



Guidance on Accounting for Joint Venture Formations

Key Aspects of ASU 2023-05:

ASU 2023-05 Business Combinations – Joint Venture Formations (Subtopic 805-60) provides guidance on recognition and initial measurement for joint venture formations. Upon formation, a joint venture must be treated as a new reporting entity with all contributed identifiable assets and liabilities measured at fair value. This ASU applies to financial statements of joint venture entities, including corporate joint ventures. However, it does not apply to a joint venture and its owner (except for the actual formation), not-for-profit entities, transactions under common control, certain industry-specific arrangements, or collaborative agreements outside a separate joint venture legal entity.

Private company joint ventures may elect accounting alternatives for the recognition of certain identifiable intangible assets and for the amortization of goodwill.

Required Disclosures:

- In the period of formation, joint ventures must disclose:
- The formation date.
- The purpose of the joint venture.
- The fair value of the joint venture at the formation date.
- A description of the assets and liabilities recognized at the formation date.
- The amounts recognized for each major class of assets and liabilities (on the balance sheet or in the notes).
- Description of the qualitative factors contributing to recognized goodwill (intangible assets not qualifying for separate recognition, expected synergies, etc.).

Summary:

ASU 2023-05 provides guidance for accounting and reporting joint venture formations that requires a new basis of accounting at fair value, recognition of goodwill, and specific disclosures. This ASU aligns joint venture formation accounting closely with business combinations. The ASU is effective prospectively for joint ventures with a formation date on or after January 1, 2025. Early adoption is permitted, and entities may elect retrospective application if sufficient information is available.