Joint Venture

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Fundamentals Of Accounting

Learning Objectives

After studying this unit, you will be able to :

- Understand special features of Joint Venture transactions,
- Learn the techniques of preparing Joint Venture Account and also the settlement of accounts with the co-venturer(s),
- Familiarise with the use of Memorandum Joint Venture Account,

Continued

- Learn the technique of deriving venture profit and its allocation among the venturers,
- Distinguish joint venture with partnership.

MEANING OF JOINT VENTURE

A Joint Venture is a very short duration "business" (generally, confined to a single transaction, like, buying some surplus stores and selling them) entered into by two or more persons jointly. Joint Venture may be described as a temporary partnership between two or more persons without the use of the firm name, for a limited purpose.

Continued

Venture may be for the construction of a building or a bridge, for the supply of certain quantity of materials or labour and even for the supply of technical services. The persons who have so agreed to undertake a Joint Venture are known as ‘Joint Venturers’ or ‘Co-Venturers’.

FEATURES OF JOINT VENTURE ACCOUNT

Some important features of joint venture business are as follows:

(i) It is short duration special purpose partnership. Parties in venture are called co-venturers.

(ii) Co-venturers may contribute funds for running the venture or supply stock from their regular business

(iii) Co-venturers share profit/loss of the venture at an agreed ratio likewise partnership.

Continued

(iv) Generally profit/loss of the venture is computed on completion of the venture.

(v) Going concern assumption of accounting is not appropriate for joint venture accounting. There does not arise problem of distinction between capital and revenue expenditure. Plant, machinery and other fixed assets when used in venture are first charged to venture account at cost. On completion of venture such assets are revalued and shown as revenue of the venture. Thus accounting approach for measurement of venture profit is totally different.

DISTINCTION OF JV WITH PARTNERSHIP

Joint Venture differs from Partnership in the following respects.

Basis of Distinction	Joint Venture	Partnership
1. Scope	It is limited to a specific Venture.	It is not limited to specific venture.
2. Persons involved	The persons carrying on business are called co-venturers.	The persons carrying on business are individually called partners.

Continued

3. Ascertainment of profit/loss	The profits/losses are ascertained at the end of specific venture (if venture continues for a short period) or on interim basis annually (if venture continues for a longer period).	The profits/losses are ascertained on an annual basis
4. Act governing	No specific Act is there.	Partnership firms are

Continued

		Governed by Indian Partnership Act, 1932.
5. Name	There is no need for firm name	A partnership firm always has a name.
6. Separate set of Books	There is no need for a separate set of books. The accounts can be maintained even in one of the Co-venturer's books only.	Separate set of books have to be maintained.

Continued

7. Admission of Minor	A minor cannot be a co-venturer as he is incompetent to contract.	A minor can be admitted to the benefits of the firm.
8. Accounting	Accounting for joint venturer is done on liquidation basis.	Accounting for partnership is done on going concern basis.

Continued

9. Competition	It is a rule rather than exception that chances of co-venturers in the competing business are very high.	Partners generally do not involve in competing business.

METHODS OF MAINTAINING JOINT VENTURE ACCOUNTS

Co-venturers can maintain the accounts for joint venture in the manner that suits them in a particular situation.

Generally there are two ways to keep records of joint venture:

1. When separate set of books are maintained.
2. When no separate set of books are maintained.

Summary

- Maintenance of Joint Venture Accounts
  - Separate set of books are maintained
    - Joint bank account
    - Joint Venture account
    - Personal accounts of co-venturers
  - No separate set of books are maintained
    - When each co-venturer keeps record of all transactions
      - Joint venture account
      - Co-venturer's account
    - When each co-venturer keeps record of own transactions only
      - Memorandum joint venture account
      - Joint venture with co-venturer account

WHEN SEPARATE SET OF BOOKS ARE MAINTAINED

When size of the venture is fairly big, the co-venturers keep separate set of books of account for the joint venture. Joint venture transactions are separate from their regular business activities. In the books of Joint Venture the following accounts are opened.

Continued

(i)Joint Bank Account.

(ii)Joint Venture Account.

(iii)Personal Accounts of the Co-venturers or Co-venturers’ Accounts.

(i) Joint Bank Account: the co-venturers open a separate bank account for the venture transactions by making initial contributions. The bank account is generally operated jointly. Expenses are met from this Joint Bank Account. Also sales or collections from transactions are deposited to this account.

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However, sometimes the co-venturers may make direct payments and direct collections. on completion of the venture the Joint Bank Account is closed by paying the balance to co-venturers.

(ii) Joint Venture Account: This account is prepared for measurement of venture profit. This account is debited for all venture expenses and is credited for all sales or collections. Venture profit/ loss is transferred

Continued

to co-venturers' accounts.

(iii) Co-venturers' Accounts: Personal accounts of the venturers are maintained to keep record of their contributions of cash, goods or meeting venture expenditure directly and direct payment received by them on venture transactions. This account is also closed simultaneously with the closure of joint bank account.

Illustration 1

B and C enter a joint venture to prepare a film for the Government. The Government agrees to pay Rs. 1,00,000. B contributes Rs. 10,000 and C contributes Rs. 15,000. These amounts are paid into a Joint Bank Account. Payments made out of the joint bank account were:

Continued

	Rs.
Purchase of equipment	6,000
Hire of equipment	5,000
Wages	45,000
Materials	10,000
Office expenses	5,000

B paid Rs. 2,000 as licensing fees. On completion, the film was found defective and Government made a deduction of Rs. 10,000. the equipment was taken over by C at a valuation of Rs. 2,000

Continued

Separate books were maintained for the joint venture whose profits were divided in the ratio of B 2/5 and C 3/5. Give ledger account.

Solution

Dr.

Joint Bank Account

Date	Rs.	Date	Rs.
?? To B	10,000	?? By Joint Venture A/c-	
?? To C	15,000		
		Equipment	6,000
		Hire of equipment	5,000

Continued

?? To Joint Venture A/c	90,000	Wages	45,000
		Materials	10,000
		Office expenses	5,000
		?? By B	19,000
		By C	24,400
			1,15,000

Continued

Dr.

Joint Bank Account

Date	Rs.	Date	Rs.
?? To Joint Bank A/c:		?? By Joint Bank A/c	
		(Rs. 1,00,000-10,000)	90,000
Equipment	6,000		
Hire of equipment	5,000		
Wages	45,000	?? By C	
Materials	10,000	(Equipment taken)	2,000
Off. Expenses	5,000		

Continued

?? To B- Licensing fee	2,000		
?? To Profit to:			
B 2/5 7,600			
C 3/5 11,400	19,000		
	92,000		92,000

Continued

B's Account

Date	Rs.	Date	Rs.
?? To Joint Bank A/c		?? By Joint Bank A/c	10,000
-Repayment	19,600		
		?? By Joint Venture A/c	
		-Fees	2,000
		?? By Joint Venture A/c	
		-Profit	7,600
	19,600		19,600

Continued

C's Account

Date	Rs.	Date	Rs.
?? To Joint Venture A/c		?? By Joint Bank A/c	15,000
-Equipment	2,000		
?? To Joint Bank A/c		?? By Joint Venture A/c	
		- Profit	11,400
-Repayment	24,400		
	26,400		26,400

WHEN NO SEPARATE SET OF BOOKS ARE MAINTAINED

When no separate set of books of account are maintained for joint venture, each venture maintains accounts independently for the venture transactions. The standard practice is to keep full records of own transactions as well as transactions of the co- venture relating to the venture. But sometimes the parties to a venture keep record of their own

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Transactions only. In that case a Memorandum Joint Venture Account is prepared by the parties.

Illustration 2

A and B entered into a joint venture of underwriting the subscription at part of the entire share capital of the Copper Mines Ltd. consisting of 1,00,000 equity shares of Rs. 10 each and to pay all expenses upto allotment. The profits were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this agreement was the allotment of 12,000 other shares of Rs. 10 each to be issued to them as fully paid. A

Continued

Provided funds for registration fees Rs. 12,000, advertising expenses of Rs. 11,000, for expenses on printing and distributing the prospectus amounting to Rs. 7,500 and other printing and stationery expenses of Rs. 2,000. B contributed towards payment of office rent Rs. 3,000, legal charges Rs. 13,750, salary to clerical staff Rs. 9,000 and other petty disbursements of Rs. 1,750. The prospectus was issued and applications fell short of the

Continued

Issued by 15,000 shares. A took over these on joint account and paid for the same in full. The venturers received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at Rs. 12.50 less 50 paise brokerage per share. The net proceeds were received by A for 15,000 shares and B for 12,000 shares. Write out the necessary accounts in the books of A showing the final adjustments.

