

Draft

Indian Accounting Standard (Ind AS) 111

Joint Arrangements



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The Institute of Chartered Accountants of India

Draft

Indian Accounting Standard (Ind AS) 111

Joint Arrangements

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Draft

Indian Accounting Standard (Ind AS) 111

Joint Arrangements

*(This Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)*

Objective

- 1 The objective of this Ind AS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. *joint arrangements*).**

Meeting the objective

- 2 To meet the objective in paragraph 1, this Ind AS defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

- 3 This Ind AS shall be applied by all entities that are a party to a joint arrangement.**

Joint arrangements

- 4 A joint arrangement is an arrangement of which two or more parties have joint control.**
- 5 A joint arrangement has the following characteristics:**
 - (a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).**

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).

6 A joint arrangement is either a joint operation or a joint venture.

Joint control

7 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

8 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

9 Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

10 In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

11 An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Ind AS distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of a joint arrangement.

12 An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs B5–B11).

13 If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Types of joint arrangement

14 An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

15 A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

16 A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

- 17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances (see paragraphs B12–B33).
- 18 Sometimes the parties are bound by a framework agreement that sets up the general contractual terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
- 19 If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

Financial statements of parties to a joint arrangement

Joint operations

- 20 A joint operator shall recognise in relation to its interest in a joint operation:**
- (a) its assets, including its share of any assets held jointly;**
 - (b) its liabilities, including its share of any liabilities incurred jointly;**
 - (c) its revenue from the sale of its share of the output arising from the joint operation;**
 - (d) its share of the revenue from the sale of the output by the joint operation; and**
 - (e) its expenses, including its share of any expenses incurred jointly.**
- 21 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind ASs applicable to the particular assets, liabilities, revenues and expenses.
- 22 The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs B34–B37.
- 23 A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation

does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the Ind ASs applicable to that interest.

Joint ventures

- 24 **A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.**
- 25 A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28 as amended).

Separate financial statements

- 26 **In its separate financial statements, a joint operator or joint venturer shall account for its interest in:**
- (a) a joint operation in accordance with paragraphs 20–22;
 - (b) a joint venture in accordance with paragraph 10 of Ind AS 27 *Separate Financial Statements*.
- 27 **In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:**
- (a) a joint operation in accordance with paragraph 23;
 - (b) a joint venture in accordance with Ind AS 39 unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of Ind AS 27 (as amended).

Appendix A

Defined terms

This appendix is an integral part of Ind AS

joint arrangement	An arrangement of which two or more parties have joint control .
joint control	The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
joint operation	A joint arrangement whereby the parties that have joint control of

the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

joint operator	A party to a joint operation that has joint control of that joint operation.
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
joint venture	A party to a joint venture that has joint control of that joint venture.
party to a joint arrangement	An entity that participates in a joint arrangement , regardless of whether that entity has joint control of the arrangement.
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

The following terms are defined in Ind AS 27 (as amended), Ind AS 28(as amended) or Ind AS 110 *Consolidated Financial Statements* and are used in this Ind AS with the meanings specified in those Ind ASs:

- control of an investee
- equity method
- power
- protective rights
- relevant activities
- separate financial statements
- significant influence.

Appendix B

Application guidance

This appendix is an integral part of this Ind AS. It describes the application of paragraphs 1–27 and has the same authority as the other parts of this Ind AS.

B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Ind AS 111.

Joint arrangements

Contractual arrangement (paragraph 5)

B2 Contractual arrangements can be evidenced in several ways. An enforceable contractual arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.

B3 When joint arrangements are structured through a separate vehicle (see paragraphs B19–B33), the contractual arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

B4 The contractual arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The contractual arrangement generally deals with such matters as:

- (a) the purpose, activity and duration of the joint arrangement.
- (b) how the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
- (c) the decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement (see paragraphs B5–B11).
- (d) the capital or other contributions required of the parties.
- (e) how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

Joint Control (paragraphs 7-13)

B5 In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. Ind AS 110

defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities), the parties control the arrangement collectively.

- B6 After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgement.
- B7 Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the contractual arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.
- B8 In other circumstances, the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the contractual arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application examples

