

## INDIAN ACCOUNTING STANDARD 111

# **JOINT ARRANGEMENTS**

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## **Indian Accounting Standard (Ind AS) 111**

# **Joint Arrangements<sup>#</sup>**

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

## **Objective**

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- 1      The objective of this Indian Accounting Standard (Ind AS) is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (ie *joint arrangements*).

### **Meeting the objective**

- 2      To meet the objective in paragraph 1, this Ind AS defines *joint control* and 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**

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- 3      This Ind AS shall be applied by all entities that are a party to a joint arrangement.

## **Joint arrangements**

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- 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).

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<sup>#</sup> This Ind AS was notified vide G.S.R. 111(E) dated 16<sup>th</sup> February, 2015 and was amended vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019 and G.S.R. 419(E) dated 18<sup>th</sup> June, 2021.

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- (b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).
- 6 A joint arrangement is either a *joint operation* or a *joint venture*.
- Joint control**
- 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).
- 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.
- 10 In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
- 11 An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Ind AS 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.
- 12 An entity will need to apply judgement 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 (see paragraphs B5–B11).
- 13 If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

## **Types of joint arrangement**

- 14 An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.
- 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 (see paragraphs B12–B33).
- 18 Sometimes the parties are bound by a framework agreement that sets up the general contractual terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
- 19 If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

## **Financial statements of parties to a joint arrangement**

### **Joint operations**

- 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.
- 21A<sup>1</sup>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, *Business Combinations*, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in Ind AS 103, and other Ind ASs, that do not conflict with the guidance in this Ind AS 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. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D.
- 22 The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs B34–B37.

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<sup>1</sup> Editorial correction notified vide Notification No. G.S.R. 419(E) dated 18<sup>th</sup> June, 2021.

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- 23 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.

### **Joint ventures**

- 24 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, *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that standard.
- 25 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 it in accordance with Ind AS 28.

### **Separate financial statements**

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- 26 In its separate financial statements, a joint operator or joint venturer shall account for its interest in:
- a joint operation in accordance with paragraphs 20–22;
  - 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 joint operation in accordance with paragraph 23;
  - 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.

## Appendix A

### Defined terms

*This appendix is an integral part of the Ind AS.*

<b>joint arrangement</b>	An arrangement of which two or more parties have <b>joint control</b> .
<b>joint control</b>	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.
<b>joint operation</b>	A <b>joint arrangement</b> whereby the parties that have <b>joint control</b> of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
<b>joint operator</b>	A party to a <b>joint operation</b> that has <b>joint control</b> of that joint operation.
<b>joint venture</b>	A <b>joint arrangement</b> whereby the parties that have <b>joint control</b> of the arrangement have rights to the net assets of the arrangement.
<b>joint venturer</b>	A party to a <b>joint venture</b> that has <b>joint control</b> of that joint venture.
<b>party to a joint arrangement</b>	An entity that participates in a <b>joint arrangement</b> , regardless of whether that entity has <b>joint control</b> of the arrangement.
<b>separate vehicle</b>	A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

The following terms are defined in Ind AS 27, Ind AS 28 or Ind AS 110, *Consolidated Financial Statements*, and are used in this Ind AS with the meanings specified in those Ind ASs:

- control of an investee
- equity method

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- power
- protective rights
- relevant activities
- separate financial statements
- significant influence.

## **Appendix B**

### **Application guidance**

*This appendix is an integral part of the Ind AS. It describes the application of paragraphs 1–27 and has the same authority as the other parts of this Ind AS.*

- B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Ind AS 111.

### **Joint arrangements**

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#### **Contractual arrangement (paragraph 5)**

- B2 Contractual arrangements can be evidenced in several ways. An enforceable contractual arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.
- B3 When joint arrangements are structured through a separate vehicle (see paragraphs B19–B33), 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.
- B4 The contractual arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The contractual arrangement generally deals with such matters as:
- (a) the purpose, activity and duration of the joint arrangement.
  - (b) how the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
  - (c) the decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-

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making process reflected in the contractual arrangement establishes joint control of the arrangement (see paragraphs B5–B11).

- (d) the capital or other contributions required of the parties.
- (e) how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

### **Joint Control (paragraphs 7-13)**

- B5 In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. Ind AS 110 defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities), the parties control the arrangement collectively.
- B6 After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgement.
- B7 Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the contractual arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. 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

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agreeing.

- B8 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.

