AS 27 - Accounting for Interest in Joint Venture

1. Definition & Applicability

- Joint Venture is a contractual agreement whereby 2/more parties undertake an economic activity which is subject to joint control
  - economic activity ↓ Activity with Profit-making motive
  - joint control ↓ Can influence operating & financial decisions & share results

Note : Investor doesn't have joint control over joint venture (i.e) it is different from Venturer

- AS 23 applies only when consolidated FS are prepared by Venturers

2. Forms of Joint Venture

a. Jointly Controlled Operations [JCO]

- Venturers use their own assets
- Agreement to jointly carry on operations to earn income
- All expenses & income are shared in agreed ratio.
- No seperate entity for Joint Venture

b. Jointly Controlled Assets [JCA]

- Venturers jointly own assets to be used.
- Agreement to jointly construct & maintain an asset to earn income
- Only expenses on joint assets are shared in agreed ratio .
- No seperate entity for Joint Venture

c. Jointly Controlled Entities [JCE]

- New Entity is created
- Own Accounting records

3. Accounting

a. Jointly Controlled Operations [JCO]

Consolidated P&L

Dr			Cr		
To Expenses			By Sale		
A	xx		A	xx	
B	xx	xx	B	xx	xx
To Profit (b.f)		xx	By Goods taken over		
A	xx		A	xx	
B	xx		B	xx	xx
		xxx			xxx

In the books of A

Joint Venture A/c

Dr		Cr	
To Expenses (A)	xx	By Sale (A)	xx
To Profit (A)	xx	By Goods taken over (A)	xx
		By Bank (recvd from B)	xx
	xxx		xxx

In the books of B

Joint Venture A/c

Dr		Cr	
To Expenses (B)	xx	By Sale (B)	xx
To Profit (B)	xx	By Goods taken over (B)	xx
To Bank (paid to A)	xx		
			xx
	xxx		xxx

b. Jointly Controlled Assets [JCA]

* Prepare Consolidated B/s
* Prepare P&L (extract) & B/s (extract) seperately in the individual books of venturers

① Consolidated B/s

Share capital (A+B)	XX
	XX
Assets (A+B)	XX
	XX

Notes:

Share capital	: A	xx	
	B	xx	
	C	xx	xx
Assets	: A	xx	
	B	xx	
	C	xx	XX

② **In the books of A**

B/s

Share capital (A)	XX
	XX
Assets (A)	XX
	XX

P & L

Depreciation	XX
Other operating exp.	XX
	XX

c. Jointly Controlled Entities [JCE]

Proportionate Consolidation method is used where :-
Venturer's share of asset, liability, revenue & expense in new entity is shown seperately in notes to A/c of venturer's financial statement

4. Transactions between Venturer & Joint Venture

When Venturer transfers/sells any asset to Joint venture, Venturer should only recognize gain/losses attributable to interest of other venturers

Note : ① A's gain consolidated FS

A's share in fair Value of assets contributed by B	XX
(-) A's share in Carrying value of assets contributed by A	(XX)
Gain recognized by A	XX

② Proportionate consolidation method is to be followed except:
- Control is intendend to be temporary
- There is serVere long-term restrictions

} AS-13 will be applied