STAFF PAPER

July 2014

IFRS Interpretations Committee Meeting

Project	IFRS 11 *Joint Arrangements*		
Paper topic	Accounting treatment when the joint operators' share of output purchased differs from their share of ownership interest in the joint operation		
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Introduction

1. As mentioned in Agenda Paper 2, at its May 2014 meeting, the IFRS Interpretations Committee (the Interpretations Committee) noted that it plans to discuss an issue relating to the recognition and measurement of joint operations when the parties' interest in the assets and liabilities differ from their ownership interest in the joint operation.

2. This issue (ie Issue 2 below) is one of the two priority issues that the Interpretations Committee identified for further consideration at its November 2013 meeting[1]. The two priority issues were:

   (a) Issue 1—whether an assessment of 'other facts and circumstances' should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms; and

   (b) Issue 2—how the parties to a joint operation should recognise assets, liabilities, revenues and expenses, especially if the parties' interests in

[1] The issue was categorised as Question 5 under Category C in Agenda Paper 10 for the November 2013 Interpretations Committee meeting (http://AP10_Nov2013.pdf).

the assets and liabilities differ from their ownership interest in the joint operation.

3. In the paper presented to the November 2013 Interpretations Committee meeting (Agenda Paper 10), we also identified two views on this issue as follows:

   (a) **View 1**: the parties should account for their share of assets and liabilities based on the share of output purchased by the parties from the arrangement, if this determines the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement; and

   (b) **View 2:** the parties should account for their share of assets and liabilities based on their ownership interest in the arrangement.

4. In addition, in that paper we also provided comments from the outreach that was performed in July 2013 as follows:

   (a) no respondent explicitly supported View 1. Two respondents preferred View 2. One respondent indicated that either View 1 or View 2 can be appropriate depending on fact patterns. In addition, two respondents supported neither View 1 nor View 2; they mentioned that the share of output purchased by the respective parties is not necessarily an appropriate basis on which to attribute the underlying assets and liabilities between the parties[2];

   (b) many other respondents raised some questions that would arise if View 1 is taken. These questions can be summarised as:

[2] One of the two respondents said that there may be a circumstance in which output is shared unequally in the interest of optimising the returns for all of the parties. The other respondent mentioned that there may be a situation in which one party (Party A) provides some ‘benefits’ to another party (Party B), such as a premium for Party B providing the production technology to the arrangement, which would benefit Party A.

(i) On what basis should parties recognise their share of assets and liabilities?[3]; and

(ii) How should parties account for the imbalance between the amount invested by each party and the amounts recognised by each party for its share of assets and liabilities?;

(c) with regard to addressing this issue, some suggested that (numerical) examples should be added to IFRS 11; and some others requested that more guidance should be provided in the body of the Standard.

Staff analysis

Analysis 1: the meanings of the terms used in paragraph 20 of IFRS 11

5. We note that paragraph 20 of IFRS 11 sets out the requirement for how the joint operators recognise financial statement items in relation to their interest in a joint operation:

> 20 A joint operator shall recognise in relation to its interest in a joint operation:
>
> (a) its assets, including its share of any assets held jointly;
>
> (b) its liabilities, including its share of any liabilities incurred jointly;
>
> (c) its revenue from the sale of its share of the output arising from the joint operation;

[3] One respondent commented that "investors may share assets and liabilities in one way, but revenue and expenses in another. A strict read of the guidance may suggest that the balance sheet items drive the investor's 'share' in the arrangement. Yet, many would argue a share of revenue is a more accurate attribution of implied interest than the sharing of assets and liabilities for investors in an arrangement that provides services (rather than tangible output)."

Two respondents questioned whether a party should account for its share of assets and liabilities based on the share of output to which the party has a (contractual or enforceable) right to purchase, or instead on the share of output to which a party has a (contractual or enforceable) obligation to fund. In some cases, when a party to an arrangement has the right of first refusal to output produced, the share of output that the party has a right to purchase may differ from the share of output that the party has the obligation to fund.

