



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

9

Date: February 22, 2011
Memo to: Members of the IPSASB
From: Annette Davis
Subject: Entity Combinations

Objective of this Session

- To discuss and provide feedback on aspects of the working definition of entity combination and other issues related to the scope of the project.

Agenda Material

9.1 Issues Paper

Introduction

1. Key Issue 1 of the Project Brief is: *Does the Working Definition of an Entity Combination Encompass all the Types of Entity Combinations Intended by the IPSASB and Therefore Does it Establish the Intended Scope of the Project?*
2. The intention of this session is to clarify aspects of the working definition of entity combination and other issues related to the scope of the project. These issues are set out in Agenda Paper 9.1.
3. At its November 2010 meeting, the IPSASB agreed the revised Project Brief for this project. The IPSASB also agreed on the working definition of an entity combination and discussed aspects of the working definition. The issues already considered by the IPSASB and the working decisions made are set out in Appendix A.
4. The Project Brief and the Issues Paper (AP9.1) reflects the wide range of entity combinations included in the scope of the project. It should be noted that the IPSASB has not yet considered the possible accounting treatment for the different types of entity combinations in the scope of the project. In addition, as noted at the November 2010 meeting, a possible approach to distinguishing between different types of entity combinations could be to consider entity combinations that increase the size of the public sector separately from entity combinations in which the size of the public sector remains the same size. The possible accounting treatment of different types of entity combinations will be addressed at the June 2011 meeting. This may mean that decisions made at this meeting will need to be revisited.

Monitoring of Other Projects that may affect this Project

The IPSASB's Conceptual Framework Project

5. The IPSASB issued, in December 2010, Conceptual Framework Exposure Draft 1 (CF-ED 1) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*. CF-ED 1 considers that general purpose financial reports (GPFRs) are financial reports intended to meet the common information needs of users who are unable to require the preparation of financial reports tailored to their specific needs. GPFRs include, but are more comprehensive than, financial statements including their notes.
6. CF-ED 1 uses the terms “group reporting entity” and “reporting entity” rather than “economic entity.” A reporting entity is described as “a government or other public sector organization, program or identifiable activity that prepares GPFRs.” A group reporting entity is described as comprising “two or more separate entities that present GPFRs as if they are a single entity.”
7. If the proposals in CF-ED 1 are adopted, terminology and explanations in the Consultation Paper of this project may need to be revisited.

The IASB's Conceptual Framework Project

8. The IASB issued, in March 2010, Exposure Draft ED2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*.
9. The ED includes the notion of combined financial statements. Developments in this aspect of the IASB's project may be relevant for the IPSASB. This project will be monitored for further developments.

Appendix A: Issues Already Considered by the IPSASB and Working Decisions

November 2010

- The IPSASB agreed the revised Project Brief.
- The IPSASB agreed on the working definition of an entity combination as:
“The bringing together of separate entities and/or operations into one entity.”
- The working definition of an entity combination initially used the term “reporting entity” rather than “entity. The IPSASB agreed on this change because IPSASs do not define either “reporting entity” or “entity” or specify the difference between entity and reporting entity.

June 2010

- The IPSASB agreed to revise the Project Brief on Entity Combinations initially agreed upon at the March 2007 meeting.

April 2010

- The IPSASB agreed not to progress ED 41, *Entity Combinations from Exchange Transactions* to a standard because the split between exchange and non-exchange entity combinations could not be clearly articulated and therefore was not considered to be workable.

ENTITY COMBINATIONS

Objective of this Issues Paper

- To discuss and provide feedback on aspects of the working definition of entity combination and other issues related to the scope of the project.

Working Definition of an Entity Combination

1. The working definition of an entity combination is:
“The bringing together of separate entities and/or operations into one entity.”
2. The purpose of this project is to determine the accounting treatment where a transaction or other event meets this definition.
3. Particular aspects of the working definition of entity combination and other issues related to the scope of the project that are addressed in this paper are:
 - (a) What the term “operation” means in the working definition of an entity combination;
 - (b) Which entity does this project focus on;
 - (c) Proposed additional terminology so that transactions and other events that give rise to an entity combination can be consistently described;
 - (d) Proposed working definition of common control;
 - (e) Whether the formation of a joint venture is within the scope of this project; and
 - (f) Whether a transaction or other event that involves a GBE and gives rise to an entity combination is within the scope of this project.

