UNIT 5:
IND AS 111: JOINT ARRANGEMENTS

5.1 OBJECTIVE OF IND AS 111

Joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are established for a variety of purposes (e.g. as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets) and can be established using different structures and legal forms.

The objective of Ind AS 111 is to establish principles for financial reporting by entities that have an interest in a joint arrangement.

This Ind AS defines various terms related to joint arrangements. It requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved i.e. whether it is a joint operation or a joint venture by assessing its rights and obligations. Based on the type of the arrangement, the accounting treatment for that arrangement will be decided.

5.2 SCOPE OF IND AS 111

Ind AS 111 shall be applied by all entities that are a **party to a joint arrangement**.

5.3 ASSESSMENT OF JOINT ARRANGEMENT

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

A joint arrangement has the following characteristics:

The parties are bound by a **contractual arrangement**	AND	The contractual arrangement gives two or more of those parties **joint control** of the arrangement

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5.3.1 Contractual arrangement

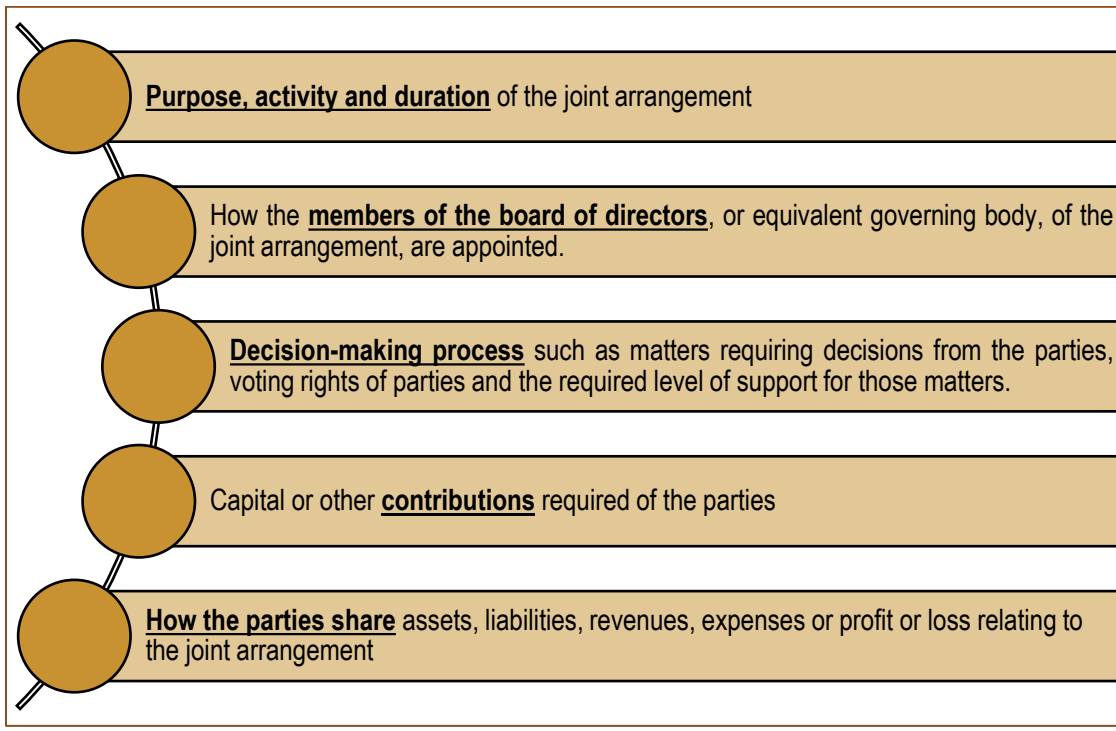
One of the essential elements of a joint arrangement is that there has to be a contractual arrangement between the parties to the arrangement. A contractual arrangement is usually in writing, however, it can be evidenced in several other ways as well.

A joint arrangement can be structured through a separate vehicle. In most of such case, the contractual arrangement is incorporated in the articles, charter or by-laws of the separate vehicle.

Example 1

A Ltd. and B Ltd. incorporated a new entity AB Ltd. The articles of association of AB Ltd. defines the terms of contractual arrangements between A Ltd. and B Ltd.

The contractual arrangement describes the terms of arrangement between the two or more parties that are involved in the activity that is subject of the arrangement. The contractual arrangement generally deals with such matters as:



5.3.2 Joint control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when **decisions about the relevant activities** require the **unanimous consent** of the parties sharing control.

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Hence, in a joint arrangement, all the parties to an arrangement must act collectively in order to take decisions about the relevant activities of the arrangement and there is no single party who can control the arrangement individually. In a joint arrangement, any party sharing the control can prevent the other party / parties from controlling the arrangement.

In order to assess the joint control, an entity that is a party to an arrangement should **first assess** that whether the contractual arrangement gives all the parties or a group of the parties **control over the arrangement**. Control assessment will be done based on the guidance given in Ind AS 110 (which is discussed in Unit 3). Accordingly, all the principles of control assessment, some of which are summarised below, would be relevant while doing the assessment of joint control by the parties:

- Power over the relevant activities of the investee
  - Power with and without voting rights
  - Potential voting rights
  - Rights to appoint Key Managerial Personnel
  - De-facto control
  - Purpose and design of the investee
  - Contractual arrangements
  - Special relationship with investor and investee
- Exposure to returns
- Ability to use the power to affect the returns of the investee

Hence, if all the parties or a group of parties to a contractual arrangement (**considered collectively**) have power, exposure to returns and ability to use that power to affect the returns of the arrangement then the parties have control over the arrangement collectively.

