IFRS®
Accounting

Educational Module 15
Joint Arrangements

IFRS for SMEs®

Accounting Standard

Third Edition

International Accounting Standards Board

IFRS® Foundation
Supporting Material for the
IFRS for SMEs® Accounting Standard

including the full text of
Section 15 *Joint Arrangements*
of the *IFRS for SMEs* Accounting Standard issued by
the International Accounting Standards Board in October 2025

with extensive explanations, self-assessment questions and case studies

Contents

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The requirements of Section 15 *Joint Arrangements* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 15.

This module has been prepared by the International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

INTRODUCTION

IFRS for SMEs® Accounting Standard

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities* of the Standard).

The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: www.ifrs.org.

This module

This educational module supports the requirements for accounting for and reporting of investments in joint arrangements in accordance with Section 15 *Joint Arrangements* of the Standard.

The module:

- provides explanations and examples to improve understanding of the requirements in Section 15;
- identifies the significant judgements required in accounting for investments in joint arrangements;
- includes questions designed to test your understanding of the requirements in Section 15; and
- includes case studies that provide a practical opportunity to apply the Section 15 requirements.

After completing the module, you should be able:

- to identify when an entity is party to a joint arrangement;
- to determine if the contractual arrangement gives two or more parties joint control of a jointly controlled operation, jointly controlled assets or jointly controlled entity;
- to differentiate between joint arrangements that take the form of jointly controlled operations, jointly controlled assets and jointly controlled entities;

- to determine which assets, liabilities, income and expenses are to be recognised in the financial statements in respect of interests in jointly controlled operations and jointly controlled assets;
- to measure investments in jointly controlled entities on initial recognition and in subsequent periods;
- to account for transactions between a party to the joint arrangement that has joint control and a joint arrangement;
- to present and disclose investments in joint arrangements in financial statements; and
- to demonstrate an understanding of the significant judgements that are required in accounting for investments in joint arrangements.

Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs* Accounting Standard' is to the third edition of the Standard, issued February 2025.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity that is useful to existing and potential investors, lenders and other creditors when making decisions relating to providing resources to the entity.

The objective of Section 15 is to set out the financial reporting requirements for joint arrangements in consolidated financial statements and in the financial statements of an investor that is not a parent but has one or more joint arrangements. Section 15 also sets out requirements for a party that participates in, but does not have, joint control in a joint arrangement.

A joint arrangement is an arrangement of which two or more parties have joint control. 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.

Joint arrangements may take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities.

Jointly controlled operations

A jointly controlled operation is a joint arrangement in which each party uses its own property, plant and equipment (PPE) and carries its own inventories. It incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.

Jointly controlled assets

Jointly controlled assets are joint arrangements that involve the joint control or joint ownership of one or more of the assets that contribute to, or are acquired for the purpose of, the joint arrangement and are dedicated to the purposes of the joint arrangement.

Jointly controlled entities

Jointly controlled entities are joint arrangements that involve the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.

What has changed in the third edition of the Standard?

In the third edition of the Standard the IASB updated the Standard to align with some requirements in IFRS 11 *Joint Arrangements*:

- the term 'joint venture' has been replaced with 'joint arrangement';
- the definition of 'joint control' has been amended to align it with the definition of 'control' in Section 9 *Consolidated and Separate Financial Statements* (see paragraphs 15.2 and 15.2A);
- there are new requirements for an entity that does not have joint control of a joint arrangement to account for its interest based on the type of arrangement (see paragraphs 15.18–15.18B); and
- the requirement for entities to disclose their share of the capital commitments of joint ventures has been removed (see paragraph 15.19(d)).

Transition requirements for these changes are explained on page 42 of this educational module.

REQUIREMENTS AND EXAMPLES

Scope of this section

15.1 This section applies to accounting for **joint arrangements** in **consolidated financial statements** and in the **financial statements** of an investor that is not a **parent** but that has one or more joint arrangements. This section also establishes requirements for a party that participates in but does not have **joint control** in a joint arrangement. Paragraph 9.26 establishes the requirements for accounting for a **jointly controlled entity** in **separate financial statements**.

Educational notes

The requirements of Section 15 apply to the accounting for investments in joint arrangements in relation to:

- a parent that prepares consolidated financial statements; or
- an investor that is not a parent, but is a party to one or more joint arrangements.

When an entity has no subsidiaries (and therefore does not prepare consolidated financial statements) it applies Section 15 to account for its joint arrangements. Such an entity may then choose (or be required by the law in its jurisdiction) to prepare separate financial statements as a second set of financial statements. The entity then applies the requirements in paragraph 9.26 to account for its interest in jointly controlled entities. An entity applies the requirements in Section 15 for jointly controlled operations and jointly controlled assets.

Joint arrangements defined

15.2 A joint arrangement is an arrangement of which two or more parties have joint control. 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.

15.2A 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 (that is, the relevant activities). 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.

15.3 Joint arrangements can take the form of jointly controlled operations, jointly controlled **assets** or jointly controlled entities.

Educational notes

The third edition of the Standard is updated to align with some requirements in IFRS 11. For example:

- Section 15 shares the same principle of joint control as IFRS 11, both requiring contractually agreed sharing of control that exists only when decisions about the relevant activities require the unanimous consent of the parties sharing the control.

Some parts of the third edition of the Standard are not aligned with IFRS 11. For example:

- Section 15 requires an entity to classify a joint arrangement based on the arrangement's legal form. This requirement is based on a requirement in IAS 31 *Interests in Joint Ventures*, which preceded IFRS 11. In contrast, IFRS 11 requires an entity to classify a joint arrangement based on the parties' rights and obligations arising from the arrangement.
- Section 15 classifies joint arrangements into three groups: jointly controlled operations, jointly controlled assets and jointly controlled entities. IFRS 11 classifies joint arrangements into two groups: joint operations and joint ventures.

Contractual arrangements

Joint arrangements take various forms, but share the following characteristics:

- the parties are bound by the contractual arrangement; and
- the contractual arrangement gives two or more of those parties joint control of the arrangement.

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

When joint arrangements are structured through a separate vehicle, the contractual arrangement (or some of its aspects) may be incorporated into the articles, charter or by-laws of the separate vehicle.

The contractual arrangement sets out the terms of the parties' participation in the activities of the arrangement. The contractual arrangement generally covers matters such as:

- the purpose, activity and duration of the joint arrangement;
- how the members of the board of directors (or equivalent governing body) of the joint arrangement are appointed;
- the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters—these decision-making processes, reflected in the contractual arrangement, establish joint control of the arrangement;
- the capital or other contributions required of the parties; and
- how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

Joint control

To determine whether an entity has joint control of an arrangement, the entity first assesses whether the contractual arrangement gives all the parties, or a group of the parties, joint control of the arrangement collectively.

Section 9 defines control and is used to determine whether all the parties are exposed, or have rights, to variable returns from their involvement with the arrangement and whether they have the ability to affect those returns through their power over the arrangement. The parties control the arrangement collectively only when all the parties are collectively able to direct the activities that significantly affect the returns of the arrangement (the relevant activities). If one party is deemed to have sole control, in accordance with Section 9, then the remaining parties (or a group of the remaining parties) cannot have joint control.

After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity assesses 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.

Only if there exists a contractual arrangement and joint control is the arrangement a joint arrangement.

A contractual arrangement may identify one party as the operator or manager of the joint arrangement. In such circumstances, the operator does not control the joint arrangement and instead acts according to the relevant activities contractually agreed by the parties and delegated to the operator.

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.

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.

Types of joint arrangements

Joint arrangements are established for various purposes and can take a variety of structures and legal forms. For example, a joint arrangement can be a way for parties to share costs and risks or to provide the parties with access to new technology or new markets.

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 creation of a separate vehicle. The classification of joint arrangements in Section 15 depends on the legal form of the arrangement.

Example—No joint control

Ex 1 Five unrelated SMEs— SMEs A, B, C, D and E—each own 20% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Decisions about the relevant activities of Entity Z require approval by investors holding a simple majority (more than 50%) of the voting power.

No single investor controls Entity Z. Neither the five SMEs collectively, nor any group of the five SMEs, have joint control over Entity Z. For joint control to exist, decisions about the relevant activities require the unanimous consent of the parties sharing control. However, the contractual arrangement allows agreement of any combination of three of the five investors to make strategic decisions. Accordingly, no fixed combination of investors has joint control over Entity Z.

Examples—Joint control

Ex 2 The facts are the same as in Example 1, except that three of the five SMEs—SMEs A, B and C—have contractually agreed to exercise joint control of Entity Z.[1]

SMEs A, B and C have joint control over Entity Z—it is a joint arrangement. SMEs A, B and C are required to account for their investments in Entity Z applying paragraphs 15.8–15.15 and 15.19–15.21.

In this example, a simple majority of investors is required to make decisions about the relevant activities of Entity Z. Any combination of parties acting together can achieve a simple majority—for example, SMEs A, D and E could successfully pass a decision by voting together. Therefore, the arrangement is not a joint arrangement, because it does not specify which parties (or combination of parties) are required to agree unanimously to make decisions about the relevant activities of the arrangement. As such, it is essential in a joint arrangement that there is contractually agreed joint control that specifies that it requires the unanimous consent of the parties sharing the control. In this example, SMEs A, B and C have contractually agreed to exercise joint control. If the contractual agreement were between these three entities only, the agreement would need to include provisions to make it effective given that, if SME D and SME E voted in the same way as, say, SME A on a matter, a simple majority would be achieved even if SME B and SME C voted against the matter. For instance, the agreement may require that, if any of SMEs A, B and C voted against a matter, then all three of them would vote against it; such an agreement would ensure that any decisions about the relevant activities of Entity Z would require the unanimous consent of SMEs A, B and C.

