Educational Material on Indian Accounting Standard (Ind AS) 111, Joint Arrangements

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised.

Edition	:	February 2019
Committee/Department	:	Ind AS Implementation Group
E-mail	:	indas@icai.in
Website	:	www.icai.org
Price	:	INR 60/-
ISBN	:	
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Printed by	:	Sahitya Bhawan Publications, Hospital Road, Agra - 282 003.
		February /2019/1000 copies

Foreword

The financial reporting in India got new dimensions after the implementation of Indian Accounting Standards (Ind AS) converged with IFRS Ind ASs become applicable on a larger sector including on Non- Banking Financial Companies. Apart from providing more transparent information, the Ind AS implementation has facilitated in understanding the financial affairs of the companies in a better manner.

The Ind AS Implementation Group of ICAI is playing a dynamic role in providing guidance to the members and other stakeholders so as to enable them to implement these Standards in the same spirit in which these have been formulated. As a step in this direction, the Ind AS Implementation Group has brought out this Educational Material covering Ind AS 111, *Joint Arrangements*. The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) and illustrations explaining the principles enunciated in the Standards. This publication will provide guidance to the stakeholders about the reporting by entities that have an interest in arrangements that are controlled jointly. The standard is to be applied by all entities that are a party to a joint arrangement.

I sincerely acknowledge the untiring efforts put in by CA. Nihar Niranjan Jambusaria, Convenor, CA. Dhinal Ashvinbhai Shah, Deputy Convenor as well as convenor of the Study Group and other members of the Ind AS Implementation Group for their valuable technical contribution and cooperation. I also congratulate CA. S. B. Zaware, Chairman and CA. M P Vijay Kumar, Vice-chairman, Accounting Standards Board for their support.

I am assertive that these relentless efforts of Ind AS Implementation Group will help the various users to provide sufficient guidance in understanding the principles of the Standards.

New Delhi | **CA. Naveen N.D. Gupta**

January 25, 2019 | ***President, ICAI***

Preface

ICAI is playing a pivotal role in formulating and implementing Indian Accounting Standards (Ind AS). For effective and smooth implementation of IFRS converged Ind AS, the Ind AS Implementation Group of ICAI is playing an active role in educating the members and providing the guidance on practical issues that are being faced by the members and other stakeholders. For this purpose, the Ind AS Implementation Group is issuing Educational Materials on Ind AS, issuing timely clarifications on issues being faced by the members through Ind AS Technical Facilitation Group (ITFG) Clarification Bulletins, addressing queries through Support-desk for implementation of Ind AS, conducting Certificate Course on Ind AS, developing e-learning modules on Ind AS, organising workshops, seminars, awareness programmes on Ind AS etc.

We are pleased that the Group has brought out this Educational Material covering Indian Accounting Standard (Ind AS) 111, *Joint Arrangements*. Ind AS 111 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. The standard defines the joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

This Educational Material contains summary of Ind AS 111 discussing the key requirements of the Standards and the Frequently Asked Questions (FAQs) and illustrations covering the issues, which are expected to be encountered frequently while implementing these Standards. We may mention that the views expressed in this publication are the views of the Ind AS Implementation Group and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind AS in a practical situation, reference should be made to the full text of the Standards.

We express heartfelt gratitude to our Hon'ble President, CA. Naveen N D Gupta and Vice-President, CA. Prafulla Premsukh Chhajed for providing us this opportunity of bringing out implementation guidance on Ind AS in the form of Educational Materials. We deeply appreciate the efforts put in by CA. Sandip Khetan, Co-convenor and members of the Group CA. Archana Bhutani, CA. Deepa Dev, CA. Rohit Kumar, CA. Sanjeev Kumar and CA. Amit Jain for preparing the draft of this Educational Material. We would also like to thank all the members of the Ind AS Implementation Group for their valuable & technical contributions in finalising this publication.

We also acknowledge the technical and administrative support provided by CA. Geetanshu Bansal, Secretary, Ind AS Implementation Group and CA. Prachi Jain, Executive Officer in bringing out this publication. We would also like to extend special thanks to CA. Vidhyadhar Kulkarni, Head, Technical Directorate, for his guidance.

