IAS - 31

Investment in Joint Ventures

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International Accounting Standard No. 31 (IAS31)

Investments in Joint Ventures

Scope

1. **This Standard applies to accounting for interests in joint ventures and to report on the financial statements on the assets, liabilities, income and expenses of members and investors, regardless of structure or form of the activities of joint ventures. However, shall not apply to holdings in jointly-controlled entities held by:**

   (a) venture capital entities, or

   (b) collective investment institutions, investment funds or other similar entities, including funds related to insurance investments

   Since its initial recognition are designated to be accounted for at fair value through profit or loss or are classified as held to negotiate the accounts according to IAS 39 Financial Instruments: Recognition and Measurement. These investments are valued at fair value in accordance with IAS 39, and changes therein are recognized in income for the year in which such changes take place. Participant to maintain an investment of this nature reveal the information requested in paragraphs 55 and 56.

2. **One participant, with investment in a jointly controlled entity, is exempt from applying paragraphs 30 (proportionate consolidation) and 38 (method of participation), provided it meets the following conditions:**

   (a) participation is classified as held for sale, in accordance with IFRS 5 Non-current assets held for sale and discontinued operations;

   (b) applies the exception in paragraph 10 of IAS 27 Consolidated and Separate Financial Statements, which allows a dominant, which also has holdings in a joint venture, not to produce consolidated financial statements, or

   (c) should apply all of the following conditions:

      (i) the participant is in turn dependent on a full or part dominated by another entity, and its other owners, including those not entitled to vote in other circumstances, have been informed and have expressed no objection to the participant not applying proportionate consolidation or the method of participation;

      (ii) instruments or passive participant in the capital are not traded on a public market (either a stock exchange or a foreign national or a non-

market organizations, including local or regional markets);

(iii) the participant has not registered or is in the process of recording their statements in a securities commission or other regulatory organization, to deliver some kind of instruments in a public market, and

(iv) the last dominant or one of the dominant partners in the interim prepares consolidated financial statements available for the public to comply with International Financial Reporting Standards.

Definitions

3. The following terms are used in this Standard with the meanings specified below: Control is the power to direct the financial and operating policies of an entity, in order to obtain benefits from its activities.

The method of participation is a method of accounting whereby participation in a joint venture was initially recorded at cost and is subsequently adjusted according to the changes experienced after the purchase, the portion of the net assets of the entity corresponding to the participant. The result of the exercise of the participant to collect the portion that corresponds to the results of the jointly controlled entity.

An investor in a joint venture is a party to the joint venture does not take part in joint control over it.

Joint control is the contractual agreement to share control over an economic activity, and only exists when the strategic decisions, both financial and operating on the activity require the unanimous consent of all parties sharing control (the participants).

A joint venture is a contractual arrangement whereby two or more partners undertake an economic activity that is subject to joint control.
Proportional consolidation method of accounting in the financial statements of each participant including their share of assets, liabilities, revenues and expenses of the jointly controlled entity, either in combination with line by line like items in their own financial statements or reporting on them in separate sections within those states.

The financial statements are separate financial statements of an investor, whether a dominant investor in an associate or a partner in a jointly controlled entity, in which investments are accounted for from the amounts invested directly and not depending on the results and net assets held by the entity in which it has

invested.

Significant influence is the power to intervene in policy decisions and financial exploitation of the investee, but not having full control or joint control over it.

Each participant is a party involved in a joint venture that has joint control over it.

4. The proportional consolidation methods of participation do not apply in the separate financial statements or in the financial statements of an entity that has no subsidiaries, associates or interests in joint ventures.

5. The separate financial statements are those that are in addition to the consolidated financial statements, the financial statements in which investments are accounted for using the method of participation or financial statements on which the shares in joint ventures are consolidated proportionally. Separate financial statements may or may not be attached, or may or may not accompany the financial statements referred to above.

6. The entities are exempt from consolidation in accordance with paragraph 10 of IAS 27, may present separate financial statements as their only financial statements. The same provision applies to entities exempted from application of method, according to paragraph (c) of paragraph 13 of IAS 28 Investments in associates and entities exempt from applying proportionate consolidation or the equity method, according to the provisions of paragraph 2 of this Standard.

Forms of joint ventures

7. The joint ventures can have different shapes and structures. This Standard identifies three broad types-jointly controlled operations, jointly controlled assets and jointly-controlled entities; they all meet the definition and are commonly described as joint ventures. The following features are common to all joint ventures:

   (a) two or more members are bound by a contractual agreement and

   (b) the contractual agreement establishing the existence of joint control.
   Joint control

8. The control package cannot be the case that are stake in a bankruptcy or reorganization law, or when operated under significant restrictions in the long term condition their ability to transfer funds to the participant. If joint control is retained, the previous events are not in themselves sufficient to justify the lack of enforcement of this rule on accounting for joint ventures.

Contractual agreement

9. The existence of a contractual arrangement distinguishes investments that involve joint control from investments in associates where the investor has significant influence (see IAS 28). They are not joint ventures for the purposes of this rule, activities that do not have a contractual agreement which established the joint control.

10. The contractual arrangement may be manifested in different ways, for example, through a contract between the members or minutes of meetings held between them. In some cases the agreement is incorporated in the statutes or regulations of the joint venture. Whatever the form, the contractual arrangement is usually formalized in writing, addressing issues such as:

    (a) the activity, its duration and the financial reporting requirements of joint venture;

    (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of members;

    (c) capital contributions made by members and

    (d) the division between the members of the production, revenues, expenses or results of the joint venture.

11. The contractual arrangement establishes joint control over the joint venture. This requirement ensures that no single partner will be in a position to control the activity unilaterally.

12. The contractual arrangement may be appointed as members of a manager or administrator of the joint venture. Anyone acting as an administrator does not control the joint venture, but it does apply, under the powers delegated to it, the financial and operating policies agreed between all partners in compliance with the contractual agreement. If this manager had the power to direct the financial and operating policies of economic activity, would control the business, and this would become an entity dependent on the manager, losing their entire business.

Jointly-controlled operations

13. Sometimes, the operation of a joint venture involves only the use of assets and other resources of the participants in it, not the establishment of a joint stock company, association for business purposes or other entity, or establishment of an Independent financial structure of the participants. Thus, each participant will use its tangible fixed assets and manage their own stocks. Also guilty, each in its own expenses and liabilities, also getting their own funding, which will become part of their own obligations. The activities of the joint venture may be carried out by employees of the participant, while engaged in activities similar to it. Normally, the joint venture agreement will contain the detailed rules for the allocation among holders of the revenue from the sale of the

joint product and any expenses shared.

14. An example of a jointly controlled operation is when two or more partners combine their operations, resources and expertise with the aim to manufacture, market and distribute jointly a particular product, for example an aircraft. Each participant will carry out a different stage of the manufacturing process. Each participant shall bear its own costs and gain a share of revenue from the sale of aircraft to be prescribed in accordance with the terms of the contractual agreement.

15. With respect to their shares in jointly-controlled operations, the participant will recognize in its financial statements:

(a) the assets under their control and the liabilities it has incurred, and

(b) the expenses incurred and its share in the proceeds from the sale of goods and services by the joint venture.

16. Because the assets, liabilities, expenses and income and joint venture are recognized in the financial statements of the participant, will not be accurate and other adjustments consolidation procedures with respect to these items, to prepare and present consolidated financial statements of the participant.

17. It might not be necessary for the joint venture to keep records and prepare separate accounting statements. However, members could decide to produce reports for management, so as to assess the performance of the joint venture.

Jointly controlled assets

18. Some joint ventures involving joint control, and often the joint ownership of the participants on one or more assets contributed or acquired to meet the purposes of the joint venture. These assets are used to benefit shareholders. Each participant may receive a portion of the production assets and assume the agreed proportion of costs incurred.

19. This type of joint ventures does not involve the formation of a joint stock company or a partnership with Finnish business or other entity, or the establishment of an independent financial structure from that of participants. Each monitor part of the future economic benefits through its participation in the jointly controlled asset.

20. Many activities in the oil, natural gas and mineral extraction, used jointly controlled assets, for example certain oil companies may jointly control and operate the pipelines. Each participant uses the pipeline to transport its own production, and undertakes to pay the agreed proportion of operating costs thereof. Another example of a jointly controlled asset is when two entities control a property, so that each gets a share of rents received and bears a share of the costs.

21. **With respect to their participation in jointly controlled assets, the participant will recognize in its financial statements:**

    (a) its share of jointly controlled assets, classified according to their nature;

    (b) any liabilities it has incurred;

    (c) its share of the liabilities incurred jointly with other partners, in connection with the joint venture;

    (d) any sales or use of its part in the production of the joint venture, together with its share of any expenses incurred by the joint venture and

    (e) any expenses incurred in connection with their participation in the joint venture.

22. With respect to their participation in jointly controlled assets, each partner shall include in its accounting records and recognized in its financial statements:

    (a) Your share of jointly controlled assets, classified according to nature, and not as an investment. For example, participation in a jointly controlled oil pipeline is classified as tangible assets.

    (b) any liabilities it has incurred, such as those generated to finance its share of the assets.

    (c) The portion of the liabilities incurred jointly with other partners, in connection with the joint venture.

    (d) any sales or use of its part in the production of the joint venture, together with its share of any expenses incurred by the joint venture.

    (e) Any costs incurred as a result of their participation in the joint venture, for example those relating to the financing of its participation in the assets or the sale of its share of production.

    Because the assets, liabilities, expenses and income and joint venture are recognized in the financial statements of the participant, will not be accurate adjustments or other consolidation procedures with respect to these items, to prepare and present consolidated financial statements of the participant.

23. The treatment of jointly controlled assets, reflecting the substance and economic reality, and usually the legal form of joint venture. The accounting records of the joint venture may be limited to expenses incurred in common by the participants, which will eventually be distributed among them according to agreed proportions. Could not prepare financial statements of the joint venture, although the participants can prepare reports for management to evaluate the performance of the joint venture.

Jointly-controlled entities

24. A jointly controlled entity is a joint venture involving the creation of a joint stock company, a partnership with Finnish business or other entity in which each participant buys a stake. The entity will operate the same way as other entities, unless there is a contractual arrangement between shareholders, which establishes joint control over the economic activity therein.

25. The jointly controlled entity will control the joint venture assets, liabilities and expenses incurred and revenue obtained. May enter into contracts on its own behalf and obtain funding for development of the objectives of the joint activity. Each participant is entitled to a portion of results of jointly controlled entity, although some of them also share the output of the joint venture.

26. A common example of jointly controlled entity is when two entities combine their holdings in a particular line of business, transferring the relevant assets and liabilities of jointly controlled entity. Another example is when an entity undertakes activities in a foreign country with the help of government or a public body in this country by establishing a separate entity under common control of the entity and the government or public body involved.

27. Many of jointly controlled entities are similar in substance to those joint ventures that have been referred to as holdings or jointly controlled assets. For example, participants may transfer a jointly controlled asset, such as a pipeline to the jointly controlled entity for tax reasons or otherwise. In the same way, participants can contribute to the jointly controlled entity, assets to be exploited in common. Some jointly controlled activities involve the establishment of a jointly controlled entity to develop specific aspects of the activity, such as design, promotion, distribution and after-sales service of product.

28. The jointly controlled entity carry their own records, preparing and presenting its financial statements as well as other entities, in accordance with International Financial Reporting Standards.

29. Typically, each participant will provide money or other resources to the jointly controlled entity. These contributions are recorded in the accounting records of the participant, which recognizes in its financial statements as an investment in the jointly controlled entity.

Participant's financial statements

Proportional consolidation

30. **The participant will recognize their participation in the jointly controlled entity using the proportionate consolidation or the alternative method described in paragraph 38. When using proportional consolidation, use one of two presentation formats identified below.**

31. The participant will recognize their participation in the jointly controlled entity using one of two presentation formats for proportionate consolidation, regardless of whether it also holds investments in subsidiaries or to appoint their financial statements as consolidated financial statements.

