

# FASB issues guidance on accounting for joint venture formations

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## At a glance

On August 23, the FASB issued guidance requiring a joint venture to initially measure all contributions received upon its formation at fair value. This accounting will largely be consistent with [ASC 805, Business Combinations](#), although there are some specific exceptions.

Before the ASU, there was no authoritative guidance in US GAAP that addressed how a joint venture should recognize contributions received. As a result, there has been diversity in practice, with some joint ventures accounting for contributions received at carryover basis and others at fair value. This new guidance is intended to reduce diversity in practice and provide users of the joint venture's financial statements with more decision-useful information. It may also reduce the amount of basis differences that an investor in a joint venture needs to track.

The new guidance should be applied prospectively and is effective for all newly-formed joint venture entities with a formation date on or after January 1, 2025, with early adoption permitted. Joint ventures formed prior to the adoption date may elect to apply the new guidance retrospectively back to their original formation date.

## Background and scope

[ASU 2023-05, Business Combinations—Joint Venture Formations \(Subtopic 805-60\): Recognition and Initial Measurement](#), applies to the initial formation of a “joint venture” or a “corporate joint venture” as defined in the accounting literature (collectively referred to as a JV). Transactions in which two or more entities contribute assets or subsidiaries to a newly-formed entity, or otherwise agree to jointly develop or market products together, are often referred to as joint ventures when they do not meet the accounting definition of a JV. Therefore, it is important to distinguish between arrangements described by the parties as joint ventures and arrangements that qualify for joint venture accounting.

This determination of whether an entity qualifies for joint venture accounting requires judgment, and some of the characteristics defining a JV are broad in nature. To be considered a JV for accounting purposes, all of the following criteria must be met.

- There must be joint control over all the significant decisions of the entity.
- The venturers should actively participate in the overall management of the JV.



- The JV should operate for the mutual benefit of the venturers, frequently 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.

In other words, it is important to understand the purpose, nature, and operations of the entity when determining if it represents a JV. For example, an arrangement in which Company A contributes a business and Company B contributes cash and acts as a passive investor would not meet the definition of a JV.

The new guidance does not impact accounting by the venturers. Under current guidance, a venturer is required to initially recognize its contribution to (which represents its initial investment in) the JV at fair value as of the date the entity loses control of those net assets as defined under [ASC 610-20](#), *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets*, or [ASC 810](#), *Consolidation*, depending on whether a group of assets or a business is contributed. This treatment will not change. However, since the venturers' accounting is based on a fair value model, it is expected that the new guidance eliminates or reduces many of the current basis differences between the JV's financial statements (if the JV had recorded the contributions at carryover basis) and the reported investment by the venturers, thus reducing complexity.

The new guidance does not apply to formations of JVs that are determined to be not-for-profit entities or entities that may be proportionally consolidated under certain specialized industry guidance.

Additionally, collaboration agreements are excluded from the scope of the new guidance unless there is a part of the collaboration that is conducted in a separate legal entity that meets the definition of a JV. In that case, the JV should apply the new guidance in its standalone financial statements.

## Key provisions

The formation of a JV results in the creation of a new reporting entity, and none of the assets or businesses contributed survive as an independent entity or as the historical operations of the entity. Accordingly, unlike in a business combination, the formation of a JV does not result in the identification of an accounting acquirer or a determination that one party gained control over another party.

As a result, the guidance requires a newly-formed JV to apply a new basis of accounting to all of its contributed net assets, which results in the JV initially measuring its contributed net assets under [ASC 805-20](#), *Business Combinations*, with certain exceptions that are highlighted below and summarized in the Appendix. While many aspects of the new guidance are comparable to acquisition accounting, the new guidance does not refer to the joint venture or any of the venturers as the acquirer, or the contributed net assets as the acquiree. The FASB did not want to imply that this new guidance would affect the application of acquisition accounting, particularly when a newly formed entity (i.e., Newco) is utilized.