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

6. First, it would be helpful to clarify the meanings of the terms used in paragraph 20 of IFRS 11. We will take as an example a joint arrangement that is structured through a separate vehicle, the form of which does not give the parties rights to the assets and obligations for the liabilities, relating to the joint arrangement. Additionally, the terms of the contractual arrangement does not give the parties rights to the assets or obligations for the liabilities, relating to the joint arrangement. However, the assessment of 'other facts and circumstances' has concluded that the parties have rights to the assets and obligations for the liabilities, relating to the joint arrangement. In other words, the joint arrangement is classified as a joint operation. One of the facts that was considered is that the parties to the joint arrangement purchase all output from the joint arrangement. Taking this specific fact pattern, consider two variations of this example of a joint operation:

(a) Variation A—the joint operators control all the manufacturing processes jointly; and

(b) Variation B— the activity of the joint operation is jointly controlled by the two parties, however, each joint operator controls different parts of the manufacturing process.

7. In the case of Variation A, each joint operator would generally recognise:

(a) its share of assets held jointly;

(b) its liabilities and its share of liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation; and

(d) its expenses and its share of expenses incurred jointly.

8. This means that there would be no 'its assets' as referred to in paragraph 20(a) of IFRS 11 other than assets held jointly, in other words all of its assets are

held jointly; and there would be no 'share of the revenue from the sale of the output by the joint operation' as referred to in paragraph 20(d) of IFRS 11 because the joint operators purchase the output from the joint operation and they recognise 'their revenue' when they sell the output to third parties.

9. We think that in the case of Variation B, each joint operator would generally recognise:

   (a) its assets;

   (b) its liabilities and its share of liabilities incurred jointly;

   (c) its revenue from the sale of its share of the output arising from the joint operation (ie its share of the revenue); and

   (d) its expenses and its share of expenses incurred jointly.

10. This means that there would be no 'share of assets' as referred to in paragraph 20(a) of IFRS 11 because no assets are held jointly; and there would be no 'share of the revenue from the sale of the output by the joint operation' as referred to in paragraph 20(d) of IFRS 11 because the joint operators purchase the output from the joint operation and they recognise 'their revenue' when they sell the output to third parties.

11. Consequently, we note that paragraph 20(d) of IFRS 11 (ie its share of the revenue from the sale of the output by the joint operation) would not be applicable to any case of a joint operation if the joint operators purchase all output from the joint operation.[4]

12. In this regard, we think that the joint operators would not recognise a share of revenue by the joint operation when the joint operation sells its output to the joint operators. This is because the share of revenue by the joint operation reflects the share of the output purchased by the joint operators, and thus the

[4] Paragraph 20(d) of IFRS 11 would be applicable to a joint operation when:

(a) joint arrangements are not structured through a separate vehicle; or

(b) joint arrangements are structured through a separate vehicle and the contractual arrangement to reverse or modify the rights and obligations are conferred by the legal form of the separate vehicle.

joint operators would eliminate their share of revenue in full against their purchase of the output.

Analysis 2: What should be the accounting for 'share of any assets held jointly', 'share of any liabilities incurred jointly' and 'share of any expenses incurred jointly'?

13. We note that the issue raised by the stakeholders particularly relates to the accounting when the joint operators' share of the output purchased[5] differs from their share of ownership interest in the joint operation. We are aware of two views on this issue:

    (a) **View 1**—the accounting treatment should be based on the share of the output purchased by the joint operators from the joint operation;

    (b) **View 2**—the accounting treatment should be based on the joint operators' share of the ownership interest in the joint operation.

14. We note that **View 1** is supported by the requirements for classification. The relevant requirements for classification can be summarised as:

    (a) when there is no contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the joint arrangement that is a separate vehicle, the assessment of 'other facts and circumstances' should be performed;

    (b) if the assessment of 'other facts and circumstances' indicates that the parties to the joint arrangement purchase the output representing substantially all the economic benefits arising from the assets of the arrangement, the parties to the joint arrangement are considered to have, in substance, rights to the (underlying) assets of the joint arrangement; and

[5] We assume that the joint operators' share of the output purchased takes substantially all of the output of the joint operation.

(c) consequently, the joint arrangement is classified as a joint operation.

15. If we extend the reasoning used in the requirements for classification above, one can argue that the joint operators should recognise their assets in proportion to the share of the output they purchase from the joint operation. This is because according to the requirements for classification, how much of the output from the joint operation the joint operators purchase determines whether the joint operators have rights to the (underlying) assets of the joint operation.

