Accounting Standard for Local Bodies (ASLB) 37

Joint Arrangements

(Based on corresponding IPSAS 37)

Issued by

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ASLB 37—JOINT ARRANGEMENTS

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*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 37, *'Joint Arrangements'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

2. To meet the objective in paragraph 1, this Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in determining the type of joint arrangement in

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

which it is involved and in accounting for the rights and obligations of the joint arrangement.

4. This Standard should be applied by all entities (that are described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3]) that are a party to a joint arrangement.

5. [Deleted]

6. [Deleted]

Definitions

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

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

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

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint operator is a party to a joint operation that has joint control of that joint operation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

A party to a joint arrangement is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in ASLB 35, 'Consolidated Financial Statements' or ASLB 36, 'Investments in Associates and Joint Ventures': benefits, control, power, protective rights, relevant activities and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

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

10. A joint arrangement has the following characteristics:

- ***(a) The parties are bound by a binding arrangement (see paragraphs AG2–AG4).***
- ***(b) The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 12–18).***

11. A joint arrangement is either a joint operation or a joint venture.

Joint Control (AG5-AG10)

12. ***Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement****.*

13. ***An entity that is a party to an arrangement should assess whether the binding 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 benefits from the arrangement (i.e., the relevant activities).***

14. 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. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

17. ***An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity should make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).***

18. ***If facts and circumstances change, an entity should reassess whether it still has joint control of the arrangement.***

Types of Joint Arrangement

19. An entity should determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

20. ***An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity should determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).***

21. Sometimes the parties are bound by a framework agreement that sets up the general terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.

22. If facts and circumstances change, an entity should reassess whether the type of joint arrangement in which it is involved has changed.

Financial Statements of Parties to a Joint Arrangement (see paragraphs AG33A–AG37)

Joint Operations

23. A joint operator should recognise in relation to its interest in a joint operation:

(a) Its assets, including its share of any assets held jointly;
(b) Its liabilities, including its share of any liabilities incurred jointly;
(c) Its revenue from the sale of its share of the output arising from the joint operation;
(d) Its share of the revenue from the sale of the output by the joint operation; and
(e) Its expenses, including its share of any expenses incurred jointly.

24. A joint operator should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the ASLBs applicable to the particular assets, liabilities, revenues and expenses.

24A. ***When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation[4], as defined in ASLB 40, 'Entity Combinations', it should apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in ASLB 40, and other ASLBs, that do not conflict with the guidance in this Standard, and disclose the information that is required in those ASLBs in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.***

25. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.

26. A party that participates in, but does not have joint control of, a joint operation should also account for its interest in the arrangement in accordance with paragraphs 23–25 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the

[4] An *operation* is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services. [Refer ASLB 40 (under formulation) for more details].

assets, and obligations for the liabilities, relating to that joint operation, it should account for its interest in the joint operation in accordance with the ASLBs applicable to that interest.

Joint Ventures

27. A joint venturer should recognise its interest in a joint venture as an investment and should account for that investment in accordance with ASLB 36, 'Investments in Associates and Joint Ventures'.

28. A party that participates in, but does not have joint control of, a joint venture should account for its interest in the arrangement in accordance with Guidance on 'Financial Instruments'[5] unless it has significant influence over the joint venture, in which case it should account for it in accordance with ASLB 36.

Separate Financial Statements

29. In its separate financial statements, a joint operator or joint venturer should account for its interest in:

(a) A joint operation in accordance with paragraphs 23–25; and

(b) A joint venture in accordance with paragraph 12 of ASLB 34, 'Separate Financial Statements' (at cost or in accordance with Guidance on 'Financial Instruments').

30. In its separate financial statements, A party that participates in, but does not have joint control of, a joint arrangement should account for its interest in:

(a) A joint operation in accordance with paragraph 26; and

(b) ***A joint venture in accordance with Guidance on 'Financial Instruments', unless the entity has significant influence over the joint venture, in which case it should apply paragraph 12 of ASLB 34.***

[5] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

30A. Parties to a joint arrangement should disclose the interests held in a joint arrangement in accordance with ASLB 38, '*Disclosure of Interests in Other Entities'*.

Transitional Provisions

31. Notwithstanding the requirements of paragraph 33 of ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors', when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of ASLB 3, for the annual period immediately preceding the first annual period for which this Standard is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

32-44. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 37.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 37.

Joint Arrangements

Binding Arrangement (paragraph 8)

AG2. Consistent with the definition of binding arrangements in this Standard, this discussion of binding arrangements is also relevant to enforceable arrangements created by legislative or executive authority.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding arrangement generally deals with such matters as:

(a) The purpose, activity and duration of the joint arrangement.

(b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.

(c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the binding arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).

(d) The capital or other contributions required of the parties.

(e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

Joint Control (paragraphs 12–18)

AG5. In assessing whether an entity has joint control of an arrangement, an entity should assess first whether all the parties, or a group of the parties, control the arrangement. ASLB 35, '*Consolidated Financial Statements'*, defines control and should be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable benefits from their involvement with the arrangement and have the ability to affect those benefits through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity should assess 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. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. Sometimes the decision-making process that is agreed upon by the parties in their binding arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the binding arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. In other circumstances, the binding arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of

the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the binding arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application Examples

Example 1

Assume that three parties namely Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' formed 'ABC' Municipal Company Limited and have voting rights in the company in the equity shareholding ratio of 40:35:25. 'ABC' Municipal Company Limited will transform the municipal schools situated in the jurisdictions of the aforesaid municipal corporations through implementation of smart school initiatives in municipal schools such as creation of clean, hygienic & safe environment, introduction of digital techniques for smart teaching & learning (e.g., LED screens in classrooms), installation of CCTV surveillance system & firefighting system, playground development, provision of music, sports & arts equipment, etc., that will uplift education standards for around 5000+ students who are studying in municipal schools.

The binding agreement between the municipal corporations specifies that at least 70 per cent of the voting rights is required to make decisions about the relevant activities of the company.

Which entities are jointly controlling the 'ABC' Municipal Company Limited?

Analysis

Municipal Corporation 'A' and Municipal Corporation 'B' have joint control of the arrangement because the terms of the binding agreement require at least 70 per cent of the voting rights to make decisions about the relevant activities of the company and Municipal Corporation 'A' & Municipal Corporation 'B' jointly hold more than 70 percent in voting rights.

Municipal Corporation 'A' and Municipal Corporation 'B' will be

either joint operator (if joint arrangement is joint operation) or joint venturer (if joint arrangement is joint venture) depending upon other facts and circumstances of the joint arrangement.

Municipal Corporation 'C' is a party to the joint arrangement that participates in, but does have joint control, of the arrangement as it cannot make decisions about the relevant activities of the 'ABC' Municipal Company Limited neither solely nor jointly with other municipal corporations.

Example 2

Assume that in above example 1, Municipal Corporation 'A' has 50 per cent of the voting rights in the 'ABC' Municipal Company Limited and Municipal Corporation 'B' and Municipal Corporation 'C' each have 25 per cent. The binding arrangement between Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the 'ABC' Municipal Company Limited. Even though Municipal Corporation 'A' can block any decision, it does not control the 'ABC' Municipal Company Limited because it needs the agreement of either Municipal Corporation 'B' or Municipal Corporation 'C'. In this example, Municipal Corporation 'A', Municipal Corporation 'B' and Municipal Corporation 'C' collectively control the 'ABC' Municipal Company Limited. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either Municipal Corporation 'A' and Municipal Corporation 'B' or Municipal Corporation 'A' and Municipal Corporation 'C'). In such a situation, to be a joint arrangement, the binding arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decide about the relevant activities of the 'ABC' Municipal Company Limited.

Example 3

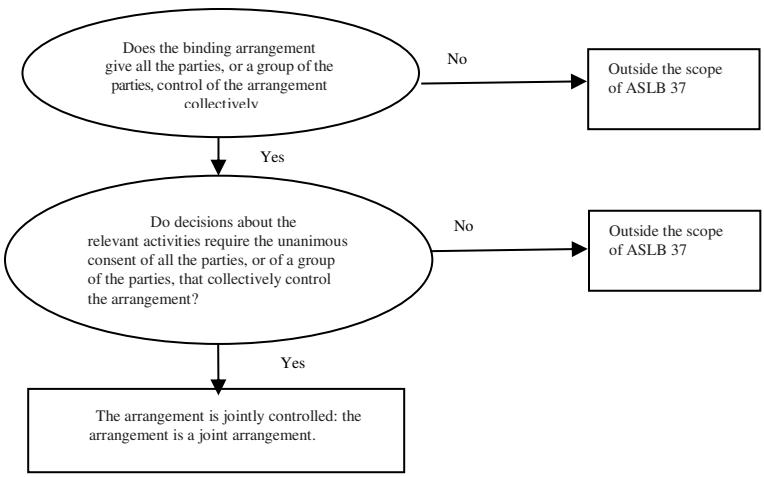
Assume that in above example 1, Municipal Corporation 'A' and Municipal Corporation 'B' each have 35 per cent of the voting rights in the 'ABC' Municipal Company Limited with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. Municipal Corporation 'A' and Municipal Corporation 'B' have joint control of

the ‘ABC’ Municipal Company Limited as they are having majority of voting rights.

AG9. 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.

AG10. A binding 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.

Assessing Joint Control



AG11. When an arrangement is outside the scope of ASLB 37, ‘*Joint Arrangements’*, an entity accounts for its interest in the arrangement in accordance with relevant ASLBs, such as

ASLB 36, '*Investments in Associates and Joint Ventures'* or Guidance on '*Financial Instruments'*.

Types of Joint Arrangement (paragraphs 19–22)

AG12. Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.

AG13. 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 establishment of a separate vehicle.

AG14. The classification of joint arrangements required by this Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a Joint Arrangement

AG15. As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity should consider the following:

(a) The structure of the joint arrangement (see paragraphs AG16–AG21).

(b) When the joint arrangement is structured through a separate vehicle:

(i) The legal form of the separate vehicle (see paragraphs AG22– AG24);

(ii) The terms of the binding arrangement (see paragraphs AG25–AG28); and

(iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

AG17. The binding arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to deliver services or manufacture a product together, with each party being responsible for specific areas and each using its own assets and incurring its own liabilities. The binding arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the binding arrangement.

AG18. In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the binding arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the binding arrangement.

Joint Arrangements Structured through a Separate Vehicle

AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

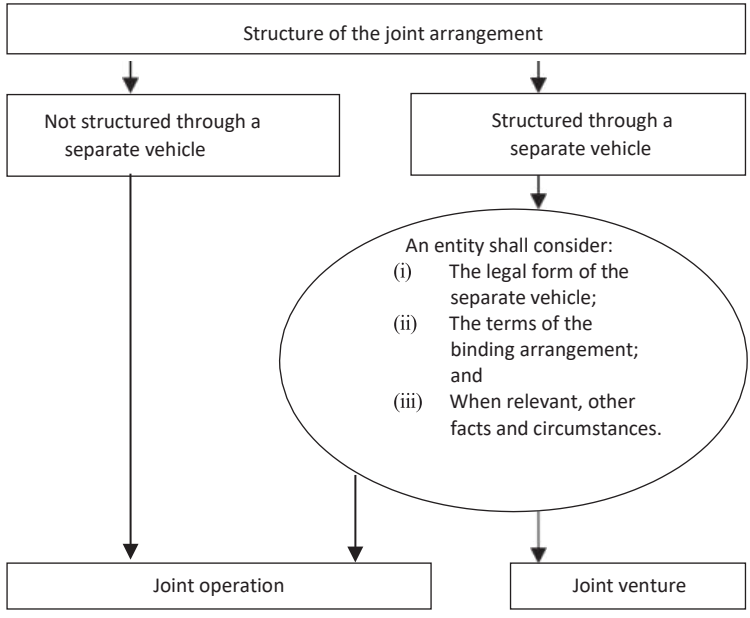
AG20. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

AG21. As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the binding arrangement and, when relevant, any other facts and circumstances give them:

(a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or

(b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

AG22. The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

AG23. For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their binding arrangement (see paragraphs AG25– AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

AG24. The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the Terms of the Binding Arrangement

AG25. In many cases, the rights and obligations agreed to by the parties in their binding arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

AG26. In other cases, the parties use the binding arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application Example

Example 4

Example 4(a): ABC Smart City Corporation Limited is a Special Purpose Vehicle (SPV) incorporated under the Companies Act, 2013. ABC Smart City Corporation Limited is owned by its two promoters, i.e., State Government and ABC Municipal Corporation on 50:50 equity shareholding ratio. Central Government release necessary funds in form of grants to selected cities under smart city mission project for implementation of prescribed programmes.

