

## **New Zealand Equivalent to International Accounting Standard 31**

### **Interests in Joint Ventures (NZ IAS 31)**

**Issued November 2004 and incorporates amendments up to and including 31 October 2010 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments***

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes Statement of Standard Accounting Practice No. 25 *Accounting for Interests in Joint Ventures and Partnerships*.

The following New Zealand Interpretations refer to NZ IAS 31:

- NZ SIC-13 *Jointly Controlled Entities–Non-Monetary Contributions by Venturers*
- NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

NZ IAS 31

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ISBN 1-877430-38-2

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## NZ IAS 31

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New Zealand Equivalent to International Accounting Standard 31 *Interests in Joint Ventures* (NZ IAS 31) is set out in paragraphs 1–59 and the Appendix. NZ IAS 31 is based on International Accounting Standard 31 *Interests in Joint Ventures* (IAS 31) (revised 2000) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 31 should be read in the context of the IASB’s Basis for Conclusions on IAS 31, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with “NZ” and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

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## HISTORY OF AMENDMENTS

### Table of Pronouncements – NZ IAS 31 *Interests in Joint Ventures*

This table lists the pronouncements establishing and amending NZ IAS 31. The table is based on amendments approved as at 31 October 2010 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments*.

<b>Pronouncements</b>	<b>Date approved (ASRB approval)</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
NZ IAS 31 <i>Interests in Joint Ventures</i>	Nov 2004 (Approval 22)	1 Jan 2005	1 Jan 2007
<i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i>	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009
NZ IAS 27 <i>Consolidated and Separate Financial Statements</i> (amended 2008)	Feb 2008 (Approval 99)	Early application permitted	1 July 2009
<i>Improvements to NZ IFRSs</i>	June 2008 (Approval 102)	Early application permitted	1 Jan 2009
<i>Omnibus Amendments (2009-1)</i>	May 2009 (Approval 118)	Early application permitted	1 July 2009
<i>Improvements to NZ IFRSs</i>	July 2010 (Approval 131)	Early application permitted	1 July 2010
Minor Amendments to NZ IFRSs	July 2010 (Approval 132)	Immediate	Immediate

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<b>Table of Amended Paragraphs in NZ IAS 31</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Introduction	Amended	<i>Framework for Differential Reporting</i> [Jun 2005]
Introduction	Amended	<i>Omnibus Amendments (2009-1)</i> [May 2009]
Introduction	Amended	Minor Amendments [July 2010]
Paragraph 1	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph NZ 1.1	Inserted	<i>Omnibus Amendments (2009-1)</i> [May 2009]
Paragraph 2(c)(iv)	Amended	<i>Omnibus Amendments (2009-1)</i> [May 2009]
Paragraph 33	Terminology changed	NZ IAS 1 [Nov 2007]
Paragraph 45	Amended	NZ IAS 27 [Feb 2008]
Paragraph 45A	Inserted	NZ IAS 27 [Feb 2008]
Paragraph 45B	Inserted	NZ IAS 27 [Feb 2008]
Paragraph 46	Amended	NZ IAS 27 [Feb 2008]
Heading above paragraph 58	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 58A	Inserted	NZ IAS 27 [Feb 2008]
Paragraph 58A	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 58B	Inserted	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph NZ 58B.1	Inserted	<i>Omnibus Amendments (2009-1)</i> [May 2009]
Paragraph 58D	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]

## Introduction to NZ IAS 31

This Standard:

- (a) prescribes the accounting treatment for interests in joint ventures except for interests in joint ventures held by venture capital organisations or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*;
- (b) identifies the circumstances under which a venturer is exempted from applying the Standard;
- (c) permits a venturer to recognise its interest in a jointly controlled entity using either proportionate consolidation or the equity method; and
- (d) prescribes disclosures regarding interests in joint ventures.

In adopting IAS 31 for application as NZ IAS 31 an additional paragraph, paragraph NZ 40.1 has been inserted. This paragraph requires venturers who account for their interests in joint ventures using the equity method to meet the disclosure requirements of NZ IAS 28 *Investments in Associates*.