We hope that this Educational Material will be of great help in understanding the principles of Ind AS 111 with better clarity.

CA. Nihar Niranjan Jambusaria	**CA. Dhinal Ashvinbhai Shah**
Convenor	***Deputy convenor***
Ind AS Implementation Group	***Ind AS Implementation Group***

Contents

Educational Material on Indian Accounting Standard (Ind AS) 111 *Joint Arrangements*

Indian Accounting Standard (Ind AS) 111, Joint Arrangements, was notified as part of the Companies (Indian Accounting Standards) Rules, 2015 issued by the Ministry of Corporate Affairs, Government of India, vide notification no. G.S.R. 111(E) dated February 16, 2015. These Rules came into force w.e.f. 1st April, 2015.

I Ind AS 111 – Summary

[*The purpose of this summary is to help the reader gain a broad understanding of the principal requirements of Ind AS 111 (or 'the Standard'). Reference should be made to the complete text of the Standard for a fuller understanding of these requirements or in dealing with a practical situation.*]

Objective

The objective of Ind AS 111 is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

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

Scope

Ind AS 111 applies to all entities that are a party to a joint arrangement.

Joint arrangements

Joint arrangement is an arrangement of which two or more parties have **joint control.** A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement.

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

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.

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. The Standard distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

All the parties, or a group of the parties, to an arrangement control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e., the relevant activities).

Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the **unanimous consent** of the parties that control the arrangement collectively.

The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent.

Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. In other circumstances, 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.

Judgement needs to be applied when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances.

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

Types of joint arrangement

A joint arrangement is either a **joint operation** or a **joint venture**.

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.

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.

An entity determines the type of joint arrangement in which it is involved by considering its **rights and obligations** arising from the arrangement.

Judgement is required when assessing whether a joint arrangement is a joint operation or a joint venture. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

While making the assessment of rights and obligations arising from the arrangement, an entity shall consider the following:

(a) the structure of the joint arrangement.

(b) when the joint arrangement is structured through a separate vehicle:

   (i) the legal form of the separate vehicle;

   (ii) the terms of the contractual arrangement; and

   (iii) when relevant, other facts and circumstances.

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 cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

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 operation or a joint venture.

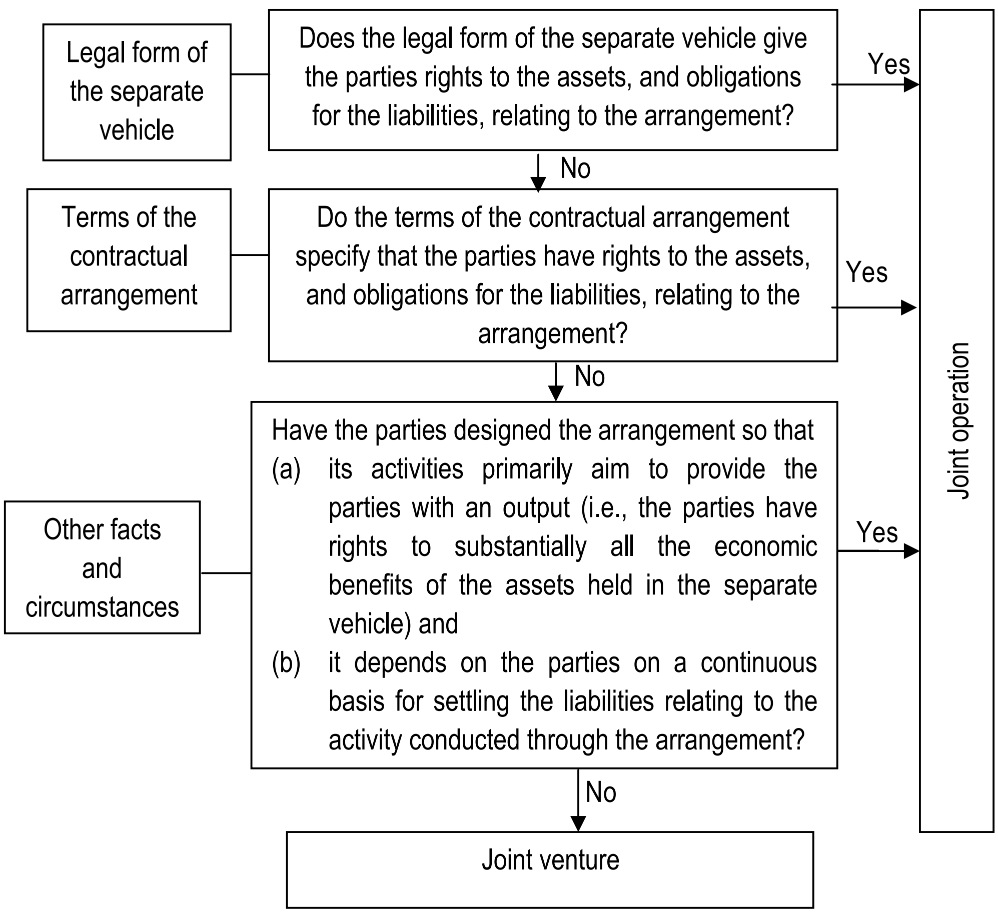
Separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

