

## **ED NASCO 21**

### **Interests in Joint ventures**

#### **Purpose of Standard**

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 28 "Accounting for Associates".

#### **Objective**

2. The objective of this Standard is to specify the financial reporting practice to be adopted in the production of financial statements by an entity that has sufficient interests in another entity to qualify those interests as a Joint venture but not to qualify the interests as an associate or as a subsidiary

#### **Scope**

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:
  - (a) venture capital organisations, or
  - (b) mutual funds, unit trusts and similar entities including investment-linked insurance fundsthat upon initial recognition are designated as at fair value through profit or loss or are classified as held for. Such investments shall be measured at fair value, with changes in fair value recognised in profit or loss in the period of the change.
6. A venturer with an interest in a jointly controlled entity is exempted from paragraph **????** (proportionate consolidation) when it meets the following conditions:
  - (a) the interest is classified as held for sale;
  - (b) the exception in NASCO *Consolidated and Separate Financial Statements* allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or
  - (c) all of the following apply:
    - (i) the venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;
    - (ii) the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
    - (iii) the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory

organisation, for the purpose of issuing any class of instruments in a public market; and

- (iv) the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

## Definitions

- 7 The following terms are used in this Standard with the meanings specified:

An *investor in a joint venture* is a party to a joint venture and does not have joint control over that joint venture.

*Joint control* is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

A *joint venture* is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

*Proportionate consolidation* is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

A *venturer* is a party to a joint venture and has joint control over that joint venture.

- 8 Financial statements in which proportionate consolidation is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity.
- 9 Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.
- 10 Entities that are exempted in accordance with NASCO 19 from consolidation or paragraph ??? of this Standard from applying proportionate consolidation may present separate financial statements as their only financial statements.

## Forms of joint ventures

- 11 Joint ventures take many different forms and structures. This Standard identifies three broad types—jointly controlled operations, jointly controlled assets and jointly controlled entities—that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:
- (a) two or more venturers are bound by a contractual arrangement; and
  - (b) the contractual arrangement establishes joint control.

## Joint control

- 12 Joint control may be precluded when an investee is in legal reorganisation or in bankruptcy, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

## **Contractual arrangement**

- 13 The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see NASCO 20). Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.
- 14 The contractual arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally.
- 15 The contractual arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the economic activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

## **Jointly controlled operations**

- 16 The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer 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 venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.
- 17 In respect of its interests in jointly controlled operations, a venturer 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 income that it earns from the sale of goods or services by the joint venture.
- 18 No adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements

## **Jointly controlled assets**

- 19 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.
- 20 These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset.
- 21 In respect of its interest in jointly controlled assets, a venturer 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 venturers in relation to the joint venture;
  - (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
  - (e) any expenses that it has incurred in respect of its interest in the joint venture.
22. As the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.
23. The treatment of jointly controlled assets is to reflect the substance and economic reality of the arrangement and not necessarily the legal form

### **Jointly controlled entities**

- 24 A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
- 25 A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.
- 26 A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with National accounting standards or International Financial Reporting Standards.
- 27 Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the jointly controlled entity.

### **Financial statements of a venturer**

#### **Proportionate consolidation**

- 28 A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.
- 29 A venturer recognises its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

- 30 When recognising an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form.. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognises its interests in the assets, liabilities, income and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 34.
- 31 The application of proportionate consolidation means that the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The income statement of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in NASCO 19.
- 32 Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements. Both these reporting formats result in the reporting of identical amounts of profit or loss and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Standard.
- 33 The offsetting of any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income is not permitted unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.
- 34 A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.
- 35 A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity.

### **Equity method**

#### **Exceptions to proportionate consolidation**

- 36 Interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 shall be accounted for in accordance with that IFRS.
- 37 When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.
- 38 From the date on which a jointly controlled entity becomes a subsidiary of a venturer, the venturer shall account for its interest in accordance with NASCO 19. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with NASCO 20

## Separate financial statements of a venturer

- 39 An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with NASCO 19
- 40 This Standard does not mandate which entities produce separate financial statements available for public use.

## Transactions between a venturer and a joint venture

- 41 When a venturer contributes or sells assets to a joint venture, 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 venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers.<sup>2</sup> The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.
- 42 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer 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 a reduction in the net realisable value of current assets or an impairment loss.
- 43 To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount of the asset in accordance with NASCO *Impairment of Assets*. In determining value in use, the venturer estimates future cash flows from the asset on the basis of continuing use of the asset and its ultimate disposal by the joint venture.

## Reporting interests in joint ventures in the financial statements of an investor

- 44 If an investor in a joint venture has significant influence in the joint venture, in accordance with NASCO 20

## Operators of joint ventures

- 45 Operators or managers of a joint venture shall account for any fees in accordance with NASCO 6 Income
- 46 One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

## Disclosure

- 47 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
- (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;

- (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
  - (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
- 48 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:
- (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
  - (b) its share of the capital commitments of the joint ventures themselves.
- 49 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
- 50 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

### **Effective date**

- 51 This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic