IPSAS 8—INTERESTS IN JOINT VENTURES

Acknowledgment

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History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 15, 2011.

IPSAS 8, *Interests in Joint Ventures* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 8.

Since then, IPSAS 8 has been amended by the following IPSASs:

- *Improvements to IPSASs* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)

Table of Amended Paragraphs in IPSAS 8

Paragraph Affected	How Affected	Affected By
1	Amended	IPSAS 29 January 2010 Improvements to IPSASs January 2010
2	Amended	IPSAS 29 January 2010
47	Amended	IPSAS 29 January 2010
48	Amended	IPSAS 29 January 2010
58	Amended	IPSAS 29 January 2010
69A	New	Improvements to IPSASs January 2010

IPSAS 8—INTERESTS IN JOINT VENTURES

CONTENTS

International Public Sector Accounting Standard 8, *Interests in Joint Ventures*, is set out in paragraphs 1–71. All the paragraphs have equal authority. IPSAS 8 should be read in the context of the Basis for Conclusions and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1. IPSAS 8, *Interests in Joint Ventures*, replaces IPSAS 8, *Financial Reporting of Interests in Joint Ventures* (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 8

IN2. The IPSASB developed this revised IPSAS 8 as a response to the IASB's project on Improvements to IASs and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 8, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 31, *Financial Reporting of Interests in Joint Ventures* made as a consequence of the IASB's improvements project, except where the original IPSAS had varied from the provisions of IAS 31 for a public sector specific reason; such variances are retained in this IPSAS 8 and are noted in the Comparison with IAS 31. Any changes to IAS 31 made subsequent to the IASB's improvements project have not been incorporated into IPSAS 8.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 8 are described below.

Title of the Standard

IN5. The title of the Standard is changed to *Interests in Joint Ventures*.

Scope

IN6. The Standard excludes from the scope in paragraph 1, venturers' interests in jointly controlled entities that are recognized at fair value held by:

- Venture capital organizations; or
- Mutual funds, unit trusts and similar entities including investment-linked insurance funds.

Previously, IPSAS 8 did not contain these exclusions from its scope.

Definitions

IN7. The Standard in paragraph 6:

- Does not include the following unnecessary terms: accrual basis, assets, associates, cash, cash flows, contribution from owners, controlled entity, controlling entity, distribution to owners, economic entity, expenses, government business enterprises, liabilities, net assets/equity, and revenue. These terms are defined in other IPSASs.

- Does not include the term net surplus/deficit, which no longer exists.

IN8. The Standard includes in paragraphs 14–16 explanation of separate financial statements. Previously, IPSAS 8 did not contain these illustrations.

Exemptions from Applying Proportionate Consolidation or the Equity Method

IN9. The Standard clarifies in paragraphs 47 and paragraph 3(a) applying proportionate consolidation or the equity method is not required when (a) an interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer.

IN10. IPSAS 8 further specifies in paragraph 49 that when a jointly controlled entity previously exempted from proportionate consolidation or the equity method is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method from the date of acquisition unless narrowly specified circumstances apply.

IN11. The words "in the near future" used in previous IPSAS 8 have been replaced with the words "within twelve months." There was no requirement that management must be actively seeking a buyer in previous IPSAS 8 for exemption from applying proportionate consolidation or the equity method.

IN12. The Standard clarifies in paragraph 3(b) and 3(c) the exemptions from application of proportionate consolidation or the equity method, including when the venturer is:

- Also a controlling entity exempt in accordance with IPSAS 6, *Consolidated and Separate Financial Statements* from preparing consolidated financial statements; or
- Though not such a controlling entity, can satisfy the same type of conditions that exempt such controlling entities.

IN13. IPSAS 6 requires that a controlling entity need not present consolidated financial statements if and only if:

- The controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;
- The controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

- The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
- The ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 8 did not contain these exemptions.

IN14. The Standard does not include the previous paragraph 46(b) clarifying that severe long-term restrictions that significantly impair the ability to transfer funds to the venturer do not of themselves justify not applying the proportionate consolidation or the equity method. Joint control must be lost before proportionate consolidation or the equity method ceases to apply.