When the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:

(a) rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or

(b) rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a joint arrangement structured through a separate vehicle



Financial statements of a party to a joint operation

In its separate financial statements as well as consolidated financial statements, a joint operator shall recognise 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.

Where an entity has acquired an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in Ind AS 103, *Business Combinations* it shall apply, to the extent of its share, all of the principles on business combinations accounting in Ind AS 103, and other Ind ASs, that do not conflict with Ind AS 111 and disclose the information that is required in those Ind ASs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business.

Accounting for sales or contributions of assets to a joint operation

When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When such 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.

Accounting for purchases of assets from a joint operation

When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party.

When such 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.

Parties not having joint control

In its separate financial statements as well as consolidated financial statements, a party that participates in, but does not have joint control of, a joint operation shall account for its interest in the arrangement in the same way as a joint operator if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation.

In its separate financial statements as well as consolidated financial statements, if a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the Ind ASs applicable to that interest.

Financial statements of a party to a joint venture

In its separate financial statements, a joint venturer shall account for its interest in a joint venture in accordance with paragraph 10 of Ind AS 27, *Separate Financial Statements*.

In its consolidated financial statements, a joint venturer shall recognise its interest in a joint venture as an investment and account for that investment using the equity method in accordance with Ind AS 28, *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in Ind AS 28.

In its separate financial statements, a party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, *Financial Instruments*, unless it has significant influence over the joint venture (in which case it shall account for its interest in accordance with paragraph 10 of Ind AS 27.

In its consolidated financial statements, a party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, *Financial Instruments*, unless it has significant influence over the joint venture in which case it shall account for its interest in accordance with Ind AS 28.

II. Frequently Asked Questions

Joint Arrangements

Question 1

Four parties jointly buy an aircraft as part of a contractual arrangement. Each party has right to use the aircraft for a certain number of days each year. The parties are required to share the maintenance costs in proportions specified in the contractual arrangement. Unanimous consent of all the parties is required to take decisions that are considered as the relevant activities of the arrangement. The contractual arrangement spans over the entire expected life of the aircraft and cannot be terminated or modified without the unanimous consent of all the parties.

Whether the arrangement is a joint arrangement as per Ind AS 111?

Response

Paragraphs 4 and 5 of Ind AS 111 state as follows:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states that "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."

Paragraph 9 of Ind AS 111 states that "once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively."

In the given case, as per the contractual arrangement, decisions concerning the relevant activities require unanimous consent of all the four parties. Thus, all the four parties have joint control over the aircraft and the arrangement among the parties is a joint arrangement. (In the given case, the contractual arrangement spans over the entire expected life of the aircraft. However, the duration of a joint arrangement can also be for less than the expected useful life of the asset, i.e., the subject matter of the joint arrangement.)

Joint arrangement established through articles of association

Question 2

Entity J has two shareholders, P and Q. Entity J's articles of association include a clause requiring unanimous consent of the shareholders for all decisions relating to the entity's relevant activities. The shareholders have not entered into any other agreements to manage the activities of Entity J.

Whether Entity J is a joint arrangement?

Response

Paragraphs 4 and 5 of Ind AS 111 state as follows:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states that "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."