The flowchart below can be used as a visual aid to remember the aforementioned concepts in brief:

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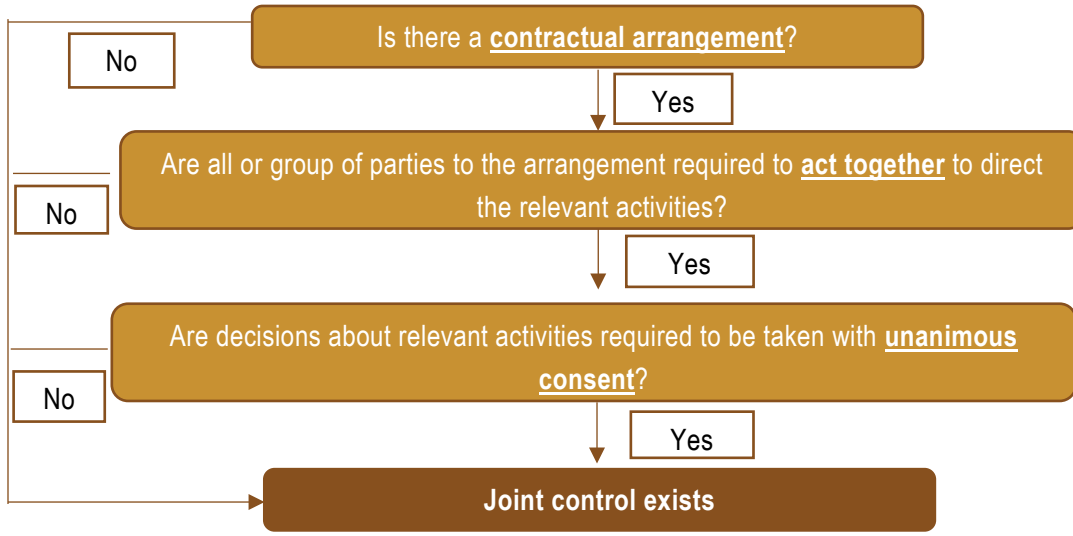

Please remember: In a joint arrangement, no single party controls the arrangement on its own. That is because, by definition, a party with joint control can prevent other parties from controlling the arrangement.

Following are some of the illustrations for doing assessment of joint control.

(One should keep in mind that the illustrations on control assessment discussed in Unit 3 would also be equally relevant for doing assessment of joint control).

Illustration 1: Joint control

ABC Ltd. and DEF Ltd. have entered into a contractual arrangement to manufacture a product and sell that in retail market. As per the terms of the arrangement, decisions about the relevant activities require consent of both the parties. The parties share the returns of the arrangement equally amongst them. Whether the arrangement can be treated as joint arrangement?

Solution:

The arrangement is a joint arrangement since both the parties are bound by the contractual arrangement and the decisions about relevant activities require unanimous consent of both the parties.

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Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement **implicitly leads to joint control**. This is explained in below illustrations:

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Illustration 2: Implicit joint control

PQR Ltd. and XYZ Ltd. established an arrangement in which each has 50% of the voting rights and the contractual arrangement between them specifies that at least 51% of the voting rights are required to make decisions about the relevant activities. Whether the arrangement can be treated as joint arrangement?

Solution:

In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

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Illustration 3: Implicit joint control

A Ltd., B Ltd. and C Ltd. established an arrangement whereby A Ltd. has 50% of the voting rights in the arrangement, B Ltd. has 30% and C has 20%. The contractual arrangement between A Ltd., B Ltd. and C Ltd. specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement. Whether the arrangement can be treated as joint arrangement?

Solution:

In this case, even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75% of the voting rights to make decisions about the relevant activities imply that A Ltd. and B Ltd. have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A Ltd. and B Ltd. agreeing.

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Apart from the above-mentioned situations of implicit joint control, there can be other circumstances where the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the **contractual arrangement specifies** which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement. This is explained in below illustrations:

Illustration 4: Explicit joint control

An arrangement has three parties: X Ltd. has 50% of the voting rights in the arrangement and Y Ltd. and Z Ltd. each have 25%. The contractual arrangement between them specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement. Whether the arrangement can be treated as joint arrangement?

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Solution:

In this case, even though X Ltd. can block any decision, it does not control the arrangement because it needs the agreement of either Y Ltd. or Z Ltd. In this question, X Ltd., Y Ltd. and Z Ltd. 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 X Ltd. and Y Ltd. or X Ltd. and Z Ltd.). 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.

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Illustration 5: Explicit joint control

An arrangement has A Ltd. and B Ltd. each having 35% of the voting rights in the arrangement with the remaining 30% being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. Whether the arrangement can be treated as joint arrangement?

Solution:

A Ltd. and B Ltd. have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities of the arrangement require both A Ltd. and B Ltd. agreeing. However, in the given case, decisions about the relevant activities require approval by a majority of the voting rights. Hence, there is no joint arrangement.

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The above illustrations also highlight that it is **not necessary** that all the parties in an arrangement should have joint control to form a joint arrangement. Some party or parties may be participating in the joint arrangement but may not be having joint control of that joint arrangement. That is the reason the word "or" has been used between the words "all" and "group of parties" in the flowchart given earlier.

Following are some further illustrations on assessment of whether a joint arrangement exists or not:

Illustration 6: Joint control through board representation

Electronics Ltd. is established by two investors R Ltd. and S Ltd. The investors are holding 60% and 40% of the voting power of the investee respectively.

As per the articles of association of Electronics Ltd., both the investors have right to appoint 2 directors each on the board of Electronics Ltd. The directors appointed by each investor will act

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in accordance with the directions of the investor who has appointed such director. Further, articles of association provides that the decision about relevant activities of the entity will be taken by board of directors through simple majority.

Determine whether Electronics Ltd. is controlled by a single investor or is jointly controlled by both the investors.

Solution:

The decisions about relevant activities are required to be taken by majority of board of directors. Hence, out of the 4 directors, at least 3 directors need to agree to pass any decision. Accordingly, the directors appointed by any one investor cannot take the decisions independently without the consent of at least one director appointed by other investor. Hence, Electronics Ltd. is jointly controlled by both the investors. R Ltd. holding majority of the voting rights is not relevant in this case since the voting rights do not given power over the relevant activities of the investee.

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Illustration 7: Chairman with casting vote

MN Software Ltd. is established by two investors M Ltd. and N Ltd. Both the investors are holding 50% of the voting power each of the investee.

As per the articles of association of MN Software Ltd., both the investors have right to appoint 2 directors each on the board of the company. The directors appointed by each investor will act in accordance with the directions of the investor who has appointed such director. The decision about relevant activities of the entity will be taken by board of directors through simple majority. Articles of association also provides that M Ltd. has right to appoint the chairman of the board who will have right of a casting vote in case of a deadlock situation.

Determine whether MN Software Ltd. is jointly controlled by both the investors.

Solution:

The decisions about relevant activities are required to be taken by majority of board of directors. Hence, out of the 4 directors, at least 3 directors need to agree to pass any decision. Accordingly, the directors appointed by any one investor cannot take the decisions independently without the consent of at least one director appointed by other investor. However, the chairman of the board has right for a casting vote in case of a deadlock in the board. Hence, M Ltd. has the ability to take decisions related to relevant activities through 2 votes by directors and 1 casting vote by chairman of the board. Therefore, M Ltd. individually has power over MN Software Ltd. and there is no joint control.