16. Conversely, **View 2** is supported by the fact that the share of the ownership gives the joint operators rights to the ‘net assets’ of the separate vehicle. One can argue that having rights to the net assets of the separate vehicle would imply that the assets and liabilities in the joint operation are eventually to be shared in proportion to the share of their ownership; accordingly, the share of assets that the joint operators recognise should be based on the joint operators’ share of the ownership.

17. However, view 2 would appear to be inconsistent with the conclusion that the joint arrangement is a joint operation; a distinguishing feature of a joint operation is that the parties have rights and obligations for the gross assets whereas a venturer to a joint venture has only an interest in the net assets.

18. Continuing with Variation A of the fact pattern set out in paragraph 6 above, we first note that this issue relates to

    (a) certain parts of paragraph 20 of IFRS 11. In the case of assets, this issue relates to the ‘its share of any assets held jointly' part of paragraph 20(a) of IFRS 11, and there would not be assets that were not held jointly. Similarly it relates to ‘share of any liabilities incurred jointly’ and there would be no liabilities that are not incurred jointly, and likewise for ‘share of any expenses incurred jointly’; and

    (b) a situation in which there is no explicit contractual agreement between the joint operators about how to split their ‘share of assets’,

'share of liabilities' and 'share of expenses' relating to the joint operation.

19. In this situation, we think that principally, **View 1** (ie based on the share of the output purchased) would be appropriate when taking into account our analysis regarding the classification requirements in IFRS 11 in the paper (ie Agenda Paper 5A[6]) to the March 2014 Interpretations Committee meeting.

20. In that paper, we compared two cases; (Case 1) one is when the joint arrangement sells output its parties and (Case 2) the other is when the joint arrangement sells output to third parties. By comparing these cases, we showed that Case 2 would indicate that the parties to the joint arrangement do not have, in substance, direct rights[7] to the assets of the joint arrangement because they would have only 'net' economic benefits but not 'gross' economic benefits of those assets; we thought that IFRS 11 requires the parties to the joint arrangement to have 'gross' economic benefits and ('gross' risks relating to the economic benefits) of the assets of the joint arrangement.

21. Basically, we think that the accounting for 'share of [an] asset held jointly' should be based on the concept of 'gross' economic benefits, consistently with the requirements for classification; in other words, the joint operators should account for their 'share of assets' in proportion to the 'gross' economic benefits of the assets of the joint operation. In this sense, we think that 'share of ownership interest' *per se* would not give the joint operators rights to the 'gross' economic benefits of the joint operation but only the 'net' economic benefits of it. This is because 'share of ownership interest' only relates to the joint operators' rights to the 'net assets' of the joint operation. On the other hand, we think that 'share of the output purchased' would relate to the 'gross' economic benefits of the joint operation. This is because according to the classification requirements in IFRS 11, the amount of the output purchased by the joint operators determines whether they have direct rights to the assets of

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[6] http://AP5A_March2014.pdf

[7] We used the term 'inferred rights' in that paper (ie Agenda Paper 5A) to the March 2014 Interpretations Committee meeting for want of a better terminology.

the joint operation. Consequently, we think that it would be appropriate for the joint operators to account for their 'share of [an] asset held jointly' on the basis of the 'share of the output [produced by that asset and] purchased by the joint operators'.

22. We also think that 'share of the output purchased by the joint operators' would apply to the accounting for 'share of any liabilities incurred jointly' and 'share of expenses incurred jointly'. According to the classification requirements in IFRS 11, the parties to the joint arrangement would have, in substance, obligation for the liabilities of the joint arrangement when those liabilities are satisfied by the cash flows received from the parties through the purchase of the output. This would mean that the 'share of output purchased' correspond proportionately to the amount of cash outflows of the joint operation. We therefore think that it would be appropriate for the joint operators to use the 'share of the output purchased' to account for the 'share of any liabilities incurred jointly' and 'share of any expenses incurred jointly' of the joint operation.

Analysis 3: How do the joint operators account for the difference arising from the 'share of the output purchased' and the 'share of the ownership interest'?

23. As analysed above, if the joint operators account for their 'share of any assets held jointly', 'share of any liabilities incurred jointly' and 'share of any expenses incurred jointly' in accordance with the 'share of the output purchased', we note that the subsequent issue is how they account for the difference arising from the 'share of the output purchased' and the 'share of the ownership interest'.

24. First, we think that it is important to understand why the share of the output purchased differs from the share of the ownership interest. In this regard, we think that understanding the difference should be based on all relevant contractual agreements between the joint operators. We also think that the reason for the difference can vary depending on the details of the contractual

agreement and therefore there could be many different reasons for such difference. Consequently, we think that it would not be possible to address how to account for such difference in detail unless it relates to specific fact patterns. We therefore will only explore one possible scenario below for the purpose of understanding a general approach to the accounting treatment. (See also an **illustrative example in Appendix A** of this paper.)

25. Suppose that the joint operators set up a joint operation with an agreement that:

    (a) one joint operator (Party A)'s share of the ownership in the joint operation (Entity C) is 60 per cent and the other one (Party B)'s share of the ownership is 40 per cent; and

    (b) Party A's share of the output purchased is 70 per cent and Party B's share of the output purchased is 30 per cent.

26. We note that if Parties A and B recognise their share of assets, liabilities and expenses in accordance with the share of the output purchased as suggested in Analysis 2 above, at the beginning of setting up the joint operation, Parties A and B have to account for an 'imbalance' (ie a credit balance in Party A and a debit balance in Party B) in their financial statements. This is because Party A (Party B) recognises 70 per cent (30 per cent) of all the assets and liabilities of Entity C while it contributed 60 per cent (40 per cent) of the equity capital of Entity C. We also note that the credit balance in Party A (the debit balance in Party B) would be reversed automatically when the joint operation is liquidated because Party A (Party B) derecognises 70 per cent (30 per cent) of the assets and liabilities of Entity C while Party A (Party B) collects 60 per cent (40 per cent) of the equity capital of Entity C.

27. We note that the share of the assets accounted for by Party A (70 per cent) is funded through the cash contributed to Entity C (60 per cent), Party A's share of the debt of Entity C (70 per cent) and additional funding that is represented by the credit balance as mentioned above. One way of understanding the additional financing is to consider that Party A's share of the joint operation is funded in substance partly by Party B. This is because Party A provides only 60 per cent of the equity capital but will use 70 per cent of the production

capacity of the underlying assets (ie will account for a 70 per cent of those assets). Party A will pay back this source of financing to party B when the joint operation is liquidated. As a result, we think that Party A could account for a liability for the obligation to 'reimburse' Party B for the cash funded by Party B. Consequently, we think that Parties A and B could account for the 'imbalance' as a 'due to Party B' and 'due from Party A', respectively.

28. In addition, we think that unless other specific contractual requirements prove otherwise, this 'imbalance' would not be accounted for as 'income (or expense)' or 'equity'. This is because we think that:

(a) the fact that this imbalance is reversed when the joint operation is liquidated would indicate that the imbalance does not relate to performance of Parties A and B; and

(b) the fact that Party A's imbalance corresponds to Party B's imbalance would indicate that the imbalance arises from a transaction between Parties A and B and not from a transaction with their equity holders.

29. Furthermore, we think that when the joint operators account for their interest in the joint operation that is structured through a separate vehicle, the cost of investment in the joint operation would be eliminated against the assets that the joint operators recognise in accordance with the 'share of the output purchased'[8].

30. We think that the elimination of the cost of investment would be consistent with the conclusion that was made at the November 2013 Interpretations Committee meeting. When the Interpretations Committee, at its November 2013 meeting, discussed the issue of 'the joint operator's accounting in its separate IFRS-financial statements for an interest in a joint operation that is housed in a separate entity'[9], it noted that:

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[8] See an Illustrative example in Appendix A of this paper.

[9] The discussion was addressed by Agenda Paper 11 for the November 2013 Interpretations Committee meeting (http://AP11_Nov2013.pdf).

in order to be classified as a joint operation, the parties to the joint arrangement must have sufficient rights to and obligations for the assets and liabilities held in the entity such that these rights and obligations pierce the veil of incorporation. In this case, IFRS 11 requires that the joint operator does not account for its shareholding in the entity that houses the joint operation at cost in accordance with IAS 27 *Separate Financial Statements* or at fair value in accordance with IFRS 9 *Financial Instruments*. Instead, the joint operator accounts for its rights and obligations, which are its shares in the assets held by the entity and its shares in the liabilities incurred by it.[10]

