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IFRS® Standard 11 Joint Arrangements

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CASE STUDY - IFRS 11 JOINT ARRANGEMENTS

Introduction

Though economic conditions sometimes force companies to look for alternative ways to be competitive in the market. One alternative way is to join forces with other companies. This joining could create a synergy effect, resulting in stronger results. In some instances, entities form a joint arrangement to share risks and rewards with other entities, combine complementary businesses of different entities, and to fund a business operation in an effective manner. IFRS 11 Joint Arrangements standard regulates reporting rules of entities which is a part of arrangements that are controlled jointly.

This case aims to showcase the strong outcomes of combining powers with other companies and the recognition rules of these transactions.

The Case Information

HuSoft Company was founded in 1989 in Brussels. Mrs. Rebecca Huisberg and her husband Mr. Jacque Pillion established HuSoft. Mrs. Huisberg has a solid educational background in software engineering and codification. After 30 years, HuSoft was considered one of the best software companies in the World. The Board of HuSoft also knows that to move to the elite level, sometimes they should share risk levels and combine with different entities. When the calendars pointed out May 2020, one of the World's leading luxury car producers, Rolls Royce, called to improve their production process. They were looking for partners to design and produce a robot for their operation.

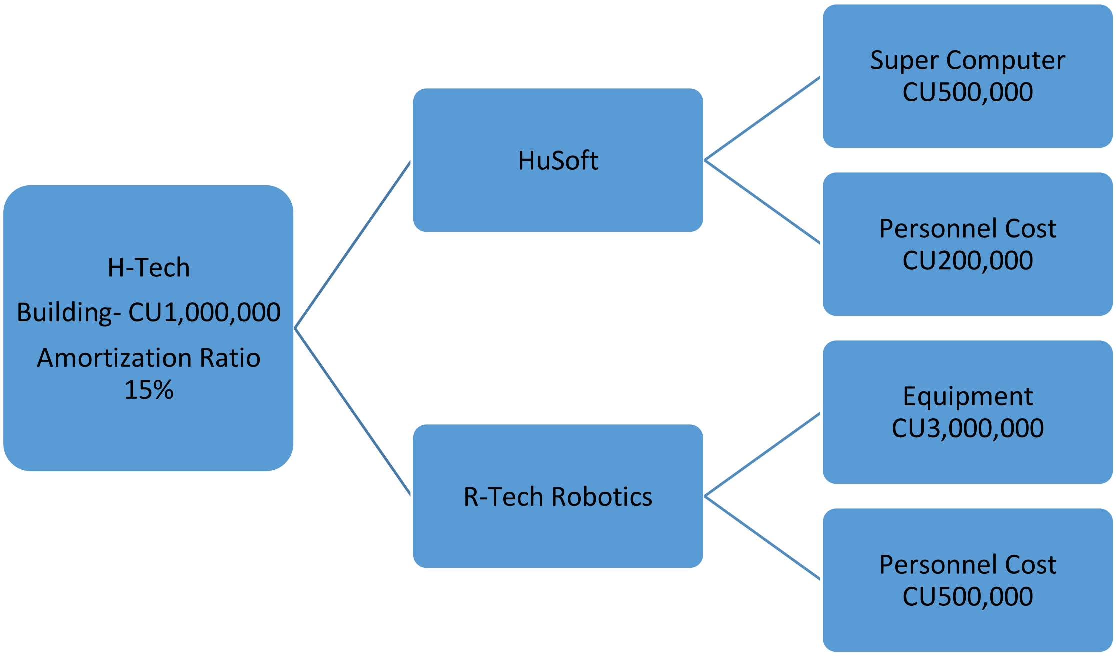
HuSoft and R-Tech Robotics agreed to answer this call and they did it. To accomplish this call, they established another entity called H-Tech Company. On H-Tech, both sides have equal shares. In addition, they formed an agreement. This arrangement includes purpose, duration, and decision-making processes. HuSoft and R-Tech Robotics bought a building to create and codify Robot with CU1,000,000. The amortization ratio of the building is 15%. In addition, HuSoft purchased a supercomputer for the codification process with CU500,000 and made CU200,000 payments to coders. On the other side, R-Tech Robotics purchased designed equipment for creating the Robot with CU3,000,000 and paid CU500,000 to engineers.

Discussion Questions

1. Should the partnership of HuSoft and R-Tech Robotics be considered a joint arrangement? If it is a joint arrangement, then which type is it? Interpret it.
2. Make journal entries on HuSoft's and R-Tech Robotics' spending on H-Tech Company.

SOLUTION OF CASE STUDY - IFRS 11 JOINT ARRANGEMENTS

Summary of the Case



1. Interpretation: According to IFRS Standard 11 Joint Arrangements, a Joint arrangement is an arrangement in which two or more parties have joint control. In this case, HuSoft and R-Tech Robotics form an arrangement that gives both parties joint control. In this joint arrangement, purpose, duration, and decision-making processes are determined. There are two types of joint arrangements: joint operations and joint ventures. Joint ventures are usually structured in a separate vehicle. In this case, H-Tech is established, which is a separate vehicle. Therefore, this arrangement should be considered a Joint Venture. Both sides should equally record the purchasing and amortization of the building. On the other hand, they should record every transaction they do individually.
2. Based on this, journal entries of HuSoft and R-Tech Robotics should be as follows:

- Journal Entries of HuSoft

Recognition of purchased building:

Dr. Property, Plant, Equipment (Building)	500,000	
Cr. Bank Account		500,000

Recognition of purchased supercomputer:

Dr. Property, Plant, Equipment (Super Computer)	500,000	
Cr. Bank Account		500,000

Recognition of personnel cost:

Dr. Service work-in-progress	200,000	
Cr. Wages Payable		200,000

Recognition of amortization:

Dr. Service work-in-progress	75,000	
Cr. Accumulated Depreciation		75,000

- Journal Entries of R-Tech Robotics

Recognition of purchased building:

Dr. Property, Plant, Equipment (Building)	500,000	
Cr. Bank Account		500,000

Recognition of purchased equipment:

Dr. Property, Plant, Equipment (Equipment)	3,000,000	
Cr. Bank Account		3,000,000

Recognition of personnel cost:

Dr. Service work-in-progress	500,000	
Cr. Wages Payable		500,000

Recognition of amortization:

Dr. Service work-in-progress	75,000	
Cr. Accumulated Depreciation		75,000