

Joint Arrangements (IFRS 11)

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1. Objective and overview

Objective of IFRS 11: IFRS 11 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (joint arrangements). Its core idea is: *identify whether you have joint control, determine the type of joint arrangement, and then account for your rights and obligations accordingly.*

Key focus areas:

- **Joint control** — when relevant decisions require unanimous consent of the parties sharing control.
- **Types of joint arrangements** —
 - **Joint operations**
 - **Joint ventures**
- **Accounting** —
 - Joint operations: recognise assets, liabilities, revenue and expenses *line by line*.
 - Joint ventures: recognise a single *investment* and apply the equity method (IAS 28).

2. Scope of IFRS 11

Scope: IFRS 11 applies to all entities that are a party to a *joint arrangement*. A joint arrangement exists when:

- **Two or more parties** are bound by a contractual arrangement.
- The contractual arrangement gives **joint control** of the arrangement to those parties.

IFRS 11 does **not** apply to:

- Arrangements that do not involve joint control (these may be associates, simple investments, or service contracts).
- Situations where an entity has significant influence but not joint control (IAS 28 applies).

3. Key definitions

3.1 Joint arrangement

Joint arrangement: An arrangement of which **two or more parties have joint control**. The arrangement can be structured in different ways (with or without a separate vehicle), but the defining feature is joint control.

3.2 Joint control

Joint control: Joint control exists when:

- **Contractual arrangement** gives two or more parties control of the arrangement *collectively*; and
- Decisions about the **relevant activities** require the **unanimous consent** of the parties sharing control.

Important points:

- No single party can unilaterally direct the relevant activities.
- The assessment of joint control considers all facts and circumstances, including voting rights, decision-making mechanisms, and protective rights.
- Joint control must be **reassessed** if facts and circumstances change (e.g. changes in ownership, voting rights, or contractual terms).

3.3 Relevant activities

Relevant activities: These are activities that significantly affect the returns of the arrangement, such as:

- Operating and capital budgeting decisions.
- Purchasing and selling decisions.
- Financing decisions.

The contractual arrangement must specify how decisions about these relevant activities are made and who must agree.

4. Types of joint arrangements

IFRS 11 identifies **two types** of joint arrangements:

1. **Joint operations**
2. **Joint ventures**

The classification is based on the **rights and obligations of the parties**, not merely on the legal form.

4.1 Joint operation

Joint operation: A joint arrangement where the parties that have joint control (joint operators) have:

- **Rights to the assets** relating to the arrangement; and
- **Obligations for the liabilities** relating to the arrangement.

In other words, the parties are exposed directly to the assets and liabilities of the arrangement.

4.2 Joint venture

Joint venture: A joint arrangement where the parties that have joint control (joint venturers) have:

- **Rights to the net assets** of the arrangement, rather than direct rights to individual assets and obligations for individual liabilities.

Typically, a joint venture is conducted through a **separate vehicle** (e.g. a company) and the parties' interest is represented by equity in that vehicle.

5. Classification of joint arrangements

5.1 Principle: rights and obligations

The **central principle** of IFRS 11 is that classification depends on the **substance of the rights and obligations** of the parties, not just the legal form of the arrangement.

Steps:

1. **Identify joint control** (unanimous consent over relevant activities).
2. **Identify the parties with joint control.**
3. **Assess the rights and obligations** of those parties:
 - Rights to assets and obligations for liabilities → **Joint operation.**
 - Rights to net assets only → **Joint venture.**

5.2 Factors to consider in classification

When assessing whether an arrangement is a joint operation or a joint venture, IFRS 11 requires consideration of:

- **Legal form of the separate vehicle** (if any).
- **Terms of the contractual arrangement.**
- **Other facts and circumstances**, such as:
 - How the arrangement is designed and structured.
 - Whether the output is substantially all taken by the parties.
 - Whether the arrangement is intended to operate as an independent business.

(a) Legal form

- Some legal forms (e.g. a limited liability company) normally separate the vehicle's assets and liabilities from those of the parties.
- Other forms (e.g. certain partnerships) may give the parties direct rights and obligations.

Legal form is a starting point, but **not conclusive**.

(b) Contractual terms

The contractual arrangement may:

- Specify that parties share rights to assets and obligations for liabilities (suggesting a **joint operation**).
- Specify that parties have rights only to net assets (suggesting a **joint venture**).
- Override or modify the implications of the legal form.