1 In this and all other examples, unless otherwise stated, assume that the contractual arrangement provides that decisions about relevant activities require the parties' unanimous consent.

Ex 3 **Two unrelated SMEs—SMEs A and B—each own 50% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. In accordance with the contractual agreement between SMEs A and B, decisions about the relevant activities of Entity Z require approval by investors holding a simple majority (more than 50%) of the voting power.**

SMEs A and B have joint control because the unanimous consent of both SMEs is required for any decision. Consequently, Entity Z is a joint arrangement of SMEs A and B.

Ex 4 **SMEs A and B own 55% and 10%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Decisions about the relevant activities of Entity Z require approval by investors holding more than 60% of the voting power.**

If SMEs A and B vote in favour of a resolution, other shareholders cannot block the decision. However, unless some other arrangement is in place, SME B cannot block a decision by itself. Only if the investors have entered into a contractual arrangement to establish that decisions require the unanimous agreement of SMEs A and B, is Entity Z a joint arrangement (a jointly controlled entity) of SMEs A and B.

Ex 5 **SMEs A and B own 75% and 25%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. Decisions about the relevant activities of Entity Z require the unanimous consent of SMEs A and B.**

SMEs A and B have joint control because the agreement of both SMEs is required for any decision. Entity Z is a joint arrangement (a jointly controlled entity) of SMEs A and B.

Jointly controlled operations

15.4 The operation of some joint arrangements involves the use of the assets and other resources of the parties to the joint arrangement instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the parties themselves. Each party uses its own **property, plant and equipment** and carries its own **inventories**. It also incurs its own **expenses** and **liabilities** and raises its own finance, which represent its own obligations. The joint arrangement activities may be carried out by the party's employees alongside the party's similar activities. The joint arrangement agreement usually provides a means by which the **revenue** from the sale of the joint product and any expenses that are in common to the parties are to be shared among them.

Educational notes

In a jointly controlled operation, no separate entity is created. The transactions of the jointly controlled operation are accounted for by each of the parties to the joint arrangement in their own financial statements. Joint expenses and joint revenue are shared among the parties based on the contractual agreement.

Examples—Jointly controlled operation

Ex 6 **SME A researches and develops pharmaceutical drugs. SME B manufactures drugs and promotes them commercially. SMEs A and B enter into a contractual arrangement whereby they share all costs and revenues from a jointly controlled operation in which a new pharmaceutical drug is researched and developed by SME A, and manufactured and promoted by SME B.**

SMEs A and B have joint control over the specified research, development, manufacturing and commercial activities—it is a joint arrangement (a jointly controlled operation).

Ex 7 **SMEs A and B enter into a contractual arrangement whereby they combine their operations, resources and expertise to manufacture, market and distribute bicycles. The parties to the joint arrangement each carry out a distinct part of the manufacturing process. Each party bears its own costs and takes a share of the revenue from the sale of the bicycles, with their shares determined in accordance with the contractual arrangement.**

SMEs A and B have joint control over the bicycle-manufacturing operations, so it is a joint arrangement (a jointly controlled operation).

15.5 In respect of its interests in jointly controlled operations, a party shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the revenue that it earns from the sale of goods or services by the joint arrangement.

Example—Accounting for a jointly controlled operation

Ex 8 **SMEs A and B tender jointly for a public contract with a government to construct a motorway between two cities, because the scale of the project exceeds their individual capacity. Following the tender process, the government awards the contract jointly to SMEs A and B in 20X1.**

In accordance with the contractual arrangements, SMEs A and B are jointly contracted with the government to build the motorway in return for CU14 million, as part of a fixed-price contract.[2]

2 In this and all other examples, monetary amounts are denominated in 'currency units' (CU).

In 20X1, in accordance with the agreement between SMEs A and B:

- **SMEs A and B each use their own equipment and employees in the construction activity;**
- **SME A constructs three bridges to cross rivers on the route at a cost of CU4 million;**
- **SME B constructs all other elements of the motorway at a cost of CU6 million; and**
- **SMEs A and B share equally in the CU14 million jointly invoiced to (and received from) the government.**

The arrangement is a jointly controlled operation. SMEs A and B retain control of the assets used to fulfil the contract and are responsible for their respective liabilities. They meet their respective contractual obligations by providing construction services to the government.

SMEs A and B recognise in their financial statements their own property, plant and equipment and operating assets and their share of any liabilities resulting from the joint arrangement (such as any performance guarantees). They also recognise the income and expenses associated with providing construction services to the government.

The parties account for their interests in the joint arrangement (a jointly controlled operation) as follows:

SME A—20X1

Dr	Profit or loss (costs)		CU4,000,000	
	Cr	Cash/Accumulated depreciation/Trade payables		CU4,000,000

To recognise the costs incurred in fulfilling the contract.

Dr	Cash		CU7,000,000	
	Cr	Profit or loss (revenue)		CU7,000,000

To recognise the revenue earned in fulfilling the contract.

SME B—in 20X1

Dr	Profit or loss (costs)		CU6,000,000	
	Cr	Cash/Accumulated depreciation/Trade payables		CU6,000,000

To recognise the costs incurred in fulfilling the contract.

Dr	Cash		CU7,000,000	
	Cr	Profit or loss (revenue)		CU7,000,000

To recognise the revenue earned in fulfilling the contract.

Jointly controlled assets

15.6 Some joint arrangements involve the joint control, and often the joint ownership, by the parties of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purposes of the joint arrangement.

Example—Jointly controlled asset

Ex 9 **SMEs A and B are independent oil companies. They enter into a contractual arrangement to jointly control and operate an oil pipeline. Each party uses the pipeline to transport its own product and bears an agreed proportion of the pipeline's operating expenses.**

SMEs A and B have joint control over the oil pipeline—it is a joint arrangement (jointly controlled asset). Each party to the joint arrangement is required to account for its interest in the jointly controlled pipeline.

15.7 In respect of its interest in a jointly controlled asset, a party shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other parties in relation to the joint arrangement;

(d) any revenue from the sale or use of its share of the output of the joint arrangement, together with its share of any expenses incurred by the joint arrangement; and

(e) any expenses that it has incurred in respect of its interest in the joint arrangement.

Example—Accounting for a jointly controlled asset

Ex 10 **On 1 January 20X1, five parties to a joint arrangement—SMEs A, B, C, D and E—jointly buy a jet aircraft for CU10 million cash. The parties are registered as equal joint owners of the aircraft. They enter into an agreement whereby the aircraft is at the disposal of each party for 70 days each year. The aircraft is in maintenance for the remaining days each year. The parties may decide to use the aircraft or lease it to a third party.**

Decisions about the relevant activities of the aircraft (such as its maintenance and disposal) require the unanimous consent of the parties.

The contractual arrangement is for 20 years—the expected life of the aircraft—and can be changed only if all parties agree. The residual value of the aircraft is nil.

In 20X1 each party pays CU100,000 to meet the joint costs of maintaining the aircraft (such as hangar rental and aviation-licence fees).

In 20X1 each party also incurs costs of running the aircraft. For example, SME A incurs costs of CU50,000 on pilot fees, aviation fuel and landing costs. In 20X1 SME A also earned rental income of CU10,000 by renting the aircraft to others.

The jet aircraft is a jointly controlled asset. Each party recognises its interest in the jointly controlled asset in accordance with paragraph 15.7. In 20X1, SME A records its interest as follows:

January 20X1

Dr	Property, plant and equipment (interest in an aircraft)	CU2,000,000	
	Cr Cash		CU2,000,000

To recognise the purchase of an ownership interest in a jointly controlled aircraft.

In 20X1

Dr	Cash	CU10,000	
	Cr Profit or loss (rental income)		CU10,000

To recognise income earned in renting to others the use of the aircraft in 20X1.

Dr	Profit or loss (aircraft operating expenses)	CU150,000	
	Cr Cash		CU150,000

To recognise the costs of running an aircraft in 20X1.

Dr	Profit or loss (depreciation expense)	CU100,000	
	Cr Accumulated depreciation (interest in an aircraft)		CU100,000

To recognise depreciation of an ownership interest in a jointly controlled aircraft in 20X1.

Jointly controlled entities

15.8 A jointly controlled entity is a joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.

Measurement—accounting policy election

15.9 A party that has joint control shall account for all of its investments in jointly controlled entities using one of the following:

(a) the cost model in paragraph 15.10;

(b) the equity method in paragraph 15.13; or

(c) the **fair value** model in paragraph 15.14.

Cost model

15.10 A party that has joint control shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

15.11 The party that has joint control shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.

15.12 Applying the cost model in paragraph 15.10, a party that has joint control shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).

Equity method

15.13 A party that has joint control shall measure its investments in jointly controlled entities using the equity method following the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

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Fair value model

15.14 When an investment in a jointly controlled entity is recognised initially, a party that has joint control shall measure it at transaction price. Transaction price excludes **transaction costs**.

15.15 At each **reporting date**, a party that has joint control shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in **profit or loss**, using the fair value measurement guidance in Section 12 *Fair Value Measurement*. A party using the fair value model shall use the cost model for any investment in a jointly controlled entity for which fair value cannot be measured reliably without undue cost or effort.

Educational notes

Jointly controlled entity

A jointly controlled entity is a joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. A jointly controlled entity involves setting up a separate entity that operates independently from its investors who have joint control over the separate entity. For example, SMEs A and B form a new entity, Entity Z, to pursue a new business venture. SMEs A and B have a contractual agreement to jointly control Entity Z. Entity Z operates as a separate entity and is a jointly controlled entity of SMEs A and B.