Application examples
<p><b>Example 1</b></p> <p>Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. 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 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.</p> <p><b>Example 2</b></p> <p>Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (ie either A and B or A and C). In such a situation, to be</p>

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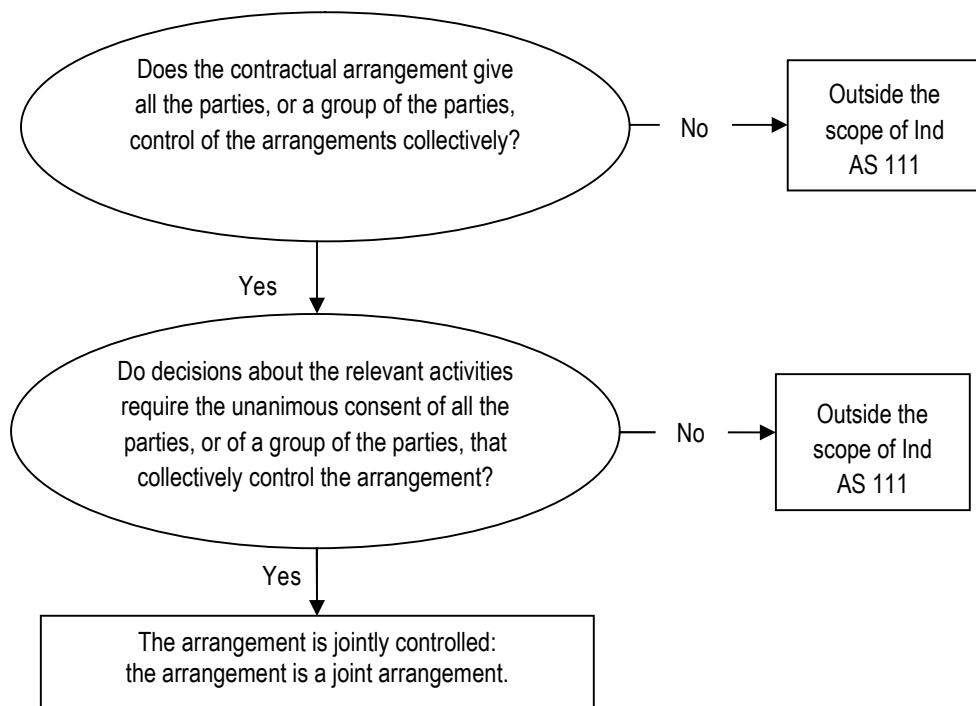
a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

**Example 3**

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- B9 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. 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.
- B10 A contractual arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of 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.

## Assessing joint control



- B11 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 ASs, such as Ind AS 110, Ind AS 28 or Ind AS 109.

## Types of joint arrangement (paragraphs 14–19)

- B12 Joint arrangements are established for a variety of purposes (eg 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.
- B13 Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.

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B14 The classification of joint arrangements required by this Ind AS depends upon the parties' rights and obligations arising from the arrangement in the normal course of business. This Ind AS classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs B16–B33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

### **Classification of a joint arrangement**

B15 As stated in paragraph B14, 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 (see paragraphs B16–B21).
- (b) when the joint arrangement is structured through a separate vehicle:
  - (i) the legal form of the separate vehicle (see paragraphs B22–B24);
  - (ii) the terms of the contractual arrangement (see paragraphs B25–B28); and
  - (iii) when relevant, other facts and circumstances (see paragraphs B29–B33).

### **Structure of the joint arrangement**

#### *Joint arrangements not structured through a separate vehicle*

B16 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.

B17 The contractual arrangement often describes the nature of the

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activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to manufacture a product together, with each party being responsible for a specific task and each using its own assets and incurring its own liabilities. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the contractual arrangement.

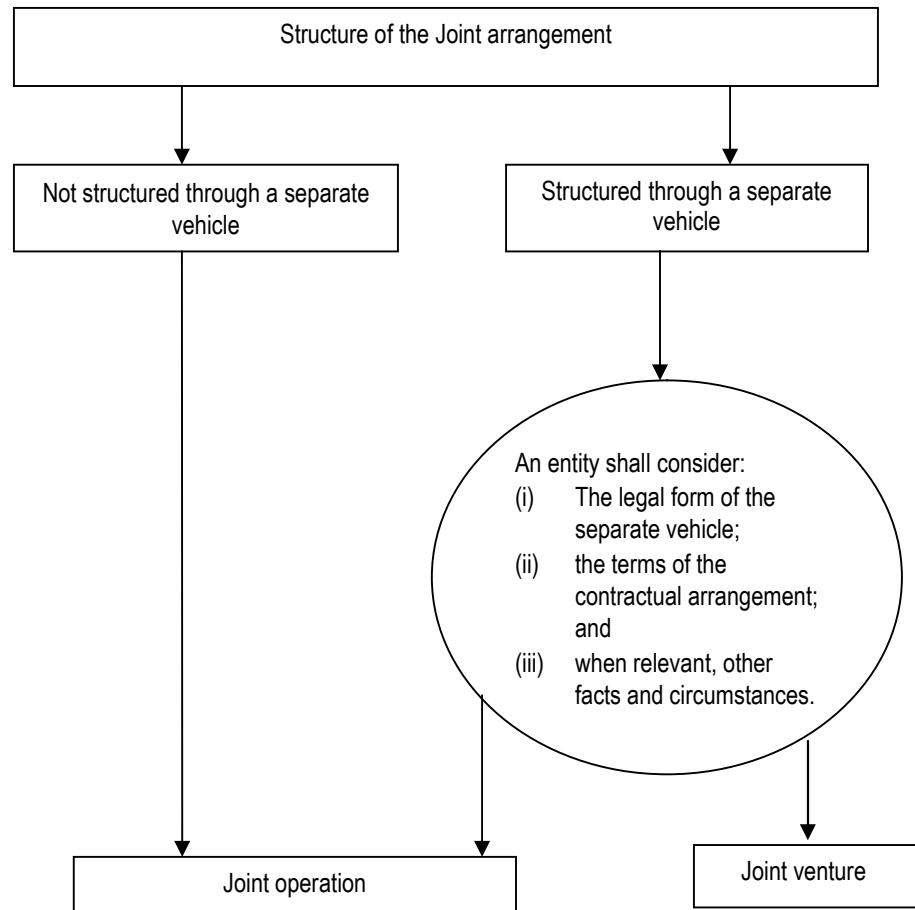
- B18 In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the contractual arrangement.

