JOINT VENTURE ACCOUNTING PROCEDURES

By J. R. Goddard*

Joint business arrangements have been a long established form of conducting a business owned and controlled by individual entities. Until the 1960s the more common form for such arrangements were:

- Companies
- Partnerships
- Trusts

but since those years, more complex and flexible forms of arranging business affairs have been developed. These are what we now term as unincorporated joint ventures (hereinafter referred to as joint ventures).

Whilst joint venture arrangements have a wide business application, the development of the mining industry, and its related exploration activities, coupled with the need by many participants in these fields to spread the risk of speculative ventures and costs of large-scale developments, has led to the increasing use of joint ventures as a means of managing and financing these arrangements.

The purpose of this paper is to examine accounting implications arising from joint ventures and to discuss some of the accounting problems which come about because of the unique nature of these arrangements.

Until recently, there has been little in the way of guidance written relating to accounting procedures and financial statements for joint ventures and perhaps this may have been brought about due to lack of legal uniformity of their structure which largely governs their needs. On the other hand, companies partnerships and trusts are governed by law and there are well defined accounting principles and practices applicable to such structures.

Professional opinions and views are now redressing this, as illustrated by:

- *The Guidelines for an Exploration Joint Operating Agreement* (JOA Guidelines), published by the Australian Petroleum Exploration Association Limited (APEA).
- *Unincorporated Joint Ventures — Accounting and Auditing Implications*, published by my firm, Coopers & Lybrand, in 1983.
- An increasing number of legal, taxation and accounting articles and publications, sponsored very often by the Law Societies, Accounting Bodies and the Taxation Institute of Australia.
- An Exposure Draft of *Accounting for Interests in Joint Ventures*, issued for professional comment by the Australian Accounting Research Foundation, in November, 1984.

JOINT VENTURES — THEIR STRUCTURE AND MANAGEMENT

Many readers of this paper will be very familiar with the basic

* Chartered Accountant, Sydney.

concepts of joint venture arrangements but a full understanding of the fundamental issues involved is necessary in order to appreciate all the accounting implications and accounting problems which may arise. Consequently in this section a brief overview of such arrangements is undertaken.

Definition

A Joint Venture has been variously described or defined, and as illustrative of these are the following:

> an unincorporated contractual association between two or more parties, other than a partnership or trust, to undertake a specific business project in which the 'venturers' meet the costs of the project and receive a share of any resulting output. (*Accounting for Interests in Joint Ventures* — Exposure draft.)

> is constituted by contractual agreement between the participants. It is not a recognised entity at law in Australia and so is not governed by specific legislation, such as Company Codes or Partnership Acts; instead it is governed by its constituent agreements and the general or common law. (*Unincorporated Joint Ventures — Accounting and Auditing Implications.*)

> means an enterprise carried on by two or more persons in common, otherwise than as partners (section 128A (1) of the Income Tax Assessment Act).

> a joint venture, at least in so far as that term is used in the Australian mining industry, is the relation which subsists between persons carrying on an undertaking in common for their individual gain.

For the purpose of this paper except in quoted references, parties, venturers or participants to joint venture arrangements are referred to as 'participants'.

The important conclusion to be drawn from the above quotations is that a joint venture is not a partnership at law or for taxation purposes. Since taxation reasons are often a motivating force in the minds of the participants in forming a joint venture, it is important that the distinctions between partnerships and joint ventures are clearly understood. These main distinguishing characteristics are set out in Appendix I attached, but can be summarized as follows:

- Partners carry on a common business and share in net results.
- Participants in a joint venture share costs to a stage of production or output, do not carry on a common business, and each deal with their share of output as they deem most suitable for their own business interests.
- It, therefore, follows that since a joint venture arrangement is not governed by specific legislation, and is not recognized by law, it should be *properly* governed by its constituent agreements.
- Throughout this paper reference will be made to these agreements and it is vitally important that they are drawn up so as to
  - (i) evidence the intention of the parties to it;
  - (ii) clearly define the respective interests and obligations of the participants;
  - (iii) adequately set out accounting procedures to be followed.

Before discussing accounting procedures, and some of the more specific problems arising therefrom, the more distinct features of joint ventures, their constitution, funding, control and management and taxation implications, need to be considered.

Distinct Features

Features which distinguish from and give advantages over other forms of joint business arrangements include:

- A separate tax return is not required to be lodged, nor is tax levied on the venture.
- Individual participants can exercise various options, both for taxation and accounting purposes.
- Participants are not bound by unauthorized actions of other participants, except under the terms of the agreements.
- Each participant is normally only responsible for its participating share of liabilities incurred.

Constitution of a Joint Venture

Since a joint venture is constituted by contractual agreements between the participants and is not a recognized entity at law, the provisions of the constituent agreements evidencing the agreements between the participants assume a vital importance if future misunderstandings or disputes are to be avoided. Too often not enough thought is given to the construction of these agreements, which should be settled by lawyers well versed in that field of commercial law in conjunction with accountants, who should also be experienced in this area for advice on accounting and tax implications.

The constituent agreements of any joint venture will of necessity vary according to the size, complexity and nature of the project. Often, particularly for a specific exploration project, one joint venture agreement or joint operating agreement (JOA) will suffice and this is likely to be relatively simple. However, for a major project involving development, construction and extraction, these agreements are likely to be more complex and may involve in addition to the JOA, management, technological, guarantee and sales agreements. In respect of sales agreement this envisages that a participant, the manager or some other party is nominated to act as agent for some or all of the participants and care is needed to ensure that this does not jeopardize the joint venture status for tax. For the purpose of this paper such constitutional agreements are referred to as joint operating agreements (JOA).

Funding

Unlike a partnership, which is funded by contributions to the partnership capital and is often self-funding by the retention of profits, a joint venture with no income from production or output relies on the contributions made by the participants to meet its debts and obligations. Such contributions are normally made in cash, as requested by the operator, in the proportions set out in the JOA and are usually based on each venturer's participating interest. However, in some circumstances some participants may contribute their proportionate share in the form of services to be performed, expertise given, or other tangible contribution such as the exploration permits.

Management

The form of management control will be governed by the JOA which normally covers the following:

- The appointment and removal of a manager/operator (manager) responsible for day-to-day management.
- The constitution of a management committee to whom the manager is responsible; this would normally comprise representatives of each of the venturers and has wide decision-making powers which would bind each participant. Consequently, the voting rights of each representative, usually equating to a participant's interests, need to be clearly set out in the agreement.

The manager may be one of the participants, often a participant with a significant interest, or a company may be formed for this specific purpose, particularly if the venture is a large scale mining or petroleum operation. In the latter case, the various shareholder/director voting rights will also be equated to the participants' interests in the venture.

Since the manager is often the agent for all participants and is required to act in the best faith in all matters concerning the joint venture, it is important, in order to avoid disputes and conflicts between participants, that completely separate bank accounts and books and records be kept by the manager for each of the ventures it may manage.

