IAS 31 — Interests In Joint Ventures

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Overview

IAS 31 *Interests in Joint Ventures* sets out the accounting for an entity's interests in various forms of joint ventures: jointly controlled operations, jointly controlled assets, and jointly controlled entities. The standard permits jointly controlled entities to be accounted for using either the equity method or by proportionate consolidation.

IAS 31 was reissued in December 2003, applies to annual periods beginning on or after 1 January 2005, and is superseded by IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* with effect from annual periods beginning on or after 1 January 2013.

History of IAS 31

December 1989	Exposure Draft E35 *Financial Reporting of Interests in Joint Ventures*
December 1990	IAS 31 *Financial Reporting of Interests in Joint Ventures*
1 January 1992	Effective date of IAS 31 (1990)
1994	IAS 31 was reformatted
December 1998	IAS 31 was revised by IAS 39 effective 1 January 2001
18 December 2003	Revised version of IAS 31 issued by the IASB
1 January 2005	Effective date of IAS 31 (Revised 2003)
13 September 2007	Exposure Draft ED 9 *Joint Arrangements* issued. Proposes to replace IAS 31 with a new standard titled Joint

	Arrangements.
10 January 2008	Some significant revisions of IAS 31 were adopted as a result of the Business Combinations Phase II Project relating to loss of joint control
22 May 2008	IAS 31 amended for *Annual Improvements to IFRSs 2007* for certain disclosures and reversals of impairment losses (equity method)
1 January 2009	Effective date of the May 2008 revisions to IAS 31
1 July 2009	Effective date of the January 2008 revisions to IAS 31
12 May 2011	**IAS 31 is superseded by IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* effective 1 January 2013**

Related Interpretations

- SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* **Superseded by IFRS 11 *Joint Arrangements* effective 1 January 2013**

Summary of IAS 31

Scope

IAS 31 applies to accounting for all interests in joint ventures and the reporting of joint venture assets, liabilities, income, and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place, except for investments held by a venture capital organisation, mutual fund, unit trust, and similar entity that (by election or requirement) are accounted for as under IAS 39 at fair value with fair value changes recognised in profit or loss. [IAS 31.1]

Key definitions [IAS 31.3]

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

Venturer: a party to a joint venture and has joint control over that joint venture.

Investor in a joint venture: a party to a joint venture and does not have joint control over that joint venture.

Control: the power to govern the financial and operating policies of an activity so as to obtain benefits from it.

Joint control: the contractually agreed sharing of control over an economic activity. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Jointly controlled operations

Jointly controlled operations involve the use of assets and other resources of the venturers rather than the establishment of a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities, and raises its own finance. [IAS 31.13]

IAS 31 requires that the venturer should recognise in its financial statements the assets that it controls, the liabilities that it incurs, the expenses that it incurs, and its share of the income from the sale of goods or services by the joint venture. [IAS 31.15]

Jointly controlled assets

Jointly controlled assets involve the joint control, and often the joint ownership, of assets dedicated to the joint venture. Each venturer may take a share of the output from the assets and each bears a share of the expenses incurred. [IAS 31.18]

IAS 31 requires that the venturer should recognise in its financial statements its share of the joint assets, any liabilities that it has incurred directly and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture and expenses incurred directly in respect of its interest in the joint venture. [IAS 31.21]

Jointly controlled entities

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. [IAS 31.24]

Each venturer usually contributes cash or other resources to the jointly controlled entity. Those contributions are included in the accounting records of the venturer and recognised in the venturer's financial statements as an investment in the jointly controlled entity. [IAS 31.29]

IAS 31 allows two treatments of accounting for an investment in jointly controlled entities – except as noted below:

- proportionate consolidation [IAS 31.30]
- equity method of accounting [IAS 31.38]

Proportionate consolidation or equity method are not required in the following exceptional circumstances: [IAS 31.1-2]

- An investment in a jointly controlled entity that is held by a venture capital organisation or mutual fund (or similar entity) and that upon initial recognition is designated as held for trading under IAS 39. Under IAS 39, those investments are measured at fair value with fair value changes recognised in profit or loss.
- The interest is classified as held for sale in accordance with IFRS 5.
- A parent that is exempted from preparing consolidated financial statements by paragraph 10 of IAS 27 may prepare separate financial statements as its primary

financial statements. In those separate statements, the investment in the jointly controlled entity may be accounted for by the cost method or under IAS 39.

- An investor in a jointly controlled entity need not use proportionate consolidation or the equity method if all of the following four conditions are met:
  - the venturer is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;
  - the venturer's debt or equity instruments are not traded in a public market;
  - the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
  - the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

Proportionate consolidation

Under proportionate consolidation, the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The income statement of the venturer includes its share of the income and expenses of the jointly controlled entity. [IAS 31.33]

IAS 31 allows for the use of two different reporting formats for presenting proportionate consolidation: [IAS 31.34]

- The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements; or
- The venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.

Equity method

Procedures for applying the equity method are the same as those described in IAS 28 *Investments in Associates*.

Separate financial statements of the venturer

In the separate financial statements of the venturer, its interests in the joint venture should be: [IAS 31.46]

- accounted for at cost; or
- accounted for under IAS 39 Financial Instruments: Recognition and Measurement.

Transactions between a venturer and a joint venture

If a venturer contributes or sells an asset to a jointly controlled entity, while the assets are retained by the joint venture, provided that the venturer has transferred the risks and rewards of ownership, it should recognise only the proportion of the gain attributable to the other venturers. The venturer should recognise the full amount of any loss incurred when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss. [IAS 31.48]

The requirements for recognition of gains and losses apply equally to non-monetary contributions unless the gain or loss cannot be measured, or the other venturers contribute similar assets. Unrealised gains or losses should be eliminated against the underlying assets (proportionate consolidation) or against the investment (equity method). [SIC-13]

When a venturer purchases assets from a jointly controlled entity, it should not recognise its share of the gain until it resells the asset to an independent party. Losses should be recognised when they represent a reduction in the net realisable value of current assets or an impairment loss. [IAS 31.49]

Financial statements of an investor

An investor in a joint venture who does not have joint control should report its interest in a joint venture in its consolidated financial statements either: [IAS 31.51]

- in accordance with IAS 28 Investments in Associates – only if the investor has significant influence in the joint venture; or
- in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Partial disposals of joint ventures

If an investor loses joint control of a jointly controlled entity, it derecognises that investment and recognises in profit or loss the difference between the sum of the proceeds received and any retained interest, and the carrying amount of the investment in the jointly controlled entity at the date when joint control is lost. [IAS 31.45]

Disclosure

A venturer is required to disclose:

- Information about contingent liabilities relating to its interest in a joint venture. [IAS 31.54]
- Information about commitments relating to its interests in joint ventures. [IAS 31.55]
- A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current

liabilities, long-term liabilities, income, and expenses related to its interests in joint ventures. [IAS 31.56]

- The method it uses to recognise its interests in jointly controlled entities. [IAS 31.57]

Venture capital organisations or mutual funds that account for their interests in jointly controlled entities in accordance with IAS 39 must make the disclosures required by IAS 31.55-56. [IAS 31.1]

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