Unit – 3. Accounting for Joint ventures:

Introduction – Meaning – Objectives – Distinction between Joint Venture and Consignment – Distinction between Joint Venture and Partnership – Maintenance of accounts in the books of Co-Venturers – Maintaining separate books for Joint Venture – Preparation of Memorandum Joint Venture – Problems.

Meaning:

Joint venture is an agreement between two or more persons called co-venturers to undertake a particular venture or business and to share profits or losses of that venture in an agreed ratio. A Joint venture is generally formed for the purchase and sale of goods or for speculation in underwriting of shares or debentures of joint stock companies, for construction works etc.

The persons to the joint venture are called co-venturers. The joint venture is closed by settling the co-venturers account on the completion of the venture/work for which it is formed. Settlement of co-venturers accounts may be in cash or through bank or by a bill.

Thus, **joint venture is a particular/temporary partnership between two or more persons who have agreed to jointly carry out a specific venture.**

Features of joint venture:

1. It is formed by two or more persons.
2. The purpose is to execute a particular venture.
3. A specific firm's name is used for the joint venture business.
4. It is of a temporary nature.
5. The co-venturers share profit or loss in the agreed ratio. However, in the absence of agreement the profits or losses are shared equally.

Objectives / Importance / Advantages:

1. To pool sufficient capital.
2. To share the skill, ability and experience for the common benefit of venture.
3. To spread the risk among the co-venturers.

Distinction between Joint Venture and Partnership:

Joint Venture	Partnership
1. There is no common name.	1. The business is carried on under the style of a firm's name.
2. Persons involved in joint venture are called co-venturers.	2. Persons involved in partnership are called partners.
3. Liability of the co-venturers depends on the mode of contract.	3. Partner's liability is joint and several.
4. Cash system of accounting is followed.	4. Accrual system of accounting is followed.
5. Co-venturers have no implied authority.	5. Doctrine of implied authority is applicable to partners.
6. There is no need for registration.	6. Registration can be made if partners desire.

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Distinction between Joint venture and Consignment:

Joint Venture	Consignment
1. Parties to the agreement are called co-venturers.	1. Parties to the agreement are called consignor and consignee.
2. Relationship between the co-venturers is that of partners in a firm.	2. Relationship between the consignor and consignee is that of principal and agent.
3. Joint venture is governed by the contract between the venturers and the partnership act.	3. Consignment is governed by the contract between the parties and the law relating to agency.
4. The profit is shared by all the co-venturers.	4. The profit belongs to the consignor only.
5. There are four methods of maintaining accounts for the joint venture.	5. There is only one method of maintaining the accounts for consignment transactions.
6. The relationship comes to an end as soon as the venture is completed.	6. The arrangement may continue for a long time.
7. The co-venturers have equal authority to take decisions.	7. The consignee acts as an agent and follows the instructions of consignor.
8. There is joint ownership.	8. Consignor is the owner of goods.

Accounting Treatment:

It is necessary to maintain proper accounts of all the transactions of joint venture so as to know the correct profit or loss. Broadly speaking the accounts of joint venture can be kept in four ways. The following are the methods available to record the joint venture transactions.

1. In the books of one co-venturer.
2. In the books of all co-venturers.
3. Memorandum joint venture account.
4. Separate set of books.

In the books of one co-venturer: First Method:

This method is followed when all the transactions relating to joint venture are recorded by one co-venturer. He will prepare a joint venture account and the personal accounts of other co-venturers. The following journal entries are passed in his books –

1. **For contributions made by the co-venturers:**
   Cash / Bank a/c Dr
   To Other Co-venturer's a/c
   (Being contributions made)
2. **For goods purchased:**
   Joint venture a/c Dr
   To Cash / Bank a/c
   (Being goods purchased)
3. **For goods supplied from his own stock:**
   Joint venture a/c Dr
   To Purchases a/c
   (Being goods supplied)

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4. For goods supplied by other co-venturers:

Joint venture a/c Dr
To Other co-venturer's a/c
(Being goods supplied by co-venturers)

5. For expenses incurred:

Joint venture a/c Dr
To Cash / Bank a/c
(Being expenses incurred)

6. For expenses paid by other co-venturers:

Joint venture a/c Dr
To Other co-venturer's a/c
(Being expenses by other co-venturers)

7. For sales made by co-venturer:

a) For Cash Sales:

Cash / Bank a/c Dr
To Joint venture a/c
(Being cash sales made)

b) For Credit Sales:

Debtors a/c Dr
To Joint venture a/c
(Being credit sales made)