Example 1

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

Example 2

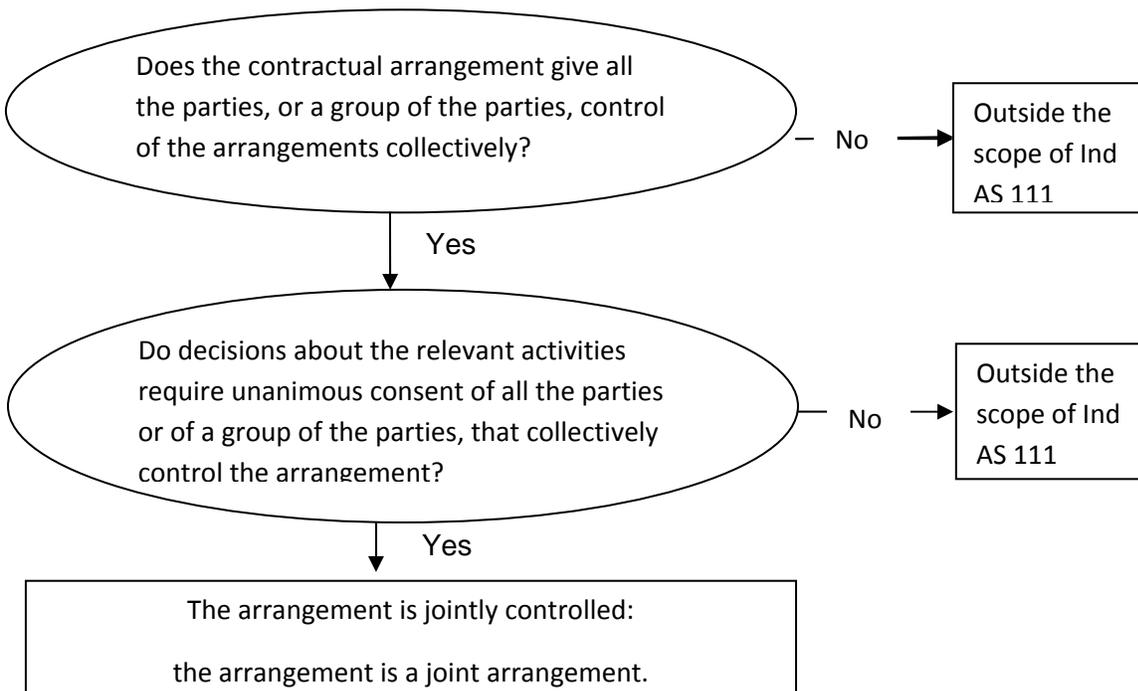
Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control

the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e. either A and B or A and C). In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

Example 3

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- B9 The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.
- B10 A contractual arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.



- B11 When an arrangement is outside the scope of Ind AS 111, an entity accounts for its interest in the arrangement in accordance with relevant Ind ASs, such as Ind AS 110, Ind AS 28 (as amended) or Ind AS 39.

Types of joint arrangement (paragraphs 14–19)

- B12 Joint arrangements are established for a variety of purposes (e.g. as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.
- B13 Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.
- B14 The classification of joint arrangements required by this Ind AS depends upon the parties rights and obligations arising from the arrangement in the normal course of business. This Ind AS classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs B16–B33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a joint arrangement

B15 As stated in paragraph B14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

- (a) the structure of the joint arrangement (see paragraphs B16–B21).
- (b) when the joint arrangement is structured through a separate vehicle:
 - (i) the legal form of the separate vehicle (see paragraphs B22–B24);
 - (ii) the terms of the contractual arrangement (see paragraphs B25–B28); and
 - (iii) when relevant, other facts and circumstances (see paragraphs B29–B33).

Structure of the joint arrangement

Joint arrangements not structured through a separate vehicle

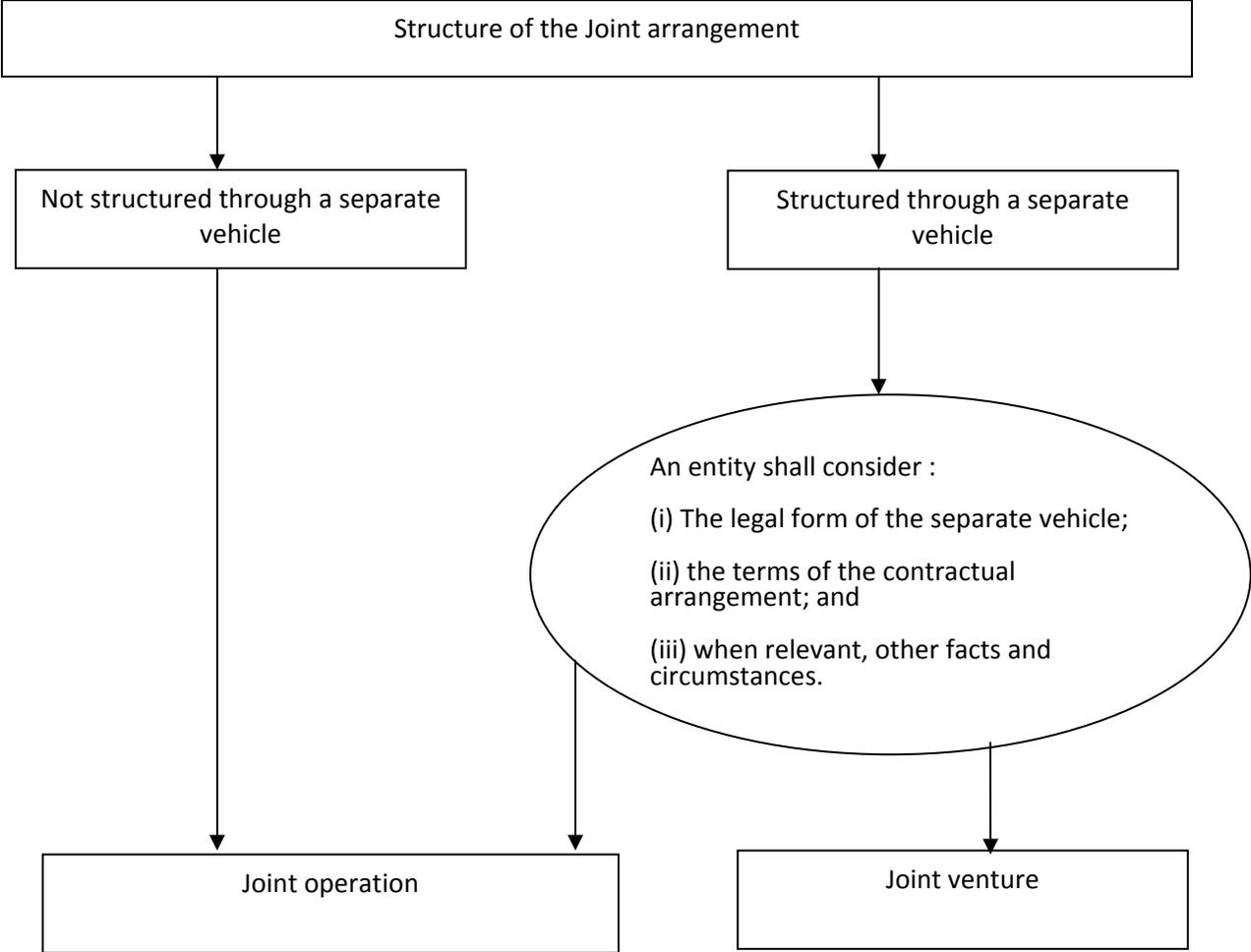
- B16 A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