Explanation of the Term “Operation”

4. The working definition of an entity combination refers to both “entities and/or operations” being brought together into one entity.
5. The term “operation” by itself has not been defined in IPSASs and was initially used in ED 41, *Entity Combinations from Exchange Transactions* (see Agenda Paper 4 of the March 2009 meeting). The definition in ED 41 was based upon the term “business” from, IFRS 3, *Business Combinations* and modified to respond to public sector circumstances as noted below. The definition of business is “an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.”
6. The term “business” was replaced with “operation” in ED 41 so that the ED kept the notion that a transaction or other event that gives rise to an entity combination

- can be an individual component of a government, such as a ministry, authority or department, program or activities in a particular region that meets the definition of an operation.
7. The definition of the term operation was also amended to include the notion of the provision of goods and services as this is a major activity of most public sector entities. Thus, an operation was defined as “an integrated set of activities and assets that is conducted and managed for the purpose of achieving an entity’s objectives, either by providing economic benefits or service potential.”
 8. A disadvantage with the definition of an “operation” is that it may exclude circumstances in which a public sector operation may involve activities directed at the management of liabilities rather than use of assets for the delivery of services. For example, a Treasury unit with the responsibility and authority to raise borrowings and incur liabilities in its own name and manage that debt. This unit could be transferred to another department, say the Ministry of Finance. It is not clear that the IPSASB intended that the accounting treatment of the receipt of the Treasury unit in the Ministry of Finance should be excluded from the scope of this project, at least at this stage of the project development.
 9. Another disadvantage of using the term “operation” is that IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* uses a similar term “foreign operation.” A foreign operation is defined as “an entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.”
 10. The inclusion of entity, associate and joint venture in the definition of a foreign operation may be problematic in that this project excludes from its scope associates and joint ventures (see separate section on joint ventures for an explanation of how they interact with this project).

Other Terms that could be Used

11. If operation is not considered an appropriate term to use because of the disadvantages outlined in paragraphs 8–10 above, another term could be used to describe an integrated set of activities, assets and/or liabilities. Possible other terms that have been raised in offline discussions are “activity” and “unit” because they are terms that are already used in IPSASs.
12. The term “activity” has the disadvantage of creating a circular definition because it is used to define what an operation is, i.e., an integrated set of activities, assets and/or liabilities. The term “unit” could be used. However, the term “cash-generating unit” has been defined in IPSAS 26, *Impairment of Cash-Generating Assets*. IPSAS 26 defines a cash-generating unit as “the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.”

13. The disadvantage with the use of the term “unit” is its origination in IPSAS 26, so it is associated with the “smallest identifiable group of assets...” Thus, the notion of “unit” appears to be more restrictive than “operation.”
14. Rather than using the term “operation” or finding another term to use in the definition of an entity combination, a full explanation of what is meant by the term could be inserted instead. The amended definition of an entity combination would be:
15. **“The bringing together of separate entities ~~and/or operations or components of an entity that represent an integrated set of activities, assets and/or liabilities that is conducted and managed for the purpose of achieving the entity’s objectives, either by providing economic benefits or service potential, into one entity.”~~**
16. Staff considers that this type of approach has the benefit of not cutting across terms already used in IPSASs.

Question 1:

Do you agree that the term “operation” in the definition of an entity combination should be replaced with the full explanation of what is meant by an operation?

Which Entity Does this Project Focus on?

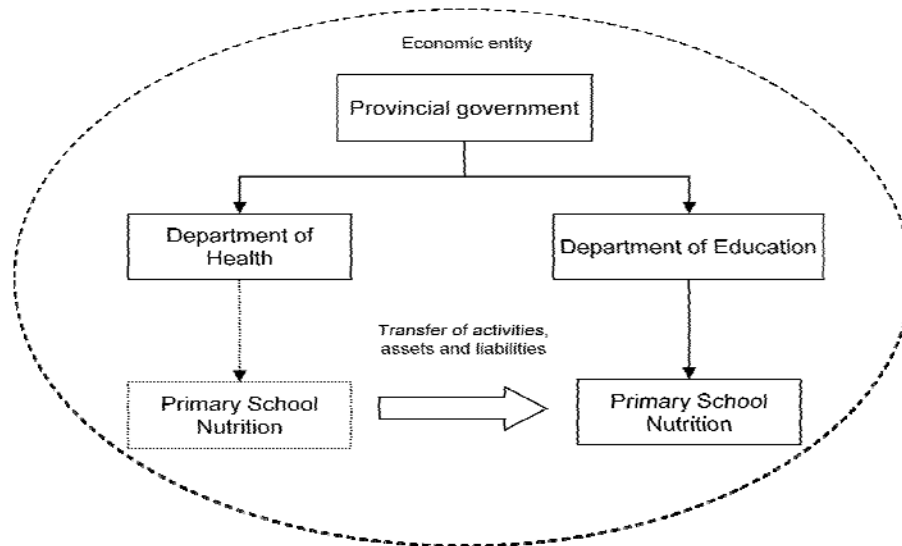
17. Where a transaction or other event occurs that meets the working definition of an entity combination, which entity does this project focus on? The Project Brief¹ states that the following types of entity combinations are included in the scope of this project:
 - (a) An existing or newly established entity gaining control of one or more entities;
 - (b) An existing or newly established entity gaining control of the operations of another entity or entities; or
 - (c) Two or more entities combining [either in an existing or newly established entity].

