

Joint Venture



Discipline Courses-I

Semester-I

Paper : Financial Accounting & Auditing

Unit-V

Lesson: Joint Venture

Lesson Developer: Deepti Singh

College/Department: Bharati College, University of Delhi

Table of Contents:

Lesson: Joint Venture

- 1: Learning Outcomes
 - 2: Introduction
 - 3: Concept of a Joint Venture
 - 4: Advantages & Disadvantages of a Joint Venture
 - 5: Differences Among a Joint Venture, Consignment Arrangement and Partnership
 - 5.1: Joint Venture vs. Consignment
 - 5.2: Joint Venture vs. Partnership
 - 6: Joint Venture Agreement
 - 7: Accounting Aspects of a Joint Venture
 - 7.1: Records in separate set of books
 - 7.2: Records maintained by one of the Co-venture
 - 7.3: Records in the books of all Co-ventures
 - 7.4: Memorandum Joint Venture Account
- Summary
Exercises
Glossary
References

1. Learning Outcomes:

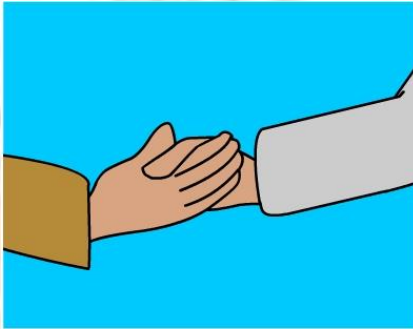
After you have read this chapter, you should be able to:

- Explain the different aspects of a Joint Venture
- Understand the salient features of a Joint Venture
- Identify the advantages and disadvantages of a Joint Venture
- Differentiate between a Joint Venture, consignment and a partnership
- Appreciate the need for a Joint Bank Account when recording in separate books of Accounts
- Create a Joint venture agreement
- Comprehend the working of different types of joint ventures being entered into these days
- Analyze the journal entries for different methods of joint venture accounting
- Develop easy way of accounting in case of joint ventures
- Apply the knowledge for any practical joint venture.

2. Introduction:

There are many instances when individuals or Companies choose to enter into a short-term relationship to share strengths, decrease risks, and multiply economical advantages of a business. Profit making is the only aim of getting into such an association.

Figure 1: Joint Venture



For example: One party has the knowledge to purchase the material from a reliable cheap source but has no money to do so; second party has money to share but he does not have the skill to sell; and a third party has the knowledge of the market and the material's selling potential. When all the three parties join together for individual benefits, the relationship is termed a Joint Venture.

A Joint Venture is comparable to a business partnership. It has one main difference - In a partnership, partners join together for doing a business for a long term. In a Joint Venture there is a short duration association for profit. The participants in a Joint Venture undertake the business in coalition with each other agree to share the profit or loss from the venture in an agreed percentage.

A joint venture can be started as a new business entity. It can also be started by collaboration of two or more businesses. The responsibilities, goals, rights, duties, the sharing pattern of profit/loss and the termination of contract are all specified in an agreement between the entities.

With the above background we can define a Joint Venture.

3. Concept of Joint Venture

A short term joining together of two or more individuals or firms or companies to undertake a business for profit is called a Joint Venture. However, the nature of business in a joint venture can be selling of goods or services. The business is for a short term maybe just for say, winter season - selling wool for cardigans in winter. The association is not ongoing as in the case of partnership and is terminated on completion of the venture, or it can even be related to just one transaction like two brothers who own an inherited old property decide to join hands with a builder for constructing multi storey flats.

Value Addition 1: Activity

Features of Joint venture

You have read the definition, purpose and example of Joint venture. Can you now deduce the features of a Joint Venture? Identify the possible list of features in your opinion and compare it with the list of members of your peer group.

Good. You can now see the features as described below and find how many could you point out correctly.

Salient Features of a Joint Venture

A Joint venture has become the in thing for many successful and some failed ventures. However, a successful Joint venture would require a basic understanding of how it works. The salient features of a Joint venture are:

- 1) **Relationship:** It is a temporary alliance between two or more participants. The participants could be individuals or firms or companies. But none of the co ventures can act on behalf of other co ventures.
- 2) **Commitment:** It is a commitment by the participants to perform a fixed tenure work by the participants.
- 3) **Participants:** Each participant of a Joint Venture is called a Co-venture.
- 4) **Agreement:** An agreement specifying the terms of the contract, detailing the work to be accomplished is written and signed by the participants. This is known as the Joint venture agreement.
- 5) **Capital:** Generally, capital is contributed by the Co-ventures'.
- 6) **Legality:** A Joint venture does not have any separate legal entity. This is because it is an alliance of parties and not an organized legal corporation.
- 7) **Concept:** It does not have the concept of a 'going concern'.
- 8) **Financial Obligation:** Every party of the Joint Venture has a several financial obligation.
- 9) **Tenure:** It is an impermanent business endeavor.
- 10) **Name:** A Joint venture is a special partnership but does not have a specific name.
- 11) **Sharing:** Profit or Loss on account of venture is shared by the Co-venture according to the agreement and in absence of any agreement the profits or losses are shared equally.
- 12) **Assets:** The participants have a participating interest only in the Assets pooled together. The ownership of the assets remains that of the original owner.
- 13) **Closure:** After the execution of the specific job, the venture will be over and closed.

Value Addition 2: Surf and Learn

Characteristics of Joint Venture

Click on the link below to know more about the features of a Joint Venture. Could you find features other than those listed above in the text?

Source: <http://www.youtube.com/watch?v=eiWnWASZOM>

4. Advantages and Disadvantages of a Joint Venture

A Joint Venture helps in promoting a business that has 'the common aim' of satisfying all the parties. This helps the participants or co ventures to be benefitted from a short-term relationship. However, as in all types of business there are advantages and disadvantages. Briefly, these are discussed below.

Advantages of a Joint Venture:

- 1) If one individual/business has a strategic idea the same can be thrown open through a joint venture with a bigger company.
- 2) One business is being limited due to lack of expensive technology. A company with that technology can be approached for mutual benefit. Similarly, it can happen when there is dearth of distribution channels.
- 3) There is access to superior wherewithal, including specialized staff and technology.
- 4) All the entities in a joint venture remain separate from each other even if they are working together. There is no risk of one firm/company being taken over by the other.
- 5) The possibility of incurring loss or misfortune is less in a Joint Venture. If it happens, it gets evenly distributed between the parties.
- 6) The entities can save money on business operating costs, utilizing the assets of one another.
- 7) One can get rid of his extra inventory and afford to sell it at a lower value giving tough competition to the competitors.
- 8) A Joint Venture between two or more organizations is a separate business from their normal activity. Joint Ventures either close down on completion or its assets are taken over by the parent organizations.

Value Addition 3: Activity
Advantages of a Joint Venture
Click on the link below to know more to appreciate the advantages of a Joint Venture.
Now respond to the following questions. 1. Give an example of how a Joint Venture gives access to larger markets. 2. A Joint Venture widens your approach to new technology. Explain.
Source: http://www.slideshare.net/onlinebizness/joint-venture-advantages

Disadvantages of a Joint Venture:

- 1) A lack of communication in identifying clear objectives results in failure of the venture.
- 2) A perfect association requires drive, hard work, understanding and an earnest desire to achieve something. It is always difficult, demanding and arduous to work with others.

- 3) Building the appropriate and strong relationship with other people is not an easy task. It is a time consuming and breath-taking task.
- 4) Even when there is an agreement dividing the operational jurisdiction and decision making, there may be dissatisfaction with the other on the way the things are tackled, subordinates are controlled or technology is handled. There is always a hidden probability of conflict among the dissatisfied co-ventures.
- 5) The parties in the Joint Venture might not bring the right amount of funds, requisite materials and technical knowhow into the venture.
- 6) Diverse way of looking at things hinders the administration and managing abilities of the parties. A satisfactory output and an integrated teamwork may not be present.
- 7) The two entities do not provide enough leadership and support and distribute the work to junior inexperienced staff.
- 8) A specialist or a professional among the co-ventures' gets the maximum share of responsibility while the inexperienced have little to do. The Joint Venture completely becomes dependent on such specialized and professional skill that its personal absence may hurt the venture very badly.

Value Addition 4: Exercise

Joint Venture vs. Consignment

Read the following situation carefully.

M/S Jyot and Co are carpet manufacturers in Mirzapur, Uttar Pradesh. They decide to sell their carpets through M/S Preet and Preet in National Capital Region of Delhi. M/S Jyot and Co send forty carpets for Rs. 2,50,000 to M/S Preet and Preet. They spend a sum of Rs. 12,000 on transportation and other charges. They ask M/S Preet and Preet to sell the carpets with a minimum 15% profit for which the Delhi company would be paid commission of 5% on the sales amount. M/S Preet and Preet sells 36 carpets for Rs. 2,80,000. The amount is remitted to M/S Jyot and Co after deduction of Rs. 14,000. The remaining carpets are also sent back to Mirzapur.

Now respond to the following questions:

Q 1. Which financial accounting concept is being pointed out in the above illustration?

Q 2. Identify the relationship between M/S Jyot and Co and M/S Preet and Preet.

Q 3. In case it is decided to share 30% of the profit with M/S Preet and Preet, for this activity, then what would be the relationship between the two firms called?



Yes, you could perceive it rightly.

In the first case, it is the concept of consignment.

