

## UNIT 4: JOINT VENTURES

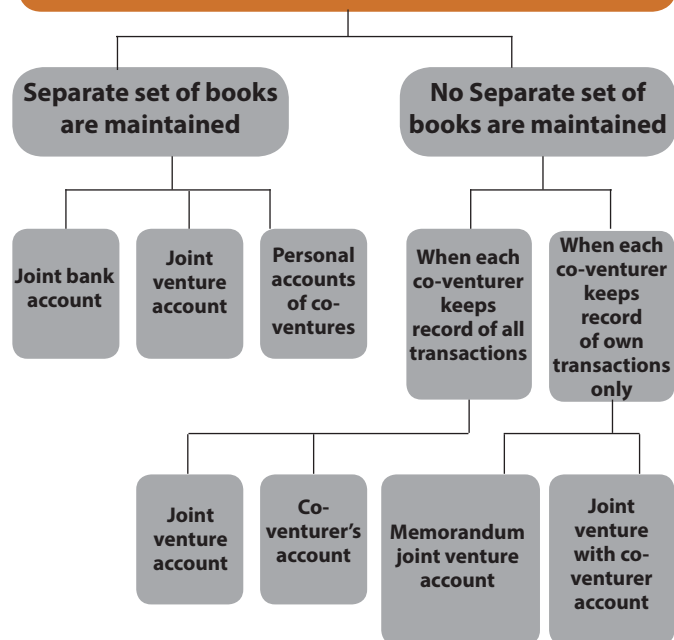
### LEARNING OUTCOMES

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

### UNIT OVERVIEW

### MAINTENANCE OF JOINT VENTURE ACCOUNTS



## 4.1 MEANING OF JOINT VENTURE

Complexities of a business such as huge funds requirements, lack of technical expertise, sometimes make it difficult to undertake a business assignment individually like construction of a multi purpose building complex. The alternative available is that two or more parties join hands to take up that assignment. Joining hands may be for finance, for technical know-how, for sharing risk etc. When two or more persons join together to carry out a specific business and share the profits or losses on predetermined basis, it is known as a Joint Venture. As per Accounting Standard a joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Further, joint control is defined as contractually agreed sharing of control over economic activity.

A Joint Venture is a specific duration “business” (generally, confined to a single transaction, like, developing some housing project and selling the same or mining of a particular coal mine) entered into by two or more persons jointly which comes to an end as soon as specific period elapses or the joint purpose/business is completed. 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. In other words, under Joint Venture, two or more persons agree to undertake a particular venture (e.g. Joint consignment of goods, Joint construction of a building, Joint underwriting of a particular issue of shares or debentures) and to share the profits and losses thereof in an agreed ratio (if agreement is silent on this point, then in equal ratio). 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’ and their liability is limited to the project or activity concerned for which they agree to contribute capital and share profits or losses. This limited partnership automatically expires on the completion of the venture for which it was formed. During the duration of the venture, the co-venturers are generally engaged in their own business as usual as well (unless agreed otherwise). If the co-venturers are in business, then they often supply goods from their regular business for achieving objective of the venture. For instance, two or more persons may combine their operations, resources and expertise in order to manufacture, market and distribute, jointly, a particular product, such as an aircraft. Different parts of the manufacturing process may be carried out by each of the persons. Each person may bear costs and take share of revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.

Let us take two examples to understand the nature of joint venture business.

**Example 1:** A and B decided to purchase Assam Teak in Guwahati and send to Delhi. A of Guwahati purchased Teak of ₹ 1,00,000, spent ₹ 20,000 for transportation and ₹ 8,000 for transit insurance. B of Delhi received the goods. B spent ₹ 2,000 for unloading, ₹ 6,000 for godown rent and ₹ 4,000 for selling expenses. He sold the entire lot for ₹ 1,75,000. They agreed to share profit of the venture in the ratio of A:B = 3:2.

In the above example, A and B are co-venturers. The venture was for sale of a certain quantity of Assam Teak. The venture would be over on sale of such Teak. Obviously some accounting is necessary to find out profit/loss of the venture and settlement of claims of the co-venturers.

**Example 2:** Mr. Arun and Barun entered into a joint venture for supply of 15,000 pcs. of Bengal handloom sarees to an exporter of Delhi @ ₹ 520 per piece. Arun and Barun contacted handloom weavers and paid advance to them. They collected production by lots and delivered to Delhi in a lot of 1,000 pcs.

In this example, Arun and Barun were co-venturers. The venture was for a special purpose of supplying of 15,000 pcs. of Bengal handloom sarees. The venture was over on supply of such quantity. Obviously, Arun and Barun had to maintain accounts to book all costs relating to the venture and revenue received from the

exporter for determining profit/loss of the venture and for settling the claims of co-venturersinter se.

## 4.2 FEATURES OF JOINT VENTURE

A joint venture can be in following form or structure:

1. Jointly controlled operations;
2. Jointly controlled assets; and
3. Jointly controlled entity.

Some important characteristics of joint venture business are as follows:

- (i) It is specific duration special purpose partnership.
- (ii) Two or more parties come together for a specific purpose and are bound by an agreement. Parties in venture are called co-venturers.
- (iii) The agreement between co-venturers establishes joint control.
- (iv) The joint venture may or may not have a specific name. Joint ventures may also be created in the form of a company where co-venturers contribute to its share capital.
- (v) Co-venturers may contribute funds for running the venture or supply Inventories from their regular business.
- (vi) Co-venturers share profit/loss of the venture at an agreed ratio likewise partnership.
- (vii) The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.
- (viii) Joint venture terminates on completion of purpose for which it was created.
- (ix) Generally profit/loss of the venture is computed on completion of the venture, however, for a joint venture which is expected to run for a long period, profit/loss is computed annually.

## 4.3 DISTINCTION OF JOINT VENTURE 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, and comes to an end on completion of such venture.	It is not limited to a specific venture.
2. Persons involved	The persons carrying on business are called co-venturers.	The persons carrying on business are called partners.
3. Name of entity	Joint venture does not necessarily require a firm name.	A partnership firm always has a distinct firm name.
4. 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.

5. 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.
6. 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.
7. Closure	Joint venture will be closed automatically on the completion of the venture i.e. achievement of purpose for which joint venture was formed.	Partnership can be dissolved by mutual consent of the partners or under certain circumstances

#### 4.4 DISTINCTION OF JOINT VENTURE WITH CONSIGNMENT

Joint venture and consignment are in the nature of an agreement between different parties but there are many points of differences between the two.