Further, paragraph B3 of Ind AS 111 states that when joint arrangements are structured through a separate vehicle, the contractual arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

In the given case, Entity J meets the definition of a joint arrangement as its articles of association require unanimous consent of all shareholders for decisions about its relevant activities.

Joint Control

Question 3

XYZ Company has a wholly-- owned subsidiary (Entity A) which principally owns a portfolio of buildings. XYZ Company wishes to reduce its exposure to this market. It sells 50% of its investment in Entity A to an Investment Bank. XYZ Company and Investment Bank enter into a contract whereby decisions regarding Entity A's relevant activities require unanimous consent of the two parties. XYZ Company continues to manage the portfolio of buildings in accordance with approved budgets and business plan and is paid a specified fee for the asset management services.

Whether the contract entered into between XYZ Company and Investment Bank establishes their joint control over Entity A?

Response:

Paragraphs 4 and 5 of Ind AS 111 state as follows:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states that "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."

In the give case, Entity A is jointly controlled by XYZ Company and Investment Bank since a contractual arrangement between the two requires their unanimous consent for decisions about the relevant activities of Entity A. In acting as asset manager for the portfolio of buildings, XYZ Company is required to follow the budgets and business plan approved unanimously by the two parties.

Joint Control: Sequential activities

Question 4

AB Limited and BC Limited form PQR Limited to develop and market a specialised medicinal product. AB Limited is responsible for and has the unilateral ability to make all decisions relating to developing the medicinal product and obtaining regulatory approvals. Once the approvals are in place, BC Limited will manufacture and market the medicinal product and will have the unilateral ability to make all decisions about the manufacturing and marketing.

It is determined that all the activities — developing the medicine and obtaining regulatory approval as well as manufacturing and marketing the medicinal product — are relevant activities.

Whether AB Limited and BC Limited have joint control over PQR Limited?

Response

Paragraphs 7 -9 of Ind AS 111 state as follows:

"7. 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.

8. An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

9. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively."

In the given case, it has been determined that all the activities — developing the medicinal product and obtaining regulatory approvals as well as manufacturing and marketing the medicinal product are relevant activities and each party can unilaterally take decisions concerning some of the relevant activities. Thus, there is no joint control because AB Limited and BC Limited do not collectively direct the relevant activities of the arrangement.

Further assessment is required to determine whether either party has 'control' of PQR Limited within the meaning of this term under Ind AS 110, *Consolidated Financial Statements*.

Question 5

AB Limited and BC Limited form PQR Limited to develop and market a medicinal product which will be developed, manufactured and marketed in two phases. The first phase is developing the medicinal product and obtaining regulatory approvals. The second phase is the manufacturing and marketing of the medicinal product. All of these activities are considered to be the relevant activities.

The decisions concerning the relevant activities require unanimous consent of the two parties in both the phases.

Whether there is joint control?

Response

Paragraphs 7-9 of Ind AS 111 state as follows:

"7. 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.

8. An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

9. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively."

In the present case, unanimous consent of AB Limited and BC Limited is required for all decisions about the relevant activities throughout the term of the arrangement. Thus, the two parties have joint control over PQR Limited.

Question 6

AB Limited, BC Limited and AC Limited establish PQR Limited to carry out manufacturing activities. A contractual arrangement between AB Limited and

BC Limited provides that both would vote in tandem on all decisions concerning the relevant activities of PQR Limited. The consent of AC Limited is not required for the above decisions except that AC Limited has a right to veto any decision relating to the issuance of debt or equity instruments by PQR Limited. Manufacturing activities are determined to be the relevant activities of PQR Limited.

Whether AB Limited and BC Limited have joint control over PQR Limited?

Response

Paragraphs 4 and 5 of Ind AS 111 state the following:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states as follows:

"7. 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."

Paragraph B9 of Ind AS 111 provides 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.

In the present case, AB Limited and BC Limited collectively have the ability to direct the activities of PQR Limited and a contractual arrangement requires them to mutually agree on all decisions in respect of these activities. Thus, AB Limited and BC Limited have joint control over PQR Limited.

The consent of AC Limited is not needed for decisions concerning the relevant activities of PQR Limited. The ability of AC Limited to veto the issuance of equity and debt instruments is in the nature of a protective right only because it is designed to protect its interests and does not give it the ability to direct the activities that significantly affect PQR Limited's returns.