An Entity Gains Control of another Entity

18. Where an entity combination involves an existing or newly established entity gaining control of one or more entities, it is the accounting treatment in the entity that gains control of an entity that this project focuses on. This can be illustrated as follows.

¹ Paragraph 1.4.

Diagram 1: Gaining Control of an Entity



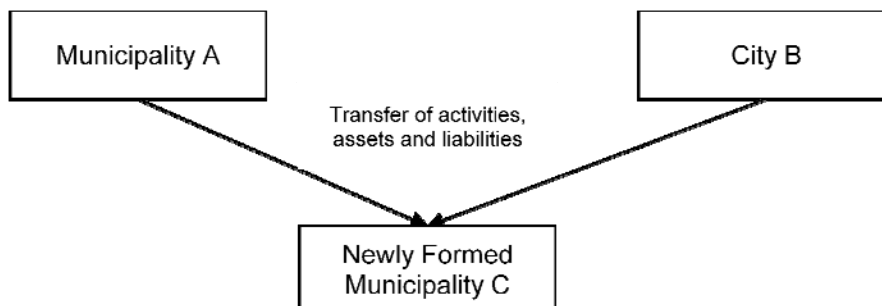
19. Diagram 1 above assumes that the Department of Health and the Department of Education both prepare GPFSS. It shows an entity combination where the Department of Education gains control of the Primary School Nutrition entity from the Department of Health. It is the accounting treatment of this transaction in the GPFSSs of the Department of Education that is in the scope of this project.
20. In practice the Department of Education may reflect the controlled entity in its consolidated GPFSSs by adopting one of two different approaches:
 - (a) The first approach is to make any recognition and/or measurement adjustments directly in the controlled entity's GPFSSs and incorporate the adjusted amounts when compiling the consolidated GPFSSs.
 - (b) The second approach is to retain the controlled entity's GPFSSs as they are and make any recognition and/or measurement adjustments as consolidation adjustments when compiling the consolidated GPFSSs.
21. The use of either approach does not alter the results of the consolidated GPFSSs. The second approach may be appropriate where the controlled entity retains different accounting policies from its controlling entity.
22. The accounting treatment in the GPFSSs of the entity that loses control of the entity is not within the scope of this project. Using Diagram 1 above, the accounting treatment in the GPFSSs of the Department of Health for the derecognition of the Primary School Nutrition entity is not within the scope of this project.

Two or More Entities Combine

23. Where an entity combination involves two or more entities combining, it is the accounting treatment in the resulting entity that this project focuses on. This type of entity combination can be achieved with the formation of a new entity that receives all the activities, assets and liabilities of the entities combining. Or it can

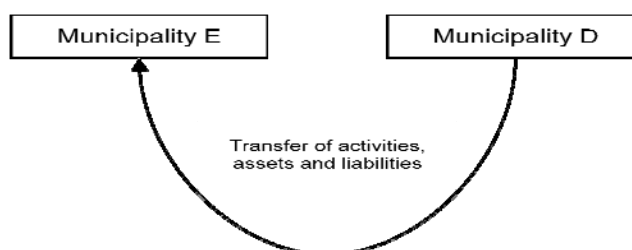
be achieved by one (or more) entities transferring all its activities, assets and liabilities to an existing entity. These two situations can be illustrated as follows.

