Lesson : 1

JOINT VENTURE

STRUCTURE

1.0 OBJECTIVE

After reading this lesson, you should be able to

a) Define a joint venture and explain its feature

b) Differentiate between joint venture, partnership and consignment.

c) Account for joint venture transactions under different methods.

1.1 INTRODUCTION

Complexities of a business as huge funds requirements, lack of technical expertise, sometimes make it difficult to undertake a business assignment individually like constructing a big building. The alternative available is that two or more persons join hand to take up that assignment. Joining hand 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 on predetermined basis, it is known as a *Joint Venture*. Joint venture is defined as a partnership confined to a particular adventure, speculation, course of trade or voyage, and in which partners, either latent or known use no firm or social name, and incur no responsibility beyond the limits of the adventure. For example, Mr. John and Mr. Ibrahim agreed to construct a bridge for municipal corporation. They pool their resources and technical know how. After they completed this project, the profits arising thereof will be shared by them in proportion to their contribution. Whey they are undertaking this project, they are free to carry on their own business as usual unless otherwise agreed. As the project ends, the relationship between the parties i.e. co-ventures ceases. So life of joint venture depends on the duration in which a project completes. Joint venture is neither a partnership nor it is consignment.

1.2 MEANING OF JOINT VENTURE

A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses. The parties in a joint venture are known as co-venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses. A joint venture may consist of a joint consignment of goods, speculation in shares, underwriting of shares or debentures, construction of a building, or any similar form of enterprise.

1.3 FEATURES OF A JOINT VENTURE

The main features of a joint venture are specifically made clear.

- F Two or more person are needed.
- F It is an agreement to execute a particular venture or a project.
- F The joint venture business may not have a specific name.
- F It is of temporary nature. So the agreement regarding the venture automatically stands terminated as soon as the venture is complete.
- F The co-ventures share profit and loss in an agreed ratio. The profits and losses are to be shared equally if not agreed otherwise.
- F The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.

1.4 DIFFERENCES BETWEEN JOINT VENTURE, PARTNERSHIP AND CONSIGNMENT

In joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But there are some basic differences between the two which are given below:

Partnership Venture	Joint Venture
-A Partnership firm always has a name	There is no need of firm's name.
-It is of a continuous nature.	It comes to an end as soon as the work is complete.
-Separate set of books have to be maintained.	There is no need for a separate set of books, the account can be maintained even in one of the co-venturer's books only.

- No partner can carry on a similar business.	The co-venturers are free to carry on the business of a similar nature.
-Though the registration of partnership is not compulsory desirable	There no need for registration at all.
- A minor can also be admitted to the benefits of the firm.	A minor cannot be a co-venturer as he is incompetent to enter into a contract.

Consignment and joint venture 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 :

Joint Venture	**Consignment**
-Number of co-ventures is usually two but it can also be more than two.	Normally two persons are involved, the consignor and the consignee.
- The relationship between co-venturers is that of partnership. Co-venturers are the owners.	The relationship between the consignor and the consignee is that of principal and agent.
- The relationship comes to an end as soon as the venture is completed.	The arrangement may continue for a long time.
- All the co-venturers contribute funds to a common pool.	The funds are provided by the consignor.
- It may be for sale of goods or for carrying on any other activity like construction of building, investment in shares etc.	It is generally connected with sale of movable goods.
- The profit is shared by all the co-venturers.	The profit belongs to the consignor only. The consignee is entitled only to his commission.
- There is joint ownership	The consignor owns the goods.

Joint venturers as mentioned earlier are beneficial under the situations where there are limitations which can not be overcome by single party. By launching joint venture two or more parties can pool their financial resources to undertake a very big venture. Where experience or technical knowledge is a limitation co-ventures can also pool their expertise. Since joint ventures are normally big projects, if under unfavorable conditions there are losses then these losses are also shared thus loss to individual party is lessened.

1.5 METHODS OF RECORDING JOINT VENTURE TRANSACTIONS

Joint venture accounts can be kept under any of the following three methods :

A) Each co-venture records the transaction in his own books and opens "Joint Venture Account" and accounts of his fellow partners.

B) One common Joint Venture Account on memorandum basis is prepared to find the profit or loss made on trading. It is not a part of the double entry system. Under this system each one of the partners open only one account which is of the nature of personal account. The account is called. "Joint venture with ....a/c."

C) Venturers agree to keep a separate set of books and a person is made incharge of recording of all transactions. Generally this method is not adopted.

A) Each co-venturer records the transactions

Under this system the "Joint Venture Account" is opened and debited with the value of goods bought and expenses incurred. Cash account or the party which has supplied the goods or incurred the expenses will be credited. When the sales proceeds are received, the party receiving it, will debit cash (for Debtors) account and credit the Joint Venture Account. The other parties will debit the recipient party and credit the Joint Venture Account.

