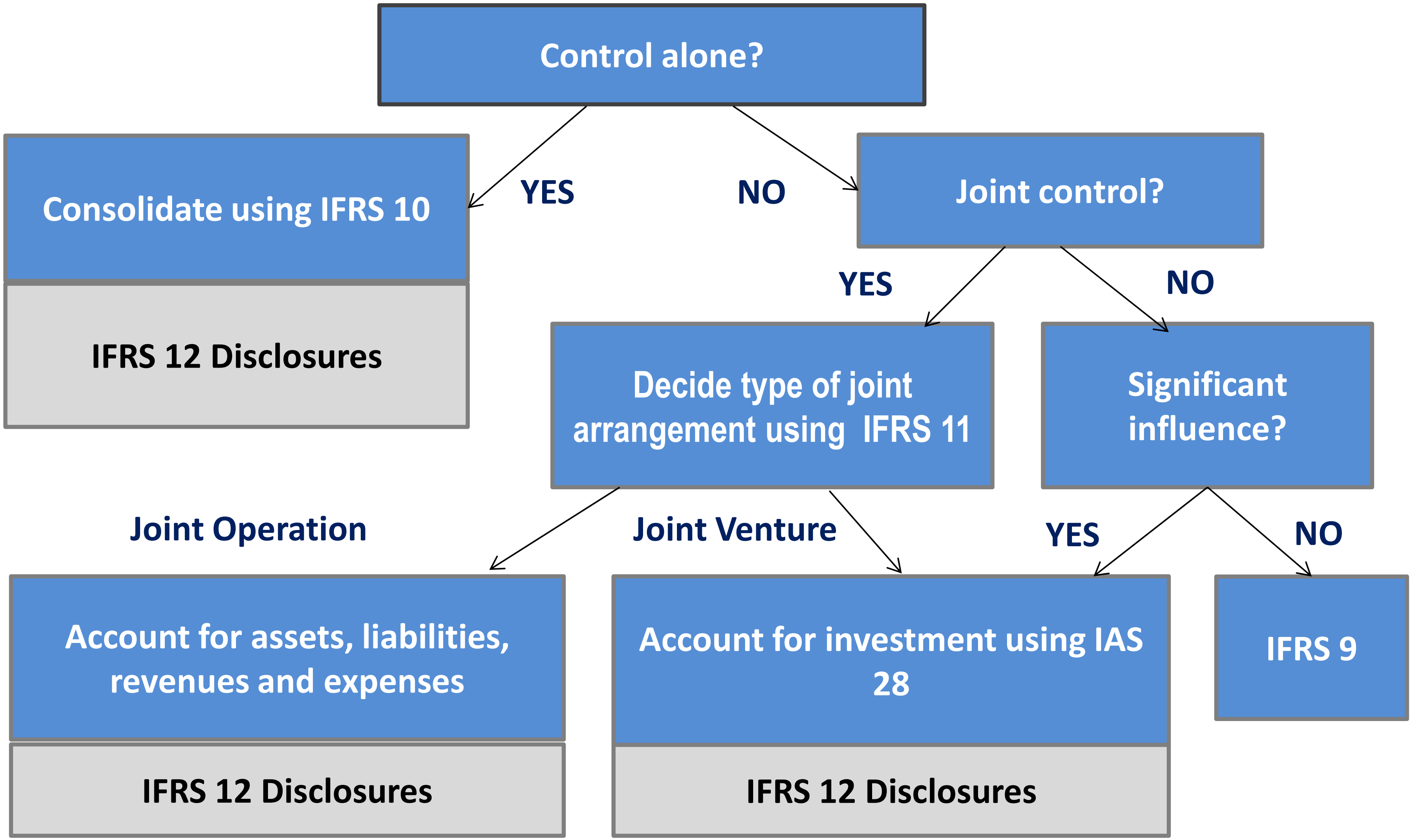
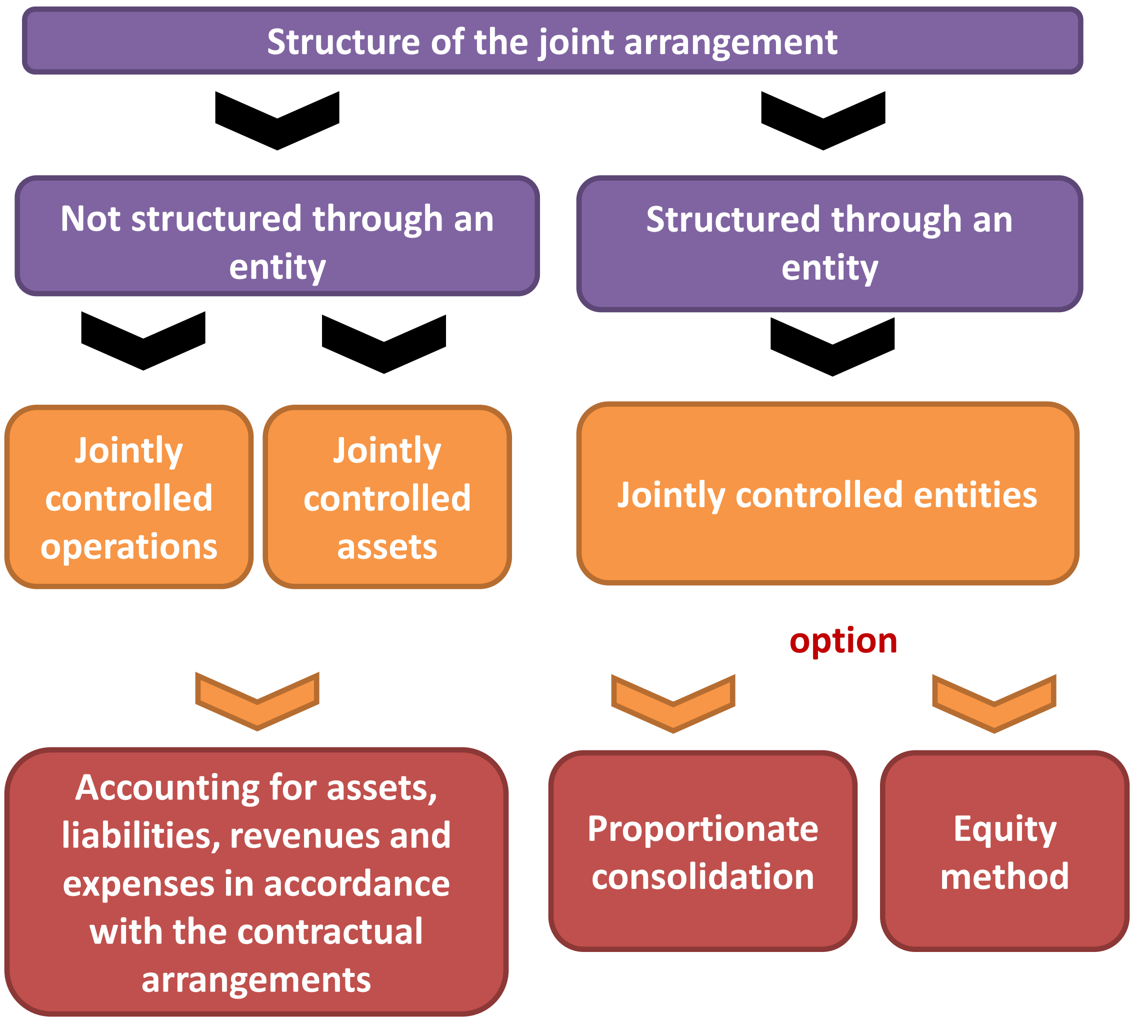
# Joint Arrangements– IFRS 11
# Investment in Associate – IAS 28
# Disclosures of Interest in other Entities – IFRS 12

