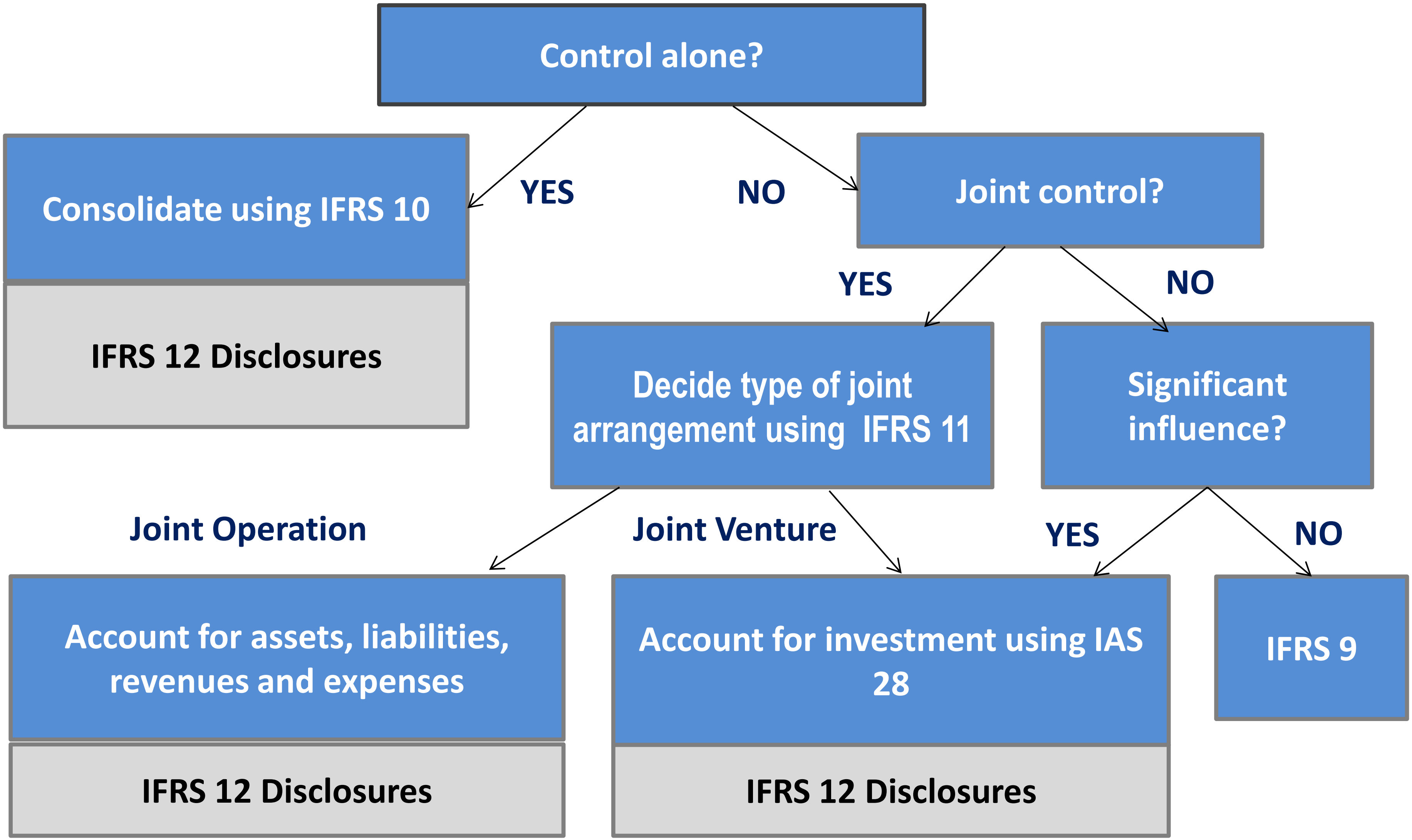
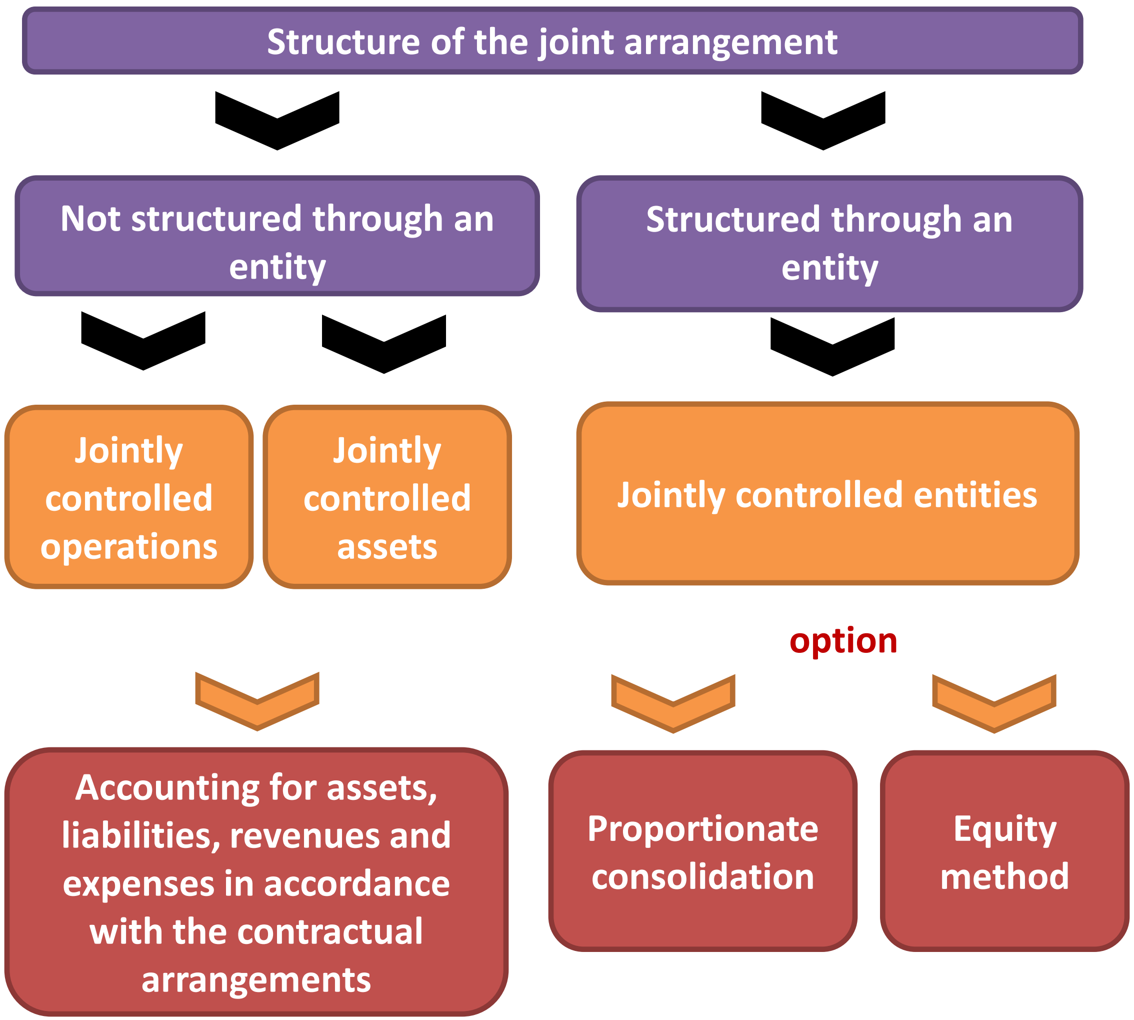
Joint Arrangements– IFRS 11 and Investment in Associate – IAS 28

