THE FEATURES OF JOINT VENTURE PARTICIPANTS’ BALANCE SHEET PREPARATION

Viktor Onyshchenko

The article presents comparative characteristics of joint venture accounting in Ukraine (aka “joint activity under simple partnership agreement without creating legal entity”). Joint venture in Ukraine is not a separate legal entity but it is a separate accounting entity and separate tax entity. The main regulative acts are studied. These are Accounting Standard 12 and Guideline for accounting of joint venture participants without forming a legal entity. The paper has a comparison of joint venture balance sheet preparation approach in Ukraine (proportionate consolidation) with IFRS 11. The article describes the algorithm for preparing financial statements for such joint venture participants. Besides this, it has a special example of preparation of balance sheet of joint venture’s participant in Ukraine. The author makes a conclusion about Ukrainian approaches to joint venture participants balance sheet preparation have to be harmonized with IFRS.

Key words: joint venture; simple partnership; proportionate consolidation; accounting entity; joint control; consolidated financial statements; balance sheet.


Urgency of the research. Joint venture is a great opportunity for companies to combine their activities without establishing a legal entity. It helps to execute some business activities in situations that can be impossible or impractical. For example, foreign companies cannot have in their property natural mineral resources in the depth of the earth and mine them or perform geological exploration, but licenses for these activities have Ukrainian state enterprises. Joint venture agreement with state enterprises in this case is a way to perform such activities for foreign companies without having a license. It is only one of possible situations of joint venture in Ukraine. The problem in processing such activity is complicated and insufficiently regulated joint venture accounting. This field is belongs to advanced questions in any country and it will be useful to compare one’s experiences.
Actual scientific researches and issues analysis. The following scholars have carried out problems of joint venture accounting in Ukraine: L. Kuryshko [1], N. Privalova [2], K. Chernenko [3]. However, these researchers did not analyze the shortcomings of the existing approaches to joint venture accounting in Ukraine, also they did not investigate the changes related to the adoption of the new accounting standard – IFRS 11 “Joint arrangements”.

Uninvestigated parts of general matters defining. However, this field has changed several times during last 10 years and there are some changes in IFRS (Y2011). That is why the more complex descriptive study is needed.

The research objective. The key objective of the study is to describe main peculiarities of Ukrainian joint venture participants balance sheet preparation that will be a good basis for future comparison of joint venture accounting charged to the other countries and IFRS. It can help to improve it and to harmonize with international practise.

The statement of basic materials. Ukrainian law allows business entities to pool their resources and actions to achieve a common goal by running joint venture. This activity is carried out without establishing legal entity (simple partnership). Simple partnership has such contributions as cash, other property, professional and other knowledge, skills, and business reputation (Art. 1133 of the Civil Code of Ukraine). It is separate accounting entity for taxation and financial statements preparation purposes. That means that it is an individual taxpayer (VAT and income tax), and it has individual balance sheet and P&L statement (CF statement and Equity statement are not required by Ukraine accounting standards for such joint venture).

The main acts for joint venture accounting regulation in Ukraine are:
– Accounting Regulation (Standard) 12 “Financial Investments” (further in this paper – Standard 12);
– Guideline for accounting of joint venture participants without forming a legal entity (further in this paper – JV Guideline).

JV Guideline discloses how by using the separate balances of joint venture participants and joint venture balance sheet given by its operator to prepare final participants’ balance sheets, which includes the joint venture’s results. Algorithm of financial statements of joint venture participants’ preparation is similar to the following:
1) Each participant makes its balance sheet excluding joint venture’s transactions. The contributions to joint venture are recorded as part of accounts receivable;
2) Joint venture’s operator prepare a balance sheet of joint venture and provides it to each participant;
3) Each participant computes its share in the joint venture balance sheet’s assets and liabilities according to its percent in joint venture defined by the contract arrangement;
4) Each participant calculates the values in their final balance sheets by line to line summarizing of items of corresponding values of two balance sheets: separate of participants’ and joint venture’s proportionate share.

The example of such balance sheet preparation is in the Table 1. In this example, the entity A contributes equipment worth 120 000 UAH (including VAT) and cash 20000 UAH according to joint agreement. The initial value of equipment is 110000 UAH, depreciation 10000 UAH. The entity B contributes inventory worth 60000 UAH (including VAT). Profits and losts are shared proportionally to contributions: the entity A – 70 %, the entity B – 30 %. The entity A maintains accounting of joint venture. The mutual debts of venturer (entity A) and joint venture are 2000 UAH (including VAT). We should say that Ukraine has horizontal form of balance sheet (Table).
Preparation of balance sheet of joint venture’s participant in Ukraine

