HK(SIC)-Int 13
Revised ~~August 2010~~June 2011

Effective for annual periods beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 13

Jointly Controlled Entities — Non-Monetary Contributions by Venturers

This HK(SIC) Interpretation is applicable for annual periods beginning on or after 1 January 2005 but before 1 January 2013. HKFRS 11 *Joint Arrangements* issued in June 2011 is applicable for annual periods beginning on or after 1 January 2013 and supersedes this HK(SIC) Interpretation.

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Jointly Controlled Entities - Non-Monetary Contributions by Venturers

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

References

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

Issue

1 HKAS 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, HKAS 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 ~~the income statement~~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.

Conclusions

5 In applying HKAS 31.48 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit and 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 HKAS 16.

If exception (a), (b) or (c) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit and 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 and 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 ~~balance sheet~~statement of financial position.

Basis for Conclusions

HK(SIC)-Int 13 is based on SIC Interpretation 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. In approving HK(SIC)-Int 13, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 13. Accordingly, there are no significant differences between HK(SIC)-Int 13 and SIC Interpretation 13. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 13 referred to below generally correspond with those in HK(SIC)-Int 13.

8 IAS 31.48 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.

9 IAS 31.48 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'. 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 issue

December 2004

Effective date

This Interpretation becomes effective for annual financial periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies should be accounted for according to the transition requirements of HKAS 8.

14 The accounting for the non-monetary contribution transactions specified in paragraph 5 shall be applied prospectively to future transactions.

15 If an entity applies HKAS 16, *Property, Plant and Equipment* for an earlier period, it shall also apply this Interpretation for that earlier period.

15A This Interpretation supersedes paragraphs 39 to 41 of SSAP 21 *Accounting for Interests in Joint Ventures* (issued in May 2001).