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Illustration 8: Equal voting rights but no joint control

ABC Ltd. is established by two investors AB Ltd. and BC Ltd. Each investor is holding 50% of the voting power of the investee.

As per the articles of association of ABC Ltd., AB Ltd. and BC Ltd. have right to appoint 3 directors and 2 directors respectively on the board of ABC Ltd. The directors appointed by each investor will act in accordance with the directions of the investor who has appointed such director. Further, articles of association provides that the decision about relevant activities of the entity will be taken by board of directors through simple majority.

Determine whether ABC Ltd. is jointly controlled by both the investors.

Solution:

The decisions about relevant activities are required to be taken by majority of board of directors. Hence, out of the 5 directors, at least 3 directors need to agree to pass any decision. Accordingly, the directors appointed by AB Ltd. can take the decisions independently without the consent of any of the directors appointed by BC Ltd. Hence, ABC Ltd. is not jointly controlled by both the investors. Equal voting rights held by both the investors is not relevant in this case since the voting rights do not given power over the relevant activities of the investee.

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Illustration 9: Joint control over specific asset

X Ltd. and Y Ltd. entered into a contractual arrangement to buy a piece of land to construct residential units on the said land and sell to customers.

As per the arrangement, the land will be further divided into three equal parts. Out of the three parts, both the parties will be responsible to construct residential units on one part each by taking decision about relevant activities independently and they will be entitled to the returns generated from their own part of land. The third part of the land will be jointing managed by both the parties requiring unanimous consent of both the parties for all the decision making.

Determine whether the arrangement is a joint arrangement or not.

Solution:

The two parts of the land which are required to be managed by both the parties independently on their own would not fall within the definition of a joint arrangement. However, the third part of the land which is required to be managed by both the parties with unanimous decision making would meet the definition of a joint arrangement.

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Illustration 10: Multiple relevant activities directed by different investors

Entity R and entity S established a new entity RS Ltd. to construct a national highway and operate the same for a period of 30 years as per the contract given by government authorities.

As per the articles of association of RS Ltd, the construction of the highway will be done by entity R and all the decisions related to construction will be taken by entity R independently. After the construction is over, entity S will operate the highway for the period of 30 years and all the decisions related to operating of highway will be taken by entity S independently. However, decisions related to funding and capital structure of RS Ltd. will be taken by both the parties with unanimous consent.

Determine whether RS Ltd. is a joint arrangement between entity R and entity S?

Solution:

In this case, the investors should evaluate which of the decisions about relevant activities can most significantly affect the returns of RS Ltd. In the given case, construction of the national highway and operation of the same are both significant activities with control over the same being held unilaterally by R Ltd. and S Ltd. However, the decisions related to funding and capital structure of RS Ltd. are taken with unanimous consent.

The above structure is tabulated below:

Activity	Decision-making	Remarks
Construction of the highway	R Ltd., independently	All activities are significant for RS Ltd., but since funding and capital structure are essential without which construction and operation cannot commence, the same is highly significant.
Operation of the highway	S Ltd., independently	
Funding and Capital Structure	Joint decision-making by R Ltd. and S Ltd., both	

In view of the above, since the decision relating to Funding and Capital Structure are taken jointly by R Ltd. and S Ltd. both, we can conclude that RS Ltd. is a joint arrangement.

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Illustration 11: Informal agreement for sharing of control

An entity has four investors A, B, C and D holding 10%, 20%, 30% and 40% voting power respectively. The articles of association require decisions about relevant activities to be taken by majority voting rights. However, investor A, B and C have informally agreed to vote together. This informal agreement has been effective in recent meetings of the investors to take decisions about relevant activities. Whether A, B and C have joint control over the entity?

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Solution:

In this case, three investors have informally agreed to make unanimous decisions. These three investors together also have majority voting rights in the entity. Hence, investor A, B and C have joint control over the entity. The agreement between investor A, B and C need not be formally documented as long as there is evidence of its existence in recent meetings of the investors.

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It should be noted that if the requirement for unanimous consent relates only to decisions that give a party **protective rights** and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement. This is explained in below illustration:

Illustration 12: Party with protective rights

D Ltd., E Ltd. and F Ltd. have established a new entity DEF Ltd. As per the arrangement, unanimous consent of all three parties is required only with respect to decisions related to change of name of the entity, amendment to constitutional documents of the entity to enter into a new business, change in the registered office of the entity, etc. Decisions about other relevant activities require consent of only D Ltd. and E Ltd. Whether F Ltd. is a party with joint control of the arrangement?

Solution:

Consent of F Ltd. is required only with respect to the fundamental changes in DEF Ltd. Hence these are protective rights. The decisions about relevant activities are taken by D Ltd. and E Ltd. Hence, F Ltd. is not a party with joint control of the arrangement.

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A contractual arrangement might include clauses on the **resolution of disputes**, such as arbitration. These provisions may allow for decisions to be made **without unanimous consent** among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement. This is explained in below illustration:

Illustration 13: Resolution of disputes without unanimous consent

Entity A and Entity B established a contractual arrangement whereby the decision related to relevant activities are required to be taken by unanimous consent of both the parties. However, in case of any dispute with any vendor or customer of the arrangement, entity A has right to take necessary decisions for the resolution of disputes including decisions of going for the arbitration or filing a suit in court of law. Whether the arrangement is a joint arrangement?

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Solution:

The arrangement is a joint arrangement since the contractual arrangement requires decisions about relevant activities to be taken by unanimous consent of both the parties. The right available with entity A to take decisions for resolution of disputes will not prevent the arrangement from being a joint arrangement.

