Compiled Interpretation **Interpretation 113**

Jointly Controlled Entities – Non-Monetary Contributions by Venturers

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009. Early application is permitted. It incorporates relevant amendments made up to and including 24 September 2007.

Prepared on 10 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

Obtaining Copies of Interpretations

Compiled versions of Interpretations, original Interpretations and amending pronouncements (see Compilation Details) are available on the AASB website: www.aasb.gov.au.

Printed copies of original Interpretations and amending pronouncements are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204 Collins Street West
Victoria 8007
AUSTRALIA

Phone:	(03) 9617 7637
Fax:	(03) 9617 7608
E-mail:	publications@aasb.gov.au
Website:	www.aasb.gov.au

Other Enquiries

Phone:	(03) 9617 7600
Fax:	(03) 9617 7608
E-mail:	standard@aasb.gov.au

COMPILATION DETAILS

UIG Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009. It takes into account amendments up to and including 24 September 2007 and was prepared on 10 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 113 (July 2004) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods ... on or after ...)***	**Application, saving or transitional provisions**
Interpretation 113	Jul 2004	*(beginning)* 1 Jan 2005	
Erratum	Jul 2007	*(beginning)* 1 Jul 2007	see (a) below
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (b) below

(a) Entities may elect to apply this Erratum to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
3	amended	AASB 2007-8 [158]
4	amended	Erratum, Jul 2007
7	amended amended	Erratum, Jul 2007 AASB 2007-8 [6]
Aus7.5	amended	AASB 2007-8 [8]

COMPARISON WITH SIC-13

UIG Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* as amended incorporates Standing Interpretations Committee Interpretation SIC-13 *Jointly-Controlled Entities – Non-Monetary Contributions by Venturers*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of SIC-13) are identified with the prefix "Aus", followed by the number of the preceding SIC paragraph and decimal numbering.

Interpretation 113 specifies when a venturer recognises unrealised profits or losses that have been eliminated. This is not dealt with explicitly in SIC-13. However, IAS 31 *Interests in Joint Ventures* deals with when a venturer recognises its share of profits or losses of a joint venture where the venturer sells assets to or purchases assets from the joint venture. The requirements are consistent.

Entities that comply with Interpretation 113 as amended will simultaneously be in compliance with SIC-13 as amended.

INTERPRETATION 113

UIG Interpretation 113 was issued in July 2004.

This compiled version of Interpretation 113 applies to annual reporting periods beginning on or after 1 January 2009. It incorporates relevant amendments contained in other AASB documents up to and including 24 September 2007 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 113

JOINTLY CONTROLLED ENTITIES – NON-MONETARY CONTRIBUTIONS BY VENTURERS

References

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 118 *Revenue*

Accounting Standard AASB 131 *Interests in Joint Ventures*

Issue

1 Accounting Standard AASB 131 *Interests in Joint Ventures*, paragraph 48, refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction.' In addition, AASB 131.24 says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.' There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

2 Contributions to a JCE are transfers of assets by venturers in exchange for an equity interest in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

3 The issues are:

(a) when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an equity interest in the JCE should be recognised by the venturer in profit or loss;

(b) how additional consideration should be accounted for by the venturer; and

(c) how any unrealised gain or loss should be presented in the consolidated financial statements of the venturer.

4 This Interpretation deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an equity interest in the JCE that is accounted for using either the equity method or proportionate consolidation.

Consensus

5 In applying AASB 131.48 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when:

(a) the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE;

(b) the gain or loss on the non-monetary contribution cannot be measured reliably; or

(c) the contribution transaction lacks commercial substance, as that term is described in AASB 116 *Property, Plant and Equipment*.

If exception (a), (b) or (c) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit or loss unless paragraph 6 also applies.

6 **If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.**

7 **Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated statement of financial position.**

Aus7.1 **Where a venturer has recognised a gain or loss in profit or loss under paragraph 5 or 6, the amount of the unrealised gain or loss that has been eliminated shall be recognised by the venturer as it is realised by the JCE (as the contributed assets are consumed or sold) or, if not already realised by the JCE, when the venturer disposes of its investment in the JCE.**

Application

Aus7.2 **This Interpretation applies when AASB 131 applies.**

Aus7.3 **This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.**
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

Aus7.4 **This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.**

Aus7.5 **The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Aus7.6 **When applicable, this Interpretation supersedes Abstract 36 *Non-Monetary Contributions Establishing a Joint Venture Entity*, as issued in December 2000.**

Aus7.7 Abstract 36 remains applicable until superseded by this Interpretation.

Discussion

8 AASB 131.48 requires that, while the assets are retained in the joint venture, the venturer should recognise only that portion of the gain or loss which is attributable to the interests of the other venturers. Additional losses are recognised if required by AASB 131.48.

9 AASB 131.48 refers to the transfer of the 'significant risks and rewards of ownership' as a condition for recognition of gains or losses resulting from transactions between venturers and joint ventures. AASB 118 *Revenue*, paragraphs 16(a) to (d), contain examples of situations where the risks and rewards of ownership are typically not transferred. This guidance also applies by analogy to the recognition of gains or losses resulting from contributions of non-monetary assets to JCEs. Since the venturer participates in joint control of the JCE, it retains some 'continuing managerial involvement' in the asset transferred. However, this does not generally preclude the recognition of gains or losses since joint control does not constitute control to the degree usually associated with ownership (AASB 118.14(b)).

10 Paragraph 92 of the *Framework for the Preparation and Presentation of Financial Statements* states: 'income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.' AASB 118.14(c) requires, among other conditions, that revenue from the sale of goods should be recognised when 'the amount of revenue can be measured reliably'. The requirement for reliable measurement also applies to the recognition of gains or losses resulting from a contribution of non-monetary assets to a JCE.

11 AASB 118.12 explains that 'when goods and services are exchanged or swapped for goods or services which are of similar nature and value, the exchange is not regarded as a transaction which generates revenue.'[1] The same rationale applies to a contribution of non-monetary assets since a contribution to a JCE is, in substance, an exchange of assets with the other venturers at the level of the JCE.

12 To the extent that the venturer also receives cash or non-monetary assets dissimilar to the assets contributed in addition to equity interests

1 AASB 116 requires an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance.

in the JCE, the realisation of which is not dependent on the future cash flows of the JCE, the earnings process is complete. Accordingly, the appropriate portion of the gain on the non-monetary contribution is recognised in profit or loss for the period.

13 It is not appropriate to present unrealised gains or losses on non-monetary assets contributed to JCEs as deferred items since such items do not meet the recognition criteria for assets or liabilities as defined in the *Framework* (paragraphs 53 to 64 and paragraphs 89 to 91).

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-13: [Deleted by the UIG]

14 [Deleted by the UIG]

15 [Deleted by the UIG]