The management committee or management company usually has wide powers which are designed to protect the interests of the participants and include:

- supervision and control of all matters pertaining to the joint operation;
- determination of policy and management;
- approval of operating programmes and budgets;
- placing limitations on the manager in regard to expenditure falling outside budget approvals.

The committee is also entitled to receive promptly from the manager regular financial reports.

Each representative of a participant will be entitled to vote, whether through a committee or corporate structure, such votes usually being indicative of a participant's interest in the venture. The management agreement should clearly define the percentage of votes required for a majority decision to be made.

Taxation Aspects

It is not within the parameters of this paper to deal with the complex taxation aspects arising from such arrangements nor the consequent more apparent advantages that a joint venture arrangement may have over other forms of a joint business arrangement. However, since each participant is bound to account for income deriving from its share of the joint venture production or output and to claim its share of costs incurred, there may be some elections whereby alternative tax treatment is permitted. For example, different bases may be used by participants for claiming depreciation on items of joint venture equipment. Consequently, the accounting records and financial statements must provide to each participant the requisite information so that such tax elections can be made by them individually.

ACCOUNTING PROCEDURES – GENERAL CONSIDERATIONS

In the determination of the joint venture accounting procedures (JVAP) which should be adopted, the following matters need to be taken into consideration:

- the basic accounting records to be maintained;
- accounting policies on which agreement to adopt has been reached;
- generally accepted accounting principles, including, preferably, the proposed Accounting Standard relating to accounting for venturers' interests in joint ventures;
- the individual requirements of the participants, including taxation;
- the consequent format of the financial statements and the frequency of their preparation;
- audit requirements.

These matters are discussed briefly in the following paragraphs.

Accounting Records

In joint ventures the manager enters into transactions on behalf of the venturer and to ensure that areas of dispute are kept to a minimum it is desirable for the manager to keep a separate set of accounting records and preferably a separate bank account for each entity managed. This will assist in:

- ensuring that expenditure on a joint venture project is kept distinct from that expenditure relating to the manager's own activities (this comment would not apply if there is a corporate manager for that specific joint venture);
- identifying the joint venture assets and their ownership;
- clearly recording participants' contributions;
- identifying joint venture liabilities.

The joint venture records and financial statements prepared therefrom will need to address the requirements referred to above and, in addition, provide the manager with such financial information that will enable him to properly operate and control the project for which he is responsible and to report to the Management Committee.

Accounting Policies

Far too frequently the accounting policies to be adopted for a joint venture's accounts are unclear and not specifically laid down and agreed to by the participants. Whilst many policies can be left for determination by the Management Committee, there are a number of fundamental issues which should be laid down in the JOA. A brief summary of all such policies is as follows:

- use of accrual method of accounting;
- valuing stores on hand:
- allocation of overheads to various phases of operation;
- basis of accruing for long service leave and other employee benefits;
- deferred maintenance provisions;
- future costs of restoration and rehabilitation;
- depreciation and amortization of joint venture common assets;
- valuation of stockpiles, incomplete shipments or unshipped products;
- treatment of exploration expenditure incurred.

It needs to be appreciated that not all the above policies may be agreed upon as venturers often want to adopt their own accounting policies and this may frequently be the case in respect of such matters as deferred maintenance, amortization, depreciation and treatment of exploration expenditure. It is important, in cases where a normal accounting policy has not been adopted for these reasons, that the financial statements when prepared clearly state these facts.

Accounting Standards

In the determination of the accounting policies to be adopted, some of which are mentioned in the preceding paragraphs, compliance need be made with accounting standards which have been laid down by the Joint Accounting Bodies. In 1976 these bodies issued a statement *Statement of Accounting Standards, Accounting for the Extractive Industries* (AAS7) which became operative for accounting periods beginning on or after 1 January 1977.

This statement is concerned with certain accounting problems peculiar to the extractive industries, is now followed by industry almost universally and specifically deals with:

- accounting for pre-production costs;
- accumulation of pre-production costs and revenue;
- amortization of pre-production costs carried forward;
- restoration costs;
- valuation of inventories;
- sales revenue;
- disclosure in financial statements.

The principles laid down, whilst mandatory in some areas, allow various options to be followed in other areas; for example, exploration and evaluation costs related to an area of interest should be written off as incurred except that they may be carried forward provided certain conditions are met. Consequently since all the matters referred to above would normally be dealt with in each venturer's accounts the accounting procedures adopted by the joint venture should be designed to disclose the financial information in such a manner to facilitate each venturer to account for its interest in accordance with its own accounting practice.

Exposure Draft

As mentioned earlier in this paper, the Joint Accounting Bodies have issued for comment a proposed accounting standard *Accounting for Interests in Joint Ventures*. It is too early yet to determine what final form this standard will take, but there is much support for the disclosure requirements as stated in this draft, at least in accounting circles.

Since the adoption of such a standard does affect the basic accounting information required by participants in a joint venture, the proposals are set out below:

> In accounting for a venturer's interest in joint ventures the venturer should record in its accounts:
> (a) its undivided share in each of the individual assets employed in the joint ventures;
> (b) any liabilities incurred by the venturer in relation to joint ventures or, where relevant, the venturer's share thereof, for which the venturer is jointly and/or severally liable;
> (c) its share of any costs incurred by the joint ventures; and
> (d) any revenue which the venturer derives from the sale of its share of the resulting output of those joint ventures.
>
> These amounts should be aggregated with items of the venturer, which are of a similar nature and included in the venturer's financial statements on this basis.
> The financial statements disclose, by way of note, the following information in respect of each interest in a joint venture:
> (a) a description of the principal activities of the joint venture; and
> (b) the venturer's percentage interest in the resulting output of the joint venture.
>
> The financial statements should disclose, by way of note or otherwise, in aggregate for all interests in joint ventures:
> (a) the venturer's share of the assets employed in joint ventures, by class of asset;
> (b) separate liabilities of a venturer which relate to joint ventures;
> (c) the venturer's share of liabilities relating to joint ventures for which the venturer is jointly and/or severally liable; and
> (d) any contingent liabilities and capital expenditure.

It should be noted that, whilst the results of a venture are included in normal operating results of a participant or venturer, there are requirements for separate disclosure of certain financial information in regard to activities, assets and liabilities for each joint venture in which an interest is held. For companies with a large number of participating interests this proposal may well be cumbersome and hopefully some consideration will be given to some means of consolidating this information.

Financial Information for Participants

As already explained the basic financial information will be under the control of the manager who will be responsible for the preparation of financial statements. It is usually appropriate for the manager to prepare financial information in regard to each venturer's own interest as this will avoid much duplication, provided the information is prepared on the basis of common accounting policies adopted with such additional information as may be necessary for the participants to be able to account for their interests in accordance with their own policies given in the form of supplementary statements.

One area of some importance and relevance is the maintenance of the fixed asset register, recording adequate details of the cost of individual assets operated by the joint venture. Where this item is one of some size and complexity, there is no reason why the manager cannot account to each participant on a basis suitable for its own accounting and tax purposes; this should not be difficult, particularly if such records are computerized. Otherwise, full details of the fixed assets and acquisitions and disposals between balance dates would need to be made available to each participant; this would involve each one maintaining records which duplicate this basic information.

