

**SSAP-25**

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STATEMENT OF STANDARD  
ACCOUNTING PRACTICE NO. 25  
Revised 1992

**ACCOUNTING FOR INTERESTS IN  
JOINT VENTURES AND PARTNERSHIPS**

*Issued by the Council, New Zealand Society of Accountants*

*The amendments, shown in marked-up format, will be effective for periods ending on or after 31 December 2002.*

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*This Statement should be read in the context of the Explanatory Foreword to Statements of Standard Accounting Practice.*

*References to SSAP-8: Accounting for Business Combinations, Refer to the October 1990 edition.*

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### 1 INTRODUCTION

1.1 This Statement deals with the accounting by participants for interests in joint ventures and partnerships other than partnerships controlled or significantly influenced by the participant reporting. Reference should be made to FRS-37: Consolidating Investments in Subsidiaries and FRS-38: Accounting for Investments in Associates respectively, when accounting for partnerships controlled or significantly influenced by the participant reporting.

~~1.2 The Statement should be read in conjunction with SSAP 8, Accounting for Business Combinations.~~

~~1.3 It is intended that at the next review of SSAP 8, the partnership provisions of this Standard will be incorporated within the revised SSAP 8.~~

### 2 APPLICATION

2.1 The Standard in this Statement applies to all external financial statements. ~~However, a participant in a joint venture or partnership may be excluded from application of this Statement if, but only if, the circumstances referred to in para. 4.18(d)(i) or (d)(ii) of SSAP 8, Accounting for Business Combinations, apply.~~

2.2 This Statement of Standard Accounting Practice becomes operative for financial statements covering periods commencing on or after **1 October 1990**.

### 3 DEFINITIONS

The following terms are used in this Statement with the meanings specified:

3.1 *Joint venture* is that form of joint arrangement in which there is a contractual association, other than a partnership, between two or more parties to undertake a specific business project in which the venturers have several liability in respect of the costs and liabilities of the project and share any resulting output.

3.2 *Partnership* is the relationship which subsists between persons carrying on a business in common with a view to profit. An essential characteristic of a partnership is that each partner has a joint and several obligation for the costs and liabilities of the partnership.

3.3 *Participant* is a party to or investor in a joint venture (venturer) or partnership (partner).

**4 DISCUSSION**

4.1 Joint arrangements, which include both joint ventures and partnerships, are commonly entered into because of a large capital investment required, because of particular skills of the participants, or because of a desire to spread risks associated with the project.

4.2 The distinction between a joint venture and a partnership requires careful evaluation. The Partnership Act 1908 (section 5) lists certain rules for determining the existence of a partnership. While the receipt of a share of profits is prima facie evidence of a partnership, the existence of joint tenancy, tenancy in common or the sharing of gross returns do not of themselves create a partnership. There is no statutory definition of a joint venture.

4.3 The main features for distinguishing a joint venture from a partnership are:

- (a) The assets of a joint venture are held by the venturers as tenants in common — each venturer having an undivided interest in each asset; the assets of a partnership are held jointly by all parties — each partner’s interest being an interest in the assets of the partnership as a whole.
- (b) The liability of each venturer in a joint venture is limited to the agreed upon capital contributions and share of the costs — costs are frequently recovered from venturers by way of tolling charges levied on output — the liability of each venturer is not joint; in a partnership each partner has joint and several liability for the obligations of the partnership.
- (c) Joint venturers cannot bind one another or pledge the credit of one another. This contrasts with a partnership, where every partner is an agent of the firm.
- (d) Joint ventures are usually structured so that the venturers take their share of the efforts separately and in kind; since a partnership is entered into “with a view to profit” the partners take their share of the efforts as a share of the profits.

Other distinctions in practice between a joint venture and a partnership are given in the Appendix to this Statement.

4.4 While it is common in a joint venture agreement to include a statement that the venture does not constitute a partnership, it is doubtful whether that statement of itself is conclusive as to the nature of the arrangement. Care then should be taken to consider all aspects of the arrangement, including the substance of the arrangement, and the requirements of the Partnership Act 1908.

4.5 Sometimes a joint venture includes a company for the purposes of management and/or for holding assets and liabilities as trustees for the participants. This is sometimes referred to as an “incorporated joint venture”. However, the

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reality of the arrangement is that the equity holders are participating with several liability as distinct from their responsibility as shareholders.

### Methods of Accounting

~~4.6 The methods of accounting for interests in joint ventures and partnerships in the financial statements of the venturer are analogous to the consolidation and equity methods of accounting described in SSAP 8, *Accounting for Business Combinations*.~~

4.7 The methods of accounting for interests in joint ventures and partnerships are:

- (a) the line-by-line method, which has two variations:
  - (i) proportionate method, and
  - (ii) the consolidation method, as set out in FRS-37: *Consolidating Investments In Subsidiaries*~~paras. 4.27 to 4.30 of SSAP 8, *Accounting for Business Combinations*~~;
- (b) the equity method, as set out in FRS-38: *Accounting For Investments In Associates*~~paras. 4.42 to 4.50 of SSAP 8, *Accounting for Business Combinations*~~;
- (c) at cost or valuation.

