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PBE IPSAS 8: INTERESTS IN JOINT VENTURES

Version 1: 2014

Effective Periods Beginning
1 July 2014

SCOPE

Excludes venturer's interests in jointly controlled entities held by:

- Venture capital organisations.
- Mutual funds, unit trusts and similar entities including investment-linked insurance funds.
  - These investments are accounted for as designated at fair value or classified as held-for-trading with changes in fair value recognised in surplus or deficit in accordance with PBE IPSAS 29 – *Financial Instruments: Recognition and Measurement*.

DEFINITION

Joint Venture:

- A binding contractual arrangement.
- Involves two or more parties (venturers').
- Parties undertake an activity subject to joint control.

FORMS OF JOINT VENTURE

Jointly controlled entities:

- Involves the establishment of a corporation, partnership or other entity where each venturer has an interest.
- Venturer contributes cash or other resources to the jointly controlled entity.
- Contributions are recognised in the venturer's financial statements as an investment in jointly controlled entity.

Jointly controlled operations:

- Venturer uses its own assets, incurs its own expenses and liabilities, and raises its own finance.
- Venturer recognises the assets it controls, the liabilities and expenses it incurs, and its share of income.

Jointly controlled assets:

- Joint control and joint ownership of JV assets.
- Venturer recognises its share of the joint assets, liabilities and expenses plus liabilities and expenses incurred directly relating to the JV.
- Venturer recognises revenue from use or sale of its share of the JV output.

ACCOUNTING FOR JOINTLY CONTROLLED ENTITIES

PROPORTIONATE CONSOLIDATION

Either:

- Combine share of each of the assets, liabilities, income and expenses of jointly controlled entity with similar items line by line; or
- Include separate line items for share of assets, liabilities, income and expenses of jointly controlled entity.

EQUITY METHOD

- Investment initially recognised at cost.
- Carrying amount is increased or decreased to recognise venturer's share of surplus or deficit.
- If a venturer's share of deficits of an equity accounted joint venture exceeds its interest in the joint venture, the investor discontinues recognising its share of further deficits.

TRANSACTIONS BETWEEN A VENTURER AND A JOINT VENTURE

- In a sale or contribution of asset to jointly controlled entity, venturer recognises only the proportion of gain or loss attributable to other venturer's.
- Unrealised gains or losses on non-monetary assets contributed eliminated against assets (proportionate consolidation) or against investment (equity method).
- Venturer recognises a gain on purchase of assets from jointly controlled entity only upon re-sale to independent party. Impairment losses on these assets are recognised immediately.
- Losses resulting from transactions with the joint venture are recognised in the same way as profits except that the losses are recognised immediately when they represent a reduction in the net realisable value of current assets or an impaired loss.

EXEMPTIONS FROM PROPORTIONATE CONSOLIDATION AND EQUITY METHOD

The JV interest is classified as held for sale under PBE IFRS 5 - *Non-current Assets Held-for-sale and Discontinued Operations*.

An entity will be exempt from JV accounting if all the following apply:

- Venturer is a wholly owned controlled entity, or partially owned controlled entity whose owners do not object.
- Venturer's debt or equity instruments are not traded in a public market.
- Financial statements are not filed nor in the process of being filed with any regulatory organisation for the purpose of issuing any class of instruments in a public market.
- Ultimate or intermediate parent produces consolidated financial statements available for public use under PBE Standards.*

* RDR Reporters do not have to meet the requirements of this last bullet point, but must meet all other criteria above in order to qualify for the exemption.

SEPARATE FINANCIAL STATEMENTS

Investment in joint venture is carried at either:

- Cost less impairment losses or fair value in terms of PBE IPSAS 29 – *Financial Instruments: Recognition and Measurement*.
- Non-current asset Held for Sale (PBE IFRS 5) if it meets the definition of "Held for sale".

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions within the standard.