# ACCOUNTING STANDARDS BOARD

# STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

# JOINT ARRANGEMENTS

# (GRAP 37)

**Issued by the**
**Accounting Standards Board**

**March 2017**

**Acknowledgement**

The Standard of Generally Recognised Accounting Practice (GRAP) on *Joint Arrangements* is based on the International Public Sector Accounting Standard (IPSAS) 37 on *Joint Arrangements* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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## Standard of Generally Recognised Accounting Practice

## Joint Arrangements

# JOINT ARRANGEMENTS

This Standard was originally issued by the Accounting Standards Board (the Board) in March 2017. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in March 2020.

## Introduction

This pronouncement is set out in paragraphs .01 to .32. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

## Objective

.01 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).

.02 To meet the objective in paragraph .01, 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

***.03 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.***

***.04 This Standard shall be applied by all entities that are a party to a joint arrangement.***

## Definitions

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

***<u>Binding arrangement</u> is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.***

***A <u>joint arrangement</u> is an arrangement of which two or more parties have joint control.***

***<u>Joint control</u> is the agreed sharing of control 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 <u>joint operation</u> 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 <u>joint operator</u> is a party to a joint operation that has joint control of that joint operation.***

***A <u>joint venture</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.***

***A <u>joint venturer</u> is a party to a joint venture that has joint control of that joint venture.***

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

***A <u>separate vehicle</u> 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 Standards of GRAP are used in this Standard with the same meaning as in those Standards*.**

## Binding arrangement

.06 Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

# Joint arrangements (see Appendix A paragraphs AG2. to AG33.)

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

***.08 A joint arrangement has the following characteristics:***

***(a) The parties are bound by a binding arrangement (see Appendix A paragraphs AG2. to AG4.).***

***(b) The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs .10 to .16).***

***.09 A joint arrangement is either a joint operation or a joint venture.***

## Joint control

***.10 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 is agreed by way of a binding arrangement.***

***.11 An entity that is a party to an arrangement shall 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).***

.12 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.

.13 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.

.14 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.

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

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

## Types of joint arrangement

***.17 An entity shall 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.***

***.18 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall 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 of the binding arrangement and, when relevant, other facts and circumstances (see Appendix A paragraphs AG12. to AG33.).***

.19 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.

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

# Financial statements of parties to a joint arrangement (see Appendix A paragraphs AG34. to AG41.)

## Joint operations

***.21 A joint operator shall 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.***

***.22 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Standards of GRAP applicable to the particular assets, liabilities, revenues and expenses.***

.23 When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a function as defined in the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* (GRAP 105) or the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106), it shall apply, to the extent of its share in accordance with paragraph .21, all of the principles in GRAP 105 or GRAP 106, and other Standards of GRAP, that do not conflict with the guidance in this Standard and disclose the information that is required in those Standards that is required in relation to transfer of functions. 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 a function. The accounting for the acquisition of an interest on such a joint operation is specified in Appendix A paragraphs AG34. to AG37.

.24 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 Appendix A paragraphs AG38. to AG41.

***.25 A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs .21 to .24 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 and does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the Standards of GRAP applicable to the particular assets, liabilities, revenue and expenses.***

### Joint ventures

.26 ***A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with the Standard of GRAP on Investments in Associates and Joint Ventures (GRAP 36), unless the entity is exempted from applying the equity method as specified in that Standard.***

.27 ***A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with the Standard of GRAP on Financial Instruments (GRAP 104), unless it has significant influence over the joint venture, in which case it shall account for it in accordance with GRAP 36.***

## Separate financial statements

.28 ***In its separate financial statements, a joint operator or joint venturer shall account for its interest in:***

***(a) a joint operation in accordance with paragraphs .21 to .24; and***

***(b) a joint venture in accordance with paragraph .10 of the Standard of GRAP on Separate Financial Statements (GRAP 34).***

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

***(a) a joint operation in accordance with paragraph .25; and***

***(b) a joint venture in accordance with GRAP 104, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph .10 of GRAP 34.***