Format of Financial Statements

Having considered all the various factors discussed in the preceding paragraphs of this section, an accounting manual should be prepared and an agreed format for the financial statements preferably incorporated in this manual. These statements, it will be appreciated, are in the form of formal accounts to be prepared at periodic intervals, as agreed, and are in addition to management accounts which are likely to be prepared on a monthly basis for submission to the Management Committee. The requirements for such accounts are dealt with in the following section.

The format for the preparation of such statements varies widely, dependent upon various requirements and the complexity of the operation. In order to illustrate many of the matters raised in this section, pro forma sets of accounts are attached, covering:

— An exploration joint venture (Appendix II).
— A joint venture engaged in active operations (Appendix III).

Both these formats have prepared financial figures on an annual and cumulative basis and assist the participants in tracing dispositions of contributions in each year; this is a recommended practice.

Exploration

The financial statements as illustrated in Appendix II for an exploration joint venture contain a simple summary of total contribution received from participants and an account of what has happened to these contributions. This statement is supported by notes to cover:

— the basic joint venture arrangements and respective interests of participants;
— accounting policies in respect of exploration expenditure explaining under what circumstances it is carried forward and when written off;
— movements in the exploration expenditure account for the year.

Active Operations

For a joint venture engaged in active operations far more detailed information needs to be prepared for each participant and this is illustrated in the pro forma accounts attached as Appendix III, also on an annual and cumulative basis. Again the basic statements are relatively straight forward but in this instance are supported by very detailed notes covering:

- the basic joint venture arrangements and participants' interests therein;
- a detailed accounting policy for fixed assets owned by participants as tenants in common, mine development costs, exploration expenditure, valuation of stores and incomplete product inventories, *etc.*;
- movements on participant's balances during the period;
- comprehensive details of cost of production and quantities of product made available to participants or held on their behalf;
- accumulated values of plant and equipment and movements during year, including depreciation;
- accumulated values of mine properties and development;
- details of exploration expenditure movements.

This pro forma assumes the adoption of common accounting policies which if not adopted will be disclosed. For instance, if a common policy for depreciation was not adopted then the statements would only disclose accumulative costs and indicate that no charges have been made to depreciate these costs as such charges are to be recorded in the records of the participants in respect of their undivided share of these assets.

Audit Requirements

The participants normally require an audit of the financial statements and this aspect would usually be covered by the provisions of the JOA. Consequently the accounting procedures to be adopted will need to specifically address the audit requirements so as to facilitate the conduct of an audit of the financial statements and such supplementary information as may be required. More specific details relative to audit requirements and considerations are dealt with *infra.*

ACCOUNTING PROCEDURES FOR MANAGEMENT ACCOUNTS

The preceding section has dealt with the more formal reporting requirements considered necessary for the participants to account for their interests in a joint venture and the disclosure requirements which may be considered necessary to enable participants to adequately account for this interest in their financial statements. This section of the paper discusses the more detailed accounting procedures necessary to enable the manager to manage and the management committee to monitor the day to day operations of a venture.

The JOA guidelines cover in some detail many aspects of management and control and sets out the following definitions considered pertinent to this paper:

> 'Accounting Procedure' means the method of accounting to be applied in recording debits and credits to the Joint Account.
>
> 'Joint Account' means the set of accounts maintained by the operator and to which debits and credits are made pursuant to this agreement.

These two definitions aptly sum up in general terms the purpose of an accounting procedure.

An accounting procedure to be adopted will, of necessity, vary according to the circumstances of the venture, should cover the general considerations dealt with *supra* and should be tailored to the venture's needs so that the information recorded enables:

- the manager to exercise proper control over expenditure incurred;
- the management committee to exercise the review function for which they were appointed;
- the participants to ascertain how their cash contributions have been spent and what the short-term and long-term financial needs of the venture are likely to be.

Its complexity or otherwise will depend upon the venture being managed and will be substantially different for an exploration project than required for one engaged in active operations. For this reason it is probably more satisfactory to adopt in the JOA those procedures suitable for the exploration stage of a project and if such a stage reaches one of development, and experience shows that this is the exception rather than the rule, new procedures then be drawn up and agreed to by all participants. It may even be appropriate for the JOA to cover the means by which new procedures are to be approved.

Exploration Projects

Accounting procedures for exploration projects should be designed to show the main categories of expenditure incurred, preferably on an accrual basis of accounting, and broadly need to cover the following for each area of interest being explored:

- costs relating to the maintenance of the exploration rights;
- labour and related costs for those employed directly on a project, either part-time or full-time;
- exploration costs including drilling, seismic surveys;
- technical services, provided by outside parties or participants, for assessments, core sampling, *etc.*;
- administration charges incurred directly and recharged by the manager and/or participants.

It is important that all such costs incurred be compared with those budgets and operating programmes approved by the management committee and any variations adequately explained by the manager in formal monthly reports. *Strict* guidelines need to be laid down for budgetary control which is dealt with in more detail later in this section.

Active Operations

The manager (or if a corporate entity through its major shareholders) responsible for a joint venture which conducts an active operation is usually very experienced in operations related to the extractive industries and would have developed or be quite capable of developing a comprehensive management accounting and reporting system suitable for an active joint venture operation. It is beyond the scope of the paper to consider such procedures in depth but some of the more salient features applicable to such joint venture arrangements warrant some comment and are discussed in the following paragraphs.

Sales of Production

Since each participant in a joint venture carries on his own separate business and not a joint business, the JOA should clearly state that each party shall have the right to own its participating interest in the output or production, dispose of it in its own right and collect the proceeds to its own account. Consequently the financial statements of a joint venture do not disclose any income from this source but often, as described earlier, disclose the allocation of production to participants.

In practice, one or more of the participants may appoint either a participant or the manager of some other third party to act as sales agent for the sale of production/output either all or in part. The agreements evidencing this must be clearly drawn up so as not to prejudice the joint venture tax status and cause it to be deemed a partnership. Under such arrangements it is usually important for all sales proceeds received to be banked into a separate trust account and then disbursed to each participant in accordance with its interests.

Production and Costs

Detailed analyses of costs of output/completed production need to be maintained so that each participant can properly account for its share as a cost of its sales. Dependent upon the scale of the operation such costs should be grouped over suitable cost centres which, for a mining operation, could include:

- mining and extraction;
- milling and concentrating;
- mine management and administration.

Certain expenditure may be excluded from these costs if, as explained previously, some accounting policies are not common to all participants, such as depreciation and amortization and, if so excluded, the accounts must clearly state this fact. In such circumstances, additional information would be required by participants so as to adjust the respective costs in their own financial accounts and the manager would be required to furnish this in an appropriate form.

It is also important to include in details of these costs production statistics showing:

- the amount of product made available to each participant during the accounting period;
- completed product held on behalf of participants for future sales.