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 31 will simultaneously be in compliance with IAS 31. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 31. Whether a public benefit entity will be in compliance with IAS 31 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

### Differential Reporting

Qualifying entities are given a concession to the requirements of this Standard (as identified in the Standard).

# **New Zealand Equivalent to International Accounting Standard 31**

## ***Interests in Joint Ventures (NZ IAS 31)***

### **Scope**

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**1** This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income 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 organisations, or
- (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with NZ IAS 39, with changes in fair value recognised in profit or loss in the period of the change. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

#### **Qualifying Entities**

**NZ 1.1** Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) are not required to comply with paragraph 2(c)(iv). Qualifying entities that wish to make use of the exemptions from the requirements of paragraph 30 (proportionate consolidation) and paragraph 38 (equity method) outlined in paragraph 2(c) are still required to meet the conditions in paragraph 2(c)(i)–(iii).



- 2 A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 (proportionate consolidation) and 38 (equity method) when it meets the following conditions:
- (a) the interest is classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
  - (b) the exception in paragraph 10 of NZ IAS 27 *Consolidated and Separate Financial Statements* allowing a parent 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 subsidiary, or is a partially-owned subsidiary 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 did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
    - \* (iv) the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with New Zealand equivalents to International Financial Reporting Standards.

## Definitions

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

*Control* is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

The *equity method* 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 of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity.**

**An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.**

**Joint control is 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 joint venture is a contractual arrangement whereby two or more parties undertake an economic 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, income 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.**

**Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

**Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.**

**A venturer is a party to a joint venture and has joint control over that joint venture.**

- 4 Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity.
- 5 Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.
- 6 Entities that are exempted in accordance with paragraph 10 of NZ IAS 27 from consolidation, paragraph 13(c) of NZ IAS 28 *Investments in Associates* from applying the equity method or paragraph 2 of this Standard from applying

proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

## Forms of Joint Venture

- 7 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 contractual arrangement; and
  - (b) the contractual arrangement establishes joint control.

## Joint Control

- 8 Joint control may be precluded when an investee is in legal reorganisation or in bankruptcy, or 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.

## Contractual Arrangement

- 9 The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see NZ IAS 28). Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.
- 10 The contractual 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 arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:
- (a) the activity, duration and reporting obligations of the joint venture;
  - (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
  - (c) capital contributions by the venturers; and

- (d) the sharing by the venturers of the output, income, expenses or results of the joint venture.
- 11 The contractual 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.
- 12 The contractual 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 contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the economic activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

## **Jointly controlled operations**

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- 13 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 finance, 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 of the joint product and any expenses incurred in common are shared among the venturers.
- 14 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 contractual arrangement.
- 15 **In respect of its interests in jointly controlled operations, a venturer shall recognise 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 income that it earns from the sale of goods or services by the joint venture.**
- 16 Because the assets, liabilities, income and expenses are recognised 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.

- 17 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**

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18. Some joint ventures involve the joint control, 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.
19. 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 through its share of the jointly controlled asset.
20. 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.
- 21 In respect of its interest in jointly controlled assets, a venturer shall recognise 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 income 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.**

22 In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises 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 oil pipeline 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 income 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.
- (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.

Because the assets, liabilities, income and expenses are recognised 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.

23 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**

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24 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 contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

- 25 A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. 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 profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.
- 26 A common example of a jointly controlled entity is when two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency.
- 27 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 an oil pipeline, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into 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.
- 28 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 International Financial Reporting Standards.
- 29 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 recognised in its financial statements as an investment in the jointly controlled entity.

## Financial statements of a venturer

### Proportionate consolidation

- 30 **A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 38. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.**
- 31 A venturer recognises its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

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- 32 When recognising 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 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 recognises its interests in the assets, liabilities, income and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 34.
- 33 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 comprehensive income of the venturer includes its share of the income 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 subsidiaries, which are set out in NZ IAS 27.
- 34 Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income 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, income 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 profit or loss and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Standard.
- 35 Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.
- 36 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.**
- 37 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**

**38 As an alternative to proportionate consolidation described in paragraph 30, a venturer shall recognise its interest in a jointly controlled entity using the equity method.**

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

40 Some venturers recognise their interests in jointly controlled entities using the equity method, as described in NZ IAS 28. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and 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. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognising interests in jointly controlled entities.

