**AGRANA'S JOINT VENTURES**

Claire McNutt was a hard-working, young professional who grew up in the heartland of Minnesota. Her father, who came from a long line of sugar beet farmers, couldn’t be more proud as she was the first college graduate in the family. She was steeped in all things American, including baseball, hot dogs and apple pie, and was concerned about the economic woes of the country after this last recession. Her parents had instilled in her the value of “paying herself first” and investing in her future through the creation of savings. To that end, she had accumulated a nice portfolio by focusing those efforts on investments in U.S. based companies. She felt, however, it was time to branch out internationally and look for some companies in “recession proof” industries that might help mitigate her risk through diversification. She sat back in her office chair, stared at her computer and asked “but what are those industries”?

She was interrupted by a phone call from her mother. She couldn’t wait to call Claire and convey the good news: “Dad just get off the tractor and reported a bumper crop”! As Claire congratulated her mom, she immediately thought, “That’s it! Agriculture!” She couldn’t get back to her computer fast enough and typed the following words in the search engine: international company sugar. The search results yielded several companies, but one jumped out at her, AGRANA. From some preliminary investigation, Claire discovered that Agrana is an international corporation based in Austria. The Company operates fifty-six global production facilities, employs 8,500 people in three business segments: sugar, starch and fruit. The company has revenues of €3.1 billion. Claire was intrigued enough to take the next step and review the 2012-2013 Agrana Group’s consolidated financial statements to determine if this was the international company for her investment dollars.

Claire accessed the 2012-2013 annual report on line at: <http://www.agrana.com/en/agrana-group/investor-relations/> and then went to the publications tab. The consolidated financial statements began on page 81 of the electronic report (page 77 of the printed report). Almost immediately, Claire was reminded that she was in unchartered waters as she read that the accountants prepared the statements using International Financial Reporting Standards (IFRS) and not United States Generally Accepted Accounting Principles (U.S. GAAP).

Claire thought to herself, “Okay. No need to panic, I got this. I understand consolidated financial statements. When Agrana owns more than 50% of another company’s voting stock, it has control over the operations of the other company. Thus, Agrana plus the controlled companies form one economic entity, and so, one should report it as such. But what is this reference to proportionate consolidation and what does it mean? I see that Agrana is somehow including seven additional companies through proportionate consolidation.” Claire was clueless, but before spending any more time floundering, she decided to call her friend, Josie. Josie had been an award-winning accounting student who had gone to work for one of the top investment firms in its international division.

Over lunch the next day, Josie waxed eloquent on international accounting standards, proportionate consolidation and joint ventures. Josie stated that until recently, proportionate consolidation was the method by which international companies, reporting under IFRS, accounted for joint ventures. After dessert, Claire pulled out a note pad and asked Josie to summarize. Josie explained that IFRS (and U.S. GAAP) were in the process of making some big changes to accounting standards in an effort to converge the two methods of financial reporting. Beginning with fiscal years commencing after January 1, 2013, proportionate consolidation would no longer be allowed for joint ventures. Both IFRS and U.S. GAAP would only allow the use of the equity method to account for investments in joint ventures.

However, whenever a U.S. company with significant amounts invested in joint ventures was analyzed, Josie used proportionate consolidation to add the company's share of the joint ventures' assets, liabilities, revenues and expenses to the company's own financial statement items to better estimate the company’s total worth. Therefore, Josie stated, when Claire is looking at AGRANA's future annual reports, she may want to use proportionate consolidation to add in the joint ventures after IFRS prohibits its use to see the bigger picture. In addition, if Claire wanted to compare AGRANA to another company in the same industry without joint ventures, she may want to leave the joint ventures as they are, that is accounted for under the equity method.

Claire left the table with her head swimming in “accountingese”. Later that night, Claire decided to look at AGRANA’s financials again – in order for her to make a sound investment decision, she had to get back into familiar territory and answer one question: How would AGRANA’s financial statements look if they had been prepared using the equity method?