Interaction of IFRS 10,11,12 and IAS 28



IAS 31

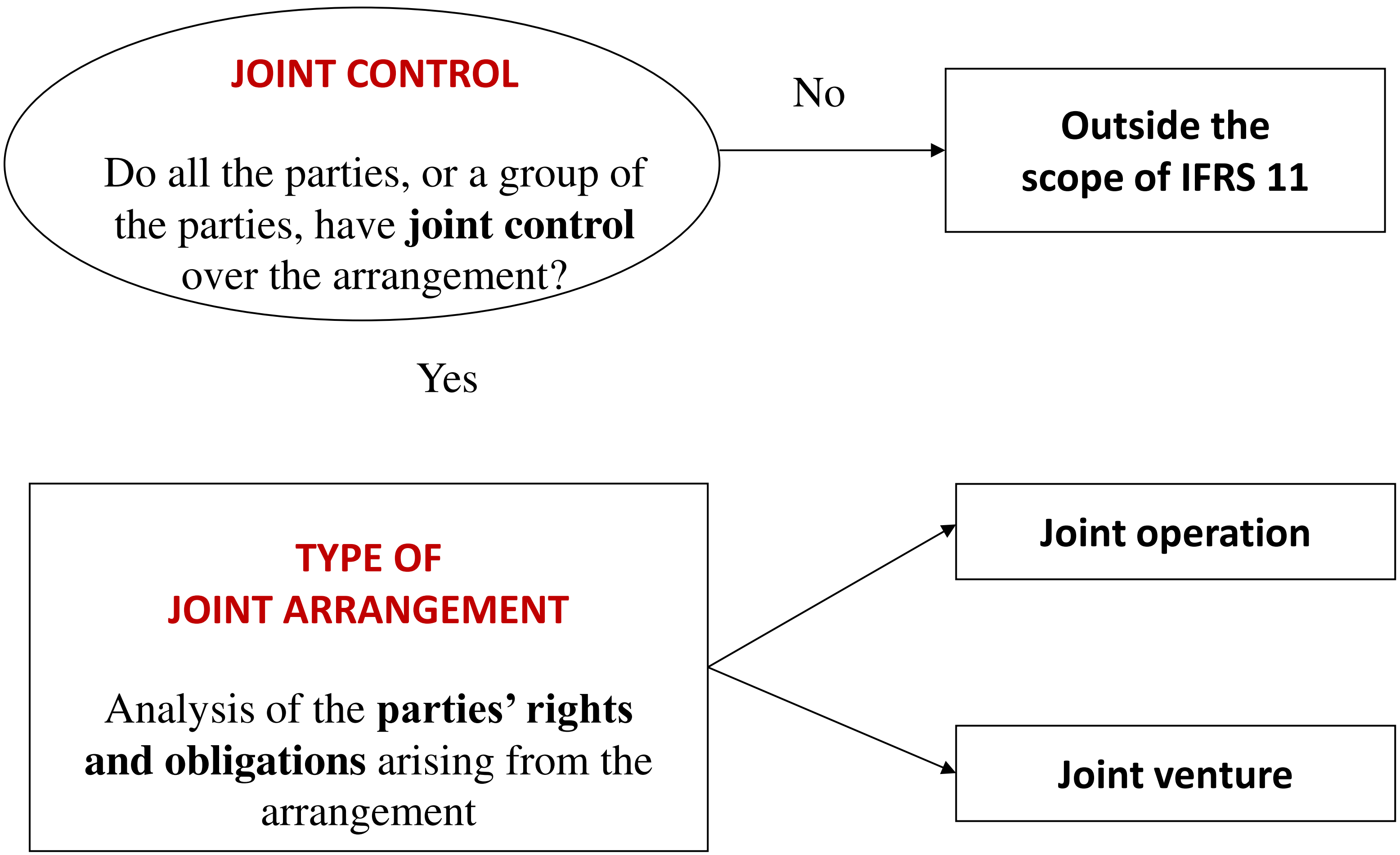

Structure of the joint arrangement
Not structured through an entity
Structured through an entity
Jointly controlled operations
Jointly controlled assets
Jointly controlled entities
option
Accounting for assets, liabilities, revenues and expenses in accordance with the contractual arrangements
Proportionate consolidation
Equity method

IFRS 11 – Principle Based Approach

IFRS 11 establishes a **principle-based approach** for the accounting for joint arrangements:

Parties to a joint arrangement recognise their **rights and obligations** arising from the arrangement

IFRS 11 – Principle Based Approach



IFRS 11 – Assessing the classification

Not structured through a separate vehicle *

Structured through a separate vehicle *

Assess the parties' **rights and obligations** arising from the arrangement by considering:

(a) the ***legal form*** of the separate vehicle
(b) the ***terms of the contractual arrangement***, and, if relevant,
(c) ***other facts and circumstances***

Parties have rights to the assets and obligations for the liabilities

Parties have rights to the net assets

Joint operation

Joint venture

Accounting for **assets, liabilities, revenues and expenses** in accordance with the contractual arrangements

Accounting for an **investment** using the **equity method**

A *separate vehicle* is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Recognition and Measurement

Recognition and Measurement – Joint Controlling Parties

Joint Operation

A joint operator recognizes in relation to a joint operation (For Consolidated as well as Separate Financial Statement):

a) Its assets, including its share of any assets held jointly
b) Its liabilities, including its share of any liabilities held jointly
c) Its revenue from the sale of its share of the output from the joint operation
d) Its expenses including its share of any expenses incurred jointly

Joint Venture

Apply the Equity Method in accordance with IAS 28, Investment in Associate and Joint Venture for consolidated financial statement

For Separate Financial Statement. Recognize the interest at either Cost or as a Financial Asset in accordance with IFRS 9

Structure of the Joint Arrangement

<u>Example</u>

Two companies whose businesses are the provision of many types of public and private construction services set up a contractual arrangement to work together for the purpose of fulfilling a contract a government for the design and construction of a road between two cities. The contractual arrangement determines the participation sha of A and B and establishes joint control of the arrangement, the subj matter of which is the delivery of the road.

