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# Measurement and disclosure of joint ventures according to IAS compared to the Unified Accounting System

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## Abstract

The requirements of measurement and accounting disclosure for investment in joint ventures in accordance with the Iraqi local system and rules differ from IAS. Local rules require events and conditions for accounting recognition that differ from IAS. Also, the adoption of IAS leads to achieving comparability between the financial statements of companies. Since the data provides many parties, including investors, with the necessary support in the investment decision-making processes, there is a difference in decisions due to the difference in those methods adopted in measurement and disclosure. The current study aims to find out what investment in joint ventures is in the accounting literature and to identify deficiencies in measurement and disclosure of investment in joint ventures in accordance with the unified accounting system and local accounting rules in comparison with the relevant IAS. The research concludes that there are shortcomings in the unified accounting system and local rules compared to IAS and the treatments and accounting methods adopted in it. The current study also provides recommendations, the most important of which is the need for units to prepare accounting statements according to the competent IAS and conduct comparison with the financial statements prepared in accordance with local regulations, because of the impact of this comparison on investment decisions, taking into account the laws in the Iraqi environment.

**Keywords**: Measurement and disclosure, joint ventures, international accounting standards, unified accounting system, equity method.

## Introduction

The method of participation is one of the oldest social methods followed by individuals, which led to advancing the wheel of life by building and constructing cities and development in various fields of life.

The world has witnessed many diverse developments and transformations in building the international economy. In light of the era of advanced technologies and their requirements for skills, human, primary and financial resources, size of markets, levels of supply and demand, surplus ratios and the deficit of diverse countries, self-potential has become incapable of many balances, and economic and social growth and progress have become difficult without concluding cooperation and entering into clear and transparent agreements. There must also be a political will in the first place for all the countries involved in the subject of this cooperation. This has also led the development of accounting and the emergence of international organizations interested in issuing standards and guidelines related to joint ventures, including IAS28, IFRS11 and IFRS12.

There have been some significant changes witnessed by Iraq at the political and economic level, especially after 2003 and the direction of the state towards the establishment of joint projects with the private sector in conjunction with the approval of the application of international accounting standards in Iraqi companies and according to the law. It has also became clear that the processes of social and economic development are based on the mobilization of both the private and public sectors and energies, expertise and resources to establish various projects. In light of the above, we believe that there is a need for presenting the topic of this research to find appropriate methods that can be adopted for measuring and disclosing joint projects.

## Research methodology

***Research problem***

The research problem revolves around the existence of differences in accounting treatments in the SNA with the measurement and disclosure requirements associated with investing in joint ventures in accordance with international standards, which is due to the reliability and fairness of the financial statements.

***Research Importance***

The importance of this study comes from addressing the accounting treatments for investments in joint ventures in accordance with international accounting standards and appropriate accounting methods. This study has another element of importance from considering investments as an asset in the statement of financial position, as well as the application of international standards and what the application contributes to the unification of foundations and achieving comparability of financial statements.

***Research Objectives***

The research aims to:

- Measurement and disclosure of joint ventures in accordance with international accounting standards.
- Finding the differences resulting from the methods of processing investments according to IAS and the unified accounting system.

***Research hypotheses***

The research is based on the main premise that the application of IAS contributes to providing more accurate and precise unified data in accounting treatments for investments in joint ventures, as well as achieving comparability with similar IAS certified companies.

***Research Method:***

To achieve the objectives of the research and the theoretical and practical aspects, the applied scientific method and the deductive method were adopted.

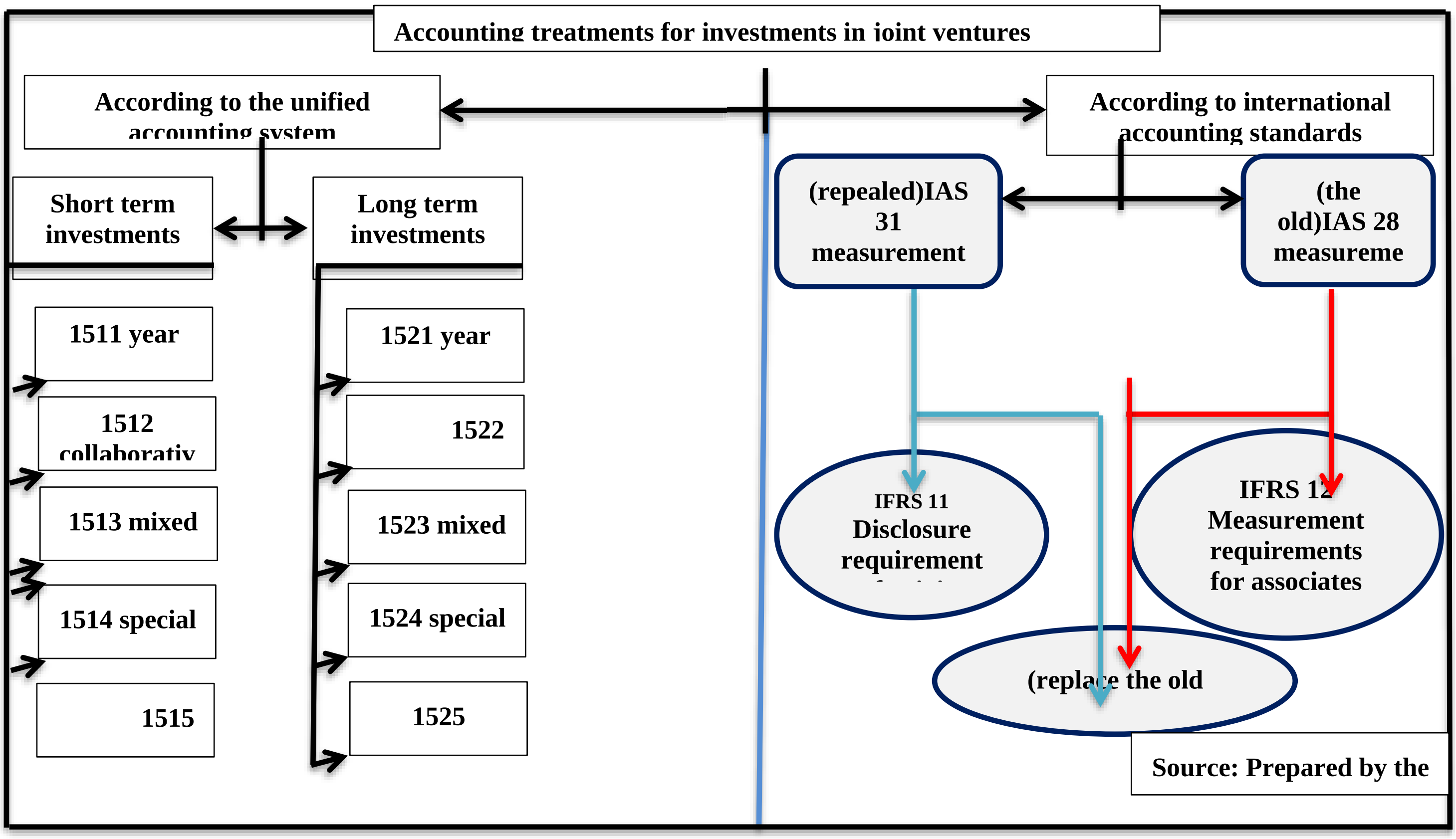
***Data collection methods***

In order to obtain the research data and information, the researchers relied on the following:

I. Laws, regulations and instructions related to the subject of research.
II. Publications of international and local accounting standards.
III. Books, theses, Arab and foreign dissertations and journals.
IV. Information available on internet sites.

V. Financial statements of the company subject to application and its reports.

**Figure (1):** *research plan*




***Measurement and disclosure of investments in joint ventures***

***Definition of accounting measurement***

Al-Shirazi defined accounting measurement as "matching one of the aspects or characteristics of a particular field with one of the aspects or characteristics of another field, and this interview or matching is done using numbers or symbols in accordance with certain rules" (Al-Shirazi, 1990, p. 62). Measurement has been defined by (FASB) as "the allocation of numbers to things or events according to specific rules and the comparison process aims to obtain accurate information to distinguish between an alternative and another in the case of decision-making" (Abdelatif, 2013, p. 7). It was also defined by the conceptual framework of the Financial Accounting Standards Board (IASB) as "the process of determining the monetary values of elements in financial statements and they are recognized in the statement of financial position and income statement" (Kovacs, 2013, p. 34). Baker sees measurement as "the process by which numbers are associated with certain attributes of objects or phenomena" (Baker, 2014, p. 9). Relevance and reliability are characteristics that characterize the accounting measurement of assets, liabilities, equity, and other elements (Škoda & Sláviková, 2015, p. 242).

***The importance of accounting measurement***

Measurement has been given great attention since it is considered one of the basic elements of scientific research. It is not possible to examine the validity of hypotheses and results without measurement. On the other hand, accounting measurement is considered one of the first basic accounting functions, and as a result, accounting information takes a prominent interest among the financial community. What confirms this is the recognition of accounting studies that measurement is one of the basic assumptions in accounting (Al-Shirazi, 1966, p.

62). The importance of measurement in accounting increases in that things that cannot be measured, cannot be recognized or managed (Mahmoud, 2008, p. 7).

***Accounting measurement methods***

Accounting thought contributed to the emergence of a group of methods that express the processes and events that reflect the multiple activities of the economic unit. These methods are considered the guide or evidence of accounting work, and there is a relationship between these common methods of accounting measurement. These methods include the following:

***Direct measurement method.***

The results of the accounting measurement operations represented by the value of the property subject to measurement are determined directly without the need for what is known as the calculation process. An example of this is the measurement of the costs of the machine through indicating its price in the (invoice) the purchase list (Luwaei, 2016, p. 79).

***Indirect measurement method.***

When the direct measurement method is not possible, then it is required to measure the economic event indirectly if possible. An example of this is measuring part of the machine or measuring its extinctions. It is not possible for the derivative (indirect) measurement process to be carried out without it being preceded by a measurement process Direct (Al-Jajjawi & Al-Zobaie, 2014, p. 36).

***Control method.***

This method is similar to the aforementioned methods, but the essential difference is that there are objective rules that govern the indirect method, or in other words, it is subjective and subject to bias resulting from personal and discretionary judgment by those in charge of accounting measurement operations (Sabti, 2017, p. 80).

In the context of measurement of investments in joint ventures, the concept and accounting treatments of joint ventures will be clarified as follows:

***Definition of investment in joint ventures.***

Investment in joint ventures is defined as the control of two or more companies on a project jointly over the business and assets of another company. Here, it turns out that it is a type of investment situation located between significant influence and control (Hammad, 2008, p. 12). Joint ventures are defined as “contractual arrangements under which a specific number of natural or legal persons, no less than two, unify their capabilities, experience, skills and material resources in order to achieve an agreed-upon goal by jointly exercising and managing an economic activity and controlling its strategic decisions. The duration of the project may be short or long-term, and the profits or losses realized from it are distributed according to the proportions stipulated in the contractual arrangements” (Al-Saeedi, 2010, p. 14). Bodi stated that investment is “the current abandonment of money or other resources in the hope of reaping benefits in the future” (Bodie et al., 2014, p. 1).

***Accounting for investment in joint ventures.***

The current study will address the costs of investment in joint ventures and the methods used in evaluation and how to disclose in the financial statements as follows:

***The cost of investments in joint ventures***

Investment costs represent all paid values plus all expenses related to purchases, such as registration fees and commission (Al-Kassar, 2009, p. 103), and the difference between the cost and the investor's share of the net assets is goodwill and is not recorded in the books and is considered within the investment cost (Chaudhry et al, 2015, p. 298).

***Basis of valuation for investments in joint ventures***

According to the canceled International Accounting Standard 31, accounting for investment in joint ventures was carried out according to the method of proportional aggregation. The same standard indicated that it is permissible to use an alternative method represented by the equity method, while IAS28, which included the requirements for accounting for investment in jointly controlled projects, referred to this standard, which entered into force on 1/1/2013, as IAS31 was canceled. Hamidat (2019, p. 416) stated that investments are accounted for by cost method or IFRS9 or the method of rights ownership. He adds (2019, p. 881) that IFRS 11 indicated that the party participating in the joint venture must share as an investment and use the equity method and as required by IAS28.

***Definition of accounting disclosure***

Al-Qadi et al., defined disclosure as "accounting reports must disclose what is necessary to make these reports not misleading (Al-Qadi et al., 2017, p. 68). In another definition, it is mentioned as "the provision of accounting information to interested parties through lists and data that vary in nature according to the desired benefit" (Al-Quraishi, 2011, p. 139). Choi & Meek believe that "disclosure standards and practices are affected by sources of funding, legal systems, political and economic links, level of economic development, level of education, culture and other factors" (Choi & Meek, 2008, p. 151). In the definition of accounting disclosure, it is defined as the obligation of financial reports to include all the information required to present to the users of this information a correct and transparent picture of the unit (Al-Shirazi, 1990, p. 322).

***Types of accounting disclosure***

The connection of disclosure with accounting assumptions and policies has led to the appearance of multiple types of disclosure according to the multiplicity of objectives of accounting disclosure, especially different types of information required as well as different needs of users. There is another role for management regarding its desire to disclose or not all this contributed to the emergence of various concepts and types, and we can summarize the following:

- **i.** Sufficient disclosure: this means the minimum information that must be included in the financial statements (Riahi-Belkaoui, 2000, p. 344).
- **ii.** Full disclosure (comprehensive): this means the disclosure of all accounting information and data in order to achieve benefits for users (Al-Hayali, 2007, p. 72).
- **iii.** Fair disclosure: this aims to take care of the balanced needs of all financial parties, as the financial statements must be produced in a manner that does not advance or prefer the interest of a particular group over the interest of other groups (Ahmed, 2017, p. 201).
- **iv.** Appropriate disclosure: it is the disclosure that takes into account the need of the beneficiaries of the data, the conditions of the company and the nature of its activity, as the information should be of value and benefit to the decisions of the beneficiaries and commensurate with the company's activity and circumstances" (Al-Jajjawi & Al-Masoudi, 2018, p. 431).

***Accounting disclosure methods***

There are many methods and approaches of accounting disclosure, but there is a preliminary agreement and acceptance among the accounting community and users of the financial statements, as indicated by the International Accounting Standard No. (1) and we abbreviate them in a material order that the user can easily understand, which is disclosure through the financial statements, information in parentheses, notes and margins, the use of additional tables and appendices, the report of the Board of Directors, the report of the external auditor, (Muhammad, 2014, pp. 106-109 ).

The International Accounting Standard also contains the details of the form, content and detailed explanation of these paragraphs, and when the International Accounting Standard mentions the items in the financial statements, it refers to the competent standard for each specific item or paragraph that it will cover in detail, such as: investments in associate companies or joint ventures that are within the International Accounting Standard (28).

In the context of disclosing investments in joint ventures according to the equity method

International Accounting Standard 28 obliges the entity that has an investment in joint ventures to adopt and apply the equity method. This method is an accounting method that addresses investment in joint ventures when preparing consolidated statements. Kieso et al., have indicated that it is an accounting method whereby the investment is recorded at cost at the stage of purchase and then the adjustment in the investor's share is followed by changes in the net assets of the investee company through a reduction or increase resulting from distributions and losses or net profits (Kieso et al., 2014, p. 894), in which the following are done:

- Putting the investment account in joint ventures on the debit side at the cost plus all direct expenses, in case the shares are owned by the investee company.
- The book balance of the investment account is subject to an increase in profits and is placed on the debit side, and in case of loss it is reduced and is on the credit side.
- The investment account in joint ventures shall be reduced by the amount of distributions received from the project.
- The balance of the investment account in joint ventures is subject to adjustment by the amount of the invested company’s share in changes in other comprehensive income elements (Hamidat, 2019, p. 418).