Some of these are given below:

Basis of Distinction	Joint Venture	Consignment
1. Purpose	It may be for sale of goods or for carrying out any other activity like construction of building, investment in shares, etc.	It generally involves sale of movable goods.
2. Persons involved	The persons carrying on business are called co-venturers.	The persons in the trade are called consignor and consignee.
3. Tenure	The relationship comes to an end as soon as the venture is completed.	The arrangement may continue for a long period of time.
4. Contribution of funds	All the co-venturers contribute funds to a common pool.	The funds are provided by the consignor only.
5. Sharing of profit/loss	The profit/loss is shared by all the co-venturers in the agreed ratio (in equal ratio if agreement is silent)	The profit/loss belongs to consignor only. The consignee is entitled only to commission.
6. Ownership	There is joint ownership.	The consignor owns the goods.
7. Relationship	The relationship between co-venturers is as partners to common purpose	The relationship between consignor and consignee is as principle and agent.

#### 4.5 METHODS OF MAINTAINING JOINT VENTURE ACCOUNTS

When the joint venture is in the form of joint control of an entity then joint venture is generally in the form of a company or partnership firm or any other legal entity in which each venturers has some interest. The entity operates in the same way as any other enterprise. The entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It has its own identity and may enter into contracts in its own name and raise finance for the purpose of the jointly controlled activity. Each co-venturer is entitled to a share of results of the jointly controlled entity, although it may also involve a sharing of output of the entity. An example of this kind of joint venture can be where an enterprise who has technology to

develop a particular product and wants to enter into a new country, joins hands with another enterprise located in target country having knowledge of behavior of the target market. Nowadays, it is common that co-venturers enter into this kind of arrangement and setup a separate jointly controlled entity for running desired business operations.

In case joint venture is not in the form of joint control of an entity, then 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.

#### 4.5.1 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 is considered a separate entity for the purpose of accounting and hence, its transactions are recorded separately from their regular business activities. This method is similar to a partnership agreement being entered into by the partners of a firm.

In the books of Joint Venture, the following accounts are opened:

- (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 into this account. However, sometimes the co-venturers may make direct payments and direct collections; in such a case they get due credit/ debit in their Personal Accounts for the transactions done. 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 with all venture expenses and credited with all sales or collections. If credit side of this account is greater than the debit side, the difference represents profit on joint venture and vice versa in the opposite case which is transferred to co-venturers' accounts in the profit-sharing ratio.

**(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. The profit or loss so made on venture is transferred to this account in profit sharing ratio. This account is also closed simultaneously with the closure of joint bank account.

The following journal entries are necessary in the books of joint venture:

#### Journal Entries

(a) For initial contribution by the co-venturers in Joint Bank Account

Joint Bank A/c	Dr.
To Co-venturers' A/c	

(b) For purchases made or expenses incurred

- Joint Venture A/c Dr.  
 To Joint Bank A/c (for cash purchase)/Creditors A/c (for credit purchase)
- (c) *For material supplied by venturers or direct payment made by venturers*
- Joint Venture A/c Dr.  
 To Co-venturers' A/cs
- (d) *For sale made*
- Joint Bank A/c (for cash sales)/Debtors A/c (for credit sales) Dr.  
 To Joint Venture A/c
- (e) *For sale or payment received directly by the venturers*
- Co-venturers' A/c Dr.  
 To Joint Venture A/c
- (f) *For payment made to creditors*
- Creditors A/c Dr.  
 To Joint Bank A/c
- (g) *For payment received from debtors*
- Joint Bank A/c Dr.  
 To Debtors' A/c
- (h) *For profit on Joint Venture*
- Joint Venture A/c Dr.  
 To Co-venturers' A/c
- or *For loss on Joint Venture*
- Co-venturers' A/c Dr.  
 To Joint Venture A/c
- (i) *For closing the Joint Bank A/c*
- Co-venturers' A/c Dr.  
 To Joint Bank A/c

From above transactions, it may be noted that all sales, incomes, purchases and expenses are recorded in Joint Venture A/c directly. Difference between total revenues and total expenses becomes profit/loss of the joint venture and is shared by co-venturers.

### ILLUSTRATION 1

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

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

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

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

### Required

Give ledger accounts.



### SOLUTION

#### Joint Bank Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
??	To B	10,000	??	By Joint Venture A/c- Equipment	6,000
??	To C	15,000		Hire of equipment	5,000
??	To Joint Venture A/c	90,000		Wages	45,000
				Materials	10,000
				Office expenses	5,000
			??	By B	19,600
				By C	24,400
		1,15,000			1,15,000

#### Joint Venture Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
??	To Joint Bank A/c:		??	By Joint Bank A/c	
	Equipment	6,000		(₹ 1,00,000-10,000)	90,000
	Hire of equipment	5,000			
	Wages	45,000	??	By C (Equipment taken)	2,000
	Materials	10,000			
	Office Expenses	5,000			
??	To B -Licensing fee	2,000			
??	To Profit to:				
	B 2/5 7,600				
	C 3/5 <u>11,400</u>	19,000			
		92,000			92,000

**B's Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
??	To Joint Bank A/c - Repayment	19,600	??	By Joint Bank A/c	10,000
			??	By Joint Venture A/c- Fees	2,000
			??	By Joint Venture A/c- Profit	7,600
		19,600			19,600

**C's Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
??	To Joint Venture A/c- Equipment	2,000	??	By Joint Bank A/c	15,000
??	To Joint Bank A/c - Repayment	24,400	??	By Joint Venture A/c- Profit	11,400
		26,400			26,400

**ILLUSTRATION 2**

Rajiv and Sanjiv enter into a joint venture as dealers in land and opened a Joint Bank Account with ₹ 75,000 towards which Rajeev contributed ₹ 50,000. They agree to share profits and losses in proportion to their cash contribution. They purchased a plot of land measuring 5,000 square yards for ₹ 50,000. It was decided to sell the land in smaller plots and a plan was got prepared at a cost of ₹ 5,700.

In the said plan 1/5th of the total area of the land was left over for public roads and the remaining land was divided into 8 plots of equal size. Out of 8 plots, 3 plots were sold @ ₹ 15 per square yard and the remaining 5 plots were sold @ ₹ 20 per square yard. Expenses incurred in connection with the plots were: Registration Expenses ₹ 6,000, Stamp Duty ₹ 600 and Other Expenses ₹ 2,500. Allow 5% on the sale proceeds as a commission to Rajiv.

**Required**

Journalize the above transactions and prepare the necessary ledger accounts.

**SOLUTION****JOURNAL**

Date	Particulars	L.F.	(₹)	(₹)
	Joint Bank A/c To Rajiv A/c To Sanjiv A/c (Being funds brought in by co-venturers)	Dr.	75,000	50,000 25,000
	Joint Venture A/c To Joint Bank A/c (Being a plot of land purchased)	Dr.	50,000	50,000



Joint Venture A/c To Joint Bank A/c (Being expenses incurred in preparation of plan)	Dr.		5,700	5,700
Joint Bank A/c To Joint Venture A/c (Being sale proceeds of plots as follows: 3 plots of 500 sq. yards @ ₹ 15 = ₹ 22,500 5 plots of 500 sq. yards @ ₹ 20 = ₹ 50,000)	Dr.		72,500	72,500
Joint Venture A/c To Joint Bank A/c (Being expenses incurred as: Registration Expense- ₹ 6,000; Stamp Duty- ₹ 600; Other Expenses- ₹ 2,500)	Dr.		9,100	9,100
Joint Venture A/c To Rajiv A/c (Being commission paid to Rajiv @5% of ₹72,500)	Dr.		3,625	3,625
Joint Venture A/c To Rajiv A/c To Sanjiv A/c (Being profit transferred to Rajiv and Sanjiv in the ratio of 2:1)	Dr.		4,075	2,717 1,358

#### Joint Bank Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Rajiv A/c	50,000		By Joint Venture A/c:	
	To Sanjiv	25,000		Plot	50,000
	To Joint Venture A/c	72,500		Plan	5,700
				Other Expenses	<u>9,100</u>
				By Balance transferred:	
				Rajiv's A/c	56,342
				Sanjiv's A/c	<u>26,358</u>
		1,47,500			82,700
					1,47,500

#### Joint Venture Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Joint Bank A/c:			By Joint Bank A/c(Sales)	72,500
	Plot	50,000			
	Plan	5,700			
	Other Expenses	<u>9,100</u>			
	To Rajiv A/c (Commission)	3,625			
	To Profit to:				

Rajiv 2,717			
Sanjiv <u>1,358</u>	4,075		
	72,500		72,500

#### Rajiv's Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Joint Bank A/c			By Joint Bank A/c	50,000
	- Repayment	56,342		By Joint Venture A/c	3,625
				- Commission	
				By Joint Venture A/c	2,717
				- Profit	
		56,342			56,342

#### Sanjiv's Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Joint Bank A/c			By Joint Bank A/c	25,000
	- Repayment	26,358		By Joint Venture A/c	1,358
		26,358			26,358

#### 4.5.2 When no separate set of Books are maintained

- ◆ When no separate set of books of accounts are maintained for joint venture, each venturer maintains accounts independently for the venture transactions.
- ◆ Co-venturers are generally engaged in their own business for which they have their books of accounts. Additional accounts with respect to joint venture transactions are opened in their respective books of accounts.
- ◆ The standard practice is to keep full records of own transactions as well as transactions of the co-venturer relating to the venture.
- ◆ But sometimes the parties to a venture keep record of their own transactions only. In that case a Memorandum Joint Venture Account is prepared by the parties.
- ◆ Sometimes, a bill of exchange is drawn by one of the parties and is discounted. In such a case the discount on the bill should be charged to Joint Venture Account.
- ◆ Also, since joint venture is considered separate from the business of the co-venturers, the co-venturers are credited (or debited) for any goods or material supplied (or taken) to (or from) the joint venture out of their own business(es).
- ◆ Usually the co-venturers invest money in Joint venture business and receive back the amounts on different dates. It is quite usual for them to agree to calculate interest at a certain rate. Each co-venturer is entitled to receive interest on the amounts invested by him and pay interest on the amounts received by him. Only net interest receivable from or payable to the co-venturer is recorded in the joint venture account. Thus, the net amount of interest is also taken into account before ascertaining the profit or loss on joint venture.

#### 4.5.2.1 When each Co-venturer keeps records of all transactions

Under this method, the following accounts are prepared by each co-venturer:

- (i) Joint Venture Account.
- (ii) Co-venturer's Account.

When venturers maintain full records of joint venture, the following journal entries are necessary:

#### Journal Entries

- (i) *For supply of goods to venture out of business Inventories*

Joint Venture A/c	Dr.
To Purchase A/c	
- (ii) *For meeting expenses or purchases of venture*

Joint Venture A/c	Dr.
To Bank A/c/Creditors A/c	
- (iii) *When co-venturer supplies goods and incurs expenses for venture*

Joint Venture A/c	Dr.
To Co-venturer A/c	
- (iv) *For venture sale*

Bank A/c/Debtors A/c	Dr.
To Joint Venture A/c	
- (v) *For venture sale made by the co-venturer*

Co-venturer A/c	Dr.
To Joint Venture A/c	
- (vi) *For Bill of Exchange drawn on co-venturer*

Bills Receivable A/c	Dr.
To Co-venturer A/c	
- (vii) *For discounting the Bill of Exchange*

Bank A/c	Dr.
Joint Venture A/c	Dr.
To Bills Receivable A/c	
- (viii) *For accepting the Bill of Exchange drawn by co-venturer*

Co-venturer A/c	Dr.
To Bills Payable A/c	
- (ix) *For Bill of Exchange discounted by co-venturer*

Joint Venture A/c	Dr.
To Co-venturer A/c	
- (x) *For venture profit*

Joint Venture A/c	Dr.
To Profit and Loss A/c	(for own shares)
To Co-venturer A/c	(for co-venturer's share)

(xi) For venture loss

Profit and Loss A/c	Dr.	(for own share)
Co-venturer A/c	Dr.	(for co-venturer's share)
To Joint Venture A/c		

(xii) For settlement of claims

When payment is due to co-venturer		
Co-venturer A/c	Dr.	
To Bank A/c		

(xiii) When payment is due from co-venturer

Bank A/c	Dr.	
To Co-venturer A/c		

### ILLUSTRATION 3

A and B enter into a joint venture to sell a consignment of timber sharing profits and losses equally. A provides timber from stock at mutually agreed value of ₹ 5,000. He pays expenses amounting to ₹ 250. B incurs further expenses on cartage, storage, and coolie charges of ₹ 650 and receives cash or sales ₹ 3,000.

He also takes over goods to the value of ₹ 1,000 for his use in his own business. At the close, A takes over the balance stock in hand which is valued at ₹ 1,100.

#### Required

Prepare joint venture account and Co-venturer's account in the books of A.

### SOLUTION

#### In the books of A Joint Venture Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchases A/c (Goods supplied)	5,000	By B (Sales)	3,000
To Bank A/c (Expenses)	250	By B (Goods taken over)	1,000
To B (Expenses)	650	By Drawings A/c (Goods take over)	1,100
		By Loss transferred to:	
		Profit & Loss A/c	400
		B	400
	5,900		800
			5,900

#### B's Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c:		By Joint Venture A/c (Expenses)	650
Sales	3,000	By A (Balance paid)	3,750
Goods taken over	1,000		

Loss	400	4,400	
		4,400	4,400

#### ILLUSTRATION 4

A and B entered into a joint venture of underwriting the subscription of the entire share capital of the Copper Mines Ltd. consisting of 1,00,000 equity shares of ₹ 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 ₹ 10 each to be issued to them as fully paid. A provided funds for registration fees ₹ 12,000, advertising expenses of ₹ 11,000, for expenses on printing and distributing the prospectus amounting to ₹ 7,500 and other printing and stationery expenses of ₹ 2,000. B contributed towards payment of office rent ₹ 3,000, legal charges ₹ 13,750, salary to clerical staff ₹ 9,000 and other petty disbursements of ₹ 1,750. The prospectus was issued and applications fell short 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 ₹ 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.

#### Required

Write out the necessary accounts in the books of A showing the final adjustments.

#### SOLUTION

#### In the books of A Joint Venture Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c - Registration Fee	12,000	By Bank A/c - sale proceeds of	
- Advertising	11,000	15,000 shares ₹ 12.50 each	
- Printing & Distribution		less 50 paise brokerage	1,80,000
of Prospectus	7,500	By B - sale proceeds of 12,000	
- Printing & Stationery	2,000	shares ₹ 12.50 each less	1,44,000
To B - Office Rent	3,000	50 paise per share brokerage	
- Legal Charges	13,750		
- Clerical Staff	9,000		
- Petty Payments	1,750		
To Bank - Cost of Shares	1,50,000		
To Net profit to:			
- P & L A/c [3/5]	68,400		
- B [2/5]	45,600		
	3,24,000		3,24,000

**B's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
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 5**

With the information given in Illustration 4,

**Required**

Prepare the necessary accounts in the books of B also.

**SOLUTION**

**In the books of B**  
**Joint Venture Account**

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

**A's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c		By Joint Venture A/c	
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
	2,50,900		2,50,900

### ILLUSTRATION 6

A and B enter into a joint venture sharing profits and losses equally. A purchased goods for ₹ 5,000 for cash on January 1, 2016. On the same day, B bought goods for ₹ 10,000 on credit and spent ₹ 1,000 on freight etc.

Further expenses were incurred as follows :	
On 1.2.2016	₹ 1,500 by B
On 12.3.2016	₹ 500 by A
Sales were made by each one of them as follows :	
15.1.2016	₹ 3,000 by A
13.1.2016	₹ 6,000 by B
15.2.2016	₹ 3,000 by A
1.3.2016	₹ 4,000 by B
Creditors for goods were paid as follows:	
1.2.2016	₹ 5,000 by A
1.3.2016	₹ 5,000 by B

On March 31, 2016 the balance of stock was taken over by B at ₹ 9,000.

The accounts between the co-venturers were settled by cash payment on this date. The co-venturers are entitled to interest at 12% per annum.

### Required

Prepare necessary ledger accounts in the books of assuming that he maintains record of all venture transactions.

### SOLUTION

#### In the books of A Joint Venture Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash (Goods purchased)	5,000	By Cash (sales)	6,000
To B (Goods purchased)	10,000	By B (Sales)	10,000
To B (Freight)	1,000	By B (Goods taken over)	9,000
To B (Expenses)	1,500	By B (Interest)	50

To Cash (Expenses)		500	
To Profit & Loss A/c (Interest)		135	
To Profit transferred to:			
Profit & Loss A/c	3,457		
B	3,458	6,915	
		25,050	25,050

**B's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (Sales)	10,000	By Joint Venture A/c (Goods purchased)	10,000
To Joint Venture A/c (Goods taken over)	9,000	By Joint Venture A/c (Freight)	1,000
To Joint Venture A/c (Interest)	50	By Joint Venture A/c (Expenses)	1,500
To Bank A (Creditor paid)	5,000	By Joint Venture A/c (Profit)	3,458
		By Bank A (Balance paid)	8,092
	24,050		24,050

**Working Note:**Calculation of Interest**Payments by A**

Date	Amount(A)	Month(B)	Product(AxB)
1.1.16	5,000	3	15,000
1.2.16	5,000	2	10,000
1.3.16	500	1	500
<b>TOTAL</b>	<b>10,500</b>		<b>25,500</b>

$$\text{Interest} = 25,500 \times \frac{12}{100} \times \frac{1}{12} = ₹ 255$$

**Receipts by A**

Date	Amount (A)	Month(B)	Product(AxB)
15.1.16	3,000	2.5	7,500
15.2.16	3,000	1.5	4,500
<b>TOTAL</b>	<b>6,000</b>		<b>12,000</b>

$$\text{Interest} = 12,000 \times \frac{12}{100} \times \frac{1}{12} = ₹ 120$$

$$\text{Net Interest} = 255 - 120 = ₹ 135 \text{ (Due to A)}$$



## Payments by B

Date	Amount(A)	Month(B)	Product(AxB)
1.1.16	1,000	3	3,000
1.2.16	1,500	2	3,000
1.3.16	5,000	1	5,000
<b>TOTAL</b>			<b>11,000</b>

$$\text{Interest} = 11,000 \times \frac{12}{100} \times \frac{1}{12} = ₹ 110$$

## Receipts by B

Date	Amount(A)	Month(B)	Product(AxB)
31.1.16	6,000	2	12,000
1.3.16	4,000	1	4,000
<b>TOTAL</b>			<b>16,000</b>

$$\text{Interest} = 16,000 \times \frac{12}{100} \times \frac{1}{12} = ₹ 160$$

**Net Interest** = 160-110 = ₹ 50 (Due from B)



## ILLUSTRATION 7

A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth ₹ 60,000 to B incurring expenses amounting to ₹ 2,000 for freight and insurance. During transit goods costing ₹ 5,000 became damaged and a sum of ₹ 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totalled ₹ 1,000. B had earlier remitted an advance of ₹ 10,000. B duly paid the balance due to A by Bank Draft.

You are required to prepare (i) Joint Venture Account and (ii) B's Account in A's books.