- B17 The contractual arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to manufacture a product together, with each party being responsible for a specific task and each using its own assets and incurring its own liabilities. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the contractual arrangement.
- B18 In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the contractual arrangement.

Joint arrangements structured through a separate vehicle

- B19 A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.
- B20 Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.
- B21 As stated in paragraph B15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:
- (a) rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or
 - (b) rights to the net assets of the arrangement (ie the arrangement is a joint venture).
The legal form of the separate vehicle

Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement



The legal form of the separate vehicle.

- B22 The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.
- B23 For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms

agreed by the parties in their contractual arrangement (see paragraphs B25–B28) and, when relevant, other facts and circumstances (see paragraphs B29–B33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

- B24 The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e. the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the terms of the contractual arrangement

- B25 In many cases, the rights and obligations agreed to by the parties in their contractual arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.
- B26 In other cases, the parties use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application example

Example 4

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such contractual modifications to the features of a corporation can cause an arrangement to be a joint operation.

B27 The following table compares common terms in contractual arrangements of parties to a joint operation and common terms in contractual arrangements of parties to a joint venture. The examples of the contractual terms provided in the following table are not exhaustive.

Assessing the terms of the contractual arrangement		
	Joint operation	Joint venture
The terms of the contractual arrangement	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (ie it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The contractual arrangement establishes that the parties to the joint arrangement share all interests (e.g. rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (ie no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The contractual arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The contractual arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The contractual arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The contractual arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.

<p>Revenues, expenses, profit or loss</p>	<p>The contractual arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.</p>	<p>The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement.</p>
<p>Guarantees</p>	<p>The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).</p>	

B28 When the contractual arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs B29–B33) for the purposes of classifying the joint arrangement.

Assessing other facts and circumstances

B29 When the terms of the contractual arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

B30 A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The contractual terms agreed among the parties might not specify the parties' rights to the assets and obligations for the

liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

B31 When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

B32 The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties. The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture. However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

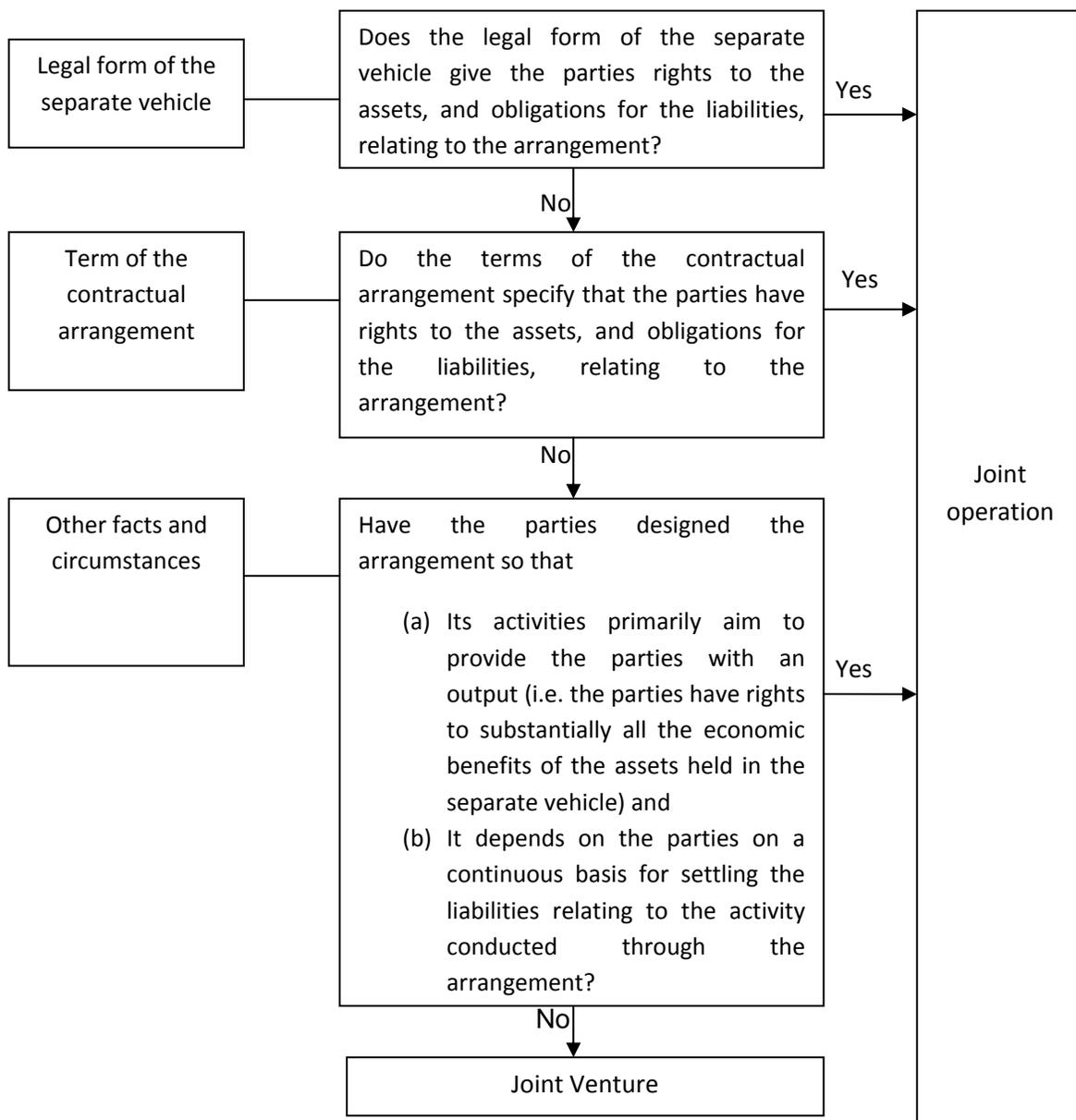
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C. These facts and circumstances indicate that the arrangement is a joint

operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

B33 The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a joint arrangement structured through a separate vehicle



Financial statements of parties to a joint arrangement (paragraph 22)

Accounting for sales or contributions of assets to a joint operation

- B34 When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- B35 When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator.

Accounting for purchases of assets from a joint operation

- B36 When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party.
- B37 When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses.

Appendix C

Effective date, transition and withdrawal of other Ind ASs

This appendix is an integral part of the Ind AS and has the same authority as the other parts of the Ind AS.

Effective date

C1 (Refer to Appendix 1)

Transition²

C2 –C14 (Refer to Appendix 1)

Withdrawal of other Ind ASs

C15 This Ind AS supersedes Ind AS 31 *Interests in Joint Ventures*

² The transitional provisions shall be incorporated in Ind AS 101 after making appropriate modifications as has been done in other Ind ASs since for India it would be first time adoption rather than transition from Ind AS 31 to Ind AS 111

Appendix D

Amendments to other Ind ASs

This appendix sets out amendments to other Ind ASs that are a consequence of the Ind AS 111. Amended paragraphs are shown with new text underlined and deleted text struck through.

D1 This table shows how the following references have been amended in other Ind ASs.

Existing reference to	contained in	in	is amended to reference to
Ind AS 31 <i>Interests in Joint Ventures</i>	Ind AS 102	paragraph 5	Ind AS 111 <i>Joint Arrangements</i>
	Ind AS 36	paragraph 4(c)	
	Appendix C of Ind AS 39	paragraph 5(c)	
Ind AS 28 <i>Investments in Associates</i>	Ind AS 18	paragraph 6(b)	Ind AS 28 <i>Investments in Associates and Joint Ventures</i>
	Ind AS 36	paragraph 4(b)	
joint control over	Ind AS 24	paragraphs 9(a)(i) and 11(b)	joint control of
jointly controlled entity(ies)	Ind AS 101	heading before paragraph 31, paragraphs 31 and D1(g), D7A, heading before paragraph D14, paragraphs D14 and D15	joint venture(s)
	Ind AS 36	heading before paragraph 12(h) and paragraphs 12(h) and 12(h)(ii)	
Existing reference to	contained in	in	is amended to reference to
joint venture(s)	Ind AS 12	paragraphs 2, 15, 18(e), 24, heading before paragraph 38, paragraphs 38, 38(a), 44, 45, 81(f), 87 and 87C	joint arrangement(s)
	Ind AS 21	definition of 'foreign operation' in paragraph 8 and paragraphs 11 and 18	
venturer(s)	Ind AS 24	paragraphs 11(b) and 19(e)	joint venturer(s)

Ind AS 101 *First -time Adoption of Indian Accounting Standards*

- D2 (Refer to Appendix1)
- D3 Paragraph D1 is amended as follows:
D1 An entity may elect to use one or more of the following exemptions:
- (a) ...
 - (p) extinguishing financial liabilities with equity instruments (paragraph D25); ~~and~~
 - (q) severe hyperinflation (paragraphs D26–D30); and
 - (r) joint arrangements (paragraph D31).
- D3A Reference to proportionate consolidation appearing in paragraph D7A of Ind AS 101 is deleted. (Refer to Appendix 1)
- D4 After paragraph D30, a heading and paragraph D31 are added.
- D4A Paragraph number D26 of Ind AS 101 is changed to paragraph number D25A (Refer to Appendix 1)

Joint arrangements

- D31 A first-time adopter may apply the transition provisions in Ind AS 111 with the following exception. When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with Ind AS 36 as at the beginning of the earliest period presented, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the beginning of the earliest period presented.

Ind AS 102 *Share-based Payment*

- D5 (Refer to Appendix 1)

Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*

- D6 Paragraph 28 is amended as follows:
- 28 The entity shall include any required adjustment to the carrying amount of a non-

current asset that ceases to be classified as held for sale in profit or loss [footnote omitted] from continuing operations in the period in which the criteria in paragraphs 7–9 are no longer met. Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of profit and loss used to present a gain or loss, if any, recognised in accordance with paragraph 37.

D7 (Refer to Appendix 1)

Ind AS 107 Financial Instruments: Disclosures

D8 Paragraph 3(a) is amended as follows:

- 3 This Ind AS shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110 Consolidated Financial Statements, Ind AS 27 ~~Consolidated and Separate Financial Statements~~, or Ind AS 28 Investments in Associates and Joint Ventures or ~~Ind AS 31 Interests in Joint Ventures~~. However, in some cases, Ind AS 27, or Ind AS 28 ~~or Ind AS 31~~ permits an entity to account for an interest in a subsidiary, associate or joint venture using Ind AS 39; in those cases...

D9 (Refer to Appendix 1)

Ind AS 109 Financial Instruments (Under formulation)

D10-D 18 (Refer to Appendix 1)

Ind AS 7 Statement of Cash Flows

D 19 (Refer to Appendix 1)

D20 Paragraphs 37 and 38 are amended as follows:

- 37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 ~~An entity which reports its interest in a jointly controlled entity (see IAS 31 *Interests in Joint Ventures*) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity's cash flows. An entity which that reports its such interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the ~~jointly controlled entity~~ associate or joint venture, and distributions and other payments or receipts between it and the ~~jointly controlled entity~~ associate or joint venture.~~

D21 Paragraph 50(b) is deleted.

D22 (Refer to Appendix 1)

Ind AS 12 Income Taxes

D23- D24 (Refer to Appendix 1)

D25 Paragraph 39 is amended as follows:

39 An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures arrangements, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor, ~~or joint venturer or joint operator~~ is able to control the timing of the reversal of the temporary difference; and

(b) ...

D26 Paragraph 43 is amended as follows:

43 The arrangement between the parties to a joint ~~venture~~ arrangement usually deals with the ~~sharing distribution~~ of the profits and identifies whether decisions on such matters require the consent of all the ~~venturers parties~~ or a ~~specified majority group~~ of the ~~venturers parties~~. When the joint venturer or joint operator can control the timing of the distribution of its share of the ~~sharing of profits of the joint arrangement~~ and it is probable that its share of the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

D27 (Refer to Appendix 1)

Ind AS 18 Revenue

D28-D29 (Refer to Appendix 1).

Ind AS 21 The Effects of Changes in Foreign Exchange Rates

D 30 (Refer to Appendix 1)

D31 In paragraphs 3(b) and 44 'proportionate consolidation,' and in paragraph 33 'proportionately consolidated,' are deleted.

D32 In paragraph 45, 'Ind AS 31 *Interests in Joint Ventures*' is deleted.

D33 In paragraph 46 the last sentence is amended as follows:

46 ... The same approach is used in applying the equity method to associates and joint ventures ~~and in applying proportionate consolidation to joint ventures~~ in accordance with Ind AS 28 ~~*Investments in Associates*~~ and Ind AS 34 (as amended).

D34 Paragraph 48A is amended as follows:

48A In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals ~~even if the entity retains an interest in the former subsidiary, associate or jointly controlled entity:~~

(a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former subsidiary after the partial disposal; and

(b) when the retained interest after the partial disposal of an interest in the loss of significant influence over an a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation. ; and

(c) ~~the loss of joint control over a jointly controlled entity that includes a foreign operation.~~

D35 (Refer to Appendix !)

Ind AS 24 Related Party Disclosures

D36 Paragraph 3 is amended as follows:

3 This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investors with joint control of, or significant influence over, an investee presented in accordance with Ind AS 110 Consolidated Financial Statements or Ind AS 27 Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.

D37 Paragraph 19 is amended as follows:

19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:

(a) the parent;

(b) entities with joint control of, or significant influence over, the entity;

(c) subsidiaries...

D38 Paragraph 25 is amended as follows:

25 A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control, or joint control of, or significant influence over, the reporting entity; and

(b) another entity that is a related party because the same government has control, or joint control of, or significant influence over, both the reporting entity and the other entity.

D39 (Refer to Appendix 1)

Ind AS 32 Financial Instruments: Presentation

D40 Paragraph 4(a) is amended as follows:

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110 Consolidated Financial Statements, Ind AS 27 Consolidated and Separate Financial Statements, or Ind AS 28 Investments in Associates and Joint Ventures ~~or Ind AS 31 Interests in Joint Ventures~~. However, in some cases, Ind AS 27, or Ind AS 28 ~~or Ind AS 31~~ permits an entity to account for an interest in a subsidiary, associate or joint venture using Ind AS 39; ...

D41 (Refer to Appendix 1)

Ind AS 33 Earnings per Share

D42 Paragraph 40 and A11 are amended as follows:

- 40 A subsidiary, joint venture or associate may issue to parties other than the parent, ~~venturer~~ or investors with joint control of, or significant influence over, the investee potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, ~~or investors~~ with joint control of, or significant influence (the reporting entity) over, the investee ~~venturer or investor~~. If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.
- A11 Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, or investors with joint control of, or significant influence (the reporting entity) over, the investee ~~venturer or investor~~ are included in the calculation of diluted earnings per share as follows: ...

Ind AS 36 Impairment of Assets

D43 (Refer to Appendix 1)

Ind AS 38 Intangible Assets

D44 Paragraph 3(e) is amended as follows:

- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
- (a) ...
 - (e) financial assets as defined in Ind AS 32. The recognition and measurement of some financial assets are covered by Ind AS 110 Consolidated Financial Statements, Ind AS 27 ~~Consolidated and Separate Financial Statements~~, and Ind AS 28 Investments in Associates and Joint Ventures ~~and Ind AS 31 Interests in Joint Ventures~~.
 - (f) ...

D45 (Refer to Appendix 1)

Ind AS 39 *Financial Instruments: Recognition and Measurement*

D46 Paragraph 2(a) is amended as follows:

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for ~~under~~ in accordance with Ind AS 110 *Consolidated Financial Statements*, Ind AS 27 *Consolidated and Separate Financial Statements*, or Ind AS 28 *Investments in Associates and Joint Ventures* and ~~Ind AS 31 *Interests in Joint Ventures*~~. However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to Ind AS 27, or Ind AS 28 ~~or Ind AS 31~~ is accounted for under this Standard. ...

D47 Paragraphs AG3 and AG4I(a) are amended as follows:

AG3 Sometimes, an entity makes what it views as a 'strategic investment' in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses Ind AS 28 to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses Ind AS 31 to determine whether proportionate consolidation or the equity method is appropriate for such an investment. If neither the equity method nor proportionate consolidation is not appropriate, the entity applies this Standard to that strategic investment.~~

AG4I(a) ~~The entity is a venture capital organisation, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. Ind AS 28 and ~~Ind AS 31~~ allows such investments to be excluded from their scope provided they are measured at fair value through profit or loss in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of Ind AS 28 ~~or Ind AS 31~~.~~

D48 (Refer to Appendix 1)

Appendix A to Ind AS 37 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

D49 Paragraphs 8 and 9 are amended as follows:

8 The contributor shall determine whether it has control, or joint control of, or significant influence over, the fund by reference to ~~Ind AS 27~~ Ind AS 110, Ind AS 111 and Ind AS 28, ~~Ind AS 31 and SIC 12~~. If it does, the contributor shall account

for its interest in the fund in accordance with those Standards.

- 9 If a contributor does not have control, or joint control of, or significant influence over, the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with Ind AS 37. This reimbursement shall be measured at the lower of:

(a) ...

D50 (Refer to Appendix 1)

Appendix C to Ind AS 39 Reassessment of Embedded Derivatives

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D51-D52 (Refer to Appendix 1)

Appendix D to Ind AS 39 Hedges of a Net Investment in a Foreign Operation

D53 The footnote to paragraph 2 is amended as follows:

- This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method, ~~financial statements in which venturers' interests in joint ventures are proportionately consolidated (subject to change as proposed in ED 9 Joint Arrangements published by the International Accounting Standards Board in September 2007)~~ and financial statements that include a branch or a joint operation as defined in Ind AS 111 *Joint Arrangements*.

Appendix E

Note: This appendix is provided to bring out the major differences between Draft of Ind AS 111, Joint Arrangements and Ind AS 31 .

Major differences between Draft of Ind AS 111, Joint Arrangements and Ind AS 31

1. Under Ind AS 31, there are three types of joint arrangements- jointly controlled operations, jointly controlled assets and jointly controlled entities. Ind AS 111 classifies joint arrangements into two types- joint operations and joint ventures.
2. The accounting requirements in Ind AS 31 were driven only by whether the arrangements were structured through an entity. For example: 'jointly controlled operations' and 'jointly controlled assets' were arrangements in Ind AS 31 that were not structured through an entity. Parties involved in those arrangements were simply required to recognise assets, liabilities, revenues and expenses arising from the arrangements. However, when arrangements were structured through an entity, Ind AS 31 classified them as 'jointly controlled entities' and offered parties an accounting choice between proportionate consolidation and the equity method.

Under Ind AS 111, the accounting for joint arrangements is driven by the principle, namely that parties should recognise their rights and obligations arising from the arrangements. The parties' rights and obligations will result in either the recognition of assets and liabilities and corresponding revenues and expenses or in the recognition of an investment.

3. Ind AS 111 requires the joint venture to use the equity method to account for investments recognised whereas Ind AS 31 gives the option of proportionate consolidation as provided in Ind AS 31.
4. Ind AS 111 provides application guidance to assist entities in determining precisely whether they have rights to assets and obligations for liabilities (in which case, the parties have an interest in a joint operation) or whether they have rights to the net assets of an arrangement (in which case, the parties have an interest in a joint venture). An entity will be required to apply judgement when assessing its rights and obligations arising from the arrangements, because this will determine the classification of the arrangements.

