AS 27 → Financial Reporting of Interest in Joint Venture

I] Definition

a) Joint Ventures (JV)

A JV is a contractual agreement whereby two or more parties undertake an economic activity which is subject to joint control.

b) Venturers

Parties to the Joint Venture.

II] Types of Joint Venture

JCO (Jointly controlled operations)	JCA (Jointly controlled assets)	JCE (Jointly controlled entities)
eg: Ak Sir ka Bungalow Kondhwa Builders → Expert in Raw Mate Raj Builders → Expert in Cheap labour Tukaram Builders → Expert in Interiors.	eg: Bharat Pet. (Mum) — Hindustan Pet. (Mum) → Common Pipeline Pune	eg: Same as JCO But venturers form a sep legal entity. eg: Ak ltd (SFS) — Invest in JV SOL BB ltd. (SFS) — Invst in JV SOL

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Contractual agreement is there But they have not formed a separate legal entity

Meaning / Features

- Each venturer has its own separate Busn.
- No separate legal entity for JV.
- All venturers use their own assets, incur expenses, meet the liab for JV Busn.
- Any revenue generated is shared by the venturers as per the contract.

Accounting of JCO

- Under JCO, each venturer should recognise its own share of asset, liab, income, exp.

we will also prepare a Cons P/L of JCO (it is like a rough extract)

Meaning / Features

- No separate legal entity is created.
- Venturers come together to construct a common asset for their own use.
- There is common control over joint asset.

Accounting of JCA

Under JCA, each venturer will record their share of asset / exp / liab / Income

AKBB Ltd

SC	
AK 50L	
BB 50L →	100L

Meaning / Features

- Venturers create a separate legal entity for their Business
- JV in case JCE will maintain its own accounting records

Accounting of JCE By Venturers

In SFS → we will record invst in JV (AS 13)

In CFS → Proportionate consolidation method

- Here venturers records asset, liab, income, exp of JCE in CFS only to the extent of own share.
- Procedure is same as AS 21 (Except there is No MI)

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Q1 (WR)

Draft Consolidated Profit & loss

To purchase of land		**By flats taken by venturer**	
Mr. A	60,00,000	Mr A	10,00,000
		Mr B	10,00,000
To Bank Loan Interest		Mr. C	10,00,000
Mr. A ($50L \times 8\% \times 6/12$)	200000		
To Registration fees		**By Sale of flats**	
Mr. A	60000	Mr A	4000000
		Mr B	2000000
To Material		Mr C	10,00,000
Mr. B. (450000 + 500000)	950000		
To other Exp			
Mr. C	900000		
To Profit			
Mr A	630000		
B	630000		
C	630000		

$\left.\begin{array}{l}\text{Mr A}\\ \text{B}\\ \text{C}\end{array}\right\}$ shared equally → 18,90,000

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In the Books of Mr. A.

Joint Venture Account

To Bank loan / To Bank } Purchase of land.	60,00,000	By flats (flat taken from JV)	10,00,000
		By Bank (Sale of flats)	40,00,000
To Bank (Bank loan Int)	200000	By Bank (Rec'd from B)	1420000
To Bank (Registration fees)	60000	— " — — " — C	470000 1890000
To Profit on JV	630000		

Roughwork

JV

Land 80L

To loan 50L

To C/B 10L

In the Books of Mr. B

Joint Venture Account

To own material supp	450000	By flats taken	10,00,000
To Bank (Purch of materials	500000	By Bank (Sale of flats)	20,00,000
To Profit on JV	630000		
To Bank (Paid to A)	14,20,000		

logic ?

B → JV → Sale → 30L

Less: Exp (9.5L)

Less: Profit Share (6.3L)

Excess money with B. 14.2L

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In the Books of Mr. C

Joint Venture Account

To Bank (other exp)	900000	By flat taken	10,00,000
To profit on J.V	630000	By Bank (Sale of flat)	10,00,000
To Bank (Paid to A)	470000		

Q2

Cons B/S

Eq & Liab		
SHF		
* a) Share Cap	84L	
Res (Depr Exp)	(12.61) →	7140000
Asset		
NCA		
PPE	1	7140000

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Note ① PPE

Particulars	Cost	Depn	C.A @ Yr end
1) Bldg	1200000	(60000)	1140000
2) Pipeline	6000000	(900000)	5100000
3) Computers	300000	(120000)	180000
4) Vehicles	900000	(180000)	720000
	84,00,000	12,60,000	71,40,000

P/L Res ↓

Share Cap infon was missing in ques ∴ take the value of asset as Share Cap & assume that it was contributed by all 3 parties equally

In the Books of A

Extract of P/L	
Rev	
Exp	
Depn (12.6L / 3)	420000
Maintenance (6L/3)	200000

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Extract of B/s	
Assets	
NCA	
PPE (71.4L/3)	23,80,000

Same working with same Amt for B & C as well.

