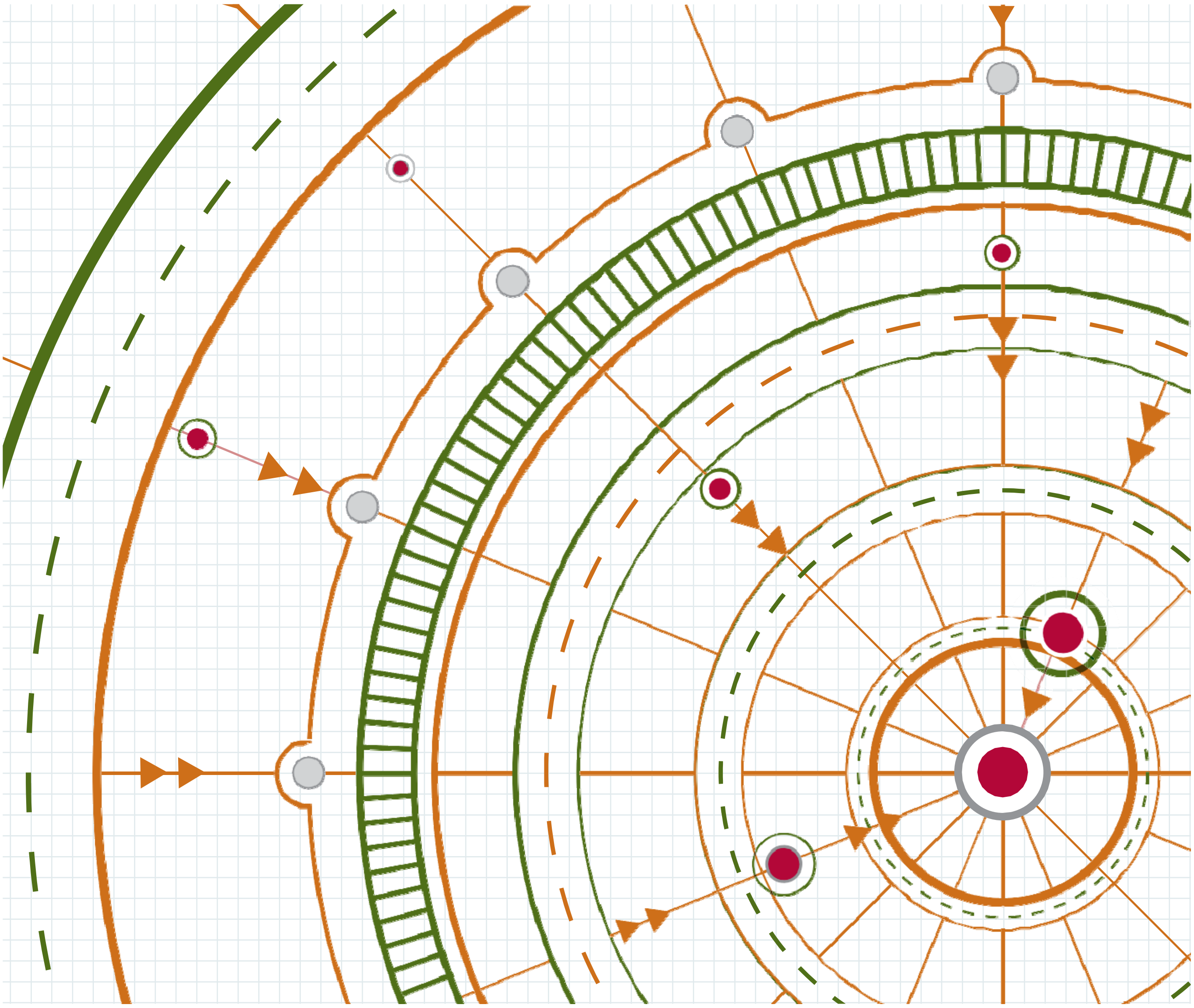
IFRS® Foundation—Supporting Material for the *IFRS for SMEs* Standard

Module 15—Investments in Joint Ventures



IFRS® Foundation
Supporting Material
for the *IFRS for SMEs*® Standard

including the full text of
Section 15 *Investments in Joint Ventures*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case studies

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Module 15–Investments in Joint Ventures

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.
This module has been prepared by IFRS Foundation education staff.
The contents of Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 15. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs®* Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An exposure draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs* Standard*)*.

The document published in May 2015 only included amended text, but in October 2015 the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on the general requirements for accounting for and reporting of investments in joint ventures applying Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance your understanding of the requirements. The module identifies the significant judgements required in accounting for investments in joint ventures. In addition, the module includes questions designed to test your understanding of the requirements, and case studies that provide a practical opportunity to apply the requirements to account for investments in joint ventures applying the *IFRS for SMEs* Standard.

Module 15–Investments in Joint Ventures

Upon successful completion of this module you should, within the context of the *IFRS for SMEs* Standard, be able to:

- identify when an entity has joint control over a venture (when a joint venture exists);
- differentiate between joint ventures taking the form of jointly controlled operations, jointly controlled assets and jointly controlled entities;
- determine assets, liabilities, income and expenses to be recognised in financial statements in respect of interests in jointly controlled operations and jointly controlled assets;
- measure investments in jointly controlled entities on initial recognition and subsequently;
- account for transactions between a venturer and a joint venture;
- present and disclose investments in joint ventures in financial statements; and
- demonstrate an understanding of the significant judgements that are required in accounting for investments in joint ventures.

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the IFRS for SMEs Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module October 2018 the SMEIG has not issued any Q&As relevant to this module.

Module 15–Investments in Joint Ventures

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 15 *Investments in Joint Ventures* is to prescribe the financial reporting requirements for investments in joint ventures.

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

Joint ventures may take the form of:

(a) jointly controlled operations;

(b) jointly controlled assets; or

(c) jointly controlled entities.

The main issues that arise in relation to Section 15 are identification of jointly controlled operations, jointly controlled assets and jointly controlled entities, and the measurement of investments in joint ventures.

Jointly controlled operations

In respect of its interests in jointly controlled operations, a venturer is required to recognise in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

In respect of its interest in a jointly controlled asset, a venturer is required to recognise in its financial statements:

- its share of the jointly controlled assets, classified according to the nature of the assets;
- any liabilities that it has incurred;
- its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- any expenses that it has incurred in respect of its interest in the joint venture.

Jointly controlled entities

Section 15 requires a venturer to choose one of the following three models to account for its investments in jointly controlled entities:

(a) the cost model, with which the investment in a joint venture is measured at cost (including transaction costs) less any accumulated impairment losses. However, a venturer using the cost model is required to use the fair value model for any investment in a jointly controlled entity for which a published price quotation exists.

(b) the equity method, with which the investment in a jointly controlled entity is initially recognised at the transaction price (including transaction costs) and adjusted thereafter for the venturer's share of the post-acquisition profit or loss and other comprehensive income of the jointly controlled entity.

(c) the fair value model, with which the investment in a jointly controlled entity is initially recognised at the transaction price (excluding transaction costs). After initial recognition, at each reporting date, the investment in the jointly controlled entity is measured at fair value. Changes in fair value are recognised in profit or loss. However, a venturer using the fair value model is required to use the cost model for any investment in a jointly controlled entity for which it cannot measure fair value reliably without undue cost or effort.

A venturer that uses the fair value model is required to apply the measurement guidance in paragraphs 11.27–11.32 of Section 11 *Basic Financial Instruments*. Furthermore, under paragraph 15.21, the venturer must make the disclosures required by paragraphs 11.41–11.44.

Paragraph 9.26 establishes the requirements for accounting for jointly controlled entities in separate financial statements, if such financial statements are prepared.

What has changed since the 2009 *IFRS for SMEs* Standard

There are consequential changes to Section 15 (see paragraph 15.21) relating to changes to Section 2 *Concepts and Pervasive Principles*. This is the addition of clarifying guidance on the undue cost or effort exemption that is used in several sections of the *IFRS for SMEs* Standard—based on Q&A 2012/01 *Application of 'undue cost or effort'*—as well as a new requirement within relevant sections for entities to disclose their reasoning for using such an exemption (see paragraphs 2.14A–2.14D).

This change is covered in this module.

Module 15–Investments in Joint Ventures

REQUIREMENTS AND EXAMPLES

Scope of this section

15.1 This section applies to accounting for **joint ventures** in **consolidated financial statements** and in the **financial statements** of an investor that is not a **parent** but that has a **venturer**'s interest in one or more joint ventures. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a joint venture in **separate financial statements**.

Notes

The requirements of Section 15 apply to accounting for investments in joint ventures in relation to:

- a parent that prepares consolidated financial statements; or
- an investor that is not a parent, but that has a venturer's interest in one or more joint ventures.

When an entity has no subsidiaries (and therefore does not prepare consolidated financial statements) it must apply Section 15 to account for its investments in joint ventures. Such an entity may then choose (or be required by the law in its jurisdiction) to prepare separate financial statements as a second set of financial statements; if so, it would follow the requirements in paragraph 9.26 to account for its interest in joint ventures.

If a parent is exempt from producing consolidated financial statements by virtue of paragraph 9.3, it will apply Section 11 *Basic Financial Instruments* to account for its associates in its financial statements. These financial statements are not separate financial statements.

Joint ventures defined

15.2 **Joint control** is the contractually agreed sharing of **control** over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

15.3 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled **assets** or **jointly controlled entities**.

Notes

Joint ventures may take different forms and structures. However, they all share the following characteristics:

(a) a contractual arrangement exists between the parties involved in the venture; and

(b) the contractual arrangement establishes joint control.