Appendix F

Note: This Appendix is provided to bring out the major differences between the Draft of Indian Accounting Standard (Ind AS) 111, 'Joint Arrangements, and the existing AS 27, 'Financial Reporting of Interests in Joint Ventures',.

Major Differences between the Draft of Ind AS 111, *Joint Arrangements* and the existing AS 27, *Financial Reporting of Interests in Joint Ventures* (issued in 2002)

1. Existing AS 27 recognises three forms of joint venture namely: a) jointly controlled operations, b) jointly controlled assets and c) jointly controlled entities. As per Draft of Ind AS 111 a joint arrangement is either a joint operation or a joint venture. Such classification of joint arrangement depends upon the rights and obligations of the parties to the arrangement and disregards the legal structure.
2. Existing AS 27 provides that in some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of Accounting Standard (AS) 21, *Consolidated Financial Statements*. In those cases, the entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture. Draft of Ind AS 111 does not recognise such cases keeping in view the definition of control given in Ind AS 27.
3. Draft of AS 111 provides that a venturer can recognise its interest in joint venture using only equity method. Existing AS 27 prescribes the use of proportionate consolidation method only.
4. Existing AS 27 requires application of the proportionate consolidation method only when the entity has subsidiaries and prepares Consolidated Financial Statements. Draft of Ind AS 111 requires application of equity method in financial statements other than separate financial statements in case of a joint venture, even if the venturer does not have any subsidiary in the financial statements.
5. In case of separate financial statements under existing AS 27, interest in jointly controlled entity is accounted for as per AS 13, *Accounting for Investments*, i.e., at cost less provision for other than temporary decline in the value of investment. The Draft of Ind AS 111 requires that the joint operator shall recognise its interest in joint operation as given in the paragraphs 20-22 and a joint venture in accordance with paragraph 10 of Ind AS 27 *Separate Financial Statements*.
6. An explanation has been given in existing AS 27 regarding the term 'near future' used in an exemption given from applying proportionate consolidation method, ie, where the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. This explanation has not been given in the Draft of Ind AS 111, as such situations are now covered by Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

7. Existing AS 21 provides clarification regarding disclosure of venturer's share in post-acquisition reserves of a jointly controlled entity. The same has not been dealt with in the Draft of Ind AS 111.

Appendix 1

Comparison with IFRS 11, *Joint Arrangements*

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 111 and the corresponding International Financial Reporting Standard (IFRS) 11, Joint Arrangements (issued in May 2011) issued by the International Accounting Standards Board:

1. Following paragraphs deal with IFRS 9. As only Ind AS 39 corresponding to IAS 39 is made applicable, hence these paragraphs have been deleted in Ind AS 111. In order to maintain consistency with paragraph numbers of IFRS 11, the paragraph numbers are retained in Ind AS 111:
 - (i) Paragraph C14 of Appendix C;
 - (ii) Paragraphs D10-D18 of Appendix D

2. Following paragraphs are not relevant as the date of application will be notified under the Companies Act. However, but. in order to maintain consistency with paragraph numbers of IFRS 11, the paragraph numbers are retained in Ind AS 111:
 - (i) Paragraph C1 of Appendix C;
 - (ii) Paragraph D2 of Appendix D;
 - (iii) Paragraph D5 of Appendix D;
 - (iv) Paragraph D7 of Appendix D;
 - (v) Paragraph D9 of Appendix D;
 - (vi) Paragraph D19 of Appendix D
 - (vii) Paragraphs D22-24 of Appendix D;
 - (viii) Paragraphs D27-D30 of Appendix D;
 - (ix) Paragraph D35 of Appendix D;
 - (x) Paragraph D 39 of Appendix D;
 - (xi) Paragraph D41 of Appendix D;
 - (xii) Paragraph D43 of Appendix D

- (xiii) Paragraph D45 of Appendix D;
 - (xiv) Paragraph D48 of Appendix D;
 - (xv) Paragraphs D50-52 of Appendix D
-
- 3. Paragraph D3A has been added as it refers to changes in paragraph D7A of Ind AS 101. which has been included in Ind AS 101 to provide transitional relief from the retrospective application of Ind AS 16 .

 - 4. Paragraph D4A has been added as it refers to changing of paragraph D26 of Ind AS 101 as paragraph D25A.

 - 5. The transitional provisions given in paragraph numbers C2-C13 of Appendix C in IFRS 11 have not been given in Ind AS 111, since all transitional provisions related to Indian ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. In order to maintain consistency with paragraph numbers of IFRS 11, the paragraph numbers are retained in Ind AS 111.
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Ind AS 111- JOINT ARRANGEMENTS ILLUSTRATIVE EXAMPLES

Sr. No.	Contents	Paragraph
1	Construction Services	IE2-IE8
2	Shopping Centre Operated Jointly	IE9-IE13
3	Joint Manufacturing And Distribution of a Product	IE14-IE28
4	Bank Operated Jointly	IE29-IE33
5	Oil And gas Exploration, Development And Production Activities	IE34-IE43
6	Liquefied Natural Gas Arrangements	IE44-IE52

Ind AS 111

ILLUSTRATIVE EXAMPLES

These examples accompany, but are not part of, Ind AS 111. They illustrate aspects of Ind AS 111 but are not intended to provide interpretative guidance.

