Accounting by the joint operator: recognition of revenue by a joint operator (IFRS 11 *Joint Arrangements*)—March 2015

The Interpretations Committee discussed whether a joint operator should recognise revenue in relation to the output purchased from the joint operation by the parties. This issue relates to the application of paragraph 20(d) of IFRS 11, which requires a joint operator to recognise its share of the revenue from the sale of the output by the joint operation.

Examining paragraph 20(d) of IFRS 11, the Interpretations Committee noted that if the joint arrangement is structured through a separate vehicle and the assessment of other facts and circumstances results in the joint arrangement being classified as a joint operation, in circumstances in which the parties take all the output of the joint arrangement in proportion to their rights to the output, the application of paragraph 20(d) of IFRS 11 would not result in the recognition of revenue by the parties. This is because, if the joint operators purchase all the output from the joint operation in proportion to their rights to the output, they would recognise 'their revenue' only when they sell the output to third parties.

In other words, the joint operators would not recognise any amount in relation to the 'share of the revenue from the sale of the output by the joint operation'. This is because a joint operator that has an obligation to purchase the output from the joint operation has rights to the assets of the joint operation. Accordingly, the sale of the output by the joint operation to the joint operator would mean selling output to itself and, therefore, the joint operator would not recognise a share of the revenue from the sale of that output by the joint operation.

Consequently, paragraph 20(d) of IFRS 11 would result in the recognition of revenue by a joint operator only when the joint operation sells its output to third parties. For this purpose, third parties do not include other parties who have rights to the assets and obligations for the liabilities relating to the joint operation.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee decided not to add this issue to its agenda.