29. Accounting for joint ventures

Introduction

29.1. Charities may collaborate with other charities or entities in a number of ways. This module applies to charities that collaborate with other charities or entities through various types of joint venture activity and sets outs the accounting treatment for joint venture entities. Charities should refer to section 15 of FRS 102.

29.2. A joint venture entity is a jointly controlled entity in which each party (venturer) has an interest. The other venturers may be charities, social enterprises or for-profit companies or other entities.

29.3. A unique feature of a joint venture entity is a contractual agreement between the parties that share control of the entity.

29.4. The contractual agreement between the venturers establishes joint control over the economic activity of the entity. Joint control exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

29.5. This module sets out:

- the different forms of joint venture activity;
- method for the identification of respective interests in joint venture charities;
- accounting for joint venture charities;
- accounting for joint ventures involving non-charitable entities;
- presentation of joint ventures involving non-charitable entities in the consolidated accounts; and
- disclosures relating to joint ventures.

The different forms of joint venture activity

29.6. There are three forms of joint venture activity:

- jointly controlled operations where each venturer uses its own assets, incurs its own expenses and liabilities, raises its own finance and shares the income from the joint venture in a way that is agreed with the other venturers;
- jointly controlled assets acquired for the joint venture with the assets, liabilities, income, expenses and income of the joint venture shared between the venturers; or
- jointly controlled entities where a separate legal entity, for example a company, is established in which each venturer has an interest with a contractual agreement in place and joint control exercised.

29.7. This module deals with joint venture activities that are carried out through a separate jointly controlled entity.

29.8. Where charities undertake joint venture activities through jointly controlled operations or through using jointly controlled assets, each charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the participating charities' own accounts in accordance with the SORP module 'Branches, linked or connected charities and joint arrangements'.

Method for the identification of respective interests in joint venture charities

29.9. Each venturer exercises its right to shared control through an agreement with the other parties to the joint venture. On occasion, the joint venture entity will be established to undertake an activity that furthers the charitable purposes of the investing charities, for example to carry out a joint project. When the joint venture entity is itself a charity, control may be exercised through the appointment of trustees rather than through an equity share. In the absence of equity, judgement is required in order to identify the respective interests of each charity in the joint venture entity.

29.10. In order to identify the respective interests of each venturer, reference should be made to the evidence provided by:

- the joint venture agreement or contract;
- the governing document or any legislative provision, including the provisions that apply upon winding up or ceasing the joint venture;
- the respective voting power of the venturers;
- the pattern of distribution of benefits from the joint venture charity between the venturers; and
- the value of the funding provided by each venturer in support of the activities undertaken by the joint venture; or
- in the absence of any evidence to the contrary, the net assets and results should be attributed equally between the venturers.

Accounting for joint venture charities

29.11. An interest in a joint venture charity is normally treated as a restricted fund in the accounts of the reporting charity.

29.12. In a charity's own entity accounts, a joint venture charity should be included in its accounts as a programme related investment at cost (the value of any funds transferred at the inception of the joint venture entity) less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value.

29.13. If consolidated accounts are prepared, the equity method of accounting must be used. The venturer's share of the net income or net expenditure in a joint venture charity is recognised as a separate line in the statement of financial activities (SoFA), under either 'Income', if a gain, or 'Expenditure', if a loss. On the balance sheet, the net carrying amount should be shown under 'Programme related investments', where the interest is held primarily to further the purposes of the investing charity, and is normally treated as a component of restricted funds.

Accounting for joint ventures involving non-charitable entities

29.14. Charities may also enter into a joint venture as a commercial activity to raise funds. The accounting treatment of a non-charitable joint venture entity depends on whether the investing charity prepares consolidated accounts or entity accounts.

29.15. In a charity's own entity accounts, a joint venture entity must be included in its accounts at cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.

29.16. When consolidated accounts are prepared, the charity must use the equity method of accounting in its consolidated accounts to measure its interest in the joint venture.

Presentation of joint ventures involving non-charitable entities in consolidated accounts

29.17. The equity method requires the interest in a joint venture to be initially recognised at its cost (the transaction price including any transaction costs). The initial cost recognised therefore equates to the value of net assets acquired, plus any goodwill. The carrying amount is then adjusted for the post-acquisition change in the investor's share of net assets in the joint venture entity. The carrying amount of an investment in the joint venture is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results.

29.18. The equity method requires the net share of profit or loss to be shown as a separate line in the consolidated SoFA either as a gain under 'Income' or as a loss under 'Expenditure'. The share of net assets in the joint venture is shown as a separate line in 'Fixed assets' on the balance sheet as a sub-class of investments, with any distributions or dividends received reflected in a reduction to the carrying amount of the joint venture.

Disclosures relating to joint ventures

29.19. All charities with an investment in a joint venture entity must disclose:

- the accounting policy adopted for investments in joint ventures;
- the carrying amount of investments in jointly controlled entities;
- the aggregate amount of its commitments relating to each joint venture, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint venture itself;
- the fair value of investments in non-charitable joint ventures accounted for using the equity method for which there are published price quotations;
- where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;

- for each material joint venture charity, this SORP requires that the investing charity's share of the income and expenditure of the joint venture charity analysed across the main areas of the joint venture charity's activities; and
- for each material joint venture charity the investing charity's share of the assets and liabilities and funds of the joint venture charity at the reporting date; and
- this SORP requires disclosure of the name of each joint venture entity

29.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in joint venture entities accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/resources expended) of such joint venture entities and its share of any discontinued operations.
- For investments in joint venture entities accounted for by the fair value method, an investor must make the following disclosures:
    - the basis for determining fair value, e.g. the quoted market price in an active market or a valuation technique (when a valuation technique is used, the charity must disclose the assumptions applied in determining fair value for each associate); and
    - if a reliable measure of fair value is no longer available for a joint venture, the charity shall disclose that fact.