In the absence of guidance in the *IFRS for SMEs* Standard, an entity is permitted (but is not required) to consider the guidance in full IFRS Standards. IFRS 11 *Joint Arrangements* was the relevant Standard under full IFRS Standards in accounting for joint ventures. IFRS 11 shares the same principles of joint control with the *IFRS for SMEs* Standard, in that both standards require contractually agreed sharing of control and that it exists only when strategic financial and operating decisions (for *IFRS for SMEs* Standard) or decisions about relevant activities (for IFRS 11) require the unanimous consent of the parties sharing the control. However, IFRS 11 unlike the *IFRS for SMEs* Standard has a single set of requirements for recognising and measuring an entity's interest regardless of the form of joint arrangement. To the extent that the guidance on contractual and joint arrangement in IFRS 11 does not contradict the principles of the *IFRS for SMEs* Standard, an SME may look to paragraphs B2–B11 of IFRS 11 for additional guidance on the characteristics of joint ventures that can be summarised as follows:

- Contractual arrangements can be evidenced in several ways. An enforceable contractual arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.
- When joint arrangements are structured through a separate vehicle, the contractual arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.
- The contractual arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The contractual arrangement generally deals with such matters as: the purpose, activity and duration of the joint arrangement.
    - how the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
    - the decision-making process—the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement.
    - the capital or other contributions required of the parties.
    - how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

In evaluating whether an entity has joint control over a venture it must be ascertained:

- whether the entity and another party together have control[1] over the economic activity that is the subject of the venture; and
- whether the entity and that other party have contractually agreed to exercise joint control of the economic activity that is the subject of the venture.

Only if both characteristics are satisfied (a contractual arrangement and joint control)

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(1) The Significant Estimates and Other Judgements section of Module 9 *Consolidated and Separate Financial Statements* of this training material describes the judgements that need to be made in assessing whether control exists.

is the venture a joint venture.

The contractual arrangement of a joint venture may identify one venturer as the operator or manager of the joint venture. In such circumstances, the operator would not control the joint venture but would act within the financial and operating policies that were contractually agreed by the venturers and delegated to the operator. In contrast, if an operator did have the power to govern the financial and operating policies of the economic activity, it would control the venture and the venture would consequently be a subsidiary of the operator rather than a joint venture.

Example—not joint control

Ex 1 **Entities A, B, C, D and E (five unrelated entities) each own 20% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Strategic decisions in Entity Z require approval by investors holding a simple majority (more than 50%) of the voting power.**

No single investor controls Entity Z. Neither do entities A–E, or any combination of entities A–E, have joint control over Entity Z. For joint control to exist, the contractual arrangements would require unanimous consent between those investors sharing control. However, the contractual arrangement allows agreement of any combination of three of the five investors to make strategic decisions. Accordingly, no fixed combination of investors has joint control over Entity Z.

In the absence of evidence to the contrary, the investors (entities A–E) are required to account for their investments in Entity Z applying Section 14 *Investments in Associates* (see paragraph 14.3(a)).

If any investor does not have significant influence over Entity Z, then it would account for its investment in Entity Z applying Section 11 *Basic Financial Instruments*.

Examples—joint control

Ex 2 **The facts are the same as in Example 1. However, in this example, entities A, B and C have contractually agreed to exercise joint control of Entity Z.**

Entities A, B and C have joint control over Entity Z—it is a joint venture (a jointly controlled entity). Entities A, B and C are required to account for their investments in Entity Z applying paragraphs 15.8–15.17 and 15.19–15.21.

Note: In this example, a simple majority of voting rights is required to make decisions about the relevant activities. That minimum required proportion of the voting rights can be achieved by more than one combination of parties acting together (for example, another such combination could be entities A, D and E). Consequently, the arrangement is not a joint arrangement unless the contractual arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement. As such, it is essential in a joint venture arrangement contractually to agree control and specify that it requires the unanimous consent of the parties sharing the control (the venturers). In this example, entities A, B and C have contractually agreed to exercise joint control. If the contractual agreement were between these three entities only, the entities would need to have agreed a way to make such an agreement effective given that, if Entity D and Entity E voted in the same way as, say, Entity A on a matter, a simple majority would be achieved even if Entity B and Entity C voted against the matter. For instance, entities A, B and C might have agreed that if any one of them wished to vote against a matter then all three of them would vote against it; such an agreement would ensure that any decisions would require the unanimous consent of entities A, B and C.

(In this and all other examples, unless otherwise stated, it should be assumed that the contractual arrangement implies that decisions about the relevant activities of the arrangement require the venturers' unanimous consent.)

Ex 3 **Entities A and B (two unrelated entities) each own 50% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. In accordance with the contractual agreement between entities A and B, strategic decisions in Entity Z require approval by investors holding a simple majority (more than 50%) of the voting power.**

Entities A and B have joint control as the unanimous consent of both entities is required for any decision. Consequently, Entity Z is a joint venture (a jointly controlled entity) of entities A and B. Entities A and B are required to account for their investments in Entity Z applying paragraphs 15.8–15.17 and 15.19–15.21.

Ex 4 **Entities A and B own 55% and 10%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Strategic decisions in Entity Z require approval by investors holding more than 60% of the voting power.**

If entities A and B voted in favour of a resolution, the other shareholder(s) could not block the decision. However, unless some other arrangement is in place, Entity B could not block a decision. Provided that the investors have entered into a contractual arrangement to establish that decisions require the unanimous agreement of entities A and B, Entity Z is a joint venture (a jointly controlled entity) of entities A and B; and they are required to account for their investments in Entity Z applying paragraphs 15.8–15.17 and 15.19–15.21.

Ex 5 **Entities A and B own 75% and 25%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Strategic decisions in Entity Z require the unanimous consent of entities A and B.**

Entities A and B have joint control as the agreement of both entities is required for any decision. Provided that entities A and B have entered into a contractual arrangement, Entity Z is a joint venture (a jointly controlled entity). Entities A and B are required to account for their investments in Entity Z applying paragraphs 15.8–15.17 and 15.19–15.21.

Jointly controlled operations

15.4 The operation of some joint ventures involves the use of the assets and other resources of the venturers instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own **property, plant and equipment** and carries its own **inventories**. It also incurs its own **expenses** and **liabilities** and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the **revenue** from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Examples—jointly controlled operation

Ex 6 **Entity A researches and develops drugs. Entity B manufactures drugs and promotes them commercially. Entities A and B enter into a contractual arrangement whereby they equally participate in the results of research and development and the commercial promotion of a new drug. In accordance with the contractual arrangement, Entity A undertakes the research and development activities and Entity B undertakes the manufacturing and commercial activities. The entities share all costs and revenues arising from the jointly controlled operation.**

Entities A and B have joint control over the specified research, development, manufacturing and commercial activities—it is a joint venture (a jointly controlled operation). Each of the venturers (entities A and B) is required to account for its interest in the jointly controlled operation in accordance with paragraphs 15.4, 15.5, 15.16, 15.17 and 15.19.

Ex 7 **Entities A and B enter into a contractual arrangement whereby they combine their operations, resources and expertise to manufacture, market and distribute aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.**

Entities A and B have joint control over the aircraft-manufacturing operations—it is a joint venture (a jointly controlled operation). Each of the venturers (entities A and B) is required to account for its interest in the jointly controlled operation in accordance with paragraphs 15.4, 15.5, 15.16, 15.17 and 15.19.

15.5 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the **income** that it earns from the sale of goods or services by the joint venture.

Example—accounting for a jointly controlled operation

Ex 8 **Because the scale of the project exceeded the capacity of entities A and B individually, they tendered jointly for a public contract with a government to construct a motorway between two cities. Following the tender process, the government awarded the contract jointly to entities A and B.**

In accordance with the contractual arrangements, entities A and B are jointly contracted with the government to build the motorway in return for CU14 million[(2)] (a fixed-price contract).

In 20X1, in accordance with the agreement between entities A and B:

- **entities A and B each used its own equipment and employees in the construction activity;**
- **Entity A constructed three bridges needed to cross rivers on the route at a cost of CU4 million;**
- **Entity B constructed all of the other elements of the motorway at a cost of CU6 million; and**
- **entities A and B shared equally in the CU14 million jointly invoiced to (and received from) the government.**

The arrangement is a jointly controlled operation. Entities A and B retained control of the assets they used to perform the contract and were responsible for their respective liabilities. They met their respective contractual obligations by providing construction services to the government.

Entities A and B would recognise in their financial statements their own property, plant and equipment and operating assets and their share of any liabilities resulting from the joint arrangement (such as performance guarantees). They would also recognise the income and expenses associated with providing construction services to the government.

The venturers would account for their interests in the joint venture (a jointly controlled operation) as follows:

(2) In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units' (CU).

Entity A—in 20X1

Dr	Profit or loss (construction costs)	CU4,000,000	
	Cr Cash/Accumulated depreciation/Trade payables		CU4,000,000

To recognise the construction costs incurred in 20X1.

Dr	Cash	CU7,000,000	
	Cr Profit or loss (construction revenue)		CU7,000,000

To recognise the construction revenue earned in 20X1.

Entity B—in 20X1

Dr	Profit or loss (construction costs)	CU6,000,000	
	Cr Cash/Accumulated depreciation/Trade payables		CU6,000,000

To recognise the construction costs incurred in 20X1.

Dr	Cash	CU7,000,000	
	Cr Profit or loss (construction revenue)		CU7,000,000

To recognise the construction revenue earned in 20X1.

Note: In a jointly controlled operation, no separate reporting entity is created. The transactions of the jointly controlled operation are recorded by each of the venturers in its own financial statements. Each venturer is required by paragraph 15.15 to recognise in its financial statements: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture. Common expenses incurred and income earned are shared among the venturers based on their contractual agreement.