Cost model—No published price quotation

A party that has joint control of a jointly controlled entity and has elected to use the cost model as permitted by paragraph 15.9(a) is required to account for its investments in jointly controlled entities using only this method for investments for which there is no published price quotation (for example, the jointly controlled entity cannot be listed on a stock exchange).

A party that has joint control of a jointly controlled entity and elects to use the cost model in paragraph 15.9 applies Section 27 *Impairment of Assets* at each reporting date. The party that has joint control of the jointly controlled entity considers whether there are indicators of impairment for such investments (see paragraphs 27.7–27.9 and 27.29). If such indicators are present, the party that has joint control of the jointly controlled entity performs an impairment test (see paragraphs 27.7 and 27.11–27.20). If an investment is found to be impaired (or if a prior period impairment is found to have reversed), the party is required to recognise an impairment loss (or a reversal of an impairment loss) in profit or loss.

Cost model—Published price quotation

A party that has joint control of a jointly controlled entity for which there is a published price quotation is required by paragraph 15.12 to account for that entity using the fair value model (see paragraph 15.14). If a party has more than one investment in jointly controlled entities, it can still elect to use the cost model where, for at least one of those investments, a published price quotation is not available. If a party has only one investment in a jointly controlled entity for which there is a published price quotation, the party cannot elect to use the cost model, and is instead required to use the fair value model (see paragraph 15.10). Investments measured at fair value are not tested for impairment.

Equity method

A party that has joint control of a jointly controlled entity and uses the equity method as permitted by paragraph 15.9(b) applies the requirements in Section 14 *Investments in Associates*, replacing 'significant influence' with 'joint control' (see paragraph 14.8).

Fair value model

A party that has joint control of a jointly controlled entity and uses the fair value model in paragraph 15.9(c) applies the requirements in Section 12 to determine the fair value.

Fair value cannot be measured reliably without undue cost or effort

Whether fair value can be measured reliably without undue cost or effort depends on an entity's specific circumstances and its management's judgement in assessing the costs and benefits. Making such a judgement requires consideration of how users' decision-making could be affected by not having information about fair value.

Applying this requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits users would receive from having this information (see paragraph 2.29). If an entity already has, or could easily or inexpensively acquire, the information necessary to comply with this requirement, any related undue cost or effort exemption would not be applicable. In such a case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the entity.

Assessing whether the requirement involves undue cost or effort on initial recognition should be based on information about the costs and benefits of the requirement on initial recognition. An entity makes a new assessment of whether the requirement will involve undue cost or effort at each subsequent reporting date, based on information available at that subsequent reporting date (see paragraph 2.30).

When an entity has elected to use the fair value model (see paragraph 15.9(c)) but accounts for an investment in a jointly controlled entity using the cost model because the fair value of that jointly controlled entity cannot be measured reliably without undue cost or effort, the entity is required to disclose that fact, the reasons why fair value measurement involves undue cost or effort, and the carrying amount of the investment in the jointly controlled entity (see paragraph 15.21). At each reporting date, in accordance with Section 27, the party that has joint control considers whether there are indicators of impairment for such investments carried at cost (see paragraphs 27.7–27.9 and 27.29) and, if present, performs an impairment test (see paragraphs 27.10–27.20). If an investment is found to be impaired (or a prior period impairment is found to have reversed), the party that has joint control is required to recognise an impairment loss (or a reversal of an impairment loss) in profit or loss (see paragraphs 27.6 and 27.30).

Examples—Accounting policy[3]

Ex 11 On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control the relevant activities of Entity Z.

For the year ended 31 December 20X1, Entity Z recognises a profit of CU400,000. On 30 December 20X1, Entity Z declares and pays a dividend of CU150,000 for the year 20X1. At 31 December 20X1, the fair value of each party's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.[4]

Cost model

On 1 January 20X1 applying the cost model SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

On 30 December 20X1, SMEs A and B recognise dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1, SMEs A and B consider whether there are any indicators that the investment in Entity Z is impaired and, if so, conduct an impairment test applying Section 27. In this example, ignoring costs to sell, there is no impairment loss because the CU425,000 recoverable amount of the investment, based on fair value, exceeds the carrying amount.

3 Unless otherwise stated, ignore value in use in determining the recoverable amount necessary to calculate any impairment loss (fair value less costs to sell is assumed to be the recoverable amount).

4 Examples 11–18 assume no implicit goodwill and no fair value adjustments. Example 19 illustrates implicit goodwill and fair value adjustments.

Equity method

On 1 January 20X1 applying the equity method SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

SMEs A and B recognise CU120,000 as their share of Entity Z's profit (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

SMEs A and B recognise CU45,000 dividend against the cost of the investment in Entity Z.

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings – CU45,000 dividend). SMEs A and B also consider whether there are any indicators that their investment is impaired and, if so, conduct an impairment test applying Section 27. In this example, ignoring costs to sell, there is no impairment loss because the CU425,000 recoverable amount of the investment based on fair value exceeds the carrying amount.

Fair value model

On 1 January 20X1 applying the fair value model SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

In determining profit or loss for the year ended 31 December 20X1, each SME recognises:

- dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z);[5] and
- the increase in the fair value of its investments in Entity Z of CU125,000 (CU425,000 fair value at 31 December 20X1 – CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at its fair value of CU425,000 in its statement of financial position.

5 In this and all other examples in which a party that has joint control accounts for its interests in jointly controlled entities using the fair value model, the party that has joint control recognises a dividend from its jointly controlled entity in profit or loss when its right to receive the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

Ex 12 **The facts are the same as in Example 11. However, in this example, on 2 January 20X1, Entity Z also declares a dividend of CU100,000 for the year 20X0 and at 31 December 20X1 the fair value of each party's investment in Entity Z is CU400,000.**

Cost model

On 1 January 20X1 applying the cost model SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

SMEs A and B recognise dividend income of CU75,000 in profit or loss for the year ended 31 December 20X1 (30% × CU100,000 dividend declared on 2 January + 30% × CU150,000 dividend declared on 31 December).

Because the payment of the dividend comes from pre-acquisition profits on 2 January 20X1, SMEs A and B decide to perform an impairment test, applying Section 27 at 31 December 20X1. In this example, ignoring costs to sell, there is no impairment loss because the CU400,000 recoverable amount of the investment exceeds the carrying amount.

Equity method

On 1 January 20X1 applying the equity method SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

SMEs A and B recognise their share of Entity Z's profit of CU120,000 (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1.

SMEs A and B recognise dividend income of CU30,000 for the dividend declared on 2 January 20X1 and CU45,000 dividend declared on 30 December 20X1 against the cost of the investment.

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at CU345,000 (CU300,000 cost + CU120,000 share of earnings – CU30,000 dividend declared on 2 January 20X1 – CU45,000 dividend declared on 30 December 20X1).

Because the payment of the dividend comes from pre-acquisition profits on 2 January 20X1, SMEs A and B decide to perform an impairment test, applying Section 27 at 31 December 20X1. At 31 December 20X1, each SME calculates the recoverable amount of its investment in Entity Z, and, if the recoverable amount were lower than the carrying amount, reduces the carrying amount to the recoverable amount. In this example, ignoring costs to sell, there is no impairment because the CU400,000 fair value of the investment exceeds the carrying amount.

Fair value model

On 1 January 20X1 applying the fair value model SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise the investment in Entity Z at CU300,000.

In determining profit or loss for the year ended 31 December 20X1, each SME recognises:

- dividend income of CU75,000 (CU30,000 from the dividends declared on 2 January 20X1 + CU45,000 from the dividends declared on 30 December 20X1); and
- an increase in fair value of CU100,000 of its investment in Entity Z (CU400,000 fair value at 31 December 20X1 – CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at its fair value of CU400,000 in its statement of financial position.

Ex 13 **The facts are the same as in Example 11. However, in this example, there is a published price quotation for Entity Z.**

Cost model

At 31 December 20X1, each SME reports its investment in Entity Z at the fair value, CU425,000.

Because Entity Z has a published price quotation, the parties use the fair value model to account for their investments in Entity Z even though they each elected to use the cost model as their accounting policy for investments in jointly controlled entities.

Equity method or fair value model

SMEs A and B account for their investments in Entity Z in the way described by Example 11.

Ex 14 **On 1 March 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree jointly to control Entity Z.**

On 2 March 20X1, Entity Z declares and pays a dividend of CU100,000. Entity Z reports a profit of CU80,000 for the year ended 31 December 20X1.

At 31 December 20X1, the recoverable amount of each party's investment in Entity Z is CU290,000 (CU293,000 fair value – CU3,000 costs to sell). There is no published price quotation for Entity Z.

Cost model

Applying the cost model, SMEs A and B (the parties that have joint control of the jointly controlled entity) each recognise dividend income of CU30,000 in profit or loss (30% × CU100,000 dividend declared by Entity Z).

At 31 December 20X1, each SME reports its investment in Entity Z at CU290,000 (cost minus accumulated impairment).

Because the payment of the dividend comes from pre-acquisition profits on 2 January 20X1, SMEs A and B decide to perform an impairment test, applying Section 27 at 31 December 20X1. Because the fair value less costs to sell is lower than the carrying amount of the investment, SMEs A and B are required to recognise the impairment. At 31 December 20X1, the carrying amount is therefore reduced to CU290,000 (the lower of its recoverable amount and its carrying amount before impairment, a cost of CU300,000). Each SME recognises the impairment loss of CU10,000 in profit or loss for the year ended 31 December 20X1.