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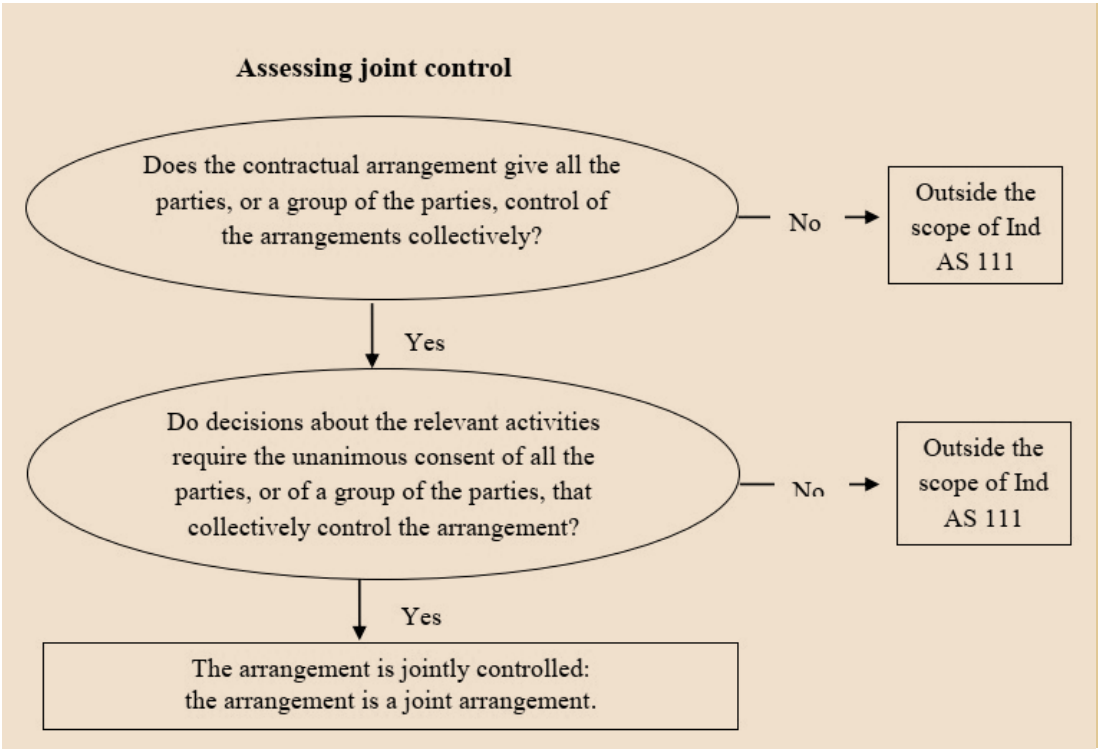
The following flow chart summarises the requirements of assessing joint control:



When an arrangement is outside the scope of Ind AS 111, an entity accounts for its interest in the arrangement in accordance with relevant Ind AS, such as Ind AS 110, Ind AS 28 or Ind AS 109.

If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

5.4 TYPES OF JOINT ARRANGEMENT

Once it is determined that an arrangement is a joint arrangement, the entity needs to determine whether the joint arrangement is a joint operation or a joint venture depending upon the rights and

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obligations of the parties to the arrangement. This determination is relevant because of the way the joint arrangement is accounted for i.e. whether it is a consolidation of assets, liabilities, income and expenses or use of equity method specified under Ind AS 28.

Joint operation and joint venture are defined below:

A **joint operation** is 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. Those parties are called joint operators.

A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have **rights to the net assets** of the arrangement. Those parties are called joint venturers.

As mentioned above, for classification of a joint arrangement between joint operation and joint venture, the parties shall assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the **structure of the joint arrangement**. Further, if the joint arrangement is **structured through a separate** vehicle then the entity shall consider the following.

- The legal form of the separate vehicle
- The terms of the contractual arrangement
- When relevant, other facts and circumstances

Each of the above factors are discussed below in detail. If facts and circumstances change, an entity shall reassess whether its earlier conclusion on the type of joint arrangement has changed.

5.4.1 Assessment of whether a joint arrangement is a joint operation or a joint venture

When assessing whether a joint arrangement is a joint operation or a joint venture, an entity should first determine whether the joint arrangement is structured through a separate vehicle or not. Some joint arrangements are not structured through a separate vehicle and some joint arrangements are structured through a separate vehicle.

A separate vehicle is defined in Ind AS 111 as a **separately identifiable financial structure**, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality. **Examples** of a separate vehicle include partnership, company, trust, association of persons, government authority, etc.

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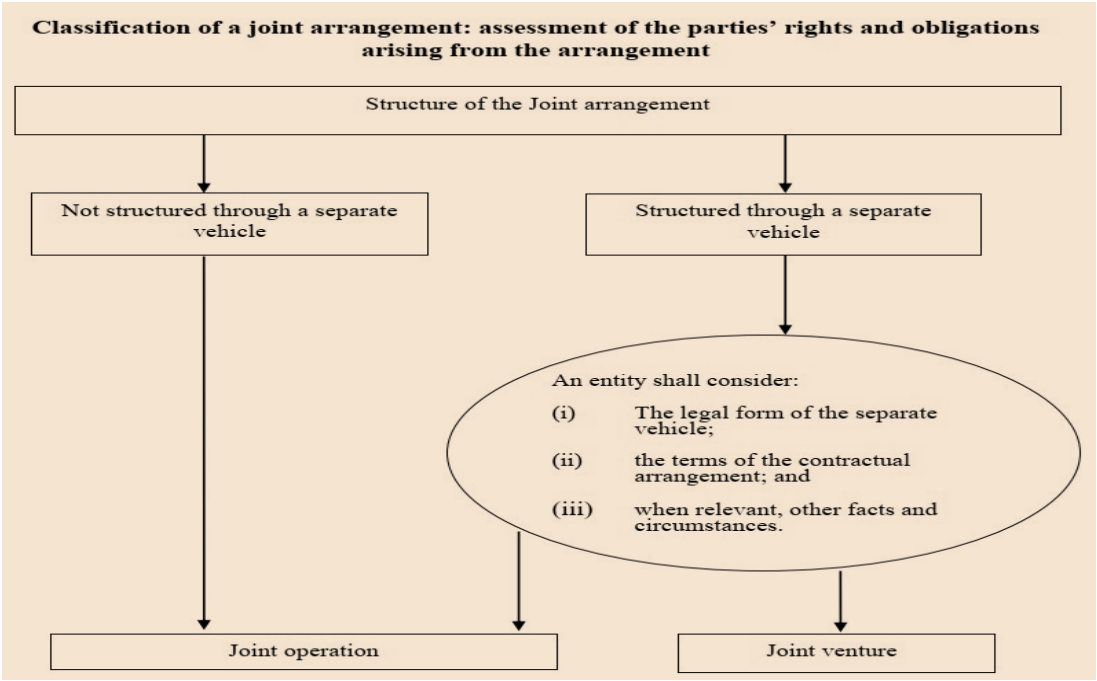
Below chart summarise the classification of a joint arrangement based on the structure of the arrangement.



5.4.1.1 Joint arrangements not structured through a separate vehicle

A joint arrangement that is not structured through a separate vehicle is a **joint operation**.

In such case, the contractual arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. The contractual arrangement also establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them.

This is explained in below illustration:

Illustration 14: Joint operation

P Ltd. and Q Ltd. are two construction entities and they have entered into a contractual arrangement to jointly construct a metro rail project.