Separate Financial Statements

IN15. The Standard requires in paragraph 52 that a venturer should account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. IPSAS 6 requires that the venturer shall account for its interest in a jointly controlled entity in its separate financial statements either at cost or as financial instruments accordance with the relevant international or national accounting standard dealing with financial instruments.

Disclosure

IN16. The Standard requires in paragraph 64 that a venturer shall disclose the method it uses to recognize its interests in jointly controlled entities (i.e., proportionate consolidation or the equity method).

Amendments to Other IPSASs

IN17. The Standard includes an authoritative appendix of amendments to other IPSASs.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

   (a) **Venture capital organizations; or**

   (b) **Mutual funds, unit trusts and similar entities including investment linked insurance funds**

   that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with IPSAS 29, ***Financial Instruments: Recognition and Measurement*****. A venturer holding such an interest shall make the disclosures required by paragraphs 62 and 63.**

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change can be found in IPSAS 29.

3. **A venturer with an interest in a jointly controlled entity is exempted from paragraphs 35 (proportionate consolidation) and 43 (equity method) when it meets the following conditions:**

   (a) **There is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;**

   (b) **The exception in paragraph 16 of IPSAS 6,** ***Consolidated and Separate Financial Statements*** **allowing a controlling entity that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or**

   (c) **All of the following apply:**

      (i) **The venturer is:**

      - **A wholly-owned controlled entity and users of financial statements prepared by applying proportionate consolidation or the equity method are unlikely to exist or (if they are) their information needs are met by the controlling entity's consolidated financial statements; or**

- **A partially-owned controlled entity of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;**

(ii) **The venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

(iii) **The venturer neither filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and**

(iv) **The ultimate or any intermediate controlling entity of the venturer produces consolidated financial statements available for public use that comply with IPSASs.**

4. **This Standard applies to all public sector entities other than Government Business Enterprises.**

5. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

The equity method (for the purpose of this Standard) is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost, and adjusted thereafter for the post-acquisition change in the venturer's share of net assets/equity of the jointly controlled entity. The surplus or deficit of the venturer includes the venturer's share of the surplus or deficit of the jointly controlled entity.

Joint control is the agreed sharing of control over an activity by a binding arrangement.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined line by line with similar items in

the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

Venturer is a party to a joint venture and has joint control over that joint venture.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Binding Arrangement

7. The existence of a binding arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see IPSAS 7, *Investments in Associates*.) For the purposes of this Standard, an arrangement includes all binding arrangements between venturers. That is, in substance, the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract. For instance, two government departments may enter into a formal arrangement to undertake a joint venture, but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities with the power to contract. Activities that have no binding arrangement to establish joint control are not joint ventures for the purposes of this Standard.

8. A binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the binding arrangement is incorporated in the enabling legislation, articles, or other by-laws of the joint venture. Whatever its form, the arrangement is usually in writing, and deals with such matters as:

   - The activity, duration and reporting obligations of the joint venture;
   - The appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
   - Capital contributions by the venturers; and
   - The sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.

9. The binding arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally. The arrangement identifies (a) those decisions in areas essential to the goals of the joint venture that require the consent of all the

venturers, and (b) those decisions that may require the consent of a specified majority of the venturers.

10. The binding arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the activity, it controls the venture and the venture is a controlled entity of the operator and not a joint venture.

Forms of Joint Venture

11. Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities ranges from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any), and expenses of each of the joint venturers.

12. Joint ventures take many different forms and structures. This Standard identifies three broad types – jointly controlled operations, jointly controlled assets, and jointly controlled entities – that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

    (a) Two or more venturers are bound by a binding arrangement; and

    (b) The binding arrangement establishes joint control.

Joint Control

13. Joint control may be precluded when a joint venture (a) is in legal reorganization or in bankruptcy, (b) is subject to an administrative restructuring of government arrangements, or (c) operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

Separate Financial Statements

14. Neither (a) financial statements in which proportionate consolidation or the equity method is applied, nor (b) financial statements of an entity that does not have a controlled entity, associate or venturer’s interest in a jointly controlled entity are separate financial statements.