8. For sales made by other co-venturers:

Other co-venturer's a/c Dr
To Joint venture a/c
(Being sales made by other co-venturers)

9. For cash / BR received from other co-venturers for sales made by them:

Cash / BR / Bank a/c Dr
To Other co-venturer's a/c
(Being money received)

10. For recording commission of co-venturer:

Joint venture a/c Dr
To Commission a/c
(Being commission earned)

11. For unsold stock taken over by the co-venturer:

Purchases a/c Dr
To Joint venture a/c
(Being stock taken over)

12. For unsold stock taken over by other co-venturers:

Other Co-venturer's a/c Dr
To Joint venture a/c
(Being stock taken over by other co-venturers)

13. For profit or loss in joint venture:

a) If profit:

Joint venture a/c Dr
To P & L a/c (his share)
To Other Co-venturer's a/c
(Being profit distributed)

b) If loss:

P & L a/c Dr
Other Co-venturer's a/c Dr
To Joint venture a/c
(Being loss distributed)

14. For amount paid to Other co-venturers:

Other Co-venturer's a/c Dr
To Cash / Bank a/c
(Being amount paid to other co-venturers)

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Joint venture account:

Under this method Joint venture account is a nominal account and is debited with the cost of goods purchased or supplied by co-venturers out of their stock, all expenses and is credited with the sales and unsold stock. The balance in this account represents profit or loss which will be shared by the co-venturers in agreed ratio.

Problem – 1.

Pujari, Purohit and Pandit were partners in a joint venture, each contributing Rs.10,000. Pujari purchased goods for Rs.26,000 and also supplied goods worth Rs.2,000 from his stock. Pandit also supplied goods to the value of Rs.3,000 from his stock and his expenses in connection with supplying of goods on account of joint venture amounted to Rs.100. Pujari paid Rs.500 for expenses in connection with the joint venture. Pujari sold goods on behalf of the joint venture and realized Rs.41,600. Pujari was entitled to a commission of 5% on sales. Unsold goods amounting to Rs.1,000 were taken over by Purohit. Pujari settled accounts of Purohit and Pandit by bank draft. Record these transactions in Pujari's journal and prepare necessary ledger accounts.

In the books of all co-venturers: Second Method:

Under this method, all transactions relating to joint venture are recorded in the books of all co-venturers. Each co-venturer opens a joint venture account and personal accounts of other co-venturers.

Problem – 2.

Lava and Kusha entered into a joint venture in Timber. Kusha is to be allowed a commission on sales at 10% and profits are to be shared in the ratio of 2:1.

Lava provides timber from stock for Rs.5,000 and incurs expenses amounting to Rs.500. Kusha pays Rs.500 for unloading and other non-recurring expenses. Lava drew upon Kusha for Rs.3,000, The bill was accepted and Lava got it discounted for Rs.2,880. Kusha sold 90% of the timber for Rs.7,500 and took over the remaining timber at cost plus 20%. Kusha settles his account by bank draft. Prepare relevant accounts in the books of both the parties.

Memorandum Joint Venture Method: Third Method:

When all parties keep accounts, the method adopted for recording the transactions relating to joint venture is called Memorandum joint venture method. The summary of the procedure adopted under this method is as follows –

1. Each venturer opens one account in his books in which he records all the transactions relating to joint venture known as "Joint venture with _____ (name of co-venturer) Account and it is a personal account and does not disclose any profit or loss. Therefore to find out the profit or loss on joint venture he prepares an account called Memorandum Joint Venture Account outside the regular books of account.
2. Each venturer records only those transactions which are effected by him. For example, if Hari and Giri are co-venturers, and when Hari purchases goods, it will be recorded only by Hari not by Giri. Similarly if goods are sold by Giri it will be recorded only by Giri not by Hari.
3. Memorandum joint venture account is a combination of joint venture with _____ A/cs prepared by all the venturers. Memorandum Joint Venture Account will be debited with all items appearing on the debit side of joint venture with _____ account of all the co-venturers and credited with all items

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appearing on the credit side of joint venture with _____account of all the co-venturers. The difference represents either profit or loss which will be divided among co-venturers as per agreed ratio.