(c) Other facts and circumstances

Examples:

- If the arrangement's output is substantially all sold to the parties, and the arrangement depends on the parties for settlement of its liabilities, this may indicate that the parties have rights to assets and obligations for liabilities → **joint operation**.
- If the arrangement operates independently, sells to third parties, and finances itself, this may indicate a **joint venture**.

6. Accounting for joint operations

6.1 Accounting by a joint operator

A **joint operator** recognises in its financial statements:

- **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 of the joint operation.
- **Its share of revenue** from the sale of the output by the joint operation.
- **Its expenses**, including its share of any expenses incurred jointly.

This is often described as **line-by-line recognition**.

Each item is accounted for in accordance with the relevant IFRS (e.g. IFRS 15 for revenue, IAS 16 for property, plant and equipment, IFRS 9 for financial instruments).

6.2 Example — joint operation

Example 1: Construction joint operation

- Entities **A** and **B** enter into a contractual arrangement to construct a road for a government.
- They set up a separate vehicle, **Entity Z**, to manage the project.
- The legal form of Z is such that the **assets and liabilities are effectively held by A and B**, not by Z itself.
- The contract states:
 - A and B share rights to all assets needed for the project.

- A and B are jointly and severally responsible for all obligations.
- Profits and losses are shared based on participation shares.

Classification: Although there is a separate vehicle (Z), the parties have **rights to the assets and obligations for the liabilities**. Therefore, this is a **joint operation**.

Accounting by A and B: Each recognises:

- Its share of construction assets (e.g. equipment, work-in-progress).
- Its share of liabilities (e.g. payables to suppliers).
- Its share of revenue from the government contract.
- Its share of expenses (labour, materials, etc.).

No single “investment in Z” line is recognised; instead, items are integrated across the statement of financial position and statement of profit or loss.

7. Accounting for joint ventures

7.1 Accounting by a joint venturer

A **joint venturer** recognises its interest in a joint venture as an **investment** and applies the **equity method** in accordance with IAS 28.

Under the equity method:

- The investment is initially recognised at **cost**.
- Subsequently, the carrying amount is:
 - Increased or decreased for the investor’s **share of profit or loss** of the joint venture.
 - Adjusted for the investor’s **share of other comprehensive income** of the joint venture.
 - Reduced by **dividends received** from the joint venture.

The investor’s share of profit or loss is presented in the statement of profit or loss as a single line (e.g. “Share of profit of joint ventures”).

7.2 Example — joint venture

Example 2: Shopping centre joint venture

- Entities **C** and **D** form a separate company, **CD Mall (Pty) Ltd**, to develop and operate a shopping centre.
- CD Mall:
 - Owns the land and buildings.
 - Enters into leases with tenants.
 - Obtains its own financing.
- The legal form of CD Mall gives it **separate rights and obligations** from C and D.

- The contractual arrangement states that C and D:
 - Hold shares in CD Mall.
 - Have rights to the **net assets** of CD Mall (through their equity interest).
 - Are not directly responsible for CD Mall's liabilities beyond their investment.

Classification: C and D have rights to the **net assets** of CD Mall, not direct rights to its assets or obligations for its liabilities. This is a **joint venture**.

Accounting by C and D:

- Each recognises an **investment in joint venture**.
- They apply the **equity method**:
 - Recognise their share of CD Mall's profit or loss.
 - Adjust the carrying amount of the investment accordingly.
 - Recognise dividends received as a reduction of the investment.

8. Acquisitions of interests in joint operations (businesses)

IFRS 11 includes specific guidance for **acquisitions of interests in joint operations** where the activity of the joint operation constitutes a **business** as defined in IFRS 3.

8.1 Principle

When an entity acquires an interest in a joint operation that is a business, it applies the **principles of business combinations accounting** to its share of assets and liabilities, including:

- Recognising **identifiable assets and liabilities** at fair value.
- Recognising **goodwill** (if applicable).
- Applying acquisition-related accounting (e.g. transaction costs, contingent consideration).

This is an important exception: normally, acquiring an interest in a joint operation might look like an asset acquisition, but if the joint operation is a business, IFRS 3 concepts apply.

8.2 Example — oil and gas joint operation

Example 3: Oil and gas field

- Entity **E** acquires a 40% interest in a joint operation that explores and produces oil and gas.
- The joint operation has:
 - Integrated processes (exploration, development, production).
 - Employees, assets, and contracts.
 - The activity meets the definition of a **business** under IFRS 3.

