

**SIC Interpretation 13**

# Jointly Controlled Entities— Non-Monetary Contributions by Venturers

*This version includes amendments resulting from IFRSs issued up to 17 January 2008.*

SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* was developed by the Standing Interpretations Committee and issued in December 1998.

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

Since then, SIC-13 has been amended by the following IFRSs:

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2003)
- IAS 16 *Property, Plant and Equipment* (as revised in December 2003)
- IAS 31 *Interests in Joint Ventures* (issued December 2003)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007).

## SIC-13

SIC Interpretation 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* (SIC-13) is set out in paragraphs 5–7. SIC-13 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 2 and 7–17 of the *Preface to International Financial Reporting Standards*.

## **SIC Interpretation 13**

### ***Jointly Controlled Entities— Non-Monetary Contributions by Venturers***

#### **References**

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- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 16 *Property, Plant and Equipment*
- IAS 18 *Revenue*
- IAS 31 *Interests in Joint Ventures*

#### **Issue**

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- 1 IAS 31.48 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, IAS 31.24 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

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- 5 In applying IAS 31.48 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; or
  - (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 IAS 16.
- 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.

## Basis for Conclusions

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*[The original text has been marked up to reflect the revision of IAS 16 and IAS 31 in 2003; new text is underlined and deleted text is struck through.]*

- 8 IAS 31.~~48~~<sup>39</sup> 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 IAS 31.~~48~~<sup>39</sup>.
- 9 IAS 31.~~48~~<sup>39</sup> 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. IAS 18.16(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 (IAS 18.14(b)).
- 10 Paragraph 92 of the *Framework* 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'.

IAS 18.14(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 IAS 18.12 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'. ~~IAS 16.22 says that 'an item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. An item of property, plant and equipment may also be sold in exchange for an equity interest in a similar asset. In both cases, since the earnings process is incomplete, no gain or loss is recognised on the transaction'.~~<sup>\*</sup> 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 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 consensus**

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June 1998

### **Effective date**

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This Interpretation becomes effective for annual financial periods beginning on or after 1 January 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

- 14 The amendments to the accounting for the non-monetary contribution transactions specified in paragraph 5 shall be applied prospectively to future transactions.
- 15 An entity shall apply the amendments to this Interpretation made by IAS 16 for annual periods beginning on or after 1 January 2005. If an entity applies that Standard for an earlier period, it shall also apply these amendments for that earlier period.

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<sup>\*</sup> IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 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. Previously, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.