The transactions are recorded in the following manner –

a) For purchase of goods by Hari for cash:

Joint venture with Giri a/c Dr
To cash a/c

b) For expenses incurred by Hari:

Joint venture with Giri a/c Dr
To Cash a/c

c) For goods supplied from his own stock:

Joint venture with ---------- a/c Dr
To Purchases a/c

d) For goods sold by Giri:

Cash a/c Dr
To Joint venture with Hari a/c

e) For goods taken by Giri for personal use:

Purchases a/c Dr
To Joint venture with Hari a/c

f) For profit or loss on joint venture:

In the books of Hari:

i) For his share of profit:

Joint venture with Giri a/c Dr
To Profit and loss a/c

ii) For his share of loss:

Profit and loss a/c Dr
To Joint venture with Giri a/c

In the books of Giri:

i) For his share of profit:

Joint venture with Hari a/c Dr
To Profit and loss a/c

ii) For his share of loss:

Profit and loss a/c Dr
To Joint venture with Hari a/c

4. Each party finds the balance of the "Joint venture _____ account" appearing in his books and settles the difference by paying / receiving cash.

Problem – 3.

Mr. Hari and Mr. Giri were partners in a joint venture sharing profits and losses in the proportion of 3/5 and 2/5 respectively. Mr. Hari supplies goods to the value of Rs.20,000 and incurs freight charges Rs.1,000. Mr. Giri also supplied goods to the value of Rs.16,000 and incurs Rs.800 towards freight and other incidental charges. Mr. Giri sells entire stock of goods on behalf of the joint venture for Rs.50,000. Mr. Giri is also entitled to a commission of 5% on sales. Mr. Giri settles his account by remitting a bank draft. Pass journal entries and prepare ledger accounts in the books of Mr. Hari and Mr. Giri.

Problem –4.

Charan bought goods of the value of Rs.10,000 and sent the same to Arjun to be sold by Arjun on joint venture. Profit being divided into 2/5 and 3/5. Charan also paid Rs.400 for cartage and freight and Rs.120 for insurance. He drew on Arjun a bill for Rs.3,000 and discounted the same with his bankers for Rs.2,920 after obtaining Arjun's acceptance. Arjun sold a portion of the goods for Rs.14,000 and paid selling expenses Rs.250. The unsold stock was also taken by Arjun for Rs.1,150. Arjun forwarded a draft for the balance due to Charan after charging sales commission at 5% on gross proceeds. Prepare Memorandum joint venture account.

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Fourth Method: Separate set of books or Common books:

When the joint venture transactions are numerous, a separate set of books or common books are maintained for recording all the joint venture transactions. For this purpose the following accounts are maintained –

1. **Joint Bank Account: -** for recording all cash transactions
2. **Joint Venture Account: -** for ascertaining the profits or losses on joint venture and
3. **Each Venturer's Account: -** for settlement of final balance of each venturer.

Journal entries to be passed in the separate set of books or common books:

1. **For introduction of capital by the venturers:**
   Joint Bank a/c Dr
   To each Venturer's a/c
   (Being capital introduced)
2. **For cash purchases made from joint bank account:**
   Joint Venture a/c Dr
   To Joint Bank a/c
   (Being cash purchases made)
3. **For credit purchases made:**
   Joint Venture a/c Dr
   To Supplier's or Creditor's a/c
   (Being credit purchases made)
4. **For the payment made to supplier or creditor:**
   Supplier's or Creditor's a/c Dr
   To Joint Bank a/c
   (Being cash paid)
5. **For goods purchased or supplied by the venturer:**
   Joint Venture a/c Dr
   To Concerned venturer's a/c
   (Being goods supplied by the venturer)
6. **For expenses incurred from joint bank account:**
   Joint Venture a/c Dr
   To Joint Bank a/c
   (Being expenses paid)
7. **For expenses incurred by any venturer:**
   Joint Venture a/c Dr
   To Concerned venturer's a/c
   (Being expenses incurred by the venturer)
8. **For cash sales made:**
   Joint Bank a/c Dr
   To Joint Venture a/c
   (Being goods sold for cash)
9. **For credit sales made:**
   Customer's/ Debtor's a/c Dr
   To Joint Venture a/c
   (Being credit sales made)
10. **For cash or bill received from debtor:**
    Joint Bank a/c or Bills Receivable a/c Dr
    To Debtor's a/c
    (Being cash/BR received)

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11. For discounting B/R:

Joint Bank a/c Dr
Discount a/c Dr
To Bills Receivable a/c
(Being B/R discounted)

12. For transferring discount on B/R to Joint Venture a/c:

Joint Venture a/c Dr
To Discount on B/R a/c
(Being discount on B/R transferred)

13. For goods taken over by the venturer:

Concerned Venturer's a/c Dr
To Joint Venture a/c
(Being goods taken by the venturer)

14. For commission payable to any venturer:

Joint Venture a/c Dr
To Concerned Venturer's a/c
(Being commission payable)

15. For balance in Joint Venture Account:

a) If Profit:

Joint Venture a/c Dr
To Each Venturer's a/c
(Being profit transferred)

b) If Loss:

Each Venturer's a/c Dr
To Joint Venture a/c
(Being loss transferred)

16. For the final balance received from the venturers:

Joint Bank a/c Dr
To Each Venture's a/c
(Being balance received from the venturer's)

17. For the final balance paid to the venturers:

Each Venturer's a/c Dr
To Joint Bank a/c
(Being balance paid to the venturer's)

Problem – 5.

