>68,90,000</u>		<u>68,90,000</u>

In the Books of Mr. B Joint Venture Account

Particulars	₹	Particulars	₹
To Purchases (Material Supplied)	4,50,000	By Bank (Sale of Flats)	20,00,000
To Bank (Materials)	5,00,000	By Land & Building	10,00,000
To Profit on JV	6,30,000		
To Bank (Paid to Mr. A)	14,20,000		
	<u>30,00,000</u>		<u>30,00,000</u>

In the Books of Mr. C Joint Venture Account

Particulars	₹	Particulars	₹
To Bank (Misc. Expenses)	9,00,000	By Bank (Sale of Flats)	10,00,000
To Profit on JV	6,30,000	By Land & Building	10,00,000

To Bank (Paid to Mr. A)	4,70,000		
	20,00,000		20,00,000

Solution Q02**Consolidated Balance Sheet**

	Note	(₹)
I Equity and liabilities		
Shareholders' funds:		
Share Capital	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.	3,80,000
	C Ltd.	3,80,000
		11,40,000
	Plant & Machinery:	
	A Ltd.	17,00,000
	B Ltd.	17,00,000
	C Ltd.	17,00,000
		51,00,000
	Computers:	
	A Ltd.	60,000
	B Ltd.	60,000
	C Ltd.	60,000
		1,80,000
	Vehicles:	
	A Ltd.	2,40,000
	B Ltd.	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)		200,000

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	<u>60,000</u>	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	<u>(20,000)</u>	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	<u>(3,00,000)</u>	17,00,000
	Computers	1,00,000	
	Less: Depreciation	<u>(40,000)</u>	60,000
	Vehicles	3,00,000	
	Less: Depreciation	<u>(60,000)</u>	2,40,000
			23,80,000

In the Books of B Ltd.
Extract of draft Profit & Loss Account

Particulars	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		200,000

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	<u>60,000</u>	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	<u>(20,000)</u>	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	<u>(3,00,000)</u>	17,00,000
	Computers	1,00,000	
	Less: Depreciation	<u>(40,000)</u>	60,000
	Vehicles	3,00,000	
	Less: Depreciation	<u>(60,000)</u>	2,40,000
			23,80,000

In the Books of C Ltd.

Extract of Draft Profit & Loss Account	Note No.	₹
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		200,000

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	<u>60,000</u>	4,20,000
2.	Land & Building	4,00,000	
	Less: Depreciation	<u>(20,000)</u>	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation		17,00,000
		<u>(3,00,000)</u>	
	Computers	1,00,000	
	Less: Depreciation	<u>(40,000)</u>	60,000
	Vehicles	3,00,000	
	Less: Depreciation	<u>(60,000)</u>	2,40,000
			23,80,000

Solution Q03

Consolidated Profit & Loss Account

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

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 <u>1,00,000</u>
		<u>9,00,000</u>
II	Assets	
	Non-current Assets	
	Property, Plant and Equipment	9 6,00,000
	Current Assets	
	Inventories	10 1,00,000
	Other current assets	11 <u>2,00,000</u>
		<u>9,00,000</u>

Notes to Accounts

	Particulars		(₹)
1.	Revenue from operations		
	Sales:		
	A Ltd.	7,25,000	
	B Ltd.	<u>5,80,000</u>	13,05,000
2.	Purchases		

	A Ltd.	5,00,000	
	B Ltd.	<u>4,00,000</u>	9,00,000
3.	Other expenses		
	A Ltd.	1,70,000	
	B Ltd.	<u>1,36,000</u>	3,06,000
4.	Closing Inventory		
	A Ltd.	50,000	
	B Ltd.	<u>50,000</u>	1,00,000
5.	Share Capital		
	A Ltd.	1,96,490	
	B Ltd.	<u>2,04,510</u>	4,01,000
6.	Reserves and Surplus		
	Profit & Loss Account:		
	A Ltd.	99,500	
	B Ltd.	<u>99,500</u>	1,99,000
7.	Long Term Borrowings		
	Unsecured Loans:		
	A Ltd.	1,00,000	
	B Ltd.	<u>1,00,000</u>	2,00,000
8.	Current Liabilities		
	A Ltd.	50,000	
	B Ltd.	<u>50,000</u>	1,00,000
9.	Property, Plant and Equipment		
	A Ltd.	3,00,000	
	B Ltd.	<u>3,00,000</u>	6,00,000
10.	Inventories		
	A Ltd.	50,000	
	B Ltd.	<u>50,000</u>	1,00,000
11.	Other Current Assets		
	A Ltd.	1,00,000	
	B Ltd.	<u>1,00,000</u>	2,00,000

Solution Q04**Balance Sheet of A Ltd.**

		Note No.	(₹)
I	Equity and liabilities		
	Shareholders' funds:		
	Share Capital		10,00,000
	Reserves and Surplus	1	24,00,000
	Non-current liabilities	2	4,00,000
	Current Liabilities	3	4,50,000
	TOTAL		42,50,000
II	Assets		
	Non-current Assets		
	Property, Plant and Equipment:	4	40,25,000
	Current Assets	5	2,25,000
			42,50,000

Notes to Accounts

		₹	₹
1.	Reserves and Surplus		
	A Ltd.	18,00,000	
	C Ltd.	<u>6,00,000</u>	24,00,000
2.	Long Term Borrowings		

	Loans:		
	A Ltd.	3,00,000	
	C Ltd.	<u>1,00,000</u>	4,00,000
3.	Current Liabilities:		
	A Ltd.	4,00,000	
	C Ltd.	<u>50,000</u>	4,50,000
4.	Property, Plant and Equipment:		
	A Ltd.	30,50,000	
	C Ltd.	<u>9,75,000</u>	40,25,000
5.	Current Assets:		
	A Ltd.	2,00,000	
	C Ltd.	<u>25,000</u>	2,25,000

Balance Sheet of B Ltd.