Fixed Assets

Items under this category, owned by participants as tenants in common, include mine properties and associated development costs, plant equipment and buildings and, as mentioned previously, the depreciation and amortization of these items may be subject to different rates in the hands of individual participants. The accounting procedures should cover the maintenance of fixed asset registers in such detail and form as will enable the manager to advise what charges are to be made in respect of each participant or to enable the supply of sufficient information so that each participant can readily calculate these charges in their own accounting records.

Many joint ventures have interests in a number of exploration areas as well as rights granted to operating projects which may be complicated as far as title is concerned. Thus, it is advisable for a detailed register to be kept disclosing all tenements and rights together with details of rental/lease payments to be made, renewal dates and other relevant information so that all titles and rights can be adequately identified and controlled.

Creditors, Accruals and Provisions

A manager incurs expenditure and obligations, on behalf of a joint venture, which are reimburseable out of joint venture funds and in practical terms acts as agent for the participants. In such circumstances, in respect of the supply of goods and services, he will be liable for unpaid liabilities but the joint venture participants will also be liable. Consequently, the joint venture records should record all liabilities incurred by the manager on behalf of the joint venture and the manager would be wise to make known the agency arrangement by appropriate disclosure on purchase orders and other relevant documents, specifying the participants' names, the proportion in which they share liability and further add a disclaimer denying all personal liability.

The situation regarding unpaid salaries or wages and employee benefits such as long service leave, annual and sick leave is somewhat different as the manager as the employer is primarily liable although a right of reimbursement should exist under the provisions of the JOA. However, since in effect the joint venture is primarily responsible, such accruals should be recorded in its financial statements.

Contributions by Participants

Since the joint venture has no form of income to meet the costs and expenses incurred by the manager all funds that are required need to be provided by each participant in accordance with either the agreed participating interests as laid down by the JOA or in such other proportions as may be agreed. It is not infrequent that participants contribute to such costs and expenses in proportions that differ from that of their participating interests, *e.g.* one participant, the original holder of the rights to an area of interest, may not be required to contribute any funds or only be required to make contribution once expenditures have reached a certain level.

It is therefore essential that the JOA clearly defines:

- each participant's share of contribution to be made;
- the penalties in regard to interest charged, if any, on unpaid contributions;
- whether a participant has voting rights if contributions are in arrears for a certain period;
- if a contribution is in default under the terms of the JOA, the basis upon which the participating interest of the defaulting participant abates in favour of the other participants.

These contributions and default provisions need to be very clearly drafted and will form the basis for including such matters as may be appropriate in the JVAP.

Other Relevant Information

Other relevant information which does not require any detailed reference but should be adequately recorded and covered by the JVAP includes:

- details of consumable stores on hand;
- exploration expenditure carried forward and written off during the period;
- contingent liabilities entered into by the Manager;
- capital expenditure commitments;
- leasing commitments;
- provision for deferred maintenance;
- provisions for restoration.

Budgetary Controls over Expenditure

The appointment of a management committee (or management company) has already been dealt with earlier in this paper and some of the powers attaching to the appointment mentioned. It is important that this committee exercise its powers with due diligence and the manager keeps it fully informed, particularly in financial matters relating to expenditure incurred and committed under the agreed operating programme.

A common area of dispute between participants and a manager can often be over-expenditure in respect of an area of operation or relating to capital even though there may be a quite reasonable justification for incurring such additional expenditure. These problems can to a large extent be overcome if the accounting procedures are properly designed to show:

- budgeted expenditure approved by the management committee for each major area of expense;
- expenditure incurred to date;

— expenditure expected to be incurred in the future in accordance with the agreed operating programme.

and such information promptly made available to the Committee on a monthly basis.

If it becomes apparent that budgeted expenditure is going to be exceeded, the manager should immediately seek prior approval from the committee to incur the additional expenditure if this falls outside permitted limits. The procedures for this control, the manager's authority to incur expenditure and the basis for the management committees approval for expenditure which is likely to exceed the limits already approved should be appropriately covered in the JOA and JVAP.

ACCOUNTING PROBLEMS

In this section attention is given to some accounting aspects which can, unless adequately covered in the JVAP, lead to uncertainty as to their correct treatment, cause disputes between participants and the manager, and may place upon the manager and management committee the need to jointly determine a treatment which is acceptable.

Administration Overheads

The charging of administrative overheads is one of the more contentious items in any joint venture arrangement and one which, in my view, warrants some detailed discussion. Obviously where a separate management company with its own overhead infrastructure manages the venture this problem is much diminished but in many instances and particularly in the exploration area, management is more likely to be in the hands of one of the participants.

Certain costs, these often being set out in JOA, can be clearly identified as relating directly to a venture and would be borne by that venture. Such costs include:

— expenditure necessary to acquire and maintain the rights to an area of interest;
— salaries, wages and the related employee benefits, allowances and expenses for personnel directly engaged in the conduct of the venture;
— stores and materials used;
— technical services provided;
— insurance;
— direct office costs including site offices.

On the other hand, any manager is bound to incur certain costs in the administration and management of his responsibilities if he is to carry out these in a satisfactory manner and for which he should be entitled to some form of reimbursement on the principle that the manager should be able to fully record overheads applicable to the venture, with or without some profit element.

Various methods to recover administration costs can be employed with the manager charging a fee based upon:

- a fixed and agreed monthly amount;
- a fee based on a percentage of the preceding month's expenditure incurred by the venture, as defined, sometimes on a sliding scale and subject to a minimum fee (this is the method envisaged in the JOA guidelines);
- time allocated by the manager's staff to a venture charged at agreed rates;
- a proportion of a manager's total administration expenditure on the administration of all the ventures and projects under his management.

All such bases should be subject to a periodic review at, say, annual intervals as more frequent reviews are likely to be time-consuming and may lead to unnecessary disputes.

The question of whether a manager is entitled to a profit on his management is one on which opinion differs widely. Whilst normally it would be expected that only a cost recovery is appropriate, a manager may well be able to argue, particularly if he is responsible for a number of ventures and projects, that there should be an entitlement to a reward for supplying management expertise to situations in which it, if a participant, only has a proportionate interest and such ventures gain a distinct benefit from its collective skills. I find it hard to refute this argument. Ultimately, it is the participants who must decide this issue and evidence their decision in the JOA.

Fixed Fee

A fixed monthly fee, subject to an annual review and possibly with a minimum inflationary factor built in, is often an appropriate means of charging for administration, particularly for relatively small exploration ventures or once a project has been effectively developed. In situations where a major mining venture is established and production achieved, the ongoing management is likely to be handled by the project itself and the question of a fee does not arise. However, situations can arise where the project is relatively small and it may be desirable for one of the participants to continue day to day management; in such cases a fixed fee is most likely appropriate.