15. Separate financial statements are (a) those presented in addition to consolidated financial statements, (b) financial statements in which investments are accounted for using the equity method, and (c) financial

statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.

16. Entities that are exempted in accordance with (a) paragraph 16 of IPSAS 6 from consolidation, (b) paragraph 19(c) of IPSAS 7 from applying the equity method, or (c) paragraph 3 of this Standard from applying proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

Jointly Controlled Operations

17. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership, or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant, and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finances, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale or provision of the joint product or service and any expenses incurred in common are shared among the venturers.

18. An example of a jointly controlled operation is when two or more venturers combine their operations, resources, and expertise to manufacture, market, and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the binding arrangement. A further example is when two entities combine their operations, resources, and expertise to jointly deliver a service, such as aged care where, in accordance with an agreement, a local government offers domestic services and a local hospital offers medical care. Each venturer bears its own costs and takes a share of revenue, such as user charges and government grants, such share being determined in accordance with the binding agreement.

19. **In respect of its interests in jointly controlled operations, a venturer shall recognize in its financial statements:**

    (a) **The assets that it controls and the liabilities that it incurs; and**

    (b) **The expenses that it incurs and its share of the revenue that it earns from the sale or provision of goods or services by the joint venture.**

20. Because the assets, liabilities, revenue (if any) and expenses are already recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

21. Separate accounting records may not be required for the joint venture itself, and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Assets

22. Some joint ventures involve the joint control of, and often the joint ownership by, the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets, and each bears an agreed share of the expenses incurred.

23. These joint ventures do not involve the establishment of a corporation, partnership, or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits or service potential through its share of the jointly controlled asset.

24. Some activities in the public sector involve jointly controlled assets. For example, a local government may enter into an arrangement with a private sector corporation to construct a toll road. The road provides the citizens with improved access between the local government's industrial estate and its port facilities. The road also provides the private sector corporation with direct access between its manufacturing plant and the port. The agreement between the local authority and the private sector corporation specifies each party's share of revenues and expenses associated with the toll road. Accordingly, each venturer derives economic benefits or service potential from the jointly controlled asset, and bears an agreed proportion of the costs of operating the road. Similarly, many activities in the oil, gas, and mineral extraction industries involve jointly controlled assets. For example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product, in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

25. **In respect of its interest in jointly controlled assets, a venturer shall recognize in its financial statements:**

(a) **Its share of the jointly controlled assets, classified according to the nature of the assets;**

(b) **Any liabilities that it has incurred;**

(c) **Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;**

(d) **Any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and**

(e) **Any expenses that it has incurred in respect of its interest in the joint venture.**

26. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognizes in its financial statements:

(a) Its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled road is classified as property, plant, and equipment;

(b) Any liabilities that it has incurred, for example those incurred in financing its share of the assets;

(c) Its share of any liabilities incurred jointly with other venturers in relation to the joint venture;

(d) Any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) Any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

27. Because the assets, liabilities, revenue, and expenses are recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

28. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Entities

29. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a binding arrangement between the venturers establishes joint control over the activity of the entity.

30. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

31. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity. Another example arises when an entity commences a business in a foreign country in conjunction with a government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency in the foreign country.

32. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as a road, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute to a jointly controlled entity assets that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution, or after-sales service of the product.

33. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with IPSASs, or other accounting standards if appropriate.

34. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its financial statements as an investment in the jointly controlled entity.

Financial Statements of a Venturer

Proportionate Consolidation

35. **A venturer shall recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in**

paragraph 43. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.

36. A venturer recognizes its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation, irrespective of (a) whether it also has investments in controlled entities, or (b) whether it describes its financial statements as consolidated financial statements.

37. When recognizing an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits or service potential through its share of the assets and liabilities of the venture. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognizes its interests in the assets, liabilities, revenue, and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 39.