Jointly controlled assets

15.6 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.

Example—jointly controlled asset

Ex 9 **Entities A and B are independent oil companies. They enter into a contractual arrangement to control and operate an oil pipeline jointly. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the pipeline's operating expense.**

The two entities, A and B, have joint control over the oil pipeline—it is a joint venture (jointly controlled asset). Each venturer (entities A and B) is required to account for its interest in the jointly controlled pipeline in accordance with paragraphs 15.6, 15.7, 15.16, 15.17 and 15.19.

15.7 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture.

Example—accounting for a jointly controlled asset

Ex 10 **On 1 January 20X1 entities A, B, C, D and E (the venturers) jointly buy a jet aircraft for CU10 million cash. The venturers are registered as equal joint owners of the aircraft. They enter into an agreement whereby the aircraft is at the disposal of each venturer for 70 days each year. The aircraft is in maintenance for the remaining days each year. The venturers may decide to use the aircraft, or, for example, lease it to a third party.**

Decisions regarding maintenance and disposal of the aircraft require the unanimous consent of the venturers.

The contractual arrangement is for the expected life (20 years) of the aircraft and can be changed only if all of the venturers agree. The residual value of the aircraft is nil.

In 20X1 the venturers each paid CU100,000 to meet the joint costs of maintaining the aircraft (eg hangar rental and aviation-licence fees).

In 20X1 each venturer also incurred costs of running the aircraft when it made use of the aircraft (eg Entity A incurred costs of CU50,000 on pilot fees, aviation fuel and landing costs). In 20X1 Entity A also earned rental income of CU10,000 by renting the aircraft to others.

The jet aircraft is a jointly controlled asset. The joint venture is a way to share the costs of having access to an aircraft. Each venturer owns a share of the aircraft and benefits from having the aircraft at its disposal for some days each year. Each venturer would recognise its interest in the jointly controlled asset applying paragraph 15.7. For example, in 20X1 Entity A would record its interest as follows:

January 20X1			
Dr	Property, plant and equipment (interest in an aircraft)	CU2,000,000	
	Cr Cash		CU2,000,000
To recognise the purchase of an ownership interest in a jointly controlled aircraft.			
In 20X1			
Dr	Cash	CU10,000	
	Cr Profit or loss (rental income)		CU10,000
To recognise income earned in renting to others the use of the aircraft in 20X1.			
Dr	Profit or loss (aircraft operating expenses)	CU150,000	
	Cr Cash		CU150,000
To recognise the costs of running an aircraft in 20X1.			
Dr	Profit or loss (depreciation expense)	CU100,000	
	Cr Accumulated depreciation (interest in an aircraft)		CU100,000
To recognise depreciation of an ownership interest in a jointly controlled aircraft in 20X1.			

Jointly controlled entities

15.8 A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Measurement—accounting policy election

15.9 A venturer shall account for all of its interests in jointly controlled entities using one of the following:

(a) the cost model in paragraph 15.10;

(b) the equity method in paragraph 15.13; or

(c) the **fair value** model in paragraph 15.14.

Cost model

15.10 A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

15.11 The venturer shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.

15.12 A venturer shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).

Equity method

15.13 A venturer shall measure its investments in jointly controlled entities by the equity method using the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value model

15.14 When an investment in a jointly controlled entity is recognised initially, a venturer shall measure it at transaction price. Transaction price excludes **transaction costs**.

15.15 At each **reporting date**, a venturer shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in **profit or loss**, using the fair value **measurement** guidance in paragraphs 11.27–11.32. A venturer using the fair value model shall use the cost model for any investment in a jointly controlled entity for which fair value cannot be measured reliably without undue cost or effort.

Notes

Cost model

No published price quotation

A venturer that has elected under paragraph 15.9(a) to use the cost model is required to account for its investments in jointly controlled entities for which there is no published price quotation using the cost-impairment model. Applying Section 27 *Impairment of Assets*, at each reporting date, the venturer must consider whether there are indicators of impairment for such investments (see paragraphs 27.7–27.9 and 27.29). If such indicators are present, the venturer must perform an impairment test (see paragraphs 27.7 and 27.11–27.20). If an investment is found to be impaired (or a prior period impairment is found to have reversed), the venturer is required to recognise an impairment loss (or a reversal of an impairment loss) in profit or loss (see paragraphs 27.6 and 27.30).

Published price quotation

Investments in jointly controlled entities for which there is a published price quotation are required by paragraph 15.12 to be accounted for using the fair value model (see paragraph 15.14); and, assuming there is only one investment in a jointly controlled entity, a venturer cannot elect to use the cost model (see paragraph 15.10). A venturer with more than one investment in jointly controlled entities can still elect to use the cost model where, for at least one of those investments, a published price quotation is not available. Investments carried at fair value are not tested for impairment.

Equity method

Other than to the extent that fair value is relevant to impairment testing in accordance with Section 27, market price is not used in accounting for investments using the equity method.

<u>Fair value model</u>

Fair value cannot be measured reliably without undue cost or effort

Determining whether or not a fair value can be measured reliably without undue cost or effort depends on an entity's specific circumstances and on its management's judgement in assessing the costs and benefits. Making such a judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME's financial statements would receive from having the information (see paragraph 2.14B). If an SME already has, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. In such a case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the SME.

Assessing whether a requirement would involve undue cost or effort on initial application should be based on information about the costs and benefits of the requirement at the time of initial application. An entity must make a new assessment of whether a requirement will involve undue cost or effort at each subsequent reporting date, based on information available at that subsequent reporting date (see paragraph 2.14C).

When an entity has elected to use the fair value model (see paragraph 15.9(c)) but accounts for an investment in a jointly controlled entity using the cost model because the fair value of that jointly controlled entity cannot be measured reliably without undue cost or effort, the entity is required to disclose that fact, the reasons why fair value measurement would involve undue cost or effort, and the carrying amount of the investment in the jointly controlled entity (see paragraph 15.21). At each reporting date, in accordance with Section 27, the venturer must consider whether there are indicators of impairment for such investments (see paragraphs 27.7–27.9 and 27.29) and, if present, must perform an impairment test (see paragraphs 27.10–27.20). If an investment is found to be impaired (or a prior period impairment is found to have reversed), the venturer is required to recognise an impairment loss (or a reversal of an impairment loss) in profit or loss (see paragraphs 27.6 and 27.30).

Examples—accounting policy

Unless otherwise stated, ignore value in use in determining the recoverable amount necessary to calculate any impairment loss (fair value less costs to sell is assumed to be the recoverable amount).

Ex 11 **On 1 January 20X1 entities A and B each acquired for CU300,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z. For the year ended 31 December 20X1, Entity Z recognised a profit of CU400,000.**

On 30 December 20X1 Entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturers' investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.

Cost model

Applying the cost model, entities A and B (the venturers) must each recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 the venturers must report their investments in Entity Z (a jointly controlled entity) at CU300,000 (cost). Each venturer must also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test applying Section 27. In this example, ignoring costs to sell, there would not be any impairment loss because the CU425,000 recoverable amount of the investment exceeds its CU300,000 carrying amount.

Equity method(3)

Applying the equity method, entities A and B must recognise CU120,000 as their share of Entity Z's income (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report their investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). The venturers must also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test applying Section 27. In this case, ignoring costs to sell, there would not be any impairment loss because the CU425,000 recoverable of the investment exceeds its CU375,000 carrying amount.

(3) In examples 11–18 it is assumed that there is no implicit goodwill and no fair value adjustments. Example 19 illustrates implicit goodwill and fair value adjustments.

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must each:

- recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z);[(4)] and
- recognise the increase in the fair value of its investment in Entity Z of CU125,000 (CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at its fair value of CU425,000.

Ex 12 **The facts are the same as in Example 11. However, in this example, on 2 January 20X1 Entity Z also declared a dividend of CU100,000 for the year 20X0 and at 31 December 20X1 the fair value of each venturer's investment in Entity Z is CU400,000.**

Cost model

Applying the cost model, in accordance with paragraph 15.11, the venturers must, without regard to whether the distributions are from Z's accumulated profits arising before or after 1 January 20X1, each recognise dividend income of CU75,000 in profit or loss for the year ended 31 December 20X1 (30% × CU100,000 dividend declared on 2 January plus 30% × CU150,000 dividend declared on 31 December).

At 31 December 20X1 each venturer must report its investment in Entity Z at CU300,000 (cost).

The payment of the dividend out of pre-acquisition profits on 2 January 20X1 could be an impairment indicator that, applying Section 27, could trigger an impairment test at 31 December 20X1. In this case, ignoring costs to sell, there would not be any impairment loss because the CU400,000 recoverable amount of the investment exceeds its CU300,000 carrying amount.

Equity method

Applying the equity method, entities A and B must each recognise its share of Entity Z's income of CU120,000 (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU345,000 (CU300,000 cost + CU120,000 share of earnings less CU30,000 dividend declared on 2 January 20X1 less CU45,000 dividend declared on 30 December 20X1). The venturers must also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test applying Section 27. The payment of the dividend out of pre-acquisition profits on 2 January 20X1 could be an impairment indicator that, applying Section 27, could trigger an impairment test at 31 December 20X1. (At 31 December 20X1 entities A and B would each calculate the recoverable amount of its investment in Entity Z. And, if the

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[(4)] In this example, and in all other examples in this module in which a venturer accounts for its interests in jointly controlled entities using the fair value model, the venturer recognises a dividend from its jointly controlled entity in profit or loss when its right to receive the dividend is established.

recoverable amount were lower than the carrying amount, reduce the carrying amount to the recoverable amount). In this example, ignoring cost to sell, there would not be any impairment because the CU400,000 fair value less costs to sell of the investment would exceed it carrying amount of CU345,000.

