



IND AS 111 – JOINT ARRANGEMENTS

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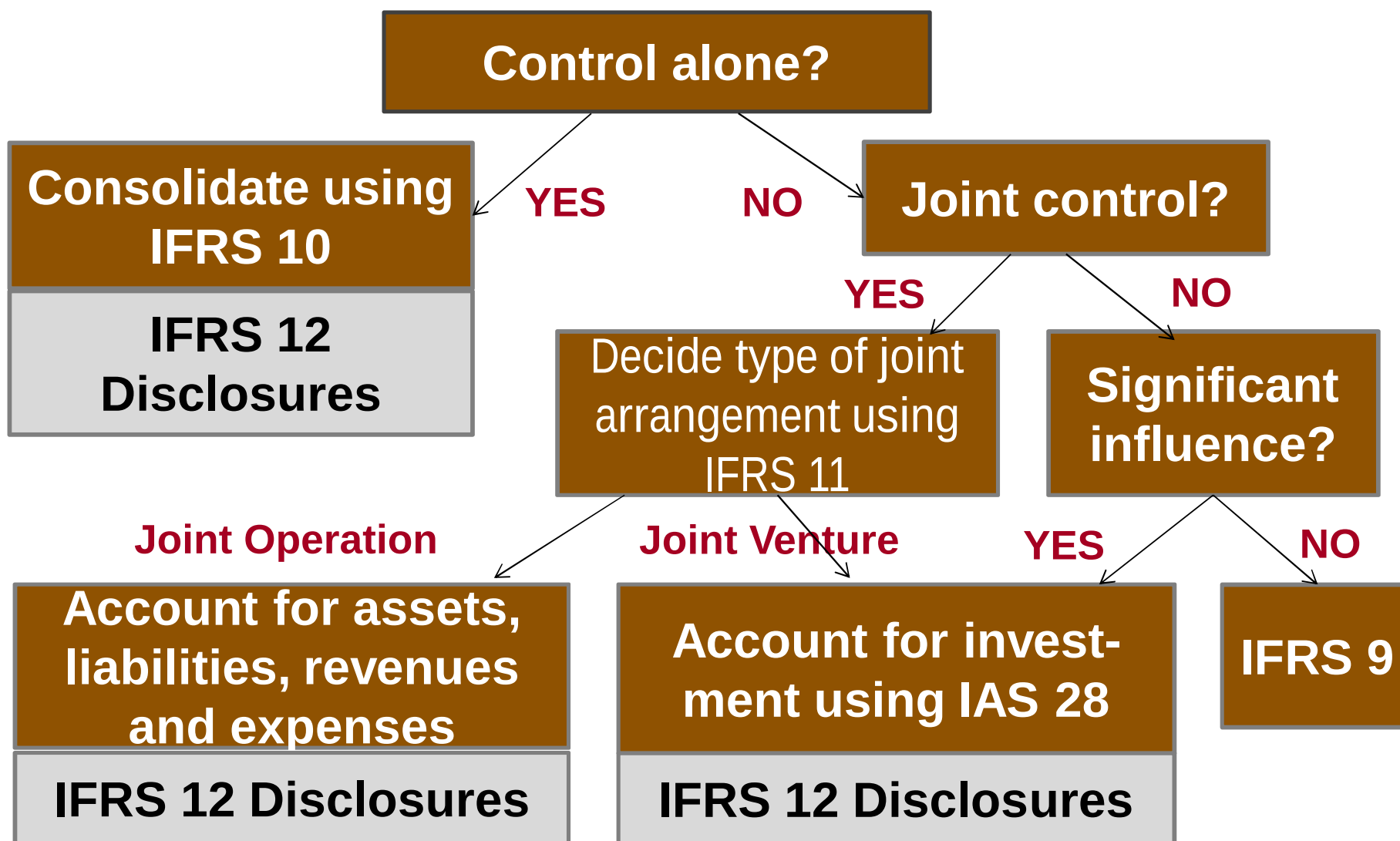
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Interaction of IFRS 10,11,12, & IAS 28



OBJECTIVE

The objective of this Indian Accounting Standard (Ind-AS) is to establish principles for the financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. Joint arrangements)

This standard defines *joint control* and requires an entity that is a *party to a joint arrangement* to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Definitions – 1, 2 & 3

1. Joint Arrangement:-

An arrangement of which two or more parties have **joint control**.