ABC Smart City Corporation Limited is governed by its board of directors and is answerable to its promoters and all other stakeholders for effective and timely implementation of smart city mission project as per the rules and guidelines issued by the Government of India and State Government from time to time for use of public money received by it.
The agreement between the State Government and ABC Municipal Corporation requires all decisions pertaining to SPV be made jointly.

Whether this joint arrangement is Joint Operation or Joint Venture?

Analysis

ABC Smart City Corporation Limited is a separate legal entity. The assets and liabilities held by the ABC Smart City Corporation Limited are the assets and liabilities of the incorporated entity which are different from the assets and liabilities of its promoters. The binding agreement between the parties to the joint arrangements (i.e., promoters) does not specify regarding sharing of assets and liabilities of the SPV rather it only specifies regarding joint decision-making by promoters.

It indicates that the parties have rights to the net assets of the arrangement that indicates that the arrangement is a joint venture.

Example 4(b): If, in the above example, the terms of the binding agreement between the State Government and ABC Municipal Corporation are as follows:

- State Government and ABC Municipal Corporation have interest in the assets of the ABC Smart City Corporation Limited.
- State Government and ABC Municipal Corporation have obligations for liabilities of ABC Smart City Corporation Limited in specified

proportion, i.e., in proportion of equity shareholding in SPV.

- The surplus or deficit of SPV is shared by State Government and ABC Municipal Corporation on the basis of equity shareholding ratio.

Whether this joint arrangement is Joint Operation or Joint Venture?

Analysis

The joint arrangement is carried out through a SPV but the parties to the arrangement have right to the assets and obligation for the liabilities of SPV as per binding agreement.

State Government and ABC Municipal Corporation each will recognise in its financial statements its share of assets, liabilities, revenue and expenses resulting from the joint arrangement.

It indicates that the parties have rights to the assets and liabilities of the arrangement that indicates that the arrangement is a joint operation.

AG27. The following table compares common terms in binding arrangements of parties to a joint operation and common terms in binding arrangements of parties to a joint venture. The examples of the binding terms provided in the following table are not exhaustive.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).

<table>
<tr><th colspan="3">Assessing the Terms of the Binding Arrangement</th></tr>
<tr><th></th><th>Joint Operation</th><th>Joint Venture</th></tr>
<tr><td>Rights to assets</td><td>The binding arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).</td><td>The binding arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.</td></tr>
<tr><td rowspan="2">Obligations for liabilities</td><td rowspan="2">The binding arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).</td><td>The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</td></tr>
<tr><td>The binding arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.</td></tr>
</table>

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
	The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The binding arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, surplus or deficit	The binding arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the binding arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the surplus or deficit relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

AG28. When the binding arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties should consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

AG30. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

AG31. When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have

rights to substantially all the service potential or economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

AG32. The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application Example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The binding arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the binding arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break- even level.

From the fact pattern above, the following facts and circumstances are relevant:

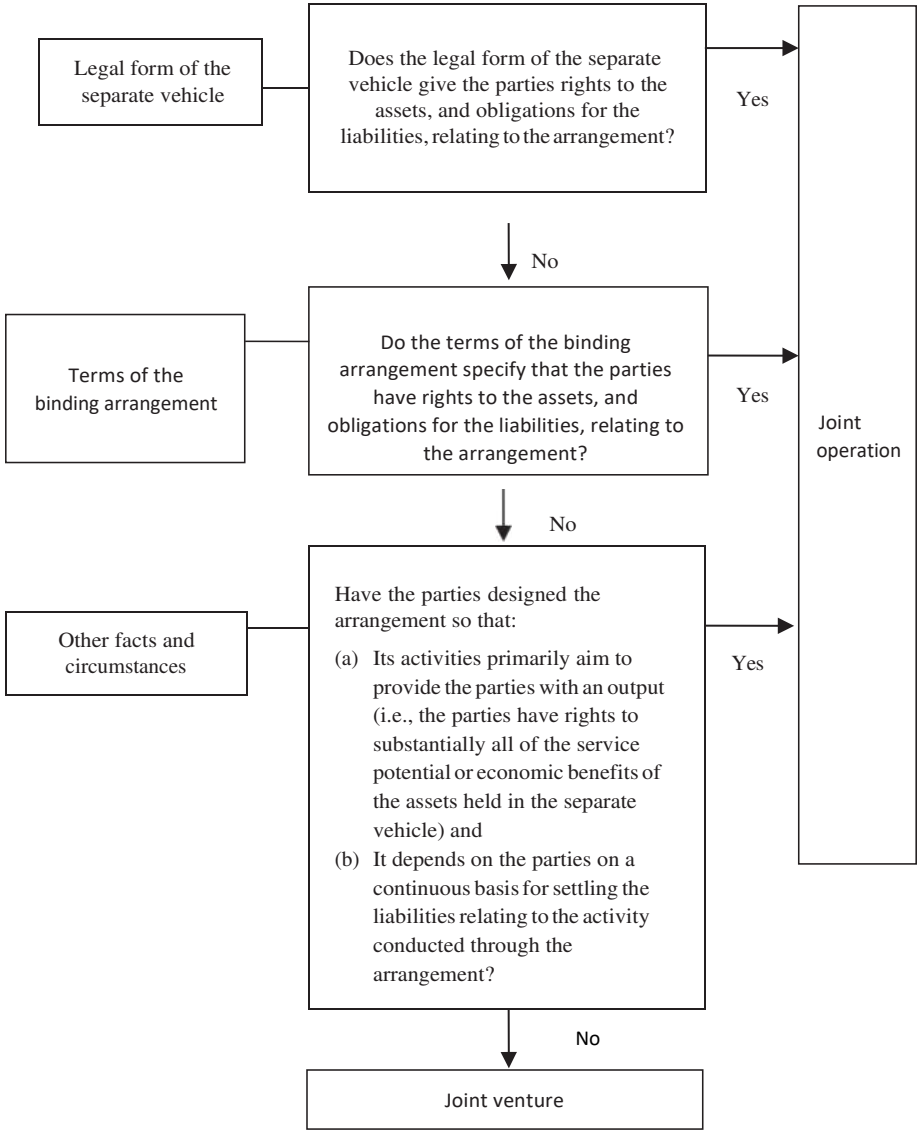
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the binding arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a Joint Arrangement Structured Through a Separate Vehicle



Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for Acquisitions of Interests in Joint Operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in ASLB 40, it should apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in ASLB 40, and other ASLBs, that do not conflict with the guidance in this Standard and disclose the information required by those ASLBs in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in ASLB 40 and other ASLBs;

(b) Recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with Guidance on '*Financial Instruments*';

(c) Recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by ASLB 26, '*Impairment of Cash-Generating Assets'*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in ASLB 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all

of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in ASLB 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33CA. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes an operation as defined in ASLB 40. In such cases, previously held interests in the joint operation are not remeasured.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Accounting for Sales or Contributions of Assets to a Joint Operation

AG34. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator should recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

AG35. When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses should be recognised fully by the joint operator.

Accounting for Purchases of Assets from a Joint Operation

AG36. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it

should not recognise its share of the gains and losses until it resells those assets to a third party.

AG37. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator should recognise its share of those losses.

ILLUSTRATIVE EXAMPLES

CONTENTS

Illustrative Examples

These examples accompany, but are not part of, ASLB 37.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying ASLB 37 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 37.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is owned by a local body. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a local body for the design and construction of a road between two cities. The binding arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the local body at that point.

IE3. The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the local body. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4. The binding arrangement between A and B additionally establishes that:

(a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;

(b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and

(c) The surplus or deficit resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5. For the purposes of co-ordinating and overseeing the activities, A and B appoint a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the employees on a "no gain or loss" basis.

IE6. In accordance with the terms specified in the contract with the local body, entity Z invoices the construction services to the local body on behalf of the parties.

