

Sale of Output by a Joint Operator (IFRS 11 *Joint Arrangements*)— March 2019

The Committee received a request about the recognition of revenue by a joint operator for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled. In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation and is obliged to pay for a fixed proportion of the production costs incurred. For operational reasons, the output received by the joint operator and transferred to its customers in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation—it cannot be settled in cash. Applying IFRS 15 *Revenue from Contracts with Customers*, the joint operator recognises revenue as a principal for the transfer of all the output to its customers.

The request asked whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

In relation to its interest in a joint operation, paragraph 20(c) of IFRS 11 requires a joint operator to recognise 'its revenue from the sale of its share of the output arising from the joint operation'. Accordingly, the revenue recognised by a joint operator depicts the output it has received from the joint operation and sold, rather than for example the production of output. The joint operator accounts for the revenues relating to its interest in the joint operation applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).

The Committee concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but which it has not received from the joint operation and sold.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation as described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.