## Measurement

A JV is required to measure the net assets contributed as of the formation date. The formation date is meant to function similar to the acquisition date in a business combination; it is the relevant date to measure all of the contributed assets and liabilities. However, unlike the typical determination of consideration

in a business combination, a JV should measure its total net assets as the fair value of the JV entity as a whole after the contributions are received.

Total net assets of the JV are measured as the fair value of 100% of the JV's outstanding equity interests immediately following formation, including any noncontrolling interests in the contributed net assets.

Total net assets do not include, however, the fair value of any contingent consideration or replacement share-awards, as described in [Determining what is part of the JV formation](#).

As a result, total net assets do not simply reflect the sum of the individual groups of net assets contributed by each venturer.

The formation date is defined as the date on which an entity initially meets the definition of a JV. There is no further guidance about this determination in the ASU, and it could require significant judgment, particularly when assets or liabilities are not all contributed at the same time.

## EXAMPLE

### Assets contributed to the JV as part of formation on different dates

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- The formation date of a newly-formed JV is February 1, 20X0. On that date, investor X contributes a business in exchange for equity of the JV. Investor Y contributes cash and other assets, and agrees that it will contribute additional assets before March 1, 20X0.
- All contributions by investor X and Y are determined to be part of the JV formation.

What date should the JV use to value the assets and liabilities contributed?

### Analysis

Regardless of when the assets and liabilities are legally contributed to the JV, they should be valued as of the formation date, February 1, 20X0.

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Determination of the formation date can be further complicated when multiple arrangements constitute the JV formation transaction. In determining whether to account for multiple arrangements as a single transaction that establish the JV formation, the entity should consider if:

- (1) the arrangements are entered into at the same time or in contemplation of one another,
- (2) the arrangements form a single transaction designed to achieve an overall commercial effect,
- (3) the occurrence of one arrangement is dependent upon the occurrence of at least one other arrangement, or
- (4) one arrangement on its own would not be considered economically justified, but the multiple arrangements considered together would be.

With the limited exceptions described in [Recognition of goodwill and in process research & development \(IPR&D\)](#), all of the contributed net assets should be recorded in accordance with the guidance in [ASC 805-20](#). Therefore, most assets and liabilities are recognized at their fair values. However, similar to acquisition accounting, certain assets and liabilities, such as contract assets and

contract liabilities, certain contingencies, pension and postretirement benefits, leases, and income taxes, are recognized at amounts other than fair value. See further discussion of the measurement basis of acquired assets and assumed liabilities in [BCG 2.5](#).

The ASU also states that if a venturer contributes financial assets to the JV and accounts for the derecognition of those financial assets under [ASC 860](#), *Transfers and Servicing*, then the JV should similarly determine if the transfer results in the recognition of the transferred financial assets by applying the guidance in [ASC 860](#). This would not include scenarios in which a venturer contributes a business (or group of assets) that contains financial assets if they are considered “in substance nonfinancial assets” under [ASC 610-20](#). In this scenario, the venturer would account for the disposition of all assets, including the financial assets, under [ASC 810](#) or [ASC 610-20](#), and therefore, the JV would similarly not apply [ASC 860](#) when assessing how to record the financial assets in its financial statements.

JVs can apply the measurement period guidance in [ASC 805](#), which allows entities up to one year after the formation date to obtain information necessary to identify and measure the total net assets of the JV, assets acquired, liabilities assumed, and any noncontrolling interest. During the measurement period, the JV is able to adjust the provisional amounts recognized for new information about facts and circumstances that existed as of the formation date.

Refer to the [Appendix](#) for a summary of key considerations and relevant accounting under the new guidance, as compared to the accounting for business combinations and asset acquisitions.