Analysis

IE7. The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their binding arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation. It is not a service concession arrangement.

IE8. A and B each recognise in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the local body through entity Z.

Example 2 – Service Centre Operated Jointly

IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating parking lots. The binding arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the

assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of building space for parking lots, managing the parking of vehicles, maintaining the parking lot, hiring security guards, collecting parking charges, etc.

IE10. The terms of the binding arrangement are such that:

(a) Entity X owns the building space. The binding arrangement does not specify that the parties have rights to the building space.

(b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.

(c) The parties have the right to sell or pledge their interests in entity X.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity X.

Analysis

IE11. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity X.

IE12. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE13. The parties recognise their rights to the net assets of entity X as investments and account for them in accordance with ASLB 36.

Example 3 – Joint Provision of Assisted Living Services

IE14. A health care provider (entity X) owned by a local body and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly and establish a separate company (entity Z) for the purpose. The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:

(a) Entity X will provide the assisted living services. Entity Y will construct the premises.

(b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.

(c) The liability of the parties is limited to any unpaid capital of entity Z.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.

(e) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

IE15. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity Z.

IE16. On the basis of the description above, there are no other facts and

circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE17. The parties recognise their rights to the net assets of entity Z as investments and account for them in accordance with ASLB 36.

Variation

IE18. A health care provider (entity X) owned by a local body and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:

(a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.

(b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.

(c) The services will be delivered through a new entity, entity Z, established for this purpose.

(d) Each party will pay for 50% of the expenses for operating the services.

(e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.

(f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.

(g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those

codes.

Analysis of Variation

IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.

IE20. Entity X and entity Y each recognise in their financial statements their own assets and liabilities. They also recognise their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

IE21. Entities A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.

IE22. The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:

(a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the binding arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.

(b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the binding arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE23. In addition, the framework agreement establishes:

(a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;

(b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.

(c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

IE24. The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

IE25. The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the

entity. In addition, neither the framework agreement nor the binding arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:

(a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.

(b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfill the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.

IE26. The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE27. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.

IE28. A and B each recognise in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share

of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.

IE29. The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them in accordance with ASLB 36.

Variation

IE30. Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.

IE31. The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.

IE32. The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis of Variation

IE33. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the binding terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.

IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.

IE35. The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them in accordance with ASLB 36.

Example 5 -- IE36-40. [Refer to Appendix 1]

Example 6 – Waste Management Activities

IE41. Entities A and B (the parties) set up a separate vehicle (entity H) under a Joint Operating Agreement (JOA) to undertake waste management activities within the jurisdiction of entities A & B. Entity H is to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE42. Entity H plan waste management activities like door-to-door collection of waste, transport, processing & treatment (e.g. segregation & scientific recycling of waste, conversion of waste into compost and generation of bio gas/bio CNG/power) and disposal of waste (e.g. sanitary landfill activities). The aforesaid activities involve setting-up, operation & maintenance of waste treatment plants; developing and maintaining dumping sites/landfill sites.

IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

Agreement

IE44. The board of entity H consists of a director from each party. Each party has a 50 per cent holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

IE45. The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.

IE46. The Operating Committee approves the budgets and work programs

relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programs.

IE47. The JOA specifies that the rights and obligations arising from the waste management activities should be shared among the parties in proportion to each party's holding in entity H. In particular, the JOA establishes that the parties share:

(a) The rights and the obligations arising from the waste management activities of entity H;

(b) The income generated from sale of recycled material and supply of biogas/bio CNG/power; and

(c) All costs associated with all waste management activities.

IE48. The costs incurred in relation to all waste management activities are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H, the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

IE49. The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets and obligations for the liabilities that are held in entity H. The joint arrangement is a joint operation.

IE50. Both entity A and entity B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the income and its share of the expenses.

Example 7 – Compressed Bio Gas Arrangement

IE51. Company 'A' is the largest state owned natural gas processing and distribution company in India.