Solution

In the books of A
Joint Venture Account

Dr.	Rs.		Cr. Rs.
To Bank A/c – Registration Fee	12,000	By Bank A/c-sale proceeds of 15,000 shares Rs. 12.50 each less 50 paise brokerage	1,80,000
- Advertising	11,000		
- Printing & Distribution of Prospectus	7,500		
- Printing & Stationery	2,000		

Continued

To B – Office Rent	3,000	By B-sale proceeds of 12,000 shares Rs. 12.50 each less 50 paise per share brokerage	1,44,000
- Legal Charges	13,750		
- Clerical Staff	9,000		
- Petty Payments	1,750		
To Bank – Cost of Shares	1,50,000		
Net Profit to:			
- P & L A/c [3/5]	68,400		
- B [2/5]	45,600		
	3,24,000		3,24,000

Continued

Dr.			Cr.
To Joint Venture A/c – Sale Proceeds of shares	1,44,000	By Joint Venture A/c	
		- Office Rent	3,000
		- Legal Charges	13,750
		- Clerical Staff	9,000
		- Petty Payments	1,750
		By Joint Venture A/c- share of profit	45,600
		By Bank	70,900
	1,44,000		1,44,000

Illustration 3

With the information given in Illustration 2, let us prepare the necessary accounts in the books of B also.

	Rs.		Rs.
To Bank – Office Rent	3,000	By Bank (Sale of Investments)	1,44,000
- Legal Charge	13,750	By A (Sale of Investments)	1,80,000
- Clerical Staff	9,000		
- Petty Payments	1,750		
To A – Registration Fee	12,000		
- Advertisement	11,000		
- Printing of Prospectus	7,500		

Continued

- Printing Stationery	2,000		
- Cost of Shares	1,50,000		
To Net Profit to:			
P&L A/c (2/5)	45,600		
A (3/5)	68,400		
			3,24,000
	3,24,000		

Continued

A's Account

To Joint Venture A/c	Rs.	By Joint Venture A/c	Rs.
Sale proceeds	1,80,000	- Registration Fee	12,000
To Bank A/c	70,900	- Advertisement Charges	11,000
		- printing & Distribution of Prospectus	7,500
		- Printing & Stationery	2,000
		- Cost of Shares	1,50,000
		By Joint Venture A/c – Share of profit	68,400
	2,50,000		2,50,000

Illustration 4

Ram and Gautham entered into a joint venture to buy a sell TV sets, on 1st July, 2006.

On 1.7.2006, Ram sent a draft for Rs. 2,50,000 in favour of Gautham, and on 4.7.2006, the latter purchased 200 sets each at a cost of Rs. 2,000 each. The sets were sent to Ram by lorry under freight “to pay for Rs. 2,000 and were cleared by Ram on 15.7.2006.

Continued

Ram effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount sales price
16.7.2006	20	3,000	10%
31.7.2006	100	2,800	-
15.8.2006	80	2,700	5%

On 25.8.2006, Ram settled the account by sending a draft in favour of Gautham, profits being shared equally. Gautham does not maintain any books. Show in Ram’s book

Continued

(i) Joint Venture with Gautham A/c; and

(ii) Memorandum Joint Venture A/c.

Solution Ram's Books

Joint Venture with Gautham A/c

Dr. **2006**		**Rs.**	**2006**	**Cr.** **Rs.**
July 1	To Bank-draft sent on A/c	2,50,000	July 16 by Bank-sale proceeds	54,000
July 15	To Bank- freight	2,000	July 31 By Bank-sale proceeds	2,80,000
”25	To profit and Loss A/c share of profit	68,600	Aug 14 By Bank-sale proceeds	2,05,200

Continued

	To Bank – draft sent in settlement	2,18,600		
		5,39,200		5,39,200

Memorandum Joint Venture A/c

	Rs.		Rs.
To Cost of 200 sets	4,00,000	By Sales proceeds (net)	
" Freight		20 sets @ Rs. 2,700 net	54,000
" Profit:		100 sets @ Rs. 2,800	2,80,000
Ram 68,600		80 sets @ Rs. 2,565 net	2,05,200
Gautham 68,600	1,37,000		
	5,39,200		5,39,200

MCQ 1

1. M and N enter into a Joint venture where M supplies goods worth Rs. 6000 and spends Rs 100 on various expenses. N sells the entire lot for Rs 7500 meeting selling expenses amounting to Rs 200. Profit sharing ratio equal. N remits to M the amount due. The amount of remittance will be:

   (a) Rs. 6700　　(b) Rs. 7300

   (c) Rs. 6400　　(d) Rs. 6100

MCQ 2

2. A purchased goods costing 42500. B sold goods costing Rs 40000 at Rs. 50000. Balance goods were taken over by at same gross profit percentage as in case of sale. The amount of goods taken over will be:

(a) Rs. 3125 (b) Rs. 2500

(c) Rs. 3000 (d) none

MCQ 3

3. Which of the following statement is true?

(a) Only one venturer bears the risk

(b) Only one venturer can sell the goods

(c) Only one venturer can purchase the goods

(d) In joint venture, provisions of partnership act applies

MCQ 4

4. Which of the following statement is true:

(a) In case of separate sets of books method of Joint Venture, co-venturer’s contribution of goods is debited in Joint Bank A/c

(b) Co-venturer’s contribution in cash is debited in Venturer’s personal account

(c) Discount on discounting of B/R is debited to Venturer’s personal account

(d) Contract money received is credited to Joint Venture Account.

MCQ 5

5. For opening Joint Bank account, in case of separate sets of books:

(a) Venture A/c will be debited and Venturers A/c will be credited

(b) Joint Bank A/c is debited and Venturers Capital A/c is credited

(c) Joint Venture A/c is debited and Joint Bank A/c will be credited

(d) Joint Bank A/c will be debited and Joint Venture A/c will be credited

MCQ 6

6. For purchase of plant from Joint Bank Account, in case separate sets of books are maintained, the correct journal entry will be:

(a) Plant A/c will be debited and Joint Bank A/c will be credited.

(b) Joint Venture A/c will be debited and Joint Bank A/c will be credited

(c) Plant A/c will be debited and Venturers Capital A/c will be credited

(d) Joint Venture A/c will be debited and Plant A/c will be credited

MCQ 7

7. For material supplied from own stock by any of the venturer, the correct journal entry will be: (In case of separate sets of books)

(a) Joint Venture A/c will be debited and Venturers Capital A/c will be credited

(b) Joint Venture A/c will be debited and Joint Bank A/c will be credited

(c) Joint Venture A/c will be debited and Material A/c will be credited

(d) Joint Bank A/c will be debited and Joint Venture A/c will be credited

MCQ 8

8. A and B enter into a joint venture to underwrite the shares of K Ltd. K Ltd make an equity issue of 100000 equity shares of Rs. 10 each 80% of the issue are subscribed by the party. The profit sharing ratio between A and B is 3:2. the balance shares not subscribed by the public, purchased by A and B in profit sharing ratio. How many shares to be purchased by A.

(a) 80000 shares

(b)72000 shares

(c) 12000 shares

(d) 8000 shares

MCQ 9

9. A and B enter into a joint venture to underwrite shares of K Ltd. K Ltd. make an equity issue of 200000 equity shares. 80% of the shares underwritten by the venturer. 160000 shares are subscribed by the public. How many shares are to be subscribed by the venturer?

(a) Nil

(b) 32000

(c) 36000

(d) None

MCQ 10

10. A and B purchased a piece of land for Rs. 20,000 and sold it for Rs 60,000 in 2005. Originally A had contributed Rs 12000 and B Rs 8000. What will be the profit on venture?