Thus, although AC Limited is a party to the joint arrangement, AC Limited does not have joint control over PQR Limited.

Joint Control: Casting vote

Question 7

Entities P and Q set up a separate entity under the name of 'PQ Joint Venture Limited' pursuant to a joint operating agreement between them. Both investors nominate three directors each to PQ's board of directors. All decisions concerning relevant activities are made at meetings of board of directors by simple majority. In the event of a deadlock, the chairman (a director nominated by Entity Q) has the casting vote.

Whether there is joint control?

Response

Paragraphs 7– 9 of Ind AS 111 state as follows:

"7 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.

8 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

9 Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively."

In the given case, Entity Q has the ability to take all decisions about relevant activities of PQ unilaterally due to the casting vote of its nominee. Consequently, Entity Q controls PQ. This means, *inter alia*, that Entity P does not have joint control over PQ.

Entity P needs to evaluate whether it has 'significant influence' over PQ within the meaning of Ind AS 28.

Question 8

AB Limited and BC Limited together establish PQR Limited to carry out manufacturing activities using materials and technical know-how supplied by AB Limited and BC Limited. Both the parties own 50% each of the voting rights in PQR Limited. Consequently, each party is entitled to 50% of any dividends and 50% of the net assets upon liquidation. The annual business plan of PQR Limited requires the unanimous approval of the shareholders as per its articles of association. AB Limited and BC Limited have three directors each on the board of PQR Limited. The chairman of the board rotates between AB Limited and BC Limited and does not have any casting vote.

AB Limited has an option to buy BC Limited's shareholding in PQR Limited. Such option may be exercised by AB Limited at any time in the event that both the parties do not agree on any decision relating to relevant activities of PQR Limited. The option is evaluated to be substantive.

Whether there is joint control?

Response

Paragraphs 4 and 5 of Ind AS 111 state as follows:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states that "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."

As per Ind AS 110, in assessing control, an investor considers voting or other decision-making rights as well any potential voting rights held by it (or held by others) in the investee. Potential voting rights are considered only if the rights are substantive. Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities.

In the present case, AB Limited already holds 50% shares in PQR Limited. Besides, it has the right to purchase the remaining 50% shares held by BC Limited and this right has been evaluated to be substantive. Considering its existing shareholding in PQR Limited and its right to acquire the remaining shares in PQR Limited from BC Limited, AB Limited controls PQR Limited. Consequently, BC Limited does not have joint control of PQR Limited.

Entity BC Limited needs to evaluate whether it has 'significant influence' over PQR Limited within the meaning of Ind AS 28.

Joint Control: Implicit joint control

Question 9

Entity X and Entity Y operate in the telecommunications industry and enter into a contractual arrangement in order to combine their 4G access networks. The purpose of the arrangement is to reduce operating costs for both parties, make capital infrastructure savings and obtain economies of scale from jointly managing and maintaining a consolidated network. All decisions about relevant activities, including strategic investing and financing decisions are taken by a simple majority of voting rights. Entity X and Entity Y have one vote each in the decision-making process.

Whether there is joint control?

Response

Paragraphs 4 and 5 of Ind AS 111 state that the following:

"4 A joint arrangement is an arrangement of which two or more parties have joint control.

5 A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13)."

Paragraph 7 of Ind AS 111 states that "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."

In the given case, all decisions about the relevant activities require consent of both parties – each party is entitled to one vote and even a simple majority requires both the parties to vote the same way. Thus, while the contractual arrangement does not explicitly require unanimous consent of the two parties, the need for their unanimous consent is implicit in the terms of the contractual arrangement. The arrangement is therefore a joint arrangement.

Joint Control: Board of directors and operating committee

Question 10

Entities A and B jointly set up a company, (J Limited) pursuant to a joint operating agreement. Both investors nominate one director each to J's board of directors. Both directors have to agree unanimously for the approval of the annual budget. The joint operating agreement also sets up an operating committee and specifies irrevocable powers of the committee.

On an evaluation of the respective powers of the board of directors and the operating committee, it is determined that it is the operating committee that has the authority to take decisions concerning the relevant activities of J Limited.