# Interaction of IFRS 10,11,12 and IAS 28



# IAS 31

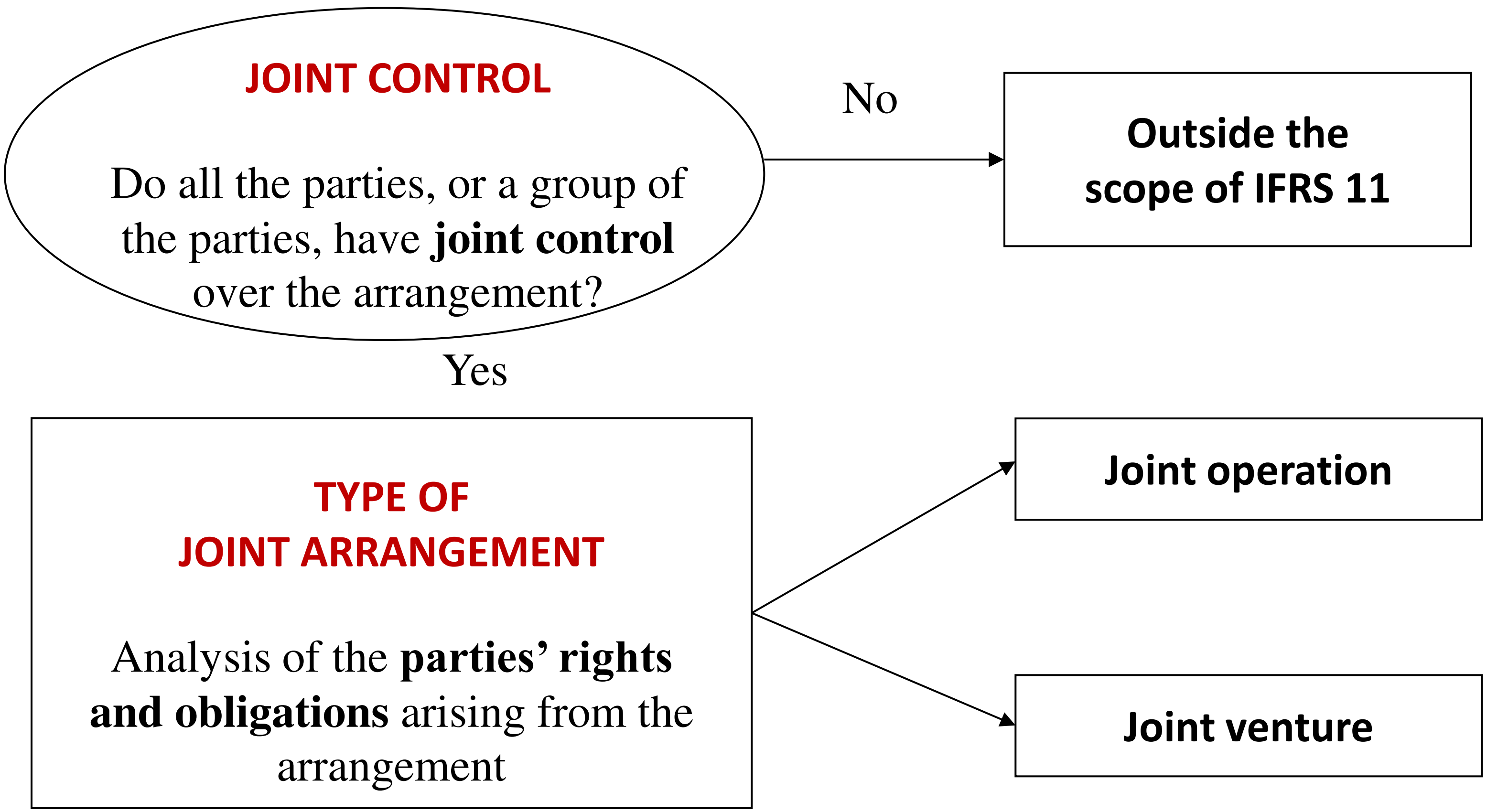

Structure of the joint arrangement
Not structured through an entity
Structured through an entity
Jointly controlled operations
Jointly controlled assets
Jointly controlled entities
option
Accounting for assets, liabilities, revenues and expenses in accordance with the contractual arrangements
Proportionate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

# IFRS 11 – Principle Based Approach

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

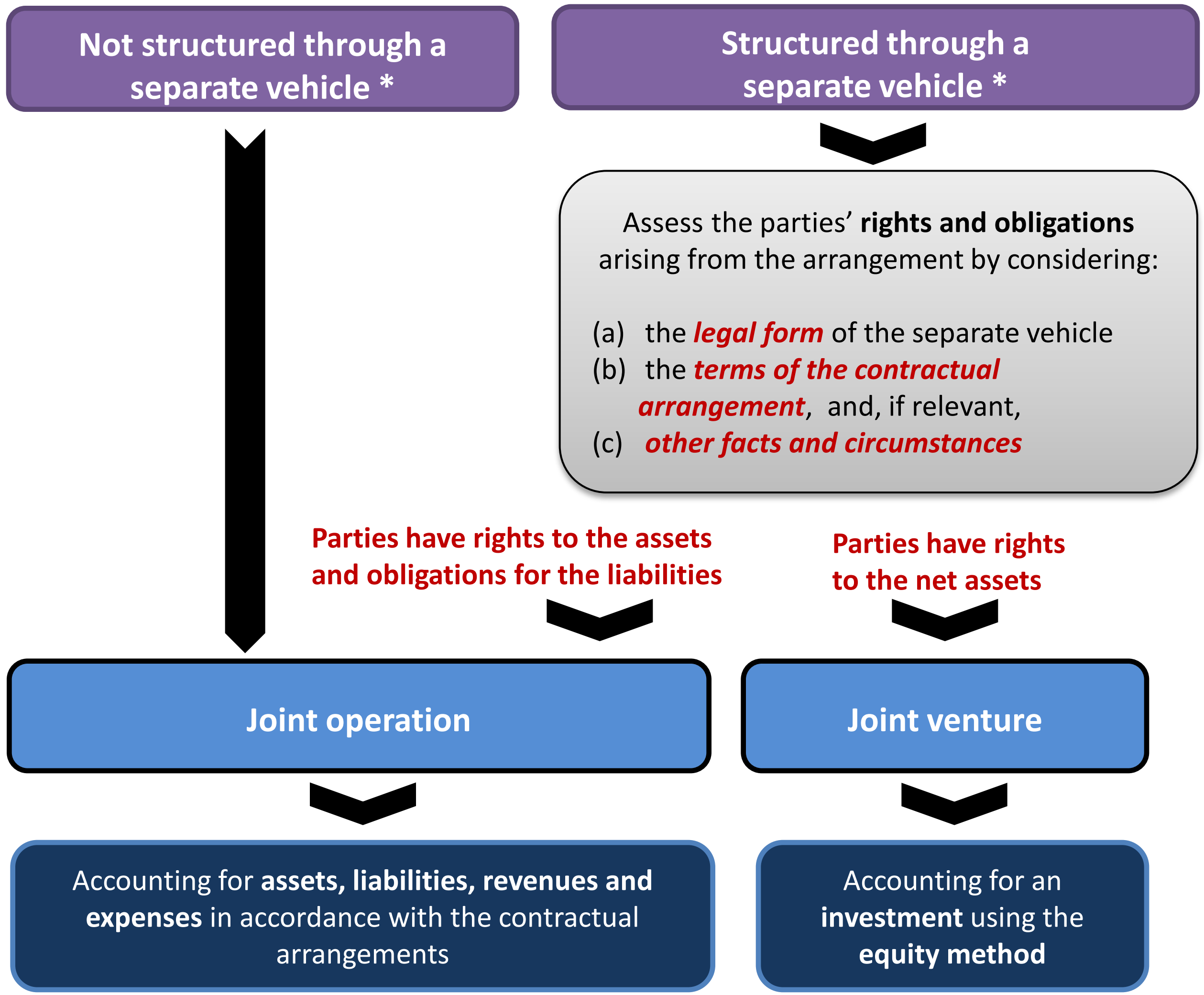
Parties to a joint arrangement recognise their **rights and obligations** arising from the arrangement

# IFRS 11 – Principle Based Approach




Joint Control is defined as **"the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control"**

# IFRS 11 – Assessing the classification




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

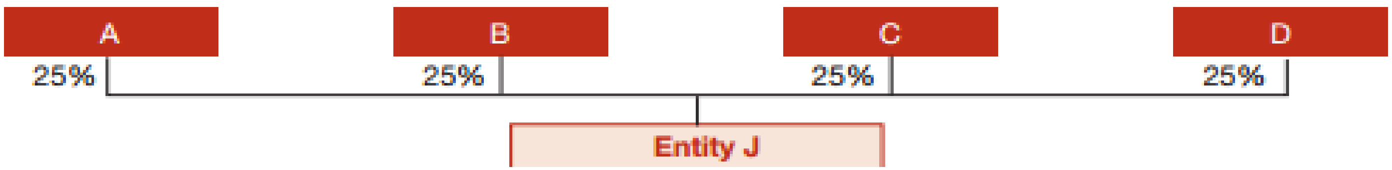
For Separate Financial Statement. Recognize the interest at either Cost or as a Financial Asset in accordance with IFRS 9

# Structure of the Joint Arrangement

## 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.

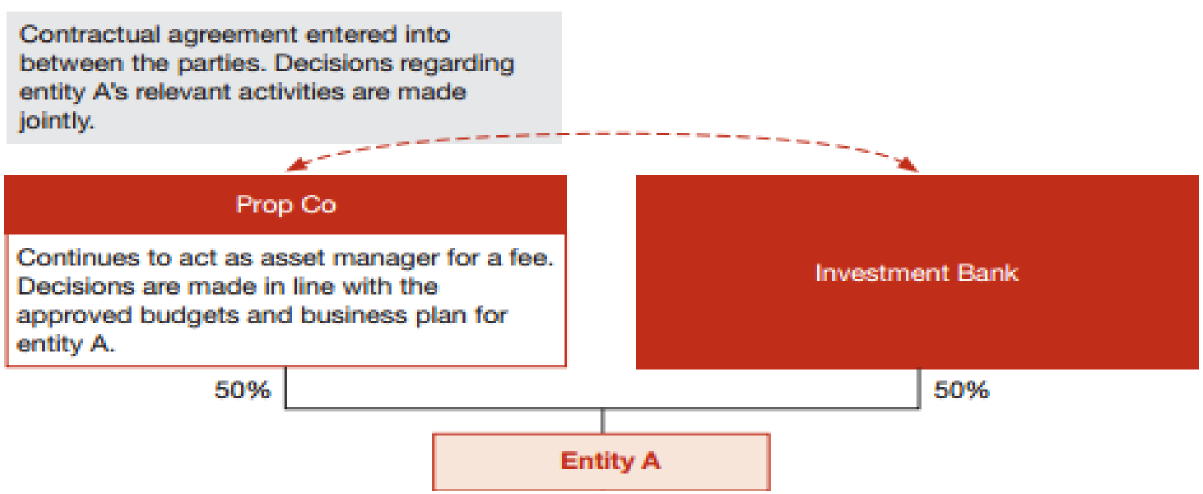
Is ABC Limited jointly controlled?