In the second case, M/S Jyot & Co is the consignor, the principle and M/S Preet and Preet is the consignee, the agent who would sell the carpets for and on behalf of M/S Jyot & Co, the consignor.

In the third case, the relationship would turn into a joint venture, since they

decided to share the profits in an agreed proportion, but the duration is confined to the limited period.

5. Differences Among a Joint Venture, Consignment Arrangement and Partnership

This was the conceptual difference between the consignment and partnership with joint venture. It is clearly evident that these three terms denote entirely a different relationship between the participants of a particular arrangement. In partnership there is a relationship of equality, where as in consignment one hires the services of others on the commission basis and every action is taken on behalf of the principal. And in joint venture, the association is dependent on a mutual arrangement for a short period.

This distinction now would be explicitly explained here in the following section one by one.

5.1 Joint Venture vs. Consignment Arrangement

CONSIGNMENT	JOINT VENTURE
<ol style="list-style-type: none"> 1) In case of a consignment the two parties are the 'consignor' and the 'consignee'. 2) The 'consignor' is the 'Principal' and the 'consignee' is an 'Agent'. Commission is paid to the 'Agent' for the work done. 3) The ownership rights remain with the consignor and do not pass on to the consignee. 4) Consignment is not confined to any specific term or period. 5) In case of a consignment, the consignee is the agent who follows instruction from the consignor who is the principal. 6) The consignee does not have any share in the capital nor any stake in the profit. 7) A consignee only acts as an agent of the Principal. 8) In consignment, the concern is only for the sale of movable goods. 9) Actual basis of accounting is adopted 	<ol style="list-style-type: none"> 1) The parties of a Joint Venture are called 'Co-Ventures'. 2) There is no 'Principal' and 'Agent' relationship in a Joint Venture. The parties distribute the profit or loss from the venture. 3) Co-ventures' are the owners of their venture. 4) A Joint venture is confined only to a specific venture or for a specific time. 5) In a joint venture, the Co-ventures' enjoy full powers for sale and purchase of goods and collection of dues, etc. 6) Contribution in the shape of equipment, supplies, ideas and requisite funds are generally contributed by the Co-ventures' to run a successful venture. 7) Co-ventures' enjoy equal rights as partners. 8) All kinds of business activities can be undertaken in a Joint Venture. 9) Cash basis of accounting is

<p>in case of consignment.</p> <p>10) In a consignment, the association between the consignor and consignee carries on till it is ended by any of the parties.</p> <p>11) In case of consignment Account Sales is prepared for providing the sales information to consignor.</p> <p>12) In case of consignment if goods are unsold with consignee, valuation of left over stock is essential.</p>	<p>applicable in joint venture.</p> <p>10) On the completion of the venture the association ceases between the Co-ventures'.</p> <p>11) In case of joint venture there is no need to prepare Account Sales. Information is sufficient for other Co-ventures'.</p> <p>12) In case of joint venture there is no need of valuation of unsold stock as the joint venture is closed down.</p>
---	--

Value Addition 4: Surf and Learn

Franchise and Joint Venture

One may get confused between the terms of joint venture, franchise and consignment.

Franchise is different from consignment. Though the franchise is also one form of an agency, but it is related to the assignment of license with regard to the trademark. All rights and profits belong to the receiver or franchisee. Whereas in case of consignment the goods are sent to the consignee for sale but the rights of ownership are retained by the consignor. There is no requirement of giving a license rather the relationship starts on the basis of an agreement.

Franchise is different from a Joint Venture too. Visit these sites and focus to understand the difference between these two.

(1) <http://www.franchiseindia.com/articles/Franchise-Insights/Franchise-Research/What-s-Better-Franchising-Or-Joint-Venture-376/>

(2) <http://smallbusiness.chron.com/difference-between-franchise-joint-venture-20245.html>

Now answer the following questions.

Q 1. What is the role of Financial Resources in a Joint Venture and also in a Franchise?

Q 2. What is the importance of 'Set Procedures and Systems' in a Franchise? Are these relevant to Joint Ventures?

5.2. Joint Venture vs. Partnership

The joint venture and partnership are two different kinds of relationships decided on the basis of mutual understandings.

Value Addition 5: Did You Know?

Partnership

When two or more persons concur to conduct a business or one person conducts the business acting on behalf of all and divide the profits, then the relationship is termed as Partnership. The persons involved are called 'Partners'. The 'Partnership' is a 'Firm' and any name given to this 'Partnership' is called 'Name of the Firm'. The Firm carries on business for as long as the partners desire.

The above definition suggests that Partnership is different from a Joint Venture. Let us now study the differences between a Partnership concern and a Joint Venture.

PARTNERSHIP	JOINT VENTURE
1) A partnership form of business is created between two or more persons to earn profits.	1) A Joint Venture is created by two or more entities that get together for a profitable but specific business activity.
2) The involved persons in a partnership are called partners.	2) The involved participants of a Joint Venture are called Co-ventures'.
3) Partnership is an ongoing concern of business and is not an interim arrangement.	3) It is temporary in nature and is terminated after the venture is completed.
4) It is governed by Partnership Act.	4) There is no act governing such type of business.
5) The assets bestowed to the partnership by the partners are generally regarded as the assets of the partnership.	5) On the completion of the venture, the assets of each of the co-venture is returned except when these are taken over by others for a consideration.
6) In a partnership the Profits are determined annually.	6) Profits are found out after the completion of the venture.
7) Every partner is legally responsible for the liabilities and commitments, jointly and severally, either equally or in agreed proportion in the partnership.	7) Every Co-venture is liable as per the share of the benefits in the venture.
8) Accrual basis of account is followed.	8) Cash basis of account is followed.
9) In case one of the partners dies, the partnership might end the business entity.	9) In case of death of a Co-venture, the venture ordinarily does not end and continues till its completion.

6. Joint Venture Agreement

Value Addition 5: Pause and Think

Joint Venture Agreement

Can one guarantee that the formation of a Joint Venture would mean running of the business in a smooth manner. No one can. The venture could flop and it is not necessary that the results would be as desired. Joint Ventures can fail, a conflict may arise, and the result would be loss. Should the parties concerned therefore not take stringent efforts in formalizing a written agreement mentioning the terms under which the Joint Venture would be carried out? Will this ensure the success of the venture? No, but at least it will reduce the risk of disputes and dissatisfaction. But then what one should decide on for an agreement is a question.

A Joint Venture agreement is normally formulated in the written form and covers the following aspects:

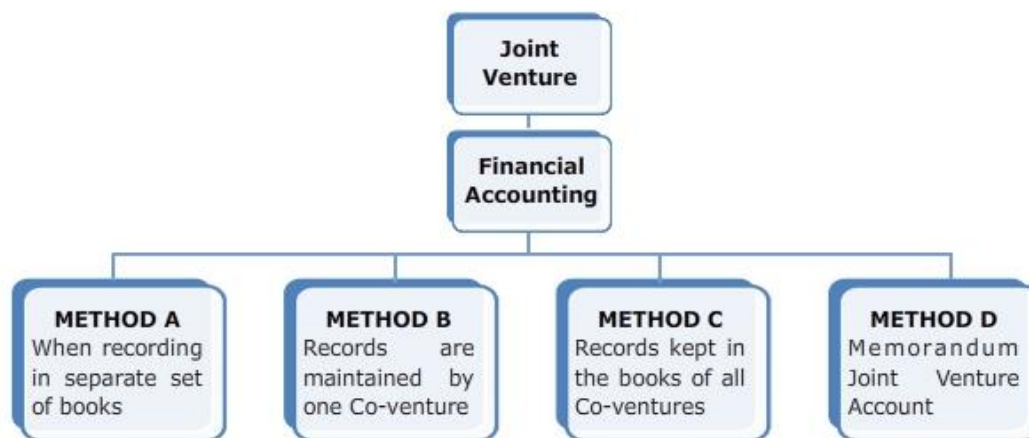
- 1) The detailed particulars of the parties involved needs to be mentioned.
- 2) The Name and the Principle place of business with complete address must be stated.
- 3) It should also identify the purpose(s) (objectives and goals) of the joint venture.
- 4) The specific term of the joint venture should be clearly mentioned stating if it will terminate after a fixed period or at the completion of the activity undertaken.
- 5) The contribution of the parties towards finances, property, knowledge etc. needs to be specified.
- 6) Specific nature of specialized employees, if required to be mentioned.
- 7) The guidelines regarding the activities relating to finance, operation of bank accounts, decision-making, administration etc. of the venture should be clearly and explicitly spelled out.
- 8) It needs to expressed and understood by the co ventures that in joint venture arrangement the individuals do not have power to act on behalf of others.
- 9) The objectives of Joint Venture are to be scrupulously mentioned.
- 10)The details of the project have to be clearly defined.
- 11)It is essential to cover the details as to how the return of capital assets after termination would take place.
- 12)The agreement should be expressive about the steps to be taken in case any of the Co-venture opts of not following the agreed guidelines in running the business.
- 13)The agreement should also cater to the handling of disputes or friction that may arise during the venture. It should mention the common legal and conventional remedies to be followed in times of need. There should be suitable guidelines pertaining to the issues like the voting right, right of share in production, participating interest, forfeiture of participating interest and compulsory withdrawal etc.
- 14)How and in what manner the joint venture would be terminated.
- 15)After completion of the joint venture the percentage of profits or losses to be divided.
- 16)The agreement should also be expressive of the sensitive issues related to non-disclosures, secrecy regarding technology, internal affairs etc. for the protection of the Co-ventures'.