The construction of metro rail project involves various activities such as construction of infrastructure (like metro station, control room, pillars at the centre of the road, etc.) for the metro, laying of the tracks, acquiring of the coaches of the metro, etc. The total length of the metro line to be constructed is 50 kms. As per the arrangement, both the parties are responsible to construct

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25 kms each. Each party is required to incur its own cost, use its own assets, incur the liability and has right to the revenue from their own part of the work.

Determine whether the arrangement is a joint operation or not?

Solution:

The arrangement is a joint operation since the arrangement is not structured through a separate vehicle and each party has rights to the assets, and obligations for the liabilities relating to their own part of work in the joint arrangement.

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In some cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. However, such arrangements are still a joint operation since they are not structured through a separate vehicle.

In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. This is explained in below illustration:

Illustration 15: Joint operation by sharing an asset

RS Ltd. and MN Ltd. entered into a contractual arrangement to run a business of providing cars of hire. The cars will be owned by both the parties jointly. The expenses to run the car (like driver salary, petrol, maintenance, insurance, etc.) and revenues from the business will be shared between both the parties as agreed in the contractual arrangement. Determine whether the arrangement is a joint operation or not?

Solution:

The arrangement is a joint operation since the arrangement is not structured through a separate vehicle.

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5.4.1.2 Joint arrangements structured through a separate vehicle

A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either **a joint venture or a joint operation**.

As mentioned earlier, when the joint arrangement is structured through a separate vehicle, an entity should consider i) legal form of the separate vehicle, ii) the terms of the contractual arrangement and, when relevant, iii) any other facts and circumstances to assess whether the arrangement is a joint venture or a joint operation. Each of these factors are further explained below.

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5.4.1.2.1 The legal form of the separate vehicle

The legal form of the separate vehicle is relevant when assessing the type of joint arrangement.

For example, there may be a situation where the legal form of a separate vehicle causes the separate vehicle to be **considered in its own right** (i.e. the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such case, the legal form of the separate vehicle indicates that the arrangement is a joint venture.

If the legal form of the separate vehicle indicates that the arrangement is a joint venture then the entity should further evaluate the terms of contractual arrangements and any other relevant facts and circumstance to see whether those factors indicate that the arrangement is a joint operation or not. However, if the legal form indicates that the arrangement is a joint operation (i.e. in a situation where the legal form does not confer separation between the parties and the separate vehicle) then there is no need to evaluate any other factor and the arrangement is concluded to be a joint operation.

Illustration 16: Legal form indicates the arrangement to be a joint venture

Entity X and Entity Y are engaged in the business of Engineering, Procurement and Construction (EPC) for its customers. Both the parties have jointly won a contract from a customer for executing an EPC contract and for that the parties have established a new entity XY Ltd. The contract will be executed through XY Ltd.

All the assets required for the execution of the contract will be acquired and liabilities relating to the execution will be incurred by XY Ltd. in its own name. Entity X and entity Y will have share in the net profits of XY Ltd. in the ratio of their shareholding i.e. 50% each. Assuming that the arrangement meets the definition of a joint arrangement, determine whether the joint arrangement is a joint operation or a joint venture?

Solution:

The legal form of the separate vehicle is a company. The legal form of the separate vehicle causes the separate vehicle to be considered in its own right. Hence, it indicates that the arrangement is a joint venture. In this case, the parties should further evaluate the terms of contractual arrangements and other relevant facts and circumstances to conclude whether the arrangement is a joint venture or a joint operation.

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Illustration 17: Legal form indicates the arrangement to be a joint operation

Two entities have established a Limited Liability Partnership (LLP) with each party having 50% share in the net profits of the firm. If the arrangement meets the definition of a joint arrangement, determine whether the joint arrangement is a joint operation or a joint venture? Would your answer change if a partnership firm was established instead of an LLP.

Solution:

A limited liability partnership is recognized as a body corporate with an existence distinct from that of its partners. Accordingly, the partners to the LLP would have a right to the net assets of the LLP as against a right to the assets and obligations to the liabilities of the same. Accordingly, such an arrangement would be a joint venture.

In case the entity formed is a partnership firm, the Indian Partnership Act, 1932 does not distinguish the partners from the partnership firm, and therefore all the partners would be liable to the liabilities of the firm, as well as have interest in the assets of the firm (and not the net assets). accordingly, there would be no separation between the partners and the partnership firm. Hence, in such a case, the joint arrangement would be regarded as a joint operation.

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5.4.1.2.2 Assessing the terms of the contractual arrangement

Generally, the rights and obligations conferred through contractual arrangement are consistent with the rights and obligations conferred by the legal form of the separate vehicle. However, in some case the contractual arrangement alters the rights and obligations conferred by the legal form of the separate vehicle.

If the contractual arrangement indicates that the arrangement is a joint operation then there is no need to evaluate any other facts and circumstances and the arrangement is concluded to be a joint operation.

Illustration 18: Assessing the terms of the contractual arrangement

Continuing with the illustration 16 above, assume that Entity X and Entity Y have entered into a separate agreement whereby they have agreed that each party has an interest in the assets of the XY Ltd. and each party is liable for the liabilities of XY Ltd. in a specified proportion. Determine whether the joint arrangement is a joint operation or a joint venture?

Solution:

In this case, the terms of the separate agreement may cause the arrangement to be a joint operation.

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The following table provides some examples (not an exhaustive list) of some common terms present in contractual arrangements of parties to a joint operation and a joint venture:

Assessing the terms of the contractual arrangement		
	Joint operation	**Joint venture**
The terms of the contractual arrangement	The terms provide the parties with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The terms provide the parties with rights to the net assets of the arrangement.
Rights to assets	The parties share all interests (e.g. rights, title or ownership) in the assets relating to the arrangement in a specified proportion.	The assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e. no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion. The parties to the joint arrangement are liable for claims raised by third parties.	The joint arrangement is liable for the debts and obligations of the arrangement. The parties are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement. Creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, profit or loss	Revenues and expenses are allocated on the basis of the relative performance of each party to the joint arrangement.	Each party has share in the profit or loss relating to the activities of the arrangement.

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	However, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	
Guarantees	The parties to joint arrangements might provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the classification of joint arrangement is whether the parties have obligations for the liabilities relating to the arrangement (whether they are guaranteed by the parties or not is irrelevant).	