Equity method

Applying the equity method, and assuming that Entity Z earns its profit evenly throughout the year, SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise their share of Entity Z's income of CU20,000 in profit or loss (30% × CU66,667 profit of Entity Z for the 10-month period ended 31 December 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z at CU290,000 (CU300,000 cost + CU20,000 share of jointly controlled entity's profit – CU30,000 dividend).

Because the payment of the dividend comes from pre-acquisition profits on 2 January 20X1, SMEs A and B decide to perform an impairment test, applying Section 27 at 31 December 20X1. In this example, there is no impairment because the CU290,000 recoverable amount of the investment equals its carrying amount.

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, each SME (the parties that have joint control of the jointly controlled entity) recognises:

- dividend income of CU30,000 (30% × CU100,000 dividend declared by Entity Z); and
- the decrease in the fair value of its investment in Entity Z as an expense of CU7,000 (CU293,000 fair value at 31 December 20X1 – CU300,000 carrying amount on 1 January 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z at its fair value of CU293,000.[6]

6 Investments in jointly controlled entities carried using the fair value model are not tested for impairment. Unlike the calculation of the recoverable amount, costs to sell are not deducted from fair value when using the fair value model.

Ex 15 **On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree jointly to control Entity Z.**

Entity Z incurs a loss of CU100,000 for the year ended 31 December 20X1 and does not declare a dividend. Furthermore, at 31 December 20X1 the recoverable amount of each party's investment in Entity Z is CU310,000 (CU325,000 fair value – CU15,000 estimated costs to sell). There is no published price quotation for Entity Z.

Cost model

Applying the cost model, at 31 December 20X1, each SME (the parties that have joint control of the jointly controlled entity) reports its investment in Entity Z (a jointly controlled entity) at CU300,000. There is no effect on the parties' profit or loss for the year ended 31 December 20X1 because Entity Z did not declare any dividend and the parties' investments in Entity Z are not impaired at 31 December 20X1 (the CU300,000 carrying amount is lower than the recoverable amount).

Equity method

Applying the equity method, SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise their share of the losses of the jointly controlled entity of CU30,000 in profit or loss (30% × CU100,000 loss incurred by Entity Z for the year ended 31 December 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at CU270,000 (CU300,000 cost – CU30,000 share of jointly controlled entity's loss).

The parties' investments in Entity Z are not impaired at 31 December 20X1 (the CU270,000 carrying amount of each party's investment is lower than its recoverable amount).

Fair value model

Applying the fair value model, in determining profit or loss for the year ended 31 December 20X1, each SME (the parties that have joint control of the jointly controlled entity) recognises income of CU25,000 for the increase in the fair value of its investment in Entity Z (CU325,000 fair value at 31 December 20X1 – CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z (a jointly controlled entity) at its fair value of CU325,000. Unlike the calculation of the recoverable amount, costs to sell are not deducted from fair value when using the fair value model.

Ex 16 **The facts are the same as in Example 15. However, in this example, at 31 December 20X1, the recoverable amount of each party's investment in Entity Z is CU265,000 (CU275,000 fair value – CU10,000 estimated costs to sell).**

Cost model

Applying the cost model, each SME (the parties that have joint control of the jointly controlled entity) recognises an impairment loss of CU35,000 in profit or loss for the year ended 31 December 20X1 (CU300,000 cost – CU265,000 recoverable amount).

At 31 December 20X1, each SME reports its investment in Entity Z at CU265,000 (see Section 27).

Equity method

SMEs A and B (the parties that have joint control of the jointly controlled entity) recognise their share of the losses of Entity Z of CU30,000 (30% × CU100,000 loss incurred by Entity Z for the year ended 31 December 20X1) and an impairment of its investments of CU5,000 (CU300,000 cost – CU30,000 share of jointly controlled entity's losses = CU270,000 carrying amount before impairment; CU270,000 – CU265,000 recoverable amount = CU5,000 impairment loss) respectively in profit or loss.

At 31 December 20X1, each SME reports its investment in Entity Z at CU265,000 (CU300,000 cost – CU30,000 share of jointly controlled entity's losses – CU5,000 accumulated impairment loss).

Fair value model

In determining profit or loss for the year ended 31 December 20X1, each SME (the parties that have joint control of the jointly controlled entity) recognises an expense of CU25,000 for the decrease in the fair value of its investment in Entity Z (CU275,000 fair value at 31 December 20X1 – CU300,000 initially recognised on 1 January 20X1).

At 31 December 20X1, each SME reports its investment in Entity Z at its fair value of CU275,000. Unlike the calculation of the recoverable amount, when using the cost model (see Section 27), costs to sell are not deducted from fair value when using the fair value model.

Example—Loss of joint control of a jointly controlled entity

Ex 17 **On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control the relevant activities of Entity Z. For the year ended 31 December 20X1, Entity Z recognises a profit of CU400,000.**

On 30 December 20X1, Entity Z declares and pays a dividend of CU150,000 for the year 20X1. At 31 December 20X1, the fair value of each party's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z. On 31 December 20X1, SMEs A and B lose joint control of the jointly controlled entity, Entity Z, when the investors dissolve their agreement and SME A reduces its shareholding in Entity Z to 15% by selling half of its shares in Entity Z to an independent third party for CU212,500. Transaction costs of CU5,000 are incurred in selling the shares.

Using the equity method, SME A has a carrying amount at 31 December 20X1 of its investment in Entity Z CU375,000 (CU300,000 cost + CU120,000 share of earnings – CU45,000 dividend).

SME A recognises in profit or loss for the year ended 31 December 20X1:

- income from its jointly controlled entity of CU120,000 (30% × CU400,000 Entity Z's profit for the year); and
- a gain on derecognition of an investment in a jointly controlled entity of CU45,000 ((CU212,500 proceeds from sale of shares – CU5,000 transaction costs + CU212,500 fair value of the retained interest) – CU375,000 carrying amount of investment in Entity Z when joint control was lost).

To account for this transaction, SME A makes the following journal entry:

Dr	Cash	CU207,500[(a)]	
Dr	Financial instrument—equity investment (shares of Entity Z)	CU212,500[(b)]	
Cr	Investment in jointly controlled entity (Entity Z)		CU375,000[(c)]
Cr	Gain on disposal (profit or loss)		CU45,000

To recognise the gain on derecognition of investment in jointly controlled entity (Entity Z).

(a) CU212,500 proceeds from sale of shares – CU5,000 transaction costs incurred.

(b) The fair value of the retained interest in Entity Z. In the absence of other information, this price in a recent transaction is assumed to be the fair value (see paragraph 12.25(b)).

(c) The carrying amount of investment in jointly controlled entity derecognised (CU300,000 cost + CU120,000 share of earnings – CU45,000 dividend).

At 31 December 20X1, applying Section 11 *Financial Instruments*, SME A classifies its investment in Entity Z as a financial asset and, in accordance with paragraph 14.8(i)(ii) measures its investment in Entity Z at the fair value on the date when joint control was lost, CU121,500. Thereafter, SME A accounts for its investment in Entity Z by applying paragraph 11.14(c).

At 31 December 20X1, in the absence of evidence to the contrary, it is presumed that SME B has significant influence over Entity Z (see paragraph 14.3). SME B accounts for its investment in Entity Z as an investment in an associate applying Section 14).

Example—Other (fair value model)

Ex 18 **On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control the relevant activities of Entity Z. For the year ended 31 December 20X1, Entity Z recognises a profit of CU400,000.**

On 30 December 20X1, Entity Z declares and pays a dividend of CU150,000 for the year 20X1. At 31 December 20X1, the fair value of each party's investment in Entity Z is CU425,000 and both parties elect to account for the investment at fair value.

In 20X2, Entity Z declares no dividends. In addition, the fair value of the investment in Entity Z can no longer be measured reliably without undue cost or effort.

Each SME A and B recognises dividend income of CU45,000 (30% × CU150,000 dividend declared by Entity Z) in profit or loss for the year ended 31 December 20X1.

At 31 December 20X1, each SME reports its investment in Entity Z at a cost of CU300,000. SMEs A and B also consider whether there are any indicators that their investments are impaired and, if so, conduct an impairment test applying Section 27.

Although SMEs A and B elect to use the fair value model as their accounting policy for investments in jointly controlled entities, they are required to account for their investment in Entity Z using the cost model because the fair value of their investment in Entity Z cannot be measured reliably without undue cost or effort.

Transactions between a party to the joint arrangement with joint control and a joint arrangement

15.16 When a party to the joint arrangement that has joint control contributes or sells assets to a joint arrangement, **recognition** of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint arrangement, and provided the party to the joint arrangement has transferred the significant risks and rewards of ownership, the party shall recognise only that portion of the gain or loss that is attributable to the interests of the other parties. The party shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

Educational notes

When a party to the joint arrangement that has joint control sells to its joint arrangement, the transaction is sometimes called a downstream transaction. When a party enters into such transactions with a joint arrangement, the party recognises gains or losses only to the extent of the other parties' interests in the joint arrangement.

Example—Party with joint control contributes an asset to its jointly controlled entity

Ex 19 **On 1 January 20X1, SMEs A and B (the parties) form a joint arrangement, Entity Z. When Entity Z is incorporated, SMEs A and B each take up 50% of the share capital and enter into a contract to jointly control Entity Z.**

In return for their interests in Entity Z, SMEs A and B each contribute CU100,000 to Entity Z. SME A contributes a machine with a fair value of CU100,000 and a carrying amount of CU80,000. SME B contributes cash of CU100,000.

