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**International
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Comparison of IAS 31 with US GAAP

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1. The differences between IAS 31 *Interests in Joint Ventures* and US GAAP (mainly APB 18 *The Equity Method of Accounting for Investments in Common Stock*), other than the optional treatment in IAS 31 of proportionately consolidating interests in joint-venture entities, are explained in the following paragraphs.

Definition of Joint Venture

2. There are differences between the definitions in IAS 31 and US GAAP:
 - 'Joint venture' is defined in IAS 31 as a 'contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.' (IAS 31, par. 3).

Joint ventures can take different forms and structures. IAS 31 addresses three broad types: (i) jointly controlled operations; (ii) jointly controlled assets; and (iii) jointly control entities. Hence, unlike APB 18, IAS 31 deals also with arrangements not involving an entity.
 - 'Corporate joint venture' is defined by APB Opinion 18 as follows: It 'refers to a corporation owned and operated by a small group of businesses (the "joint venturers") as a separate and specific business or project for the mutual benefit of the members of the group. The purpose of a corporate joint venture is frequently to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity which is a subsidiary of one of the "joint venturers" is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A minority public ownership, however, does not preclude a corporation from being a corporate joint venture.' (APB 18, par 3d.)

APB 18 is limited to corporate entity arrangements. It describes the features which are usually present, but not all required, in a joint venture. The two characteristics of a joint venture in IAS 31 par 7 (a contractual arrangement and joint control) are not required by APB 18:

- APB 18 notes that a contractual arrangement is something that is usually present, but not necessary.
- Joint control¹ is not a required element in the US definition, although joint venturers are defined differently to 'passive investors', having an ability to 'participate' in the overall management of the joint venture as a typical feature.

APB 18 limits the definition to corporate joint ventures, that is to say, incorporated legal entities. Other pronouncements extend its application to unincorporated entities.² The IAS 31 definition of a joint venture is broader and encompasses incorporated and unincorporated entities (such as partnerships) as well as non-entity arrangements (i.e. jointly controlled operations and assets). However, the equity method and proportionate consolidation are applied only to joint-venture entities. Other joint arrangements not involving an entity are accounted for as *undivided interests*² as is explained further in paragraphs 3-5.

3. The following table presents a comparison of accounting treatments for joint ventures in accordance with IFRS and US GAAP:

¹ Joint control (as defined in IAS 31) 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).

² APB 18 applies to incorporated entities. AIN APB 18 extends the application of the equity method to unincorporated entities. In this regard, EITF Issue No.00-1 concludes that it is not appropriate to use proportionate consolidation for 'unincorporated legal entities', except in specialised industries, such as the construction or extractive industries.

	Incorporated entities	Unincorporated entities		Jointly Controlled Assets or Operations and Undivided Interests ³	
		Specialised Industries ⁴	Other industries	Real Estate under Joint Control ⁵	Others
US GAAP	Equity Method (APB 18, par 1)	Proport. Consol. (EITF 00-1)	Equity Method (EITF 00-1)	Equity Method (EITF 00-1 / SOP 78-9 par 11)	Share of Asset/Liab. ⁶ (EITF 00-1)
IAS 31	Equity Meth/ Proport. Consol.	Equity Meth/ Proport. Consol.	Equity Meth/ Proport. Consol.	Share of Asset/Liab. ⁷	Share of Asset/Liab.

4. Jointly controlled operations and assets are not specifically addressed in US GAAP literature. However the accounting treatment in IAS 31 for jointly controlled operations and jointly controlled assets is similar to that required for undivided interests⁸ in US GAAP. IAS 31 acknowledges that venturers may not keep separate accounting records or make consolidation adjustments for these types of joint ventures. No significant differences exist between IFRSs and US GAAP on these issues.⁹
5. Joint arrangements not involving an entity apply the following standards:
- IAS 31 for jointly controlled operations or jointly controlled assets; and
 - APB 18, EITF 00-1 *Applicability of the Pro Rata Method of Consolidation to Investments in Certain Partnerships and Other Unincorporated Joint Ventures* and other related provisions for undivided interests.

The latter arrangements are generally known in US GAAP as *undivided interests* in assets and liabilities, derived from non-entity joint arrangements. A venturer recognises its share of the assets that it jointly controls and its share of the liabilities for which it is responsible or jointly responsible.

³ *Undivided Interests* are defined in SOP 78-9 as “an ownership arrangement in which two or more parties jointly own property, and title is held individually to the extent of each party’s interest”. In accordance with EITF 00-1 when the investor (i) holds an undivided interest in each asset, (ii) is proportionally or severally liable for each liability, and (iii) no separate legal entity exists, the investor recognises on a proportionate basis those assets and liabilities in its balance sheet and the related results of operations in its income statement. An exception exists for real estate under joint control, to which the equity method applies. The overall accounting treatment (except real estate under joint control) is similar to that established under IAS 31 for jointly controlled assets and operations.

⁴ Such as the construction and extractive industries, as is set out by EITF 00-1 *Applicability of the Pro Rata Method of Consolidation to Investments in Certain Partnerships and Other Unincorporated Joint Ventures*.

⁵ As is explained in AICPA Accounting Standards Executive Committee Statement of Position 78-9 *Accounting for Investments in Real Estate Ventures*

⁶ ‘Share of assets and liabilities’ means each venturer accounts directly for its share of assets and liabilities and the related results of operations on a line by line basis. The venturer does not make consolidation adjustments or recognise goodwill.

⁷ IAS 31 establishes similar treatments for jointly controlled assets and operations; see paragraphs 13-23.