Diagram 2: Formation of New Entity



24. Diagram 2 above illustrates an entity combination where Municipality C is formed to combine the activities, assets and liabilities of Municipality A and City B. It is the accounting treatment of this transaction in the GPFSS of Municipality C that is in the scope of this project.
25. The accounting treatment in the GPFSS of the entities that transfer all its activities, assets and liabilities is not within the scope of this project. Using Diagram 2 above, the accounting treatment in the GPFSS of Municipality A and City B is not within the scope of this project. Note that it is unlikely that these entities will be continuing to prepare GPFSSs.

Diagram 3: Transfer of Activities, Assets and Liabilities into an Existing Entity



26. Diagram 3 above illustrates an entity combination where Municipality D combines with Municipality E by transferring its activities, assets and liabilities to Municipality E. It is the accounting treatment of this transaction in the GPFSS of Municipality E that is in the scope of this project.
27. In a similar way to Diagram 2, the accounting treatment in the GPFSS of the operation that transfers all its activities, assets and liabilities is not within the scope of this project. Using Diagram 3 above, the accounting treatment in the GPFSS of Municipality D is not within the scope of this project. Note that it is unlikely that this municipality will be continuing to prepare GPFSSs.

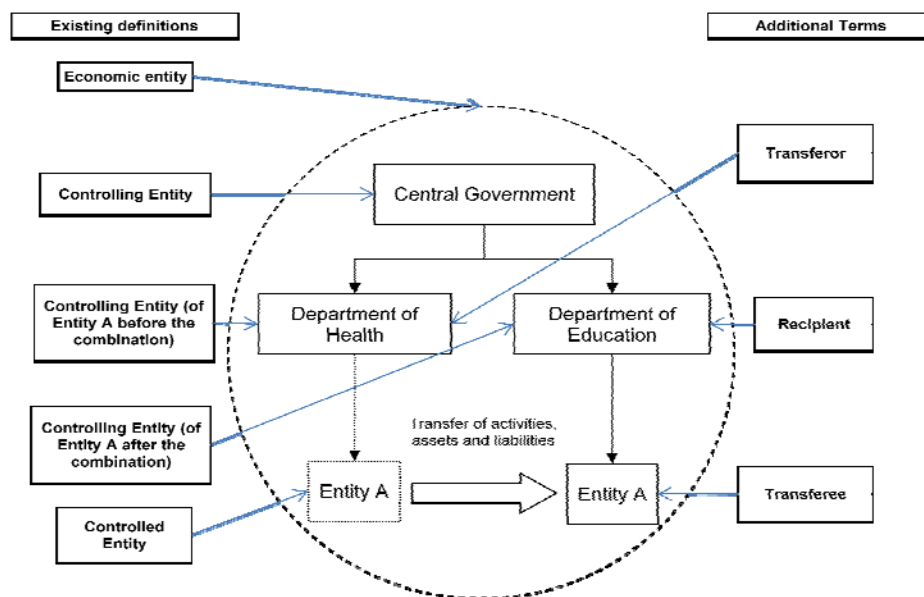
Question 2:

Do you agree that Diagrams 1, 2 and 3 accurately reflect the entity which is in the scope of this project?

Terminology

28. Across different jurisdictions the terms used to describe an entity combination can vary. This section explains the terminology that is proposed to ensure that each type of entity combination is referred to consistently and to easily and consistently identify the entities and operations involved an entity combination. Diagram 4 below includes the existing defined terms in IPSASs in bold on the left-hand side². The additional terms used are shown in bold on the right-hand side.