Q.4 (COR)

In the Books of A Ltd

Cons B/s of A Ltd	
Eq & Liab	
1) SHF	
a) Share Cap	10,00,000
b) R&S (18L + 6L)	24,00,000
2) **NCL**	
loans (3L + 1L)	400000
3) **CL** (4L + 50K)	450000
	4250000
Asset	
NCA	

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PPE (30.5L + 9.75L)	40,25,000
~~Invst in JV~~ eliminate	
CA (2L + 25K)	225000
	4250000

WN① Cost of Control (Cap of G/w / C.R)

COI	250000
less: NA of C (50%)	
ESC (5L × 50%) (250000)	
Pre (NIL)	-
G/w / C.R	NIL

1) Mostly NIL he aayega, so this is extra working.
2) Pre reserves are NIL as full P&L of C will arise after DOA only.

In the Books of B Ltd → H.W

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Q3 ('LDR)

Cons P/L

I] Rev from op	1 A	1305000
Expenses		
Purchases	2	900000
Ch in Inventory	3	(100000)
Other Exp	4	306000
	B	1106000
Profit (A - B)		199000

Trf to B/S

$\boxed{\text{R\&S}}$

Cons B/S

Eq & Liab		
SHF		
a) Sh. Cap	5	401000
b) R&S	6	199000
NCL		
L.T.B (Unsec loans)	7	200000
CL	8	100000
		900000
Assets		
NCA		
PPE	9	600000

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CA		
Inventory	(10)	100000
other CA	(11)	200000
		900000

Notes to A/c's

(1) Rev from op

Sales	A	725000	
	B	580000	1305000

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(2) Purchases A 500000
B 400000 → 900000

(3) Ch in Inv
Op —
(-) Cls A (50000)
B (50000) → (100000)

(4) Other Exp A 170000
B 136000 → 306000

(5) Sh. Cap A 196490
B 204510 → 401000

(6) R&S
Curr Year Profit A 99500
B 99500 → 199000

(7) Unsecured loans A 100000
B 100000 → 200000

(8) CL A 50K
B 50K 1L

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(9) PPE A 3L
B 3L → 6L

(10) Inventory A 50K
B 50K → 1L

(11) C.A A 1L
B 1L → 2L

(3) Cases where AS 27 does not allow use of Prop consolidation

a) Where Invst is intended to be temporary

OR

b) There are severe long term restrictions which significantly restrict the trf of funds to venturer.

(4) Discontinuance of Prop consolidation method

a) When venturers cease to have joint control in J.V.

OR

b) The JV has started operating in severe long term restrictions.

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* **After discontinuance of prop cons. method:**

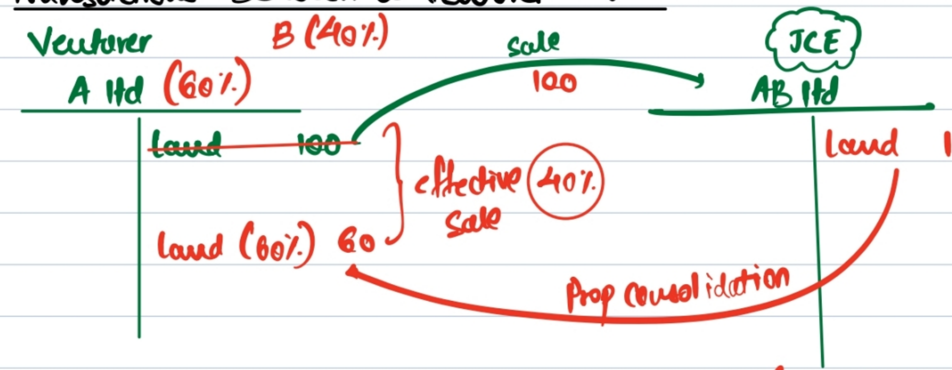
a) If stake is more than 50% ⟶ Apply AS 21

b) If stake is 20 to 50% ⟶ Apply AS 23

c) If stake is less than 20% ⟶ Apply AS 13.

(5) Transactions Between a venturer & J.V

eg:



for A ltd sale is Not 100%, it is only 40% (Other Parties share)

- When venturer sells any asset to JV or purchase from JV, in that case the venturer in its Books should record the transaction only to the extent of other parties share.

- **When Both venturers contribute an asset to JV.**

eg: A ltd + B ltd = Sep entity J ltd. (50:50)

A ltd contributed an asset to J ltd (CA 100, FV 110)

B ltd ⟶ ——— ~ (CA 80, FV 120)

Pass J.E in the Books of A ltd. (CFS)

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Rule: Asset given up will be de-recognised @ C.A to the extent of other parties share.
Asset received via JV will be recorded @ F.V to the extent of own share.

A ltd Books (CFS)

Asset rec'd A/c Dr	60	(F.V × 50%)	(120 × 50%)
To Asset given up	50	(C.A × 50%)	(100 × 50%)
To P/L	10		

B ltd Books (CFS)

Asset rec'd A/c Dr	55	(FV × 50%)	(110 × 50%)
To Asset given up	40	(CA × 50%)	(80 × 50%)
To P/L	15		

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