IE1 These examples portray hypothetical situations illustrating the judgements that might be used when applying Ind AS 111 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Ind AS 111.

Example 1 – Construction services

IE2 A and B (the parties) are two companies whose businesses are the provision of many types of public and private construction services. They set up a contractual arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The contractual arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road.

IE3 The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4 The contractual arrangement between A and B additionally establishes that:

- (a) the rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;
- (b) the parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and
- (c) the profit or loss resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5 For the purposes of co-ordinating and overseeing the activities, A and B appoint an operator, who will be an employee of one of the parties. After a specified time, the role of the operator will rotate to an employee of the other party. A and B agree that the activities will be executed by the operator's employees on a 'no gain or loss' basis.

IE6 In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

Analysis

- IE7 The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their contractual arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation.
- IE8 A and B each recognise in their financial statements their share of the assets (eg property, plant and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g. accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

Example 2 – Shopping centre operated jointly

- IE9 Two real estate companies (the parties) set up a separate vehicle (entity X) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the rental of the retail units, managing the car park, maintaining the centre and its equipment, such as lifts, and building the reputation and customer base for the centre as a whole.
- IE10 The terms of the contractual arrangement are such that:
- (a) entity X owns the shopping centre. The contractual arrangement does not specify that the parties have rights to the shopping centre.
 - (b) the parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.
 - (c) the parties have the right to sell or pledge their interests in entity X.
 - (d) each party receives a share of the income from operating the shopping centre (which is the rental income net of the operating costs) in accordance with its interest in entity X.

Analysis

- IE11 The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to

the arrangement. Instead, the terms of the contractual arrangement establish that the parties have rights to the net assets of entity X.

- IE12 On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.
- IE13 The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint manufacturing and distribution of a product

- IE14 Companies A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.
- IE15 The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:
- (a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (ie the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the contractual arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.
 - (b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (ie the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the contractual arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE16 In addition, the framework agreement establishes:

- (a) that the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;
- (b) the commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.
- (c) that any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

IE17 The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

IE18 The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the contractual arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:

- (a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the economic benefits of the assets of the manufacturing arrangement.
- (b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfil the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.

IE19 The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the contractual arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

- IE20 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.
- IE21 A and B each recognise in their financial statements their share of the assets (eg property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (eg accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.
- IE22 The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

- IE23 Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.
- IE24 The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.
- IE25 The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis

- IE26 The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the contractual terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.
- IE27 The variation has no effect on the classification of the distribution arrangement as a joint venture.
- IE28 The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Example 4 – Bank operated jointly

- IE29 Banks A and B (the parties) agreed to combine their corporate, investment banking, asset management and services activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to increase its size, offering an opportunity to exploit its full potential for organic growth through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.
- IE30 The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 percent being listed and widely held. The shareholders' agreement between bank A and bank B establishes joint control of the activities of bank C.
- IE31 In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honours any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

Analysis

- IE32 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.
- IE33 Both banks A and B recognise their rights to the net assets of bank C as investments and account for them using the equity method.

Example 5 – Oil and gas exploration, development and production activities

- IE34 Companies A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the

separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

- IE35 Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).
- IE36 The shareholders' agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

Shareholders' agreement

- IE37 The board of entity H consists of a director from each party. Each party has a 50 per cent shareholding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

- IE38 The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.
- IE39 The Operating Committee approves the budgets and work programmes relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programmes.
- IE40 The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's shareholding in entity H. In particular, the JOA establishes that the parties share:
- (a) the rights and the obligations arising from the exploration and development permits granted to entity H (e.g. the permits, rehabilitation liabilities, any royalties and taxes payable);
 - (b) the production obtained; and
 - (c) all costs associated with all work programmes.
- IE41 The costs incurred in relation to all the work programmes are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

- IE42 The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this

by agreeing terms in the JOA that entitle them to rights to the assets (e.g. exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (eg all costs and obligations arising from the work programmes) that are held in entity H. The joint arrangement is a joint operation.

- IE43 Both company A and company B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 6 – Liquefied natural gas arrangement

- IE44 Company A owns an undeveloped gas field that contains substantial gas resources. Company A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.
- IE45 Company A enters into a joint arrangement with company B in order to develop and operate the gas field and the LNG facility. Under that arrangement, companies A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE46 The contractual arrangement between the parties specifies that:
- (a) companies A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.
 - (b) day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of company B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.
 - (c) entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.
 - (d) companies A and B have equal shares in the profit from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends distributed by entity C.
- IE47 The contractual arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.

- IE48 The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is Rs 1,000 million.*
- IE49 The lending syndicate provides entity C with a Rs 700 million loan. The arrangement specifies that the syndicate has recourse to companies A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to companies A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to companies A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

Analysis

- IE50 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (ie companies A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (ie the loan is a liability of entity C). Companies A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.
- IE51 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.
- IE52 The parties recognise their rights to the net assets of entity C as investments and account for them using the equity method.