IE52. Company ‘A’ enters into a joint arrangement with Municipal Corporation ‘B’ to convert wet (green) waste into biogas. Under that arrangement, Company ‘A’ and Municipal Corporation ‘B’ (the parties) form a new separate vehicle, entity C. Each party has 50 per cent ownership interest in entity ‘C’. The main feature of entity C’s legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE53. The binding arrangement between the parties specifies that:

(a) Company ‘A’ and Municipal Corporation ‘B’ must each appoint two members to the board of entity ‘C’. The board of directors must unanimously agree the strategy and investments made by entity ‘C’.

(b) Company ‘A’ will contribute a gas plant that may be used by Entity ‘C’ to produce compressed biogas. Entity ‘C’ will make a nominal annual payment to Company ‘A’ for use of such facility.

(c) Municipal Corporation ‘B’ will collect waste, segregate it and then provide the wet (biodegradable) waste to entity ‘C’. The cost incurred in this regard will be borne by Municipal Corporation ‘B’ itself.

(d) Day-to-day management of the gas plant, including development and construction activities, will be undertaken by the staff of Company ‘A’ in accordance with the directions jointly agreed by the parties. Entity ‘C’ will reimburse Company ‘A’ for the costs it incurs in managing the gas plant.

(e) Entity C is liable for liabilities incurred in the ordinary course of running of gas plant, such as accounts payable, site restoration and decommissioning liabilities, etc.

(f) Entity ‘C’ will supply biogas to residential and industrial consumers and may earn profits.

(g) Company ‘A’ and Municipal Corporation ‘B’ have equal shares in the surplus from the activities carried out in the arrangement and as such, are entitled to equal shares of any

dividends or similar distributions made by entity ‘C’.

IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity ‘C’.

IE55. The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of an additional gas plant and construction of the CNG facility. The estimated total cost of the development and construction is Rs. 1,000 million.

IE56. The lending syndicate provides entity C with a Rs. 700 million loan. The arrangement specifies that the syndicate has recourse to Company ‘A’ and Municipal Corporation ‘B’ only if entity C defaults on the loan arrangement during the set up of the gas plant. The lending syndicate agrees that it will not have recourse to Company ‘A’ and Municipal Corporation ‘B’ once the plant is in production because it has assessed that the cash inflows that entity C should generate from sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to Company ‘A’ and Municipal Corporation ‘B’, the syndicate maintains protection against default by entity C by taking a lien on the gas plant.

Analysis

IE57. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity ‘C’, but they establish that the parties have rights to the net assets of entity ‘C’. The recourse nature of the financing arrangement during the set up of the gas plant (i.e., Company ‘A’ and Municipal Corporation ‘B’ providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). Company ‘A’ and Municipal Corporation ‘B’ have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the set up phase.

IE58. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or

economic benefits of the assets of entity 'C' and that the parties have an obligation for the liabilities of entity 'C'. The joint arrangement is a joint venture.

IE59. The parties recognise their rights to the net assets of entity C as investments and account for them in accordance with ASLB 36.

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in ASLB 40, '*Entity Combinations'*.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of Rs. 300 and incurs acquisition-related costs of Rs. 50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

	Municipality E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in ASLB 40 and other ASLBs for identifying, recognising, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in ASLB 40 and other ASLBs that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognises, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. ASLB 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognised as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in ASLB 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by ASLB 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by ASLB 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D
	(Rs.)
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(36)
Accounts payable	(48)
Contingent liabilities	(52)
Net assets	**228**

IE68. In accordance with ASLB 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognised as goodwill:

	Rs.
Consideration transferred	300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	228
Goodwill	**72**

IE69. Acquisition-related costs of Rs. 50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognised as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 111 of ASLB 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Municipal Corporation 'A' and Municipal Corporation 'B' provide

various services to the citizens residing in their jurisdiction. One of the main services provided by such entities is water supply.

IE71. Municipal Corporations 'A' and 'B' set up a water purification plant under binding arrangement (Joint Operation Z). Municipal Corporation 'A' and Municipal Corporation 'B' share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in ASLB 40.

IE72. After several years, the joint operators (Municipal Corporations 'A' and 'B') concluded that it is feasible to develop an advanced water plant to further purify wastewater using Material M. However, processing Material M requires specialist know-how available with only a few.