5.4.1.2.3 Assessing other facts and circumstances

When the legal form of the separate vehicle and the terms of the contractual arrangement indicate that the arrangement is a joint venture, the parties should evaluate other relevant facts and circumstance to assess whether the arrangement is a joint operation or not. If the other relevant facts and circumstances also do not have evidence of the arrangement being a joint operation then the arrangement is concluded to be a joint venture.

The other relevant facts and circumstances that should be evaluated which might indicate that the arrangement is a joint operation are as follows. If both the following conditions are satisfied then the arrangement is a joint operation.

- The arrangement's activities primarily aim to **provide the parties with an output** (i.e. the parties have rights to substantially all the economic benefits of the assets held in the separate vehicle); and

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- The parties are substantially the **only source of cash flows** contributing to the continuity of the operations of the arrangement. Hence, the arrangement depends on the parties on a continuous basis for settling the liabilities relating to the activity conducted through the arrangement.

Illustration 19: Assessing other facts and circumstances

Two parties structure a joint arrangement in an incorporated entity i.e. Entity A in which each party has a 50% ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties. The legal form of Entity A (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in Entity A are the assets and liabilities of Entity A. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of Entity A. There are following other relevant facts and circumstances applicable in this case:

- *The parties agreed to purchase all the output produced by Entity A in a ratio of 50:50. Entity A cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.*
- *The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by Entity A. On the basis of this operating model, the arrangement is intended to operate at a break-even level.*

Based on the above fact pattern, determine whether the arrangement is a joint operation or a joint venture?

Solution:

The legal form of Entity A and the terms of the contractual arrangement indicate that the arrangement is a joint venture. However, the other relevant facts and circumstances mentioned above indicates that:

- the obligation of the parties to purchase all the output produced by Entity A reflects the exclusive dependence of Entity A upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of Entity A.
- the fact that the parties have rights to all the output produced by Entity A means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of Entity A.

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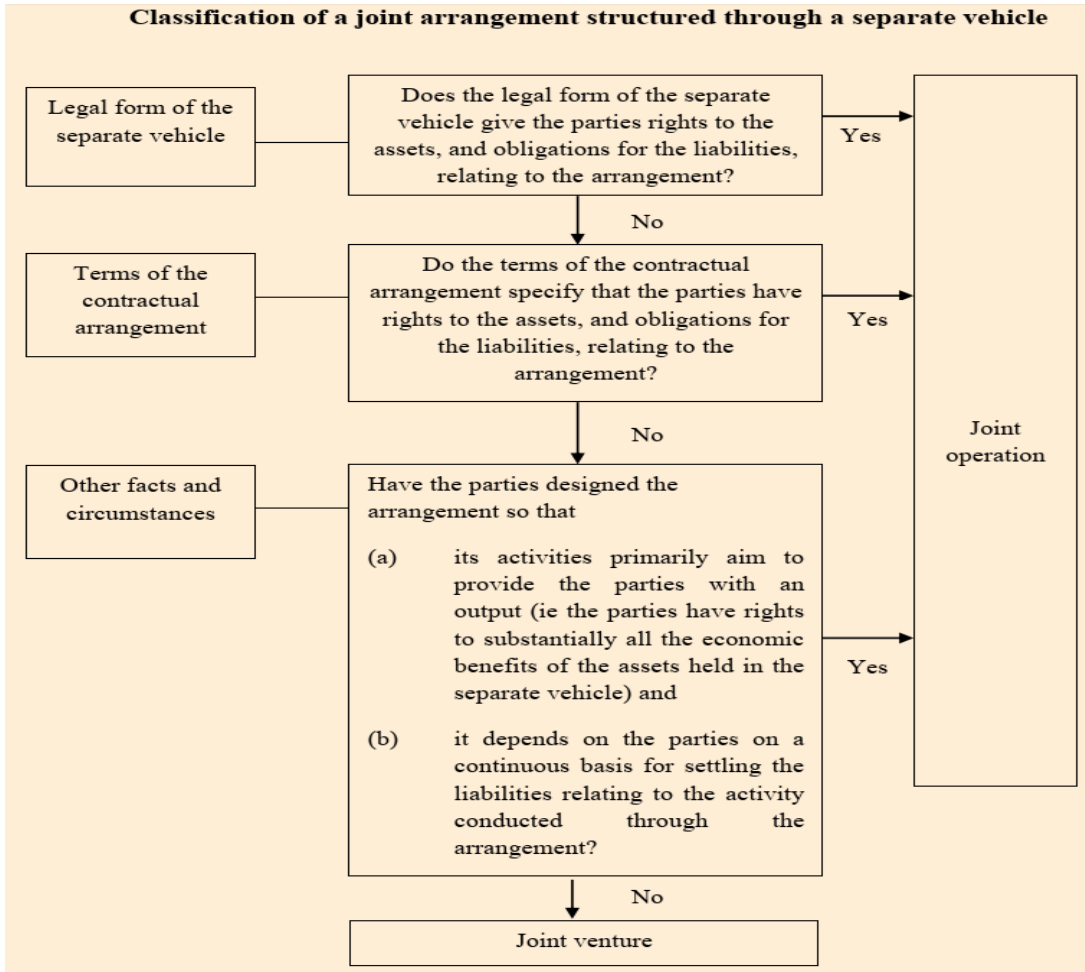
These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in Entity A assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

*****

The following flow chart summarises the above principles an entity should follow to classify an arrangement when the joint arrangement is **structured through a separate vehicle**:



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5.4.2 Multiple joint arrangements under single framework agreement

Sometimes the parties may be bound by a framework agreement that sets up the general contractual terms for undertaking one or more activities. Under a single framework agreement, the parties might establish different joint arrangements for different activities to be performed under the framework agreement. Even though all such joint arrangements are related to the same framework agreement, their type might be different i.e. one joint arrangement can be a joint operation and another joint arrangement can be a joint venture. This is explained in below illustration:

Illustration 20: Multiple joint arrangements under single framework agreement

AB Ltd. and CD Ltd. have entered into a framework agreement to manufacture and distribute a new product i.e. Product X. The two activities to be performed as per the framework agreement are i) Manufacture of Product X and ii) Distribution of Product X. The manufacturing of the product will not be done through a separate vehicle. The parties will purchase the necessary machinery in their joint name. For the distribution of the product, the parties have established a new entity ABCD Ltd. All the goods manufactured will be sold to ABCD Ltd. as per price mutually agreed by the parties. Then ABCD Ltd. will do the marketing and distribution of the product. Both the parties will have joint control over ABCD Ltd.