- 17) It should also specify all procedures with regard to the handling of any Intellectual Property developed by the Joint Venture, during the venturing period and after the termination of the joint venture.
- 18) The purchase rights of Co-ventures' also need to be spelled out specifically.

7. Accounting Aspects of a Joint Venture

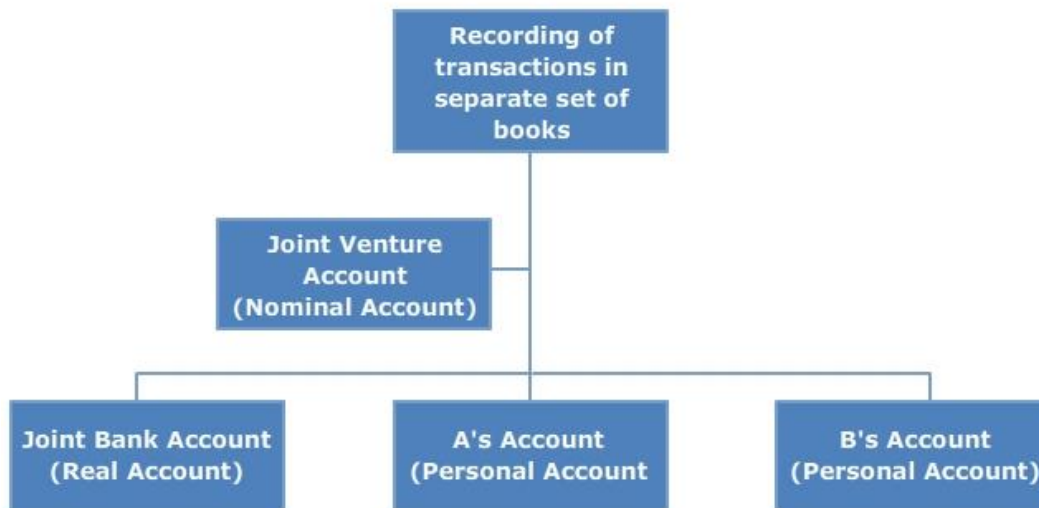
There are different methods adopted for treating the accounting aspect. In one method, a Bank Account is normally opened for a particular joint venture. It is a distinct account only for the joint venture. The Joint venture agreement specifies the share of each co-venture. Each co-venture deposits his share of capital for utilization in the working of the venture and thereafter all sales money gets deposited in this account. The different methods of accounting are depicted in the following diagram.

Figure 2: Accounting aspects of a Joint Venture



7.1 Records in Separate Set of Books

Figure 3: Joint Venture of A and B
Method – Separate set of Books



Journal Entries:

The different types of journal entries in this method are as follows:

1) When Capital is invested by each co-venture in the joint bank account

Joint Bank Account (The total contribution)	Dr.
To Co-ventures' Capital A/c's (Individual capital)	

2) When Goods are Purchased

- | | | |
|------|------------------------------------|-----|
| I. | In case of Cash Purchases | |
| | Joint Venture Account | Dr. |
| | To Joint Bank A/c | |
| II. | In case of Credit Purchases | |
| | Joint Bank Account | Dr. |
| | To Creditor's A/c | |
| III. | In case Co-venture Purchases goods | |
| | Joint Venture Account | Dr. |
| | To Co-ventures' Capital A/c | |

3) Payment to the Supplier (Creditor) of Goods when he gives discount

Creditor's A/c	Dr.
To Joint Bank A/c (with amount paid)	
To Joint Venture Ac (with discount amount)	

4) Payment to the Supplier (Creditor) of Goods by issuing Bills Payable

Creditor's A/c	Dr.
To Bills Payable A/c.	

5) When the Bills Payable are discharged

Bills Payable A/c Dr.
 To Joint Bank A/c

6) Expenses incurred for the venture

Joint Venture Account Dr.
 To Joint Bank A/c

7) When Goods are Sold

I. In case of Cash Sales
 Joint Bank A/c Dr.
 To Joint Venture A/c

II. In case Goods are sold on credit
 Debtor's Account Dr.
 To Joint Venture A/c

8) When Payment is received from a Debtor and discount is allowed

Joint Bank A/c (with amount received) Dr.
Joint Venture A/c (with discount permitted) Dr.
 To Debtor's A/c (with sum of above two)

9) When Salary/Commission etc. is paid to a Co-venture

Joint Venture A/c Dr.
 To Co-ventures' Capital A/c

10) When Stock of Goods is left unsold

Stock A/c Dr.
 To Joint Venture A/c

11) When Stock is taken by a Co-venture in full or part

Co-ventures' Capital A/c Dr.
 To Joint Venture A/c

12) At the time of passing entries for Profit or Loss on Joint venture

I. In case of Profit in the venture
 Joint Venture A/c Dr.
 To Co-ventures' Capital A/c

II. In case of Loss in the venture
 Co-ventures' Capital A/c Dr.
 To Joint Venture A/c

13) At the time of settlement of Capital Accounts of Co-ventures'

- I. In case of a Debit Balance in the Bank Account
 Joint Bank A/c Dr.
 To Co-ventures' Capital A/c
- II. In case of a Credit Balance in the Bank Account
 Co-ventures' Capital A/c Dr.
 To Joint Bank A/c

Illustration 1: When A Joint Bank Account is Maintained

Two friends Jayant and Shubham of Delhi decide to get Ladies Cotton Suits from Lucknow and sell them during the Summer Season of 2012. They form a Joint Venture and agreed to share profits in the ratio of their contribution.

The following transactions occur during their venture:

- 1) Jayant contributes ₹ 100,000 and Shubham contributes ₹ 50,000 on 15th Feb 2012.
- 2) On 25.2.2012 Jayant visits Lucknow. He stays in Lucknow and on 27.2.2012 purchases 200 Ladies Cotton Suits for ₹ 130,000.
- 3) The expenses incurred by Jayant for his three days trip to Lucknow including to and fro fare is ₹ 12000 by 27.2.2012.
- 4) Freight of ₹ 5000 was paid on receiving the goods in Delhi on 5.3.2012.
- 5) Both friends worked hard and sold all the 200 suits for ₹ 210,000 by 4.2012.
- 6) Miscellaneous expenses of ₹ 3000 were paid on 7.4.2012.
- 7) Commission of ₹ 6000 was paid to Jayant.

Pass journal entries and prepare ledger accounts for the Joint Venture showing the cash distributions between the Co-ventures'.

Solution 1

Journal Entries

Date	Particulars	Debit ₹	Credit ₹
15.2.2012	Joint Bank Account Dr. To Jayant's Account (Capital contribution) To Shubham's Account (Capital contribution)	1,50,000	1,00,000 50,000
27.2.2012	Joint Venture Account Dr. To Joint Bank Account (For Purchases)	1,30,000	1,30,000
	Joint Venture A/c Dr. To Joint Bank A/c (For Expenses)	12000	12000
27.2.2012	Joint Venture A/c Dr. To Joint Bank A/c (For Freight)	5000	5000
5.3.2012	Joint Bank A/c (Sales) Dr. To Joint Venture A/c	2,10,000	2,10,000
7.4.2012	Joint Venture A/c Dr. To Joint Bank A/c (Misc. Expenses)	3000	3000

7.4.2012	Joint Venture A/c To Jayant's A/c (For commission)	Dr.	6000	6000
7.4.2012	Joint Venture A/c To Jayant's A/c (Share of profit)	Dr.	54000	36000
7.4.2012	To Shubjam's A/c (Share of profit)			18000
	Jayant's A/c (Final Settlement)	Dr.	1,42,000	
	Shubham's A/c (Final Settlement)	Dr.	68000	
7.4.2012	To Joint Bank A/c			2,10,000

Dr. Joint Venture Account Cr.

Particulars	₹	Particulars	₹
Joint Bank Account (Purchases)	1,30,000	Joint Bank Account (Sales)	2,10,000
Joint Bank Account (Expenses)	12,000		
Joint Bank Account (Freight)	5,000		
Joint Bank Account (Misc. Expenses)	3,000		
Jayant Account (Commission)	6,000		
Profit transferred to Jayant	36,000		
Shubham	18,000		
	2,10,000		2,10,000

Dr. Joint Bank Account Cr.

	₹		₹

Jayant's Account	1,00,000	Joint Venture Account	1,30,000
Shubham's Account	50,000	(Purchases)	
Joint Venture Account (Sales)	2,10,000	Joint Venture Account	12,000
		(Expenses)	
		Joint Venture Account (Freight)	5,000
		Joint Venture Account (Misc.	
		Exp.)	3,000
		Jayant's Account	
		Shubham's Account	1,42,000
			68,000
	3,60,000		3,60,000

Dr. Jayant's Account Cr.

	₹		₹
Joint Bank Account	1,42,000	Joint Bank Account	1,00,000
		Joint Venture A/c (Commission)	6,000
		Joint Venture A/c (Profit)	36,000
	1,42,000		1,42,000

Dr. Shubham's Account Cr.