4.8 Under the first variation of the line-by-line method, referred to in this Statement as the proportionate method, each participant in an arrangement accounts for its proportionate share of each asset and liability, and of the expenses and revenues. While these may be shown separately, depending upon their materiality, they may be aggregated with other similar items of the participant.

4.9 The advantage of the proportionate method is that it enables the reflection of the resources directly available to a participant. It is an appropriate method to use in accounting for an interest in a joint venture because each venturer either owns directly certain assets and incurs certain liabilities of the venture, or has an undivided interest in the remaining assets and liabilities of the venture.

4.10 There are two principal disadvantages in applying the proportionate method to interests in joint ventures:

- (a) since all financial aspects of the joint venture are absorbed into the financial statements of the venturer, the use of the method can hide the existence of the joint venture; and
- (b) since in a joint venture the control exercisable by a venturer is never absolute but is dependent upon the concurrence of the other venturers or of the operating management, the method fails to distinguish in the balance sheet

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between the assets that are fully controlled and those that are subject to concurrence in decision making.

4.11 In the case of a partnership, the rights and obligations of each partner are determined by the partnership agreement or, failing that, by the Partnership Act 1908. While under the Act partners have equal rights, a partnership agreement may specify that a certain partner or partners have a controlling interest. In this situation, the financial statements of the partner with a controlling interest should disclose information regarding the resources which it may deploy. This situation is analogous to that of a parent company in a group of companies. ~~The line by line method in this situation is expanded to that of "full consolidation" with disclosure of the interests of the minority partners.~~

4.12 Under the equity method, each participant accounts for its investment interest as a one-line balance sheet amount and its investment earnings as a one-line income statement amount, that is, the share in the net assets and net profit associated with the joint arrangement.

4.13 The main advantage of the equity method is that it highlights the fact that there is an interest in a joint arrangement. ~~It is a particularly appropriate method of recording a minority or non-controlling interest in a partnership.~~

4.14 The main disadvantage of the equity method is that information is lost through aggregation — though this could be remedied through supplementary disclosure. The method is inappropriate ~~except in the case of a minority interest in a partnership~~ because it does not reflect in the body of the financial statements the legal form of the interest in the case of a joint venture, ~~nor the control that exists in the case of a controlling interest in a partnership.~~

4.15 This Standard takes the view that the appropriate accounting methods to use are:

- (a) in the case of an interest in a joint venture, the proportionate method;
- (b) in the case of an interest in a partnership: subject to this Standard, cost or valuation.
  - (i) ~~the consolidation method, as set out in paras. 4.27 to 4.30 of SSAP 8, *Accounting for Business Combinations*, where there is a controlling interest (incorporating all assets, liabilities, revenues and expenses and showing the minority interests of the other partners in these items);~~
  - (ii) ~~the equity method, as set out in paras. 4.42 to 4.50 of SSAP 8, *Accounting for Business Combinations*, in the case of the interest of a partner with a minority interest where that minority interest reflects significant influence; and~~

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~~(iii) at cost or valuation for other minority interests.~~

4.16 Accounting for an interest in a joint venture should be reflected in the venturer's own entity accounts. Accounting for an interest in a partnership should be reflected in the partner's own entity accounts as an investment ~~and is reported by use of either the consolidation or equity methods in the consolidated financial statements (or their equivalent) of the partner.~~

### General

4.17 Where a participant transfers assets or supplies services, either as a contribution or as part of a transaction in the ordinary course of business, to a joint venture ~~or partnership~~ any unrealised profits on "transfer" should be eliminated in the financial statements of the participant as follows:

- ~~(a) in the case of a joint venturer or a minority partner:~~
  - ~~(i) downstream transfers to the joint venture or partnership: a percentage equal to the participant's interest in the joint venture or partnership;~~
  - ~~(ii) upstream transfers from the joint venture or partnership: 100 per cent (before calculation of the participant's share of profit in the case of a partnership);~~
- ~~(b) in the case of a controlling interest in a partnership:~~
  - ~~(i) downstream transfers to the partnership: 100 percent;~~
  - ~~(ii) upstream transfers from the partnership: 100 percent before calculation of the share of minority interests.~~

Profits not recognised on transfer or supply are later recognised when the asset is sold. Any loss on transfer is recognised immediately.

4.18 Where the participants supply non-cash resources in different proportions from their agreed share of output or profits and losses, fair values of the assets should be recognised together with any associated goodwill or discount. A similar situation arises where there is a change in the proportionate interests of the participants, for example, on the entry or retirement of a participant.

4.19 Because of the legal status of each participant in a joint venture ~~or partnership~~ and because of the nature of the participant's interest in the assets and obligations, there should be full disclosure of the existence of the participation and its effect in the financial statements.

## 5 STANDARD ACCOUNTING PRACTICE

### Accounting for Interests in Joint Ventures and Partnerships

*The Standard set out in the following paragraphs should be read in the context of the foregoing paragraphs of this Statement and the Explanatory Foreword General Purpose Financial Reporting issued by the Council of the Institute of Chartered Accountants of New Zealand.*

5.1 A venturer's interest in a joint venture should be recognised by including in their respective classification categories in the financial statements of the venturer entity the amount of:

- (a) the venturer's share in each of the individual assets employed in the joint venture;
- (b) liabilities incurred by the venturer in relation to the joint venture, including the venturer's share of any liabilities for which the venturer is severally liable; and
- (c) the venturer's share of net expenses incurred by the venturers in relation to the joint venture.