38. The application of proportionate consolidation means that the statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of financial performance of the venturer includes its share of the revenue and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in controlled entities, which are set out in IPSAS 6.

39. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, revenue, and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. For example, it may combine its share of the jointly controlled entity's inventory with its inventory, and its share of the jointly controlled entity's property, plant, and equipment with its property, plant, and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, revenue, and expenses of the jointly controlled entity in its financial statements. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant, and equipment. Both these reporting formats result in the reporting of identical amounts of surplus or deficit and of each major classification of assets, liabilities, revenue, and expenses; both formats are acceptable for the purposes of this Standard.

40. Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset (a) any assets or liabilities by the deduction of other

liabilities or assets, or (b) any revenue or expenses by the deduction of other expenses or revenue, unless a legal right of set-off exists and the offsetting represents the expectation as to the realization of the asset or the settlement of the liability.

41. **A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.**

42. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest, or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

Equity Method

43. **As an alternative to proportionate consolidation described in paragraph 35, a venturer shall recognize its interest in a jointly controlled entity using the equity method.**

44. A venturer recognizes its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.

45. Some venturers recognize their interests in jointly controlled entities using the equity method, as described in IPSAS 7. The use of the equity method is supported (a) by those who argue that it is inappropriate to combine controlled items with jointly controlled items, and (b) by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits or service potential. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognizing interests in jointly controlled entities.

46. **A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.**

Exceptions to Proportionate Consolidation and Equity Method

47. **Interests in jointly controlled entities for which there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition, and that management is actively seeking**

a buyer, as set out in paragraph 3(a), shall be classified as held for trading and accounted for in accordance with IPSAS 29.

48. Guidance on the recognition and measurement of financial instruments dealt with in paragraph 47 can be found in IPSAS 29.

49. When, in accordance with paragraphs 3(a) and 47, an interest in a jointly controlled entity previously accounted for as a held for trading financial instrument is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition. (Guidance on the meaning of the date of acquisition can be found in the relevant international or national accounting standard dealing with business combinations.) Financial statements for the periods since acquisition shall be restated.

50. Exceptionally, a venturer may have found a buyer for an interest described in paragraphs 3(a) and 47, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The venturer is not required to apply proportionate consolidation or the equity method to an interest in a jointly controlled entity if (a) the sale is in process at the reporting date, and (b) there is no reason to believe that it will not be completed shortly after the reporting date.

51. **From the date on which a jointly controlled entity becomes a controlled entity of a venturer, the venturer shall account for its interest in accordance with IPSAS 6. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IPSAS 7.**

Separate Financial Statements of a Venturer

52. **An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 58−64 of IPSAS 6.**

53. This Standard does not mandate which entities produce separate financial statements available for public use.

Transactions between a Venturer and a Joint Venture

54. **When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognize only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.**

55. **When a venturer purchases assets from a joint venture, the venturer shall not recognize its share of the gains of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognize its share of the losses resulting from these transactions in the same way as gains, except that losses shall be recognized immediately when they represent a reduction in the net realizable value of current assets or an impairment loss.**

56. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount or recoverable service amount of the assets in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. In determining value in use of a cash-generating asset, the venturer estimates future cash flows from the asset on the basis of continuing use of the asset and its ultimate disposal by the joint venture. In determining value in use of a non-cash-generating asset, the venturer estimates the present value of the remaining service potential of the asset using the approaches specified in IPSAS 21.

Reporting Interests in Joint Ventures in the Financial Statements of an Investor

57. **An investor in a joint venture that does not have joint control, but does have significant influence, shall account for its interest in a joint venture in accordance with IPSAS 7.**

58. Guidance on accounting for interests in joint ventures where an investor does not have joint control or significant influence can be found in IPSAS 29.

