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Accounting Standards for Private Enterprises (ASPE)

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Interests in Joint Arrangements on a page

This publication is intended to provide readers with a summary of the main recognition, presentation and disclosure requirements for Section 3056 *Interests in Joint Arrangements* in the Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook—Accounting. Readers are always encouraged to refer to the specifics in the Handbook section before making any decisions.

For more information about this topic, please contact your Grant Thornton adviser. If you do not have an adviser, please contact us. We are happy to help.

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The information in this publication is current as of November 13, 2015.

SCOPE

Section 3056 *Interests in Joint Arrangements*:
- applies to investments in arrangements in which an investor has joint control;
- applies when economic activities meet the joint arrangement criteria, even though the activities may not be referred to as a "joint arrangement"; and
- does not deal with accounting by joint arrangements themselves.

DEFINITIONS AND BASIC PRINCIPLES

Joint control: The contractually agreed sharing of the continuing power to determine the strategic operating, investing and financing policies of an economic activity
Joint arrangement (JA): An economic activity resulting from a contractual arrangement whereby two or more investors jointly control the economic activity

A distinctive characteristic common to all JAs is that two or more investors are bound by a contractual arrangement to exercise joint control, regardless of any differences that may exist in their ownership interest.

Types of joint arrangements
- **Jointly controlled operations (JCO)** involve the use of the investors' assets and other resources for purposes of executing the activities established in the JA. Each investor retains ownership of their assets and incurs their own expenses and liabilities as part of the operations. No separate structure is created.
- **Jointly controlled asset(s) (JCA)** involve the joint control of one or more assets dedicated to the purpose of the JA between investors. JCAs are used to obtain benefits for the investors. Each investor may take a share of the output from the asset(s) and each bears an agreed share of the expenses incurred jointly. No separate structure is created.
- **Jointly controlled enterprises (JCE)** involve the establishment of a corporation, partnership or other enterprise in which each investor has an interest and whereby there is a contractual agreement between the investors that establishes joint control over the economic activity of the enterprise. The JCE owns its own assets, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise financing for the purposes of the JA activity. Each investor is entitled to a share of the income of the JCE, although some JCEs also involve a sharing of the output of the JA.

RECOGNITION

An investor with an interest in a **JCO** recognizes:
- in its balance sheet, the assets that it controls and the liabilities that it incurs; and
- in its income statement, its share of the revenue of the JA and its share of the expenses incurred by the JA.

An investor with an interest in a **JCA** recognizes:
- in its balance sheet, its share of the JCA and its share of any liabilities incurred jointly with the other investors in relation to the JA; and
- in its income statement, any revenue from the sale or use of its share of the output of the JA, and its share of any expenses incurred by the JA.

The share of the investor's interest in the individual assets and liabilities in a JCO or JCA are based on the contractual arrangement and may not be based on the investor's interest in the arrangement.

RECOGNITION (continued)

An investor in a JCE generally has rights to the net assets of the JA rather than rights to the individual assets and obligations for the individual liabilities; however, in substance, some JCEs are similar to JCAs or JCOs.

An investor with interests in **JCEs** makes an accounting policy choice to:

1. account for its interests using the **equity method** (in accordance with Section 3051 *Investments*);
2. account for its interests using the **cost method** (in accordance with Section 3051 *Investments*); or
3. **analyze the nature** of **<u>ALL</u>** of its interests to determine whether they provide rights to individual assets and obligations for individual liabilities OR rights to net assets.

The flow chart below outlines the assessment an investor performs to determine how to account for an interest in a JCE**:

Legal form

Does the legal form of the JCE give investors rights to individual assets **<u>and</u>** obligations for individual liabilities of the JCE? — **Yes** → Investor has rights to individual assets <u>and</u> obligations for individual liabilities

No ↓

Contractual arrangement

Do the terms of the contractual arrangement specify that investors have rights to individual assets **<u>and</u>** obligations for individual liabilities of the JCE? — **Yes** → Investor has rights to individual assets <u>and</u> obligations for individual liabilities

No ↓

Other facts and circumstances

Is the JCE designed so that:

a) its activities primarily aim to provide investors with output (i.e., investors have rights to substantially all the economic benefits from assets held in the JCE) and
b) it depends on investors on a continuous basis to settle liabilities relating to activity conducted through the JCE?

Yes → Investor has rights to individual assets <u>and</u> obligations for individual liabilities → Investor determines whether its interest resembles interest in 1) a JCA <u>OR</u> 2) a JCO

No ↓

Investor has rights to net assets → Investor accounts for interest using cost method or equity method

** Appendix A of Section 3056 provides detailed guidance on performing each step of this assessment.

When an investor in a JCO, JCA, or JCE where the investor accounts for it similar to a JCO or JCA (i.e., it has rights to individual assets and obligations for individual liabilities):

- transfers assets to the JCO, JCA or JCE and receives an interest resulting in joint control; or
- sells assets in the normal course of operations to the JCO, JCA or JCE in which the investor has joint control,

it recognizes any resulting gain or loss in income, to the extent of the interests of the other non-related investors.

If the transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor must write down the assets retained through its interest and recognized the full loss in income immediately.

An investor in a JCE where the investor has rights to the net assets, refers to Section 3051 *Investments* to determine how to account for its contributions to and transactions with the JCE.

OTHER

An investor must present the following separately on its balance sheet:

1. investments in subsidiaries and interests in JAs accounted for using the equity method; and
2. investments in subsidiaries and interests in JAs accounted for using the cost method.

For items 1 & 2, the income from these investments must also be presented separately in its income statement.

An investor must disclose the following:

- the basis used to account for its interests in JCEs
- a listing / description of interests in significant JAs including: names, carrying values and proportion of ownership interests held in each JA
- its share of any contingencies and commitments of JA and contingencies that exist when the investor is contingently liable for the liabilities of the other investors of the JA
- for JCEs accounted for using the cost or equity method: the disclosures required by Section 3051 *Investments*

Section 3056 is effective for fiscal years beginning on or after **January 1, 2016**. Early adoption is permitted.

Transitional guidance is included in Section 3056 pertaining to situations where an investor is: a) transitioning from proportionate consolidation to the cost or equity method; or b) transitioning from the cost or equity method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement.