



BDO BULLETIN

NEW ACCOUNTING FOR JOINT VENTURE FORMATIONS

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SUMMARY

Joint ventures, as defined in U.S. GAAP and formed after January 1, 2025, must apply a new basis of accounting, as issued by the FASB in Accounting Standards Update (ASU) 2023-05, *Business Combinations – Joint Venture Formations (Subtopic 805-60)*. Under the new basis of accounting, a joint venture will recognize and initially measure its assets and liabilities at the joint venture's fair value upon formation. The new guidance does not change the definition of a joint venture, an equity investor's accounting for its investment in a joint venture, or the accounting by a joint venture for contributions received after formation. Joint ventures formed before this date can also apply the new guidance prospectively or retrospectively.

AFFECTED ENTITIES

The guidance in ASU 2023-05 applies to the accounting for contributions received upon formation of a new joint venture, as defined in U.S. GAAP (or a corporate joint venture). Existing joint ventures may apply the guidance retrospectively.

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FASB REFERENCES

ASC Master Glossary – Definition of a Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

The new guidance also does not apply to entities in the construction or extractive industries that may be proportionately consolidated by any of their investor-venturers.

BDO INSIGHTS: JOINT VENTURES ARE RARE IN PRACTICE

The term “joint venture” is used loosely in practice and may refer to a structure conducted in one or more legal entities or to an arrangement between two parties not through a separate legal entity. Many such entities and arrangements do not meet the definition of a joint venture in U.S. GAAP and therefore cannot apply the guidance in ASU 2023-05. Instead, such entities would apply other U.S. GAAP. Reaching a conclusion that a legal entity meets the definition of a joint venture requires the application of professional judgment, based on the facts and circumstances.

MAIN PROVISIONS

The new guidance requires a joint venture to recognize and initially measure its assets and liabilities at fair value, which should reduce diversity in practice and provide the venturers with decision-useful information. Previously, U.S. GAAP did not have specific guidance for the accounting by a joint venture for contributions received at formation, and some joint ventures used carryover basis, which is prohibited under ASU 2023-05.

The new guidance does not change the accounting by a venturer or the accounting for contributions received by the joint venture after the formation date.

STEPS TO ACCOUNT FOR A JOINT VENTURE FORMATION

ASU 2023-05 requires that a joint venture, upon formation, apply a new basis of accounting. As a result, a newly formed joint venture will initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance), which is broadly consistent with the accounting outcome that would result from treating the joint venture as the acquirer of a business.

The following steps illustrate the accounting considerations for a joint venture formation in ASU 2023-05:

- ▶ Determine the formation date
- ▶ Recognize and measure any identifiable assets, liabilities, and any noncontrolling interest in accordance with ASC 805-20, *Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest*
- ▶ Recognize and measure goodwill, if any, based on the fair value of the joint venture as a whole immediately after formation

This guidance applies regardless of whether the joint venture’s identifiable net assets meet the definition of a business. Under ASU 2023-05, the fair value of the joint venture as a whole is determined based on the fair value of 100% of the joint venture’s equity immediately after formation.

DISCLOSURES

In the period of formation, a joint venture must disclose the following:

- ▶ The formation date
- ▶ A description of the purpose of the joint venture’s formation
- ▶ The fair value of the joint venture as a whole as of the formation date
- ▶ A description of any assets and liabilities recognized at the formation date
- ▶ The amounts recognized for each major class of assets and liabilities in the joint venture’s formation (to satisfy this requirement, a joint venture may instead present a balance sheet as of the formation date)
- ▶ A qualitative description of the factors that make up any goodwill recognized

EFFECTIVE DATES AND TRANSITION

The following table summarizes transition for ASU 2023-05:

ALL JOINT VENTURES	
EFFECTIVE DATE	Formation date on or after January 1, 2025
EARLY ADOPTION	Allowed in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively
TRANSITION	Generally prospective, but retrospective adoption is allowed for a joint venture formed before January 1, 2025, if it has sufficient information and voluntarily applies ASU 2023-05

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Link to [ASU 2023-05](#).

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