Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation (IFRS 11 *Joint Arrangements*)—March 2015

The Interpretations Committee discussed the accounting in the circumstance in which the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation.

For the purposes of this discussion, the Interpretations Committee considered a fact pattern in which the joint arrangement is structured through a separate vehicle and for which the parties to the joint arrangement have committed themselves to purchase substantially all of the output produced at a price designed to achieve a break-even result. In this fact pattern, the parties to the joint arrangement would be considered to have rights to the assets and obligations for the liabilities. Such a joint arrangement is presented in Example 5 of the application guidance to IFRS 11 and is classified as a joint operation. A variation of such a fact pattern could (and does) arise in circumstances in which the parties' percentage ownership interest in the separate vehicle differs from the percentage share of the output produced, which each party is obliged to purchase.

The Interpretations Committee, referring to paragraph 20 of IFRS 11, noted that the joint operators of such a joint operation would account for their assets, liabilities, revenues and expenses in accordance with the shares specified in the contractual arrangement. However, when an assessment of other facts and circumstances has concluded that the joint arrangement is a joint operation, and the joint arrangement agreement does not specify the allocation of assets, liabilities, revenues or expenses, the question arises about what share of assets, liabilities, revenue and expenses each joint operator should recognise. Specifically, should the share of assets, liabilities, revenue and expenses recognised reflect the percentage of ownership of the legal entity, or should it reflect the percentage of output purchased by each joint operator?

The Interpretations Committee noted that there could be many different scenarios in which the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation: for example, when the share of output purchased by each party varies over the life of the joint arrangement. A key issue that arises in this situation is over what time horizon should the share of output be considered.

The Interpretations Committee also noted that if the joint operators made a substantial investment in the joint operation that differed from their ownership interest, there may be other elements of the arrangements that could explain why there is a difference between the percentage of ownership interest and the percentage share of the output produced, which each party is obliged to purchase. It noted that the identification of the other elements may provide relevant information to determine how to account for the difference between the two.

Consequently, the Interpretations Committee noted that it is important to understand why the share of the output purchased differs from the ownership interests in the joint operation. Judgement will therefore be needed to determine the appropriate accounting.

The Interpretations Committee noted that notwithstanding these observations, there remained concerns about the sufficiency of the guidance in IFRS 11 on the accounting by a joint operator in the circumstances described. The Interpretations Committee noted that to develop additional guidance for this issue would require a broader analysis than could be achieved by the Interpretations Committee.

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