## The compatibility of measurement and disclosure of investment in joint ventures in the Iraqi environment with international accounting standards

***International accounting standards and their importance.***

Accounting is the language of business and each country has its own accounting system, which means that each country has its own business language. However, bypassing production and investment activities across the geographical borders of countries needs a unified accounting language after achieving accounting convergence, and the location of international standards and acceptance and application by developed countries pushed the wheel of convergence forward. This convergence has advantages mentioned by "Al-Jaraat", including, consistency, harmony, comparability, keeping pace with the requirements of globalization, meeting the legal requirements as well as meeting the requirements of local and international financiers outside the borders. Its advantages also include entering international capital markets, understanding the possibility of a unified and common perception of financial statements, finding unified methods with common global issues, increasing the quality of information, achieving transparency, credibility and fairness that are far ahead of the determinants of the application of IAS, IFRS (Al-Jaraat, 2017, p. 39-44).

***Measurement and disclosure of joint ventures according to the Iraqi unified accounting system.***

There are several axes to indicate investment in joint ventures as follows:

The concept and definition of investment: The unified accounting system defined investments as "the movement of various investments made by an economic unit in order to exploit its surplus cash liquidity through fixed cash deposits with banks with shares, documents and real estate purchased with the aim of achieving returns." (FBSA, 2011, p. 68). Short-term investments are "the investment of the unit's excess cash liquidity through fixed cash deposits with banks and the purchase of stocks and bonds". Long-term investments are defined as "investments in stocks and bonds purchased with the aim of establishing, controlling and directing joint ventures, which extend the contribution period for a long period" (Al-Waez & Omran, 1990, p. 576).

It can be noted from the definitions that the unified accounting system provided a definition that lacks an accurate classification of the objective, without adopting ownership ratios in this type of investment. A good example here are the tendencies of shares in public companies to government decisions.

Classification of investments: It can also be noted from the aforementioned definitions that the unified accounting system has classified investments into two types, namely long-term and short-term financial investments, as well as sectorally classified into:

**Table (1):** *Types of investments*

| directory number | Long term financial investments | directory number | Short term financial investments | T |
|---|---|---|---|---|
| 1521 | Long investments in the public sector | 1511 | Short investments in the public sector | **1** |
| 1522 | Long investments in the cooperative sector | 1512 | Short investments in the cooperative sector | **2** |
| 1523 | Long investments in the mixed sector | 1513 | Short investments in the mixed sector | **3** |
| 1524 | Long investments in the private sector | 1514 | Short investments in the private sector | **4** |
| 1525 | Long investments in the outside world | 1515 | Short investments in the outside world | **5** |

**Source:** *Prepared by the researcher by accreditation, publications of the Federal Financial Audit Bureau (FBSA) 2011*.