The parties set up a separate vehicle (entity Z) through which to con the arrangement. Entity Z holds the assets and liabilities and enters i a contract with the government. However, the two companies have rights to the assets, and obligations for the liabilities, of Entity Z.

The contractual arrangement between A and B additionally establish that:

(a) The rights to all the assets needed to undertake the activities of t arrangement are shared by the parties on the basis of their participat shares in the arrangement;

(b) The parties have several and joint responsibility for all operating a financial obligations relating to the activities of the arrangement on t basis of their participation shares in the arrangement; and

(c) The profit or loss resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

Structure of the Joint Arrangement

Example

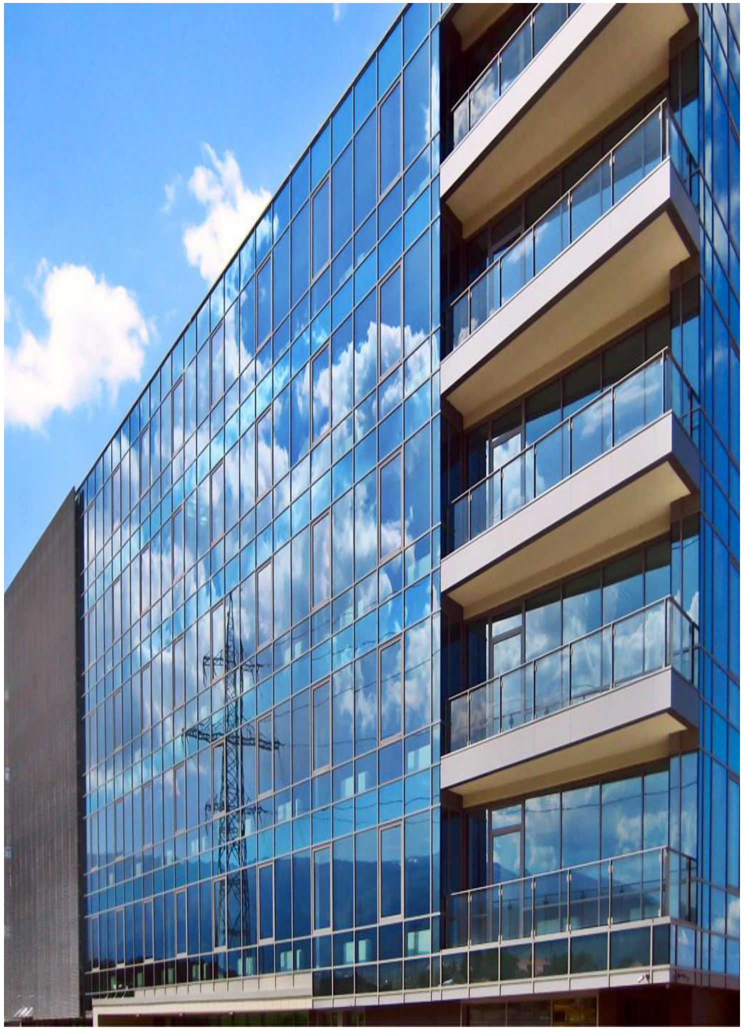
Two real estate companies (the parties) set up a separate vehicle (entity X) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the rental of the retail units, managing the car park, maintaining the centre and its equipment, such as lifts, and building the reputation and customer base for the centre as a whole. The terms of the contractual arrangement are such that:

(a) Entity X owns the shopping centre. The contractual arrangement does not specify that the parties have rights to the shopping centre.

(b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.

(c) The parties have the right to sell or pledge their interests in entity X.

(d) Each party receives a share of the income from operating the shopping centre (which is the rental income net of the operating costs) in accordance with its interest in entity X.