Diagram 4: Terminology for Gaining Control of an Entity

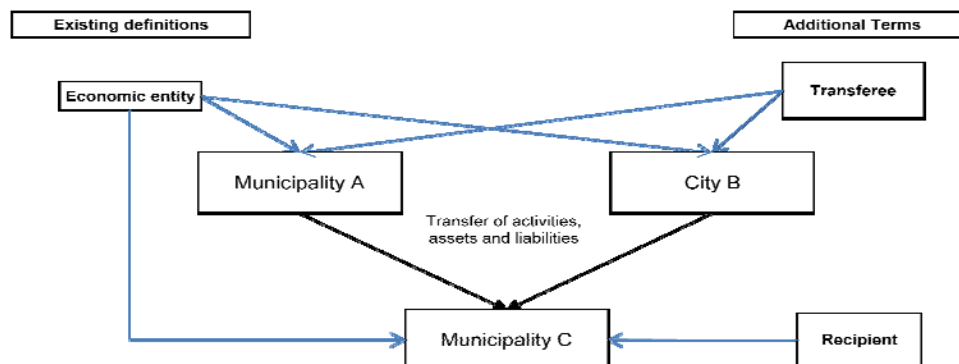


29. The existing definitions on the left hand side of Diagram 4 describe the entities involved in the combination. The additional terms identified on the right hand side of Diagram 4 identify the role of each party in transactions or other events that give rise to an entity combination (referred to as “entity combination transaction or other event”).
30. Diagram 4 is based on the example given in Diagram 1. Before the entity combination transaction or other event occurs, the economic entity comprises of the controlling entity (Central Government) and two controlled entities (the Department of Health and the Department of Education). The Department of Health is also a controlling entity of Entity A. Entity A is a controlled entity.
31. To describe the entity combination transaction or other event, the Department of Education gains control of Entity A and the Department of Health loses control of Entity A. That is, the Department of Education is the recipient of Entity A, the Department of Health is the transferor and Entity A is the transferee.

² See Appendix A for these definitions.

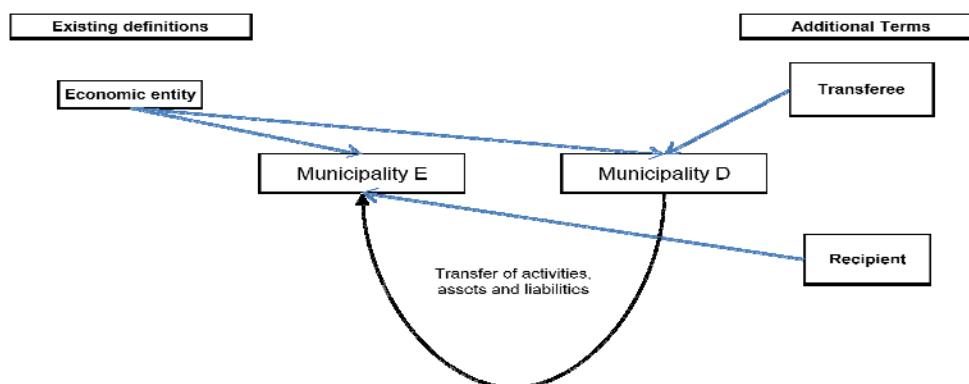
32. The same terminology can be used where two or more entities combine, as follows.

Diagram 5: Terminology for Entities Combining by the Formation of a New Entity



33. Diagram 5 is based on the example given in Diagram 2. Before the entity combination transaction or other event occurs, there are two economic entities (Municipality A and City B).
34. To describe the entity combination transaction or other event, Municipality A and City B combine together into a new entity (Municipality C). That is, Municipality C is the recipient and Municipality A and City B are the transferees. In this example there is no transferor.

Diagram 6: Terminology for Transfer of Activities, Assets and Liabilities into an Existing Entity



35. Diagram 6 is based on the example given in Diagram 3. Before the entity combination transaction or other event occurs, there are two economic entities (Municipality D and Municipality E).
36. To describe the entity combination transaction or other event, Municipality D and Municipality E combine together by Municipality D transferring its activities, assets and liabilities into Municipality E. That is, Municipality E is the recipient and Municipality D is the transferee. In this example there is no transferor.

37. A description of the additional terms used is set out in Table 1 below³.

Table 1: Description of Additional Terms

A recipient is the entity that obtains control of the transferee or is the entity that is the result of the entity combination where one or more entities combine.
A transferee is the entity or operation that the recipient obtains control of or is the entity or operation that is transferred to the resulting entity, in an entity combination.
A transferor is the entity that transfers one or more of its entities or operations to another entity.

38. The terms “recipient” and “transferor” are used in IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)*. IPSAS 23 sets out the requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The revenue of many public sector entities is derived from non-exchange transactions such as transfers. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. The entity that transfers assets to another entity is the transferor and the entity that obtains the transfer is the recipient. Staff considers that the use of these terms for the entity combinations project is consistent with the way the terms are used in IPSAS 23.
39. Whilst IPSAS 23 does not define recipient or transferor, it may be appropriate to define these terms (and transferee) in this project because it deals with both exchange and non-exchange transactions. IPSAS 23 deals with non-exchange transactions only. It would then be clear that the terminology in this project encompasses both an acquisition (which is usually considered to be an exchange transaction) and a non-exchange transaction that gives rise to an entity combination.