2. Joint Control:-

The contractually agreed sharing of control of an arrangement, which exist only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

3. Joint operation:-

A **joint arrangement** whereby the parties that have **joint control** of the arrangement have rights to the assets , and obligations for the liabilities, relating to the arrangement.

Definitions – 4, 5 & 6

4. Joint operator:-

A party to a **joint operation** that has **joint control** of that joint operation.

5. Joint venture:-

A **joint arrangement** whereby the parties that have **joint control** of the arrangement have the rights to the net assets of the arrangement.

6. Joint Venturer:-

A party to a **joint venture** that has **joint control** of that joint venture

Definitions –7

7. Party to a joint arrangement:-

An entity that participates in a **joint arrangement**, regardless of whether that entity has **joint control** of the arrangement.

Joint Arrangement

As defined above, joint arrangement is an arrangement of which two or more parties have joint control.

A joint arrangement has the following characteristics:

- a. The parties are bound by a contractual arrangement
- b. The contractual arrangement gives two or more of those parties joint control of the arrangement

IFRS 11: Assessing joint control

Does the contractual arrangement give all the parties, or a group of the parties, **control of the arrangement collectively**?

Yes



Do decisions about the relevant activities require the **unanimous consent** of all the parties, or of a group of the parties, that collectively control the arrangement?

Yes



No



Outside the
scope of
IFRS 11

No



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IFRS 11: Assessing joint control

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Outside the scope of IFRS 11

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Do decisions about the relevant activities require the **unanimous consent** of all the parties, or of a group of the parties, that collectively control the arrangement?

No



Outside the scope of IFRS 11

Yes



The arrangement is **jointly controlled**.
The arrangement is a **joint arrangement**.

Important points

- a. All the parties to the contract may not have joint control. For example- there are 4 parties to the contract however it is possible that only 3 have joint control.
- b. All the parties having joint control may not have equal shareholding.
- c. Contract terms may not be explicit. Hence, assessment to be made if there is implied joint control.

Example Assessing joint control

1. Three parties (A, B and C) establish an arrangement whereby: A has 50% of the voting rights in the arrangement; B has 30%; and C has 20%. The contractual arrangement between A, B and C specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement.

Requirement

Assess whether the arrangement gives all the parties control of the arrangement collectively.

Example Assessing joint control

Solution

Even though A can block any decision, it does not control the arrangement because it needs the agreement of B.

The terms of the contractual arrangement (i.e. at least 75% of the voting rights are required to make decisions about the relevant activities) imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

Example Assessing joint control

2. Three parties (D, E and F) establish an arrangement whereby: D has 50% of the voting rights in the arrangement; and E and F each have 25%. The contractual arrangement between D, E and F specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement.

Requirement

Assess whether the arrangement gives all the parties control of the arrangement collectively.

Example Assessing joint control

Solution

Even though D can block any decision, it does not control the arrangement because it needs the agreement of either E or F. In this example, D, E and F collectively control the arrangement.

However, there is more than one combination of parties that can agree to reach 75% of the voting rights (i.e. either D and E or D and F).

In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

Example Assessing joint control

- Company X holds 23 percent of voting rights of Company Z and Company Y holds 25 percent of the voting rights. The remaining voting rights are held by thousands of shareholders , none individually holding more than 1 percent of total voting rights.
- X and Y have contractually agreed that on decision about relevant activities of Z, the casting of their 48 percent combined voting power requires their unanimous consent. None of the other shareholder have any arrangements to consult each other or make collective decisions.
- Does X and Y have Joint control over Z or not?