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must each recognise:

- dividend income of CU75,000 (CU30,000 from the dividends declared on 2 January 20X1 and CU45,000 from the dividends declared on 30 December 20X1); and
- an increase in fair value of CU100,000 of its investment in Entity Z (CU400,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at its fair value of CU400,000.

Ex 13 The facts are the same as in Example 11. However, in this example, there is a published price quotation for Entity Z.

Cost model

Applying the cost model, the venturers would each recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z) and the increase in the fair value of its investment in Entity Z of CU125,000 in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 the venturers must each report its investment in Entity Z (a jointly controlled entity) at CU425,000 (fair value).

Although the venturers each elected to use the cost model as its accounting policy for investments in jointly controlled entities, they would account for their investments in Entity Z using the fair value model because Entity Z has a published price quotation.

Equity method

Applying the equity method, entities A and B must each recognise its share of Entity Z's income of CU120,000 (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). The venturers must also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test applying Section 27. In this example, ignoring cost to sell, there would not be any impairment because the CU425,000 fair value less costs to sell of the investment would exceed its carrying amount of CU375,000.[5]

[5] Other than to the extent that fair value is relevant to impairment testing under Section 27, market price is not used in accounting for investments using the equity method.

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must:

- recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z); and
- recognise the increase in the fair value of its investment in Entity Z of CU125,000 (CU425,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at its fair value of CU425,000.

Ex 14 **On 1 March 20X1 entities A and B each acquired for CU300,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.**

On 31 December 20X1 Entity Z declared and paid a dividend of CU100,000 for the year 20X1. Entity Z reported a profit of CU80,000 for the year ended 31 December 20X1. At 31 December 20X1 the recoverable amount of each venturer's investment in Entity Z is CU290,000 (CU293,000 fair value less CU3,000 costs to sell). There is no published price quotation for Entity Z.

Cost model

Applying the cost model, entities A and B must each recognise dividend income of CU30,000 in profit or loss (30% × CU100,000 dividend declared by Entity Z).

At 31 December 20X1 entities A and B must each report their investment in Entity Z (a jointly controlled entity) at CU290,000 (cost less accumulated impairment).

The payment of the dividend partly out of pre-acquisition profits on 1 March 20X1 could be an impairment indicator that, applying Section 27, could trigger an impairment test at 31 December 20X1. At 31 December 20X1 the carrying amount is therefore reduced to CU290,000 (the lower of its recoverable amount and its carrying amount before impairment (CU300,000 cost)). Each venturer would recognise the impairment loss of CU10,000 in profit or loss for the year ended 31 December 20X1.

Equity method

Applying the equity method, assuming that Entity Z earned its profit evenly through the year, each venturer must recognise its share of Entity Z's income of CU20,000 in profit or loss (30% × CU66,667 profit earned by Entity Z for the 10-month period ended 31 December 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU290,000 (CU300,000 cost + CU20,000 share of jointly controlled entity's profit less CU30,000 dividend).

The payment of the dividend out of pre-acquisition profits on 1 March 20X1 could be an impairment indicator that, applying Section 27, could trigger an impairment test at 31 December 20X1. In this case there would not be any impairment because the CU290,000 recoverable amount of the investment equals its carrying amount.

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must each:

- recognise dividend income of CU30,000 (30% × CU100,000 dividend declared by Entity Z); and
- recognise the decrease in the fair value of its investment in Entity Z as an expense of CU7,000 (CU293,000 fair value at 31 December 20X1 less CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1 entities A and B must each report their investment in Entity Z (a jointly controlled entity) at its fair value of CU293,000.

Note: Investments in jointly controlled entities that are carried using the fair value model are not tested for impairment. Accordingly, the CU3,000 estimated costs to sell are not deducted in determining the investment's carrying amount.

Ex 15 **On 1 January 20X1 entities A and B each acquired for CU300,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.**

Entity Z incurred a loss of CU100,000 for the year ended 31 December 20X1 and it did not declare a dividend. Furthermore, at 31 December 20X1 the recoverable amount of each venturer's investment in Entity Z is CU310,000 (CU325,000 fair value less CU15,000 estimated costs to sell). There is no published price quotation for Entity Z.

Cost model

Applying the cost model, at 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU300,000. Entity Z has no effect on the venturers' profit or loss for the year ended 31 December 20X1 because Entity Z did not declare any dividends and the venturers' investments in Entity Z are not impaired at 31 December 20X1 (the CU300,000 carrying amount is lower than the CU310,000 recoverable amount).

Equity method

Applying the equity method, entities A and B must each recognise its share of the losses of the jointly controlled entity of CU30,000 in profit or loss (30% × CU100,000 loss incurred by Entity Z for the year ended 31 December 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU270,000 (CU300,000 cost less CU30,000 share of jointly controlled entity's loss).

The venturers' investments in Entity Z are not impaired at 31 December 20X1 (the CU270,000 carrying amount of each venturer's investment is lower than its CU310,000 recoverable amount).

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must each recognise income of CU25,000 for the increase in the fair value of its investment in Entity Z (CU325,000 fair value at 31 December 20X1 less CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at its fair value of CU325,000. Unlike when determining recoverable amount, costs to sell are not deducted from fair value when using the fair value model.

Ex 16 **The facts are the same as in Example 15. However, in this example, at 31 December 20X1 the recoverable amount of each venturer's investment in Entity Z is CU265,000
(CU275,000 fair value less CU10,000 estimated costs to sell).**

Cost model

Applying the cost model, entities A and B must each recognise an impairment loss of CU35,000 in profit or loss for the year ended 31 December 20X1 (CU300,000 cost less CU265,000 recoverable amount).

At 31 December 20X1 entities A and B must report its investment in Entity Z (a jointly controlled entity) at CU265,000 (see Section 27).

Equity method

Applying the equity method, entities A and B must each recognise its share of the losses of the jointly controlled entity of CU30,000 (30% × CU100,000 loss incurred by Entity Z for the year ended 31 December 20X1) and an impairment of their investments in the joint venture of CU5,000 (CU300,000 cost less CU30,000 share of joint venture's losses = CU270,000 carrying amount before impairment. CU270,000 less CU265,000 recoverable amount = CU5,000 impairment loss) respectively in profit or loss.

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU265,000 (CU300,000 cost less CU30,000 share of joint venture's loss less CU5,000 accumulated impairment loss).

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, entities A and B must each recognise an expense of CU25,000 for the decrease in the fair value of its investment in Entity Z (CU275,000 fair value at 31 December 20X1 less CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at its fair value of CU275,000. Unlike when determining recoverable amount when using the cost model (see Section 27), costs to sell are not deducted from fair value when using the fair value model.

Examples—others: equity method

Ex 17 **On 1 January 20X1 entities A and B each acquired for CU100,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. The purchase price is equal to the fair value of 30% of Entity Z's identifiable assets less 30% of its identifiable liabilities.**

On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.

For the year ended 31 December 20X1 Entity Z recognised a loss of CU600,000. Entities A and B have no constructive or legal obligation in respect of their jointly controlled entity's loss and have made no payments on its behalf.

Entity Z recognised profit for the year ended 31 December 20X2 of CU800,000.

There is no published price quotation for Entity Z.

20X1

Entities A and B must each recognise CU100,000 loss from the entity they jointly control in profit or loss for the year ended 31 December 20X1 (30% × CU600,000 Entity Z's loss for the year = CU180,000. However, entities A and B would each limit the loss recognised to its CU100,000 investment in the jointly controlled entity in accordance with paragraph 14.8(h)).

At 31 December 20X1 each venturer must measure its investment in the joint venture (Entity Z) at CU0 (CU100,000 cost less CU100,000 share of losses). Hence, in 20X1 each venturer would not recognise CU80,000 of its share of Entity Z's losses.

20X2

Entities A and B must each recognise CU160,000 as its share of the jointly controlled entity's earnings in profit or loss for the year ended 20X2 (30% × CU800,000 Entity Z's profit for the year = CU240,000 share of joint venture's profit. CU240,000 share of joint venture's profit less CU80,000 loss not recognised in 20X1 = CU160,000).

At 31 December 20X2 entities A and B must each measure its investment in the joint venture (Entity Z) at CU160,000 (CU100,000 cost less CU100,000 share of losses recognised in 20X1 + CU160,000 share of profit recognised in 20X2).

Ex 18 **The facts are the same as in Example 11. However, in this example, on 31 December 20X1 entities A and B lost joint control over Entity Z when the investors dissolved their agreement and Entity A reduced its shareholding in Entity Z to 15% by selling half of its shares in Entity Z to an independent third party for CU212,500. Transaction costs of CU5,000 were incurred in selling the shares.**

Entity A must recognise in profit or loss for the year ended 31 December 20X1:

- income from its joint venture of CU120,000 (30% × CU400,000 Entity Z's profit for the year = CU120,000).
- a gain on derecognition of an investment in jointly controlled entities of CU45,000 ((CU212,500 proceeds from sale of shares less CU5,000 transactions costs + CU212,500 fair value of the retained interest) less CU375,000 carrying amount of

investment in Entity Z when significant influence was lost). To account for this transaction, Entity A would make the following journal entry:

Dr	Cash	CU207,500[(a)]	
Dr	Financial instrument—equity investment (shares of Entity B)	CU212,500[(b)]	
	Cr Investment in joint venture (Entity B)		CU375,000[(c)]
	Cr Profit or loss		CU45,000

To recognise the gain on derecognition of investment in joint venture (Entity B).