Question 3:

Does the IPSASB consider that the terms recipient, transferee and transferor are an appropriate way to describe the parties to an entity combination?

Question 4:

Does the IPSASB consider that the terms recipient, transferee and transferor should be defined?

³ These terms will be updated dependent on the IPSASB’s decision in response to Question 1 above regarding the use of the term “operation.”

Summary⁴

40. Therefore, using this terminology, the entity that will apply the requirements resulting from this project is the recipient entity (which can be an existing or newly established public sector entity) that applies IPSASs and:
- (a) Gained control of an entity and/or operation during the reporting period; or
 - (b) Is the resulting entity from the combining of entities and/or operations during the reporting period.

Common control

41. ED 41 excluded from its scope a “combination of entities or operations under common control.” ED 41 was developed as part of the IFRS convergence project and, consequently, this exclusion reflected IFRS 3, where a “combination of entities or businesses under common control” is excluded from its scope. The IASB excluded combinations of entities under common control when it originally issued IFRS 3 because that project was focusing on specific areas, such as the method of accounting for business combinations and the requirements for the recognition and measurement of the assets and liabilities acquired⁵. In December 2007, the IASB added common control transactions to its research agenda. However, because of other project priorities work on this project has been stopped. Staff will continue to monitor the IASB’s activities in this area.
42. IFRS 3 does not define common control but instead describes it as “a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.”
43. This project includes within its scope combinations of entities under common control⁶. The IPSASB does not currently have a definition or description of the term “common control.” For the purpose of this project it is necessary to have a clear understanding of what common control means so that a transaction or other event that gives rise to an entity combination where the entities are under common control can be clearly and consistently identified.
44. This description could be adapted to form a working definition for the term “a combination of entities and/or operations under common control,” as follows:
- “An entity combination in which all of the combining entities and/or operations are ultimately controlled by the same party or parties both before and after the entity combination, and that control is not transitory.”**

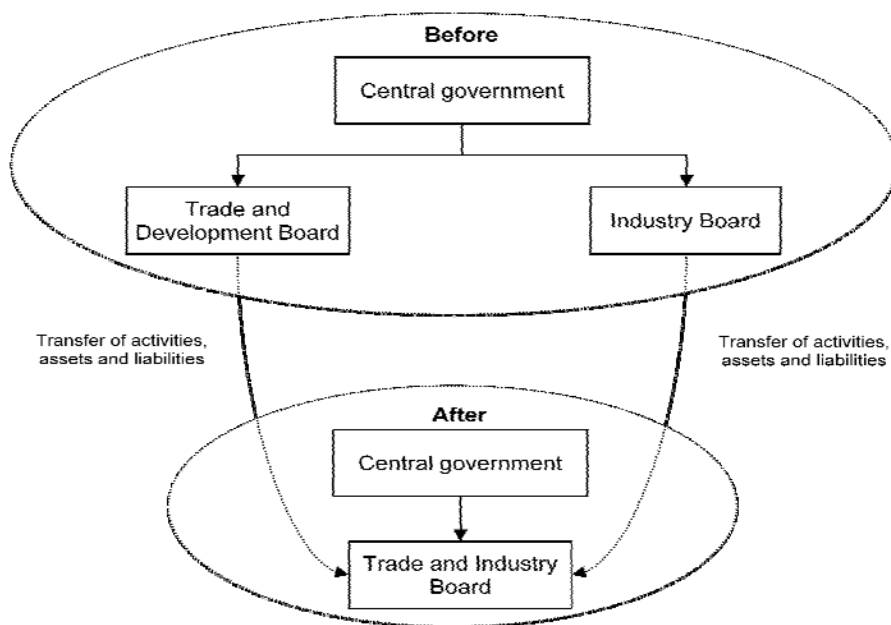
⁴ This summary will be updated dependent on the IPSASB’s decision in response to Question 1 above regarding the use of the term “operation.”

⁵ Paragraph BC24 of the Basis for Conclusions of IFRS 3, *Business Combinations* (March 2004).

⁶ Paragraph 3.1 of the Project Brief.

45. Diagram 1 above is an example of a combination of entities under common control where an existing entity gains control of an entity. Another example is set out in Diagram 7 below.

Diagram 7: Two Entities under Common Control Combine



46. A Central government restructures by closing down the Trade and Development Board and the Industry Board, both of which are separate government entities and transferring the activities, assets and liabilities to a newly created government entity, the Trade and Industry Board. The Trade and Development Board and the Industry Board are the transferees and the Trade and Industry Board is the recipient. The Central Government is the transferor.