The legal form of ABCD Ltd. causes it to be considered in its own right (ie the assets and liabilities held in ACD Ltd. are the assets and liabilities of ABC Ltd. and not the assets and liabilities of the parties). Further, the contractual arrangement and other relevant facts and circumstances also do not indicate otherwise.

Determine whether various arrangements under the framework agreement are joint operation or joint venture?

Solution:

The manufacturing of Product X is not done through a separate vehicle and the assets used to manufacture the product are jointly owned by both the parties. Hence, the manufacturing activity is a joint operation.

The distribution of Product X is done through a separate vehicle i.e. ABCD Ltd. Further, AB Ltd. and CD Ltd. do not have rights to the assets, and obligations for the liabilities, relating to ABCD Ltd. Hence ABCD Ltd. is a joint venture.

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5.5 ACCOUNTING OF JOINT OPERATIONS

In this section, we will discuss following concepts related to accounting of joint operations:

- Accounting of interest in joint operations in separate and consolidated financial statement of joint operator
- Accounting for sales or contributions of assets to a joint operation in separate and consolidated financial statement of joint operator
- Accounting for purchases of assets from a joint operation in separate and consolidated financial statement of joint operator
- Accounting by an entity that is a party to the joint operation but does not have joint control

5.5.1 Accounting of interest in joint operations in separate and consolidated financial statement of joint operator

A joint operator shall recognise in its **separate and consolidated financial statements** in relation to its interest in a joint operation:

a) its assets, including its share of any assets held jointly;

b) its liabilities, including its share of any liabilities incurred jointly;

c) its revenue from the sale of its share of the output arising from the joint operation;

d) its share of the revenue from the sale of the output by the joint operation; and

e) its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind ASs applicable to the particular assets, liabilities, revenues and expenses.

Illustration 21: Accounting of interest in joint operation

P and Q form a joint arrangement PQ using a separate vehicle. P and Q each own 50% of the capital of PQ. However, the contractual terms of the joint arrangement states that P has the rights to all of Machinery and the obligation to pay Bank Loan in PQ. P and Q have rights to all other assets in PQ and obligations for all other liabilities in PQ in proportion to their share of capital (i.e. 50% each).

PQ's balance sheet is as follows:

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Balance Sheet

Liabilities	₹	Assets	₹
Capital	1,50,000	Machinery	2,50,000
Bank Loan	75,000	Cash/Bank	50,000
Other Loan	75,000		
	3,00,000		3,00,000

How should P record in its financial statements its rights and obligations in PQ?

Solution:

Under Ind AS 111, P should record the following in its financial statements, to account for its rights in the assets of PQ and its obligations for the liabilities of PQ.

Machinery	2,50,000
Cash/Bank	25,000
Capital	75,000
Bank Loan	75,000
Other Loan	37,500

*****

Illustration 22: Accounting of interest in joint operation

AB Ltd. and BC Ltd. have established a joint arrangement through a separate vehicle PQR. The legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Ltd. has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owned by PQR to a lender XYZ. AB Ltd. and BC Ltd. have rights to all other assets of PQR and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each)

PQR's balance sheet is as follows:

Balance Sheet

Liabilities	₹	Assets	₹
Debt owed to XYZ	240	Cash/Bank	40
Employee benefit plan obligation	100	Building 1	240

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Equity	140	Building 2	200
	480		480

How should AB Ltd. record in its financial statements its rights and obligations in PQR?

Solution:

Under Ind AS 111, AB Ltd. should record the following in its financial statements, to account for its rights in the assets of PQR and its obligations for the liabilities of PQR.

	₹
Assets	
Cash/Bank	20
Building 1 *	240
Building 2	100
Liabilities	
Debt (third party) ^	240
Employee benefit plan obligation	50
Equity	70

* Since AB Ltd. has the rights to all of Building No. 1, it records the amount in its entirety.

^ AB Ltd. has obligation for the debt owed by PQR to XYZ in its entirety

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5.5.2 Accounting for sales or contributions of assets to a joint operation in separate and consolidated financial statement of joint operator

When a joint operator sells or contributes any asset to the joint operation, it is in effect transacting with the other parties to the joint operation and hence the joint operator shall **recognise gains and losses** resulting from such transactions **only to the extent of the other parties' interest** in the joint operation.

Illustration 23: Accounting for sales or contributions of assets to a joint operation

A Ltd. is one of the parties to a joint operation holding 60% interest in a joint operation and the balance 40% interest is held by another joint operator. A Ltd. has contributed an asset held by it to the joint operation for the activities to be conducted in joint operation. The carrying value of the asset sold was ₹ 100 and the asset was actually sold for ₹ 80 i.e. at a loss of ₹ 20.

How should A Ltd. account for the sale of asset to joint operation in its books?

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Solution:

A Ltd. should record the loss on the transaction only to the extent of other party's interest in the joint operation.

The total loss on the transaction is ₹ 20. Hence, A Ltd. shall record loss on sale of asset to the extent of ₹ 8 (₹ 20 x 40%) which is the loss pertaining to the interest of other party to the joint operation. The loss of ₹ 12 (₹ 20 - ₹ 8) shall not be recognised as that is unrealised loss.

Further, while accounting its interest in the joint operation, A Ltd. shall record its share in that asset at value of ₹ 60 [A Ltd. share of asset ₹ 48 (₹ 80 x 60%) plus unrealised loss of ₹ 12].

The journal entry for the transaction would be as follows:

Bank	Dr.	₹ 32	
Loss on sale	Dr.	₹ 8	
To Asset			₹ 40

*****

When above transactions provide evidence of a **reduction in the net realisable value** of the assets to be sold or contributed to the joint operation, or of an **impairment loss** of those assets, those losses shall be **recognised fully** by the joint operator.

5.5.3 Accounting for purchases of assets from a joint operation in separate and consolidated financial statement of joint operator

When a joint operator purchases any asset from the joint operation, it **shall not recognise its share** of the gains and losses until it resells those assets to a third party.

Illustration 24: Accounting for purchases of assets from a joint operation

A Ltd. is one of the parties to a joint operation holding 60% interest in the joint operation and the balance 40% interest is held by another joint operator. A Ltd. has purchased an asset from the joint operation. The carrying value of the asset in the books of joint operation was ₹ 100 and the asset was actually purchased for ₹ 80 i.e. at a loss of ₹ 20. How should A Ltd. account for the purchase of asset from joint operation in its books?

Solution:

A Ltd. should not record its share of the loss until the asset is resold to a third party.

The joint operation has sold the asset at ₹ 80 by incurring a loss of ₹ 20. Hence, A Ltd. shall record the asset at ₹ 92 [Purchase price ₹ 80 + A Ltd.'s share in loss ₹ 12 (₹ 20 x 60%)].