IE73. In order to get access to existing know-how in processing Material M, Municipal Corporations 'A' and 'B' arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Municipal Corporations 'A' and 'B' and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the purification of wastewater for various industries. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Municipal Corporations 'A' and 'B' and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Municipal Corporations 'A' and 'B' or Joint Operation Z and retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Municipal Corporations 'A' and 'B' or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is Rs. 1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was Rs. 300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in ASLB 40.

IE78. In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in ASLB 40 and other ASLBs that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Municipal Corporations A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognise the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognise the know-how based on its carrying amount of Rs. 300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognise a gain or loss on the grant of the right to use it.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 37 and the corresponding International Public Sector Accounting Standard (IPSAS) 37, 'Joint Arrangements'.

Comparison with IPSAS 37, *'Joint Arrangements'*

1. Different terminologies have been used in the ASLB 37 as compared to corresponding IPSAS 37, e.g., terms 'entity', 'statement of income and expenditure', 'balance sheet' and 'operations'' have been used in ASLB 37 in place of 'public sector', 'statement of financial performance', 'statement of financial position' and 'business'.

2. The following paragraphs of IPSAS 37 have been deleted/amended to make it more relevant in the context of Local Bodies in India:
   (i) Paragraph 4 modified to incorporate the provision pertaining to applicability of ASLBs in line with other issued ASLBs.
   (ii) A footnote appended to paragraph 24A to clarify the term 'operations' as per ASLB 40.
   (iii) ASLB 36 (read together with ASLB 34) does not permit the equity method to account for investments in joint ventures in separate financial statements as 'equity method' is not a measurement basis rather it is a manner of consolidation. Accordingly, the modifications made in ASLB 37. (paragraph 27)
   (iv) Paragraph 30A inserted to clarify the applicability of ASLB 38, '*Disclosure of Interests in Other Entities'* for disclosure requirements.
   (v) Paragraphs 32-41A pertaining to transitional provisions have been deleted as the methods mentioned in IPSAS 37 here have not been implemented yet in local bodies so does not seem relevant.

3. Paragraphs 5-6 appear as 'Deleted' in IPSAS 37. In order to maintain consistency with paragraph numbers of IPSAS 37, the paragraph numbers have been retained in ASLB 37.

4. ASLB 37 makes a reference to the Guidance on '*Financial Instruments*' and ASLBs that are yet to be formulated/ issued. The clarification on obtaining guidance in regard to those ASLBs has been incorporated in the ASLB 37.

5. Some examples of IPSAS 37 have been deleted or modified in the context of Local Bodies in India. (examples given below AG8 & AG26)

6. Consequential changes resulting from the above departures have been made in ASLB 37.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 37 and the existing Accounting Standard (AS) 27, 'Financial Reporting of Interests in Joint Ventures'.

Comparison with Existing AS 27, *'Financial Reporting of Interests in Joint Ventures'*

1. Existing AS 27 defines the term 'joint venture' as "a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control". ASLB 37 defines the term 'joint arrangement' as "an arrangement of which two or more parties have joint control" and joint arrangement has been further classified as 'joint operation' or 'joint venture'.

2. Existing AS 27 classifies joint venture into three categories, namely, jointly controlled operations, jointly controlled assets and jointly controlled entities. On the other hand, ASLB 37 classified joint arrangement into joint operation or joint venture. Arrangements that are classified as jointly controlled operations or jointly controlled assets under existing AS 27 would be classified as 'joint operations' under ASLB 37. An arrangement that is classified as a jointly controlled entity under existing AS 27 would be classified as either a joint operation or a joint venture under ASLB 37. The classification of joint arrangement under ASLB 37 depends on whether the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (a joint operation) or whether those parties have rights to the net assets of the arrangement (a joint venture).

3. Existing AS 27 requires a venturer to account for its interest in a jointly controlled entity in it's (i.e., venturer's) consolidated financial statements using proportionate consolidation method. ASLB 37 on the other hand requires such interest to be accounted for in the venturer's separate financial statements in accordance with ASLB 36, '*Investment in Associates and Joint Ventures*'. ASLB 35, '*Consolidated Financial*

Statements' does not permit to consolidate the investment in joint ventures in consolidated financial statements.

4. ASLB 37 contains appendices and illustrative examples that are more reflective of the circumstances of the Local Bodies.