The machine contributed by SME A has an estimated useful life of 10 years, from the date of transfer, with nil residual value.

Entity Z's profit for the year ended 31 December 20X1 is CU30,000 (after deducting depreciation expense of CU10,000 on the machine contributed by SME A).

SME A uses the equity method for jointly controlled entities.

SME A's journal entries for the year ended 31 December 20X1:[7]

1 January 20X1

Dr	Investment in jointly controlled entity		CU90,000[(a)]	
	Cr	Property, plant and equipment		CU80,000
	Cr	Profit or loss (realised gain on contributing machine to a jointly controlled entity)		CU10,000

To recognise the formation of a jointly controlled entity by contributing a machine to the joint arrangement.

For the year ended 31 December 20X1

Dr	Investment in jointly controlled entity		CU15,000	
	Cr	Profit or loss (share of jointly controlled entity's profit)		CU15,000

To recognise the entity's share (50%) of the jointly controlled entity's recognised profit.

Dr	Investment in jointly controlled entity		CU1,000[(b)]	
	Cr	Profit or loss (share of jointly controlled entity's profit)		CU1,000

To recognise an adjustment to the share of the jointly controlled entity's profit in respect of the adjusted depreciation of the machine.

(a) CU80,000 carrying amount of machine contributed to the jointly controlled entity + CU10,000 gain realised from the other party on contributing the machine to the jointly controlled entity = CU90,000.

(b)

Cost of PPE—jointly controlled entity's books	CU100,000
Cost of PPE—SME A's books	CU80,000
Difference	**CU20,000**
Useful lives	10 years
Implicit excess depreciation	CU2,000
SME A's share at 50%—*annually for 10 years*	CU1,000

7 In this example, the tax effects of the unrealised profit in respect of the asset contributed by the party to its jointly controlled entity have been ignored.

Example—Party sells an asset to its jointly controlled entity

Ex 20 On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000.[8] On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control Entity Z.

On 30 December 20X1, Entity Z declares and pays a dividend of CU150,000 for the year 20X1.

For the year ended 31 December 20X1, Entity Z recognises a profit of CU400,000.

At 31 December 20X1, the fair value of each party's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.

On 31 December 20X1, SME A sells goods for CU60,000 to Entity Z. At 31 December 20X1, the goods purchased from SME A are in Entity Z's inventories (not having been sold by Entity Z). SME A sells goods at a 50% markup on cost.

SMEs A and B use the equity method for jointly controlled entities.

SME A

SME A recognises income from SME Z, its jointly controlled entity of CU120,000 (30% × CU400,000 Entity Z's profit for the year).

At 31 December 20X1, SME A reports its investment in Entity Z at CU369,000 (CU300,000 cost + CU120,000 share of earnings from joint arrangement – CU6,000 (30% × CU20,000 elimination of the unrealised profit) – CU45,000 dividend).[9] SME A also considers whether there are any indicators that its investment is impaired and, if so, conducts an impairment test applying Section 27.

SME A also eliminates the unrealised profit from its profit for the year. This could be achieved by eliminating CU18,000 from its revenue (30% × CU60,000) and CU12,000 from its cost of goods sold (30% × CU40,000) for the year ended 31 December 20X1.

SME B

SME B recognises CU120,000 as its share of Entity Z's income (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1, SME B reports its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings – CU45,000 dividend). SME B also considers whether there are any indicators that its investment is impaired and, if so, conducts an impairment test applying Section 27.

8 In this example, it is assumed that there is no implicit goodwill and no fair value adjustments.

9 Unrealised profit = CU20,000 (50% ÷ 150% × CU60,000 inventory held by Entity Z). In this example, the tax effects of eliminating the unrealised profit have been ignored.

15.17 When a party to the joint arrangement that has joint control purchases assets from a joint arrangement, that party shall not recognise its share of the profits of the joint arrangement from the transaction until it resells the assets to an independent party. A party to the joint arrangement shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.

Educational notes

When a joint arrangement sells to a party to the joint arrangement that has joint control, the transaction is sometimes called an upstream transaction.

When a party to the joint arrangement that has joint control buys assets from a joint arrangement, the party does not recognise profits and losses from that transaction until the asset is sold to an independent party outside the joint arrangement. However, losses that are impairment losses are recognised immediately.

Example—Party buys an asset from its jointly controlled entity

Ex 21 On 1 January 20X1, SMEs A and B each acquire 30% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z for CU300,000.[10] On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control Entity Z.

For the year ended 31 December 20X1, Entity Z recognises a profit of CU400,000. On 30 December 20X1, Entity Z declares and pays a dividend of CU150,000 for the year 20X1. At 31 December 20X1, the fair value of each party's investment in Entity Z is CU425,000. However, there is no published price quotation for Entity Z.

In 20X1, SME A purchases goods for CU100,000 from Entity Z. At 31 December 20X1, CU60,000 of the goods purchased from Entity Z are in SME A's inventories (not having been sold by SME A). Entity Z sells goods at a 50% markup on cost.

SMEs A and B use the equity method to account for jointly controlled entities.

SME A

SME A recognises income from Entity Z (its jointly controlled entity) of CU114,000 (30% × CU400,000 Entity Z's profit for the year of CU120,000 – 30% × CU20,000 for the unrealised profit for the inventory that has not been sold by SME A).[11]

10 This example assumes that there is no implicit goodwill and no fair value adjustments, and ignores the tax effects of eliminating the unrealised profit.

11 Unrealised profit = CU20,000 (50% ÷ 150% × CU60,000 inventory held by SME A).

In this example, SME A follows an accounting policy of eliminating the unrealised profits from upstream transactions with its jointly controlled entity against the carrying amount of its investment in the jointly controlled entity.[12] At 31 December 20X1, SME A reports its investment in Entity Z (a jointly controlled entity) at CU369,000 (CU300,000 cost + CU114,000 share of earnings after adjusting for the elimination of the unrealised profit – CU45,000 dividend). SME A also considers whether there are any indicators that its investment is impaired and, if so, conducts an impairment test applying Section 27.

SME B

SME B recognises CU120,000 as its share of Entity Z's income (30% × CU400,000 Entity Z's profit for the year) in profit or loss for the year ended 31 December 20X1. At 31 December 20X1, SME B reports its investment in Entity Z (a jointly controlled entity) at CU375,000 (CU300,000 cost + CU120,000 share of earnings – CU45,000 dividend). SME B also considers whether there are any indicators that its investment is impaired and, if so, conducts an impairment test applying Section 27.

If a party does not have joint control

15.18 A party that participates in, but does not have joint control of, a jointly controlled entity shall account for its interest in the arrangement in accordance with Section 11 *Financial Instruments* unless it has significant influence over the jointly controlled entity, in which case it shall account for the interest in the arrangement in accordance with Section 14 *Investments in Associates*.

Example—Party in a jointly controlled entity that does not have joint control

Ex 22 **SMEs A, B and C own 20%, 40% and 40%, respectively, of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity Z. The contractual agreement between the three entities provides that SME B and C jointly control Entity Z.**

Entity Z is a joint arrangement (a jointly controlled entity) of SMEs B and C.

SME A is a party to the joint arrangement but does not have joint control over Entity Z. In the absence of evidence to the contrary, it is presumed that SME A has significant influence over Entity Z (Entity Z is an associate of SME A; see paragraph 14.3(a)) and therefore accounts for its investment in Entity Z applying Section 14.

However, if it is determined that SME A does not have significant influence over Entity Z, then SME A accounts for its investment in Entity Z as an equity instrument applying Section 11.

12 An alternative accounting policy might be to eliminate the unrealised profit in upstream transactions against the asset transferred (in this example, the inventories).

15.18A A party that participates in, but does not have joint control of, a jointly controlled operation shall account for its interest in the arrangement in accordance with paragraph 15.5.

15.18B A party that participates in, but does not have joint control of, jointly controlled assets shall account for its interest in the arrangement in accordance with paragraph 15.7.

Educational notes

A party that does not have joint control in a jointly controlled operation accounts for its interest in accordance with paragraph 15.5. This means recognising its share of assets, liabilities, revenue and expenses.

A party that does not have joint control of a jointly controlled asset accounts for its interest in accordance with paragraph 15.7. This means recognising its share of the jointly controlled assets, liabilities, revenues and expenses.

Example—Party in a jointly controlled operation that does not have joint control

Ex 23 SMEs A, B and C enter into a jointly controlled operation to build a new events hall. SMEs A and B (the parties) contractually agree to jointly control Entity Z. SME C supplies machinery with a carrying amount of CU80,000, pays for 20% of the operating costs and is entitled to 20% of the rental income of the hall.

Even though SME C does not have joint control in the jointly controlled operation, it accounts for its share of assets, liabilities, revenue and expenses in accordance with paragraph 15.5. SME C continues to recognise its machinery (assuming it still controls the machinery) and recognises 20% of the operating costs and revenue.

Disclosures

15.19 An entity shall disclose the following:

(a) the **accounting policy** it uses for recognising its investments in jointly controlled entities;

(b) the **carrying amount** of investments in jointly controlled entities (see paragraph 4.2(k));

(c) the fair value of its investment in a jointly controlled entity, if a market price for the investment is quoted and the entity accounts for the jointly controlled entity using the equity method; and

(d) the aggregate amount of its commitments relating to jointly controlled entities, including its share in the commitments that have been incurred jointly with other parties.

continued ...

... continued

15.20 For jointly controlled entities accounted for using the equity method, a party that has joint control shall also make the disclosures required by paragraph 14.14 for equity method investments.

15.21 For jointly controlled entities accounted for using the fair value model, a party that has joint control shall make the disclosures required in Section 12. If a party applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.