	₹		₹
Joint Bank Account	68,000	Joint Bank Account	50,000
		Joint Venture A/c (Profit)	18,000
	68,000		68,000

Illustration 2: Joint Bank Account

Anshu and Abha decided to purchase Moong Daal from a farmer in a remote village and sell it in the Grain Market, Jalandhar. They formed a Joint Venture for this purpose and opened a Joint Bank Account. They deposited ₹ 1,00,000 each in the Bank Account. They purchased the crop of Moong Daal from the farmer for ₹ 1,50,000. They had to pay expenses for cleaning the Daal and also for transportation of ₹ 12,000. The Daal was sold in the Grain Market for ₹ 1,90,000. Left over Daal worth ₹ 5000 was purchased by Abha. The profit from the venture was to be shared equally. Prepare Joint Bank Account, Joint Venture Account and Co-ventures' Account.

Solution 2:

Dr. Joint Venture Account Cr.

Particulars	₹	Particulars	₹
Joint Bank A/c (Purchases)	1,50,000	Joint Bank Account (Sales)	1,90,000
Joint Bank A/c (Expenses)	12,000	Abha (Goods taken)	5000
Profit transferred to Anshu Abha	16,500		
	16,500		
	1,95,000		1,95,000

Dr. Joint Bank Account Cr.

	₹		₹
Anshu's Account	1,00,000	Joint Venture Account (Purchases)	1,50,000
Abha's Account	1,00,000	Joint Venture Account (Expenses)	12,000
Joint Venture Account (Sales)	1,90,000	Anshu's Account	1,11,500
		Abha's Account	1,16,500
	3,90,000		3,90,000

Dr. Anshu's Account Cr.

	₹		₹
Joint Bank Account	1,16,500	Joint Bank Account	1,00,000
		Joint Venture A/c (Profit)	16,500
	1,16,500		1,16,500

Dr. Abha's Account Cr.

	₹		₹

Joint Venture A/c (Goods taken)	5,000	Joint Bank Account	1,00,000
Joint Bank Account	1,11,500	Joint Venture A/c (Profit)	16,500
	1,16,500		1,16,500

Illustration 3: (Joint Bank Account)

M/S Pant & Co has a free hold plot of land. The Company decides to construct a building on the plot. The contract for construction is given to Assad and Rauf who have a fairly good track of constructing buildings. It is decided that the building would be constructed for ₹ 25,00,000. The Company would pay ₹ 20,00,000 in cash and the rest in its fully paid up shares.

Assad and Rauf form a Joint Venture for the construction of the building. Assad contributes ₹ 6,00,000 and Rauf contributes ₹ 2,00,000 for the venture.

The profit or loss for the venture is agreed to be shared in the ratio of 3:1.

Prepare necessary ledger accounts from the following information:

- 1) Fees paid to Corporation for getting Plans cleared ₹ 80,000
- 2) Fee of the Architect for the project ₹ 1,20,000
- 3) Advance paid to supplier's of construction material ₹ 5,00,000
- 4) Total Value of construction material obtained from supplier's ₹ 15,00,000
- 5) Wages paid ₹ 6,80,000
- 6) Materials purchased by paying cash ₹ 1,60,000
- 7) Balance material costing ₹ 70,000 taken by Rauf for ₹ 40,000

The rest of the payment of the suppliers is paid in full. On completion of the venture, the company pays the price agreed upon.

Assad takes the shares of the company for ₹ 4,40,000.

SOLUTION 3:

Dr.

Joint Venture Account

Cr.

Particulars	₹	Particulars	₹
-------------	---	-------------	---

Creditor's Account	15,00,000	Joint Bank Account (Sales)	20,00,000
Joint Bank A/c (Corporation)	80,000	Equity Shares A/c	
Joint Bank A/c (Wages)		Rauf (Materials taken)	5,00,000
Joint Bank A/c (Architect's fees)	6,80,000		40,000
Joint Bank A/c (Cash Purchases)	1,20,000	Assad's Loss (3/4)	
Equity Shares A/c (Loss)	1,60,000	Rauf's Loss (1/4)	45,000
	60,000		15,000
	26,00,000		26,00,000

Dr. Assad's Account Cr.

	₹		₹
Equity Share Account	4,40,000	Joint Bank Account	6,00,000
Joint Venture A/c (Loss)	45,000		
Joint Bank A/c (Final Settlement)	1,15,000		
	6,00,000		6,00,000

Dr. Rauf's Account Cr.

	₹		₹
Joint Venture A/c (Goods taken)	40,000	Joint Bank Account	2,00,000
Joint Venture A/c (Loss)	15,000		
Joint Bank A/c (Final settlement)	1,45,000		
	2,00,000		2,00,000

Dr. Shares Account Cr.

	₹		₹
Joint Venture A/c	5,00,000	Assad's Account	4,40,000
		Joint Venture A/c (Loss)	60,000
	5,00,000		5,00,000

Dr.	Joint Bank Account		Cr.
	₹		₹
Assad's Account	6,00,000	Creditor's Advance	5,00,000
Rauf's Account	2,00,000	Creditor's (Final Payment)	10,00,000
Joint Venture Account	20,00,000	Joint Venture A/c (Wages)	
		Joint Venture A/c (Corp. fees)	6,80,000
		Joint Venture A/c (Architect Fees)	80,000
		Joint Venture A/c (Cash purchases)	1,20,000
		Assad's Account	1,60,000
		Rauf's Account	1,15,000
			1,45,000
	28,00,000		28,00,000

Illustration 4: (Joint Bank Account)

M/S Adapt International made an agreement with Jass and Roop to underwrite its 100,000 shares of 10 each and place them in the market. Jass and Roop formed a Joint Venture for the underwriting exercise. They negotiated with the company to pay their fees in the form of 3000 shares of the company as the underwriting commission. They agreed between themselves to share their profit or loss in the ratio of 3:2. The following transactions happened during the venture:

- 1) Applications for allotment of 93000 shares were received.
- 2) An expense of Rs. 8000 was paid by Roop and Jass paid 6000 as his expenses.
- 3) 70% of the short subscription was taken over by Jass and the rest 30% by Roop. The 5000 shares in short subscription were sold by Jass for Rs. 66,000.
- 4) Roop sold the 2000 shares of short subscription as well as the 3000 shares received as commission for underwriting for Rs. 58000.
- 5) The amount received from the sale of shares of short subscription and commission was kept by Jass and Roop respectively.

Prepare the Joint Venture Account, Co-ventures' Account and Joint Bank Account for the Joint Venture.

Solution 4:

Dr.	Joint Venture Account		Cr.
	₹	Particulars	₹
Particulars			

Joint Bank Account (Jass-49,000; Roop-21,000)	70,000	Jass (Amount of Sale of shares)	66000
Roop's A/c (Expenses)	8000	Roop (Amount of Sale of shares)	58000
Jass's A/c (Expenses)	6000		
Profit transferred to			
Jass	24,000		
Roop	16,000		
	<u>1,24,000</u>		<u>1,24,000</u>

Dr.		Roop's Account		Cr.	
	₹		₹		₹
Joint Venture A/c	58,000	Joint Bank Account	49,000		
Joint Bank A/c	21,000	Joint Venture A/c (Expenses)	6000		
		Joint Venture A/c (Profit)	24000		
	<u>79,000</u>		<u>79,000</u>		

Dr.		Jass's Account		Cr.	
	₹		₹		₹
Joint Venture A/c	66,000	Joint Bank Account	21,000		
		Joint Venture A/c (Exp)	8000		
		Joint Venture A/c (Profit)	16,000		
		Joint Bank A/c (Balancing figure)	21,000		
	<u>66,000</u>		<u>66,000</u>		

Dr.		Joint Bank Account		Cr.	
	₹		₹		₹
Jass's A/c	49000	Joint Venture Account	70,000		
Roop's A/c	21000	Roop's Account	21,000		
Jass's A/c	21000				
	<u>91,000</u>		<u>91,000</u>		

7.2 Records Maintained by one of the Co-Ventures

This method of recording the entries is done when one of the co-ventures' manages the complete transactions and the other co-ventures' only contribute their capital. 'Joint Venture Account' and Capital Accounts of other Co-ventures' are opened in the books. The different Journal entries are recorded as follows:

1) When Capital as per their share is received from other Co-ventures'

Cash/Bank Account Dr.
 To Capital A/c of Co-ventures'

2) When Goods are purchased for Cash by the Co-venture maintaining the Records

Joint Venture Account Dr.
 To Cash/Bank A/c

3) When Goods are purchased on Credit by the Co-venture maintaining the Records

Joint Venture Account Dr.
 To Supplier's A/c

4) When Goods are Supplied by Co-venture maintaining the Records

Joint Venture Account Dr.
 To Purchases

5) When Goods are Supplied to the venture by other Co-venture

Joint Venture Account Dr.
 To Capital A/c of Co-venture

6) When Bills are received from other Co-venture

Bills Receivable Account Dr.
 To Capital A/c of Co-venture

7) When Expenses are paid by Co-venture maintaining the Records

Joint Venture Account Dr.
 To Cash A/c

8) When Expenses are paid by other Co-venture

Joint Venture Account Dr.
 To Capital A/c of other Co-venture

9) When there is Sale of Goods on Cash by Co-venture who is recording

Cash/Bank Account Dr.
To Joint Venture A/c

10) When there is Sale of Goods on Credit by Co-venture who is recording

Customer A/c Dr.
To Joint Venture A/c

11) When there is Sale of Goods by other Co-venture

Capital A/c of Co-venture Dr.
To Joint Venture A/c

12) When unsold Goods are taken over by Co-venture maintaining the records

Purchase Account Dr.
To Joint Venture A/c

13) When unsold Goods are taken over by other Co-venture

Capital A/c of other Co-venture Dr.
To Joint Venture A/c

14) When Commission/Salary etc. is paid to Co-venture maintaining the records

Joint Venture Account Dr.
To Commission/Salary A/c

15) When there is Profit from the Joint Venture

Joint Venture Account Dr.
To Profit and Loss A/c
(Share of Co-venture who is maintaining records)
To Capital A/c of other Co-venture
(with his share of Profit)

16) When there is Loss from the Joint Venture

Profit and Loss A/c (with his own share of loss) Dr.
Capital A/c of other Co-venture (with his share of loss) Dr.
To Cash/Bank A/c

17) When settling the Balance of other Co-venture in case of a Debit Balance

Cash/Bank Account Dr.