## Determining what is part of the JV formation

A JV and its venturers may enter into multiple arrangements at or around the same time as the formation. For example, the JV may enter into a service contract with a venturer to pay the venturer for future services to be performed. To determine what is part of formation, the JV should follow the guidance for assessing what is part of a business combination. This includes evaluating why the payments are included in the arrangement, which party initiated them, and when the parties entered into the arrangement. See [BCG 2.7](#) for additional information.

As the formation of a JV is the formation of an entirely new entity, the JV should not apply or analogize to the guidance related to pre-existing relationships in a business combination. Additionally, a JV is prohibited from applying the guidance in [ASC 805](#) related to accounting for acquisition-related costs and transactions that reimburse the acquiree for paying the acquirer’s acquisition-related costs.

When share-based payment awards are issued at formation to replace awards held by grantees of the contributed entities, the JV should allocate the fair value of the awards at the formation date between pre-formation vesting and post-formation compensation cost similar to the accounting for share-based payment awards in a business combination, which is further described in [BCG 3](#). However, instead of the portion of the fair value of the awards attributed to pre-formation vesting being accounted for as additional purchase price as it is in a business combination, this amount is accounted for as an allocation of consideration issued in a JV formation transaction. Similar to acquisition accounting, the JV should record the portion of the fair value of the awards attributable to post-formation service as compensation cost over the applicable service period.

Refer to the [Appendix](#) for a summary of key considerations and relevant accounting under the new guidance, as compared to the accounting for business combinations and asset acquisitions.

## Recognition of goodwill and in process research & development (IPR&D)

Regardless of whether the contributions received by the JV upon formation represent a business or an asset group, accounting for goodwill and IPR&D largely follows the accounting model for business combinations. Goodwill should be recognized when the consideration, which in this case is defined as the fair value of the JV as a whole, exceeds the fair value of the identifiable net assets contributed. Negative goodwill should be recognized as an adjustment to equity, not as a bargain purchase gain as in a business combination.

Recognition of goodwill is not limited to JV entities that meet the definition of a business. The Board believes it would be uncommon for an entity that meets the accounting definition of a JV to have a significant amount of goodwill and also not be a business, so it did not provide separate accounting models for other scenarios that may occur infrequently.

As it relates to IPR&D, all intangible research and development assets contributed to a JV at formation should be capitalized as indefinite-lived intangible assets, consistent with the accounting model for business combinations. Based on the Board's outreach, it understands that IPR&D assets may make up a significant portion of the assets contributed to research-oriented JVs. In those instances, the Board concluded that recognizing the costs associated with IPR&D immediately as an expense may not provide the most decision-useful information and would be inconsistent with the business combinations guidance on which the new guidance is largely based.

A JV that is a private company may apply the accounting alternatives related to the recognition of certain intangible assets (see [BCG 4.7](#)) and amortization and impairment of goodwill (see [BCG 9.11](#)).

## Disclosures

The disclosure requirements are relatively consistent with those for business combinations under [ASC 805](#) and include disclosure of the following:

- Formation date
- Description of the JV's purpose and why it was formed
- Formation date fair value
- Description of assets and liabilities recognized at formation
- Amounts recognized for each major class of assets and liabilities
- Qualitative description of factors that make up any goodwill recognized
- The affected amounts if the valuation of any of the amounts recognized is incomplete or any measurement period adjustments are recognized

## Effective date and transition

The new guidance is effective for both public and private JV entities with a formation date on or after January 1, 2025. Entities should apply the new guidance on a prospective basis to all JVs formed on or after the effective date. Early adoption is permitted.

For JVs formed before the effective date, an election can be made to apply the new guidance retrospectively if sufficient information is available to do so. This would require application back to the original formation date of the joint venture, using fair values of the contributed assets and liabilities at that date, and adjustment of all subsequent periods to reflect those assets and liabilities (e.g., depreciation, amortization, impairment assessments).