(a) CU212,500 proceeds from sale of shares less CU5,000 transaction costs incurred.

(b) The fair value of the retained interest in Entity B. In the absence of other information, this price in a recent transaction is assumed to be the fair value (see paragraph 11.27(b)).

(c) The carrying amount of investment in joint venture derecognised (CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend).

At 31 December 20X1, applying Section 11 *Basic Financial Instruments*, Entity A must classify its investment in Entity Z as a financial asset and, under paragraph 14.8(i)(ii), measure its investment in Entity Z at CU212,500 (fair value on the date when joint control was lost). Thereafter, Entity A would account for its investment in Entity Z by applying paragraph 11.14(c).

Entity B must recognise in profit or loss for the year ended 31 December 20X1 income from its joint venture of CU120,000 (30% × CU400,000 Entity Z's profit for the year).

At 31 December 20X1, in the absence of evidence to the contrary, it is presumed that Entity B has significant influence over Entity Z (see paragraph 14.3). Therefore, Entity B must account for its investment in Entity Z as an investment in an associate applying Section 14 *Investments in Associates*. Under paragraph 14.8(i)(i), on 31 December 20X1 Entity B is required to measure its investment in its associate (Entity Z) at its fair value (which, based on the selling price of half of Entity A's shares, may be CU425,000). The difference between the fair value and CU375,000, the carrying amount on the date that joint control was lost, would be recognised by Entity B in profit or loss. Thereafter, Entity B would account for its investment in Entity Z in accordance with the model that it uses to account for its investments in associates (see paragraph 14.4). If it were concluded that Entity B did not have significant influence over Entity Z, on 31 December 20X1 Entity B, applying paragraph 14.8(i)(iii), would measure its investment in Entity Z at CU375,000, the carrying amount on the date that joint control was lost. Thereafter, Entity B would account for its investment in Entity Z as a financial asset to be accounted for in accordance with Section 11.

Ex 19 **The facts are the same as in Example 11. However, in this example, on 1 January 20X1 each venturer's share of the fair values of the net identifiable assets of Entity Z is CU280,000 and the fair value of one of Entity Z's assets (a machine) exceeded its carrying amount (in Entity Z's statement of financial position) by CU50,000. That machine is depreciated on the straight-line method to a nil residual value over its remaining five-year useful life.**

Entities A and B estimated the useful life of the implicit goodwill as five years.

Entities A and B must recognise income from their jointly controlled entity of CU113,000 in profit or loss for the year ended 31 December 20X1 (30% × CU400,000 Entity Z's profit for the year less CU4,000 amortisation of implicit goodwill (CU300,000 cost of acquisition less CU280,000 share of the fair values of the net identifiable assets = CU20,000 implicit goodwill. CU20,000 implicit goodwill ÷ 5-year useful life = CU4,000 amortisation expense) less 30% × CU10,000 depreciation adjustment (CU50,000 'additional' cost of machine ÷ 5-year useful life = CU10,000 depreciation)).[6]

At 31 December 20X1 the venturers must each report its investment in Entity Z (a jointly controlled entity) at CU368,000 (CU300,000 cost + CU113,000 share of earnings less CU45,000 dividend). Entities A and B must also consider whether there are any indicators that the investment is impaired and, if so, conduct an impairment test applying Section 27.

Examples—others: fair value model

Ex 20 **The facts are the same as in Example 11. However, in this example, the fair value of the investment in Entity Z could not be measured reliably without undue cost or effort.**

Entities A and B must each recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1 entities A and B must each report its investment in Entity Z (a jointly controlled entity) at CU300,000 (cost). Entities A and B must also consider whether there are any indicators that their investments are impaired and, if so, conduct an impairment test applying Section 27. In this example, it is unlikely that the profitable jointly controlled entities would be impaired.

Although entities A and B elected the fair value model as their accounting policy for investments in jointly controlled entities they are required to account for their investment in Entity Z using the cost model because the fair value of their investment in Entity Z could not be measured reliably without undue cost and effort.

Transactions between a venturer and a joint venture

15.16 When a venturer contributes or sells assets to a joint venture, **recognition** of any portion of a **gain** or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

Notes

When a venturer sells to its joint venture, the transaction is sometimes called a downstream transaction.

[6] In this example, the tax effects of the fair value adjustments and implicit goodwill have been ignored.

Example—venturer contributes an asset to its jointly controlled entity

Ex 21 **On 1 January 20X1 entities A and B (the venturers) form a joint venture (Entity Z). Upon incorporation of Entity Z, entities A and B each take up 50% of its share capital. In return for their interests in Entity Z, entities A and B each contribute CU100,000 to Entity Z. Entity A contributes a machine with a fair value of CU100,000 and a carrying amount of CU80,000. Entity B's contribution is CU100,000 cash.**

The machine contributed by Entity A has an estimated useful life of 10 years, from the date of transfer, with nil residual value.

Entity Z's profit for the year ended 31 December 20X1 is CU30,000 (after deducting depreciation expense of CU10,000 on the machine contributed by Entity A).

Entity A accounts for jointly controlled entities using the equity method.

Entity A's journal entries for the year ended 31 December 20X1:[7]

1 January 20X1

Dr	Investment in jointly controlled entity	CU90,000[a]	
	Cr Property, plant and equipment		CU80,000
	Cr Profit or loss (realised gain on contributing machine to a jointly controlled entity)		CU10,000

To recognise the formation of a jointly controlled entity by contributing a machine to the joint venture.

For the year ended 31 December 20X1

Dr	Investment in jointly controlled entity	CU15,000	
	Cr Profit or loss (share of jointly controlled entity's profit)		CU15,000

To recognise the entity's share (50%) of the jointly controlled entity's recognised profit.

Dr	Investment in jointly controlled entity	CU1,000[b]	
	Cr Profit or loss (share of jointly controlled entity's profit)		CU1,000

To recognise an adjustment to the share of the jointly controlled entity's profit in respect of the adjusted depreciation of the machine.

(a) CU80,000 carrying amount of machine contributed to the jointly controlled entity + CU10,000 gain realised from the other venturer on contributing the machine to the jointly controlled entity = CU90,000.

(b)

Cost of PPE—jointly controlled entity's books	CU100,000
Cost of PPE—Entity A's books	CU80,000
Difference	**CU20,000**
Useful lives	10 years

[7] In this example, the tax effects of the unrealised profit in respect of the asset contributed by the venturer to its jointly controlled entity have been ignored.

Implicit excess depreciation	CU2,000
Entity A's share at 50%—*annually for ten years*	CU1,000

Example—venturer sells an asset to its jointly controlled entity

Ex 22 **On 1 January 20X1 entities A and B each acquired for CU300,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z.[8] On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.**

For the year ended 31 December 20X1, Entity Z recognised a profit of CU400,000. On 30 December 20X1 Entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.

On 31 December 20X1 Entity A sells goods for CU60,000 to Entity Z. At 31 December 20X1 the goods purchased from Entity A were in Entity Z's inventories (they had not been sold by Entity Z). Entity A sells goods at a 50% mark-up on cost.

Entities A and B account for jointly controlled entities using the equity method.

Entity A

Entity A must recognise income from its jointly controlled entity of CU120,000 (30% × CU400,000 Entity Z's profit for the year).

At 31 December 20X1 Entity A would report its investment in Entity Z (a joint venture) at CU369,000 (CU300,000 cost + CU120,000 share of earnings from joint venture less CU6,000 (30% × CU20,000[9], [10] elimination of the unrealised profit) less CU45,000 dividend). Entity A must also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test applying Section 27.

Entity A must also eliminate the unrealised profit from its profit for the year. This could be achieved by eliminating CU18,000 from its sales (30% × CU60,000) and CU12,000 from its cost of goods sold (30% × CU40,000) for the year ended 31 December 20X1.

Entity B

Entity B must recognise CU120,000 as its share of Entity Z's income (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 Entity B would report its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). Entity B would also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test applying Section 27.

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[8] In this example, it is assumed that there is no implicit goodwill and no fair value adjustments.

[9] Unrealised profit = CU20,000 (50% ÷ 150% × CU60,000 inventory held by Entity Z).

[10] In this example, the tax effects of eliminating the unrealised profit have been ignored.

15.17 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.

Notes

When a joint venture sells to a venturer, the transaction is sometimes called an upstream transaction.

Example—venturer buys an asset from its jointly controlled entity

Ex 23 **On 1 January 20X1 entities A and B each acquired for CU300,000 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z.[11] On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.**

For the year ended 31 December 20X1, Entity Z recognised a profit of CU400,000. On 30 December 20X1 Entity Z declared and paid a dividend of CU150,000 for the year 20X1. At 31 December 20X1 the fair value of each venturer's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.

In 20X1 Entity A purchased goods for CU100,000 from Entity Z. At 31 December 20X1 CU60,000 of the goods purchased from Entity Z were in Entity A's inventories (they had not been sold by Entity A). Entity Z sells goods at a 50% mark-up on cost.

Entities A and B account for jointly controlled entities using the equity method.

Entity A

Entity A must recognise income from its jointly controlled entity of CU114,000 (30% × CU400,000 Entity Z's profit for the year = CU120,000. CU120,000 less 30% × CU20,000[12], [13] unrealised profit = CU114,000) in profit or loss for the year ended 31 December 20X1.

In this example, it is assumed that Entity A follows an accounting policy of eliminating the unrealised profits from upstream transactions with its jointly controlled entity against the carrying amount of its investment in the jointly controlled entity.[14]
At 31 December 20X1 Entity A would report its investment in Entity Z (a jointly controlled entity) at CU369,000 (CU300,000 cost + CU114,000 share of earnings (after adjusting for the elimination of the unrealised profit) less CU45,000 dividend).