## SOLUTION

**In the books of A**  
**Joint Venture Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546

To B (Commission - 1/21 of ₹ 8,896)	424	
To Profit transferred to:		
Profit & Loss A/c	5,648	
B	2,824	
	71,896	71,896

**B's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000
To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

**Working Notes:**

- It has been assumed that the goods damaged in transit have no residual value.
- Computation of Sales:

	₹
Cost of goods sent	60,000
<i>Less:</i> Cost of damaged goods	(5,000)
	55,000
<i>Less:</i> Cost of goods remaining unsold	(5,500)
Cost of goods sold	49,500
<i>Add:</i> Profit @ 30%	14,850
Sales	64,350

- Claim for loss of fire admitted by B

	₹
Cost of goods	5,500
<i>Add:</i> Proportionate expenses [(2,000 x 5,500)/60,000]	183
	5,683
<i>Less:</i> 20%	(1,137)
	4,546

 **ILLUSTRATION 8**

Ram and Rahim enter into a joint venture to take a building contract for ₹ 24,00,000. They provide the following information regarding the expenditure incurred by them:

	Ram ₹	Rahim ₹
Materials	6,80,000	5,00,000
Cement	1,30,000	1,70,000
Wages	-	2,70,000
Architect's fees	1,00,000	-
License fees	-	50,000
Plant	-	2,00,000

Plant was valued at ₹ 1,00,000 at the end of the contract and Rahim agreed to take it at that value. Contract amount ₹ 24,00,000 was received by Ram. Profits or losses to be shared equally. You are asked to show:

- (i) Joint Venture Account and Rahim's Account in the books of Ram.
- (ii) Joint Venture Account and Ram's Account in the books of Rahim.

 **SOLUTION**

**In the books of Ram  
Joint Venture Account**

Particulars	Amount (₹)		Particulars	Amount (₹)
To Bank A/c:			By Bank A/c	24,00,000
Material	6,80,000		By Rahim's A/c (plant)	1,00,000
Cement	1,30,000			
Architect's fee	1,00,000	9,10,000		
To Rahim's A/c:				
Material	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
License fees	50,000			
Plant	2,00,000	11,90,000		
To Net profit transferred to:				
Rahim's A/c	2,00,000			
Profit & Loss A/c	2,00,000	4,00,000		
		25,00,000		25,00,000

**Rahim's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (plant)	1,00,000	By Joint Venture A/c (sundries)	11,90,000
To Bank A/c	12,90,000	By Joint Venture A/c (profit)	2,00,000
	13,90,000		13,90,000

**In the books of Rahim  
Joint Venture Account**

Particulars	Amount (₹)		Particulars	Amount (₹)
To Bank A/c:			By Bank A/c	24,00,000
Material	6,80,000		By Rahim's A/c (plant)	1,00,000
Cement	1,30,000			
Architect's fee	1,00,000	9,10,000		
To Rahim's A/c:				
Material	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
License fees	50,000			
Plant	2,00,000	11,90,000		
To Net profit transferred to:				
Rahim's A/c	2,00,000			
Profit & Loss A/c	2,00,000	4,00,000		
		25,00,000		25,00,000

**Ram's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (contract amount)	24,00,000	By Joint Venture A/c (sundries)	9,10,000
		By Joint Venture A/c (profit)	2,00,000
		By Bank A/c	12,90,000
	24,00,000		24,00,000

**4.5.2.2 When each Co-venturer keeps records of their own transactions only:**

Sometimes the venturers find it wasteful to keep full record of venture transactions; rather it is considered convenient to keep record of own transactions only. For this purpose, it is necessary to open 'Joint Venture with Co-venturer A/c'. All expenses incurred, materials sent, etc. are debited to this account. Profit earned is also debited to this account while the loss sustained is credited. Any receipt from joint venture or from co-venturer is credited to this account, while any payment to the co-venturer is debited to this account.

However, profit/loss on joint venture cannot be determined from this account, for which a Memorandum Joint Venture Account is prepared. Memorandum Joint Venture Account is statement prepared by the venturers for determination of venture profit when they just keep record of own transactions and do not maintain full records of venture transactions in the books of accounts. It contains cost of goods, expenses etc. in the debit side and sales and closing stock in the credit side. Balance of Memorandum Joint Venture

Account shows profit or loss on joint venture. Entries in Memorandum Joint Venture Account are directly recorded without going through the process of journal.

Venturers usually pass the following journal entries:

### Journal Entries

(a) *For supply of material from stores:*

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

(b) *For payment of expenses*

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

(c) *For sale on venture*

Bank A/c	Dr.
To Joint Venture with X A/c	

(d) *For profit on venture*

Joint Venture with X A/c	Dr.
To Profit & Loss A/c	

*or For loss on venture*

Profit & Loss A/c	Dr.
To Joint Venture with X A/c	

(e) *For final payment to co-venturer*

Joint Venture with X A/c	Dr.
To Bank A/c	

*or For final payment made by co-venturer*

Bank A/c	Dr.
To Joint Venture with X A/c	

Let us now take some illustrations to understand the book keeping system of joint venture, when venturers maintain records of their own transactions only.

Our next comprehensive example aims to perfectly establish this method of maintenance of joint venture accounts in your mind.

**Example :** Two friends Samar and Samrat decide to undertake a joint venture to manufacture and sell a product. Samar will primarily be responsible for manufacture, and Samrat for selling, with profits to be shared 60% to Samar and 40% to Samrat.

Samar has the following transactions relating to manufacture of the product:

- ♦ Supply materials – ₹ 3,200
- ♦ Wages – ₹ 4,000

Samrat has similar transactions relating to the selling of the product:

- ♦ Selling expenses – ₹ 2,400
- ♦ Wages – ₹ 5,000
- ♦ Revenue – ₹ 26,000

**Step-1:** Both co-venturers will record their own transactions in their accounting records; in each case the other side of the double entry bookkeeping posting will go to a joint venture control account.

To reflect its transactions, Samar makes the following entry:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Joint Venture with Samrat A/c* Dr.		7,200	
	To Purchases A/c			3,200
	To Cash A/c (wages)			4,000
	(Being goods and labour supplied for joint venture business recorded)			

\*Alternatively, two separate journal entries can be passed.

The effect of the entries is to transfer the expenses relating to the materials and the wages to the joint venture control account.

Likewise, Samrat makes the following entry to reflect its own transactions:

Date	Account	L.F.	Debit (₹)	Credit (₹)
	Cash A/c (Sales) Dr.		26,000	
	To Cash A/c (Selling Expenses)			2,400
	To Cash A/c (Wages)			5,000
	To Joint Venture with Samar A/c*			18,600
	(Being sales and expenses for joint venture business recorded)			

\*Alternatively, three separate journal entries can be passed.

Again the effect of the joint venture accounting is to transfer the expenses incurred and the revenue to the joint venture control account.

**Step-2: Joint Venture Accounting Memorandum Income Statement:** At this point, since neither co-venturer knows the full details of all the transactions affecting the joint venture, they now share details through a working account called Memorandum Joint Venture Account. The memorandum income statement does

not form part of the double entry book-keeping of either party, and is simply used to enable the outcome of the joint venture to be calculated. Alternatively, it can also be made in the form of a statement showing calculation of profit or loss.

Combining all the transactions, the Memorandum Joint Venture Account would be prepared as follows:

#### Memorandum Joint Venture A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Supplied (by Samar)	3,200	By Sales proceeds	26,000
To Wages expense (of Samar)	4,000		
To Wages expense (of Samrat)	5,000		
To Selling Expenses (of Samrat)	2,400		
To Profit transferred to:			
Samar	6,840		
Samrat	<u>4,560</u>		
	11,400		
	<u>26,000</u>		<u>26,000</u>

From the Memorandum Joint Venture A/c, we can see that the profit of the joint venture is 11,400, Business Samar will receive 60% (6,840) and Business Samrat will receive 40% (4,560).

**Step-3: Joint Venture Profit Share:** Each co-venturer will now take their share of the joint venture profit into his own accounts with the following entries:

#### Samar: Share of profit journal entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Joint Venture with Samrat A/c To Profit & Loss A/c (Being profit from joint venture business recorded)	Dr.	6,840	6,840

#### Samrat: Share of profit journal entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Joint Venture with Samar A/c Dr. To Profit & Loss A/c (Being profit from joint venture business recorded)		4,560	4,560

**Step-4: Reconciling the Joint Venture Control Accounts:** Finally, the joint venture control accounts of co-venturers are reconciled, and a cash settlement is made between them to balance the joint venture accounts.

#### Samar – Joint venture control account summary

Particulars	Amount (₹)
Materials	3,200
Wages	4,000
Share of Profit	6,840

<b>Sub-total</b>	14,040
<i>Less: Cash due from Samar</i>	(14,040)
<b>Balance</b>	NIL

Before settlement Samar has a debit balance of 14,040 which represents money due from Samar. When Samar settles this amount, Samar will make the following entry to clear the joint venture account and complete its own joint venture accounting:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash A/c	Dr.	14,040	
	To Joint Venture with Samar A/c (Being balance due from Samar received)			14,040

Hence, in Samar's books, Joint Control with Samar A/c will look as below:

#### Joint Venture with Samar A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchases A/c (Goods supplied)	3,200	By Cash A/c (Balance received)	14,040
To Cash A/c (Wages)			
To Profit & Loss A/c	4,000		
	6,840		
	14,040		14,040

Likewise for Samar, the joint venture control account is reconciled as follows:

#### Samar – Joint venture control account summary

Particulars	Amount (₹)
Selling Expenses	2,400
Wages	5,000
Sales	(26,000)
Share of Profit	4,560
<b>Sub-total</b>	(14,040)
<i>Less: Cash paid to Samar</i>	14,040
<b>Balance</b>	<b>NIL</b>

As it received all the revenue from the joint venture operation, Samar has a credit balance of 14,040 before settlement, which represents money due to Samar. When Samar settles this amount, it will make the following entry to clear the joint venture account and complete its joint venture accounting:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Joint Venture with Samar A/c	Dr.	14,040	
	To Cash A/c (Being balance due to Samar paid)			14,040



Hence, in Samrat's books, Joint Control with Samar A/c will look as below:

#### Joint Venture with Samar A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c (Selling Expenses)	2,400	By Cash A/c (Sales)	26,000
To Cash A/c (Wages)	5,000		
To Profit & Loss A/c	4,560		
To Cash A/c (Balance paid)	14,040		
	26,000		26,000

The net effect of the accounting for joint ventures in this example, is that each business has its costs reimbursed and has received its share of the profit of the joint venture.



#### ILLUSTRATION 9

Ram and Gautham entered into a joint venture to buy and sell TV sets, on 1st July, 2016.

On 1.7.2016, Ram sent a draft for ₹ 2,50,000 in favour of Gautham, and on 4.7.2016, the latter purchased 200 sets each at a cost of ₹ 2,000 each. The sets were sent to Ram by lorry under freight "to pay" for ₹ 2,000 and were cleared by Ram on 15.7.2016.

Ram effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sales price
16.7.2016	20	3,000	10%
31.7.2016	100	2,800	-
14.8.2016	80	2,700	5%

On 25.8.2016, 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:

- (i) Joint Venture with Gautham A/c; and
- (ii) Memorandum Joint Venture A/c.



#### SOLUTION

#### Ram's Books

#### Joint Venture with Gautham A/c

2016	Particulars	Amount (₹)	2016	Particulars	Amount (₹)
1-Jul	To Bank - draft sent on A/c	2,50,000	16-Jul	By Bank-sale proceeds	54,000
15-Jul	To Bank - freight	2,000	31-Jul	By Bank-sale proceeds	2,80,000
25-Jul	To Profit and Loss A/c share of profit	68,600	14-Aug	By Bank-sale proceeds	2,05,200

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

### Memorandum Joint Venture A/c

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

### ILLUSTRATION 10

D of Delhi and M of Mumbai entered into a joint venture for the purpose of buying and selling second-hand computers, M to make purchases and D to effect sales. The profit and loss was to be shared equally by D and M. A sum of ₹ 1,50,000 was remitted by D to M towards the venture.

M purchased 22 old computers for ₹ 1,50,000 and paid ₹ 90,000 for their reconditioning and sent them to Delhi. His other expenses were: Buying commission ₹ 10,000; Cartage ₹ 2,000 and Miscellaneous ₹ 1,000.

D took delivery of the computers and paid ₹ 2,700 for Octroi and ₹ 1,000 for Cartage. He sold 12 computers at ₹ 22,000 each; 4 computers at ₹ 21,000 each and 3 computers at ₹ 20,000 each. He retained remaining computers for his personal use at an agreed value of ₹ 15,000. His other expenses – Insurance ₹ 2,500; Rent ₹ 4,000; Brokerage ₹ 12,000 and Miscellaneous ₹ 2,000.

Each party's ledger contains a record of his own transactions on account of joint venture. Prepare a statement showing the result of the venture and the account of the venturer in D's ledger as it will finally appear, assuming that the matter was finally settled between the parties.

### SOLUTION

#### Statement showing the results of the venture

##### Sales

	₹	₹
12 computers@	₹ 22,000 each	2,64,000
4    "    "	₹ 21,000 each	84,000
3    "    "	₹ 20,000 each	60,000
Taken by D at agreed value		15,000
		<hr/>
		4,23,000
Less: Paid for purchases	1,50,000	

Repairs	90,000	
Expenses – Buying Commission	10,000	
Cartage (2,000 + 1,000)	3,000	
Misc. Expenses (2,000 + 1,000)	3,000	
Octroi	2,700	
Insurance	2,500	
Rent	4,000	
Brokerage	12,000	
		(2,77,200)
Profit on Joint Venture		<u>1,45,800</u>

**In the books of D**  
**Joint Venture with M Account**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Cash - remittance to M		150,000	By Cash - Sale proceeds received	4,08,000
To Cash – expenses			By Drawings (Goods taken for personal use)	15,000
- Octroi	2,700			
- Cartage	1,000			
- Insurance	2,500			
- Rent	4,000			
- Brokerage	12,000			
- Misc.	2,000	24,200		
To Profit and Loss - own share of profit (1/2)		72,900		
To Cash - Balance remitted		1,75,900		
		4,23,000		4,23,000

 **ILLUSTRATION 11**

David of Mumbai and Khosla of Delhi entered into a joint venture for the purpose of buying and selling second-hand motor cars: David to make purchases and Khosla to effect sales. The profit and loss was to be shared equally. Khosla remitted a sum of ₹ 1,50,000 to David towards the venture.

David purchased 5 cars for ₹1,60,000 and paid ₹ 60,000 for their reconditioning and sent them to Delhi. He also incurred an expense of ₹ 5,000 in transporting the cars to Delhi.

Khosla sold 4 cars for ₹ 2,40,000 and retained the fifth car for himself at an agreed value of ₹ 50,000. His expenses were: Insurance ₹ 1,000; Garage Rent ₹ 2,000; Brokerage ₹ 2,000; and Sundry Expenses ₹ 400.

Each party's ledger contains a record of his own transactions on account of joint venture.

**Required**

Prepare a Memorandum Joint Venture Account showing the result of the venture and the joint venture account with David in the books of Khosla as it will appear, assuming that the matter was finally settled between the parties.

 **SOLUTION**

**Books of Khosla**  
**Joint Venture Account with David**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank - Remittance	1,50,000	By Bank - Sales	2,40,000
To Bank - Insurance	1,000	By Vehicles A/c - Car Purchase	50,000
To Bank - Garage Rent	2,000		
To Bank - Brokerage	2,000		
To Bank - Sundry	400		
To Profit & Loss A/c - Share of Profit	29,800		
To Bank - Final Settlement	1,04,800		
	2,90,000		2,90,000

**Memorandum Joint Venture Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To David - cost of cars	1,60,000	By Khosla - Sales	2,40,000
To David - Reconditioning	60,000	By Khosla - car taken	50,000
To David - Transport charges	5,000		
To Khosla - Expenses *	5,400*		
To Net Profit			
- David 29,800			
- Khosla <u>29,800</u>	59,600		
	2,90,000		2,90,000
* Expenses incurred by Khosla			
- Insurance			1,000
- Garage Rent			2,000
- Brokerage			2,000
- Sundry Expenses			400
			5,400



## SUMMARY

- ◆ Parties to joint venture usually prepare a memorandum called Memorandum Joint Venture Account to record primarily all revenues and expenses relating to venture mentioning the party who collected revenue or met the expenses. This memorandum is very useful to determine profit/loss of venture as well as to prepare Joint Venture Account.
- ◆ Venturers may keep record for venture transactions in three ways:
  - (i) Simply a Joint Venture Investment A/c can be maintained wherein the investments made, revenue collected, share of profit/loss and final remittance received made are recorded.
  - (ii) Alternatively, a venturer can prepare Joint Venture Account to record all costs and revenues relating to venture and so balance of Joint Venture Account will show profit/loss. In such a case a separate account of co-venturer is maintained.
  - (iii) Alternatively, separate books can be maintained for joint venture transactions, mainly when a separate Joint Bank Account is opened.

## ... TEST YOUR KNOWLEDGE

### Multiple Choice Questions

1. M and N enter into a Joint venture where M supplies goods worth ₹ 6,000 and spends ₹ 100 on various expenses. N sells the entire lot for ₹ 7,500 meeting selling expenses amounting to ₹ 200. Profit sharing ratio is equal. N remits to M the amount due. The amount of remittance will be:
  - (a) ₹ 6,700
  - (b) ₹ 7,300
  - (c) ₹ 6,400
2. A purchased goods costing ₹ 42,500. B sold goods costing ₹ 40,000 at ₹ 50,000. Balance goods were taken over by A at same gross profit percentage as in case of sale. The amount of goods taken over will be:
  - (a) ₹ 3,125
  - (b) ₹ 2,500
  - (c) ₹ 3,000
3. For material supplied from own Inventories 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
4. A and B enter into a joint venture to underwrite the shares of K Ltd. K Ltd. make an equity issue of 1,00,000 equity shares of ₹10 each. 80% of the issue was subscribed by the public. 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) 80,000 shares
  - (b) 72,000 shares
  - (c) 12,000 shares

5. A and B enter into a joint venture to underwrite shares of K Ltd. K Ltd make an equity issue of 2,00,000 equity shares. 80% of the shares underwritten by the venturer. 1,60,000 shares are subscribed by the public. How many shares are to be subscribed by the venturer?
- (a) 40,000 shares      (b) 36,000 shares      (c) 32,000 shares
6. P and Q enter into a Joint Venture sharing profits and losses in the ratio 3:2. P purchased goods costing ₹2,00,000. Other expenses of P ₹ 10,000. Q sold the goods for 1,80,000. Remaining goods were taken over by Q at ₹ 20,000. The amount of final remittance to be paid by Q to P will be:
- (a) ₹ 2,15,000      (b) ₹ 2,04,000      (c) ₹ 2,10,000
7. 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 ₹ 1,50,000 for purchase of materials. D paid wages amounting to ₹ 80,000. Other expenses were paid as:
- C – ₹ 5,000      D – ₹ 15,000
- C purchased one machine for ₹ 20,000. The machine was taken over by C for ₹10,000. Total contract value of ₹ 3,00,000 was received by D. What will be the profit on venture?
- (a) ₹ 30,000      (b) ₹ 40,000      (c) ₹ 20,000
8. 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 ₹ 1,00,000 and spent ₹ 10,000 in sending the goods to M. He also paid ₹ 5,000 for insurance. M spent ₹ 10,000 as selling expenses and sold goods for ₹ 2,00,000. Remaining goods were taken over by him at ₹ 5000. What will be the amount to be remitted by M to R as final settlement?
- (a) ₹ 1,55,000      (b) ₹ 1,50,000      (c) ₹ 1,15,000
9. 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 ₹ 2,00,000. B sold it for ₹ 3,00,000. 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) ₹ 15,000      (b) ₹ 10,000      (c) ₹ 20,000
10. If any Inventories 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 as Joint Venture Transaction

### Theoretical Questions

1. What do you mean by Joint Venture Account and what are the features of joint venture.
2. Distinguish between
  - (i) Consignment and Joint Venture.
  - (ii) Joint venture and partnership.

**Practical Questions**

1. A of Delhi and B of Bangalore entered into a joint venture for purchase and sale of one lot of mopeds. The cost of each moped was ₹ 3,600 and the fixed retail selling price; ₹ 4,500. The following were the recorded transactions:

2016

- Jan 1 A purchased 100 mopeds paying ₹ 72,000 in cash on account.  
A raised a loan from X Bank for ₹ 50,000 at 18% p.a., interest repayable with loan amount on 1.3.2016.  
A forwarded 80 mopeds to B incurring ₹ 2,880 as forwarding and insurance charges.
- Jan. 7 B received the consignment and paid ₹ 720 as clearing charges.  
A sold 5 mopeds for cash.  
B sold 20 mopeds for cash.
- Feb. 1 B raised a loan of ₹ 1,50,000 from Y Bank, repayable with interest at 18% p.a on 1.3.2016.  
B telegraphically transferred ₹1,50,000 to A incurring charges of ₹50. A paid balance due for the mopeds.
- Feb. 26 A sold the balance mopeds for cash.  
B sold balance mopeds for cash.  
A paid selling expenses ₹ 5,000.  
B paid selling expenses ₹ 20,000.
- Mar. 1 Accounts settled between the venturer and loans repaid, profit being appropriated equally.
- You are required to show Memorandum Joint Venture A/c. You are also required to show
- (1) Joint Venture with B A/c in A's books; and
  - (2) Joint Venture with A A/c in B's books.

Assume each venturer recorded only such transactions as concluded by him.

2. K and A of Nagpur entered into a joint venture to trade in silk goods in the ratio 2:1. On June 1, 2016, K bought goods worth ₹ 7,200 and handed over half of the goods to A. On July 1, 2016, K bought another lot of goods costing ₹ 2,400 and paid ₹ 180 as expenses. On September 1, A purchased goods for ₹ 4,500 and on the same day he sent to K a part of these goods costing ₹ 1,800 and paid ₹ 240 towards expenses. On the same day K remitted ₹ 1,800 to A. The goods were invariably sold by the venturers at a uniform price of 33.33% above cost price excluding expenses. Each of the venturers collected cash proceeds on sales excepting an amount of ₹ 250 owing to K by a customer and this was written off as a loss relating to the venture. In addition, goods costing ₹ 600 in possession of A were destroyed by fire and an amount of ₹ 500 was realized by him as compensation from the Insurance Company. On December 20, unsold goods costing ₹ 1,500 (at cost) were lying with K. Of these, goods costing ₹ 600 were taken by K for personal use and the balance was purchased by him at an agreed value of ₹ 1,000. A disposed of all the goods with him on December 31, excepting some damaged goods costing ₹ 300 which were written off as unsaleable. You are required to prepare a Memorandum Joint Venture Account to find the amount of profit or loss.

**ANSWER/HINTS****MCQs**

1. (a)    2. (a)    3. (a)    4. (c)    5. (c)    6 (b)  
7. (b)    8. (a)    9. (c)    10. (a)

**Theoretical Questions**

1. A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account. Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.

2. (i) Refer para 4.4

- (ii) Refer para 4.3

**Practical Questions****Answer 1**

**Memorandum Joint Venture Account**  
**for the period Jan. 1 to March 1, 2016**

Particulars	Amount (₹)	Particulars	Amount (₹)
To A :		By Sales :	
Cost of Mopeds	3,60,000	B (80 × 4,500)	3,60,000
Forwarding & Insurance	2,880	A (20 × 4,500)	90,000
Interest (2 months)	1,500		
Selling Expenses	5,000		
To B :			
Clearing Charges	720		
Interest (1 month)	2,250		
Sundry Expenses			
(Telegraphic transfer charges)	50		
Selling Expenses	20,000		
To Net Profit to:			
A 28,800			
B 28,800	57,600		
	4,50,000		4,50,000



**Books of A**  
**Joint Venture with B Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c - (part payment of cost)	72,000	By Bank A/c (sales proceeds)	22,500
To Bank A/c - (forwarding charges)	2,880	By Bank A/c - (remittance from B)	1,50,000
To Bank A/c - (balance cost of purchases)	2,88,000	By Bank A/c (sales proceeds)	67,500
To Bank A/c - (selling exp.)	5,000	By Bank A/c - (cash received in settlement)	1,58,180
To Interest A/c	1,500		
To Profit & Loss A/c (share of profit)	28,800		
	3,98,180		3,98,180

**Books of B**  
**Joint Venture with A Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c - (clearing charges)	720	By Bank A/c - (Sales proceeds of 20 mopeds)	90,000
To Bank A/c - (remittance including charges)	1,50,000	By Bank A/c - (sales proceeds of 60 mopeds)	2,70,000
To Bank A/c - (selling exp.)	20,000		
To Bank A/c - (interest)	2,250		
To Sundry Expenses	50		
To P & L A/c (share of profit)	28,800		
Bank A/c - (paid in settlement)	1,58,180		
	3,60,000		3,60,000

## Answer 2

## Memorandum Joint Venture Account

Date	Particulars	₹	Date	Particulars	₹
	To K:			By K:	
	Cost of goods (₹ 7,200 + ₹ 2,400)	9,600		Sales (W.N.1)	8,400
	Expenses	180		Inventories taken over	1,600
	Bad Debts	250		By A:	
	To A:			Sales (W.N.2)	7,200
	Cost of goods	4,500		Insurance claim	500
	Expenses	240			
	To Net Profit:				
	K - 2/3rd	1,953			
	A - 1/3rd	977			
		17,700			17,700

## Working Notes:

## 1. Calculation of sales affected by K

Goods purchased in first lot	₹ 7,200	
Less: Send to A	(₹ 3,600)	3,600
Goods purchased in another lot		2,400
Goods received from A		1,800
		7,800
Less: Unsold goods:		
Taken for personal use	₹ 600	
Purchase by K (1500-600)	₹ 900	(1,500)
Cost of goods sold		6,300
Add: Profit @ 33.33% on cost		2,100
Sales price of goods sold		8,400

**2. Calculation of sales affected by A**

	₹
Goods received by K	3,600
Goods purchased	₹ 4,500
Less: Goods sent to K	(₹ 1,800)
	<hr/> 6,300
Less: Goods destroyed by fire	(600)
Damaged goods	(300)
Cost of goods sold	<hr/> 5,400
Add: Profit @ 33.33% on costs	1,800
Sales price of goods sold	<hr/> 7,200