Fee Based upon Monthly Expenditure

This basis is obviously more appropriate for an exploration joint venture where expenditure over certain phases of the exploration programme can be budgeted for in a reasonable manner. Frequently, in such cases, a sliding scale is agreed upon with reducing percentages applicable to expenditure incurred, which need to be clearly defined in any agreement, once certain levels of expenditure have been reached. The assessment of the reasonableness of the percentage figures is a commercial decision for each of the parties to the JOA.

On the other hand, for reasons beyond the control of a manager, *e.g.* excessive bad weather, a management committee's decision to defer certain expenditure, budgeted expenditure in any one month may be deferred or aborted altogether without any diminution in a manager's administration costs or responsibilities. Thus, it is sensible for the manager to be entitled to a minimum monthly fee which will be taken into account and offset against the fee calculated on the expenditure basis. It may also be appropriate for any credit arising from this offset to be deducted from future fees calculated on expenditure.

Time Allocation

Many extractive industry and exploration companies have a wide variety of projects in which are held varying interests and have management and overhead structure designed to look after their own direct investments as well as management for these other interests. For internal purposes, many such companies have a form of time recording spent by management, staff engaged on exploration and accounting personnel. It therefore follows that time spent on the management of joint ventures can be easily identified and these statistics are able to form a basis for the charging out to a venture specified grades of a manager's staff. If this is to be done, the basis for each charge needs to be clearly defined in any agreement and should be along the following lines:

— hourly direct cost of salary/wages;
plus
— % oncost for labour (covering employee benefits, workers compensation, *etc.*);
plus
— % oncost for administration overheads;
plus
— % oncost for profit (if applicable).

Such percentages should be agreed in advance by all participants to avoid future problems. Each invoice charged to a venture in accordance with the agreed formula on this basis should specify the individual hours worked by each of the manager's personnel and be costed in accordance with the formula.

The major area for dispute in using this method is likely to be the justification for individual hours spent on the venture. The main disadvantage is that, under this system which is somewhat open-ended, the joint venture parties are very reliant upon the efficiency of the manager to ensure time is properly recorded, staff carry out their functions effectively and are paid salaries in line with normal commercial practices.

Share of total expenditure

A further method of recovering overheads, as distinct from direct costs and employee costs, is for a manager to recover from all management arrangements his costs in a manner proportionate to the total administration expenditure on all projects. This method envisages that the manager has an adequate accounting system to:

— segregate all such costs, including an oncost for his own corporate management structure, into suitable cost centres;

- ensure that a proper costing for technical staff charged out directly to projects is made and recovered;
- keep detailed records for all direct expenditure incurred on all managed projects.

This method, with or without a profit element, ensures a recovery of expenses incurred and passes on to individual venturers the benefits of a large scale operation. However, the disadvantages from a venturer's viewpoint are that reliance must be placed on the fact that the manager can control his administration costs effectively and that in a downturn of activity without a corresponding reduction in costs, excessive charges may be considered by participants to have been incurred. Conversely corresponding benefits may be received by participants if an up-turn in expenditure occurs.

Under this method it is likely to be difficult for any participant or his professional advisers to establish to their satisfaction the basis of arriving at all such administration costs to be recovered from the number of projects managed.

Disputes

Mention has been made of disputes which can arise which more frequently will occur at the time of periodic reviews or when, in more open-ended arrangements, fees appear to be increasing at a rate not budgeted for. The procedure for settling disputes, if these cannot be resolved satisfactorily between the management committee and the manager, should be properly covered in the JOA. Usually such disputes, if not resolved internally, will be referred to arbitration or more preferably to an independent expert, such as the joint venturers' or manager's auditors, either agreed to by all parties or nominated under the terms of the agreement.

Technical Service and Other Fees

The appointment of a manager is often made not only because its significant interest in the venture but also because it can provide the right technical and laboratory expertise and use of facilities and equipment. Thus, it is proper not only for the manager to recover costs associated with the provision of such services, but a reasonable profit element as well. The JOA guidelines cover this aspect with the proviso that such charges should not exceed those currently prevailing if they were performed by outside parties for technical services or reasonable plant hiring rates from third parties.

This concept is generally acceptable but to avoid disputes as to rates currently applicable it may be appropriate that a schedule of fees for the provision of technical services and the rates for the use of specific items of equipment or facilities be approved in advance by the management committee at periodic intervals.

Contribution Other than by Cash

Mention has been made of the general principles applying to contributions made by participants and to the fact that in certain circumstances such contributions may be made other than in cash. Such non cash contributions may consist of:

- discoveries of mineral deposits or hydrocarbon fields some of which may need further delineation;
- the provision by one participant of technology and people skills;
- real property and equipment.

In such cases a deemed value can be readily calculated either by reference to the JOA which may specify values or to the cash contributions made by the other participants and/or to their participating interests. Since all participants have an equity in such non cash contributions this deemed value should be recorded in the books of the joint venture and credited to the participant(s) who contributed.

Differential Contributions and Participating Interests

Further extensions of the non cash contribution by a participant are the cases when cash contributions are made in proportion different from those of participating interests in the equity of a joint venture. These cases are not infrequent and arise from various commercial considerations relating to the willingness of a participant to invest in a particular project or an area of interest on which exploration expenditure may have been incurred by one or more of the participants. This has no problem as far as the joint venture accounts are concerned as the total of contributions received is represented by certain categories of assets allocated to the participants in accordance with their equity participation. However, it will be obvious in the accounts of a participant that either:

- a premium is being paid to earn its equity interest; or
- a premium is being received.

representing a deficit/surplus when comparing contributions made as against the underlying interest in joint venture assets. Whilst it is beyond the scope of this paper to examine the alternative accounting treatments that may be adopted by participants under these circumstances, attention needs to be given as to what accounting treatment should be adopted by them.

Changing in Equity Interests

For reasons similar to those discussed in the preceding paragraphs changes in equity interest between participants for reasons of sale of all or of an interest, introduction of a new participant, abatement of equity interests for various reasons do not have any direct effect on joint venture accounts. Total contributions and their disbursements are unchanged and its only the allocation of these disbursements which may vary. Again, as in the case of differential contributions, such changes have some accounting problems as well as tax and stamp duty consequences for the participants.

AUDIT REQUIREMENTS

It is normal for participants to require that a joint venture be audited (even though there is no legal requirement) as each venturer will need to disclose certain information in their own audited accounts. This requirement is usually stipulated in the JOA as is the method of the auditor's appointment. In practice the auditor is usually recommended by the manager and often is its auditor. In any event, this appointment should be approved by all the parties to the agreement.

Since for a joint venture an auditor's responsibilities are not covered by legislation, as with companies, it is important that these responsibilities and the scope of the audit be discussed and agreed with the management committee and then set out by the auditor in an appropriate letter of engagement. It is not usual, nor in my view necessary, for these responsibilities to be laid down in the management agreement.

One further aspect which should be covered at this stage is the appropriate financial year end for the preparation of the joint venture financial statements which would normally coincide with that of the participants. A problem may arise when such year ends of all participants do not coincide and an agreement in respect of the bearing of the additional costs would need to be reached if accounts are to be made out and audited at a period which is different from that of the majority of venturers.

The nature of the audit of the joint venture and the report on the financial statements will be governed by:

— any specific provisions set out in the JOA;
— the requirements of the participants and the management committee;
— the format of the financial statements;
— common law regarding audits generally and the responsibilities of the auditor to his clients;
— the audit standards laid down by the accounting bodies.

The Statement of Auditing Standards issued by the accounting bodies in 1977 and reissued in 1983 clearly defines an audit as follows:

> An audit is the independent examination of financial information of any entity, whether profit orientated or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

It is apparent that the audit of a joint venture falls within this definition and an auditor will be bound to carry out his audit in conformity with this standard.

In conducting his audit, the auditor should carry out his normal review of the accounting systems and internal controls and submit to the management committee a letter on such weaknesses and break downs of controls that come to his notice as well as including comments upon such matters as accounting policies. The auditor might also be expected to report on whether the manager has complied with relative provisions of the JOA and/or policies laid down by the management committee. If so, these requirements would be covered in his audit report and any non-compliance matters covered in his management letter. If there are not specific requirements for these the auditor would only mention those matters of non-compliance which came to his notice during the course of his audit.

On occasions it may well be practical, in cases where different accounting policies are adopted, for individual audited statements for each participant to be prepared by the manager, such statements to incorporate such policies as the participant may require. A separate audit report would then be issued.

Additional Information

There may be requirements for an audit to cover certain additional information not covered in the financial statements and the auditor would then report separately on this matter. Examples of such include:

- as discussed earlier in this paper, there may not be agreement between all parties as to certain accounting policies based upon data maintained by the manager, *e.g.* the basis of valuation of unshipped products;
- an audit of the fixed asset register and possible varying depreciation rates being deemed appropriate for different participants;
- a report on quality of product produced and quantities sold.

Relationship with Other Auditors

It is obviously impractical for the auditors of each venturer to have access to the books and records of the manager in order to independently review the financial information that will be integrated into their own audited accounts. It should suffice for the auditor of the joint venture to make such information and working papers available as are required and to respond to the normal enquiries that will be made.

CONCLUSIONS

The various sections of this paper have dealt with the structure of joint ventures, the rights of its participants and matters to which attention should be given when drawing up accounting procedures.

Throughout this paper reference has been made to the need to evidence accounting fundamentals and principles in the JOA. The reason for this is obvious in that such matters can only be varied with the consent of all parties to the agreement. These matters should of course be incorporated, when appropriate, in the JVAP, which will also cover many more of the less fundamental accounting issues and which can more easily be amended under the provision of a JOA.

The main conclusions to be drawn can be briefly summarized as follows:

- Since a joint venture is not a separate legal entity it is governed by its constitutional agreements.
- Considerable care must be exercised in drawing up such agreements by legal practitioners, preferably in consultation with accountants.

- Joint venture accounting procedure, should be developed by reference to the constituted agreements and such accounting and auditing standards as are generally accepted or being developed.
- Accounting procedures and policies should be drawn up with reference to those adopted by participants.
- Disputes on matters between participants are more likely to develop if the constituted agreements and accounting procedures lack clarity of definition and direction.

APPENDIX I

SOME DISTINGUISHING CHARACTERISTICS OF PARTNERSHIPS AND JOINT VENTURES

	Partnership	Joint Venture
Income	Received jointly by all the partners with profits shared equally or as provided in the partnership agreement.	Received separately by the individual participants, with no income or profit being earned by the joint venture.
Funding	Essentially self-funding as all revenue derived from output is received by the partnership and profits will usually be distributed to partners only if revenue exceeds outgoings.	Not self-funding as all revenue derived from output is received directly by participants and funds must be continually provided by participants to the joint venture to meet operating costs and further capital expenditure.
Financial Statements	Produces accounts which show a profit or loss from operations and the financial position of the partnership.	Produces accounts which show net costs of production or output and costs of the assets acquired for the joint venture.
Income Tax	Lodges a partnership income tax return. In addition each partner lodges its own tax return in which it includes its share of the partnership profit or loss.	Does not lodge an income tax return. Each participant lodges its own tax return in which it includes its share of the costs of the joint venture.
Ownership of Assets	A beneficial interest in all partnership property, which does not carry title to specific assets prior to dissolution of the partnership (and then only entitles the partner to his proportion of the surplus after payment of all liabilities).	Shared legal ownership (as tenants in common) of the specific assets acquired by or contributed to the joint venture.
Charging of assets	Only the whole partnership may charge partnership assets. Individual partners may charge their respective interests in the partnership, but no title to the partnership assets is available until dissolution.	Individual participants may charge their respective interest in the assets of the joint venture. Agreements will often stipulate that charges to secure outside borrowings by participants must rank behind all cross charges between participants.
Agreement	Partnership agreement is not essential as, if parties carry on business in common with a view to making a profit together, a partnership is created which	Joint venture agreement is essential and should at least cover ownership of the assets, sharing the costs of production of the joint venture, the term of the

will be subject to the Partnership Acts. It is open to the partners nevertheless to regulate their rights between themselves as they wish, and such a partnership agreement will usually contain such details as the interest of each partner in the profits or losses of the partnership and the obligation of each partner for capital contributions.

venture and the essential mutual covenants of the participants, including a denial of partnership.

Management

The existence of a partnership automatically makes each partner an agent of all the others for the purpose of partnership business; any agreement for management by one of the partners would have to be specifically agreed to by all partners, usually by being incorporated into a partnership agreement.

The appointment of a separate manager or operator (who may be one of the participants) must be made by all of the participants, usually by a separate management agreement.

Liability to third parties

Under the Partnership Acts, the general rule is that each partner is jointly and severally liable for all partnership debts. The main exception is where one partner incurs a liability without the authority of the partnership and this absence of authority is known to the third party.

The general rule at common law is that each participant is only liable for all acts within the authority of the other participants or the manager. Such liability is joint and several but this does not prevent participants from agreeing between themselves to share such liabilities in agreed proportions. However a similar provision would have to be included in all contracts with third parties for this to be binding on the third party.

Termination

If no fixed term, a partnership is terminable by any partner at will. If a fixed term, a partnership also may be dissolved by the Court before expiration of the term in the event of breach by a partner or if the Court considers it just and equitable to do so.

If no fixed term, a joint venture is terminable by any participant but not before that participant's contractual obligations under the joint venture agreement have actually been performed. If a fixed term, a joint venture is non terminable before the expiry of the stipulated term. In either case a joint venture cannot be dissolved by the Court. Any breach of the joint venture gives rise to the usual contractual remedies of injunction, damages etc. as appropriate.

The above appendix has been reprinted from *Unincorporated Joint Ventures — Accounting and Auditing Implications* by Coopers & Lybrand from whom permission has been received.

APPENDIX II.

