HMRC - OT02116 - Joint Venture Accounting - UKGAAP - Summary Of The Nature Of Relationships And Accounting Treatment

Arrangement: Joint arrangement that is not an entity (“JANE”)

Nature of relationship

The entities participate in an arrangement to carry on part of their own trades or businesses. A joint arrangement, whether or not subject to joint control, does not constitute an entity unless it carries on a trade or business of its own (FRS9 summary).

Treatment in investor’s individual accounts

Each party accounts for its own share of the assets, liabilities and cash flows in the joint arrangement, measured according to the terms of that arrangement, for example pro rata to their respective interests.

Top of page

Arrangement: Joint venture

Nature of relationship

The Investor holds a long-term interest and shares control under a contractual arrangement. The joint venture agreement can override the rights normally conferred by ownership interests with the effect that:

Acting together, the venturers can control the venture and there are procedures for such joint action; and

Each venturer has (implicitly or explicitly) a veto over strategic policy decisions.

There is usually a procedure for settling disputes between venturers and, possibly, for terminating the joint venture (FRS9 summary).

Treatment in investor’s individual accounts

The investor includes its interests as fixed asset investments at either cost less any amounts written off, or at valuation (FRS9 summary).

Top of page

Arrangement: Associates

Joint arrangement that is not an entity (“JANE”)

Nature of relationship

The investor holds a participating interest and exercises significant influence in an arrangement. The investor has a long-term interest and is actively involved, and influential, in the direction of its investee through its participation in policy decisions covering the aspects of policy relevant to the investor, including decisions on strategic issues such as:

the expansion or contraction of the business, participation in other entities or changes in products, markets and activities of its investee; and

determining the balance between dividend and reinvestment (FRS9 summary).

Treatment in investor’s individual accounts

The investor includes its interests as fixed asset investments at either cost less any amounts written off, or at valuation (FRS9 summary).

Previous page

Next page