Operators of Joint Ventures

59. **Operators or managers of a joint venture shall account for any fees in accordance with IPSAS 9, *Revenue from Exchange Transactions*.**

60. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

61. **A venturer shall disclose:**

    (a) **The aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:**

        (i) **Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures, and its share in each**

of the contingent liabilities that have been incurred jointly with other venturers;

(ii) **Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and**

(iii) **Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture; and**

(b) **A brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:**

(i) **Any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets that have arisen jointly with other venturers; and**

(ii) **Its share of the contingent assets of the joint ventures themselves.**

62. **A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:**

(a) **Any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and**

(b) **Its share of the capital commitments of the joint ventures themselves.**

63. **A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognizes its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue, and expenses related to its interest in joint ventures.**

64. **A venturer shall disclose the method it uses to recognize its interests in jointly controlled entities.**

Transitional Provisions

65. **Where the proportionate consolidation treatment set out in this Standard is adopted, venturers are not required to eliminate balances and transactions between themselves, their controlled entities, and entities**

that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs.

66. Entities that adopt accrual accounting for the first time in accordance with IPSASs may have many controlled and jointly controlled entities, with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph 65 provides temporary relief from eliminating, in full, balances and transactions between entities and their jointly controlled entities.

67. **Where entities apply the transitional provision in paragraph 65, they shall disclose the fact that not all inter-entity balances and transactions have been eliminated.**

68. Transitional provisions in IPSAS 8 (2000) provide entities with a period of up to three years to fully eliminate balances and transactions between entities within the economic entity from the date of its first application. Entities that have previously applied IPSAS 8 (2000) may continue to take advantage of this three-year transitional provisional period from the date of first application of IPSAS 8 (2000).

Effective Date

69. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

69A. **Paragraph 1 was amended by *Improvements to IPSASs* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact and apply for that earlier period paragraph 3 of IPSAS 28, *Financial Instruments: Presentation*, paragraph 1 of IPSAS 7, and paragraph 3 of IPSAS 30, *Financial Instruments: Disclosures*. An entity is encouraged to apply the amendments prospectively.**

70. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 8 (2000)

71. This Standard supersedes IPSAS 8, *Financial Reporting of Interests in Joint Ventures*, issued in 2000.

Appendix

Amendments to Other IPSASs

In IPSASs applicable at January 1, 2008, references to the former IPSAS 8, *Financial Reporting of Interests in Joint Ventures*, are amended to IPSAS 8, *Interests in Joint Ventures*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 8.

Revision of IPSAS 8 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 8, issued in May 2000, was based on IAS 31 (Reformatted 1994), *Financial Reporting of Interests in Joint Ventures*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSASs with the improved IASs issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 31 and generally concurred with the IASB's reasons for revising the IAS, and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases

[1] The International Accounting Standards (IASs) were issued by the IASB's predecessor, the International Accounting Standards Committee. The standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

[2] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 31 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 7 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Revision of IPSAS 8 as a result of the IASB's Improvements to IFRSs issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 31 included in the *Improvements to IFRSs* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 31

IPSAS 8, *Interests in Joint Ventures* is drawn primarily from IAS 31, *Interests in Joint Ventures* and includes an amendment made to IAS 31 as part of the *Improvements to IFRSs* issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 3, *Business Combinations*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities. Therefore, IPSAS 8 does not reflect amendments made to IAS 31 consequent on the issue of IFRS 3 and IFRS 5. The main differences between IPSAS 8 and IAS 31 are as follows:

- Commentary additional to that in IAS 31 has been included in IPSAS 8 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 8 uses different terminology, in certain instances, from IAS 31. The most significant examples are the use of the terms "statement of financial performance," and "net assets/equity" in IPSAS 8. The equivalent terms in IAS 31 are "income statement," and "equity."
- IPSAS 8 does not use the term "income," which in IAS 31 has a broader meaning than the term "revenue."
- IPSAS 8 uses a different definition of "joint venture" from IAS 31. The term "contractual arrangement" has been replaced by "binding arrangement."
- IPSAS 8 includes a transitional provision that permits entities that adopt proportionate consolidation treatment to not eliminate all balances and transactions between venturers, their controlled entities, and entities that they jointly control for reporting periods beginning on a date within three years following the date of adopting accrual accounting for the first time in accordance with IPSASs. IAS 31 does not contain transitional provisions.