Only Entity A can appoint members to the operating committee.

Whether there is joint control?

Response

Paragraphs 7 and 8 of Ind AS 111 state as follows:

"7 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.

8 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities)."

In the given case, decisions about relevant activities are made not by the board of directors but by the operating committee.

Entity A alone can appoint members to the operating committee. Thus, J Limited is controlled by Entity A (and not jointly controlled by Entities A and B).

Joint operation v/s Joint venture

Question 11

AB Limited and BC Limited jointly form an entity PQR over which they have joint control. The contractual arrangement between the parties provides that AB Limited and BC Limited have equal rights to the assets of PQR and are obligated for the liabilities of PQR in the ratio of 70:30.

Whether this arrangement is a joint operation or a joint venture?

Response

Paragraph 15 of Ind AS 111 states that "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."

Paragraph 16 of Ind AS 111 states that "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."

Paragraph 17 of Ind AS 111 states that "an entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances."

In the present case, AB Limited and BC Limited have rights to the assets of PQR (in ratio of 50:50) and obligations for its liabilities (in ratio of 70:30) rather than having rights to the net assets of PQR. Accordingly, the arrangement (i.e. PQR) is a joint operation.

Question 12

AB Limited, BC Limited and AC Limited join hands to manufacture, market and distribute a product. While the decisions concerning manufacturing, marketing and distribution activities are required to be taken unanimously, each entity is responsible for actually carrying out specified activities as per the arrangement. Some specified costs are shared among the parties in pre-defined proportions. Besides, parties also incur their own separate costs such as labour costs and manufacturing costs. Each party is entitled to the assets, and is liable for the obligations, relating to the activities carried out by it. The revenue arising from the sale of the product is shared among the parties in a pre-defined proportion.

Whether this arrangement is a joint operation or a joint venture?

Response

Paragraphs 15-17 of Ind AS 111 state as follows:

"15 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.

16 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.

17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances."

In the present case, as per the arrangement among AB limited, BC Limited and AC Limited, all the three entities have joint control over the manufacturing, marketing and distribution activities. They share revenue and common costs and also incur their own separate costs. Each party is entitled to the assets, and is liable for the obligations, relating to its respective area of activities carried out by it. Accordingly, the arrangement is a joint operation.

Question 13

P Limited and Q Limited enter into a contractual arrangement to buy a building that has 12 floors, which they will lease to other parties. P Limited and Q Limited are authorised to lease five floors each. P Limited and Q Limited can unilaterally make all decisions related to their respective floors and are entitled to all of the income from those floors. The remaining two floors will be jointly managed – all decisions concerning these two floors must be unanimously agreed to between P Limited and Q Limited who will share net profits or net losses in respect of these two floors equally, i.e. they both have the rights to the net assets of the arrangement. The leasing of property is determined to be the relevant activity.

Whether this arrangement is a joint operation or a joint venture?

Response

Paragraphs 15-17 of Ind AS 111 state as follows:

"15 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.

16 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.

17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances."

In the given case, accounting by P and Q would be as follows:

(i) Five floors that P Limited controls

Five floors that are controlled by P shall be accounted for by P as investment property under Ind AS 40, *Investment Property*, which defines the term 'investment property' as follows:

> "Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
>
> (a) use in the production or supply of goods or services or for administrative purposes; or
>
> (b) sale in the ordinary course of business."

(ii) Five floors that Q Limited controls

Five floors that are controlled by Q Limited shall be accounted for by Q Limited as investment property under Ind AS 40.

(iii) Two floors that P Limited and Q Limited jointly control

For the two floors that are jointly controlled by P Limited and Q Limited, as per the contractual arrangement, both P Limited and Q Limited will share net profits or net losses equally i.e. they both have the rights to the net assets of the arrangement. Thus, the arrangement in respect of these two floors is a joint venture and shall be accounted for accordingly by P Limited and Q Limited.

Question 14

A large telecommunications company (TelCo) is seeking to establish operations in Country X which has a relatively undeveloped telecommunications infrastructure. The laws of country X do not allow a local entity with a telecom licence to be controlled by a foreign entity, though joint control alongwith a foreign entity is permitted. TelCo establishes a separate company with a local investor to allow TelCo to enter this market. The company's legal form confers the rights to the assets and obligations for liabilities to the company itself. TelCo and the local investor enter into a shareholders' agreement which requires all decisions to be made jointly.

