HKAS 31 Interests in Joint Ventures

1. Scope of HKAS 31

Hong Kong Accounting Standard (HKAS) 31 Interests in Joint Ventures shall be applied in (a) accounting for interests in joint ventures and (b) 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 funds

that are classified as held for trading and accounted for in accordance with HKAS 39 Financial Instruments: Recognition and Measurement. Such investments shall be measured at fair value in accordance with HKAS 39, with changes in fair value being recognised in profit or loss in the period of the change. (HKAS 31 para. 1)

A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 of HKAS 31 (i.e. proportionate consolidation) and paragraph 38 of HKAS 31 (i.e. equity method) when it meets the following conditions:

(a) the interest is classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations;

(b) the exception in paragraph 10 of HKAS 27 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 securities 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 securities 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 Hong Kong Financial Reporting Standards (HKFRSs) or International Financial Reporting Standards (IFRSs). (HKAS 31 para. 2)

A venturer is a party to a joint venture and has joint control over that joint venture. An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture. (HKAS 31 para. 3)
2. Forms of Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. (HKAS 31 para. 3)

Joint ventures take many different forms and structures. HKAS 31 identifies 3 broad types:

(a) jointly controlled operations,
(b) jointly controlled assets and
(c) 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.

2.1 Joint Control

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).

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it. (HKAS 31 para. 3)

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.

2.2 Contractual Arrangement

The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see HKAS 28). Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of HKAS 31.

Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies. (HKAS 31 para. 3)

The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture;
(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
(c) capital contributions by the venturers; and
(d) the sharing by the venturers of the output, income, expenses or results of the joint venture.

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.

The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.
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.

3. Jointly Controlled Operations

3.1 Features of jointly controlled operations

Jointly controlled operation refers to the operation of some joint ventures that 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.

In a jointly controlled operation, 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.

An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.

3.2 Recognition of jointly controlled operations

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. (HKAS 31 para. 15)

Because 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.

Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

4. Jointly Controlled Assets

4.1 Features of jointly controlled assets

Jointly controlled assets are some joint ventures that 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.
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.

Many activities in the oil, gas and mineral extraction industries involve jointly controlled assets. Examples include:

(a) a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline; and

(b) another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

4.2 Recognition of jointly controlled assets

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. (HKAS 31 para. 21)

In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled oil pipeline is classified as property, plant and equipment.
(b) any liabilities that it has incurred, for example those incurred in financing its share of the assets.
(c) its share of any liabilities incurred jointly with 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.
(e) any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer’s interest in the assets and selling its share of the output.

Because 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.

The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

5. Jointly Controlled Entities

5.1 Features of jointly controlled entities

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.

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.

Examples of jointly controlled entities include:

(a) two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity.

(b) an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency.

Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets.

For example, the venturers may transfer a jointly controlled asset, such as an oil pipeline, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity assets that will be operated jointly.

Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.

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 IFRSs.

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.

5.2 Financial Statements of a Venturer

A venturer shall recognise its interest in a jointly controlled entity using

(a) proportionate consolidation or

(b) equity method (the alternative method described in paragraph 38 of HKAS 31).

When proportionate consolidation is used, one of the two reporting formats identified below shall be used. (HKAS 31 para. 30)

5.2.1 Proportionate Consolidation

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. (HKAS 31 para. 3)

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.

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. In a jointly controlled entity, a venturer has control over its share of future economic benefits through its share of the assets and liabilities of the venture. 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 of HKAS 31 (see point a below).

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 HKAS 27.

1) Two reporting formats

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. For example, it may combine its share of the jointly controlled entity’s inventory with its inventory and its share of the jointly controlled entity’s property, plant and equipment with its property, plant and equipment.

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. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant and equipment. 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.

Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset 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, 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.

2) Discontinue the use of proportionate consolidation

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. (HKAS 31 para. 36)

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. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

5.2.2 Equity Method

As an alternative to proportionate consolidation described above (paragraph 30 of HKAS 31), a venturer shall recognise its interest in a jointly controlled entity using the equity method. (HKAS 31 para. 38)

A venturer recognises its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

Some venturers recognise their interests in jointly controlled entities using the equity method, as described in HKAS 28. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and by those who
believe that venturers have significant influence, rather than joint control, in a jointly controlled entity.

HKAS 31 does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer’s interest in a jointly controlled entity, that is to say, control over the venturer’s share of the future economic benefits.

Nevertheless, HKAS 31 permits the use of the equity method, as an alternative treatment, when recognising interests in jointly controlled entities.

**A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity. (HKAS 31 para. 41)**

### Examination question

**Question**

Modified from ACCA Paper 3.6H 2002 June Question 4

The reorganisation costs of $240,000 in the income statement relate to the following item. Inventuren had purchased 50% of the ordinary share capital of Caster, a limited company for $30 million on 1 June 2001. The fair value and book value of the net assets of Caster at the date of acquisition were $58 million and $50 million respectively. Inventuren’s holding in Caster was subsequently sold to Melia for cash on 1 January 2002 and the loss on sale was calculated at $240,000. This amount was then charged as reorganisation costs in the income statement. As Melia had been accounted for using pooling of interests accounting, then Caster was also accounted for using the same method.

The regulatory framework normally requires the use of the treatment under HKAS 31. The investment in Caster satisfied the definition of a joint venture and its results for the year are as follows:

<table>
<thead>
<tr>
<th>$000</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,500</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(700)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>800</td>
</tr>
<tr>
<td>Distribution and adm. expenses (including depreciation of $15,000)</td>
<td>(100)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>700</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(100)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>600</td>
</tr>
</tbody>
</table>

Discuss the nature and acceptability of the accounting practices set out above, advising the directors on the correct accounting treatment or actions that they should take.

**Answers**

The company has treated the purchase and resale of Caster as a group reorganisation and has ignored the requirements of HKAS 31 and HKFRS 3 *Business Combinations*. Caster had been purchased from a non-group company on 1 June 2001. Subsequently Caster was sold to a group company for a loss. This loss is an inter company loss and should be eliminated from the income statement. The joint venture should be accounted for under HKAS 31 and HKFRS 3 which require that fair values should be attributed to the investee’s underlying assets and liabilities, and goodwill recognised. Unitig of interests accounting should not be used especially as Melia should be accounted for using acquisition accounting.

In the income statement, joint ventures should report the results of the joint venture using the proportionate consolidation or equity method as required by HKAS 31.

If the equity method is adopted, only half of the results for the period will be included in the pre-tax earnings in the income statement. Thus profit after taxation will effectively fall by $300,000 plus any impairment loss on goodwill, and there will be a corresponding reduction in the minority interest amount. The use of the equity method will affect the calculation of important ratios such as earnings before interest, taxation, depreciation and amortisation, as only one half of the profit and tax expense will be included rather than showing the full results and eliminating half of these via the minority interest calculation.

The goodwill arising on the joint venture is as follows:

<table>
<thead>
<tr>
<th>$m</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration</td>
<td>30</td>
</tr>
<tr>
<td>Net assets at fair value ($58 ÷ 2)</td>
<td>(29)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>1</td>
</tr>
</tbody>
</table>

Share of operating profit of joint venture is $350,000 and share of income tax expense of joint venture is $50.
5.2.3 Exceptions to Proportionate Consolidation and Equity Method

Interests in jointly controlled entities that are classified as held for sale in accordance with HKFRS 5 shall be accounted for in accordance with that HKFRS. (HKAS 31 para. 42)

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 or the equity method 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.

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 HKAS 27. 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 HKAS 28. (HKAS 31 para. 45)

5.3 Separate Financial Statements of a Venturer

An interest in a jointly controlled entity shall be accounted for in a venturer’s separate financial statements in accordance with paragraphs 37-42 of HKAS 27 (i.e. the sections of Separate Financial Statements and Disclosure in HKAS 27, see section 5.3.1 below). (HKAS 31 para. 46)

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. (HKAS 31 para. 3)

Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers’ interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.

Financial statements in which proportionate consolidation or the equity method 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.

HKAS 31 does not mandate which entities produce separate financial statements available for public use.

5.3.1 Separate financial statements requirements in HKAS 27

When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates shall be accounted for either:

(a) at cost, or
(b) in accordance with HKAS 39.

The same accounting shall be applied for each category of investments. (HKAS 27 para. 37)

HKAS 27 does not mandate which entities produce separate financial statements available for public use. The requirements set out in the section apply when an entity prepares separate financial statements that comply with HKFRSs.

Investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with HKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor’s separate financial statements. (HKAS 27 para. 39)
Examination question

Question

Modified from ACCA Paper 3.6H 2002 December Question 4

Transystems, a public limited company, designs websites and writes bespoke software. The company has a history of conflict with the auditors regarding its creative use of accounting standards.

Transystems has a 50% interest in a joint venture which gives rise to a net liability of $3 million. The reason for this liability is the fact that the negative goodwill ($6 million) arising on the acquisition of the interest in the joint venture has been deducted from the interest in the net assets ($3 million). Transystems is proposing to net the liability of $3 million against a loan made to the joint venture by Transystems of $5 million, and show the resultant balance in tangible non-current assets. The equity method of accounting has been used to account for the interest in the joint venture. It is proposed to treat negative goodwill in the same manner as the goodwill on the purchase of subsidiaries and leave it in the balance sheet indefinitely. (9 marks)

Answers

The amount currently stated in the balance sheet for the joint venture can be broken down as follows:

$\text{m}
\begin{align*}
\text{Loan to joint venture} & \quad 5 \\
\text{Net interest in joint venture} & \quad 3 \\
\text{Negative goodwill} & \quad 2
\end{align*}

There are several points to be taken into account in this matter. HKAS 28 Investments in Associates states that where the investors’ share of losses exceeds the carrying value of the investment, then the investor discontinues including its share of further losses and the investment is reported at nil value. Thus, HKAS by implication would not concur with the reporting of a negative value for a joint venture accounted for under the equity method of accounting which is dealt with by HKAS 28. It would be unusual to include a loan to the joint venture as part of the net investment as the loans are assets of the investor. By taking out and reporting the loan separately, a net liability of $3 million arises.

The question arises as to whether this amount should be shown as a liability or negative asset. Negative goodwill under HKFRS 3 is required to charge to the income statement after reassessment.

HKFRS 3 requires that if the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with HKFRS 3 exceeds the cost of the business combination (i.e. negative goodwill), the acquirer shall (a) reassess the identification and measurement of the acquiree’s identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and (b) recognise immediately in profit or loss any excess remaining after that reassessment.

Thus as this net ‘liability’ is essentially created by negative goodwill, the amount of negative goodwill should be charged to the income statement after the reassessment as set out above. The interest in joint venture should then be carried in the balance sheet as an asset without any deduction.

6. Transactions between a Venturer and a Joint Venture

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. (see also HKAS-Int-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers) (HKAS 31 para. 48)

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. (HKAS 31 para. 48)

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. (HKAS 31 para. 49)
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 HKAS 36 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.

7. Reporting Interests in Joint Ventures in the Financial Statements of an Investor

An investor in a joint venture that does not have joint control shall account for that investment in accordance with HKAS 39 or, if it has significant influence in the joint venture, in accordance with HKAS 28. (HKAS 31 para. 51)

8. Operators of Joint Ventures

Operators or managers of a joint venture shall account for any fees in accordance with HKAS 18 Revenue. (HKAS 31 para. 52)

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. See also HKAS-Int-13 Jointly Controlled Entities -- Non-Monetary Contributions by Venturers.

9. Disclosure

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. (HKAS 31 para. 54)

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. (HKAS 31 para. 55)

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 or the equity method 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. (HKAS 31 para. 56)

A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities. (HKAS 31 para. 57)
10. Effective Date

An entity shall apply HKAS 31 for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

If an entity applies HKAS 31 for a period beginning before 1 January 2005, it shall disclose that fact and apply HKAS-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers at the same time. (HKAS 31 para. 58)

If an entity decides to apply HKAS 31 for an earlier period, it is not required to apply all the HKASs with the same effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period.