~~5.2 A partner's interest in a partnership should be recognised in the consolidated financial statements (or their equivalent) as follows:~~

- ~~(a) in the case of a controlling interest in the partnership by:
  - ~~(i) including in their respective classification categories the assets and liabilities of the partnership;~~
  - ~~(ii) including as the minority interest in the balance sheet the proportionate minority interest of the other partners;~~
  - ~~(iii) including in their respective categories the revenues and expenses of the partnership and showing the minority interest in the resulting net profit or loss;~~~~
- ~~(b) in the case of the interest of a partner with a minority interest where that interest reflects significant influence, by including in the balance sheet and profit and loss account, respectively, the partner's share in the net assets and in the profit or loss of the partnership.~~

5.3 Where a partner in a partnership has neither a controlling interest nor a significant influence, the investment should be recorded at cost or valuation.

### Disclosures

5.4 The Statement of Accounting Policies should include a description of the methods of accounting for interests in joint ventures and partnerships.

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~~5.5 In the consolidated financial statements, or their equivalent, of a partner holding a controlling interest in a partnership, the minority interest in the partnership should be shown as a separate item in the balance sheet and should not be shown as a part of shareholders' or proprietors' equity. The minority interest in the profits or losses should be shown as a separate item in the profit and loss account. In either case, the minority interest may be aggregated with other minority interests unless separate disclosure is necessary for a proper understanding of the financial statements.~~

5.6 The following disclosures should be made:

- (a) a listing and description of significant joint ventures ~~and partnerships~~; the listing should ~~distinguish between joint ventures and partnerships~~ and should include the names of, interests in, and principal activities of the joint ventures ~~and partnerships~~, together with their balance dates if the balance dates are different from that of the investing participant;
- (b) the amounts relating to any significant unadjusted transactions or events occurring between the balance dates of the venturer ~~or partner~~ and the balance date of the joint venture ~~or partnership~~;
- (c) the share of the participant, in aggregate, in respect of contingencies and capital commitments of joint ventures ~~and partnerships~~;
- (d) the period for which the results of operations of the joint venture ~~or partnership~~ are included in the profit and loss account; and
- (e) where the financial statements of the ~~partnership or joint venture~~ are unaudited, a statement to that effect.

5.7 In the case of interests in joint ventures there should be disclosed a summary of the assets, liabilities, revenues and expenses in respect of those joint ventures which have been included in the financial statements when any of these represent a material proportion of the venturer's assets, liabilities or income.

~~5.8 In the case of any minority interest in partnerships, there should be separately disclosed the aggregate amount of:~~

- ~~(a) the share of profits less losses for the year;~~
- ~~(b) the share of net assets of the partnership;~~
- ~~(c) advances and trading balances between the partner and the partnership.~~

5.9 In the case of an interest in a partnership, there should be separately disclosed those contingencies that arise because the partner has joint and several liability for the liabilities of the other partners of the partnership.



**APPENDIX**

**Distinctions Between a Joint Venture and a Partnership**

The following, while not conclusive, are some of the distinctions made in practice between a joint venture and a partnership:

(a) Purpose

A joint venture is frequently formed to engage in a specific business project; a partnership may engage in any activity permitted by law.

(b) Assets

In a joint venture the venturers hold the assets as tenants in common and each venturer holds an undivided interest in each asset; in a partnership, the assets are held jointly by all partners, each having an interest in the partnership net assets as a whole.

(c) Liabilities

In a joint venture each venturer is liable only for capital contributions and share of costs in accordance with the agreement between the venturers; in a partnership each partner has joint and several liability for all the obligations incurred by the partnership.

(d) Revenue

In a joint venture each venturer takes an agreed share of the product of the venture and trades with it on a separate account; in a partnership, the revenue is earned jointly by all partners, each partner taking the agreed upon share of the net profit.

(e) Finance

In a joint venture each venturer arranges the finance for its capital contributions and share of costs; in a partnership, while each partner finances its own capital contributions, the partnership may arrange its own finance and may internally finance its operations by the retention of profits.

(f) Taxation

A tax return is not filed by a joint venture - each venturer is liable for tax on its trading of the share of the product less expenses incurred; a tax return is filed for a partnership, each partner being liable for tax on its share of the net income of the partnership.

(g) Agreement

In a joint venture there is generally a written agreement, usually with extensive documentation specifying the rights and obligations of each venturer and providing for the operation of the venture; with a partnership, while a written agreement on all matters pertaining to the rights and obligations of the partners and the operation of the partnership is desirable, it is not essential.

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(h) Financial Statements

The financial statements of a joint venture will generally show the cost of production, the cost of assets acquired, liabilities incurred on behalf of the venturers and the contributions by the venturers; the financial statements of a partnership will include a balance sheet and income statement for the partnership as a whole.

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