Mohan and Suresh, building contractors, entered into a joint venture and accepted a contract for the construction of a building for Rs.1,00,000. This is payable as to Rs.80,000 in cash and Rs.20,000 in fully paid shares in the company. Bank account was opened in their joint names. Mohan paid Rs.25,000 and Suresh paid Rs.15,000. They agree to share the profits and losses in the ratio of 2:1.

The transactions were as follows:
Paid for wages Rs.30,000; Materials bought Rs.70,000; Materials supplied by Mohan Rs.5,000; Materials supplied by Suresh Rs.4,000; Architects fee paid by Mohan Rs.2,000.

The contract was completed and the price (cash and shares) duly received. The joint venture was closed, Mohan taking up all the shares at a value of Rs.16,000 and Suresh taking up the stock of materials for Rs.3,000.
Prepare the necessary ledger accounts.

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Problem – 6.

Amar, Akbar and Antony enter into a joint venture to divide profits equally. They bought goods from David for Rs.1,25,000 and from Amar for Rs.25,000. Amar contributed Rs.30,000; Akbar Rs.40,000 and Antony Rs.90,000 which amounts were banked in a joint account. They settled their account with David by cheque and paid for carriage and other expenses for Rs.7,500. They sold goods for cash Rs.65,000 and to Eswar on credit for Rs.1,40,000 who accepted a draft for the amount. The acceptance was cashed and realized Rs.1,37,000. Amar was allowed 5% commission on sales for effecting the transactions.

Pass necessary journal entries and open accounts, assuming that the final settlement between parties was made by cheques.

Problem – 7.

Lucky and Micky doing business separately as building contractors undertake jointly to construct a building for a newly started joint stock company for a contract price of Rs.2,50,000, payable as to Rs.2,00,000 by instalment in cash and Rs.50,000 in fully paid shares of the company. A bank account is opened in their joint names. Lucky paying Rs.62,500 and Micky paying Rs.37,500. They are to share the profits and losses in the proportion of 2/3 and 1/3 respectively. Their transactions were as follows –

Wages Rs.75,000; Materials supplied by Lucky Rs.12,500; Materials supplied by Micky Rs.10,000; Architects fees paid by Lucky Rs.5,000.

The contract was completed and the price (cash and shares) duly received. The joint venture was closed by Lucky taking up all the shares of the company at an agreed valuation of Rs.40,000 and Micky taking up the stock of material at an agreed valuation Rs.7,500. Show the joint venture account and Lucky account.

Problem – 8.

Anu and Manu enter into a joint venture. Anu agrees to bring capital in cash. Accordingly, a joint bank account is opened by Anu for a sum of Rs.80,000. Manu buys goods worth Rs.50,000 as a part of his share capital. Further goods worth of Rs.1,18,000 were purchased from Bhanu paying Rs.60,000 and for the balance they accepted a bill.

The goods were sent to Kolkata for sale. Expenses totalling Rs.5,000 were incurred in sending the goods. Part of goods was damaged and a sum of Rs.25,000 was recovered from the insurance company. The balance of goods were sold for Rs.2,20,000.

Prepare joint venture account and joint bank account assuming that the bill was duly honoured.

Problem – 9.

Murali and Vijay, both contractors, under took a joint venture involving construction of a building. A joint bank account was opened in which Murali deposited Rs.75,000 and Vijay deposited Rs.37,500. The contract price was Rs.3,75,000. The result of joint venture was to be shared in the ratio of 2:1 respectively. The details of the transactions were as follows –

Wages paid Rs.80,000; Materials supplied by Murali Rs.13,500; Materials supplied by Vijay Rs.12,000; Materials purchased Rs.1,65,000; Salaries Rs.12,000; Carriage Rs.18,500; Architect's fees paid by Murali Rs.10,000; Concrete mixer plant purchased Rs.38,500.

The stock of materials on the completion of the contract valued at Rs.16,500 was taken over by Murali. Concrete mixer plant was taken over by Vijay for Rs.30,000.

