ACCOUNTING & AUDIT

FASB Seeks to Amend Accounting Rules for Joint Ventures

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Jason Bramwell • Oct. 27, 2022

The Financial Accounting Standards Board (FASB) on Thursday issued a proposed Accounting Standards Update (ASU) that addresses the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements.

The proposed ASU would give investors more information about a joint venture's separate financial statements, and it would reduce diversity in practice in this area of financial reporting, according to the FASB.

Stakeholders are encouraged to review and provide comments on the proposed ASU by Dec. 27.

GAAP currently does not provide specific guidance on how a joint venture, at its formation, should recognize and initially measure assets contributed and liabilities assumed, including the assets and liabilities of businesses contributed. Instead, GAAP explicitly provides that transactions between a corporate joint venture and its owners are outside the scope of Topic 845, *Nonmonetary Transactions*, and that the formation of a joint venture is outside the scope of Topic 805, *Business Combinations*, the FASB stated.

According to the proposed ASU:

> In the absence of specific guidance, practice has been influenced by various sources, including speeches given by the U.S. Securities and Exchange Commission (SEC) staff. As a result, there is diversity in practice in how a joint venture accounts for the contributions it receives upon formation—while some joint ventures initially measure their net assets at fair value at the formation date, other joint ventures account for their net assets at the venturers' carrying amounts.

To reduce diversity in practice and provide decision-useful information to a joint venture's investors, the amendments in this proposed ASU would require that a joint venture apply a new basis of accounting, the FASB said. As a result, a newly formed joint venture would initially measure its assets and liabilities at fair value—with certain exceptions that are consistent with the business combinations guidance—upon formation.

The proposed rules would apply to the formation of entities that meet the definition of a joint venture (or a corporate joint venture) as defined in the *FASB Accounting Standards Codification* Master Glossary. They would not amend the accounting by an equity method investor for its investment in a joint venture or the accounting by a joint venture for contributions received after its formation.

The effective date will be determined after the board considers stakeholders' feedback on the amendments in the proposed ASU.

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