Question 5:

Do you agree that the working definition of “a combination of entities and/or operations under common control” is:

“An entity combination in which all of the combining entities and/or operations are ultimately controlled by the same party or parties both before and after the entity combination, and that control is not transitory,”

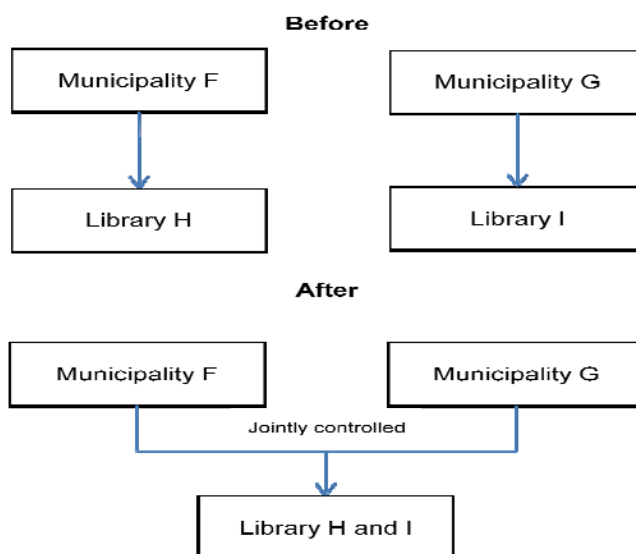
Is appropriate at this stage of the project?

Is the Formation of a Joint Venture within the Scope of this Project?

47. At the November 2010 meeting, a question arose as to whether the definition of an entity combination meant that logically (subject to any specific exclusions that override the consequences of the definition) the formation of a joint venture is also within its scope. Particularly if the transfer of operations from commonly controlled entities (such as two government departments) to form a new entity were within the scope of this project.

48. The formation of a joint venture was initially excluded from the scope of this ED 41. As noted above, ED 41 was an IFRS convergence project, and was based the underlying standard IFRS 3, which excluded the formation of a joint venture from its scope. IFRS 3 has this exclusion because the IASB has not yet considered the accounting by a joint venture upon its formation⁷.
49. In the revision of the IPSASB's Project Brief⁸ in 2010, exclusion of the formation of a joint venture has been retained without any further explanation. Given the discussion at the last meeting, Staff is of the view that it is appropriate for the IPSASB to revisit and confirm or otherwise the exclusion of the formation of a joint venture from the scope of this project.
50. Diagram 8 below illustrates an example where two municipalities (Municipality F and Municipality G) have separate library services (Library H and Library I). They agree to join the libraries together into one entity (Library H and I) and share joint control of that entity.

Diagram 8: Formation of a Joint Venture



51. Using the example above and comparing it to the working definition of an entity combination, which is “the bringing together of separate entities and/or operations into one entity.”⁹ This definition appears to include an entity combination in which separate entities and/or operations are brought together to form a joint venture.
52. To be encompassed within this project the transaction or event that forms the joint venture also needs to satisfy the definition of an entity combination. However, not all formations of a joint venture are encompassed in the working definition of

⁷ Paragraph BC17 of the Basis for Conclusions of IFRS 3, *Business Combinations* (March 2004).

⁸ Paragraph 3.2.1 of the Project Brief.

⁹ The working definition of an entity combination will be updated dependent on the IPSASB's decision in response to Question 1 above regarding the use of the term “operation.”

an entity combination. The definition of a joint venture is “is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.” IPSAS 8¹⁰ identifies and describes three broad types of joint ventures: jointly controlled operations, jointly controlled assets, and jointly controlled entities¹¹.

53. Where the transaction or other event that gives rise to the formation of a joint venture does not involve the “bringing together of separate entities and/or operations” then it does not meet the working definition of an entity combination.
54. At this stage of the project, the IPSASB could:
 - (a) Continue with the explicit exclusion of the formation of a joint venture from the scope of this project; or
 - (b) Defer its decision until the project develops further.
55. Staff considers that the issues surrounding the formation of a joint venture need to be investigated because the exclusion of a joint venture from the scope of the project has been carried over from ED 41, which was an IFRS convergence project. Therefore, these issues need to be considered before confirming the exclusion of the formation of a joint venture.

Question 6:

Do you agree that the formation of a joint venture where it meets the other conditions of working definition entity combination is encompassed by the definition of an entity combination?