The agreement also confirms the following:

(a) The arrangement's assets are owned by the company. Neither party will be able to sell, pledge, transfer or mortgage the assets.

(b) The parties' liability is limited to any unpaid capital.

(c) The company's profits will be shared between TelCo and the investor in ratio of 60:40, i.e. the parties have the rights only to the net assets of the arrangement.

Whether the arrangement is a joint operation or a joint venture?

Response

Paragraphs 15-17 of Ind AS 111 state as follows:

"15 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.

16 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.

17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances."

In the given case, the arrangement is structured through a separate legal entity. The arrangement's legal form provides a separation between the owners (the parties to the arrangement) and the entity itself under the country's local law. The parties are liable for obligations or claims against the company only to the extent of any unpaid capital. Further, the right of TelCo and the investor is to share the profits (in ratio of 60:40), i.e. the parties have the rights only to the net assets of the arrangement.

In view of the above, the arrangement is a joint venture and not a joint operation.

Question 15

Entity A, an Indian company, and Entity B, an overseas entity, are partners in AB Partnership Firm. The firm is domiciled in a foreign country. Each entity has a 50% share in the firm.

(i) Whether AB Partnership Firm is a joint operation or a joint venture?

(ii) Whether the response will change if AB is a Limited Liability Partnership (LLP) instead of a partnership firm?

Response

(i) Paragraph B15 of Ind AS 111 states that "the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

(a) the structure of the joint arrangement.

(b) when the joint arrangement is structured through a separate vehicle:

(i) the legal form of the separate vehicle;

(ii) the terms of the contractual arrangement; and

(iii) when relevant, other facts and circumstances."

Joint arrangements are established through many different legal structures, such as limited liability companies, limited liability partnerships or general partnerships. Each of these legal structures may expose the parties to a different set of rights and obligations.

While in some jurisdictions, a partnership confers legal separation between the partners and the partnership, in other jurisdictions, a partnership confers no such separation i.e. the assets and liabilities placed in the partnership are those of the partners. The latter partnerships are classified as joint operations.

Whether or not the partners have rights to the assets and obligations for the liabilities requires consideration of relevant provisions of the partnership law and the partnership deed.

(ii) Existence of a separate vehicle whose legal form does not provide the parties rights to assets and does not obligate them for liabilities relating to the arrangement indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their contractual arrangement and other facts and circumstances can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle. Generally, a limited liability partnership (LLP) is an incorporated entity that creates separation whereby the partners are not obligated for the liabilities of the LLP and the assets of the LLP are its own assets.

However, whether or not this is actually so requires consideration of the relevant law in the country where the LLP is domiciled (since the rights and obligations of partners of an LLP might vary across different jurisdictions) as well as of the terms agreed by the parties in their contractual arrangement and other facts and circumstances.

Financial statements of parties to a joint arrangement

Question 16

AB Limited and BC Limited establish a joint arrangement through a separate vehicle PQR, but 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 Limited has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Limited and BC Limited have rights to all other assets in 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 (all amounts in INR):

Liabilities and equity	*Amount*	*Assets*	*Amount*
Debt owed to XYZ	240	Cash	40
Employee benefit plan obligation	100	Building 1	240
Equity	140	Building 2	200
Total	*480*	*Total*	*480*

How would AB Limited present its interest in PQR in its financial statements?

Response

Paragraph 20 of Ind AS 111 states that "a joint operator shall recognise 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."

The rights and obligations, as specified in the contractual arrangement, that an entity has with respect to the assets, liabilities, revenue and expenses relating to a joint operation might differ from its ownership interest in the joint operation. Thus a joint operator needs to recognise its interest in the assets, liabilities, revenue and expenses of the joint operation on the basis (bases) specified in the contractual arrangement, rather than in proportion of its ownership interest in the joint operation.

Thus, AB Limited would record the following in its financial statements, to account for its rights to the assets of PQR and its obligations for the liabilities of PQR.