Summary of the analysis

31. We analysed a circumstance in which, when assessing 'other facts and circumstances', the parties to the joint arrangement purchase all output from the joint arrangement and this is one of the facts that indicate that the parties have rights to the assets and obligations for the liabilities, relating to the joint arrangement, and thus the joint arrangement is classified as a joint operation. In this circumstance, there would be no 'share of the revenue from the sale of the output by the joint operation' (ie the requirement in paragraph 20(d) of IFRS 11). This is because the share of the revenue from the sale of the output to the joint operators by the joint operation would be eliminated against the share of the output purchased by the joint operators. (See **Analysis 1**)

32. The accounting by the joint operators, for the 'share of any assets held jointly', 'share of any liabilities incurred jointly' and 'share of any expenses incurred jointly' as referred to in paragraph 20 of IFRS 11, would principally be based on the 'share of the output purchased' rather than the 'share of the ownership interest'. (See **Analysis 2**)

33. How the joint operators account for the difference arising from the 'share of the output purchased' and the 'share of the ownership interest' can vary

[10] See IFRIC *Update* for November 2013 (http://IFRIC-Update-November-2013.pdf).

depending on the details of the contractual agreement. The way in which this difference arising is accounted for, should reflect the reasons for that difference. The reason for that difference will depend on the facts and circumstances of the arrangement. Judgement will be needed to identify that reason and to determine the appropriate accounting for the difference. Our analysis considered an assessment for which the credit imbalance in one joint operator is recognised as a 'Due to' liability balance, and the debit imbalance in the other joint operator is recognised as a 'Due from' asset balance. (See **Analysis 3**)

Staff recommendation

34. On the basis of our analysis above, we do not recommend that the Interpretations Committee should take this issue onto its agenda. When the joint operators' share of output purchased differs from their share of ownership interest in the joint operation, we think that:

    (a) the joint operators would account for their 'share of any assets held jointly', 'share of any liabilities incurred jointly' and 'share of any expenses incurred jointly' consistently with the requirements for classification in IFRS 11;

    (b) this follows from the guidance already provided in IFRS 11 and therefore additional guidance is not needed; and

    (c) there could be many different reasons for the difference between the 'share of output purchased' and the 'share of ownership interest', depending on the details of the contractual agreement. We think that the accounting for the difference arising should reflect the reason for the difference, and that judgement will be needed to determine the appropriate accounting.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff analysis presented above?

2. Does the Interpretations Committee agree with the staff's illustration of the accounting requirements as set out in Appendix A, including

   (a) the elimination of the carrying amount of the investment in the separate vehicle when applying joint operation accounting; and

   (b) the accounting for and description of the 'imbalance' by each joint operator?

3. Does the Interpretations Committee agree with the staff recommendation not to take this issue onto the agenda? If not, what does the Interpretations Committee think is needed?

Appendix A—An Illustrative example of the joint operators' accounting based on their share of the output purchased from the joint operation

A1 We assume that:

(a) the joint arrangement is classified as a joint operation because the assessment of 'other facts and circumstances' indicate that the parties to the joint arrangement purchase substantially all the output of the joint arrangement;

(b) the joint operators control all manufacturing processes jointly;

(c) the joint operators agree that a fair share for splitting the benefit of the joint operation should be based on their share of the output purchased from the joint operation; and

(d) the share of parties' ownership interest in the joint operation (ie Party A's share is 60 per cent and Party B's share is 40 per cent) differs from the share of the output they purchase (ie Party A's share is 70 per cent and Party B's share is 30 per cent).

A2 Taking the assumptions as described in paragraph A1, consider the following fact patterns:

(a) Before the start of the joint arrangement: Party A has only cash of CU1,460[11] as its assets, with no liabilities, and party B has only cash of CU640, with no liabilities.

(b) At the start of the joint arrangement: Party A and B establish a joint arrangement that runs for two years, creating Entity C, a separate vehicle and specific fact patterns are as follows.

(i) Party A contributed CU60 and Party B contributed CU40 to Entity C;

(ii) Entity C borrowed CU900 from a bank[12]; and

[11] In this staff paper, currency amounts are denominated in 'currency units' (CU).

(iii) Entity C paid CU1,000 to buy Equipment C[13] that produces Product C, which will be purchased by Parties A and B.

(c) During the first year of the joint arrangement: production and transactions are as follows.

(i) Equipment C produces 1,000 units of Product C;

(ii) The unit cost of production for Product C is CU2. Production cost is covered by the cash obtained from Parties A and B through selling the outputs; and

(iii) The selling unit price of Product C is CU2. That is, Party A paid CU1,400 to purchase 700 units of Product C and Party B paid CU CU600 to purchase 300 unit of Product C.