<table>
<thead>
<tr>
<th>Items</th>
<th>Trial balance of venturer</th>
<th>JV balance</th>
<th>Share of venturer (= col. 3 × 0,7)</th>
<th>Correction</th>
<th>Consolidated balance (col. 2 + col. 4 – col. 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td>267445</td>
<td>90000</td>
<td>63000</td>
<td>140000</td>
<td>330445</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1089</td>
<td></td>
<td></td>
<td></td>
<td>1089</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>126356</td>
<td>90000</td>
<td>63000</td>
<td></td>
<td>189356</td>
</tr>
<tr>
<td>Long-term Accounts Receivable</td>
<td>140000</td>
<td></td>
<td></td>
<td></td>
<td>140000</td>
</tr>
<tr>
<td>Current Assets</td>
<td>61519</td>
<td>151000</td>
<td>105700</td>
<td>2000</td>
<td>165219</td>
</tr>
<tr>
<td>Inventory</td>
<td>42</td>
<td>135000</td>
<td>94500</td>
<td></td>
<td>94524</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>7770</td>
<td></td>
<td></td>
<td></td>
<td>7770</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>20270</td>
<td>15000</td>
<td>10500</td>
<td>2000</td>
<td>28770</td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>1967</td>
<td>1000</td>
<td>700</td>
<td></td>
<td>2667</td>
</tr>
<tr>
<td>Other current assets</td>
<td>31470</td>
<td></td>
<td></td>
<td></td>
<td>31470</td>
</tr>
<tr>
<td>Assets</td>
<td>328964</td>
<td>241000</td>
<td>168700</td>
<td>142000</td>
<td>495664</td>
</tr>
<tr>
<td>Equity</td>
<td>76199</td>
<td>35000</td>
<td>24500</td>
<td></td>
<td>100699</td>
</tr>
<tr>
<td>Charter capital</td>
<td>18500</td>
<td></td>
<td></td>
<td></td>
<td>18500</td>
</tr>
<tr>
<td>Earnings</td>
<td>57690</td>
<td>35000</td>
<td>24500</td>
<td></td>
<td>82199</td>
</tr>
<tr>
<td>Long-term Liabilities</td>
<td>150449</td>
<td>200000</td>
<td>140000</td>
<td>140000</td>
<td>290449</td>
</tr>
<tr>
<td>Long-term bank loans</td>
<td>150449</td>
<td></td>
<td></td>
<td></td>
<td>150449</td>
</tr>
<tr>
<td>Other long-terms liabilities</td>
<td>200000</td>
<td>140000</td>
<td>140000</td>
<td></td>
<td>46098</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
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<td>6000</td>
<td>4200</td>
<td>2000</td>
<td>46098</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity and Liabilities</td>
<td>46098</td>
<td>46098</td>
<td>46098</td>
<td>46098</td>
<td>46098</td>
</tr>
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</table>

Analyzing this algorithm, we can conclude that it resembles the proportionate consolidation method, which existed in IAS 31 “Interests in Joint Ventures” and was the basic method of accounting for jointly controlled jointly controlled entities. The standard has the following definition: “proportionate consolidation is a method of accounting whereby a venturer’s share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer’s financial statements reported as separate line items in the venturer’s financial statements”.

Now IFRS 11 “Joint Arrangements” replaced IAS 31 and does not have proportionate consolidation as a method of joint venture financial statement preparation. So JV Guideline is contradicted IFRS 31. Beside this, the existing Guideline provides, in essence, a partial application of the proportionate consolidation method, because the consolidation process involves elimination of results transactions between joint venture as separate entity and their participants. This consolidation procedure does not exist both in Standard 12 and in JV Guideline.

Nowadays, with the adoption of the new IFRS, changes in the accounting methodology of joint activities need to be taken into account. New is the interpretation of joint control: “joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control” [8]. The classification of joint arrangements required by this IFRS depends upon the parties’ rights and obligations arising from the arrangement in the normal course of business. This IFRS classifies joint arrangements as either joint operations or joint ventures.

According to IFRS 11 a joint operation 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 [8]. Those parties are called joint operators. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.
An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity should 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 agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

A joint operator shall recognise in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation;
- and its expenses, including its share of any expenses incurred jointly.

The use of a professional judgment regarding Ukrainian joint arrangements in a form of simple partnership requires a more detailed examination of the nature of such agreements.

After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IAS 28. Joint operations need to use accounting for assets and liabilities in respect of its interest in a joint operation.

Conclusions. Our investigation on the peculiarities of joint venture participants’ balance sheet preparation in Ukraine provides for the following results. The method of preparation of joint venture participant’s balance sheet in Ukraine is similar to proportionate consolidation method. This method is absent as a method of accounting of joint venture in new standard IFRS 11 "Joint Arrangements". Besides this, consolidation of financial statement is not complete, because it does not have mutual elimination of the results of operations between joint venture and its participants.

It is necessary to determine the classification of the Ukrainian simple partnership under IFRS 11 – it is a joint venture or joint operations.

It is advisable to study ways of harmonization of joint venture accounting in Ukraine and IFRS requirements. It aims to improve the reliability of financial statements used by the Ukrainian users for taking decisions.

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Onyshchenko Viktor – PhD in Economics, Associate Professor, Associate Professor of Department of Accounting, Taxation and Audit, Chernihiv National University of Technology (95 Shevchenko Str., 14027 Chernihiv, Ukraine).

Онищенко Віктор Петрович – кандидат економічних наук, доцент, доцент кафедри бухгалтерського обліку, оподаткування та аудиту. Чернігівський національний технологічний університет (ул. Шевченка, 95, м. Чернігів, 14027, Україна).

E-mail: onvp83@gmail.com