32. In recognizing their participation in a jointly controlled entity, it is essential that the participant reflect the economic substance and reality of the contractual agreement, rather than the simple structure or form of joint venture. In the case of a jointly controlled entity, the participant has control over its portion of the future economic benefits, through their participation in the assets and liabilities of the joint venture. The substance and economic reality will be reflected in the consolidated financial statements of the participant, when he acknowledged his participation in the assets, liabilities, income and expenditure of jointly controlled entity using one of two formats of reporting method proportional consolidation, as described in paragraph 34.

33. The application of proportionate consolidation means that the balance of the participant shall include its share of jointly controlled assets, as well as their share of the liabilities that are jointly responsible. The income will include your partner's share of revenue and expenses of the jointly controlled entity. Many of the procedures suitable for the application of proportionate consolidation are similar to procedures for consolidation of investments in subsidiaries, as set out in IAS 27.

34. It may use different presentation formats to carry out the proportional consolidation. The participant may combine its share of individual assets, liabilities, revenues and expenses line by line with similar items of its financial statements. For example, you can combine your share of stock in the jointly controlled entity with its own stock, and its share of tangible assets in the jointly controlled entity of the same batch of its own tangible assets. Alternatively, the participant may include separate parts within its financial statements its share of the assets, liabilities, income and expenses in the jointly controlled entity. For example, could present their part of the current assets in the jointly controlled entity separately within their current assets, and can present its share of tangible assets in the jointly controlled entity separately within its tangible assets. Both formats of reporting will show identical amounts, both as a result of the exercise of the rankings for the assets, liabilities, income and expenditure, which is why both are

acceptable for the purposes of this Standard.

35. Regardless of the format used for the proportional consolidation will not be adequate to offset assets and liabilities by the deduction of other liabilities or assets, respectively, or to offset expenses or income through the deduction of other income or expenses, respectively, unless there is a legal right to do so, provided that compensation is commensurate with the expected completion of the asset or cancellation of liabilities in question.

36. The participant shall cease to apply proportionate consolidation from the date it ceased its participation in joint control of the jointly controlled entity.

37. The participant shall cease to apply proportionate consolidation from the date that control ceases to share in the jointly controlled entity. This may happen for example when the participant or has disposed of its participation in another way, or where there are external constraints on the jointly controlled entity to prevent the exercise of this control.

Method of participation

38. As an alternative to proportionate consolidation described in paragraph 30, the participant will recognize their participation in a jointly controlled entity using the equity method.

39. The investor shall recognize participation in the jointly controlled entity using the equity method, regardless of who holds investments in subsidiaries or to appoint their financial statements as consolidated financial statements.

40. Some participants recognize their interests in jointly controlled entities using the equity method, as described in IAS 28. Using the method of participation is advocated by those who argue that it is inappropriate to combine itself with other items of jointly controlled entities, as well as those who believe that shareholders have significant influence, rather than joint control, in the jointly controlled entity. This Standard does not recommend the use of the method, because it considers proportionate consolidation better reflects the substance and economic reality of participation in the entity under common control i.e. control over their share of future economic benefits. However, this standard allows to use the method of participation as an alternative method to report holdings in jointly controlled entities.

41. The participant shall cease to apply the method of participation from the date it ceased its participation in joint control or significant influence on the jointly controlled entity.

Exceptions to the proportional consolidation method and the participation

42. Shares in jointly-controlled entities, which have been classified as held for sale under IFRS 5 shall be accounted for in accordance with that IFRS.

43. When participation in a jointly controlled entity previously classified as held for sale, no longer meets the criteria for classification as such, is counted using the proportional consolidation or the equity method, with effect from the date of classification as held for sale. In this case, we restate financial statements for all periods subsequent to its classification as held for sale.

44. [Deleted]

45. Since the date of the jointly controlled entity becomes a subsidiary of the joint venture partner, it accounted for its participation in accordance with IAS 27. In a similar way, from the date of the jointly controlled entity becomes a partner in the joint venture partner, it accounted for its participation in accordance with IAS 28.