	Note No.	(₹)
I Equity and liabilities		
Shareholders' funds:		
Share Capital	1	7,50,000
Reserves and Surplus	2	22,00,000
Non-current liabilities	3	5,00,000
Current Liabilities		3,00,000
		37,50,000
II Assets		
Non-current Assets	4	36,00,000
Property, Plant and Equipment	5	
Current Assets		1,50,000
		37,50,000

Notes to Accounts

	₹	₹
1. Reserves and Surplus		
A Ltd.	16,00,000	
C Ltd.	<u>6,00,000</u>	22,00,000
2. Long Term Borrowings		
Loans:		
A Ltd.	4,00,000	
C Ltd.	<u>1,00,000</u>	5,00,000
3. Current Liabilities:		
A Ltd.	2,50,000	
C Ltd.	<u>50,000</u>	3,00,000
4. Property, Plant and Equipment:		
A Ltd.	26,25,000	
C Ltd.	<u>9,75,000</u>	36,00,000
5. Current Assets:		
A Ltd.	1,25,000	
C Ltd.	<u>25,000</u>	1,50,000

SOLUTION Q05

As per para 26 of 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 para 17 of 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. The type 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 20X1-20X2 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 in the 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 business plans and positive cash flows is based reliable presumptions (such as tender in favour of QSR Ltd., strong order book etc.), the decline will be regarded as temporary in nature and the investment in equity shares will continue to be 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.

Solution: Q06

1) Subsidiary Consolidation

Analysis of Profit (AOP)			
Particulars	Pre	Post	B/S
R&S	4,80,000	2,70,000	7,50,000
(+/-) Time Adjustment	67,500	(2,70,000 × 3/12)	
	5,47,500	2,02,500	
Share of H Ltd.	4,38,000	1,62,000	
Share of M/I	1,09,500	40,500	

Minority Interest		
ESC	20%	1,60,000
(+) Pre-Acquisition	20%	1,09,500
(+) Post Acquisition	20%	40,500
		3,10,000
Cost of Control (COC)		
Investments in S Ltd.		11,00,000
(-) 80% Net Assets		(6,40,000)
ESC 80%		(4,38,000)
Share of Pre-Acquisition Profit		
Goodwill		22,000

2) JV (Proportionate Consolidation Method)

Analysis of Profit (AOP)			
Particulars	Pre	Post	B/S
R&S	1,50,000	3,00,000	4,50,000
(+/-) Time Adjustment	75,000	(3,00,000 × 3/12)	
	2,25,000	2,25,000	
H 50%	1,12,500	1,12,500	

Cost of Control	
Investment	5,00,000
(-) 50% of Net Assets	
ESC 50%	3,00,000

Share of Pre Acquisition	1,12,500
Goodwill	87,500

3) Associate Consolidation (Equity Method):

Analysis of Profit			
	Pre	Post	B/S
R&S	1,20,000	1,80,000	3,00,000
(+/-) Time Adjustement	45,000	(1,80,000×3/12)	
	1,65,000	1,35,000	

Equity Method	
Investment Cost	1,60,000
(-) 30% N. Assets as on DOA	1,99,500
Equity Share Capital	5,00,000
Share of Pre-Acquisition	1,65,000
	6,65,000 × 30%
Capital Reserve on DOA (Investment to be Increased by 39,500)	39,500
Revised Carrying Amount of Investment	1,99,500
(+) Share in Post-Acquisition Period Profit 1,35,000 × 30%	40,500
Closing Investment as on Balance Sheet	2,40,000

Consolidated P&L A/c of H Ltd.

Balance of R&S of H Ltd. as per SFS	9,00,000
(+) Share in Post Acquisition profit	
From S Ltd.	1,62,000
From JV Ltd.	1,12,500
From Associate Ltd.	40,500
Consolidation P&L	1,21,500
Capital Reserve from COC	39,500
Consolidation R&S	12,54,500

Consolidated Balance Sheet

Particulars	Amount
Equity Share Capital	10,00,000
Consolidation Reserves and Surplus	12,54,500
Minority Interest	3,10,000
Liability H 11,00,000	20,25,000
S 6,50,000	
JV 2,75,000	
	45,89,500
Investment in Associate as per Equity Method	2,40,000
Other Assets H 12,40,000	
I 22,00,000	
JV 8,00,000	
Goodwill S 22,000	1,09,500
JV 87,500	
	45,89,500