- To Capital A/c of Co-venture
- 18) When settling the Balance of other Co-venture in case of a Credit Balance**
- | | |
|---------------------------------|-----|
| Capital A/c of other Co-venture | Dr. |
| To Cash/Bank A/c | |

Illustration 5: Records Maintained By One Of The Co-Ventures'

Valli and Ritu start a Joint Venture to sell Dessert Coolers during the beginning of Summer Season. They decide to share their profit or loss from the venture in the ratio of 3:1. Valli purchases Coolers of different sizes costing ₹ 1,20,000. She incurs an expense of ₹ 7,000 in procuring and selling the goods. Valli gives an advance of ₹ 5,000 to Ritu. Ritu starts slow and incurs an expense of ₹ 5,000 for procuring the coolers of ₹ 70,000. She incurs further expense of ₹ 4,000 for selling the goods. Both Valli and Ritu are able to sell the coolers for an amount of ₹ 2,42,000. This entire amount is collected by Ritu. The books for the Joint Venture are prepared by Valli. Pass the journal entries and prepare the necessary ledger accounts in the books of Valli.

Solution 5:

Journal Entries in the books of Valli

Sr. No	Particulars		Debit ₹	Credit ₹
1	Joint Venture Account Dr.		1,20,000	
	To Cash Account(Cost of goods supplied)			1,20,000
2	Joint Venture Account Dr.		7,000	
	To Cash Account(Expenses of Valli)			7,000
3	Ritu's Account Dr.		5,000	
	To Cash A/c (Advance to Ritu)			5,000
4	Joint Venture A/c Dr.		70,000	
	To Ritu's A/c (Cost of goods supplied by Ritu)			70,000
5	Joint Venture A/c Dr.			
	To Ritu's A/c (Expenses of Ritu)		9,000	
6	Ritu's Account Dr.			9,000
	To Joint Venture A/c (Sale proceeds)		2,42,000	
7	Joint Venture Account Dr.			2,42,000
	To Profit and Loss A/c		36,000	
	To Ritu's A/c			27,000
8	Bank Account Dr.			9,000
	To Ritu's A/c (Amount received from Ritu)			
			1,59,000	1,59,000

Dr.		Joint Venture Account		Cr.	
Particulars	₹	Particulars	₹		
Cash Account (Cooler's cost)	1,20,000	Ritu's Account		2,42,000	
Cash Account (Expenses)					
Ritu's Account (Cooler's cost)	7,000				
Ritu's A/c (Expenses)	70,000				
Profit and Loss Account					
Ritu's Account	9,000				
	27,000				
	9,000				
	<u>2,42,000</u>				<u>2,42,000</u>

Dr.		Ritu's Account		Cr.	
	₹		₹		
Cash Account (Advance)	5,000	Joint Venture A/c (Cooler's cost)	70,000		
Joint Venture A/c (Sales)	2,42,000	Joint Venture A/c (Expenses)	9,000		
		Joint Venture A/c (Profit share)	9,000		
		Bank Account	1,59,000		
	<u>2,47,000</u>				<u>2,47,000</u>

Illustration 6: Books Maintained By One Of The Co-Ventures'

Two firms of Mandi Gobindgarh, M/s Rain & Co along with M/s Sunshine form a Joint Venture. M/s Ram & Co is a dealer in steel pipes while M/s Sunshine is a dealer in Steel Sheets. They decide to get steel benches manufactured from Varun who has a factory in Delhi. They also hire the services of Tilak for selling the prepared benches at a commission of 10%. They also decide to share the profit or loss from the venture in the ratio of 3:2.

The records of all transactions are maintained by M/s Ram & Co. Prepare the ledger accounts in the books of M/s Ram % Co from the following data:

- 1) M/s Ram & Co supplies Steel pipes for ₹ 5,50,000 and incurs transportation of ₹ 11,000.
- 2) M/s Sunshine supplies Steel Sheets for ₹ 4,00,000 and incurs transportation charges of ₹ 12,000.
- 3) Varun manufactures 7000 steel benches at ₹ 50 per bench.

- 4) Tilak sells 6400 benches at ₹ 250 each.
 5) Tilak purchases 600 benches for ₹ 150 each.

Solution 6:

Dr. Joint Venture Account Cr.

Particulars	₹	Particulars	₹
Bank Account (Purchases)	5,50,000	Tilak's Account (Sales)	16,00,000
Bank Account (Transport Exp)	11,000	Tilak's Account (Goods taken)	90,000
M/s Sunshine (Purchases)	4,00,000		
M/s Sunshine (Transport Charges)	12,000		
Bank A/c (Manufacturing cost)	3,50,000		
Tilak's Account (Commission)	1,60,000		
Profit and Loss A/c	1,24,200		
M/s Sunshine (Profit)	82,800		
	<u>16,90,000</u>		<u>16,90,000</u>

Dr. M/s Sunshine's Account Cr.

	₹		₹
Bank Account	4,94,800	Joint Venture A/c (Purchases)	4,00,000
		Joint Venture A/c (Transport exp)	
		Joint Venture A/c (Profit share)	12,000
			82,800
	<u>4,94,800</u>		<u>4,94,800</u>

Dr. Tilak's Account Cr.

	₹		₹
Joint Venture A/c (Sales)	16,00,000	Joint Venture A/c (Commission)	1,60,000
Joint Venture A/c (Goods taken)	90,000	Bank Account	15,30,000
	<u>16,90,000</u>		<u>16,90,000</u>

7.3 Records in the Books Of All Co-Ventures

In this particular method each Co-venture prepares books for himself. Two accounts are maintained by all - the 'Joint Venture Account' (to know the profit or loss from the venture) and 'Personal Account of Co-venture' (to find out the amount due from him or to be paid to him). In case each Co-venture has his own business also then these accounts are maintained separate from the personal business. Journal entries passed are as follows:

Journal entries

In Case of Self:

1) When Cash is contributed to Joint Venture

Joint Venture Account Dr.
To Cash/Bank A/c

2) When Goods are purchased

Joint Venture A/c Dr.
To Cash/Bank A/c

3) When Goods are Supplied to the venture

Joint Venture A/c Dr.
To Purchases A/c

4) When expenses are paid

Joint Venture Account Dr.
To Cash/Bank A/c

5) When Goods are sold on Cash

Cash/Bank Account Dr.
To Joint Venture A/c

6) When Goods are sold on Credit

Debtor's Account Dr.
To Joint Venture A/c

7) When Cash is received from Debtors'

Cash/Bank Account Dr.
To Debtor's A/c

8) When a discount is allowed or when there is a bad debt

Joint Venture Account Dr.
To Debtor's A/c

9) When Cash is received from other Co-venture

- Cash/Bank Account Dr.
 To Personal A/c of other Co-venture
- 10) When Bills Receivable are received from other Co-venture**
Bills Receivable Account Dr.
 To Personal A/c of other Co-venture
- 11) When Cash is given to other Co-venture**
Personal A/c of other Co-venture Dr.
 To Cash/Bank A/c
- 12) When Bills Payable given to other Co-venture**
Personal A/c of other Co-venture Dr.
 To Bills Payable A/c
- 13) When Commission/Salary is received by Co-venture himself**
Joint Venture Account Dr.
 To Commission/Salary A/c
- 14) When any unsold stock is taken to stock by the co-venture maintaining records**
Purchases Account Dr.
 To Joint Venture A/c

Recording of Transactions of Other Co-Ventures'

- 1) When Cash or goods are contributed or purchases are made by the 'other Co-venture'**
Joint Venture Account Dr.
 To Personal A/c of other Co-venture
- 2) When Expenses paid/Discount permitted/Bad Debt incurred by 'other Co-venture'**
Joint Venture Account Dr.
 To Personal A/c of other Co-venture
- 3) When Goods are sold for cash/credit by 'other Co-owner'**
Personal A/c of 'other Co-venture' Dr.
 To Joint Venture A/c
- 4) When Commission/Salary etc. is paid to 'other Co-venture'**
Joint Venture Account Dr.
 To Personal A/c of 'other Co-venture'
- 5) When any unsold stock is taken over by 'other Co-venture'**
Personal A/c of 'other Co-venture' Dr.
 Institute of Lifelong Learning, University of Delhi.