Separate financial statements of the partner

46. In the separate financial statements of the participant, participation in a jointly controlled entity is accounted for in accordance with paragraphs 37 to 42 of IAS 27.

47. This Standard establishes which entities should prepare separate financial statements available for public use.

Transactions between partner and joint venture

48. When the participant inputs or sell assets to joint venture, recognition of any portion of the losses or gains from the transaction, reflect the economic substance of it. While the joint venture holds the assets transferred and the holder has transferred the significant risks and rewards of ownership, it recognized only the portion of profit or loss that is attributable to investments by other participants .* The participant will recognize the full amount any loss, if the contribution or sale has revealed a reduction in the net realizable value of current assets or an impairment loss in the value of the assets transferred.

49. Where a participant in a joint venture to buy assets from the same, it does not recognize its share in the benefits of joint venture from the transaction until the assets are sold to an independent third party. The participant will recognize its share in losses resulting from the transaction in a manner similar to the benefits, unless such losses are recognized immediately because they represent a decline in net realizable value of current assets or an impairment loss of value of such

property.

50. In assessing whether a transaction between the participant and the joint venture reflects the deterioration in value of assets, the participant will determine the recoverable amount of assets in accordance with IAS 36 Impairment of Assets. Where appropriate to determine value in use, faces the estimated future cash flows of assets, from the assumption that the asset is used continuously and eventually dispose of or otherwise be available for joint venture.

Information about holdings in joint ventures in the financial statements of an investor

51. The investor in a joint venture that does not have joint control over it, the investment accounted for under IAS 39 or, if it has significant influence in the joint venture, in accordance with IAS 28.

Administrators Joint Ventures

52. The administrators or managers of a joint venture accounted for any pay received in accordance with IAS 18, Revenue.

53. One or more of the members could act as directors or managers of the joint venture. Usually, administrators will be paid for this purpose. These commissions will be counted as expenses for the joint venture. 12

Information Disclosure

54. The participant disclosed separately from the rest of the contingent liabilities unless the probability of loss is remote, the total amount of contingent liabilities as follows:

(a) any contingent liabilities incurred by the participant, in relation to its interests in joint ventures and its share in each of the contingent liabilities incurred jointly with other partners;

(b) their share of the contingent liabilities of joint ventures for which it is bound by the quota, and

(c) those contingent liabilities arising from the fact that the participant has responsibility for contingent liabilities of the other participants in the joint venture.

55. The participant disclose separately from other commitments, the total amount on the following commitments relating to its interests in joint ventures:

(a) any commitment for capital investment, which has assumed in connection with their participation in joint ventures and its share of the capital investment made in

conjunction with other stakeholders, and

(b) their participation in equity investment commitments made by the joint ventures.

56. The participant will reveal, through a list with descriptions for their significant stakes in joint ventures and its share in the ownership of jointly controlled entities. The participant to recognize their interests in jointly controlled entities using the line at a combination of items in the proportional consolidation or the equity method, will disclose the total amounts of current assets and long term, current liabilities and long term, and income and expenses related to its interests in joint ventures.

57. The participant shall disclose the accounting method used to recognize their participation in jointly controlled entities.

Effective date and transition

58. An entity shall apply this Standard in the years beginning on or after January 1, 2005. It is advisable to apply early. If an entity applies this Standard for a financial year beginning before January 1, 2005, disclose that fact.

58B. Paragraph 1 was amended by the document Improvement Standards and Interpretations issued in May 2008. An entity shall apply those amendments in the years beginning on or after January 1, 2009. Early application is permitted. If an entity applies the changes to a previous one, disclose this fact and applied for that earlier period the modifications to paragraph 3 of IFRS 7 Financial Instruments: Disclosure Information, paragraph 1 of IAS 28 and paragraph 4 of IAS 32 Financial Instruments: Presentation issued in May 2008. Allowing an entity applies the amendments prospectively.

Repeal of IAS 31 (revised 2000)

59. This Standard repeals IAS 31 Financial Information on the interests in joint ventures (revised 2000).