## Transitional provisions

.30 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

## Effective date

### Initial adoption of the Standards of GRAP

.31 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

### Entities already applying Standards of GRAP

***.31A Appendix A paragraph AG36A. was added by the Improvements to the Standards of GRAP (2020) issued March 2020. These amendments are effective for annual periods beginning on or after 1 April 2023. An entity shall apply these amendments to transactions in which it obtains joint control on or after the beginning of the reporting period in which the entity first applies the amendments. Earlier application is permitted. If an entity elects to apply this amendment earlier, it shall disclose this fact.***

## Withdrawal of the Standard of GRAP on *Interests in Joint Ventures* (2005) and the Interpretation of the Standards of GRAP on *Jointly Controlled Entities – Non-monetary Contributions to Ventures* (2010)

.32 This Standard supersedes the previous Standard of GRAP on *Interests in Joint Ventures* issued in 2005, and the Interpretation of the Standards of GRAP on *Jointly Controlled Entities – Non-monetary Contributions by Ventures* that was issued in 2010.

# Appendix A - Application guidance

*This appendix is an integral part of this Standard.*

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 this Standard.

## Joint arrangements

### Binding arrangements (paragraph .06)

AG2. Consistent with the definition of a binding arrangement in this Standard, this discussion of a binding arrangement is also relevant to enforceable arrangements created by legislation or similar means.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19. to AG33.), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the memorandum of incorporation, 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. to 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 .10 to .16)

AG5. In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. The Standard of GRAP on *Consolidated Financial Statements* (GRAP 35) defines control and shall 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 shall 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 judgement.

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 establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their binding arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

**Example 2**

Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e. either A and B or A and 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 decisions about the relevant activities of the arrangement.

