HMRC - OT02120 - Joint Venture Accounting - IFRS

Companies that have adopted IFRS will generally apply IAS 31 (Financial Reporting of Investment in Joint Ventures), and SIC 13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers.

IAS 31 states that joint ventures take many different forms and structures and identifies three broad types of joint ventures, all of which meet the definition of joint ventures:

Jointly controlled operations;

Jointly controlled assets; and

Jointly controlled entities.

The type of joint venture most commonly found in the oil and gas sector is one of jointly controlled assets.

The characteristics common to all joint ventures are that:

“two or more venturers are bound by a contractual arrangement; and

The contractual arrangement establishes joint control.”

Joint control is defined as “the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers)”.

A summary of the arrangement, nature of the relationship and accounting treatment within the individual entity accounts is provided in OT02121. More detailed information can be found in IAS 31.

Tax treatment

For CT purposes ‘joint venture’ activities are treated as part of a company’s business and trading activities and are reflected in the returns and supporting accounts and computations filed by the individual company.

For PRT the tax unit is the individual participator but the scheme is field-based and recognises joint venture activity. For example, Schedule 5 OTA 1975 provides for PRT expenditure relief to be claimed on a field basis by the field “responsible person” on behalf of the joint venture participants. This will normally be the person who has been appointed the operator under the JOA.

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