To Joint Venture A/c

6) When there is Profit from the venture

Joint Venture Account Dr.
 To Profit and Loss Account
 (with the share of profit of co-venture recording)
 To Personal A/c of 'other Co-venture'
 (with his share of profit)

7) When there is loss from the venture

Profit and Loss Account (With share of Loss of 'Self') Dr.
Personal A/c of 'other Co-venture' (With his share of Loss) Dr.
 To Joint Venture A/c

8) Settlement of Accounts at the end of Joint Venture when Cash received

Cash/Bank Account Dr.
 To Personal A/c 'other Co-venture'

9) Settlement of Accounts at the end of Joint Venture when Cash Paid

Personal A/c of 'other Co-venture' Dr.
 To Cash/Bank A/c

Illustration 7: Recording In The Books Of All Co-Ventures'

Stella of Chennai and Madhu of Delhi entered into a Joint Venture for procuring and selling Silk Sarees sharing equally in the profit or loss. Stella would purchase the sarees and send them to Delhi. She was entitled to 8% interest. Madhu was to sell the sarees and would be paid 5% commission on the sale. Stella decided to purchase the Silk Sarees from Kanchipuram. The following transactions took place.

- 1) On 1st July, Stella purchased 400 sarees for ₹ 8,00,000 at an average cost of ₹ 2,000 each.
- 2) Packaging and transportation to Delhi cost Stella ₹ 28,000.
- 3) On 1st October Madhu sold 200 sarees at an average rate of ₹ 3,000 each.
- 4) On 15th November Madhu sold 180 sarees for ₹ 3200 each.
- 5) Madhu paid ₹ 7000 as rent for storage of the sarees.
- 6) Madhu remitted ₹ 6,00,000 on 31st October to Stella
- 7) Madhu purchased the remaining 20 sarees for ₹ 2000 each.
- 8) Madhu closed the books on 30th November and remitted the remaining amount to Stella.

Prepare the necessary ledger accounts in the books of Stella and Madhu.

Solution 7:

In the books of Stella

Dr.		Joint Venture Account		Cr.	
Particulars	₹	Particulars	₹		
1st July		1st October			
Cash Account (Purchases)	8,00,000	Madhu's A/c (Sales 200*3000)		6,00,000	
Cash Account (Pkg & Transport)	28,000	15th November			
30th November		Madhu's A/c (180*3200)		5,76,000	
Madhu's A/c (Rent)		30th November			
Madhu's A/c (Commission 5% of 11,76,000)	7,000	Madhu's A/c (20*2000)		40,000	
Interest A/c (8% on 8,28,000 for 5 months)	58,800	Interest A/c (8% on 6,00,000 for one month)		4,000	
	27,600				
Profit and Loss A/c					
Madhu's A/c (Profit)	1,49,300				
	1,49,300				
	12,20,000				12,20,000

Dr.		Madhu's Account		Cr.	
	₹		₹		
Joint Venture A/c (Sales)	6,00,000	Joint Venture A/c		58,800	
Joint Venture A/c (Sales)		(Commission)			
Joint Venture A/c (Stock taken)	5,76,000	Joint Venture A/c (Expenses)		7,000	
		Bank Account (Cash remitted)			
	40,000	Joint Venture A/c (Profit)		6,00,000	
		Bank A/c Balance c/d		1,49,300	
				4,00,900	
	12,16,000			12,16,000	

In The Books Of Madhu			
Dr.		Cr.	
Particulars	₹	Particulars	₹

1 st July		1 st October	
Stella's Account (Purchases)	8,00,000	Cash A/c (Sales 200*3000)	6,00,000
Stella Account (Pkg & Transport)	28,000	15 th November	
30 th November		Cash A/c (180*3200)	
Cash A/c (Rent)	7,000	30 th November	5,76,000
Cash A/c (Commission 5% of 11,76,000)	58,800	Cash A/c (20*2000)	40,000
Interest A/c (8% on 8,28,000 for 5 months of Stella)	27,600	Interest A/c (8% on 6,00,000 for one month of Stella)	4,000
Profit and Loss A/c	1,49,300		
Stella's A/c (Profit)	1,49,300		
	12,20,000		12,20,000

Dr.

Stella's Account

Cr.

	₹		₹
Joint Venture A/c (Interest)	4000	Joint Venture A/c (Purchases)	8.00,000
Cash A/c	6,00,000	Joint Venture A/c(Pkg & Transpt)	28,000
Bank A/c (Balance C/D)	4,00,900	Joint Venture A/c (interest)	27,600
		Joint Venture A/c (Profit)	1,49,300
	10,04,900		10,04,900

7.4 Memorandum Joint Venture Account

This is the fourth method of maintaining Joint Venture Accounts. In this method Double Entry system for recording of transactions is not adopted. Thus the word 'Memorandum' is attached. Let us assume that there are two individuals 'A' and 'B' who form a Joint Venture. The following procedure is adopted while recording under this method:

- 1) Each Co-venture opens an account titled 'Joint Venture with(Name of other co-venture) Account. 'A' will open an Account titled 'Joint Venture with 'B: Account'. 'A' will record only those entries in this account that he undertakes for the joint venture. All purchases or supplies and expenses of 'A' are debited. All sales by 'A' and any stock taken over by 'A' are credited in this account. Any amount received from 'B' on Joint Venture also is credited. However, this account will not show the transactions of 'B' on supplies, sales or expenses.
- 2) Similarly 'B' will open an account titled 'Joint Venture with 'A' Account' in its books and proceed as above.
- 3) In case the tenure of the Joint Venture is long, each co-venture sends to the other a statement of all his transactions on a periodic manner as decided.
- 4) Profit and Loss on the Joint Venture is calculated by preparing 'Memorandum Joint Venture Account'. The share of Profit or Loss ascertained from this memorandum is

debited or credited as the case may be in the co-ventures' account opened in (1) above.

The various journal entries to be passed by 'A' for the transactions are as follows:

- 1) When goods are purchased by 'A' himself.**
 Joint Venture with 'B' A/c Dr.
 To Cash A/c
- 2) When expenses are incurred by 'A'.**
 Joint Venture with 'B' A/c Dr.
 To Cash A/c
- 3) When any Bills are discounted by 'A'**
 Bank A/c (Net proceeds) Dr.
 Joint Venture with 'B' A/c (Discount) Dr.
 To Bills Receivable A/c
- 4) When interest and commission is received by 'A'**
 Joint Venture with 'B' A/c Dr.
 To Interest A/c
 To Commission A/c
- 5) When goods are sold on cash as well as credit**
 Cash A/c (cash sales) Dr.
 Customer A/c (Credit sales) Dr.
 To Joint Venture with 'B' A/c (Total)
- 6) When payment is received from the customer or discount is permitted**
 Cash A/c (Amount recd.) Dr.
 Joint Venture with 'B' A/c (Discount allowed) Dr.
 To Customer A/c (Total)
- 7) When unsold goods of Joint Venture are taken by 'A'**
 Purchase A/c Dr.
 To Joint Venture with 'B' A/c
- 8) When there is share of profit on preparing 'Memorandum Joint Venture A/c'**
 Joint Venture with 'B' A/c Dr.
 To Profit and Loss A/c
- 9) When there is Loss on preparing 'Memorandum Joint Venture A/c'**
 Profit and Loss A/c Dr.
 To Joint Venture with 'B' A/c

Illustration 8:

Parul and Prerna both make designer clothes for the elite. Both of them have been failures in selling their products. They engage Jolly, their friend, who has good contacts with rich families, to sell the clothes. Parul and Prerna form a Joint Venture for the purpose. Parul supplies 100 designer suits of Rs. 5,00,000 to Jolly on 15th June. She incurs an expense on

packaging, transportation and labeling of Rs. 18,000. On 1st July Prerna supplies 120 designer suits of Rs. 4,80,000 to Jolly. Prerna incurs an expense of Rs. 22,000.

Jolly is able to sell 70 suits supplied by Parul for Rs. 5,60,000 and remits this amount to Parul after deducting a commission of 3% on 15th September. Jolly further sells 108 suits of Prerna for Rs. 6,48,000. He remits this amount to Prerna after deducting 3% of his commission on 29th September.

Later, Jolly is able to sell the 30 suits of Parul for ₹ 1,20,000 and remits to Parul after deducting 3% commission on 5th December. He also sells the 12 remaining suits supplied by Prerna for ₹ 36,000. He sends this amount to Prerna after deducting 3% commission on 10th December.

Prepare record the transactions of Parul and Prerna separately and a Memorandum Joint Venture Account.

Solution 8:

Memorandum Joint Venture Account

Particulars	₹	Particulars	₹
Parul's A/c		Jolly's A/c	
Goods supplied	5,00,000	Sale 70 suits	5,60,000
Expenses	18,000	Sale 108 suits	6,48,000
Prerna's A/c		Sale 30 suits	1,20,000
Goods supplied	4,80,000	Sale 12 suits	36,000
Expenses	22,000		
Jolly's A/c			
Commission	16,800		
Commission	19,440		
Commission	3,600		
Commission	1,080		
P & L A/c			
Parul	1,51,540		
Prerna	1,51,540		
	13,64,000		13,64,000

In The Books Of Parul

Joint Venture With Prerna Account

Date	Particulars	₹	Date	Particulars	₹
15 June	Bank A/c		15 Sep	Bank A/c	
	Goods supplied	5,00,000	5 Dec	Sales	5,43,200
	Expenses	18,000		Sales	1,16,400
	Profit A/c	1,51,540		Bank A/c (Balance recd from Prerna)	9940
		6,69,540			6,69,540

In The Books Of Prerna

Joint Venture With Parul Account

Date	Particulars	₹	Date	Particulars	₹
1 July	Bank A/c			Bank A/c	
	Goods supplied	4,80,000	29 Sep	Sales	6,28,560
	Expenses	22,000	10 Dec	Sales	34,920
	Profit A/c	1,51,540			
	Bank A/c (Remittance to Parul)	9,940			
		<u>6,63,480</u>			<u>6,63,480</u>

Illustration 9:

Jogi, a manufacturer of Scientific Instruments entered into a Joint Venture with Sehgal to sell his goods. The venture had a 3:1 share in favor of Jogi. Jogi supplied Rs. 4,00,000 worth of Instruments to Sehgal. Transportation charges for sending the books were Rs. 8000. A bill was drawn for the amount of Rs. 4,00,000. It was discounted @20% for three months.

