International Accounting Standard 31

Interests in Joint Ventures

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IAS 31 *Financial Reporting of Interests in Joint Ventures* was issued by the International Accounting Standards Committee in December 1990, and reformatted in 1994. Limited amendments to IAS 31 were made in 1998, 1999 and 2000.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In December 2003 the IASB issued a revised IAS 31 with a new title—*Interests in Joint Ventures*.

Since then, IAS 31 and its accompanying documents have been amended by the following IFRSs:

- IFRS 3 *Business Combinations* (issued March 2004)
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)
- IAS 27 *Consolidated and Separate Financial Statements* (as amended in January 2008)[*]
- *Improvements to IFRSs* (issued May 2008).[†]

IAS 1 *Presentation of Financial Statements* (as revised in September 2007)[†] amended the terminology used throughout IFRSs, including IAS 31.

The following Interpretations refer to IAS 31:

- SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* (issued December 1998 and subsequently amended)
- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (issued December 2004).

* effective date 1 July 2009

† effective date 1 January 2009

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International Accounting Standard 31 *Interests in Joint Ventures* (IAS 31) is set out in paragraphs 1–59 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 31 should be read in the context of the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. 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.

Introduction

IN1 International Accounting Standard 31 *Interests in Joint Ventures* (IAS 31) replaces IAS 31 *Financial Reporting of Interests in Joint Ventures* (revised in 2000), and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Reasons for revising IAS 31

IN2 The International Accounting Standards Board developed this revised IAS 31 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For IAS 31 the Board's main objective was to make the amendments necessary to take account of the extensive changes being made to IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* and IAS 28 *Accounting for Investments in Associates* as part of the Improvements project. The Board did not reconsider the fundamental approach to the accounting for interests in joint ventures contained in IAS 31.

The main changes

IN4 The main changes from the previous version of IAS 31 are described below.

Scope

IN5 The Standard does not apply to investments that would otherwise be interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value being recognised in profit or loss in the period in which they occur.

IN6 Furthermore, the Standard provides exemptions from application of proportionate consolidation or the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with IAS 27 *Consolidated and Separate Financial Statements* from preparing consolidated financial statements (paragraph 2(b)), and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents (paragraph 2(c)).

Exemptions from applying proportionate consolidation or the equity method

IN7 The Standard does not require proportionate consolidation or the equity method to be applied when an interest in a joint venture is acquired and held with a view to its disposal within twelve months of acquisition. There must be evidence that the investment is acquired with the intention to dispose of it and that management is actively seeking a buyer. The words 'in the near future' from the previous version of IAS 31 were replaced with the words 'within twelve months'. When such an interest in a joint venture is not disposed of within twelve months it must be accounted for using proportionate consolidation or the equity method as from the date of acquisition, except in narrowly specified circumstances.*

IN8 The Standard does not permit a venturer that continues to have joint control of an interest in a joint venture not to apply proportionate consolidation or the equity method when the joint venture is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer. Joint control must be lost before proportionate consolidation or the equity method ceases to apply.

Separate financial statements

IN9 The requirements for the preparation of an investor's separate financial statements are established by reference to IAS 27.

Disclosure

IN10 The Standard requires a venturer to disclose the method it uses to recognise its interests in jointly controlled entities (ie proportionate consolidation or the equity method).

* In March 2004 the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from applying proportionate consolidation or the equity method when joint control of a joint venture is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.

International Accounting Standard 31
Interests in Joint Ventures

Scope

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 IAS 39 *Financial Instruments: Recognition and Measurement*. **Such investments shall be measured at fair value in accordance with 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.**

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 IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) the exception in paragraph 10 of 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 International Financial Reporting Standards.

Definitions

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 IAS 27 from consolidation, paragraph 13(c) of 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.