Question 7:

If yes to Question 6, do you agree that the decision as to whether the scope of this project should exclude the formation of a joint venture could be deferred until pending further investigation?

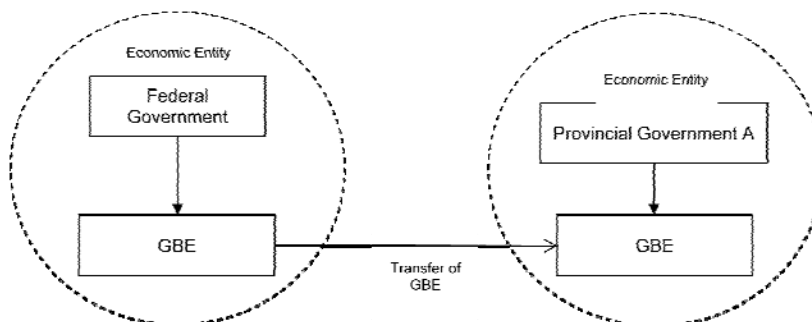
Whether a Transaction or Other Event that Involves a GBE and Gives Rise to an Entity Combination is within the Scope of this Project

54. The scope of this project is to specify the accounting treatment in the recipient entity where an entity combination transaction or other event occurs during the reporting period. A public sector entity may be a controlling entity and one of its controlled entities is a GBE. During the reporting period a transaction or other event may occur that transfers control of a GBE to another public sector entity. The recipient public sector entity, i.e., the entity that gains control of the GBE is within the scope of this project provided it applies IPSASs. This is illustrated in Diagram 9 below.

¹⁰ IPSAS 8 deals with the accounting of the venturer for its interests in a joint venture.

¹¹ See Appendix B for a description of the types of joint ventures.

Diagram 9: Transfer of a GBE



55. In Diagram 9 above, a GBE controlled by the Federal Government is transferred to Provincial Government A. The Federal Government is the transferor, Provincial Government A is the recipient and the GBE is the transferee. The scope of this project is to specify the accounting treatment of the entity combination transaction in the GPFSS of Provincial Government A.
56. Where a GBE gains control of an entity, this type of entity combination is not in the scope of this project because, as noted in the Preface, IPSASs do not apply to GBEs.

Question8:

Do you agree that Diagram 9 accurately reflects the involvement of a GBE in an entity combination?

Appendix A: Extract of Existing Definitions in IPSASs

Term	Definition	Location
controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).	6.7
controlling entity	An entity that has one or more controlled entities.	6.7
economic entity	A group of entities comprising a controlling entity and one or more controlled entities.	1.7

Appendix B: IPSAS 8

1. IPSAS 8 identifies and describes three broad types of joint ventures: jointly controlled operations, jointly controlled assets, and jointly controlled entities. These terms are not defined.

Jointly controlled operations

2. Jointly controlled operations involve the use of the assets and other resources of the venturers rather than the establishment of a separate entity or operation. Each venturer uses its own property, plant, and equipment and inventories. It also incurs its own expenses and liabilities. The venturer recognizes in its financial statements the assets that it controls, the liabilities that it incurs, the expenses that it incurs and its share of the revenue from the sale or provision of goods or services by the joint venture. Because the assets, liabilities, revenue (if any) and expenses are already recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required for these items when a venturer presents consolidated financial statements.

Jointly controlled assets

3. Jointly controlled assets involve the joint control of, and often the joint ownership by, the venturers of one or more assets contributed to, or acquired for the purpose of the joint venture. The venturer recognizes in its financial statements its share of jointly controlled assets, liabilities that it incurs; its share of liabilities incurred jointly with the other venturers in relation to the joint venture; its share of revenue that the jointly controlled assets produce, its share of expenses incurred by the joint venture, and expenses that it has incurred in respect of its interest in the joint venture. In the same way as jointly controlled operations, the items related to the joint venture are already recognized in the financial statements of the venturer, no adjustments or other consolidation procedures are required for these items when a venturer presents consolidated financial statements.

Jointly controlled entities

4. Jointly controlled entities involve the establishment of an entity in which each venturer has an interest. The binding arrangement between the venturers establishes joint control over the activity of the entity. The jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. Each venturer is entitled to a share of the surpluses of the jointly controlled entity. The venturer recognizes its interest in a jointly controlled entity by using proportionate consolidation or the equity method.