## 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:

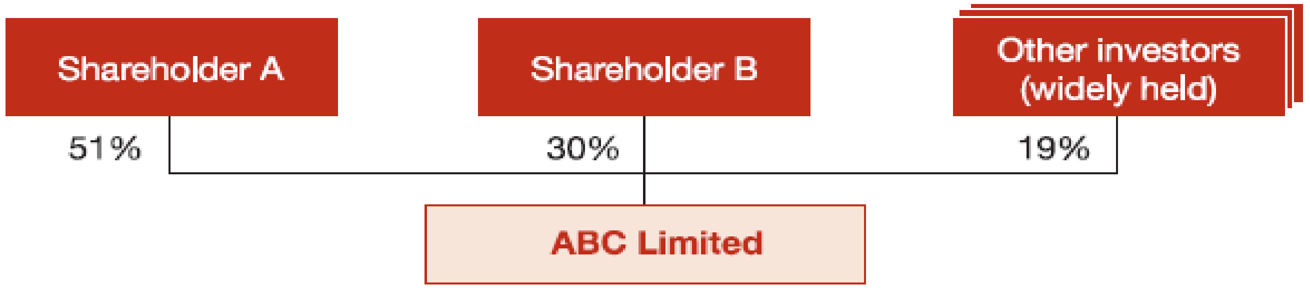



Whether Entity J and Entity A is jointly controlled ?

# Structure of the Joint Arrangement

Example

ABC Limited's articles of association require a 75% majority to approve decisions regarding the relevant activities of the entity. It also outlines that each shareholder is entitled to vote in proportion to their respective ownership interests.




Is ABC Limited jointly controlled?

The contractual terms of an arrangements do not need to explicitly state that decisions regarding relevant activities are made unanimously between parties.

# 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 with a government for the design and construction of a road between two cities. The contractual arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road.

The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z holds the assets and liabilities and enters into 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 establishes that:

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

(b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the 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

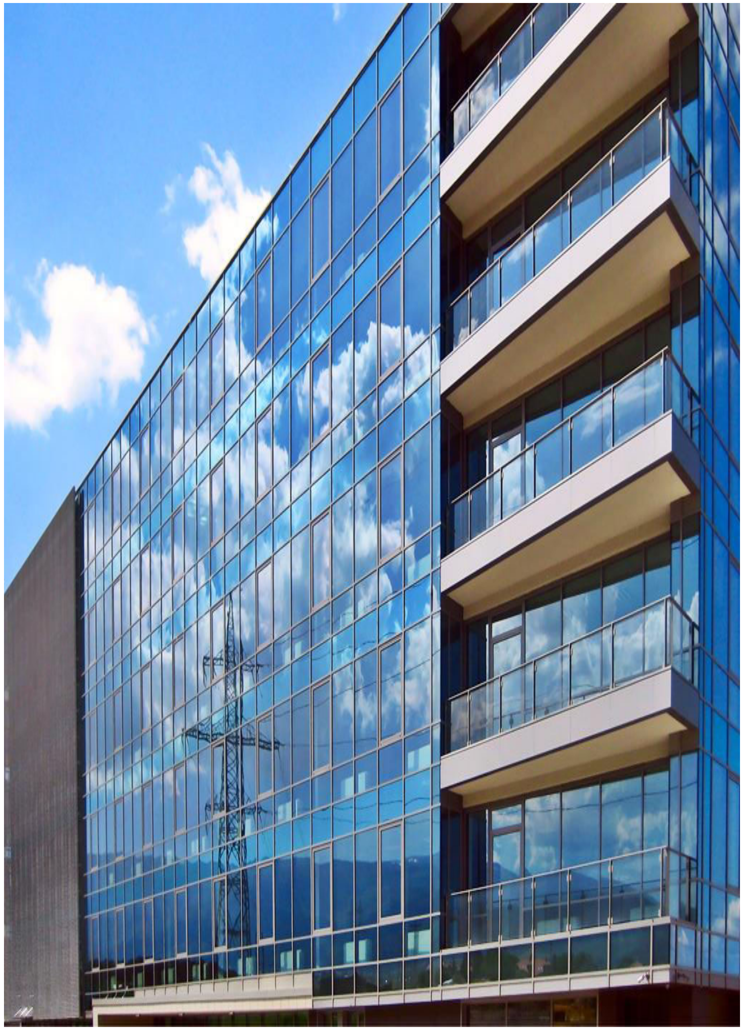
Two real estate companies (the parties) set up a separate vehicle (entity X) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form 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.