#### **All Entities**

**NZ 40.1 For clarification, the reference in paragraph 40 above to using the equity method as described in NZ IAS 28, includes the requirement to comply with the disclosure requirements of that Standard.**

**41 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**

**42 Interests in jointly controlled entities that are classified as held for sale in accordance with NZ IFRS 5 shall be accounted for in accordance with that Standard.**

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- 43 When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.
- 44 [Deleted by IASB]
- 45 **When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with NZ IAS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date when a jointly controlled entity becomes a subsidiary of an investor, the investor shall account for its interest in accordance with NZ IAS 27 and NZ IFRS 3 *Business Combinations* (as revised in 2008). From the date when a jointly controlled entity becomes an associate of an investor, the investor shall account for its interest in accordance with NZ IAS 28. On the loss of joint control, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:**
- (a) **the fair value of any retained investment and any proceeds from disposing of the part interest in the jointly controlled entity; and**
  - (b) **the carrying amount of the investment at the date when joint control is lost.**
- 45A **When an investment ceases to be a jointly controlled entity and is accounted for in accordance with NZ IAS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with NZ IAS 39.**
- 45B If an investor loses joint control of an entity, the investor shall account for all amounts recognised in other comprehensive income in relation to that entity on the same basis as would be required if the jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the investor loses joint control of the entity. For example, if a jointly controlled entity has available-for-sale financial assets and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in a jointly controlled entity is reduced, but the investment continues to be a jointly controlled entity, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

## Separate financial statements of a venturer

- 46 **An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 38–43 of NZ IAS 27.**
- 47 This Standard does not mandate which entities produce separate financial statements available for public use.

## Transactions between a venturer and a joint venture

- 48 **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 recognise only that portion of the gain or loss that is attributable to the interests of the other venturers.\* The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.**
- 49 **When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.**
- 50 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 of the asset in accordance with NZ IAS 36 *Impairment of Assets*. In determining value in use, 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.

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\* See also NZ SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

## **Reporting interests in joint ventures in the financial statements of an investor**

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- 51** An investor in a joint venture that does not have joint control shall account for that investment in accordance with NZ IAS 39 or, if it has significant influence in the joint venture, in accordance with NZ IAS 28.

## **Operators of joint ventures**

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- 52** Operators or managers of a joint venture shall account for any fees in accordance with NZ IAS 18 *Revenue*.
- 53** 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**

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- 54** A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
- (a) 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;
  - (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
  - (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
- 55** 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.

- 56 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 recognises 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, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
- 57 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

## Effective date and transition

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- 58 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.
- 58A NZ IAS 27 (as amended in 2008) amended paragraphs 45 and 46 and added paragraphs 45A and 45B. An entity shall apply the amendment to paragraph 46 retrospectively and the amendment to paragraph 45 and paragraphs 45A and 45B prospectively for annual periods beginning on or after 1 July 2009. If an entity applies NZ IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.
- 58B Paragraph 1 was amended by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of NZ IFRS 7 *Financial Instruments: Disclosures*, paragraph 1 of NZ IAS 28 and paragraph 4 of NZ IAS 32 *Financial Instruments: Presentation* issued in June 2008. An entity is permitted to apply the amendment prospectively.

### Qualifying Entities

NZ 58B.1 The *Omnibus Amendments* (2009-1) inserted paragraph NZ 1.1 and amended paragraph 2(c)(iv). An entity shall apply these amendments for annual periods beginning on or after 1 July 2009. Early application is permitted. If an entity applies these amendments for an earlier period it shall disclose that fact.

- 58D Paragraph 58A was amended by *Improvements to NZ IFRSs* issued in July 2010. An entity shall apply that amendment for annual periods beginning on or after

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1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

### **Withdrawal of IAS 31 (revised 2000)**

59 [Paragraph 59 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

## **Appendix Amendments to other pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

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*The amendments contained in this appendix when this Standard was issued in 2003 have been incorporated into the relevant pronouncements published in this volume.*

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