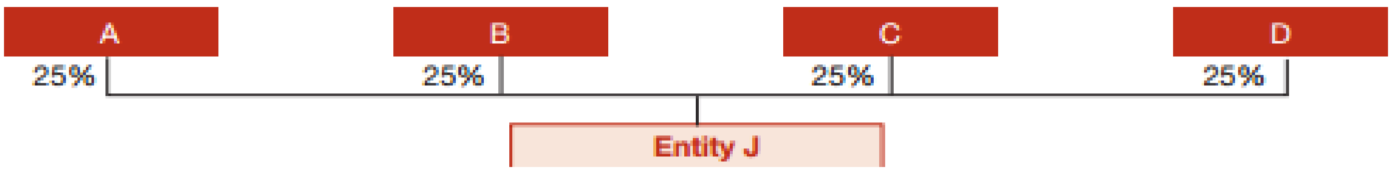


Structure of the Joint Arrangement

Example

Entities A, B, C and D each hold a 25% interest in entity J. Decisions in entity J need to be approved by a 75% vote of the parties.

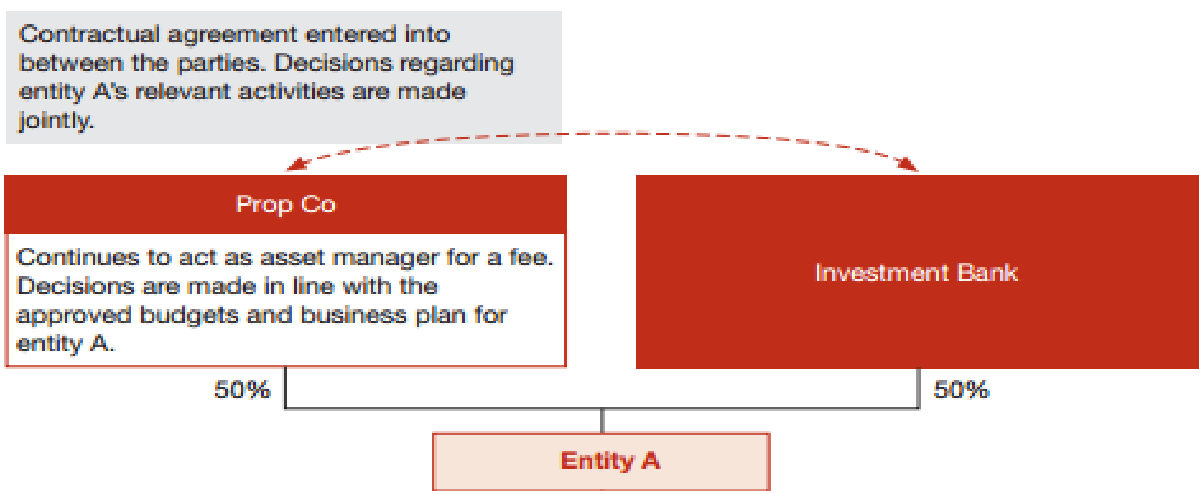
Is ABC Limited jointly controlled?



Example

Property Company Limited (Prop Co) has a wholly owned subsidiary, entity A, which holds a portfolio of buildings.

Prop Co wishes to reduce its exposure to this market. It sells 50% of its investment in entity A to Investment Bank. The structure after the sale is as follows:



Whether Entity J and Entity A is jointly controlled ?

Scope and Introduction – IAS 28

- IAS 28 must be applied by all entities that are investors with **joint control of, or significant influence** in an investee.
- **An associate** is any entity over which the investor has **significant influence**.
- A joint venture is joint arrangement whereby the parties have joint control of the arrangement.
  - the contractually agreed sharing of control of an arrangement
- **Significant influence** is the power to participate in the financial and operating policy decisions of the investee.
  - significant influence is not control (which indicates a subsidiary)
  - significant influence is not joint control (which indicates an interest in a joint arrangement)

Significant Influence

- Significant influence is usually evidenced in one or more of the following ways:
  - representation on the board of directors;
  - participation in policy making, including decisions about dividends;
  - a close relationship involving transactions between investor and investee;
  - interchange of managerial personnel; or
  - provision of essential technical information.

Equity Method

Equity Method

- The investment is initially recognized at cost
- Subsequently, the carrying amount is increased or decreased to recognize the investor's share of profit or loss of the investee after the date of acquisition:
  - The investor's share of profit or loss is recognized in the investor's profit or loss statement
  - Distributions received from investee reduces the carrying amount of the investment
  - Adjustment to carrying amount may also result from changes in investee's OCI. The investor's share is recognized in OCI of the investor
- The equity method is used from the date of significant influence till the date significant influence ceases

Thank You!!!

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