*Joint arrangements structured through a separate vehicle*

- B19 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.
- B20 Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.
- B21 As stated in paragraph B15, 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:
- rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or
  - rights to the net assets of the arrangement (ie the arrangement is a joint venture).

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**Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement**



**The legal form of the separate vehicle**

- B22 The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.
- B23 For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities

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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 a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their contractual arrangement (see paragraphs B25–B28) and, when relevant, other facts and circumstances (see paragraphs B29–B33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

- B24 The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

**Assessing the terms of the contractual arrangement**

- B25 In many cases, the rights and obligations agreed to by the parties in their contractual arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.
- B26 In other cases, the parties use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

**Application example**

**Example 4**

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the

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separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such contractual modifications to the features of a corporation can cause an arrangement to be a joint operation.

- B27 The following table compares common terms in contractual arrangements of parties to a joint operation and common terms in contractual arrangements of parties to a joint venture. The examples of the contractual terms provided in the following table are not exhaustive.

Assessing the terms of the contractual arrangement		
	Joint operation	Joint venture
<b>The terms of the contractual arrangement</b>	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (ie it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
<b>Rights to assets</b>	The contractual arrangement establishes that the parties to the joint arrangement share all interests (eg rights, title or ownership) in the assets relating to the arrangement in a specified proportion (eg	The contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the

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	<p>in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).</p>	<p>arrangement's assets. The parties have no interests (ie no rights, title or ownership) in the assets of the arrangement.</p>
<b>Obligations for liabilities</b>	<p>The contractual arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (eg in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).</p>	<p>The contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</p>
	<p>The contractual arrangement establishes that the parties to the joint arrangement 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, or both.</p>	<p>The contractual arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.</p>

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<b>Revenues, expenses, profit or loss</b>	The contractual arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, 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.	The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement.
<b>Guarantees</b>	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the	

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	joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).
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- B28 When the contractual arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs B29–B33) for the purposes of classifying the joint arrangement.

**Assessing other facts and circumstances**

- B29 When the terms of the contractual arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.
- B30 A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The contractual terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.
- B31 When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.
- B32 The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their

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purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

**Application example**

**Example 5**

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent 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 C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C 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 C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and

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circumstances are relevant:

- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C 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 C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.