Educational notes

Refer to Module 12 *Fair Value Measurement* for the disclosures required in Section 12 for a jointly controlled entity that is accounted for using fair value.

Example—Cost model disclosures and fair value model disclosures

Ex 24 **Ex 24 On 1 January 20X0 SMEs A and B each acquire 30% of the equity of Entity Z for CU120,000. On the same day, SMEs A and B enter into a contractual arrangement whereby they agree to jointly control Entity Z.**

Entity Z's loss for the year ended 31 December 20X1 is CU60,000 (20X0: profit of CU80,000).

On 31 December 20X0 Entity Z declares and pays a dividend of CU40,000. It does not declare a dividend in 20X1.

SME A uses the cost model to account for its investments in jointly controlled entities. At 31 December 20X1, the recoverable amount of SME A's investment in Entity Z is estimated at CU97,000. SME A does not determine the recoverable amount of its investment at 31 December 20X0 because there are no indications that the investment is impaired.

SME B uses the fair value model to account for its investments in jointly controlled entities. The fair value of SME B's investment in Entity Z at 31 December 20X1 is determined to be CU102,000 (20X0: CU144,000) by multiplying the entity's earnings before interest and taxes by the adjusted price-to-earnings ratio of a similar entity for which a published price quotation exists. The market price-to-earnings ratio is reduced by two basis points because Entity Z's equity is not traded in a public market.

No capital commitments had been incurred by SMEs A and B or Entity Z at 31 December 20X0 and 20X1.

SME A (cost model)

SME A presents its investment in Entity Z in its financial statements as follows:

SME A—Statement of financial position at 31 December 20X1

	Note	*20X1 CU*	*20X0 CU*
ASSETS			
Non-current assets			
Investment in jointly controlled entity	15	97,000	120,000
...			

SME A—Statement of comprehensive income for the year ended 31 December 20X1

	Note	*20X1 CU*	*20X0 CU*
...			
Other income—dividend from jointly controlled entity		–	12,000
Impairment of jointly controlled entity		(23,000)	–
...			

SME A—Notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for at cost minus any accumulated impairment losses.

Dividend income from jointly controlled entities is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount can be measured reliably and is shown as other income.

...

Note 15. Investment in jointly controlled entities

	20X1 CU	20X0 CU
Cost	120,000	120,000
Accumulated impairment losses	(23,000)	–
	97,000	120,000

SME A owns 30% of the equity of jointly controlled Entity Z.

SME B (fair value model)

SME B could present its investment in Entity Z in its financial statements as follows:

SME B—Statement of financial position at 31 December 20X1

	Note	*20X1 CU*	*20X0 CU*
ASSETS			
Non-current assets			
Investment in jointly controlled entity	15	102,000	144,000
...			

SME B—Statement of comprehensive income for the year ended 31 December 20X1

	Note	*20X1 CU*	*20X0 CU*
...			
Other income—dividend from jointly controlled entity		–	12,000
Change in the fair value of investment in jointly controlled entity		(42,000)	24,000
...			

SME B—Notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are measured at fair value with changes in fair value recognised in profit or loss of the period.

Dividend income from jointly controlled entities is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount can be measured reliably and is shown as other income.

...

Note 15. Investment in jointly controlled entity

	20X1 CU	*20X0 CU*
Fair value at 31 December	102,000	144,000

SME B owns 30% of the equity of a jointly controlled entity (Entity Z).[13]

Example—Equity method disclosures

Ex 25 **The facts are the same as in Example 24. However, in this example SME A uses the equity method to account for its investments in jointly controlled entities.**

SME A could present its investments in its jointly controlled entity (Entity Z) in its financial statements as follows:

SME A—Statement of comprehensive income for the year ended 31 December 20X1

	20X1 CU	*20X0 CU*
...		
Impairment of investment in jointly controlled entity	(17,000)[(a)]	–
Share of jointly controlled entity's profit (loss) for the year	(18,000)[(b)]	24,000[(c)]
...		

13 In addition, SME A also discloses the information required by paragraph 15.21.

SME A—Statement of financial position at 31 December 20X1

	Note	*20X1 CU*	*20X0 CU*
ASSETS			
Non-current assets			
Investment in jointly controlled entity	15	97,000[(d)]	132,000[(e)]
...			

SME A—Notes to the financial statements for the year ended 31 December 20X1

Note 2. Accounting policies

Investments in jointly controlled entities

Investments in jointly controlled entities are accounted for using the equity method. The carrying amount of the investments in jointly controlled entities is calculated at cost plus the entity's subsequent share of the jointly controlled entities' comprehensive income. If at the end of a reporting period there is an indication that an investment in a jointly controlled entity may be impaired, the investment is tested for impairment. If the carrying amount of the investment is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

...

Note 15. Investment in jointly controlled entity

	20X1 CU	*20X0 CU*
Cost plus share of jointly controlled entity's comprehensive income minus any accumulated impairment losses	97,000	132,000

SME A owns 30% of the equity of its jointly controlled entity (Entity Z).

These calculations and explanatory notes do not form part of the disclosures:

(a) CU114,000[(g)] carrying amount at 31 December 20X1 before impairment – CU97,000 recoverable amount = CU17,000 impairment.

(b) 30% × CU60,000 loss for the year = CU18,000 share of Entity Z's loss for the year ended 31 December 20X1.

(c) 30% × CU80,000 profit for the year = CU24,000 share of Entity Z's profit for the year ended 31 December 20X0.

(d) CU114,000[(g)] carrying amount at 31 December 20X1 before impairment – CU17,000[(a)] accumulated impairment of investment in Entity Z = CU97,000 carrying amount at 31 December 20X1.

(e) CU120,000 cost + CU24,000[(c)] profit for the year ended 31 December 20X0 – CU12,000[(f)] dividend received from Entity Z = CU132,000 carrying amount at 31 December 20X0.

(f) 30% × CU40,000 dividend declared and paid by Entity Z = CU12,000 dividend received from Entity Z.

(g) CU132,000[(e)] carrying amount at 31 December 20X0 – CU18,000[(b)] share of Entity Z's loss for the year ended 31 December 20X1 = CU114,000 carrying amount at 31 December 20X1 before impairment.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Accounting Standard to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of financial statements in assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of the Standard, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7 of the Standard, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties.

Joint control

Demonstrating that an entity and other parties collectively have control over an arrangement is the first step in evaluating whether an entity has joint control of a joint arrangement.[14]

If the parties do collectively have control over the arrangement, the next step is to determine whether the contractual arrangement gives rise to joint control over the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Assessing whether an arrangement is an arrangement in which two or more parties have joint control is a matter of judgement. As a result of this assessment, a party may reach one of these conclusions:

- it controls the arrangement (the arrangement is a subsidiary accounted for applying Section 9).
- the arrangement is a joint arrangement of which the parties have joint control.
- the arrangement is a joint arrangement to which the party does not have joint control. If the party has significant influence, then the arrangement is an associate to be accounted for applying Section 14.[15] If it is determined that the party does not have significant influence, then the investment is a financial asset to be accounted for applying Section 11.

14 The 'Significant Estimates and Other Judgements' section of Module 9 *Consolidated and Separate Financial Statements* describes the judgements that need to be made when assessing whether control exists.

15 The 'Significant Estimates and Other Judgements' section of Module 14 *Investments in Associates* describes the judgements that need to be made when assessing whether significant influence exists.

Measurement

After initial recognition, an entity measures all investments in jointly controlled entities using the cost model, the equity method or the fair value model.

Impairment

When the cost model or the equity method is used, significant judgements relating to accounting for an impairment of a jointly controlled entity include:

- assessing whether there is any indication that an investment in a jointly controlled entity may be impaired (see paragraph 27.7); and
- if there is any indication that the investment in a jointly controlled entity may be impaired, estimating the recoverable amount of that investment (see paragraph 27.11).

Equity method

For significant judgements and estimates related to the equity method, see the 'Significant Estimates and Other Judgements' section of Module 14 *Investments in Associates*.

Fair value model

For significant judgements and estimates related to the fair value model, see the 'Significant Estimates and Other Judgements' section of Module 12 *Fair Value Measurement*.

TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs* Accounting Standard is effective for annual reporting periods beginning on or after 1 January 2027. Early application is permitted. Changes made to Section 15 from the second edition of the Standard are summarised on page 7.

An entity retrospectively applies the recognition and measurement requirements in Section 15, in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Joint arrangements

A15 An entity applying the amended requirements in Section 15 *Joint Arrangements* is only required to disclose the amount of the adjustment for each line item affected in accordance with paragraph 10.13(b) for the annual period immediately preceding the date of initial application (and not earlier comparative periods).

Educational notes

When an entity applies the third edition of the Standard for the first time, it is required to disclose only the changes made to each affected line item for the period before the period of initial application.

COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

The requirements in full IFRS Accounting Standards (see IFRS 11) and those in the *IFRS for SMEs* Accounting Standard (see Section 15) are different. The main differences and similarities are:

- the definition of a joint arrangement and joint control is aligned with the definitions in IFRS 11.
- the classification of a joint arrangement in the *IFRS for SMEs* Accounting Standard is determined by the structure of the joint arrangement—whether it is a jointly controlled asset; a jointly controlled operation; or a jointly controlled entity. These requirements are based on requirements in IAS 31, which preceded IFRS 11. In contrast, the classification requirements in IFRS 11 are based on the parties' rights and obligations arising from the joint arrangement and are grouped into joint operations and joint ventures.
- the measurement requirements in the *IFRS for SMEs* Accounting Standard permit an entity to choose one of three models to account for investments in jointly controlled entities in its primary financial statements—the equity method; the cost model; and the fair value model. The chosen model is applied by an entity to all its investments in jointly controlled entities. In contrast, IFRS 11 requires the accounting for a joint arrangement to follow rights and obligations arising from the joint arrangement. If an entity has rights to the assets and obligations for the liabilities of a joint arrangement and applies IFRS 11, it accounts for those assets and liabilities, and where an entity has rights to the net assets of a joint arrangement, it accounts for those net assets using the equity method.
- applying the equity method, the *IFRS for SMEs* Accounting Standard requires that implicit goodwill be systematically amortised throughout its expected useful life (see paragraphs 15.13 and 14.8(c)). Full IFRS Accounting Standards do not allow the amortisation of goodwill (see IAS 28 *Investments in Associates and Joint Ventures*, paragraph 32(a)).
- the requirements for a party that participates in, but does not have joint control of, a joint arrangement are aligned with IFRS 11.

This table sets out the disclosure requirements in IFRS 12 compared to the disclosure requirements in Section 15.

IFRS 12 paragraph	Section 9 paragraph
20	X
21(a)	X
21(b)(i)	14.12(c), 15.19(c)
21(b)(ii)	X
21(b)(iii)	14.12(c), 15.19(c)
21(c)	X
21A	X
22	X
23(a)–(b)	X

IFRS 12 paragraph	Section 9 paragraph
B12	IFRS 12.B12 (a) = X IFRS 12.B12 (b)(i)–(v) = X IFRS 12.B12 (b)(vi)–(vii) = 15.20
X	15.19(b)
B16(c)–(d)	X
B18	15.19(d)
X	15.21

X denotes no equivalent paragraph.

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting for and reporting investments in joint arrangements applying the *IFRS for SMEs* Accounting Standard by answering the questions provided.

Assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those on page 49.

Mark the box next to the most correct statement.

Question 1

A joint arrangement is:

☐ (a) an entity whose equity is owned in equal shares (50% each) by two investors.
☐ (b) an entity whose equity is owned in equal shares (25% each) by four investors.
☐ (c) a contractual arrangement whereby two or more parties undertake an economic activity.
☐ (d) an arrangement of which two or more parties have joint control.

Question 2

Two entities enter into a contractual arrangement to exercise joint control of a property, each taking a share of the rent received and incurring its share of the expenses. The entities are the registered joint owners of the property.

The two entities have:

☐ (a) a jointly controlled asset.
☐ (b) a jointly controlled operation.
☐ (c) a jointly controlled entity.

Question 3

Which of the following statements are not true about joint arrangements?

☐ (a) A jointly controlled entity may involve the establishment of a partnership.
☐ (b) A reporting entity (that is also a parent) that has three jointly controlled entities, one of which has a published price quotation, is not allowed to elect to use cost model in accounting for any of its investments in joint arrangements in its consolidated financial statements.
☐ (c) In a jointly controlled operation, a joint arrangement agreement may provide a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the parties.
☐ (d) When a party purchases property, plant and equipment from a joint arrangement, the joint arrangement does not recognise its share of the profits from the transaction until it resells the assets to an independent party.

Question 4

Fundamental to joint control is:

- ☐ (a) the power to participate in the decisions about the relevant activities of the investee.
- ☐ (b) active participation in the decisions about the relevant activities of the investee.
- ☐ (c) the power to govern the relevant activities of an entity to obtain benefits from its activities.
- ☐ (d) the unanimous consent of the parties that collectively control the arrangement.

Question 5

An entity accounts for its investments in jointly controlled entities after initial recognition using:

- ☐ (a) either the cost model or the fair value model (using the same accounting policy for all investments in jointly controlled entities).
- ☐ (b) either the cost model or the fair value model (in which the model can be chosen on an investment-by-investment basis).
- ☐ (c) either the cost model, the equity method or the fair value model (using the same accounting policy for all investments in jointly controlled entities).
- ☐ (d) either the cost model, the equity method or the fair value model (in which the model can be chosen on an investment-by-investment basis).

Question 6

Investments in jointly controlled entities are tested for impairment applying Section 27 *Impairment of Assets*, if the entity uses:

- ☐ (a) the cost model, equity method or fair value model.
- ☐ (b) the cost model or the equity method.
- ☐ (c) the cost model or the fair value model.
- ☐ (d) the equity method or the fair value model.

Question 7

On 31 December 20X1, SME A acquires 30% of the ordinary shares that carry voting rights of Entity Z for CU100,000. In acquiring those shares, SME A incurs transaction costs of CU1,000.

SME A enters into a contractual arrangement with another party, SME B, that owns 25% of the ordinary shares of Entity Z, whereby SMEs A and B agree to jointly control Entity Z.

SME A uses the cost model to account for its investments in jointly controlled entities. A published price quotation does not exist for Entity Z.

In January 20X2 Entity Z declares and pays a dividend of CU20,000 from profits earned in 20X1. No further dividends were paid in 20X2, 20X3 or 20X4.

At 31 December 20X1, 20X2 and 20X3, after applying Section 27 *Impairment of Assets*, SME A's management determines the fair values of its investment in Entity Z to be CU102,000, CU110,000 and CU90,000, respectively. Costs to sell are estimated at CU4,000 throughout.

SME A measures its investment in Entity Z on 31 December 20X1, 20X2 and 20X3, respectively at:

☐ (a) CU100,000, CU100,000, CU100,000.
☐ (b) CU101,000, CU101,000, CU90,000.
☐ (c) CU98,000, CU106,000, CU86,000.
☐ (d) CU98,000, CU101,000, CU86,000.
☐ (e) CU102,000, CU110,000, CU90,000.
☐ (f) CU101,000, CU101,000, CU101,000.

Question 8

The facts are the same as in Question 7. However, here, a published price quotation exists for Entity Z. At 31 December 20X1, 20X2 and 20X3, the fair values based on this published price quotation are CU102,000, CU110,000 and CU90,000, respectively.

SME A measures its investment in Entity Z on 31 December 20X1, 20X2 and 20X3 respectively at:

☐ (a) CU100,000, CU100,000, CU100,000.
☐ (b) CU95,000, CU95,000, CU86,000.
☐ (c) CU98,000, CU106,000, CU86,000.
☐ (d) CU98,000, CU101,000, CU86,000.
☐ (e) CU102,000, CU110,000, CU90,000.
☐ (f) CU101,000, CU101,000, CU101,000.

Question 9

A party in a jointly controlled entity over which it does not have joint control or control accounts for that investment should apply:

- ☐ (a) Section 11 *Financial Instruments*.
- ☐ (b) Section 14 *Investments in Associates*.
- ☐ (c) Section 11 *Financial Instruments* or, if it has significant influence in the joint arrangement, Section 14 *Investments in Associates*.
- ☐ (d) Section 9 *Consolidated and Separate Financial Statements*.

Question 10

Which of these statements is false?

- ☐ (a) Joint control over an entity can be gained or lost without a change in absolute or relative ownership levels.
- ☐ (b) When assessing whether two or more parties jointly control another entity, the parties consider the existence and effect of potential voting rights they hold that are currently exercisable or convertible.
- ☐ (c) When assessing whether two or more parties jointly control another entity, the parties consider the existence and effect of potential voting rights held by other parties that are currently exercisable or convertible.
- ☐ (d) When assessing whether two or more parties jointly control another entity, the parties consider only present ownership interests. They do not consider the possible exercise or conversion of potential voting rights.

Question 11

Which of these statements is false?

- ☐ (a) A party that participates in, but does not have joint control of, a jointly controlled operation is required to account for its interest in the arrangement in accordance with paragraph 15.5.
- ☐ (b) A party that participates in, but does not have joint control of, jointly controlled assets is required to account for its interest in the arrangement in accordance with paragraph 15.7.
- ☐ (c) A party that participates in, but does not have joint control of, a jointly controlled operation or a jointly controlled asset does not account for the jointly controlled operation or jointly controlled asset.

Answers

Q1 (d)—See paragraph 15.2.

Q2 (a)—See paragraph 15.6.

Q3 (b)—See paragraph 15.12. The party is still allowed to elect to use the cost model for the investments for which there is no published price quotation. For the investment in a jointly controlled entity that has a published price quotation, it will be measured using the fair value model.

Q4 (d)—See paragraphs 15.2 and 15.2A.

Q5 (c)—See paragraph 15.9.

Q6 (b)—See paragraphs 15.10 and 15.13 read with paragraph 14.8(d).

Q7 (d)—See paragraphs 15.10 and 15.11.

20X1: CU98,000 because the recoverable amount, fair value less costs to sell (CU98,000), is less than cost (CU101,000).

20X2: CU101,000 because the cost is less than recoverable amount.

20X3: CU86,000 because the recoverable amount (CU86,000) is less than cost (CU101,000).

Q8 (e)—See paragraphs 15.12, 15.14 and 15.15.

Q9 (c)—See paragraph 15.18.

Q10 (d)—See paragraph 15.2 read with paragraph 9.8 (potential voting rights that are currently exercisable must be taken into account).

Q11 (c)—See paragraphs 15.18A and 15.18B.

APPLY YOUR KNOWLEDGE

You can apply your knowledge of the requirements in Section 15 *Joint Arrangements* of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those on pages 51, 53 and 55–58.

Case study 1

Two property companies (the parties) form a separate legal entity in the form of a limited liability partnership for the purpose of operating a shopping centre. The joint arrangement is a jointly controlled entity. The jointly controlled entity buys the land and buildings that constitute the shopping centre. The purchase of the shopping centre is financed with a bank loan.