IFRS 11: Assessing the classification



IFRS 11: Assessing the classification

Not structured through a separate vehicle



Parties have rights to the assets and obligations for the liabilities

Joint operation



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

IFRS 11: Assessing the classification

Structured through a separate vehicle

- Consider:
- the **legal form** of the separate vehicle,
 - the **terms of the contractual arrangement**,
 - when relevant, **other facts and circumstances**

Parties have **rights to the assets**
and **obligations for the liabilities**

Joint operation

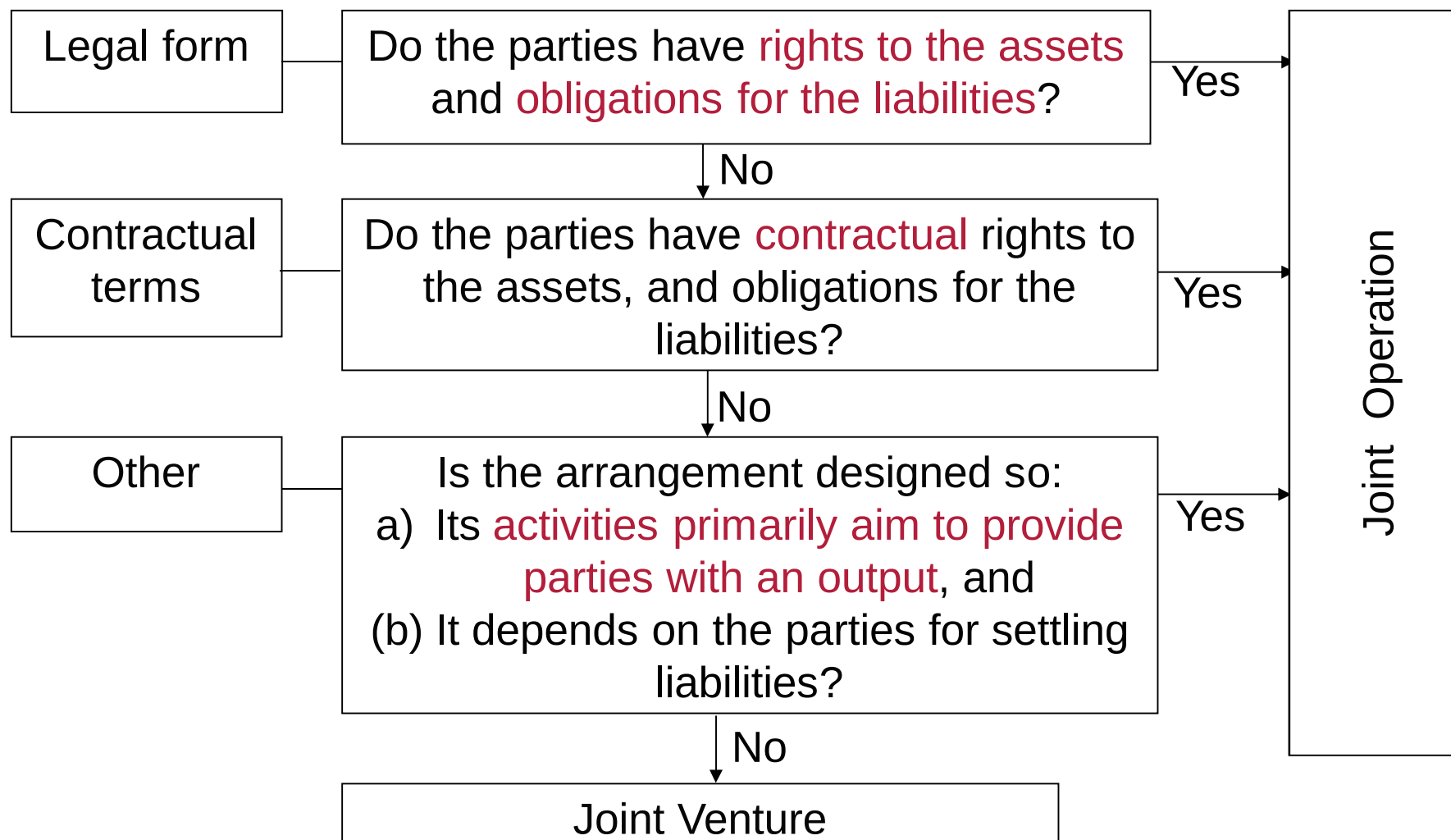
Account for **assets, liabilities,
revenues and expenses**

Parties have **rights**
to the **net assets**

Joint venture

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

Separate vehicles



Key points

- A separate vehicle is separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether these entities have legal personality.
- If the legal form does not confer separation between the parties and the separate vehicle i.e. the assets and the liabilities placed in the separate vehicle are the parties assets and liabilities, then the joint arrangement is joint operation.

Construction and real estate

- A separate vehicle is established, over which two parties have joint control.
 - The purpose of the Joint Arrangement is to construct and sell residential units to the public
 - Neither the legal form nor the contractual terms give the parties rights to the assets or obligations for the liabilities of the arrangement
 - Contributed equity by the parties is sufficient to buy the land and raise debt finance for the construction
 - Sales proceeds will be used to repay external debt and remaining profit is distributed to parties
 - Parties provide guarantee to financier

Mining

- A and B jointly establish a corporation D over which they have joint control to process the ore from the mine C
- A & B have agreed to the following:
 - A & B will purchase all the output produced by D in a ratio of 60:40 (in proportion to ownership interest in D)
 - D cannot sell the output to third parties
 - Price of the output is set by A and B at a level to cover production and admin costs (i.e. D breaks even)

Accounting- Joint operations and Joint venture

	Consolidated financial statements	Separate financial statements
Joint venturers	Equity method in accordance with IAS 28 (2011).	Choice between cost or in accordance with IFRS 9/IAS 39.
Joint operators	Recognises its own assets, liabilities and transactions, including its share of those incurred jointly.	

Note- A joint venturer is not required to prepare consolidated financial statements if it is a parent that is exempt from preparing consolidated financial statements in accordance with IFRS 10

Accounting- Joint operations

Upstream and downstream transaction

When a joint operator sells assets to joint operators, such transaction are in effect transaction with other parties to the joint operation. The joint operator recognises gains and losses from such transaction only to the extent of other parties interest in the joint operation.

When a joint operator purchase assets from a joint operation. It does not recognise its share of gains or losses until these assets have been sold to third parties.

Accounting- Joint operations

Treatment of intra- group balances

In a 50/50 joint operation if one investor (investor A) provides a loan of C100 to the joint operation, half of that loan has been made to the other investor (investor B). Investor B also shares in half of the cash borrowed by the operation.

Therefore, investor A records a reduction in cash of C50 and a loan receivable. Investor B records an increase in cash of C50 and a liability.

Accounting- Other parties to a joint arrangement

	Consolidated financial statements	Separate financial statements
Other parties to a joint venture	If significant influence exists, then equity method in accordance with IAS 28 (2011); otherwise, in accordance with IFRS 9/IAS 39.	If significant influence exists, then choice between cost or in accordance with IFRS 9/IAS 39; otherwise, in accordance with IFRS 9/IAS 39.
Other parties to a joint operation	Recognises its own assets, liabilities and transactions, including its share of those incurred jointly, if it has rights to the assets and obligations for the liabilities. Otherwise, it accounts for its interest in accordance with the IFRS applicable to that interest, e.g. IAS 28 (2011) or IFRS 9/IAS 39, as the case may be.	

Comparative analysis of the various entities in consolidation of financial statements

<i>Investment</i>	<i>Nature</i>	<i>Accounting Treatment</i>
Investment > 50% control	Subsidiary	Full consideration-line by line
Significant influence-between>20% and<50%	Associate	Equity method
In case of joint control	Joint venture	Equity method
In case of joint control	Joint operation	Share of assets, liabilities, income and expenses in a joint operation
<20% investment and not a joint venture	None of the above	Treatment in accordance with Ind-AS 109