IND AS – 111
Joint Arrangements
Objective & Scope

Objective

✓ To establish principles for financial reporting by entities that have an interest in **arrangements that are controlled jointly**.

✓ It 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.

✓ To account for those rights and obligations in accordance with that type of joint arrangement.

Scope

✓ Applied by all entities that are party to a joint arrangement
Definitions

Joint Arrangements-
✓ An arrangement of which two or more parties have joint Control.

Joint Control-
✓ Contractually agreed sharing of control of an arrangement.
✓ Which exists only when decisions about relevant activities (i.e. those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.
✓ An enforceable Contractual arrangement.
✓ Act together to direct the activities that significantly affect the returns of the arrangement.
✓ No Single party controls the arrangement
### Examples – Joint Controls

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Scenario I</th>
<th>Scenario II</th>
<th>Scenario III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Voting Rights required</td>
<td>75%</td>
<td>75%</td>
<td>Majority of the Voting Rights</td>
</tr>
<tr>
<td>Party A</td>
<td>50</td>
<td>50</td>
<td>35</td>
</tr>
<tr>
<td>Party B</td>
<td>30</td>
<td>25</td>
<td>35</td>
</tr>
<tr>
<td>Party C</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Joint Control Party</td>
<td>A &amp; B</td>
<td>No party *</td>
<td>No party **</td>
</tr>
</tbody>
</table>

* Contractual arrangement need to specify which combinations of the parties is required to agree unanimously decisions.

** party A & B have joint control of the arrangement only if the Contractual arrangement specifies that decisions about the relevant activities require both A & B agreeing.
Type of Arrangement

Joint operations
✓ Parties that have joint control of the arrangement have **right** to the **assets**, and **obligations** for the **liabilities** relating to the arrangement.

Joint Venture
✓ Parties that have joint control of the arrangement have **right** to the **net assets** of the arrangement
Examples – Operations and venture

Joint operations

A & B ltd set up a separate Company AB ltd to undertake manufacturing activity of X product in the Country outside India. As per law of that country, the assets and liabilities held in the company and not the assets and liabilities of the parties. The shareholders agreement establishes that the right and obligations arising from the activities shall be shared among the parties in proportion to each party’s shareholding in AB ltd.

**the parties have nullified the company law effect of separation between the parties and AB Ltd by agreeing terms in the shareholders agreement**
Examples – Operations and venture

Joint Ventures

A & B ltd set up a separate Company AB ltd to undertake manufacturing activity of X product. They have joint control over decision making activities. AB ltd set up as a limited liability Company and hence AB ltd and not the parties has right and obligations. The shareholders agreement does not invalidate legal form. The parties liability will be limited to the unpaid amount of their capital. Each party receives a share of the net P&L of AB ltd in accordance with its share.

*the legal form and contractual arrangement do not confer to the parties right and obligations over the assets and liabilities. Theses parties recognize their rights of the net assets of the AB ltd*
Joint Control - Assessment

✓ Contractual arrangement give all the parties or a group of parties, control of the arrangement collectively.
✓ Decisions about the relevant activities require the unanimous consent of all the parties or of a group of parties, that collectively control the arrangement.

Note:
✓ Above both the conditions should satisfied for the conclusion that arrangement is a joint arrangement
Classification – Assessment

✓ The structure of the joint arrangement
✓ When the joint arrangement is structured through a separate vehicle:-
  • the legal form
  • the terms of contractual arrangement.
  • when relevant, other facts and circumstances

Note
✓ If not structured through separate vehicle – Joint operation.
✓ And if it is structured through a separate vehicle, it may be joint operation or joint venture
Classification – Assessment

Assessing other facts and circumstances

✓ When the legal form or contractual arrangement specifies that the parties have right to assets and obligations of liability. - **Joint operation**

✓ No need to consider other facts and circumstances.

✓ If the preliminary assessment of the legal form and contractual indicate that it may be a joint venture.

✓ Then parties **must** consider other fact and circumstances to determine rights and obligation of the parties to make arrangement joint operation.
Financial Statement of Joint Operator

A joint operator shall recognize in relation to its interest in a joint operation:-

✓ Its assets, including its share of any assets held jointly.
✓ Its liabilities, including its share of any liabilities incurred jointly.
✓ Its revenue from the sale of its share of the output arising from the joint operation.
✓ Its share of the revenue from the sale of the output by the joint operation.
✓ Its expenses, including its share of any expenses incurred jointly.