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Further, while accounting its interest in the joint operation, A Ltd. shall not record any share in the loss incurred in sale transaction by the joint operation.

The journal entry for the transaction would be as follows:

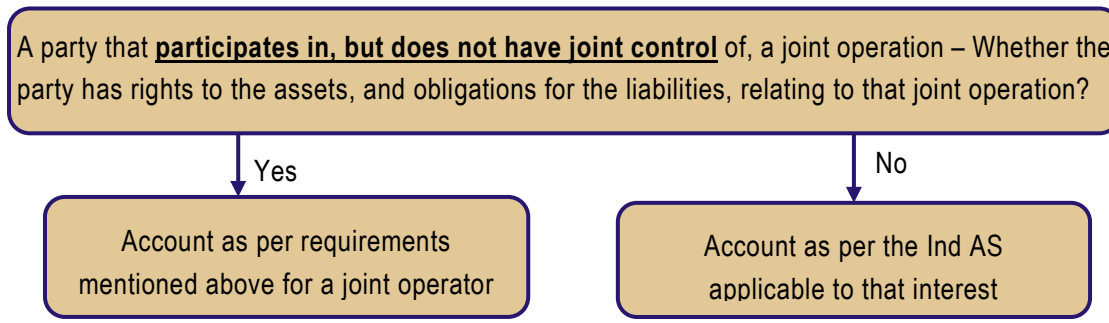
Asset	Dr.	₹ 32	
To Bank			₹ 32

*****

When above transactions provide evidence of a **reduction in the net realisable value** of the assets to be purchased or of an **impairment loss** of those assets, a joint operator shall **recognise its share of those losses**.

5.5.4 Accounting by an entity that is a party to the joint operation but does not have joint control

A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in its separate and consolidated financial statements as follows:



5.6 ACCOUNTING OF JOINT VENTURES

5.6.1 Accounting in the consolidated financial statements

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the **equity method** in accordance with **Ind AS 28**, unless the entity is exempted from applying the equity method as specified in that standard. These requirements are discussed in detail in unit 6.

5.6.2 Accounting in the separate financial statements

In its separate financial statements, a joint venturer shall account for its interest in a joint venture in accordance **Ind AS 27**. These requirements are discussed in detail in unit 7.

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5.6.3 Accounting by an entity that is a party to the joint venture but does not have joint control

A party that participates in, but does not have joint control of, a joint venture shall also account for its interest in the arrangement in its **separate and consolidated financial statements** as follows:

Whether the party has significant influence over the joint venture?

- No → Account as per requirements of **Ind AS 109**
- Yes → Account in separate and consolidated financial statements as per **Ind AS 27 and Ind AS 28** respectively

5.7 ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS IN SEPARATE AND CONSOLIDATED FINANCIAL STATEMENT OF JOINT OPERATOR

When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes **a business, as defined in Ind AS 103**, it shall apply, to the extent of its share in the joint operation, all the requirements of business combinations accounting as per Ind AS 103, and other Ind ASs, that do not conflict with the guidance in Ind AS 111. Necessary disclosure shall also be made as required by those Ind ASs in relation to business combinations.

The principles on business combinations accounting that do not conflict with the guidance in Ind AS 111 include but are not limited to following:

- Measuring identifiable assets and liabilities at fair value
- Recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received
- Recognising deferred tax that arise from initial recognition of assets or liabilities, except for deferred tax liabilities that arise from initial recognition of goodwill
- Recognising the excess of the consideration transferred over the net assets as goodwill
- Impairment testing of goodwill acquired in business combination

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The above requirements also apply to the **formation of a joint operation** if, and only **if, an existing business**, as defined in Ind AS 103, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, these requirements **do not apply** to the formation of a joint operation if all of the parties that participate in the joint operation **only contribute assets or groups of assets that do not constitute businesses** to the joint operation.

A joint operator might **increase its interest in a joint operation** in which the activity of the joint operation constitutes a business, as defined in Ind AS 103, by acquiring an additional interest in the joint operation. In such cases, **previously held interests in the joint operation are not remeasured** if the joint operator retains joint control.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in Ind AS 103. In such cases, previously held interests in the joint operation are not remeasured.

If the transaction of acquisition of interest in the joint operation is a **common control transaction** as defined in Ind AS 103 then an entity should not apply the requirements mentioned above. In such case, the entity shall apply the accounting specified in **Appendix C of Ind AS 103**.

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5.8 SIGNIFICANT DIFFERENCES BETWEEN IND AS 111 AND AS 27

S. No.	Topic	Ind AS 111	AS 27
1.	Joint arrangement	Ind AS 111 defines the term 'joint arrangement' as "an arrangement of which two or more parties have joint control." Essentially, Ind AS 111 substitutes the term 'joint arrangement' for the term 'joint venture' used in AS 27 without any substantive change in the underlying concept. Ind AS 111 uses the term 'joint venture' in a restrictive sense to refer to one type of joint arrangement (the other type being a joint operation).	AS 27 defines the term 'joint venture' as "a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control".

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2.	Classification	Under Ind AS 111, a joint arrangement is either a joint operation or a joint venture. Arrangements that are classified as jointly controlled operations or jointly controlled assets under AS 27 would be classified as 'joint operations' under Ind AS 111. An arrangement that is classified as a jointly controlled entity under AS 27 would be classified as either a joint operation or a joint venture under Ind AS 111. The classification of joint arrangement depends on whether the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (a joint operation) or whether those parties have rights to the net assets of the arrangement (a joint venture).	AS 27 classifies joint venture into three categories, namely, jointly controlled operations, jointly controlled assets and jointly controlled entities.
3.	Accounting for interest in a jointly controlled entity	Ind AS 111 requires interest in a jointly controlled entity to be accounted for in the venturer's consolidated financial statements in accordance with Ind AS 28, i.e., using equity method of accounting (which is also used to account for interests in associates under Ind AS 28).	AS 27 requires a venturer to account for its interest in a jointly controlled entity in its (i.e., venturer's) consolidated financial statements using proportionate consolidation method.
4.	Circumstances in which proportionate consolidation method or equity method is not, or may not be, applied	Ind AS 111 (or Ind AS 28) does not provide a similar exemption from application of equity method to an interest in a joint venture, unless such an interest meets the criteria laid down in Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations to be classified as held for sale (in which case Ind AS 105 rather than equity method is applied to the interest).	Under AS 27 a venturer does not apply proportionate consolidation method to an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future.

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