Sehgal paid Rs. 3000 as commission to his agents and also paid Rs. 7000 for the storage. He disposed the Instruments for Rs. 6,40,000. He remitted the amount due to be paid to Jogi.

Prepare the following accounts:

1. Memorandum Joint Venture Account
2. Joint Venture with Sehgal Account in the books of Jogi
3. Joint Venture with Jogi Account in the books of Sehgal

Solution 9:

Memorandum Joint Venture Account

Particulars	₹	Particulars	₹
Jogi's A/c		Sehgal's A/c	
Instruments supplied	4,00,000	Sale of Instruments	6,40,000
Transportation Expenses	8,000		
Discount Charges	20,000		
Sehgal's A/c			
Commission to Agents	3,000		
Storage Expenses	7,000		
Profit transferred to			
Jogi	1,51,500		
Sehgal	50,500		
	<u>6,40,000</u>		<u>6,40,000</u>

In The Books Of Jogi

Joint Venture With Sehgal's Account

Particulars	₹	Particulars	₹
-------------	---	-------------	---

Bank A/c		Bills Receivable A/c	4,00,000
Instruments supplied	4,00,000	Bank A/c (Balance recd from Sehgal)	1,79,500
Expenses	8,000		
Discount Charges	20,000		
Profit A/c	1,51,500		
	5,79,500		5,79,500

In The Books Of Sehgal

Joint Venture With Jogi's Account

Particulars	₹	Particulars	₹
Bank A/c		Bills Receivable A/c	6,40,000
Expenses	3,000		
Storage	7,000		
Bills Payable	4,00,000		
Profit A/c	50,500		
Bank A/c (Transfer to Jogi)	1,79,500		
	6,40,000		6,40,000

Summary:

- A joint venture is entered for business purpose and is a short-term arrangement between individuals, firms or companies.
- There can be two or more participants known as Co-ventures'. Joint ventures have their salient features but have advantages as well as disadvantages.
- An agreement is made before entering into a joint venture.
- There is basic difference between a partnership, consignment and a joint venture.
- There are four methods applicable for the accounting of joint ventures:
 - (a) recording the transactions of the joint venture in separate set of books;
 - (b) recording by one of the Co-ventures';
 - (c) recording the transactions in the books of all Co-ventures'; and
 - (d) memorandum joint venture accounts in which each Co-venture records only his own transactions.

Exercises:

A: Objective Type Questions:

1. State whether each of the following statements is true or false:

- a) 'Partnership' and 'Joint venture' are identical terms.
- b) Joint venture business is a long-term business.
- c) Parties of joint venture are known as Co-ventures'.
- d) The relationship between Co-ventures' is that of a Principal and Agent.
- e) Joint Venture is governed by a particular Act.
- f) Profit and Loss is calculated after completion of the venture.
- g) Co-ventures' work for commission.
- h) Joint Venture can be formed both for moveable and immoveable goods.
- i) The doctrine of 'Implied Authority' governs the relationship between the Co-ventures'.
- j) A 'Joint Bank Account' is always prepared as one of the Accounts under the Joint Venture System.
- k) Joint Venture is a Personal Account.
- l) Co-ventures and co-partners are interchangeable terms.
- m) Joint Venture Account is prepared to find out the amount due to/from Co-ventures'.
- n) There are several methods of keeping records of a Joint Venture.
- o) Joint venture must have a permanent and distinct name to be legal.

2. Select The Most Appropriate Answer:

- 1) Joint Venture account is:
 - (a) a Nominal account;
 - (b) a Personal account;
 - (c) a Real account.
- 2) A 'Memorandum Joint Venture Account' is prepared when
 - (a) Separate books are maintained;
 - (b) all the Co-ventures' maintain accounts relating to Joint Venture and each Co-venture records only those transactions that are effected by him/it;
 - (c) transactions are recorded by one of the Co-venture.
- 3) A 'Joint Bank Account' is opened:
 - (a) when no separate books for the venture are maintained;
 - (b) when separate books for the venture are maintained
 - (c) under no circumstances.
- 4) When a Co-venture recording the transactions brings goods to the joint venture from his own stock, the amount is credited to:
 - (a) Joint Venture account;
 - (b) Capital account;
 - (c) Purchase account.
- 5) No entry is passed for goods supplied or expenses incurred on Joint Venture by the 'Other Co-venture' in case of
 - (a) Memorandum Joint Venture Account';
 - (b) Keeping separate set of books;
 - (c) Record maintained by one of the Co-ventures'.

(Answers: 1- a. False, b. False c. True d. False e. False
 f. True g. False h. True i. False j. False
 k. False l. False m. False n. True o. False

2. 1. a 2. b 3. b 4. c 5. a)

B. Short Questions

- 1) Elaborate five differences between joint venture and consignment.
- 2) When a Joint Venture is formed between Ravi and Anjan for purchase and sale of quilts, Ravi purchases quilts for ₹ 72,000. What journal entry will you pass?
 - a) When separate set of books are used for recording.
 - b) When records are kept by Ravi only.
 - c) When records are kept by Anjan only.
- 3) Mention five differences between Partnership and a joint venture.
- 4) What are the salient features of a Joint Venture?
- 5) Jagesh and Ramesh on completion of their joint venture earned a profit of 28,000 from their venture. It was decided at the start of the venture that they would share the profits in the ratio of 4:1. Please pass journal entries in the following cases:
 - a) When separate books are maintained
 - b) When Memorandum Joint Venture Accounting method is used
 - c) When records are maintained by Ramesh only
- 6) Parvesh and Dinesh enter into a fifty-fifty joint venture to purchase and sell Inverters. Parvesh contributes ₹ 2,00,000 and Dinesh contributes ₹ 1,70,000. The total expenses on procuring and selling the Inverters is ₹ 20,000. The Inverters are sold for ₹ 4,60,000. Prepare a format of Joint Venture Account.
(Ans: Profit ₹ – 70,000)
- 7) Mahesh purchases cloth worth ₹ 50,000 for the joint venture and spend ₹ 4,000 on packing, insurance, transportation etc. He sends it to Subhash, who receives goods and spends ₹ 3000. What journal entry will be passed when memorandum joint venture method is adopted?

C. LONG QUESTIONS:

1. Jaideep and Shubhang jointly underwrite and place on the market 50,000 shares of Bombay machineries Ltd. of ₹ 10 each. It was agreed with the company that they would be allotted 2,000 shares as fully paid towards their remuneration.

Their profit sharing ratio is 3:2. Applications were received from the public only for 45,000 shares. Jaideep paid ₹ 4,000 for postage and advertisement In addition to 60% of amount required to take up the short subscription.

Shubhang financed the balance amount. These are accounted for through Joint Bank Account. All the shares including those allotted for remuneration were sold. Jaideep sold 3,000 shares for ₹ 35,000 and Shubhang sold the balance shares for ₹ 48,000. Shubhang incurred expenses ₹ 2,000. Sale proceeds were retained individually.

Show necessary accounts in the books of the ventures' that were separately started for this purposes. The interest account was settled through the Joint Bank Account. [B. Com]

(Answer: Profit on Joint Venture – ₹ 27,000; Cash paid by Shubhang – 15,200)

2. Anand and Balbir entered into a joint venture to construct a building for ₹ 20,00,000 payable in cash. A Joint Bank Account was opened. A and B deposited ₹ 5,00,000 and ₹ 3,00,000 respectively. The profit or loss was to be shared in 2:1 ratio after providing interest at 10% on money deposited in Bank by A and B. Details of transactions are:

	₹
Purchase of Plant and Machinery	10,00,000
Wages Paid	6,00,000
Materials supplied by A	1,40,000
Materials supplied by B	80,000
Contract was completed and price was duly received. B took over materials for 62,000 and joint venture was closed. Prepare necessary account.	[B. Com]

(Answer: Profit on Joint Venture – ₹ 1,62,000; Final Payments: A - ₹ 7,98,000; B - ₹ 4,02,000)

3. Hardy of Delhi and Gagan of Ludhiana enter into a joint venture to consign 200 bales of cloth to Nayan of Delhi to be sold on their joint risk that is in the proportion of 3/7 and 4/7 respectively. Hardy sends 150 bales at Rs. 2,600 each, paying for freight and other charges Rs. 4,900. Gagan sends 50 bales at Rs. 2,500 each, paying for expenses Rs. 3,600. All the bales were sold by Nayan for Rs. 14,00,000 of which Nayan deduct Rs. 6,000 for his expenses and 10% on total sales as his commission. Nayan remits Rs. 3,00,000 to Hardy and the balance amount to Gagan through Bank Draft.