Note:-
There is no difference in the way in which joint operator accounts for its interest in the separate financial statements and consolidated financial statements.
Financial Statement of Joint Operator

**Accounting for sales or contributions of assets to a joint operation**

- Recognize gains and losses resulting from such transactions only to the extent of the other parties’ interest in joint operation.
- If evidence of reduction in the net realizable value or an impairment loss, those losses shall be recognized **fully** by the joint operator.

**Accounting for purchase of assets from joint operation**

- Will not recognize gains and losses until it resells to a third party.
- If evidence of reduction in the net realizable value or an impairment loss, joint operator shall recognize its share of those losses.
Financial Statement of Joint Venturer

✓ In its separate financial statements:-
  ▪ Shall account for its interest in a joint venture in accordance with *Ind AS 27 – Separate Financial Statements* which is either at cost or in accordance with *Ind AS 109- Financial Instruments*.

✓ In its Consolidated financial statements:-
  ▪ Shall account its interest in a joint venture as investment using the equity method in accordance with *Ind AS 28- Investments in Associates and Joint Ventures*. 

*CHATURVEDI & SHAH*
Chartered Accountants
## Major Differences

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>IND AS -111</th>
<th>AS 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Definitions of Joint Control</td>
<td>Control over decisions on relevant activities</td>
<td>Control over financial and operating policies of an economic activity so as to obtain benefit from it</td>
</tr>
<tr>
<td>2</td>
<td>Classification</td>
<td>(i) Joint Operations (ii) Joint Ventures</td>
<td>(i) jointly Controlled Operations (ii) Jointly Controlled Assets (iii) Jointly Controlled Entities.</td>
</tr>
<tr>
<td>3</td>
<td>Method for Accounting</td>
<td>In respect of joint ventures – Equity method As per Ind AS 28</td>
<td>In CFS- report interest in jointly controlled entities – using proportionate consolidation</td>
</tr>
<tr>
<td>4</td>
<td>Structure</td>
<td>An arrangement structured through separate vehicle is not automatically classified as joint venture.</td>
<td>If an arrangement is structured in a separate legal entity , it is automatically classified as jointly controlled entity</td>
</tr>
</tbody>
</table>
Suggestive Presentation in Financial Statement

**Significant Accounting Policies-**

- A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint Control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

- The group’s investment in joint venture are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

- The aggregate of the Group’s share of profit or loss of a joint venture is shown on the face of the statement of profit and loss.

- The financial statements of the joint venture are prepared for the same accounting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.
Suggestive Presentation in Financial Statement

✓ **Note in the Consolidated financial Statement**

The Group has a 50% interest in X limited, a joint venture involved in the manufacture of some of the Group’s main product lines. The Group’s interest in X limited is accounted for using the equity method in the consolidated financial statements. Summarized financial information of the joint venture, based on its Ind AS financial statements and reconciliation with the carrying amount of the investment in consolidated financial statement are setout below:
Suggestive Presentation in Financial Statement

✓ Note in the Consolidated financial Statement

Summarized financial information of X Limited

<table>
<thead>
<tr>
<th></th>
<th>31&lt;sup&gt;st&lt;/sup&gt; March 2016</th>
<th>31&lt;sup&gt;st&lt;/sup&gt; March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Equity</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Proportion of the Group’s ownership</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Carrying amount of the investment</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

INR Lacs
# Suggestive Presentation in Financial Statement

## Summarized statement of profit and loss of X Limited

<table>
<thead>
<tr>
<th></th>
<th>31&lt;sup&gt;st&lt;/sup&gt; March 2016</th>
<th>31&lt;sup&gt;st&lt;/sup&gt; March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cost of Materials consumed</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>(XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>( XXXX)</td>
<td>(XXXX)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Total Comprehensive Income for the year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Group’s Share of profit for the year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>
Foot Notes related to First time adoption

The Group holds 50% in X limited and exercise joint control over the entity. Under Indian GAAP group has proportionately consolidated its interest in the X limited in the Consolidated Financial Statements. On transition to Ind AS the group has assessed and determines that X Limited is its JV under Ind AS 111. Therefore, it needs to be accounted for using the equity method as against proportionate consolidation. For the application of equity method, the initial investment is measured as the aggregate of carrying amount of assets and liabilities that the group had previously proportionately consolidated including any goodwill arising on consolidation.
THANK YOU