(a) Rs. 40,000

(b) Rs. 20,000

(c) Rs. 60,000

(d) Nil

MCQ 11

11. A and B enter into a joint venture sharing profit and losses in the ratio 2:1. A purchased goods costing Rs 200,000. B sold the goods for Rs 250,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. The profit on venture will be:

(a) Rs. 35500 (b) Rs. 36000

(c) Rs. 34000 (d) Rs. 38000

MCQ 12

12. P and Q enter into a Joint Venture sharing profits and losses in the ratio 3:2. P purchased goods costing Rs 200,000. Other expenses of P Rs 10000. Q sold the goods for 180000. Remaining goods were taken over by Q at Rs 20000. The amount of final remittance to be paid by Q to P will be:

(a) 215000 (b) 204000

(c) 210000 (d) None

MCQ 13

13. C and D entered into a Joint Venture to construct a bridge. They did not open separate set of books. They shared profits and losses as 3:2. C contributed Rs 150000 for purchase of materials. D paid wages amounting to Rs 80000. Other expenses were paid as:

    C – 5000 D – 15000

MCQ 13

C purchased one machine for Rs 20000. The machine was taken over by C for Rs 10000. Total contract value of Rs 300000 was received by D. What will be the profit on venture?

(a) Rs. 30000

(b) Rs. 40000

(c) Rs. 20000

(d) Rs. 15000

MCQ 14

14. R and M entered into a joint venture to purchase and sell new year gifts. They agreed to share the profit and losses equally. R purchased goods worth Rs. 100,000 and spent Rs. 10000 in sending the goods to M. He also paid Rs. 5000 for insurance. M spent Rs 10000 as selling expenses and sold goods for 200000. Remaining goods were taken over by him at Rs 5000. What will be the amount to be remitted by M to R as final settlement?

(a) Rs. 155000

(b) Rs. 150000

(c) Rs. 115000

(d) Rs. 80000

MCQ 15

15. R and M entered into a joint venture to purchase and sell new year gifts. They agreed to share the profit and losses equally. R purchased goods worth Rs. 100,000 and spent Rs 10000 in sending the goods to M. He also paid Rs 5000 for insurance. M spent Rs 10000 as selling expenses and sold goods for 200000. Remaining goods were taken over by him at Rs. 5000. Find out profit on venture?

(a) Rs. 70000

(b) Rs. 75000

(c) Rs. 80000

(d) Rs. 85000

MCQ 16

16. A and B enter into a joint venture sharing profit and losses in the ratio 3:2. A will purchase goods and B will affect the sale. A purchase goods costing Rs 200,000. B sold it for Rs 300000. The venture is terminated after 3 months. A is entitled to get 10% interest on capital invested irrespective of utilization period. The amount of interest received by a will be

(a) 20000 (b) 10000

(c) 15000 (d) 25000

MCQ 17

17. A bought goods of the value of Rs. 10000 and consigned them to B to be sold by them on a joint venture, profits being divided equally. A draws a bill on B for an amount equivalent to 80% of cost on consignment. The amount of bill will be:

(a) Rs. 10000

(b) Rs. 8000

(c) Rs. 6000

(d) Rs. 9000

MCQ 18

18. A bought goods of the value of Rs 10000 and consigned them to B to be sold by them on a joint venture, profits being divided equally. A draws a bill on B for an amount equivalent to 80% of cost on consignment. The amount of bill will be:

(a) Rs. 3000 (b) Rs. 3500

(c) Rs. 4000 (d) Rs. 3200

MCQ 19

19. A bought goods of the value of Rs. 10000 and consigned them to B to be sold by them on a joint venture, profits being divided equally, A paid Rs 1000 for freight and insurance. A draws a bill on B for Rs 10000. A got it discounted at Rs. 9500. B sold the goods for Rs. 15000. Commission payable to B, Rs 500. the amount to be remitted by B to A will be:

(a) Rs. 12500
(b) Rs. 13000
(c) Rs. 14500
(d) Rs. 13500

MCQ 20

20. If any stock is taken over by the venturer, it will be treated as an:

(a) Income of the joint venture, hence credited to Joint Venture Account

(b) Expenses of Joint Venture, hence debited to Joint Venture Account

(c) To be ignored from Joint Venture Transaction

(d) It will be treated in the personal book of the venturer and not in the books of Jt Venture.

THE END

Joint Venture