⁸ See definition in footnote 2

⁹ As shown in the table, the differences are limited mainly to undivided interests involving real estate under joint control.

Exception to the Scope of Application

6. IAS 31 includes three exceptions to the requirement to apply proportionate consolidation or the equity method. The exceptions are:
- a. If interests are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*. Under US GAAP, according to SFAS 144, par. 5 (d), these investments are accounted for by the equity method and are out of the scope of SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.
 - b. If the exception in paragraph 10 of IAS 27 is applicable, which allows a parent, under specified conditions, that also has an interest in a joint venture, not to present consolidated financial statements.¹⁰
 - c. The venturer is a wholly or partially owned subsidiary and the three conditions established by paragraph 2 (c) of IAS 31 are met.¹¹

US GAAP does not address any of these exceptions. It permits only one exception when joint control or significant influence does not rest with the venturers (for example, if the investee is in legal reorganisation or in bankruptcy, or operates under governmentally imposed uncertainties so severe that they cast significant doubts on the venturer's ability to jointly control or influence the joint venture). This exception is similar to that established by paragraph 8 of IAS 31. For both standards the key element is whether joint control (or significant influence) rests with other than the venturers.

Requirement to conform accounting policies

7. If the joint venture uses accounting policies other than those of the venturer for like transactions and events in similar circumstances, a venturer must conform the joint-venture's accounting policies to those of the venturer. This is required by paragraph 26 of IAS 28 when the equity method is adopted. IAS 31 par 33 sets out a similar requirement for proportionate consolidation purposes. This is not required by US GAAP.

Differences in reporting date

8. The differences are as follows:
- i. IAS 28 (par 25) requires the difference between the reporting date of the investee and the investor to be no more than three months, and only when the preparation of financial statements as of the same date is impracticable. Additionally, an entity is required to adjust for significant events or transactions that occur between the reporting dates.

¹⁰ Paragraph 10 of IAS 27 exempts a parent from preparing consolidated financial statements when the parent is a wholly or partially owned subsidiary of another entity and its owners do not object to the parent not presenting consolidated financial statements. Equity or debt securities of the entity must not be traded or be the subject of a filing to be traded on a public market.

¹¹ In summary, the venturer must be a wholly owned subsidiary or partially owned subsidiary (if its owners have been informed and do not object to the venturer not applying proportionate consolidation or the equity method), venturer's securities are not traded or are not the subject of a filing to be traded, and the ultimate or any intermediate parent produces consolidated financial statements in compliance with IFRSs.

- ii. APB 18 (par 19. (g)) does not establish a specific time limit, except the lag in reporting should be consistent from period to period.¹² It is not subject to impracticability. In addition, an entity is not required to adjust for significant events or transactions that occur between the reporting dates provided that it makes appropriate disclosures (ARB 51, par. 4).¹³

Excess of joint venture's share of losses over a venturer's interest

9. If the equity method is applied, both standards require the venturer to discontinue recognising its share of losses when they equal or exceed its interest in the joint venture and the investor has no legal or constructive obligation relating to the joint venture. However the way the 'interest' is defined is not exactly the same:
- a. *IAS 28, par 29* defines the interest as the carrying amount of the investment in the associate under the equity method together with any long-term interest that, in substance, form part of the "investor's net investment" in the joint venture. Trade receivables, trade payables as well as any long-term receivables for which adequate collateral exists are not part of the net investment.
 - b. *APB 18, par 19.(i)* generally refers to the carrying amount of the investment accounted for by the equity method plus 'advances' made by the investor. EITF D-68 provides additional guidance that advances include: (1) debt securities (including mandatorily redeemable preferred stock), (2) preferred stock, or (3) loans to the investee. Trade receivables and payables as well as any long-term receivables for which adequate collateral exists are not explicitly excluded.

Presentation of extraordinary gains or losses

10. APB 18, par 19 (c)-(d) require extraordinary items to be classified separately unless they are immaterial. Items cannot be classified as extraordinary in IFRS.

Disclosure

11. IAS 31 par 56 requires more detailed disclosures than APB 18, par 20d. IAS 31 requires a breakdown of the joint venture's assets and liabilities between current and non-current, which is not required by APB 18.
12. IAS 31 pars 54 and 55 require a venturer to disclose information about contingent liabilities and commitments, which is not required by APB 18.¹⁴
13. Additionally, when the equity method is applied, the following disclosures are required by IAS 28 that are not required by US GAAP:
- a. The reporting date of the financial statements of a joint venture when the reporting date, or the period, is different from that of the venturer. The reason for using a different reporting date or period (par 37 (e)) must also be disclosed.

¹² For SEC registrants the SEC requires a 90-day term as a maximum lag. For non SEC registrants, some use as a guideline the limit of 3 months established by ARB 51 for consolidated subsidiaries.

¹³ APB 18 does not require an entity to adjust for significant events or transactions that occur between the reporting dates. Some use as a guideline the disclosure requirements established by ARB 51 for consolidated subsidiaries.

¹⁴ ED of Proposed Amendments to IAS 37 (June 2005) proposes amendments to those disclosures.

- b. The nature and extent of any significant restrictions on the ability of joint ventures to transfer funds to the venturer in the form of cash dividends, or repayments of loans or advances (par 37 (f)).
 - c. If a venturer has discontinued recognition of its share of losses, par 37 (g) of IAS 28 requires the venturer to disclose the unrecognised share of losses, both for the period and cumulatively. This is not required by APB 18.
14. When a venturer applies the equity method, APB 18, par 20a requires the venturer to disclose the difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net assets. This is not required by IAS 28.