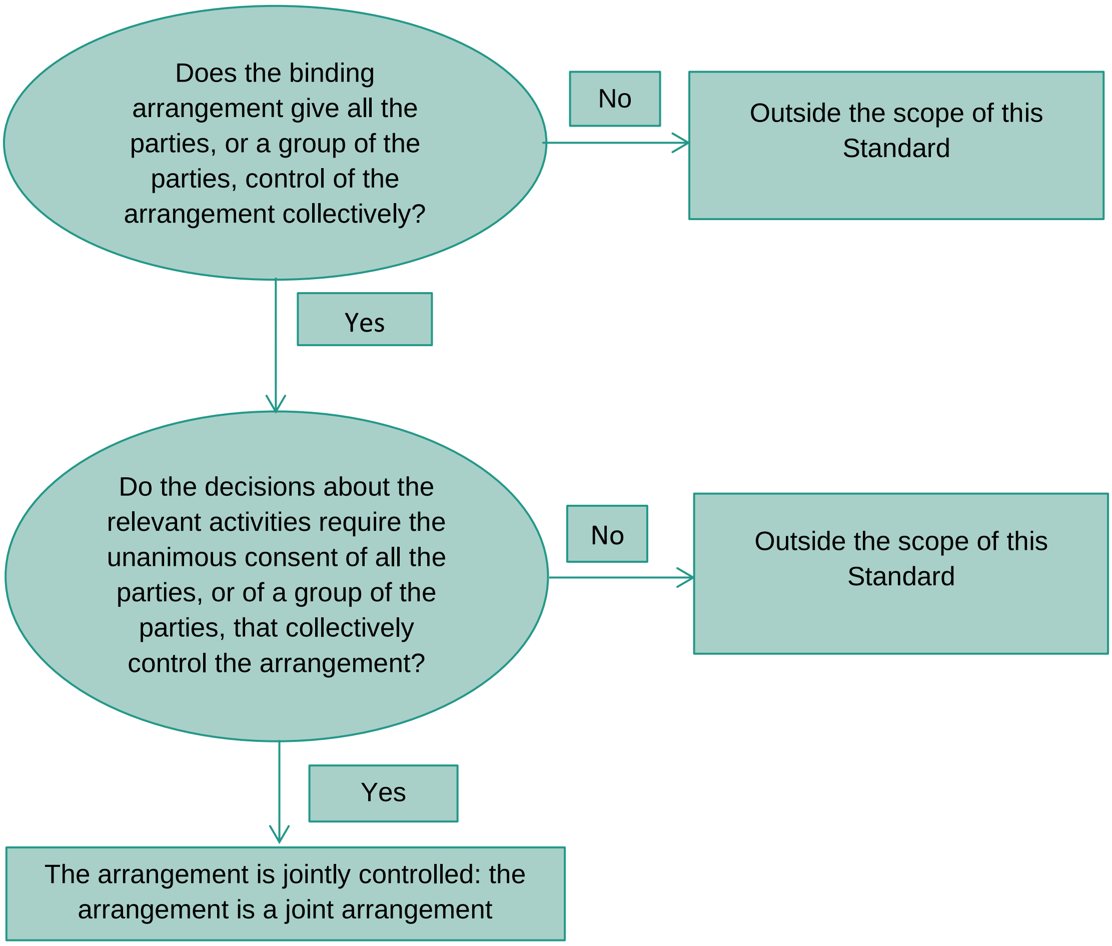
**Example 3**

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the binding arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

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 amongst 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 this Standard, an entity accounts for its interest in the arrangement in accordance with applicable Standards of GRAP, such as GRAP 35, GRAP 36 or GRAP 104.

## Types of joint arrangement (paragraphs .17 to .20)

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. to 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 shall consider the following:

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

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

(i) the legal form of the separate vehicle (see paragraphs AG22. to AG24.);

(ii) the terms of the binding arrangement (see paragraphs AG25. to AG28.); and

(iii) when relevant, other facts and circumstances (see paragraphs AG29. to AG33.).

## Structure of the joint arrangement

### Joint arrangement 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 arrangement 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.

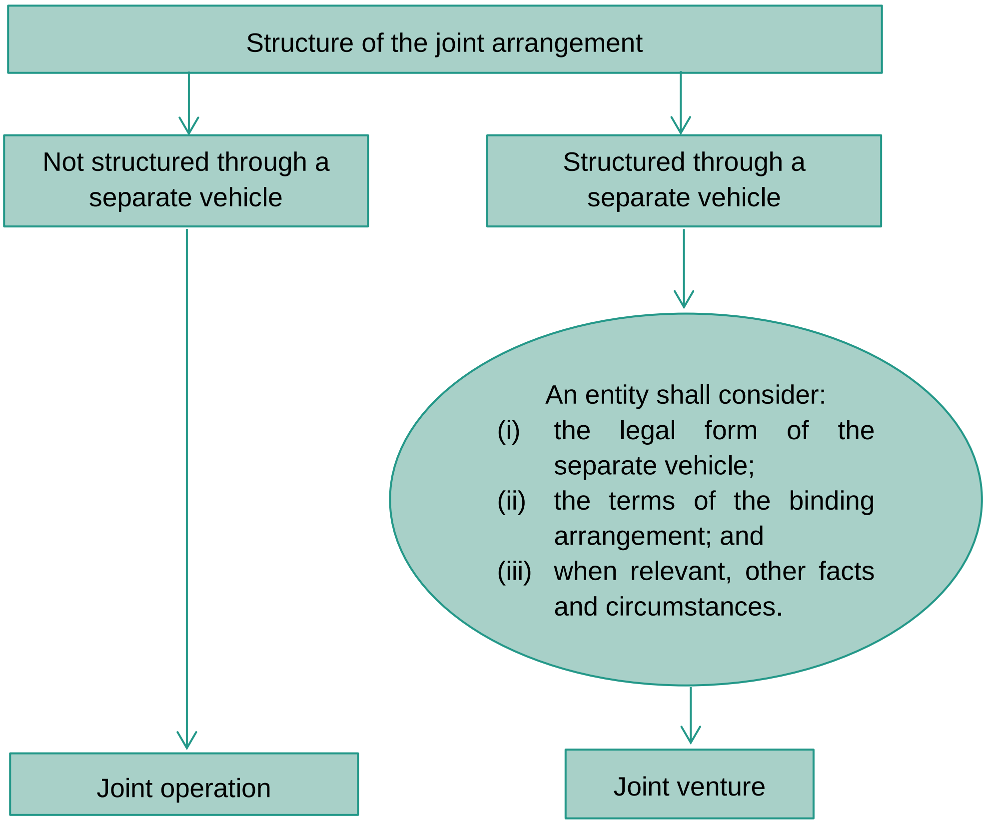
AG20. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

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. to AG28.) and, when relevant, other facts and circumstances (see paragraphs AG29. to 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**

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence, the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. 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 parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their binding arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such binding modifications to the features of a corporation can cause an arrangement to be 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). |
| **Rights to assets** | 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). | 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. |
| **Obligations for liabilities** | 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 | The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.<br><br>The binding arrangement establishes that the parties to |

| | | |
|---|---|---|
| | to the activity carried out through the arrangement that is directly attributed to them). | 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. |
| | 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. |
| **Revenue, expenses, surplus and 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 hospital 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 of 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. |
| **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 contractual 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. to AG33.) for the purposes of classifying the joint arrangement.