# 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

# Scope and Application – IFRS 12

IFRS 12 applies to any entity that has an interest in a subsidiary, joint arrangements, associate or unconsolidated structured entity, subject to some exclusions

An interest in another entity:
-may include contractual or non contractual involvement
-exposes an entity to variability of returns from the performance of other entity
-may include the holding of equity or debt instrument, provision of funding, liquidity support, credit enhancement or guarantee
-includes the means by which an entity has control, joint control or significant influence over another entity

IFRS 12's disclosure requirements cover four main areas, as summarized below

**Judgments & Estimates**
**Interest in Subsidiaries**
**Interest in Joint arrangements and associates**
**Interest in unconsolidated structured entities**

# Disclosures

**Disclosures related to significant judgments and estimates**

| Disclosure area | Required disclosures |
|---|---|
| Details of significant judgments and assumptions made | Judgments & Assumptions made in determining that the investor control or doesn’t control the other entity or has joint control or significant influence |
| Details when facts and circumstances change during the reporting period | Judgments & Assumptions considered when there is a change in facts and circumstances result in a change in the conclusions regarding control |

# Disclosures

**Disclosures related to interests in subsidiaries**

| Disclosure area | Required disclosures |
| --- | --- |
| Objectives | Disclosures related to:<br>-the composition of the group<br>-interest of NCI in the group<br>-nature of risks associated<br>-consequences of changes in ownership in a subsidiary<br>-consequences of loosing control of a subsidiary |
| Reporting period | If the reporting period is different then disclose<br>-the reporting period end date of subsidiary &<br>-the reason for using a different reporting period |

# Disclosures

| Disclosure area | Required disclosures |
|---|---|
| Material Non Controlling Interest | For material non controlling interest, disclose<br>-the name of the subsidiary<br>-the principal place of business and country of incorporation<br>-the proportion of ownership interest held by NCI<br>-the proportion of voting rights held by NCI<br>-the accumulated NCI of the subsidiary at the end of the reporting period |
| Nature and extent of significant restrictions | -significant restrictions on its ability to access or use assets and settle the liabilities<br>-protective rights of NCI which can restrict the entity’s ability to access or use the assets and settle the liabilities |

# Disclosures

| Disclosure area | Required disclosures |
|---|---|
| Consequences of changes in a parent's ownership interest in a subsidiary, not resulting in loss of control | Schedule showing effects on the equity attributable to owners of the parent of any changes in its ownership interest that do not result in loss of control |
| Consequences of losing control of a subsidiary during reporting period | -gain or loss calculated according to IFRS 10 in accordance with IFRS 10<br>-the line item in profit or loss in which the gain or loss is recognized, if not presented separately |

# Disclosures

**Disclosures related to unconsolidated structured entity**

| Disclosure area | Required disclosures |
|---|---|
| Objectives | Disclosures related to:<br>-nature and extent of interests in unconsolidated structured entity<br>-nature of and changes in risks associated with interest in unconsolidated structured entity |
| Nature and extent of interests | Qualitative and quantitative information about its interests including the below information:<br>-nature<br>-size<br>-purpose & activities |

# Disclosures

| Disclosure area | Required disclosures |
|---|---|
| Nature of Risk | Tabular presentation of<br>-carrying amount of assets and liabilities recognized in its financial statement related to interest in unconsolidated structured entity<br>-line items in the statement of financial position in which those assets and liabilities are recognized etc.<br><br>The entity's exposure to risk due to its involvement with the structured entity in previous period<br><br>Current intention to provide financial or other support to such unconsolidated entity |

# Thank You!!!

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