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(11) In this example, it is assumed that there is no implicit goodwill and no fair value adjustments.

(12) Unrealised profit = CU20,000 (50% ÷ 150% × CU60,000 inventory held by Entity A).

(13) In this example, the tax effects of eliminating the unrealised profit have been ignored.

(14) An alternative accounting policy would be to eliminate the unrealised profit in upstream transactions against the asset transferred (in this case, the inventories).

Entity A must also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test applying Section 27.

Entity B

Entity B must recognise CU120,000 as its share of Entity Z's income (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1 Entity B would report its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings less CU45,000 dividend). Entity B would also consider whether there are any indicators that its investment is impaired and, if so, conduct an impairment test applying Section 27.

If investor does not have joint control

15.18 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instrument Issues* or, if it has significant influence in the joint venture, Section 14 *Investments in Associates*.

Example—investor in a joint venture that does not have joint control

Ex 24 **Entities A, B and C own 20%, 40% and 40%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Entities B and C (the venturers) have contractually agreed jointly to control Entity Z.**

Entity Z is a joint venture (a jointly controlled entity) of entities B and C—it is controlled jointly by the venturers (entities B and C).

Entity A is not a party that has joint control over Entity Z. In the absence of evidence to the contrary, it is presumed that Entity A has significant influence over Entity Z (Entity Z is an associate of Entity A; see paragraph 14.3(a)) and would therefore account for its investment in Entity Z applying Section 14 *Investments in Associates*.

However, if it were determined that Entity A does not have significant influence over Entity Z, then Entity A would account for its investment in Entity Z as an equity instrument applying Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instrument Issues*.

Entities B and C are each required to account for its investment in Entity Z applying paragraphs 15.8–15.17 and 15.19–15.21.

Disclosures

15.19 An entity shall disclose the following:

(a) the **accounting policy** it uses for recognising its interests in jointly controlled entities;

(b) the **carrying amount** of investments in jointly controlled entities (see paragraph 4.2(k));

(c) the fair value of investments in jointly controlled entities accounted for using the equity method for which there are published price quotations; and

(d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.

Example—cost model disclosures and fair value model disclosures

Ex 25 **On 1 January 20X0 entities A and B each acquired for CU120,000 30% of the equity of Entity Z. On the same day, entities A and B entered into a contractual arrangement whereby they agreed jointly to control Entity Z.**

Entity Z's loss for the year ended 31 December 20X1 is CU60,000 (20X0: profit of CU80,000).

On 31 December 20X0 Entity Z declared and paid a dividend of CU40,000. It did not declare a dividend in 20X1.

Entity A uses the cost model to account for its investments in the jointly controlled entity. At 31 December 20X1 the recoverable amount of Entity A's investment in Entity Z was estimated at CU97,000. Entity A did not determine the recoverable amount of its investment at 31 December 20X0 because there were no indications that the investment might be impaired.

Entity B uses the fair value model to account for its investments in the jointly controlled entity. The fair value of Entity B's investment in Entity Z at 31 December 20X1 was determined to be CU102,000 (20X0: CU144,000) by multiplying the entity's earnings by the adjusted price/earnings ratio of a similar entity for which a published price quotation exists. The market price/earnings ratio was reduced by 2 basis points because Entity Z's equity is not traded in a public market.

No capital commitments had been incurred by entities A, B or Z at 31 December 20X0 and 20X1.

Entity A (cost model)

Entity A could present its investment in Entity Z in its financial statements as follows:

Entity A—statement of financial position at 31 December 20X1

	Note	*20X1*	*20X0*
ASSETS		*CU*	*CU*
Non-current assets			
Investment in jointly controlled entity	15	97,000	120,000
…			

Entity A—statement of comprehensive income for the year ended 31 December 20X1

	Note	*20X1*	*20X0*
		CU	*CU*
…			
Other income—dividend from jointly controlled entity		–	12,000
Impairment of jointly controlled entity		(23,000)	–
…			

Entity A—notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for at cost less any accumulated impairment losses.

Dividend income from jointly controlled entities is recognised when the shareholders' right to receive payment has been established and is shown as other income.

Note 15. Investment in jointly controlled entities

	20X1	*20X0*
	CU	*CU*
Cost	120,000	120,000
Less accumulated impairment losses	(23,000)	–
	97,000	120,000

Entity A owns 30% of the equity of jointly controlled Entity Z.

Entity B (fair value model)

Entity B could present its investment in Entity Z in its financial statements as follows:

Entity B—statement of financial position at 31 December 20X1

	Note	*20X1*	*20X0*
ASSETS		*CU*	*CU*
Non-current assets			
Investment in jointly controlled entity	15	102,000	144,000
…			

Entity B—statement of comprehensive income for the year ended 31 December 20X1

	Note	*20X1*	*20X0*
		CU	*CU*
…			
Other income—dividend from jointly controlled entity		–	12,000
Change in the fair value of investment in jointly controlled entity		(42,000)	24,000
…			

Entity B—notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for at fair value with changes in fair value recognised in profit or loss of the period.

Dividend income from jointly controlled entities is recognised when the shareholders' right to receive payment has been established and is shown as other income.

Note 15. Investment in jointly controlled entity

	20X1	20X0
	CU	CU
Fair value at 31 December	102,000	144,000

Entity B owns 30% of the equity of a jointly controlled entity (Entity Z).[15]

15.20 For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.

Example—equity method disclosures

Ex 26 **The facts are the same as in Example 25. However, in this example Entity A uses the equity method to account for its investment in the jointly controlled entity.**

Entity A could present its investments in its jointly controlled entity (Entity Z) in its financial statements as follows:

Entity A—statement of comprehensive income for the year ended 31 December 20X1

	20X1		20X0	
	CU		CU	
…				
Impairment of investment in jointly controlled entity	(17,000)	(a)	–	
Share of jointly controlled entity's profit (loss) for the year	(18,000)	(b)	24,000	(c)
…				

Entity A—statement of financial position at 31 December 20X1

	Note	20X1	20X0
ASSETS		CU	CU
Non-current assets			

[15] In addition, Entity A would also disclose the information required by paragraph 15.21.

Investment in jointly controlled entity	15	97,000 [(d)]	132,000 [(e)]

…

Entity A—notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for using the equity method. The carrying amount of the investments in jointly controlled entities is calculated at cost plus the entity's subsequent share of the jointly controlled entities' comprehensive income. If at the end of a reporting period there is an indication that an investment in a jointly controlled entity may be impaired, the entire carrying amount of the investment is tested for impairment. If the carrying amount of the investment is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

Note 15. Investment in jointly controlled entity

	20X1	*20X0*
	CU	*CU*
Cost plus share of jointly controlled entity's comprehensive income less any accumulated impairment losses	97,000	132,000

Entity A owns 30% of the equity of its jointly controlled entity (Entity Z).

The calculations and explanatory notes below do not form part of the disclosures:

(a) CU114,000[(g)] carrying amount at 31 December 20X1 before impairment less CU97,000 recoverable amount = CU17,000 impairment.

(b) 30% × CU60,000 loss for the year = CU18,000 share of Entity Z's loss for the year ended 31 December 20X1.

(c) 30% × CU80,000 profit for the year = CU24,000 share of Entity Z's profit for the year ended 31 December 20X0.

(d) CU114,000[(g)] carrying amount at 31 December 20X1 before impairment less CU17,000[(a)] accumulated impairment of investment in Entity Z = CU97,000 carrying amount at 31 December 20X1.

(e) CU120,000 cost + CU24,000[(c)] profit for the year ended 31 December 20X0 less CU12,000[(f)] dividend received from Entity Z = CU132,000 carrying amount at 31 December 20X0.

(f) 30% × CU40,000 dividend declared and paid by Entity Z = CU12,000 dividend received from Entity Z.

(g) CU132,000[(e)] carrying amount at 31 December 20X0 less CU18,000[(b)] share of Entity Z's loss for the year ended 31 December 20X1 = CU114,000 carrying amount at 31 December 20X1 before impairment.

15.21 For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44. If a venturer applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

Joint control

When evaluating whether an entity has joint control over a venture, it must first be ascertained whether the entity and its fellow venturers collectively have control(16) over the venture (the power to govern the strategic financial and operating decisions of the venture so as to obtain benefits from its activities).

If the venturers collectively have control over the venture then it must be determined whether the contractual arrangement gives rise to joint control over the venture. Joint control exists when the strategic financial and operating decisions require the unanimous consent of the venturers.

Assessing whether a venture is governed under joint control among its parties or whether it is controlled unilaterally by one of its parties is a matter of judgement. As a result of this assessment, a party may conclude that:

- the venture is governed under joint control (the venture is a joint venture);
- it controls the venture (the venture is a subsidiary accounted for applying Section 9 *Consolidated and Separate Financial Statements*); or
- it is an investor to the venture. (If the investor has significant influence,(17) then the venture is an associate to be accounted for applying Section 14 *Investments in Associates*. If it is determined that the investor does not have significant influence, then the investment is a financial asset to be accounted for applying Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instrument Issues*.)

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(16) The Significant Estimates and Other Judgements section of Module 9 *Consolidated and Separate Financial Statements* of this supporting material describes the judgements that need to be made when assessing whether control exists.

(17) The Significant Estimates and Other Judgements section of Module 14 *Investments in Associates* of this supporting material describes the judgements that need to be made when assessing whether significant influence exists.

When there is a large disparity between the parties' ownership interests in the venture and their exposure to the returns (benefits) from the venture, significant judgement may be required when determining whether those parties have joint control over the venture. The reasons for the imbalance between the parties' ownership interests and the returns to which they are exposed under the venture may provide relevant information when assessing whether they are parties with joint control over the venture.