## Assessing other factors 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 shall 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 amongst 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 develop a vaccine. The arrangement ensures that the parties operate the facility to develop the vaccine 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:

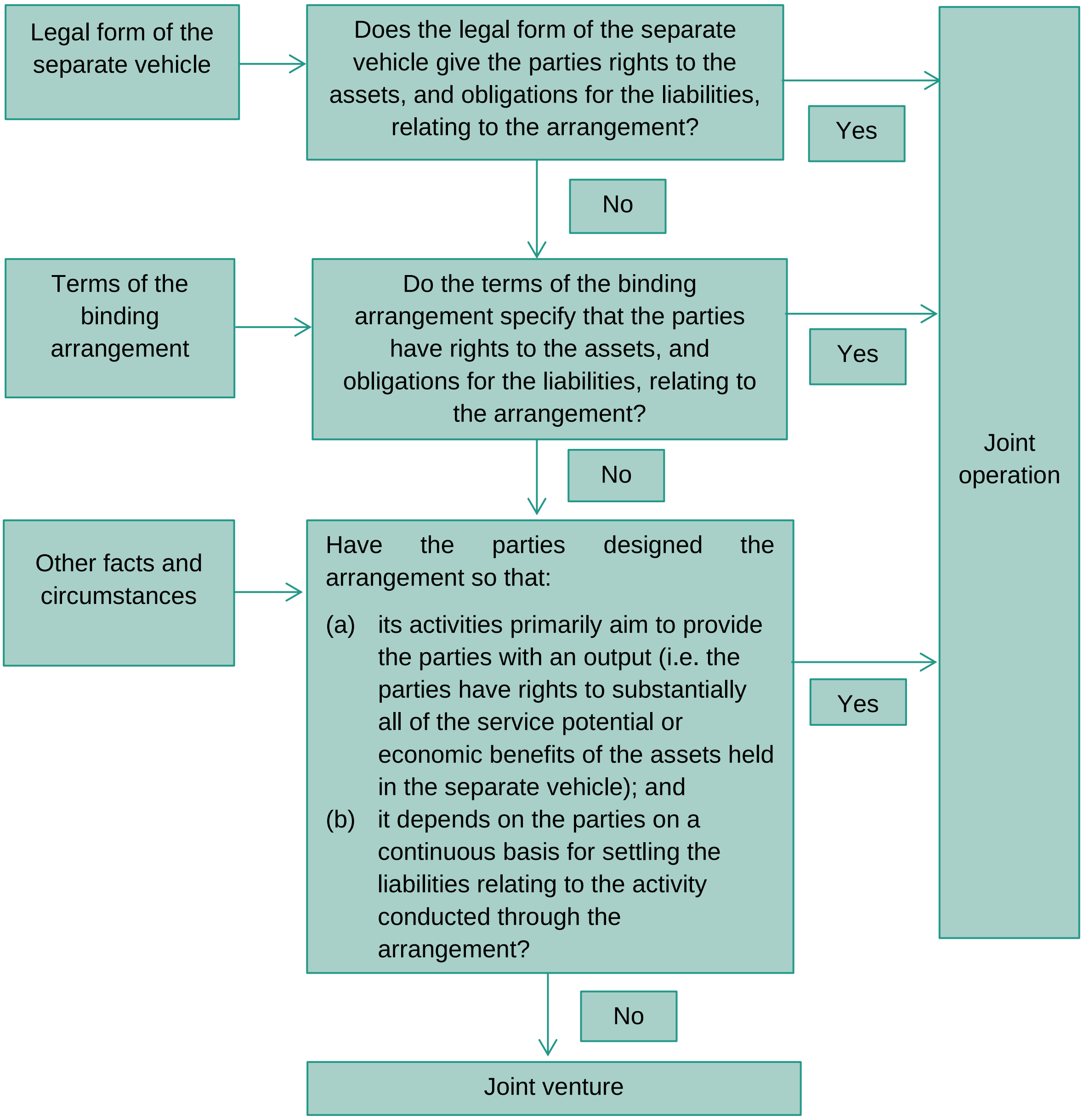
- The obligation of the parties to purchase all the output produced by Entity C reflects the exclusive dependence of Entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of Entity C.
- The fact that the parties 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 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 .21 to .27)