Prepare necessary ledger accounts in the books of both Co-Ventures. [B. Com]

(Answer: Profit - ₹ 7,30,500; Gagan's Bank Account 4,09,971; Amount remitted by Nayan to Gagan – 9,54,000)

4. A and B entered into a Joint Venture of underwriting the subscription at par for the entire share capital of Rama Ltd consisting of 10,000 equity shares of ₹ 10 each and to pay all expenses upto allotment sharing profits in the ratio of 3:2 respectively. The consideration in return for the guarantee was 1,200 other shares of ₹ 10 each fully paid to be issued to them. A provided the funds for registration fees ₹ 1,200, advertising ₹ 1,100 and printing & stationary ₹ 950. B paid for office rent ₹ 300, legal charges ₹ 1,550 and salaries ₹ 900. Prospectus was issued and applications fell short of the full issue by 1,500 shares. A took these over on joint account and paid for the same in full. They received 1,200 fully paid shares as underwriting commission. They sold their entire holding at ₹ 12 per share. The proceeds were received by A for 1500 shares and for B for 1200 shares. Write Joint Venture account and Co-ventures' account in the books of both the parties. [B. Com]

(Answer: Profit – ₹ 11,400; B's account Cr Bal ₹ 7,090)

5. Yash and Crush agreed to enter into a joint venture for the purchase and sale of old cars and to share profits in the ratio of 3:2. On 1st Jan 2012 Yash bought 8 cars for ₹ 7,36,000 and on 5th Jan he paid tax and insurance amounting to ₹ 25,600. On 31st Jan, he sold these cars for ₹ 9,92,000 of which he remitted ₹ 1,65,000 to Crush, paying the balance in his own account.

On 20th Jan 2012 Crush bought five cars for ₹ 6,20,000 and on 25th January he paid tax and insurance amounting to ₹ 26,000 and repairs amounting to ₹ 39,000. He sold three cars on 2nd Feb 2012 for ₹ 5,10,000 that he paid into his own bank account. It was agreed that Yash should take over the other cars at a valuation of ₹ 2,80,000 and the venture was closed on 10th Feb 2012.

You are required to prepare (a) Memorandum Joint Venture Account, and (b) Joint Venture with Crush in the books of Yash. [Modified B.Com]

(Answer: Profit ₹ 3,35,400; Payment to Crush ₹ 1,44,160)

6. Pushkar and Mann enter into a joint venture. Pushkar would purchase Road Laying Machinery and after refurbishing it the same would be sold by Mann. Pushkar procured the machinery for 1,60,000. Mann paid 20,000 for the machinery and Pushkar paid 40,000. ₹ 1,00,000 was raised by Pushkar as loan from the Bank. The interest on the loan was to be paid by the venture. ₹ 18,000 financed equally by Pushkar and Mann, is spent on repairs of the machinery. Old steel/iron parts of the machinery were sold for ₹ 5000. This amount was credited in the loan account of Pushkar. The machinery was given on rent for three months. It fetched ₹ 12,000 divided equally between the two. The machinery was sold for 2,40,000 through an agent who was paid ₹ 4000 as commission. The net amount is received by Pushkar who repays the Bank loan and interest amounting to ₹ 3000. The joint venture is ended and the parties settle their accounts.

Prepare (a) Memorandum Joint Venture Account and (b) Joint Venture with Pushkar Account in the books of Mann.

(Answer: profit - 72,000; Amount payable by Pushkar - 59,000)

Glossary:

- **Account** -- a record of financial transactions; usually refers to a specific category or type, such as travel expense account or purchase account.
- **Agent** - One empowered to act for or represent another:
- **Assets** -- things of value owned by a business. An asset may be a physical property such as a building, or an object such as a stock certificate, or it may be a right, such as the right to use a patented process.
- **Association** - An organized body of people who have an interest, activity, or purpose in common.
- **Bad debts** -- amounts owed to a company that are not going to be paid. An account receivable becomes a bad debt when it is recognized that it won't be paid.
- **Bills Payable** - All bills which have been accepted, and promissory notes which have been made by a company.
- **Business** - The occupation, work, or trade in which a person is engaged:

- *Capital* - The amount or asset which is invested in business by the owner of business.
- **Commission** - fee accruing to an agent, broker, or salesperson for facilitating, initiating, and/or executing a commercial transaction.
- **Company** - A business enterprise
- **Consignee** - a person or party to whom merchandise is consigned
- **Consignment** - Goods sent by manufacturer's or traders to their agents for the purpose of sale. They do not become the property of the agent.
- **Consignor** - Person or firm (usually the seller) who delivers a consignment .
- *Contract* - A binding agreement between two or more parties for performing, or refraining from performing, some specified act(s) in exchange.
- **Co-ventures'** - The parties involving in joint venture are known as *co-ventures*.
- **Credit** -- Usually an increase in liabilities or capital, or a reduction in assets. Each credit in a balance sheet has a balancing debit.
- **Creditor** - A person or company to whom money is owed.
- **Debit** -- Usually an increase in assets or a reduction in liabilities. Every debit has a balancing credit.
- **Debtor** - A person or institution that owes a sum of money.
- **Depreciation** -- an expense that is supposed to reflect the loss in value of a fixed asset. For example, if a machine will completely wear out after ten year's use, the cost of the machine is charged as an expense over the ten-year life rather than all at once, when the machine is purchased.
- *Discount* - To sell or offer for sale at a reduced price.
- **Expense** -- an expenditure which is chargeable against revenue during an accounting period.
- *Firm* - The name or designation under which a company transacts business.
- *Franchise* - Authorization granted to someone to sell or distribute a company's goods or services in a certain area.
- **Freight** - A charge paid for carriage or transportation of goods by air, land, or sea.
- **Goods** - Items of merchandise, finished products, supplies, or raw materials.
- **Income** - What remains of revenue after expenses have been subtracted.
- **Intellectual Property** - A product of the intellect that has commercial value, including copyrighted property such as literary or artistic works, and ideational property, such as patents, appellations of origin, business methods, and industrial processes.
- **Interest** -- a charge made for the use of money.
- **Liabilities** -- amounts owed by a company to others.
- **Loss** - a loss is a decrease in net income that is outside the normal operations of the business.
- **Material** - The substance or substances out of which a thing is or can be made.
- **Nominal Account** - The accounts that report revenues, expenses, gains, and losses.
- **Partnership** - a contractual relationship between two or more persons carrying on a joint business venture with a view to profit, each incurring liability for losses and the right to share in the profits.
- **Personal Account** - An account for use by an individual for that person's own needs as different from those accounts for corporate or business use.
- **Purchases** - a business acquiring goods or services to accomplish the goals of the enterprise.
- **Principal** - A person who empowers another to act as his or her representative.
- **Profit** -- the amount left over when expenses are subtracted from revenues.

- **Real Account** - A real account is a general ledger account that does not close at the end of the accounting year. In other words, the balances in the real accounts are carried.
- **Revenue** -- the amounts received by or due a company for goods or services it provides to customers.
- **Sales** -- amounts received or due for goods or services sold to customers.
- **Services** - A term that describes work that supports a business but does not produce a tangible commodity.
- **Severally** - separately, individually, or distinctly.
- **Shares** - Certificates or book entries representing ownership in a corporation or similar entity.
- **Technology** - the application of practical sciences to industry or commerce.
- **Technical knowhow** - the *technical* knowledge and skill required to do something.
- **Tenure** - A period during which something is held.
- **Underwriting Commission** - The compensation that an underwriter receives for placing a new issue with investors.

References:

1. Work Cited

- Sh. J R Monga and Ms. Shweta Bajaj; Basic Financial Accounting
- Advanced Accounts by Sh. M C Shukla, Sh. T S Grewal and Sh. S C Gupta
- Financial Accounting by Dr. P C Tulsian
- Financial Accounting by Sh. R L Gupta

2. Suggested Readings:

- A Short Course in INTERNATIONAL JOINT VENTURES - How to Negotiate, Establish and Manage an International Joint Venture by Alan S. Gutterman, 3rd edition, Indian print 2009.

• Web-Links:

- http://accounting4management.com/definition_and_explanation_of_joint_venture.htm
- http://www.rpemery.com/articles/advantages_and_disadvantages_jv.htm
- http://joint-venture.swimintheincomestream.com/the_advantages_and_disadvantages_of_entering_a_joint_venture.php
- http://accounting4management.com/advantages_and_disadvantages_of_joint_ventures.htm
- <http://www.seanmcphheat.com/marketing/joint-ventures/disadvantages-joint-venture>
- http://accounting4management.com/advantages_and_disadvantages_of_joint_ventures.htm
- <http://basiccollegeaccounting.com/2009/04/difference-between-the-terms-consignment-and-joint-venture-arrangement/>

- <http://accountlearning.blogspot.in/2011/10/difference-between-joint-venture-and.html>
- <http://www.publishyourarticles.net/eng/articles/difference-between-consignment-and-joint-venture.html>
- <https://www.megadox.com/blog/starting-a-business/the-differences-between-a-partnership-and-a-joint-venture>
- http://accountlearning.blogspot.in/2011/10/difference-between-joint-venture-and_05.html
- http://accounting4management.com/joint_venture_accounting_entries.htm

Value Addition: Visit the website <http://basiccollegeaccounting.com/2009/11/joint-venture-accounts-accounting-treatment/> and study the solved question on preparing a 'Memorandum Joint Venture Account'