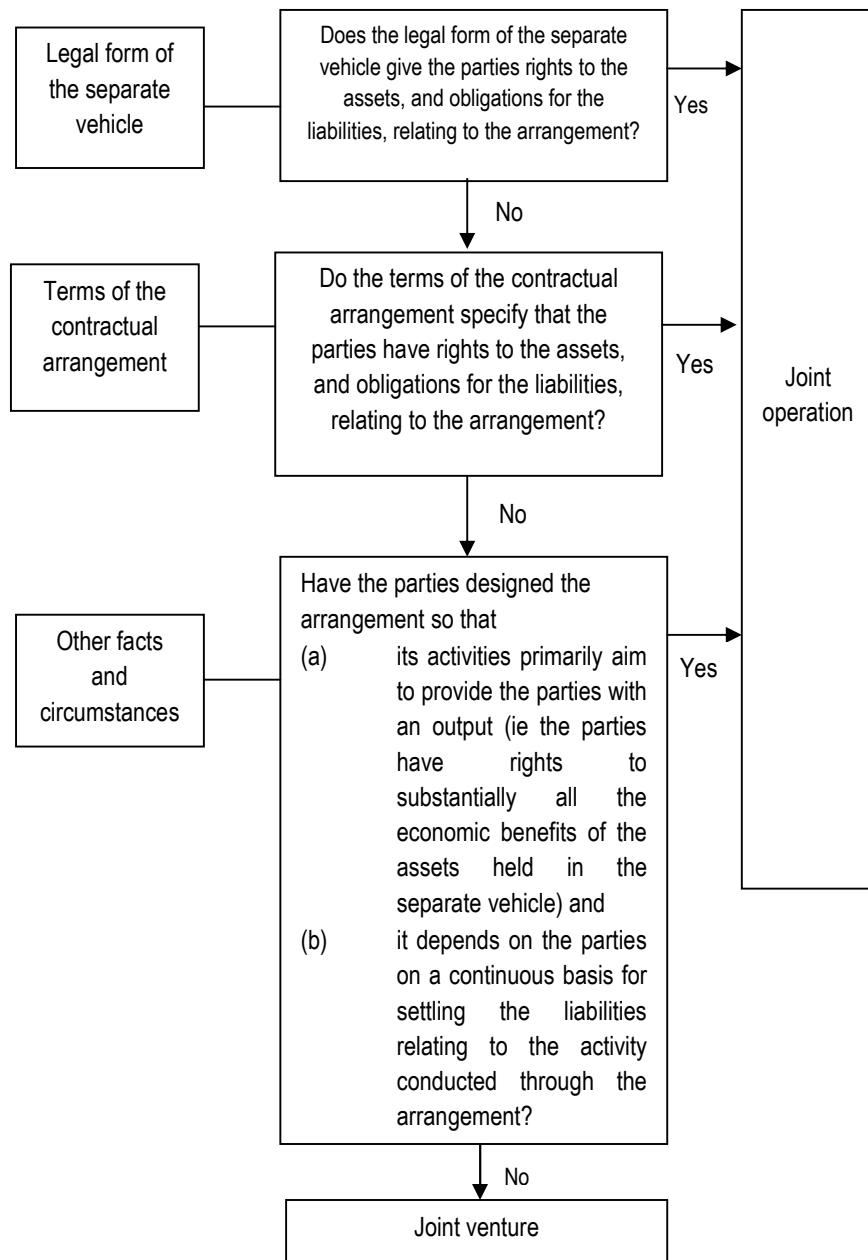
These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties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

- B33 The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

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**Classification of a joint arrangement structured through a separate vehicle**



## **Financial statements of parties to a joint arrangement (paragraphs 21A-22)**

### **Accounting for acquisitions of interests in joint operations**

- B33A 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 accordance with paragraph 20, all of the principles on business combinations accounting in Ind AS 103, and other Ind ASs, that do not conflict with the guidance in this Ind AS and disclose the information required by those Ind ASs in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this Ind AS include but are not limited to:
- (a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in Ind AS 103 and other Ind ASs;
  - (b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with Ind AS 32 *Financial Instruments: Presentation* and Ind AS109;
  - (c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, as required by Ind AS 103 and Ind AS 12 *Income Taxes* for business combinations;
  - (d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and
  - (e) testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as

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required by Ind AS 36 *Impairment of Assets* for goodwill acquired in a business combination.

- B33B Paragraphs 21A and B33A 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, those paragraphs 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 on its formation.
- B33C 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.
- B33CA <sup>2</sup>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.
- B33D Paragraphs 21A and B33A - B33C do not apply 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. For such transactions, accounting specified in Appendix C of Ind AS 103 shall be applicable.

### **Accounting for sales or contributions of assets to a joint operation**

- B34 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

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<sup>2</sup> Inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

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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.

- B35 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**

- B36 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.
- B37 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.

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## **<sup>3</sup>Appendix C**

*This Appendix is an integral part of the Ind AS and has the same authority as the other parts of the Ind AS.*

### **Effective date**

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C1 \*

C1A \*

C1AA \*

C1AB *Annual Improvements to Ind AS (2018) added paragraph B33CA. An entity shall apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 April, 2019.*

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<sup>3</sup> Appendix inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1

## **Appendix 1**

*Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 111 and the corresponding International Financial Reporting Standard (IFRS) 11, Joint Arrangements, issued by the International Accounting Standards Board.*

### **Comparison with IFRS 11, *Joint Arrangements***

- 1 <sup>4</sup>Paragraph C1 of Appendix C of IFRS 11 refers to Effective date that has not been included since the same is not relevant as the date of application is notified under the Companies Act. Paragraphs C1A and C1AA related to transitional provisions have not been included since, transitional provisions wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. However, in order to maintain consistency with paragraph numbers of IFRS 11, the paragraph numbers are retained in Ind AS 111.
- 2 Paragraph B33D 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. IFRS 11 scopes out the same as IFRS 3, *Business Combinations*, does not deal with business combinations under common control.

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<sup>4</sup>Substituted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.