### Accounting for acquisitions of interests in joint operations

AG34. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a function, as defined in GRAP 105 or GRAP 106 it shall apply, to the extent of its share in accordance with paragraph .21. all the principles on transfer of functions in GRAP 105 or GRAP 106 and other Standards of GRAP, that do not conflict with the guidance in this Standard and disclose the information required by those Standards of GRAP in relation to transfer of functions. The principles in transfer of function 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 for which exemptions are given in GRAP 106 and other Standards of GRAP;

(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 (if applicable) are recognised in accordance with GRAP 104; and

(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 required by GRAP 105 or GRAP 106.

AG35. Paragraphs .23 and AG34. also apply to the formation of a joint operation if, and only if, an existing function, as defined in GRAP 105 or GRAP 106, is contributed to the joint operation in 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 the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute functions to the joint operation on its formation.

AG36. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a function as defined in GRAP 105 or GRAP 106, 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.

AG36A. 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 a function as defined in GRAP 105 or GRAP 106. In such cases, the previously held interests in the joint operation are not remeasured.

AG37. Paragraphs .23 and AG34. to AG36. 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 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**

AG38. 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 shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

AG39. 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 shall be recognised fully by the joint operator.

**Accounting for purchases of assets from a joint operation**

AG40. 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 shall not recognise its share of the gains and losses until it resells those assets to a third party.

AG41. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses.

# Appendix B - Illustrative examples

*This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.*

IE1. These examples portray hypothetical situations illustrating the judgements that might be used when applying this Standard 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 this Standard.

## 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 government owned. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a government 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 government 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 government. 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 government, Entity Z invoices the construction services to the government 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 government through Entity Z.

## Example 2 – Service operated jointly

IE9. Two entities (the parties) set up a separate vehicle (Entity X) for the purpose of establishing and operating a joint service centre. 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 office space to services, managing the car park, maintaining the centre and its equipment, such as lifts, building the reputation of the centre and managing the client base for the centre.

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

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

(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 using the equity method.

## Example 3 – Joint provision of assisted living services

IE14. A public sector health care provider (Entity X) and a large property developer (Entity Y) enter into an agreement to work together to provide assisted living services for the elderly. Entity X and Entity Y establish a separate company (Entity Z). 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) Surpluses 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 using the equity method.

**Variation**

IE18. A public sector health care provider (Entity X) 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 on-going 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 per cent 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 per cent of the expenses for operating the services.

(e) Any surpluses 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 recognize 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 vaccine

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 vaccine (product P).

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 in the different markets where the distribution arrangement sells or distributes 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 fulfil 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 using the equity method.

**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 or distribute 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 using the equity method.

## Example 5 – Accounting for acquisitions of interests in joint operations in which the activity constitutes a function

IE36. Entities A, B and C have joint control of Joint operation D whose activity constitutes a function as defined in the GRAP 106.

IE37. Entity E acquires entity A's 40 per cent ownership interest in Joint operation D at a cost of R300 and incurs acquisition-related costs of R50.

IE38. The contractual arrangement between the parties that Entity E joined as part of the acquisition establishes that Entity E's shares in several assets and liabilities differ from its ownership interest in Joint operation D. The following table sets out Entity E's share in the assets and liabilities related to Joint operation D as established in the binding arrangement between the parties:

| | ***Entity E's share in the assets and liabilities related to Joint operation D*** |
|---|---|
| Property, plant and equipment | 48 per cent |
| Intangible assets | 90 per cent |
| Accounts receivable | 40 per cent |
| Inventory | 40 per cent |
| Retirement benefit obligations | 15 per cent |
| Accounts payable | 40 per cent |
| Contingent liabilities | 56 per cent |

**Analysis**

IE39. Entity E recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph .21).

IE40. It applies the principles in GRAP 106 and other Standards of GRAP 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 Entity E acquired an interest in a joint operation in which the activity constitutes a function (see paragraph .23).

IE41. However, Entity E does not apply the principles in GRAP 106 and other Standards of GRAP that conflict with the guidance in this Standard. Consequently, in accordance with paragraph .21, Entity 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 contractual arrangement. Entity E does not include in its assets and liabilities the shares of the other parties in Joint operation D.

IE42. GRAP 106 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions.

IE43. Consequently, Entity E determines the fair value, or other measure specified in GRAP 106, 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 GRAP 106 of Entity E's shares in the identifiable assets and liabilities related to Joint operation D:

| | ***Fair value or other measures specified by GRAP 106 for Entity E's shares in the identifiable assets and liabilities related to Joint operation D*** ***R*** |
|---|---|
| Property, plant and equipment | 138 |
| Intangible assets | 72 |
| Accounts receivable | 84 |
| Inventory | 70 |
| Retirement benefit obligations | (12) |
| Accounts payable | (48) |
| Contingent liabilities | (24) |
| **Net assets** | **252** |

IE44. In accordance with GRAP 106, the excess of the consideration transferred over the amount allocated to Entity E's shares in the net identifiable assets is recognised in surplus and deficit.

| | |
|---|---|
| Consideration transferred by Entity E | R300 |
| Entity E's share in the identifiable assets and liabilities relating to its interest in the joint operation | (R252) |
| **Net assets** | **R48** |

IE45. Acquisition-related costs of R50 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 .83 of GRAP 106).

## Example 6 – Contributing the right use to know-how to a joint operation in which the activity constitutes a function

IE46. Entities A and B are two entities whose function is the development of a vaccine.

IE47. In order to develop the vaccine they draw up a binding arrangement (Joint operation Z) to work together. Entities A and B share joint control of Joint operation Z. This arrangement is a joint operation in which the activity constitutes a function as defined in GRAP 106.

IE48. After several years, the joint operators (Entities A and B) concluded that it is feasible to develop the vaccine using Medicine M. However, processing Medicine M requires specialist know-how and thus far, Medicine M has only been used in the production of cosmetics.

IE49. In order to get access to existing know-how in processing Medicine M, Entities A and B arrange for Entity C to join as another joint operator by acquiring an interest in Joint operation Z from Entities A and B and becoming a party to the binding arrangement.

IE50. Entity C's business so far has been solely the development and production of vaccines. It has long-standing and extensive knowledge in processing Medicine M.

IE51. In exchange for its share in Joint operation Z, Entity C pays cash to Entities A and B and grants the right to use its know-how in processing Medicine M for the purposes of Joint operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Medicine M to Joint operation Z. However, Entity C does not transfer control of the know-how to Entities A and B or Joint operation Z because it retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Medicine M and to withdraw its seconded employees without any restrictions or compensation to Entities A and B or Joint operation Z if it ceases its participation in Joint operation Z.

IE52. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is R1 000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was R300.

**Analysis**

IE53. Entity C has acquired an interest in Joint operation Z in which the activity of the joint operation constitutes a function, as defined in GRAP 106.

IE54. In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles in GRAP 106 and other Standards of GRAP that do not conflict with the guidance in this Standard (see paragraph .23). Entity C therefore recognises in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph .21).

IE55. Entity C granted the right to use its know-how in processing Medicine 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 Medicine M and to withdraw its seconded employees without any restrictions or any compensation to Entities A and B or Joint operation Z if it ceases its participation in Joint operation Z.

IE56. Consequently, Entity C continues to recognise the know-how in processing Medicine 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 R300. 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 re-measure the know-how, and it does not recognise a surplus or deficit on the grant of the right to use it.

# Comparison with the International Public Sector Accounting Standard on *Joint Arrangements* (January 2015)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Joint Arrangements* (IPSAS 37). The main differences between this Standard and IPSAS 37 are as follows:

- This Standard includes amendments made to the IFRS Accounting Standard on *Joint Arrangements* that provides guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a function as issued by the International Accounting Standards Board in May 2014. IPSAS 37 does not include these amendments.
- Additional explanatory text has been included in this Standard to explain "binding arrangement". This guidance is not included in IPSAS 37.
- Some of the illustrative examples in IPSAS 37 have been deleted as they are not applicable to the South African public sector.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 37.