THE XYZ JOINT VENTURE
STATEMENT OF ACCOUNTS — 30TH JUNE 19X2

	Cumulative 19X1 $	Year Ended 19X2 $	Cumulative 19X2 $
Contributions Received			
A Limited	13,500	2,700	16,200
B Limited	9,000	1,800	10,800
C Limited	7,500	1,500	9,000
	30,000	6,000	36,000
Exploration Expenditure			
- on areas of interest abandoned or deemed irrecoverable	(20,000)	(5,000)	(25,000)
	$10,000	$1,000	$11,000
Current Assets			
Cash at bank	5,500	(100)	5,400
Stores — at cost	1,500	(400)	1,100
	7,000	(500)	6,500
Less			
Current Liabilities			
Trade creditors	4,000	-	4,000
Sundry creditors and accruals	1,000	500	1,500
	5,000	500	5,500
Net Current Assets	2,000	(1,000)	1,000
Exploration Expenditure			
- on areas of interest still under investigation (Note 3)	8,000	2,000	10,000
	$10,000	$1,000	$11,000
Contingent Liabilities	NIL		NIL
Capital Expenditure Commitments	NIL		1,000

THE XYZ JOINT VENTURE
NOTES TO STATEMENT OF ACCOUNTS — 30 JUNE, 19X2

1. ORGANISATION AND PARTICIPANTS' INTERESTS

The XYZ Joint Venture was formed under the terms of the Joint Venture Agreement dated 19X1, to explore, and if commercially viable to do so, develop and exploit the mineral resources of the Joint Venture area at in (State).

The XYZ Joint Venture is not a separate legal entity, but is a cost sharing arrangement made between the participants in accordance with the foregoing Joint Venture agreement. Each participant has an interest in each asset and liability recorded by the manager of the Joint Venture and is required to bear a proportion of its expenditure.

The respective interests of the participants in the Joint Venture as at 30 June, 19X2, and the obligations for contribution to that date, were as follows:

A Limited	45%
B Limited	30%
C Limited	25%

2. SIGNIFICANT ACCOUNTING POLICIES

The Statement of Account has been prepared in accordance with the historical cost convention. Continuation of operations by the Joint Venture has been assumed (even though this is dependent upon contributions being maintained by participants) and so the going concern basis of accounting has been used. All accounting policies for the current year are consistent with those of the previous year.

(a) Exploration Expenditure

Cumulative exploration and evaluation expenditure is carried forward when it is incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- the expenditure is expected to be recouped by the participants through successful development and exploitation of the area; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable mineral reserves, and active and significant operations, or in relation to, the area are continuing.

If the existence of economically recoverable mineral reserves in a particular area of interest is established subsequently, the accumulated exploration and evaluation expenditure attributable to that area will be transferred to mine properties and development.

Cumulative exploration and evaluation expenditure which no longer satisfies the above policy is no longer carried in the Statement of Accounts as an asset, but is charged against, and shown as a deduction from, participants' contributions.

(b) Stores

Stores represent consumable supplies and are revalued at weighted average cost.

3. EXPLORATION EXPENDITURE

	19X1	19X2
Net book value at start of year	7,000	8,000
Expenditure for year	3,000	7,000
	10,000	15,000
Expenditure on areas of interest abandoned or deemed irrecoverable during the year	(2,000)	(5,000)
Balance carried forward in accordance with accounting policy in note 2(a)	$8,000	$10,000

The ultimate recoupment of the above expenditure by the participants is dependent upon successful development and exploitation of the respective areas of interest.

Included in exploration expenditure for the year is auditors' remuneration of $1,500 (19X1 $1,300).

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APPENDIX III.

THE KOALA JOINT VENTURE
STATEMENT OF ACCOUNTS – 30TH JUNE, 19X2

	Cumulative 19X1 $	Year Ended 19X2 $	Cumulative 19X2 $
Current Assets			
Cash at bank and in hand	5,500	(100)	5,400
Sundry debtors and prepayments	700	(200)	500
Stores (Note 5)	14,000	3,400	17,400
Incomplete product inventories	1,800	(100)	1,700
	22,000	3,000	25,000
Less			
Current Liabilities			
Trade creditors	6,000	1,000	7,000
Sundry creditors and accruals	4,000	1,500	5,500
Employee benefits	3,000	500	3,500
Deferred maintenance	5,000	(2,000)	3,000
	18,000	1,000	19,000
NET CURRENT ASSETS	4,000	2,000	6,000
Fixed Assets			
Plant, equipment, property and buildings (Note 6)	24,000	14,000	38,000
Mine properties and development (Note 7)	45,000	7,000	52,000
	77,000	23,000	100,000
Less			
Non-current Liabilities			
Employee benefits	12,000	2,000	14,000
Net Assets			
under control of Manager (Note 3)	$69,000	$23,000	$92,000
Contingent Liabilities (Note 9)			
Capital Expenditure Commitments (Note 10)			
Lease and Hire Commitments (Note 11)			

NOTES TO STATEMENT OF ACCOUNTS — 30 JUNE, 19X2

1. ORGANISATION AND PARTICIPANTS' INTERESTS

The Koala Joint Venture was formed under the terms of the Joint Venture Agreement dated 19X1, to explore, and if commercially viable to do so, develop and exploit the mineral resources of the Joint Venture area at in (State).

The Koala Joint Venture is not a separate legal entity, but is a cost sharing arrangement made between the participants in accordance with the foregoing Joint Venture agreement. Each participant has an interest in each asset and liability recorded by the manager of the Joint Venture and is entitled to an agreed proportion of its output after bearing that proportion of its costs of production.

The respective interests of the participants in the Joint Venture as at 30th June, 19X2 were as follows:

A Limited	45%
B Limited	30%
C Limited	25%

During 19X1 and 19X2 the first $100,000 of expenditure by the manager on behalf of the Joint Venture was to be contributed 60% by A Limited and 40% by B Limited. Thereafter contributions reverted to the same proportions as the interests of the participants set out above.

2. SIGNIFICANT ACCOUNTING POLICIES

The Statement of Accounts has been prepared in accordance with the historical cost convention. Continuation of operations by the Joint Venture has been assumed (even though this is dependent upon contributions being maintained by participants and so the going concern basis of accounting has been used. All accounting policies adopted for the current year are consistent with those of the previous year, and represent those matters on which common policies have been agreed by participants. Where common accounting policies have not been agreed by participants, the effect of applying alternative policies will be reflected in the accounts of individual participants.

(a) Plant, equipment, property and buildings

The cost of each item of plant, equipment, property and buildings is being written off over its expected economic life, in the establishment of which, due regard is had to the life of the related area of interests. Profits and losses on disposal of these areas are brought to account as part of the costs of production.

(b) Mine properties and development

Costs incurred on areas of interest for which it has been established, to the satisfaction of the Management Committee, that economically recoverable mineral reserves exist, are recorded as mine properties and development. Cost includes direct cost of labour and supplies consumed and an appropriate proportion of variable and fixed overhead expenditure.

For those areas of interest in which extraction of ore has commenced, amortisation of costs is provided on a units-of-production basis. For those areas of interest in which extraction of ore has not commenced, amortisation of costs will not be provided until the commencement of production.

(c) Exploration expenditure

Cumulative exploration and evaluation expenditure is carried forward under fixed assets when it is incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- the expenditure is expected to be recouped by the participants through successful development and exploitation of the area; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable mineral reserves, and active and significant operations in, or in relation to, the area are continuing.

If the existence of economically recoverable mineral reserves in a particular area of interest is established subsequently, the accumulated exploration and evaluation expenditure attributable to that area will be transferred to mine properties and development.

Cumulative exploration and evaluation expenditure which no longer satisfies the above policy is no longer carried in the Statement of Accounts as an asset, but is charged against, and shows as a deduction from, participants' contributions.

(d) Stores

Stores represent consumable supplies and maintenance spares and are valued at weighted average cost less a provision for obsolete items.

(e) Incomplete product inventories

Product inventories become the property of participants in proportion to their respective interests upon completion. Product which is incomplete is included in the Statement of Accounts at cost. Cost represents weighted average cost and includes direct costs of material and labour and an appropriate proportion of variable and fixed overhead expenditure, including depreciation and amortisation. The volume of completed product held on behalf of participants for future shipment is shown in note 4(d).

(f) Employee benefits

The amounts expected to be paid to employees of the manager, who are wholly engaged on joint venture operations, for their *pro rata* entitlement to long service, annual and sick leave are accrued annually at current pay rates having regard to experience of employees departures and period of service. The accruals are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

(g) Maintenance and repairs

The cost of maintenance, repairs and minor renewals are charged to costs of production as incurred. Where the maintenance cycle of major operating plant extends beyond one financial year, a provision for deferred maintenance is raised to cover the costs of periodic overhauls.

(h) Foreign currency

Amounts payable by the joint venture in foreign currencies are translated to Australian currency at rates of exchange ruling at year-end except where forward exchange cover has been obtained when the settlement rate has been used.

3. DISPOSITION OF CONTRIBUTIONS FROM PARTICIPANTS

Contributions from participants are disbursed by the Manager in the purchase of assets for use in the operations of the joint venture and for costs of production of finished product, control of which passes to the participants on completion. The book value of the net assets under the control of the manager at the beginning and end of the year, are set out in the Statement of Accounts.

The net movement for the year comprised:

	Participants			
	A Ltd.	B Ltd.	C Ltd.	Total
	$	$	$	$
Contributions due and received:				
(a) prior to $100,000 level	36,000	24,000	—	60,000
(b) after $100,000 level	9,000	6,000	5,000	20,000
	45,000	30,000	5,000	80,000
Cost of completed product made available to participants during the year (Note 4)	(23,400)	(15,600)	(13,000)	(52,000)
Exploration expenditure on areas of interest abandoned or deemed irrecoverable during the year (Note 8)	(2,250)	(1,500)	(1,250)	(5,000)
	$19,350	$12,900	$(9,250)	$23,000

4. COSTS OF PRODUCTION OF COMPLETED PRODUCT

(a) Costs for the year comprised:

	19X1	19X2
	$	$
Mining	20,000	26,000
Milling and concentrating	13,000	16,000
Mine management and administration	7,000	10,000
	$40,000	$52,000

(a more detailed analysis of the foregoing into types of expenses would usually be provided instead of the above brief summary).

(b) Included in the foregoing costs are the following items:

	19X1	19X2
	$	$
Depreciation of plant, equipment, property and buildings	6,000	10,000
Amortisation of mine property and development	3,000	5,000
Loss on disposal of plant, equipment, property and buildings (Note 6)	1,000	2,000
Auditors' remuneration	4,500	5,000
Bad debts in respect of sundry debtors	—	500

(c) Completed product made available to participants during the year:

	19X1 Tonnes	19X2 Tonnes
A Limited	540	630
B Limited	360	420
C Limited	300	350
	1,200	1,400

(d) Completed product held on behalf of participants for future shipment:

	19X1 Tonnes	19X2 Tonnes
A Limited	60	75
B Limited	100	80
C Limited	10	45
	170	200

5. STORES

	19X1 $	19X2 $
Consumable supplies and maintenance spares — at cost	14,200	17,700
Less: Provision for obsolescence	(200)	(300)
Net book value	$14,000	$17,400

6. PLANT, EQUIPMENT, PROPERTY AND BUILDINGS

	19X1 $	19X2 $
Cost	30,000	50,000
Less: Accumulated depreciation	(6,000)	(12,000)
Net book value	$24,000	$38,000
Net book value at start of year	23,000	24,000
Additions	10,000	30,000
Disposals (see below)	(3,000)	(6,000)
Depreciation	(6,000)	(10,000)
Net book value at end of year	$24,000	$38,000
Disposals — cost	5,000	10,000
— accumulated depreciation	(2,000)	(4,000)
	3,000	6,000
— sales proceeds	2,000	4,000
— loss on disposal	$1,000	$2,000

7. MINE PROPERTIES AND DEVELOPMENT

	19X1 $	19X2 $
Areas in which production has commenced:		
Cost	40,000	60,000
Less: Accumulated amortisation	(7,000)	(12,000)

Areas in which production has not commenced:		
Cost	12,000	4,000
Net book value	$45,000	$52,000
Net book value at start of year	38,000	45,000
Additions	10,000	12,000
Amortisation	(3,000)	(5,000)
Net book value at end of year	$45,000	$52,000

8. EXPLORATION EXPENDITURE

	19X1	19X2
	$	$
Net book value at start of year	7,000	8,000
Expenditure for year	3,000	7,000
	10,000	15,000
Expenditure on areas of interest abandoned or deemed irrecoverable during the year	(2,000)	(5,000)
Balance carried forward in accordance with accounting policy in note 2(c)	$8,000	$10,000

The ultimate recoupment of the above expenditure by the participants is dependent upon successful development and exploitation of the respective areas of interest.

9. CONTINGENT LIABILITIES

A sum of $200,000 (19X1 $200,000) is payable to the Government of the State of if completed product of 5,000 tonnes is not delivered to the participants by the end of 19X5. This contingent liability is secured by a several guarantee by the participants over their respective interests in the assets of the joint venture.

10. CAPITAL EXPENDITURE COMMITMENTS

Contracts have been executed by the manager on behalf of the joint venture participants for the purchase of plant, equipment, property and buildings for $15,000 (19X1 $10,000). Further sums of $20,000 (19X1 $5,000) have been approved for capital expenditure projects in progress.

11. LEASE AND HIRE COMMITMENTS

	19X1 $	19X2 $
Aggregate amount contracted but not provided for in the accounts:		
Land and buildings	100	400
Plant and equipment	50	600
Motor vehicles	50	500
	$200	$1,500
Due within twelve months	100	800
Due after twelve months	100	700
	$200	$1,500

Note: This pro forma assumes common accounting policies are adopted by all participants. However, if a common policy was not adopted for depreciation and amortisation, no such charges would be disclosed in the financial statements nor included in production costs.

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