Assets	*Amount*
Cash	20
Building 1*	240
Building 2	100
Liabilities	
Debt (third party)^	240
Employees benefit plan obligation	50

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

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

Question 17

Entity X is owned by three institutional investors – A Limited, B Limited and C Limited – holding 40%, 40% and 20% equity interest respectively. A contractual arrangement between A Limited and B Limited gives them joint control over the relevant activities of Entity X. It is determined that Entity X is a joint operation (and not a joint venture). C Limited is not a party to the arrangement between A Limited and B Limited. However, like A Limited and B Limited, C Limited also has rights to the assets, and obligations for the liabilities, relating to the joint operation in proportion of its equity interest in Entity X.

Would the manner of accounting to be followed by A Limited and B Limited on the one hand and C Limited on the other in respect of their respective interests in Entity X be the same or different?

Response

Paragraphs 26 and 27 of Ind AS 111 state as follows:

"26 In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

(a) a joint operation in accordance with paragraphs 20–22;

(b) a joint venture in accordance with paragraph 10 of Ind AS 27, *Separate Financial Statements*."

27 In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

(a) a joint operation in accordance with paragraph 23;

(b) a joint venture in accordance with Ind AS 109, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of Ind AS 27."

Paragraphs 20 and 21 of Ind AS 111 state as follows:

"20 A joint operator shall recognise 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.

21 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."

Paragraph 23 of Ind AS 111 states that "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 accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the Ind ASs applicable to that interest."

In the given case, all three investors (A Limited, B Limited and C Limited) share in the assets and liabilities of the joint operation in proportion of their respective equity interest. Accordingly, both A Limited and B Limited (which have joint control) and C Limited (which does not have joint control) shall apply paragraphs 20-22 in accounting for their respective interests in Entity X in their respective separate financial statements as well as consolidated financial statements.

Treatment of intragroup balances

Question 18

Entities A and B establish a 50:50 joint operation in the form of a separate legal entity, Entity J, whereby each operator has a 50% ownership interest and takes 50% of the output.

On formation of the joint operation, Entity A contributes a property with fair value of INR 110 and intangible asset with fair value of INR 10 whereas Entity B contributes equipment with a fair value of INR 120.

The carrying amounts of the assets contributed by Entities A and B are INR 100 and INR 80, respectively.

What will be the amount of any gain or loss to be recognised by Entity A in its separate financial statements as well as consolidated financial statements?

Response

Paragraph B34 of Ind AS 111 states that "when an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation."

The amount of gain or loss to be recognised by Entity A in its separate financial statements as well as consolidated financial statements is computed as below (all amounts are in INR):-

A's share of fair value of asset contributed by Entity B (50% × 120)	60
Less: Asset contributed by entity A to the joint operation – carrying amount of proportion ceded to Entity B (50% × 100)	(50)
Gain to be recognised by Entity A	*10*

The gain can alternatively be calculated as:

Share acquired in fair value of net assets of joint operation (50% × 240)	120
Less: Carrying amount of asset contributed	(100)
Less: Unrealised portion of gain on asset contributed (50% × (120 – 100))	(10)
Gain to be recognised by Entity A	*10*

Appendix I

Major Differences between Ind AS 111, *Joint Arrangements* and AS 27, *Financial Reporting of Interests in Joint Ventures*

(i) 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". 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).

(ii) AS 27 classifies joint venture into three categories, namely, jointly controlled operations, jointly controlled assets and jointly controlled entities. Under Ind AS 111, on other hand, 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).

(iii) 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. Ind AS 111 on the other hand requires such interest 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).

(iv) Both AS 27 and Ind AS 111 (read with Ind AS 28) contain provisions dealing with circumstances in which proportionate consolidation method (under AS 27) or equity method (under Ind AS 111) is not, or may not be, applied by a venturer. The circumstances laid down in the two standards are dissimilar. For example, under AS 27 a ventuer 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. 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).

Appendix II

Major difference between Ind AS 111, *Joint Arrangements* and IFRS 11, *Joint Arrangements*

Ind AS 111 refers to the accounting specified in Appendix C '*Business Combinations under Common Control'* of Ind AS 103 for the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory. While, IFRS 11 scopes out the same as IFRS 3, *Business Combinations,* does not deal with business combinations under common control.