Prepare Joint Venture A/c, Joint Bank A/c and Accounts of Murali and Vijay.

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Problem – 10.

Sadhu, Sanyasi and Samsari entered into a joint venture and agreed to divide the profits as 60%, 30%, and 10% respectively. They purchased by auction several new machines for Rs.50,000. They contributed Rs.30,000, Rs.20,000 and Rs.10,000 for carrying on the transactions relating to the venture. A joint bank account was opened. The venturers were successful in selling all the machinery for Rs.1,25,000, except one machine which had to be scrapped and it fetched Rs.750 only. Sadhu spent Rs.2,450 and two other venturers spent Rs.1,250 each in connection with the venture. Prepare the joint venture account, joint bank account and accounts of joint venturers.

Problem – 11.

Ragupathi, Raghava and Rajaram entered into a joint venture according to which Ragupathi and Raghava purchase goods and send the same to Rajaram who is a marketer. Rajaram would sell the goods for a commission of 10%. Ragupathi and Raghava agreed to share the remaining profit in the ratio of 3:2. Raghupathi purchased goods for Rs.2,00,000 and sent them to Rajaram incurring an expenditure of Rs.8,000. Raghava purchased goods for Rs.1,20,000 and sent the same to Rajaram by incurring an expenditure of Rs.6,000.

Rajaram exported all the goods and realized Rs.4,00,000, by paying Rs.2,000 as insurance premium. He also received Rs.16,000 as insurance compensation for some goods destroyed.

Rajaram paid the balance of cash to Ragupathi and Raghava.

Prepare: a) Memorandum Joint Venture account.
b) Co-venturers accounts.

Problem – 12.

Rani and Vani entered into a joint venture to purchase stationeries and supply them to colleges. They agreed to share profits in the ratio of 5:3 and to maintain books of accounts for the joint venture under Memorandum Joint Venture Method.

Rani and Vani purchased stationeries for Rs.3,00,000 and Rs.2,25,000 respectively and sold them for Rs.3,75,000 and Rs.2,62,500 respectively. Selling expenses incurred by them are Rs.17,500 and Rs.12,500 respectively. No goods remained unsold and the final amount is settled by cheque.

Prepare necessary accounts in the books of Rani.

Problem – 13.

Krishna and Arjuna entered into joint venture sharing profits and losses in the ratio of 3:2. Krishna contributed Rs.1,20,000 and Arjuna Rs.1,60,000. The amounts contributed by them were deposited into a joint bank account. They bought goods for cash Rs.2,00,000 and from Krishna for Rs.80,000. They paid for carriage Rs.14,000, Rent Rs.4,000, insurance Rs.6,000 and other expenses Rs.8,000. All the goods were sold for Rs.3,60,000.

Pass the necessary Journal Entries.

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Problem – 14.

Mr. Arun and Mr. Bharath entered into a Joint venture to produce film for the Government. The Government agrees to pay Rs.2,00,000. Mr. Arun contributes Rs.20,000 and Mr. Bharath contributes Rs.30,000. These amounts are paid into Joint Bank Account. Payments made out of joint bank account were –

Purchase of Equipments Rs.12,000
Hire of equipments Rs.10,000
Wages Rs.90,000
Materials Rs.20,000
Other expenses Rs.10,000

Mr. Arun paid Rs.4,000 as licensing fees. On completion, Government paid the agreed amount. The equipments were taken over by Mr. Bharath at a valuation of Rs.4,000. Separate books were maintained for the Joint Venture whose profit were divided in the ratio of 2:3.

Pass journal entries and prepare the necessary ledger accounts.

Problem – 15.

Mari and Nari under took a joint venture for construction of a college building. A Joint Bank Account was opened in which Mari deposited Rs.1,00,000 and Nari Rs.50,000. The contract price was Rs.5,00,000. The profits of Joint Venture was to be shared as to Mari 2/3 and Nari 1/3.
The details of the transactions were as under –

Salaries Rs.16,000
Wages Rs.92,000
Materials supplied by Mari Rs.18,000
Building material purchased Rs.2,20,000
Materials supplied by Nari Rs.16,000
Architect's fees Rs.14,000
Carriage Rs.24,000
Machinery purchased Rs.50,000

On the completion of the contract the unused materials of the value of Rs.22,000 were taken over by Mari. The Machinery was sold for Rs.40,000. Nari was to be paid a remuneration of Rs.16,000 for her service which is to be charged to the Joint venture.

Prepare the necessary ledger accounts.

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