The activities of the arrangement include:

- renting the retail units;
- managing the car park;
- maintaining the centre and its infrastructure, such as lifts; and
- growing the centre's reputation and visitor numbers.

Decisions about the relevant activities require the unanimous consent of both parties.

How should the parties account for their interests in the shopping centre business operated by the limited liability partnership?

Answer to Case study 1

The joint arrangement is a jointly controlled entity.

In accordance with their respective accounting policies for jointly controlled entities, the parties recognise their interest in the arrangement using either:

- the cost model;
- the equity method; or
- the fair value model.

Case study 2

Four SMEs (the parties) enter into a contract to explore, develop and extract minerals from a combined area they have acquired. Each party has rights to extract minerals from adjacent areas and retains its legal ownership of the extractive rights for its defined area. The SMEs have financed their respective acquisitions.

The contract is for the economic extraction life of the defined area. The participation percentage of each party is based on the mineral reserves expected to be extracted from that party's acreage held and contributed to the geological area. The participation percentages are then adjusted depending on the findings of an independent survey of the reserves. The parties receive output from the joint arrangement in the form of minerals that each can then hold, use or sell at its own discretion.

One party has been designated as the operator. The parties establish a five-year strategic plan, which is updated annually by approval of all parties. The operator acquires equipment and allocates employees to the joint activities according to the strategic plan. The operator invoices the other parties for their share of expenses and capital expenditure based on their participation. The terms of the arrangement are such that each party is contractually responsible for a share of all costs, so each party has rights to a share of any assets purchased for the joint activities. Parties have joint and several liability for obligations such as decommissioning and environmental clean-up.

Part A: Does this contractual arrangement describe a joint arrangement? If so, what type of joint arrangement does it describe?

Part B: How should the parties account for their interests in this contractual arrangement?

Answer to Case study 2

Part A

This arrangement is an arrangement where there is joint control. This joint arrangement takes the form of jointly controlled assets to carry out that activity (mainly production equipment). The joint arrangement is set up for the purposes of sharing costs. The contractual arrangement is an extension of each party's operating activities to produce and sell minerals.

The parties retain their right to the economic benefits generated from the mineral rights—the benefits (usually received in the form of minerals) are directly related to the amount of mineral reserves contributed by each party to the contractual arrangement. The parties have joint and several liability for obligations such as decommissioning, and also have obligations to reimburse their share of the costs incurred by the operator.

Each party has rights to its share of the joint production equipment and other resources by directing the use of the equipment for the extraction of minerals.

Part B

The parties recognise as assets and liabilities their respective interests in the mineral rights, production equipment, minerals extracted, liabilities incurred, decommissioning liabilities and financing of the operations.

The operator recognises receivables from the other parties (representing the other parties' share of expenses and capital expenditure borne by the operator). The non-operator parties recognise payables to the operator.

Case study 3

On 1 January 20X1, SME A and SME B each acquire 40% of the equity shares of Entities X, Y and Z for CU10,000, CU15,000 and CU28,000, respectively. SME A and SME B enter into a contractual arrangement by which they established that the decisions relating to the relevant activities of Entities X, Y and Z require their unanimous consent. Transaction costs of 1% of the purchase price of the shares are incurred by SME A and SME B.

On 2 January 20X1, Entity X declares and pays dividends of CU625 for the year ended 20X0.

On 31 December 20X1, Entity Y declares a dividend of CU5,000 for the year ended 20X1, but pays the dividend in in 20X2.

For the year ended 31 December 20X1, Entities X and Y recognise profit of CU3,125 and CU11,250, but Entity Z recognises a loss of CU12,500 for the year.

Published price quotations do not exist for the shares of Entities X, Y and Z. Using appropriate measurement techniques, SME A and SME B determine the fair value of their investments in Entities X, Y and Z at 31 December 20X1 as CU13,000, CU29,000 and CU15,000, respectively without undue cost or effort. Costs to sell are estimated at 5% of the fair value of the investments.

Neither SME A nor SME B prepares consolidated financial statements because they do not have any subsidiaries.

Part A:

Assume SME A measures its investments in jointly controlled entities using the cost model and SME B measures its investments in jointly controlled entities using the fair value model.

Prepare accounting entries to record the investments in the jointly controlled entities in the accounting records of SME A and SME B for the year ended 31 December 20X1.

Part B:

Assume instead that SME A measures all its investments in jointly controlled entities using the equity method.

Prepare accounting entries to record the investments in jointly controlled entities in the accounting records of SME A for the year ended 31 December 20X1.

Answer to Case study 3–Part A

SME A (cost model)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)	CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Investment in jointly controlled entity (Entity X)	CU100	
Dr	Investment in jointly controlled entity (Entity Y)	CU150	
Dr	Investment in jointly controlled entity (Entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)	CU2,000	
	Cr Profit or loss (other income—dividend from jointly controlled entity)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend declared by Entity Y).

Dr	Profit or loss (impairment loss)	CU14,030[(a)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU14,030

To recognise the impairment of the investment in Entity Z.

(a) CU28,280 cost – CU14,250[(b)] = CU14,030 impairment loss.

(b) CU15,000 fair value at 31 December 20X1 – estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value – costs to sell of SME A's investment in Entity Z at 31 December 20X1.

SME B (fair value model)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)		CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)		CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)		CU28,000	
	Cr	Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Profit or loss		CU530[(a)]	
	Cr	Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash		CU250	
	Cr	Profit or loss (other income—dividend from jointly controlled entity)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)		CU2,000	
	Cr	Profit or loss (other income—dividend from jointly controlled entity)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend declared by Entity Y).

Dr	Profit or loss (change in fair value)		CU13,000[(b)]	
	Cr	Investment in jointly controlled entity (Entity Z)		CU13,000

To recognise the decrease in fair value of investment in Entity Z, a jointly controlled entity, in the year.

Dr	Investment in jointly controlled entity (Entity X)		CU3,000[(c)]	
Dr	Investment in jointly controlled entity (Entity Y)		CU14,000[(d)]	
	Cr	Profit or loss (change in fair value)		CU17,000

To recognise increase in fair value of investments in jointly controlled entities (entities X and Y), in the year.

(a) Representing 1% (CU10,000 Entity X + CU15,000 Entity Y + CU28,000 Entity Z) = CU530 transaction costs.

(b) CU28,000 cost – CU15,000 fair value at 31 December 20X1 = CU13,000 decrease in the fair value of the investment in Entity Z for the year ended 31 December 20X1.

(c) CU13,000 fair value at 31 December 20X1 – CU10,000 cost = CU3,000 increase in the fair value of the investment in Entity X for the year ended 31 December 20X1.

(d) CU29,000 fair value at 31 December 20X1 – CU15,000 cost = CU14,000 increase in the fair value of the investment in Entity Y for the year ended 31 December 20X1.

Answer to Case study 3–Part B

SME A (equity method)

1 January 20X1

Dr	Investment in jointly controlled entity (Entity X)	CU10,000	
Dr	Investment in jointly controlled entity (Entity Y)	CU15,000	
Dr	Investment in jointly controlled entity (Entity Z)	CU28,000	
	Cr Cash		CU53,000

To recognise the acquisition of investments in jointly controlled entities.

Dr	Investment in jointly controlled entity (Entity X)	CU100	
Dr	Investment in jointly controlled entity (Entity Y)	CU150	
Dr	Investment in jointly controlled entity (Entity Z)	CU280	
	Cr Cash		CU530

To recognise the transaction costs incurred to acquire the investments in jointly controlled entities.

2 January 20X1

Dr	Cash	CU250	
	Cr Investment in jointly controlled entity (Entity X)		CU250

To recognise dividends received from Entity X (40% of CU625 dividend paid by Entity X).

31 December 20X1

Dr	Receivable (Entity Y)	CU2,000	
	Cr Investment in jointly controlled entity (Entity Y)		CU2,000

To recognise the dividend receivable from Entity Y (40% of CU5,000 dividend declared by Entity Y).

Dr	Investment in jointly controlled entity (Entity X)	CU1,250[(a)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU1,250

To recognise the share of Entity X's (a jointly controlled entity) profit for the year.

Dr	Investment in jointly controlled entity (Entity Y)	CU4,500[(b)]	
	Cr Profit or loss (share of jointly controlled entity's earnings)		CU4,500

To recognise the share of Entity Y's (a jointly controlled entity) profit for the year.

Dr	Profit or loss (share of jointly controlled entity's earnings)	CU5,000[(c)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU5,000

To recognise the share of Entity Z's (a jointly controlled entity) loss for the year.

Dr	Profit or loss (impairment loss)	CU9,030[(d)]	
	Cr Investment in jointly controlled entity (Entity Z)		CU9,030

To recognise the impairment of the investment in Entity Z.

These calculations and explanatory notes do not form part of the answer to this case study:

(a) 40% × CU3,125 profit for the year (Entity X) = CU1,250 SME A's share of Entity X's profit for the year.

(b) 40% × CU11,250 profit for the year (Entity Y) = CU4,500 SME A's share of Entity Y's profit for the year.

(c) 40% × CU12,500 loss for the year (Entity Z) = CU5,000 SME A's share of Entity Z's loss for the year.

(d) CU28,280 cost – CU5,000[(c)] SME A's share of Entity Z's loss for the year – CU14,250[(e)] = CU9,030 impairment loss.

(e) CU15,000 fair value at 31 December 20X1 – estimated costs to sell of CU750 (5% × CU15,000) = CU14,250 fair value less costs to sell of SME A's investment in Entity Z at 31 December 20X1.

NOTES

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