Accounting by E:

- E recognises its share of identifiable assets (e.g. oil and gas properties, equipment) and liabilities (e.g. decommissioning obligations) at fair value.
- If consideration exceeds E's share of net identifiable assets, E recognises **goodwill**.
- Subsequent accounting follows the relevant IFRSs (e.g. IFRS 6, IAS 16, IAS 37).

9. Parties that participate but do not have joint control

IFRS 11 also addresses parties that participate in a joint arrangement but **do not have joint control**.

9.1 Joint operations without joint control

A party that participates in, but does not have joint control of, a **joint operation**:

- Still recognises its **share of assets and liabilities** if it has direct rights to those assets and obligations for those liabilities.

This is consistent with the rights-and-obligations principle.

9.2 Joint ventures without joint control

A party that participates in, but does not have joint control of, a **joint venture**:

- Accounts for its interest in accordance with **IFRS 9** (if it is a financial instrument) or **IAS 28** (if it has significant influence).
- If it has neither joint control nor significant influence, the interest is usually a financial asset under IFRS 9.

10. Separate financial statements

In **separate financial statements** (as defined by IAS 27):

- An entity that is a joint operator or joint venturer may account for its interest in:
 - A joint operation: by recognising assets and liabilities directly (as in consolidated financial statements).
 - A joint venture: at **cost**, in accordance with IFRS 9, or using the **equity method** (if permitted by IAS 27).

The choice must be applied consistently for similar investments.

11. Relationship with other standards

IFRS 10 — Consolidated Financial Statements: Used to determine whether a party controls an investee and must consolidate. IFRS 11 applies when control is **joint**, not unilateral.

IFRS 12 — Disclosure of Interests in Other Entities: Provides detailed disclosure requirements for:

- Interests in subsidiaries.
- Joint arrangements (joint operations and joint ventures).
- Associates.
- Unconsolidated structured entities.

IAS 28 — Investments in Associates and Joint Ventures: Provides the **equity method** requirements for joint ventures and associates.

12. Common pitfalls and judgement areas

1. Over-reliance on legal form: Assuming that the existence of a separate vehicle automatically means a joint venture. IFRS 11 requires a **substance-based assessment** of rights and obligations.

2. Ignoring contractual overrides: Contractual terms may override the default implications of legal form (e.g. a company whose assets and liabilities are effectively shared by the parties).

3. Misclassification of arrangements with “take-or-pay” features: Where parties take substantially all the output and guarantee settlement of liabilities, the arrangement may be a **joint operation** even if a separate vehicle exists.

4. Failure to reassess classification: Changes in facts and circumstances (e.g. new contracts, changes in ownership) may require **reassessment** of joint control and classification.

5. Incorrect application of equity method: For joint ventures, failing to adjust the investment for share of profit/loss and other comprehensive income, or misclassifying dividends.

13. Summary

- **IFRS 11** applies to entities that are parties to **joint arrangements**.
- **Joint control** exists when decisions about relevant activities require **unanimous consent** of the parties sharing control.
- Joint arrangements are classified as:
 - **Joint operations** — parties have rights to assets and obligations for liabilities.
 - **Joint ventures** — parties have rights to net assets.
- Classification is based on **rights and obligations**, considering legal form, contractual terms, and other facts and circumstances.
- **Joint operations:** line-by-line recognition of assets, liabilities, revenue, and expenses.
- **Joint ventures:** recognise an **investment** and apply the **equity method** (IAS 28).
- Special rules apply when acquiring interests in joint operations that are **businesses**.
- Parties without joint control still account for their rights and obligations appropriately.

14. Multiple-Choice Questions (with Answers)

1. What is the primary objective of IFRS 11?

- A. To prescribe consolidation procedures for subsidiaries
- B. To establish principles for reporting interests in joint arrangements
- C. To define significant influence
- D. To regulate financial instruments

➤ **Answer: B**

2. Joint control exists when decisions about relevant activities require:

- A. Majority vote
- B. Approval by the largest investor
- C. Unanimous consent of the controlling parties
- D. Approval by the board of directors

➤ **Answer: C**

3. A joint arrangement must always involve:

- A. Two or more parties bound by a contractual arrangement
- B. A separate legal entity
- C. A parent–subsidiary relationship
- D. A partnership agreement

➤ **Answer: A**

4. In a joint operation, parties have:

- A. Rights to net assets only
- B. Rights to specific assets and obligations for specific liabilities
- C. No rights to assets
- D. Only revenue-sharing rights

➤ **Answer: B**

5. In a joint venture, parties have:

- A. Rights to specific assets
- B. Obligations for specific liabilities
- C. Rights to net assets
- D. No voting rights