(d) During the second year of the joint arrangement: Parties A and B sell their output purchased from Entity C during the first year of the joint arrangement to third parties at a market unit price of CU 3.

A3 In these fact patterns, if Parties A and B prepares their financial statements right after setting up Entity C and before Entity C starts any activity (ie Entity C has only cash received from Parties A and B as its assets):

(a) Party A recognises its share of asset:

		Dr	Cr
Dr	Cash	CU70	
Cr	Investment in Entity C[14]		CU60
Cr	Due to Party B		CU10

(b) Party B recognises its share of asset:

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[12] We ignore interest expense for the purpose of the illustration of this example below.

[13] We ignore depreciation expense for the purpose of the illustration of this example below.

[14] Parties A and B eliminate their investments in Entity C because a transaction with Entity C is an internal transaction.

Dr Cash CU30

Dr Due from Party A CU10

Cr Investment in Entity C[15] CU40

A4 When Parties A and B prepare their financial statements after Entity C purchases Equipment C and borrows money from bank:

(a) Party A recognises its share of asset and share of liability:

Dr Equipment C CU700*

Cr Borrowing from bank CU630**

Cr Investment in Entity C CU60

Cr Due to Party B CU10

* 70 per cent of the carrying amount of Equipment C (=CU1,000 × 70 per cent)

** 70 per cent of the borrowing from bank (=CU900 × 70 per cent)

(b) Party B recognises its share of asset:

Dr Equipment C CU300*

Dr Due from Party A CU10

Cr Borrowing from bank CU270**

Cr Investment in Entity C CU40

* 30 per cent of the carrying amount of Equipment C (=CU1,000 × 30 per cent)

** 30 per cent of the borrowing from bank (=CU900 × 30 per cent)

A5 During the first year of the joint arrangement:

[15] Parties A and B eliminate their investments in Entity C because a transaction with Entity C is an internal transaction.

(a) Party A recognises the output that it purchases (ie Product C):

Dr	Product C (inventory)	CU1,400[16]	
	Cr Cash		CU1,400

(b) Party B recognises the output that it purchases (ie Product C):

Dr	Product C (inventory)	CU600[16]	
	Cr Cash		CU600

A6 At the end of the first year of the joint arrangement, the financial statements of Parties A and B would be as follows:

(a) The financial statements of Party A:

(i) the assets consist of Equipment C (CU700) and Product C (CU1,400);

(ii) the liabilities consist of borrowing from a bank (CU630) and Due to Party B (CU10); and

(iii) the equity is equal to the initial equity balance before setting up the joint arrangement (CU1,460).

(b) The financial statements of Party B:

(i) the assets consist of Equipment C (CU300), Product C (600) and Due from Party A (CU10);

(ii) the liabilities consist of borrowing from a bank (CU270); and

(iii) the equity is equal to the initial equity balance before setting up the joint arrangement (CU640).

[16] Parties A and B would not revalue their inventories (ie Product C) based on the purchasing unit price of CU3 when they buy them from Entity C because purchasing the output is an internal transaction and is thus eliminated.

A7 For the second year of the joint arrangement, Parties A and B recognise their revenue and cost of sales from the sale of the output purchased during the first year of the joint arrangement from Entity C as follows:

(a) Party A recognises its revenue and cost of sales:

Dr	Cash	CU2,100	
Cr	Revenue		CU2,100
Dr	Cost of sales	CU1,400	
Cr	Product C (inventory)		CU1,400

(b) Party B recognises its revenue and cost of sales:

Dr	Cash	CU900	
Cr	Revenue		CU900
Dr	Cost of sales	CU600	
Cr	Product C (inventory)		CU600

A8 At the end of the second year of the joint arrangement when the joint arrangement is liquidated:

(a) Party A recognises (and derecognises) its share of assets and liabilities:

Dr	Borrowing from bank	CU630	
Dr	Due to Party B	CU10	
Dr	Cash	CU60	
Cr	Equipment C		CU700

(b) Party B recognises (and derecognises) its share of assets and liabilities:

Dr	Borrowing from bank	CU270	

Dr	Cash	CU40	
	Cr Equipment C		CU300
	Cr Due from Party A		CU10