If retrospective adoption is elected, for any guidance in the new standard that is the same as the business combinations guidance, the JV would apply the business combinations guidance as it existed at the date of formation. For example, if the JV was formed in 2010, then when applying the new guidance, for any reference to application of [ASC 805](#), the JV would apply [ASC 805](#) as it existed in 2010.

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## Appendix

The chart below summarizes the key similarities and differences between accounting for business combinations or asset acquisitions and the formation of a JV under the new guidance.

Topic	Business combination (ASC 805-20) and/or asset acquisition (ASC 805-50)	JV formation (ASC 805-60)
Initial measurement	Assets and liabilities are measured at acquisition date fair value, with limited exceptions as described in <a href="#">BCG 2.5</a> .	Assets and liabilities are measured at formation date fair value, with the same limited exceptions as business combinations.
Goodwill	Goodwill is recognized in business combinations when the consideration paid is greater than the fair value of the net identifiable assets acquired. Goodwill is not recognized in asset acquisitions.	Goodwill is recognized when the total fair value of the JV exceeds the fair value of the net identifiable assets contributed. Goodwill is recognized regardless of whether the assets contributed represent a business or an asset group.
Bargain purchase gain	A bargain purchase gain is recognized in business combinations when the consideration paid is less than the fair value of the net assets acquired. A bargain purchase gain is not recognized in asset acquisitions.	No bargain purchase gains are recognized. Negative goodwill is recognized as an adjustment to equity of the JV.
In process research and development (IPR&D)	IPR&D is capitalized as an indefinite-lived intangible asset in a business combination. IPR&D is expensed in an asset acquisition.	IPR&D is capitalized as an indefinite-lived intangible asset, regardless of whether the assets contributed represent a business or an asset group.
Contingent consideration	Contingent consideration is recognized at estimated acquisition date fair value as additional purchase price.	Contingent consideration is accounted for as an allocation of consideration issued in a JV formation transaction.

Share-based payment awards	<p>The fair value of the awards is allocated between pre-acquisition vesting and post-acquisition compensation cost.</p> <ul style="list-style-type: none"> <li>• Amounts attributed to pre-acquisition vesting are accounted for as additional purchase price.</li> <li>• Amounts attributable to post-acquisition services are recognized as compensation cost over the applicable service period</li> </ul>	<p>The fair value of the awards is allocated between pre-formation vesting and post-formation compensation cost.</p> <ul style="list-style-type: none"> <li>• Amounts attributed to pre-formation vesting are accounted for as an allocation of consideration issued in a JV formation transaction.</li> <li>• Amounts attributed to post-formation service are recognized as compensation cost over the applicable service period.</li> </ul>
Acquisition-related costs	<p>Acquisition-related costs in a business combination should be expensed as incurred by the acquirer. In an asset acquisition, acquisition-related costs are included in the cost of the acquired assets.</p>	<p>Not specifically addressed, other than JVs cannot apply the guidance for business combinations or asset acquisitions.</p>
Reimbursement of acquisition-related costs	<ul style="list-style-type: none"> <li>• Reimbursement of acquiree acquisition-related costs are accounted for by the acquirer as part of the consideration transferred.</li> <li>• Reimbursement of acquirer acquisition costs paid for by the acquiree are accounted for by the acquirer as an expense.</li> </ul>	<p>Not specifically addressed, other than JVs cannot apply the guidance for business combinations.</p>
Pre-existing relationships	<p>If pre-existing relationships with the acquiree included favorable or unfavorable terms, the acquirer should recognize a gain or loss as an effective settlement.</p>	<p>Not specifically addressed, other than JVs cannot apply the guidance for business combinations. As a new entity, a JV would not be viewed to have pre-existing relationships with the venturers.</p>
Measurement period adjustments	<p>May obtain final valuation information for acquired assets and assumed liabilities, and total consideration issued, not to exceed one year after the acquisition date.</p>	<p>May obtain final valuation information for contributed assets and liabilities, and total formation-date fair value of the JV, not to exceed one year after the formation date.</p>