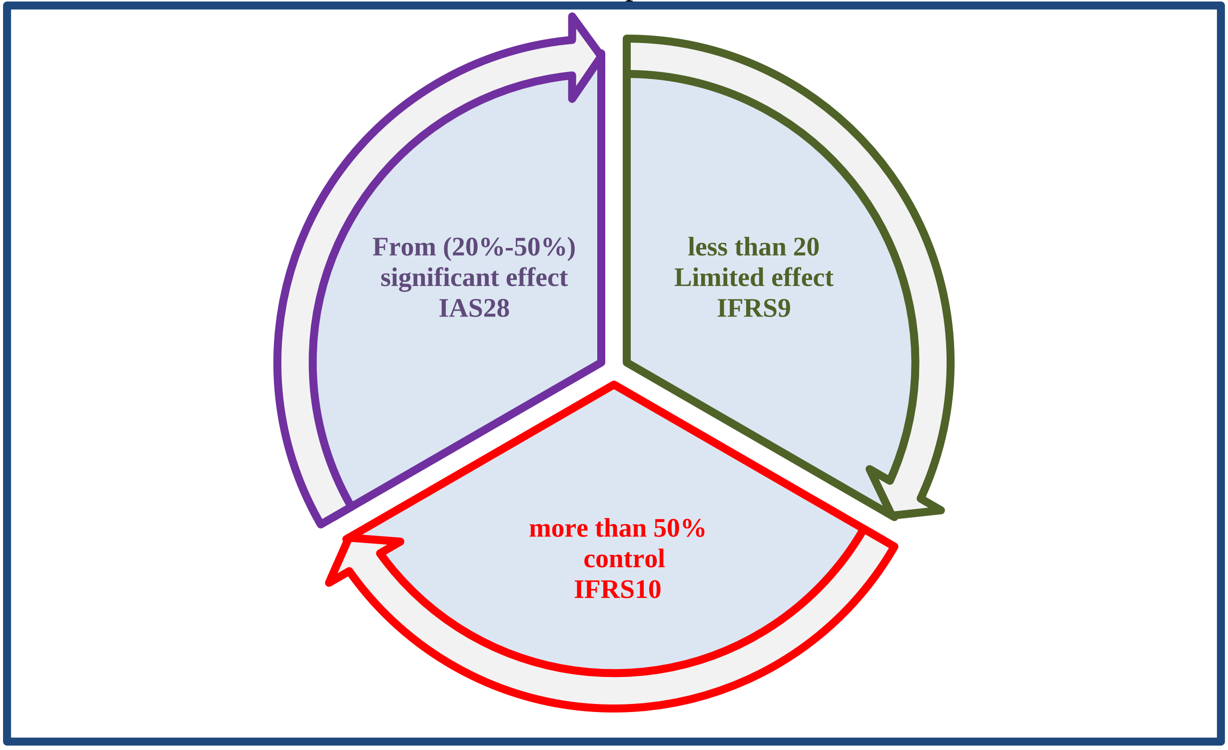
The researchers believe that the unified accounting system did not provide a definition and also did not address the classification based on the purpose of holding the investment, which was contained in the international accounting standards for investments, which are (investment available for sale, investments for the purpose of trading, investments for the maturity date). Long-term investments were classified according to sectors and there was no classification according to the ownership ratios in other companies and according to what was stated within IAS28 and as follows:

In the event of ownership of less than 20% of the ownership in other companies, the investor does not have a material impact and the company is called an investor and the other is an investor in it.

In the case of ownership of (20-50) % of the ownership in other companies, the investor has a substantial impact on the investor in them. The first is called the investor and the latter is called the associate company. In the event that more than 50% of the ownership is owned in other companies, and there is control by the investor and it is called the holding company and the investee company is called the subsidiary.

The accounting treatments for each percentage of ownership deal with a special standard independently, as shown in Figure ( ) below:

**Figure (2)** *Methods of accounting for investment according to ownership percentages in other companies*




**Source:** *Prepared by the researcher based on international standards*

***Evaluation Basis***

when the reclassification is made from a short investment to a long-term investment, the evaluation is done according to the cost or market rule, whichever is less, as well as recognizing the losses resulting from the non-temporary drop in values (Accounting Rule No. 14).

The researchers believe that the costs of investments are less than their market values, and there are some exceptions, especially the difficulty in determining the market values of public companies because their shares are not traded in the Iraq Stock Exchange. In the end, the values of investments in the financial statements will be inaccurate because they do not reflect the market value.

***Presentation in the financial statements***

Long-term investments according to the unified accounting system fall within the items of rolling assets, and here the researchers note that the inclusion of investments in the local system was compatible with the method. However, it did not provide sufficient disclosure, as it does not indicate those investments in subsidiaries or joint ventures.

***Restricted treatments***

There is agreement and differences in fixing the entry-level accounting treatments for investment in other companies between IAS 28 and the Unified Accounting System as described in the following controversy:

**Table (2):** *Comparison of accounting treatments for investments between the unified accounting system and international accounting standards in the records of the investing company*

| International accounting standards | | Unified accounting system | |
|---|---|---|---|
| **property rights method** | **cost method** | **short term investments** | **Long term investments** |
| **A. When buying a share:** | | | |
| **From/Equity investments/shares in joint ventures ** to/cash | **From/Equity investments/shares ** to/cash | **From//Short investments/by sector ** toCash at banks | **From// Long investments - by sector ** toCash at banks |
| **B. At the end of the fiscal year: 1- If the cost is less than the market value:** | | | |
| **No entry** | **From/Settlement of investments at fair value ** toUnrealized gains/losses of investments/equities | **No entry** | **No entry** |
| **B. At the end of the fiscal year: 1- If the cost is greater than the market value:** | | | |
| **No entry** | **From/Unrealized gains/losses on the acquisition of shares ** toSettlement of investments at fair value | **From/Losses / Falling prices of financial investments ** toProvision for falling prices of financial investments | **No entry** |
| **C. Non-temporary decline in the value of investments** | | | |
| **From/Equity / investment losses - shares ** to/ Equity investments - Shares in joint ventures | **No entry** | **No entry** | **From// Losses falling in the prices of financial investments ** to/ long-sector investments |
| **D.1. Selling investments at a profit:** | | | |
| **From /cash to mentioned ** Ownership investments - shares in joint ventures ** Gains from the sale of property investments - shares of joint ventures | **From /cash to mentioned ** Equity investments - shares ** Gains from selling property investments - shares | **From/Cash at banks to mentioned ** / short-sector investments ** capital gains reserve | **From/Cash at banks to mentioned ** / long-sector investments ** / capital gains reserve |
| **2. Selling investments at a loss:** | | | |

| | | | |
|---|---|---|---|
| of those mentioned<br>** / cash<br>** Losses on sale of property investments - shares in joint ventures<br>** toEquity investments / Shares in joint ventures | of those mentioned<br>** / cash<br>** / Losses on the sale of equity investments - shares<br>** toEquity investments / Shares | of those mentioned<br>** Cash at banks<br>** capital losses<br>** to/ short-sector investments | of those mentioned<br>** Cash at banks<br>** capital losses<br>** to/ long investments - sector |
| **E. When the investee company announces profits:** | | | |
| **Fromh/ Equity investments - shares in joint ventures<br>** toActivity revenue | **No entry** | **No entry** | **No entry** |
| **F. When Distributing Profits:** | | | |
| ** From// cash<br>** toEquity investments - shares in joint ventures | ** From// cash<br>** toDividend | **From/Cash in the box<br>** toRevenue from financial investments | **From/Cash in the box<br>** toRevenue from financial investments |

**Source:** *prepared by the researcher based on the unified accounting system and international accounting standards.*

Through the restrictive treatments of investments, it can be seen that they do not comply with the requirements of IAS, especially with regard to the activity when it is profitable, as it does not record an accounting entry to reflect its impact in the financial statements. However, when the investee company announces dividends, as well as in the event of loss, the financial statements do not show the reality of the financial position of the investing company, and the size of the investment is represented by the relative importance formed by the investments of the company's financial position. If the ownership method is followed, the investment balance will have a movement according to the activity and result of the activity of the investee company, and this is the opposite of what the unified accounting system lacks.

***Additions and clarifications to the financial statements:***

Accounting Rule No. (14) "Accounting for Investments", which showed the method of disclosing investments in the financial statements by displaying short-term investments within current assets and long-term investments within long-term assets. In addition, it showed disclosing the accounting policies for determining the listed values of investments as well as returned revenues, whether from long-term or short-term investments, from dividends and interest in the profit and loss account. Also given is the non-temporary decline in the values of long-term investments, profits and losses resulting from reclassification or sale of long-term investments.

Accounting Rule No. (10) “Disclosure of Financial Statements of Banks and Similar Financial Institutions” Appendix No. (1) was included in the clarifications and related to the classification of investments into short, long-term and real estate. It is attached to showing the current part of the long-term investment, especially the accounting method used in the evaluation and presentation of financial investments, and the analytical disclosure of investments and percentages of ownership or shares of other companies or bonds, with an indication of the market value of the investment, especially the difference between the value of the investment in the records and the nominal.

Accounting Rule No. (6) “Disclosure of Information Related to Financial Data and Accounting Policies.” It provided a number of clarifications related to investments, including preparing a detailed statement of investments in subsidiaries, percentages of ownership or any shares in other companies, and an indication of the approved accounting method in evaluating and presenting financial investments.

Through the content of accounting rules (6), (14) and (10) with regard to the requirements of measurement and disclosure of investments in other companies, there was no clarification of the concept of investment in joint ventures and related accounting treatments.

**Table (3**) *important differences for financial investments according to IAS and the unified accounting system*

| According to IAS | According to the unified accounting system | basis for comparison | |
|---|---|---|---|
| The investment aims to create wealth represented by the distributions, revenues, returns and other benefits that the investing company obtains, for example the benefits that accrue to it from its commercial relations. | The movement of various investments, with the aim of exploiting its surplus cash liquidity, through fixed cash deposits with banks, and the purchase of shares and bonds with the aim of establishing joint companies, controlling and directing them. | By definition | 1 |
| Adopted according to IAS Classification, according to the purpose and according to the ratios, according to the purpose to (for the purpose of selling, for trading, until the maturity date) and according to the ratios to (less than 20% investment, from 20-50% associate companies, more than 50% holding relationship–affiliated). | The unified accounting system classified the investment according to its retention period into long and short term investments and reclassified each of them into sectors (public, cooperative, mixed, private, external world). | In terms of classification for financial investment | 2 |
| (relative consolidation, cost, equity method, consolidated lists) | The cost or the market, whichever is less, is included in the system | In terms of the basis for evaluation and treatment methods | 3 |
| Among the non-current assets | It is included in non-current assets | In terms of display in the data | 4 |
| IAS25cancelled,IAS31canceled IAS28, IAS27, IFRS9, IFRS12 ,IFRS10,IFRS11 | Accounting Rule: (14,10,6) | Standards and rules related to investments | 5 |

## Conclusions and Recommendations

***Conclusions***

Standardization and accounting compatibility in accounting treatments for investment in joint ventures would achieve the comparability of financial statements and provide sufficient disclosure to support decision-making processes.

The shortcomings of the common accounting system are:

- the system classifies the investments by term and time period from retention of investment and both short and long term to sectors, without the calculation of these property ratios or special purposes of investment.
- Although the system is referring to the definition of long-term investments, it is intended to establish, control and direct the common companies, but in no detail and explanation of control and direction.
- The system neither distinguish and nor independently display joint ventures and there are no alternative ways of such investments. The system is limited to the cost or market assessment, whichever is less without the consideration of the IAAS28 and the adoption of the ownership method.
- The CRS is limited to recognizing the loss of landing in the non-temporary value, and leaving the transaction activity of the invested company in the event that profit or loss is declared without treatment or impact on the investment balance.
- The system dealt with profits as revenue and otherwise the IAS deals with these profits as investment returns.

The shortcomings of the local accounting rules were as follows:

- The absence of an independent rule for joint ventures as in IFRS11.
- Although rule 14 conforms to the canceled IAS25, it is not identical to IAS28 and IFRS11, due to the cessation of issuing new or alternative rules that replace a previous rule.
- Rule No. (6) is not in conformity with IFRS12 in terms of review and comparison.
- The IAS issued the canceled IAS31 and replaced it with IFRS11, also issued the old IAS 28 and replaced it with the new IAS28. The requirements for joint ventures and associate companies were included within IFRS12, and IFRS9 was allocated for investment below 20%, and IFRS 10 for investment exceeding 50%, as well as some requirements for IAS 27. The unified accounting system and the local accounting rule were limited to 14, 6, 10 without deletion or replacement, which indicates the size of the advanced IAS interest in investments.

***Recommendations***

- We should keep pace with developments in the application of financial reporting standards and international accounting standards, due to the initiation of Iraq with a legal text that requires the application of international accounting standards.
- The definition of investments according to the percentage of ownership and the competent IAS, should be adopted due to the comprehensiveness and specificity of the definition.
- The unified accounting system should meet the requirements of keeping pace with progress and development, and this is possible through the application of ISA.
- Before starting, a comparative study of definitions, terminology and clarifications on the types of investments according to IAS (such as investment in holding companies, subsidiaries, associates and joint ventures) should be the ideal accounting methods for treating investments as the equity method.

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