

EQUITY METHOD ON JOINT VENTURES CONSOLIDATION: IFRS INADEQUATE SOLUTION? PROSPECTIVE EVIDENCE FROM THE CANADIAN CASE

Abstract

A critical and controversial issue that has been debated over several decades is whether joint ventures should be consolidated by the equity method or proportionally jointly with the fully controlled interests. Responding to comparability concerns, the IASB has recently issued a new standard that eliminates the choice between the equity method and proportional consolidation, requiring only the equity method with expanded disclosures. In order to anticipate the impact of such a decision, using a sample of Canadian co-venturer firms, this study investigates the potential impact on the relative value relevance of the net assets, net income and cash flows, following the adoption of the new rules in 2013, for those co-venturer firms that choose the proportional consolidation before the IASB's change. We also investigate whether disaggregate cash flows of joint ventures are incrementally and overall value relevant. Therefore, our results have particular relevance for evaluating the IASB's changes of the accounting rules and footnotes disclosures. The study finds that a positive impact is expected on the value relevance of the net assets and a negative impact on the cash flows from operations of the co-venturer firms. The study also reveals that failure to disclose operating and investing joint ventures cash flows in IFRS 12 masks incrementally relevant information for the investor.

Keywords: Joint Ventures, Equity Method, Value relevance, Cash Flows, IFRS 11