# 29. Accounting for joint ventures

## Introduction

29.1. The reporting tiers applied for module 29 are as specified in the table below.

### Table 29.1A: Tiered reporting requirements for module 29

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|---|---|
| All tiers | The requirements for accounting for joint ventures in this module apply fully to all charities that enter into a contractual arrangement which meet the definition of a joint venture. |

29.2. Charities may collaborate with other charities or entities in a number of ways. This module applies to circumstances where charities enter into a contractual arrangement which meets the definition of a joint venture . Charities should refer to section 15 of FRS 102.

29.3. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The other venturers may be charities, social enterprises or for-profit companies or other entities.

29.4. 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).

29.5. This module sets out:

- The different forms of joint venture
- Method for the identification of respective interests in jointly controlled entities
- Accounting for jointly controlled entities that are charities
- Accounting for jointly controlled entities involving non-charitable entities
- Presentation of jointly controlled entities in consolidated accounts
- Disclosures

## The different forms of joint venture

29.6. There are three forms of joint venture:

- jointly controlled operations where each venturer uses its own assets, incurs its own expenses and liabilities, raises its own finance and shares the revenue from the joint venture in a way that is agreed with the other venturers (see also paragraphs 15.4 and 15.5 of FRS 102)
- jointly controlled assets are joint ventures that involve joint control and often 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. These are recognised in the financial statements with the assets, liabilities, income and expenses of the joint venture shared between the venturers (see also paragraphs 15.6 and 15.7 of FRS 102)

- jointly controlled entities are joint ventures that involve 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

29.7. Where charities undertake joint venture activities through jointly controlled operations or through using jointly controlled assets, each charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the participating charities' own accounts in accordance with the SORP module 25 '*Branches, linked or connected charities and joint arrangements*'.

29.8. Paragraphs 29.9 to 29.18 of this module deal with joint venture activities that are carried out through a separate jointly controlled entity. The disclosures in paragraphs 29.19 and 29.20 relate to jointly controlled entities and joint ventures.

## Method for the identification of respective interests in jointly controlled entities

29.9. Each venturer exercises its right to shared control through an agreement with the other parties to the jointly controlled entity. On occasion, the jointly controlled entity will be established to undertake an activity that furthers the charitable purposes of the investing charities, for example to carry out a joint project. When the jointly controlled entity is itself a charity, control may be exercised through the appointment of trustees rather than through an equity share. In the absence of equity, judgement is required in order to identify the respective interests of each charity in the joint venture entity.

29.10. In order to identify the respective interests of each venturer, reference should be made to the evidence provided by:

- the joint venture agreement or contract
- the governing document or any legislative provision, including the provisions that apply upon winding up or ceasing the joint venture
- the respective voting power of the venturers
- the pattern of distribution of benefits from the jointly controlled entity charity between the venturers
- the value of the funding provided by each venturer in support of the activities undertaken by the joint venture

In the absence of any evidence to the contrary, the net assets and results should be attributed equally between the venturers.

## Accounting for jointly controlled entities that are charities

29.11. An interest in a jointly controlled entity that is a charity is normally treated as a restricted fund in the accounts of the reporting charity.

29.12. In a charity's own entity accounts, a joint venture charity should be included in its individual financial statements as a social investment using either:

- the cost model with investments in jointly controlled entities at cost less any accumulated impairment losses
- at fair value in accordance with paragraphs 15.14 to 15.15A of FRS 102
- at fair value with any gain or loss taken through SoFA, see Section 2A Fair Value Measurement of FRS102

The policy adopted must be applied to all joint venture charities accounted for in the charity's own entity accounts.

29.13. If consolidated accounts are prepared, the equity method of accounting must be used. The venturer's share of the net income or net expenditure in a joint venture charity is recognised on the 'net gains/(losses) on investments in JCEs and Associates' line in the SoFA. On the balance sheet, the net carrying amount should be shown with 'Social Investments' under 'Investments', where the interest is held to make a financial return and to further the purposes of the investing charity, and is normally treated as a component of restricted funds (see also paragraph 15.13 of FRS 102).

## Accounting for jointly controlled entities involving non-charitable entities

29.14. Charities may also enter into a joint venture as a commercial activity to raise funds. The accounting treatment of a non-charitable joint venture entity depends on whether the investing charity prepares consolidated accounts or own entity accounts.

29.15. In a charity's own entity accounts, a jointly controlled entity must be included in its accounts at either cost less impairment (the cost model) or fair value. If the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value with any gain or loss taken through the SoFA (see paragraph 29.12 above).

29.16. When consolidated accounts are prepared, the charity must use the equity method of accounting in its consolidated accounts to measure its interest in the joint venture (see also paragraph 15.13 of FRS 102).

## Presentation of jointly controlled entities in consolidated accounts

29.17. The equity method requires the interest in a joint venture to be initially recognised at its cost (the transaction price including any transaction costs).

The initial cost recognised therefore equates to the value of net assets acquired, plus any goodwill. The carrying amount is then adjusted for the post-acquisition change in the investor's share of net assets in the joint venture entity. The carrying amount of an investment in the joint venture is subsequently adjusted through the SoFA to reflect the investing charity's share of the joint venture's results.

29.18. The equity method requires the net share of profit or loss to be shown on the 'net gains/(losses) on investments in Jointly controlled entities (JCEs) and Associates' line in the SoFA. The share of net assets in the joint venture is shown as a separate line in 'Fixed assets' on the balance sheet as a sub-class of investments, with any distributions or dividends received reflected in a reduction to the carrying amount of the joint venture.

# Disclosures

29.19. Where a charity is the venturer, its accounts must disclose:

- the accounting policy adopted for investments in jointly controlled entities
- the carrying amount of investments in jointly controlled entities;
- the aggregate amount of its commitments relating to each joint venture, including its share in the commitments that have been incurred jointly with other venturers
- the fair value of each investment in a jointly controlled entity if a market price for the investment is quoted and the entity accounts for the jointly controlled entity using the equity method
- where the charity is not a parent, the accounts must disclose summarised financial information about the investments in the jointly controlled entities, along with the effect of including those investments as if they had been accounted for using the equity method. Investing charities that are exempt from preparing consolidated financial statements, or would be exempt if they had subsidiaries, are exempt from this requirement

This SORP requires:

- for each material jointly controlled entity, the investing charity's share of the income and expenditure of the jointly controlled entity analysed across the main areas of the jointly controlled entity's activities
- for each material jointly controlled entity, the investing charity's share of the assets and liabilities and funds of the jointly controlled entity at the reporting date
- disclosure of the name of each jointly controlled entity

29.20. Charities must also disclose the following:

- For investments in joint venture entities accounted for by the equity method, an investor must disclose separately its share of the profit and loss (income/expenditure) of such joint venture entities and its share of any discontinued operations.

- For investments in joint venture entities accounted for by the fair value method in 15.9(c) of FRS 102, an investor must make the following disclosures:
    - the basis for determining fair value, e.g. the quoted market price in an active market or a valuation technique (when a valuation technique is used, the charity must disclose the assumptions applied in determining fair value for each joint venturer); and
    - if a reliable measure of fair value is no longer available for a joint venture, the charity shall disclose that fact

29.21. In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements the assets that it controls and the liabilities that it incurs and the expenses that it incurs and its share of the revenue that it earns from the sale of goods or services by the joint venture.

29.22. In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

- its share of the jointly controlled assets, classified according to the nature of the assets
- any liabilities that it has incurred
- its share of any liabilities incurred jointly with the other venturers in relation to the joint venture
- any revenue 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
- any expenses that it has incurred in respect of its interest in the joint venture