➤ **Answer: C**

6. Which method must be used to account for interests in joint ventures?

- A. Proportionate consolidation
- B. Cost method
- C. Equity method
- D. Fair value model

➤ **Answer: C**

7. The classification of a joint arrangement is based primarily on:

- A. Legal form only
- B. Voting rights only
- C. Profit-sharing ratios
- D. Rights and obligations of the parties

➤ **Answer: D**

8. A separate vehicle automatically results in a joint venture. True or false?

- A. True
- B. False

➤ **Answer: B**

9. A party that participates in a joint operation but does not have joint control must:

- A. Apply the equity method
- B. Recognise its share of assets and liabilities
- C. Consolidate the arrangement
- D. Recognise only revenue

➤ **Answer: B**

10. A party that participates in a joint venture but does not have joint control and does not have significant influence accounts for the interest under:

- A. IFRS 9
- B. IFRS 10
- C. IFRS 12
- D. IAS 27

➤ **Answer: A**

11. When acquiring an interest in a joint operation that constitutes a business, an entity applies:

- A. IAS 16
- B. IFRS 3 principles
- C. IFRS 9
- D. IAS 20

➤ **Answer: B**

12. Which of the following is NOT a factor considered when classifying a joint arrangement?

- A. Legal form
- B. Contractual terms
- C. Other facts and circumstances
- D. Tax rate of the jurisdiction

➤ **Answer: D**

13. In a joint operation, revenue is recognised:

- A. Only when the joint operation distributes profits
- B. Only when the separate vehicle declares dividends
- C. Based on the operator's share of output
- D. Only at the end of the arrangement

➤ **Answer: C**

14. In a joint venture, the investor's share of profit or loss is recognised:

- A. Line-by-line
- B. As a single line item
- C. Only when dividends are received
- D. Only in OCI

➤ **Answer: B**

15. Which standard provides disclosure requirements for joint arrangements?

- A. IFRS 10
- B. IFRS 12
- C. IAS 28
- D. IAS 1

➤ **Answer: B**

16. If parties take substantially all the output of a separate vehicle and guarantee its liabilities, this usually indicates:

- A. A joint venture
- B. A subsidiary
- C. A joint operation
- D. An associate

➤ **Answer: C**

17. The equity method requires the investment to be initially recognised at:

- A. Fair value
- B. Cost
- C. Net asset value
- D. Proportionate share of assets

➤ **Answer: B**

18. Dividends received from a joint venture are:

- A. Recognised as revenue
- B. Deducted from the carrying amount of the investment
- C. Ignored
- D. Recognised as OCI

➤ **Answer: B**

19. A joint operator accounts for its share of jointly held assets using:

- A. Relevant IFRSs (e.g., IAS 16, IFRS 15)
- B. IFRS 11 only
- C. IAS 28
- D. IFRS 9

➤ **Answer: A**

20. Reassessment of joint control and classification is required when:

- A. Profitability changes
- B. Ownership or contractual terms change
- C. The auditor requests it
- D. The entity changes its accounting policy

➤ **Answer: B**

15. Comprehensive Question Bank (with Solutions)

SECTION A — Conceptual & Theory Questions

Question 1

Define *joint control* according to IFRS 11 and explain the conditions required for joint control to exist.

Solution: Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Conditions:

- A contractual arrangement exists.
- Two or more parties collectively control the arrangement.
- No single party can unilaterally direct relevant activities.
- Decisions about relevant activities require unanimous consent.

Question 2

Differentiate between a **joint operation** and a **joint venture**.

Solution:

- **Joint operation:** Parties have **rights to assets** and **obligations for liabilities** of the arrangement.
- **Joint venture:** Parties have **rights to net assets** of the arrangement, usually through an equity interest in a separate vehicle.

Question 3

List three factors IFRS 11 requires entities to consider when classifying a joint arrangement.

Solution:

1. **Legal form** of the arrangement or separate vehicle.
2. **Contractual terms** agreed by the parties.
3. **Other facts and circumstances**, including how the arrangement is designed, financed, and how output is distributed.

Question 4

Explain why the existence of a separate vehicle does not automatically result in a joint venture classification.

Solution: IFRS 11 requires classification based on **substance**, not form. Even if a separate vehicle exists, contractual terms or other facts may give parties direct rights to assets and obligations for liabilities, indicating a **joint operation**.

Question 5

Describe how a joint operator accounts for its interest in a joint operation.

Solution: A joint operator recognises:

- Its own assets and its share of jointly held assets.
- Its own liabilities and its share of jointly incurred liabilities.
- Its share of revenue from the joint operation.
- Its share of expenses. Recognition is **line-by-line** using relevant IFRSs (IAS 16, IFRS 15, etc.).

Question 6

Explain the equity method of accounting for joint ventures.

Solution: Under the equity method:

- The investment is initially recognised at **cost**.
- Subsequently adjusted for the investor's **share of profit or loss** and **OCI**.
- Reduced by **dividends received**.
- Presented as a **single line item** in both the statement of financial position and profit or loss.

Question 7

What happens when an entity acquires an interest in a joint operation that constitutes a business?

Solution: The entity applies **IFRS 3 principles** to its share of assets and liabilities:

- Recognise identifiable assets and liabilities at **fair value**.
- Recognise **goodwill** if applicable.
- Apply acquisition-related accounting (transaction costs, contingent consideration).

Question 8

Explain how parties without joint control account for interests in joint arrangements.

Solution:

- **Joint operation:** Recognise share of assets and liabilities if they have direct rights/obligations.

- **Joint venture:**
 - If significant influence: apply **IAS 28** (equity method).
 - If no significant influence: apply **IFRS 9** (financial asset).

Question 9

What disclosures are required under IFRS 12 for joint arrangements?

Solution: Entities must disclose:

- Nature, extent, and financial effects of interests in joint arrangements.
- Summarised financial information for joint ventures.
- Risks associated with interests in joint arrangements.
- Judgements used in determining joint control and classification.

Question 10

Explain why classification of joint arrangements may need reassessment.

Solution: Reassessment is required when facts or circumstances change, such as:

- Changes in ownership interests.
- Amendments to contractual terms.
- Changes in how the arrangement operates or is financed. These may alter rights and obligations.

SECTION B — Applied & Scenario-Based Questions

Question 11

A and B establish a separate company, AB Mining Ltd, to operate a mine.

- AB Mining owns all mining equipment.
- AB Mining obtains external financing.
- A and B are not responsible for AB Mining's liabilities beyond their investment.
- Profits are shared equally.

Required: Classify the arrangement.

Solution: A and B have rights only to **net assets** through their equity interest. The separate vehicle holds assets and obligations independently. → **Joint venture**.

Question 12

C and D enter into a contractual arrangement to build a bridge.

- No separate vehicle is created.

- C and D jointly own all construction equipment.
- They are jointly and severally liable for all obligations.

Required: Classify the arrangement and explain the accounting.

Solution: Classification: **Joint operation**. Accounting: Each recognises its share of assets, liabilities, revenue, and expenses **line-by-line**.

Question 13

E and F form a separate vehicle, EF Solar Ltd.

- EF Solar sells all electricity exclusively to E and F.
- E and F guarantee EF Solar's bank loans.
- EF Solar cannot operate independently without E and F.

Required: Determine the classification.

Solution: Although a separate vehicle exists, E and F effectively bear the assets and obligations. → **Joint operation** (based on substance).

Question 14

G acquires a 30% interest in a joint venture. During the year:

- JV profit = R1,000,000
- Dividends paid = R200,000

Required: Calculate G's closing investment balance if initial cost was R5,000,000.

Solution:

- Share of profit: $30\% \times R1,000,000 = R300,000$
- Share of dividends: $30\% \times R200,000 = R60,000$
- Closing balance = $5,000,000 + 300,000 - 60,000 = \mathbf{R5,240,000}$

Question 15

H participates in a joint operation but does not have joint control. H has direct rights to 40% of the assets, 40% of the output and obligations for 40% of liabilities.

Required: How should H account for its interest?

Solution: H recognises:

- 40% of assets
- 40% of liabilities

- 40% of revenue and expenses → Same accounting as a joint operator.

Question 16

I acquires a 50% interest in a joint operation that constitutes a business. Fair value of identifiable net assets = R10 million. Consideration paid = R6 million.

Required: Determine goodwill.

Solution:

- Share of net assets = $50\% \times R10m = R5m$
- Goodwill = Consideration – Share of net assets = $R6m - R5m = \mathbf{R1\ million}$

Question 17

J and K share joint control of a joint venture. The joint venture reports a loss of R500,000. J's interest is 40%.

Required: How does J account for this loss?

Solution:

- Share of loss = $40\% \times R500,000 = R200,000$
- J reduces the carrying amount of its investment by R200,000 and recognises the loss in profit or loss.

Question 18

L and M form a joint operation. L contributes equipment with carrying amount of R300,000 and fair value R350,000. The contribution meets the definition of a business.

Required: How should L account for the contribution?

Solution: Apply IFRS 3 principles:

- Derecognise equipment at carrying amount (R300,000).
- Recognise its share of fair-valued assets and liabilities.
- Recognise **gain of R50,000** (fair value – carrying amount).

Question 19

N holds 25% in a joint venture but has no significant influence. N receives dividends of R40,000.

Required: How should N account for the investment?

Solution: Account under **IFRS 9** as a financial asset. Dividends recognised as **income**.

Question 20

O and P operate a joint operation. During the year:

- Joint revenue = R2,000,000
- Joint expenses = R1,200,000
- O's share = 60%

Required: Calculate O's profit.

Solution:

- O's revenue = $60\% \times R2,000,000 = R1,200,000$
- O's expenses = $60\% \times R1,200,000 = R720,000$
- Profit = $1,200,000 - 720,000 = \mathbf{R480,000}$

SECTION C — Advanced Case Study Questions

Question 21

P and Q establish a separate vehicle, PQ Logistics Ltd. Key facts:

- PQ Logistics owns trucks and warehouses.
- PQ Logistics enters contracts with third-party customers.
- P and Q do not guarantee PQ's liabilities.
- PQ Logistics finances itself independently.
- Profits are shared 70:30.

Required:

- (a) Classify the arrangement.
- (b) Explain the accounting by P.

Solution:

(a) PQ Logistics operates independently and holds assets/liabilities separately. → **Joint venture**.

(b) P recognises an **investment in joint venture** and applies the **equity method**.

Question 22

R and S form a joint operation to manufacture specialised components.

- R owns 55% of the machinery; S owns 45%.

- R incurs 55% of expenses; S incurs 45%.
- Output is split 55:45.

Required: Explain why this is a joint operation.

Solution: The parties have direct rights to assets and obligations for liabilities based on their ownership and cost-sharing. → **Joint operation**, even without a separate vehicle.

Question 23

T holds 50% of a joint venture. The joint venture has the following balances:

- Net assets at beginning: R4,000,000
- Profit for the year: R600,000
- OCI gain: R100,000
- Dividends paid: R200,000

Required: Calculate T's closing investment balance.

Solution:

- Opening balance: R2,000,000 ($50\% \times 4,000,000$)
- Share of profit: $50\% \times 600,000 = 300,000$
- Share of OCI: $50\% \times 100,000 = 50,000$
- Share of dividends: $50\% \times 200,000 = 100,000$
- Closing balance = $2,000,000 + 300,000 + 50,000 - 100,000 = \mathbf{R2,250,000}$

Question 24

U and V jointly control a joint operation. U contributes inventory with carrying amount of R150,000 and fair value R200,000. The joint operation is **not** a business.

Required: How should U account for the contribution?

Solution: Since it is **not a business**, treat as an asset transfer:

- Derecognise inventory at carrying amount (R150,000).
- Recognise its share of inventory in the joint operation at **carrying amount**, not fair value.
- No gain recognised.

Question 25

W participates in a joint venture but has significant influence. W's share of profit = R120,000. W receives dividends of R30,000.

Required: How does W account for these amounts?

Solution: Apply **equity method**:

- Recognise share of profit in profit or loss, and increase investment by R120,000.
- Reduce investment by dividends received (R30,000).

SECTION D — Calculation-Focused Questions

Question 26

Joint operation total assets = R5,000,000. X's share = 35%.

Required: Calculate X's share of assets.

Solution: $35\% \times R5,000,000 = \mathbf{R1,750,000}$

Question 27

Joint venture profit = R900,000. Y's interest = 25%.

Required: Y's share of profit.

Solution: $25\% \times R900,000 = \mathbf{R225,000}$

Question 28

Joint operation liabilities = R3,200,000. Z's share = 40%.

Required: Z's recognised liability.

Solution: $40\% \times R3,200,000 = \mathbf{R1,280,000}$

Question 29

AA invests R2,000,000 in a joint venture. Share of profit = R300,000. Share of OCI = R50,000. Dividends received = R80,000.

Required: Closing investment balance.

Solution: $2,000,000 + 300,000 + 50,000 - 80,000 = \mathbf{R2,270,000}$

Question 30

Joint operation revenue = R1,500,000. BB's share = 45%.

Required: BB's revenue.

Solution: $45\% \times R1,500,000 = \mathbf{R675,000}$