Measurement

After initial recognition, an entity must measure all investments in jointly controlled entities using the cost model, the equity method or the fair value model.

Cost model and equity method

When the cost model or the equity method is used, significant judgements relating to accounting for an impairment of a jointly controlled entity include:

- assessing whether there is any indication that an investment in a jointly controlled entity may be impaired (see paragraph 27.7); and
- if there is any indication that the investment in a jointly controlled entity may be impaired, estimating the recoverable amount of that investment (see paragraph 27.11).

Equity method

When the equity method is used, significant judgements might be necessary to estimate the fair value of the jointly controlled entity's identifiable assets and identifiable liabilities at the date of attaining joint control.

Many judgements are necessary to apply the equity method. For example, in the following circumstances:

- If the fair value of the jointly controlled entity's identifiable assets and identifiable liabilities were different from their carrying amounts (as recorded by the jointly controlled entity) at the date of attaining joint control. Here, judgements must be made about the extent of the valuation adjustments. For the accounting after acquisition, the venturer is required to make judgements about the timing of the realisation of the valuation adjustment in profit or loss (see paragraphs 15.13 and 14.8(c)).
- If on acquisition there is a difference (positive or negative) between the cost of acquisition and the venturer's share of the fair values of the net identifiable assets of the jointly controlled entity (eg implicit goodwill). In relation to accounting after acquisition, judgements must be made about the timing of the realisation of the 'implicit goodwill' in profit or loss (see paragraphs 15.13 and 14.8(c)).
- If the entity and its jointly controlled entity have different reporting dates (different accounting period ends) and it is impracticable for the jointly controlled entity to prepare financial statements with the same reporting period as the venturer. Here, judgements must be made about the effects of any significant transactions or events occurring between the accounting period ends (see paragraphs 15.13 and 14.8(f)).
- If the venturer and its jointly controlled entity use different accounting policies, judgements must be made about the effects of applying the different accounting policies (see paragraphs 15.13 and 14.8(g)).

Fair value model

When the fair value model is adopted for the measurement of an investment in a jointly controlled entity subsequent to initial recognition, significant judgements might be necessary when:

- assessing whether the fair value of an investment in a particular jointly controlled entity can be measured with sufficient reliability without undue cost or effort for the fair value model to be applied to particular jointly controlled entities (see the notes below paragraph 15.15 and also paragraphs 14.10 and 11.27–11.32); and
- deciding which valuation model to use and determining the inputs for that model in a case when the jointly controlled entity's shares are not quoted in an active market (for application guidance on fair value measurement, see paragraphs 11.27–11.32).

Module 15–Investments in Joint Ventures

COMPARISON WITH FULL IFRS STANDARDS

When accounting and for reporting investments in joint ventures for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*) and the *IFRS for SMEs* Standard (see Section 15 *Investments in Joint Ventures*) are:

- The *IFRS for SMEs* Standard is drafted in plainer language and includes significantly less guidance on how to apply the principles.
- The accounting requirements in the *IFRS for SMEs* Standard are determined by the form of the joint venture—ie whether it is a jointly controlled asset; a jointly controlled operation; or a jointly controlled entity. In addition, the *IFRS for SMEs* Standard permits an entity to choose one of three different models to account for investments in jointly controlled entities in its primary financial statements—the equity method; the cost model; and the fair value model. The chosen model is applied by a reporting entity to all its investments in jointly controlled entities. In contrast, full IFRS Standards (IFRS 11) requires the accounting for a joint arrangement to follow the substance of the arrangement. (A joint arrangement is defined in full IFRS Standards in a similar manner to the way that a joint venture is defined in the *IFRS for SMEs* Standard.) Under IFRS 11, where an entity has rights to the assets and obligations for the liabilities of a joint arrangement, it accounts for those assets and liabilities, and where an entity has rights to the net assets of a joint arrangement, it accounts for those net assets using the equity method.
- Under the equity method, the *IFRS for SMEs* Standard requires that implicit goodwill be systematically amortised throughout its expected useful life (see paragraphs 15.13 and 14.8(c)). Full IFRS Standards does not allow the amortisation of goodwill (see IAS 28, paragraph 32(a)).

Module 15–Investments in Joint Ventures

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting for and reporting investments in joint ventures applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

Mark the box next to the most correct statement.

Question 1

A joint venture is:

☐ (a) an entity whose equity is owned in equal shares (50% each) by two investors.

☐ (b) an entity whose equity is owned in equal shares (25% each) by four investors.

☐ (c) a contractual arrangement whereby two or more parties undertake an economic activity.

☐ (d) a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Question 2

Two entities enter into a contractual arrangement to exercise joint control of a property, each taking a share of the rents received and bearing a share of the expenses. The entities are the registered joint owners of the property.

The two entities have:

☐ (a) a jointly controlled asset.

☐ (b) a jointly controlled operation.

☐ (c) a jointly controlled entity.

Question 3

The following statements are true about joint venture <u>except</u> for which statement?

☐ (a) A jointly controlled entity may involve establishment of a partnership.

☐ (b) A reporting entity (that is also a parent) that has three jointly controlled entities, one of which has published price quotation is not allowed to elect cost model in accounting for these investments in joint ventures in its consolidated financial statements.

☐ (c) In a jointly controlled operation, a joint venture agreement may provide a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

☐ (d) When a venture purchases assets from a joint venture, the venture shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

Question 4

Fundamental to a joint control is:

☐ (a) the power to participate in the financial and operating policy decisions of the investee.

☐ (b) active participation in the financial and operating policy decisions of the investee.

☐ (c) the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

☐ (d) the contractually agreed sharing of control over an economic activity.

Question 5

An entity must account for its investments in jointly controlled entities after initial recognition using:

☐ (a) either the cost model or the fair value model (using the same accounting policy for all investments in jointly controlled entities).

☐ (b) either the cost model or the fair value model (which model can be elected on an investment-by-investment basis).

☐ (c) either the cost model, the equity method or the fair value model (using the same accounting policy for all investments in jointly controlled entities).

☐ (d) either the cost model, the equity method or the fair value model (which model can be elected on an investment-by-investment basis).

Question 6

Investments in jointly controlled entities must be tested for impairment applying Section 27 *Impairment of Assets*, if the entity uses:

☐ (a) the cost model, equity method or fair value model.

☐ (b) the cost model or the equity method.

☐ (c) the cost model or the fair value model.

☐ (d) the equity method or the fair value model.

Question 7

On 31 December 20X1 Entity A acquired for CU100,000 30% of the ordinary shares that carry voting rights of Entity Z. In acquiring those shares Entity A incurred transaction costs of CU1,000.

Entity A has entered into a contractual arrangement with another party (Entity C) that owns 25% of the ordinary shares of Entity Z, whereby entities A and C jointly control Entity Z.

Entity A uses the cost model to account for its investments in jointly controlled entities. A published price quotation does not exist for Entity Z.

In January 20X2 Entity Z declared and paid a dividend of CU20,000 out of profits earned in 20X1. No further dividends were paid in 20X2, 20X3 or 20X4.

At 31 December 20X1, 20X2 and 20X3, after applying Section 27 *Impairment of Assets*, Entity A's management assessed the fair values of its investment in Entity Z as CU102,000, CU110,000 and CU90,000 respectively. Costs to sell are estimated at CU4,000 throughout.

Entity A measures its investment in Entity Z on 31 December 20X1, 20X2 and 20X3 respectively at:

- ☐ (a) CU100,000, CU100,000, CU100,000.
- ☐ (b) CU101,000, CU101,000, CU90,000.
- ☐ (c) CU98,000, CU106,000, CU86,000.
- ☐ (d) CU98,000, CU101,000, CU86,000.
- ☐ (e) CU102,000, CU110,000, CU90,000.
- ☐ (f) CU101,000, CU101,000, CU101,000.

Question 8

The facts are the same as in Question 7. However, here, a published price quotation exists for Entity Z. At 31 December 20X1, 20X2 and 20X3, the fair values based on this published price quotation is CU102,000, CU110,000 and CU90,000, respectively.

Entity A measures its investment in Entity Z on 31 December 20X1, 20X2 and 20X3 respectively at:

- ☐ (a) CU100,000, CU100,000, CU100,000.
- ☐ (b) CU95,000, CU95,000, CU86,000.
- ☐ (c) CU98,000, CU106,000, CU86,000.
- ☐ (d) CU98,000, CU101,000, CU86,000.
- ☐ (e) CU102,000, CU110,000, CU90,000.
- ☐ (f) CU101,000, CU101,000, CU101,000.

Question 9

An investor in a joint venture over which it does not have joint control accounts for that investment applying:

- ☐ (a) Section 11 *Basic Financial Instruments*.
- ☐ (b) Section 14 *Investments in Associates*.
- ☐ (c) Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instrument Issues* or, if it has significant influence in the joint venture, Section 14 *Investments in Associates*.
- ☐ (d) Section 9 *Consolidated and Separate Financial Statements*.

Question 10

Which of the following statements is false?

- ☐ (a) Joint control over an entity can be gained or lost without a change in absolute or relative ownership levels.
- ☐ (b) When assessing whether two or more parties jointly control another entity, the parties consider the existence and effect of potential voting rights that they hold that are currently exercisable or convertible.
- ☐ (c) When assessing whether two or more parties jointly control another entity, the parties consider the existence and effect of potential voting rights that are held by other parties and that are currently exercisable or convertible.
- ☐ (d) When assessing whether two or more parties jointly control another entity, the parties consider only present ownership interests. They do not consider the possible exercise or conversion of potential voting rights.

Module 15–Investments in Joint Ventures

Answers

Q1 (d)—See paragraph 15.3.
Q2 (a)—See paragraph 15.6.
Q3 (b)—See paragraph 15.12. The venturer is still allowed to elect cost model. For that investment in jointly controlled entity that has a published price quotation, it will be measured using the fair value model.
Q4 (d)—See paragraph 15.2.
Q5 (c)—See paragraph 15.9.
Q6 (b)—See paragraphs 15.10 and 15.13 read with paragraph 14.8(d).
Q7 (d)—See paragraphs 15.10 and 15.11.
20X1: CU98,000 because recoverable amount—fair value less costs to sell (CU98,000) is less than cost (CU101,000).
20X2: CU101,000 because cost is less than recoverable amount.
20X3: CU86,000 because recoverable amount (CU86,000) is less than cost (CU101,000).
Q8 (e)—See paragraphs 15.12, 15.14 and 15.15.
Q9 (c)—See paragraph 15.18.
Q10 (d)—See paragraph 15.2 read with paragraph 9.6 (potential voting rights that are currently exercisable must be taken account of).

Module 15–Investments in Joint Ventures

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting for and reporting investments in joint ventures applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

Case study 1

Two property companies (the parties) form a separate legal entity (the venture) in the form of a limited liability partnership for the purpose of operating a shopping centre. The venture buys the land and buildings that constitute the shopping centre. The purchase of the shopping centre is financed with a bank loan.

The activities of the venture include: renting the retail units; managing the car park; maintaining the centre and its infrastructure, such as lifts; and, more generally, growing the centre's reputation and visitor numbers. Strategic decisions relating to the operations require the consent of both parties.

How should the parties account for their interests in the shopping centre business operated by the limited liability partnership?

Answer to case study 1

The venture is a joint venture (a jointly controlled entity).

In accordance with their respective accounting policies for jointly controlled entities, the parties would recognise their interest in the venture using either:

- the cost model;
- the equity method; or
- the fair value model.

Case study 2

Four entities (the parties) each have rights to extract minerals from adjacent areas. The entities have financed their respective acquisitions. The parties enter into a contract to explore, develop and extract minerals from the combined area (the field). Each entity retains its legal ownership of the extractive rights for its defined area.

The contract is for the economic extraction life of the defined area. The participation percentage of each party is based on the mineral reserves expected to be extracted from that party's acreage held and contributed to the geological area. The respective participation percentages are subsequently adjusted on the basis of the findings of an independent survey of the reserves. The parties receive output from the joint venture in the form of minerals that each can then hold, use or sell at its own discretion.

One party has been designated as the operator. The parties establish a five-year strategic plan, which is updated annually on approval of all of the parties. The operator acquires equipment and allocates employees to the joint activities according to the strategic plan. The operator invoices the other parties for their share of expenses and capital expenditure on the basis of their respective participations. The terms of the arrangement are such that each party is contractually responsible for a share of all costs and therefore each party has rights to a share of any assets purchased for the joint activities. Parties have joint and several liability for obligations such as decommissioning and environmental clean-up.

Part A: What form of joint venture, if any, is the contractual arrangement described above?

Part B: How should the parties account for their interests in the contractual arrangement described above?

Answer to case study 2

Part A

The joint venture involves the undertaking of an economic activity (the extraction of minerals in a defined area) that is subject to joint control. This joint venture takes the form of jointly controlled assets to carry out that activity (mainly production equipment). The joint venture is set up for the purposes of sharing costs. The contractual arrangement is an extension of each party's operating activities to produce and sell minerals.

The parties retain their right to the economic benefits generated from the mineral rights—the benefits (usually received in the form of minerals) are directly related to the amount of mineral reserves contributed by each party to the contractual arrangement. The parties have joint and several liability for obligations such as decommissioning, and also have obligations to reimburse their share of the costs incurred by the operator.

Each party has rights to its share of the joint production equipment and other resources by directing the use of the equipment for the extraction of minerals.

Part B

The parties would recognise as assets and liabilities their respective interests in the mineral rights, production equipment, minerals extracted, liabilities incurred, decommissioning liabilities and financing of the operations.

The operator would recognise receivables from the other parties (representing the other parties' share of expenses and capital expenditure borne by the operator). The non-operator parties would recognise payables to the operator.

Case study 3

On 1 January 20X1 SME A and SME B each acquired 40% of the equity shares of entities X, Y and Z for CU10,000, CU15,000 and CU28,000, respectively. SME A and SME B entered into a contractual arrangement by which they established that the strategic financial and operating decisions relating to the activities carried out by entities X, Y and Z required their unanimous consent. Transaction costs of 1% of the purchase price of the shares were incurred by SME A and SME B.

On 2 January 20X1 Entity X declared and paid dividends of CU625 for the year ended 20X0. On 31 December 20X1 Entity Y declared a dividend of CU5,000 for the year ended 20X1. The dividend declared by Entity Y was paid in 20X2.

For the year ended 31 December 20X1, entities X and Y recognised profit of respectively CU3,125 and CU11,250. However, Entity Z recognised a loss of CU12,500 for that year.

Published price quotations do not exist for the shares of entities X, Y and Z. Using appropriate valuation techniques, the venturers (SME A and SME B) determined the fair value of each of their investments in entities X, Y and Z at 31 December 20X1 as CU13,000, CU29,000 and CU15,000 respectively. Costs to sell are estimated at 5% of the fair value of the investments.

Neither SME A nor SME B prepares consolidated financial statements because they do not have any subsidiaries.

Part A:
Assume SME A measures its investments in jointly controlled entities using the cost model and SME B measures its investments in jointly controlled entities using the fair value model

Prepare accounting entries to record the investments in the jointly controlled entities in the accounting records of SME A and SME B for the year ended 31 December 20X1.

Part B:
Assume instead that SME A measures all its investments in jointly controlled entities using the equity method.

Prepare accounting entries to record the investments in jointly controlled entities in the accounting records of SME A for the year ended 31 December 20X1.

Answer to case study 3–Part A

SME A (cost model)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)	CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Investment in jointly controlled entity (Entity X)	CU100	
Dr	Investment in jointly controlled entity (Entity Y)	CU150	
Dr	Investment in jointly controlled entity (Entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Profit or loss (other income, dividend received)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)	CU2,000	
	Cr Profit or loss (other income, dividend received)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend paid by Entity Y).

Dr	Profit or loss (impairment loss)	CU14,030[(a)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU14,030

To recognise the impairment of the investment in Entity Z.

(a) CU28,280 cost less CU14,250[(b)] = CU14,030 impairment loss.

(b) CU15,000 fair value at 31 December 20X1 less estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value less costs to sell of SME A's investment in Entity Z at 31 December 20X1.

SME B (fair value model)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)	CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Profit or loss	CU530[(a)]	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)	CU2,000	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend paid by Entity Y).

Dr	Profit or loss (change in fair value)	CU13,000[(b)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU13,000

To recognise the decrease in fair value of investment in Entity Z, a jointly controlled entity, in the year.

Dr	Investment in jointly controlled entity (Entity X)	CU3,000[(c)]	
Dr	Investment in jointly controlled entity (Entity Y)	CU14,000[(d)]	
	Cr Profit or loss (change in fair value)		CU17,000

To recognise increase in fair value of investments in jointly controlled entities (entities X and Y), in the year.

(a) 1% (CU10,000 Entity X + CU15,000 Entity Y + CU28,000 Entity Z) = CU530 transaction costs.

(b) CU28,000 cost less CU15,000 fair value at 31 December 20X1 = CU13,000 decrease in the fair value of the investment in Entity Z for the year ended 31 December 20X1.

(c) CU13,000 fair value at 31 December 20X1 less CU10,000 cost = CU3,000 increase in the fair value of the investment in Entity X for the year ended 31 December 20X1.

(d) CU29,000 fair value at 31 December 20X1 less CU15,000 cost = CU14,000 increase in the fair value of the investment in Entity Y for the year ended 31 December 20X1.

Answer to case study 3–Part B

SME A (equity method)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)	CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Investment in jointly controlled entity (Entity X)	CU100	
Dr	Investment in jointly controlled entity (Entity Y)	CU150	
Dr	Investment in jointly controlled entity (Entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Investment in jointly controlled entity (Entity X)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)	CU2,000	
	Cr Investment in jointly controlled entity (Entity Y)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend paid by Entity Y).

Dr	Investment in jointly controlled entity (Entity X)	CU1,250[(a)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU1,250

To recognise the share of Entity X's (a jointly controlled entity) profit for the year.

Dr	Investment in jointly controlled entity (Entity Y)	CU4,500[(b)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU4,500

To recognise the share of Entity Y's (a jointly controlled entity) profit for the year.

Dr	Profit or loss (share of jointly controlled entity's earnings)	CU5,000[(c)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU5,000

To recognise the share of Entity Z's (a jointly controlled entity) loss for the year.

Dr	Profit or loss (impairment loss)	CU9,030[(d)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU9,030

To recognise the impairment of the investment in Entity Z.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) 40% × CU3,125 profit for the year (Entity X) = CU1,250 SME A's share of Entity X's profit for the year.

(b) 40% × CU11,250 profit for the year (Entity Y) = CU4,500 SME A's share of Entity Y's profit for the year.

(c) 40% × CU12,500 loss for the year (Entity Z) = CU5,000 SME A's share of Entity Z's loss for the year.

(d) CU28,280 cost less CU5,000[(c)] SME A's share of Entity Z's loss for the year less CU14,250[(e)] = CU9,030 impairment loss.

(e) CU15,000 fair value at 31 December 20X1 less estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value less costs to sell of SME A's investment in Entity Z at 31 December 20X1.