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. Joint Venture Account will now show the profit or loss on trading. Under this system, each (Joint venturer) partner will open two acconts i.e. (i) Joint Venture Account (ii) The account of other parties.

Journal Entries : The following journal entries will be passed

1) For Investment in Joint Venture

Joint Venture A/c Dr.

To Cash/Good A/c

(Being the amount of goods supplied or cash put in for Joint Venture)

2) As goods are supplied by the Co-venturer or cash is invested in Joint Venture by him

Cash A/c (For cash sent) Dr.

Joint Venture A/c Dr.

To Co-venturer A/c (for goods sent)

(Being goods supplied or cash invested by the other partner)

3). For recording sale of joint venture goods

Cash A/c Dr.

To Joint Venture A/c

(Being Sale of goods made)

3) On sale of joint venture goods by the other party

Co-Venturer A/c Dr.

To Joint Venture A/c

(Being Joint Venture goods sold by the other partner)

5) a) For receipt of Bill of Exchange from the other partner

Bills receivable A/c Dr.

To Co-Venturer A/c

(Being bill receivable received)

b) For discounting the bill of exchange

Bank A/c Dr.

Joint Venture A/c Dr.

To Bills Receivable A/c

(Being bill discounted and discounting charges debited to Joint Venture A/c).

6) Entries in the books of other partner Acceptor's books regarding acceptance of bills of exchange

Co-venturer A/c Dr.

To Bills Payable A/c

(Being acceptance given)

7) On discounting the bills of exchange by other party i.e. drawer

Joint venture A/c Dr.

To Co-Venturer A/c

8) On commission charged under Joint Venture

Joint Venture A/c Dr.

To commission A/c

9) On Commission charged by other partner

Joint Venture A/c Dr.

To Co-Venturer A/c

(Being Commission on sale effected by other partners)

10) When some products are left unsold and transferred to his own stock.

Purchase A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken)

11) If the other partner has taken the unsold goods, the entry will be:-

The Co-venturer A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken by the other partner)

12) Now Joint Venture Account will be closed. If it shows profit then the profit will be divided in the agreed ratio. The entry will be

Joint Venture A/c

To P & L A/c (own share)

To Co-venturers A/c (their share)

(Being the profit on Joint Venture shared by the parties)

Format of Two accounts to be maintained

Joint Venture Account

Dr. **Particulars**	**Amount Rs.**	**Particulars**	Cr. **Amount Rs.**
To Cash A/c (purchased) To Cash A/c (Expenses) To Purchase A/c (Material supplied) To Outstanding Expenses A/c To Profit transferred to: Profit & Loss A/c Co-venturers A/c		By Cash A/c By Co-venturer A/c (Goods taken over)	

Co-venturer's Personal Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c		By Bills Receivables	
(Good taken over)			
To Cash a/c		By Joint Venture A/c	
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Illustration - 1

X and Y entered into Joint Venture to sell a consignment of timber sharing profits and losses equally. X provides timber from stock at mutually agreed value of Rs. 50000. He pays expenses amounting to Rs. 2500. Y incurs further expenses on cartage, storage and collieage of Rs. 6500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 10000 for his own use. At the close, X takes over the balance stock in hand which is valued at Rs. 11000.

Pass Journal Entries to record the above transactions and open the necessary ledger accounts in the books of X and Y.

Journal entries in the Books of X

Particulars	L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c Dr.		52,500	
To Purchase A/c			50,000
To Bank A/c			2,500
(Being timber provided and expenses incurred)			
Joint Venture A/c Dr.		6,500	
To Y			6,500
(Being expenses incurred by Y)			
Y Dr.		30,000	
To Joint Venture a/c			
(Being the sale proceeds by Y)			30,000
Y Dr.		10,000	
To Joint Venture A/c			10,000
(Y takes over the goods for his use)			
Purchase A/c Dr.		11,000	
To Joint Venture A/c			11,000
(Being unsold goods taken)			
Y Dr.		4,000	
Profit and Loss A/c Dr.		4,000	
To Joint Venture A/c			8,000
(Being the loss on Joint Venture shared equally)			
Bank A/c Dr.		37,500	
To Y			37,500
(Being draft received from Y)			

Ledger Account

Joint Venture A/c

Particulars	Rs.	Particulars	Rs.
To Purchase	50,000	By Y (sale proceeds)	30,000
To Bank (expenses)	2,500	By Y (goods for his use)	10,000
To Y (expenses)	6,500	By Purchases (goods)	11,000
		By Y (loss)	4,000
		By Profit and Loss A/c	4,000
		(Ratio being 1:1)	
	59,000		59,000

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture (Sale)	30,000	By Joint Venture (Expenses)	6,500
To Joint Venture (goods)	10,000	By Bank	37,500
To Joint Venture (goods)	4,000	(Final Settlement)	
	44,000		44,000

Journal Entries in the Books of Y

Particulars		L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c	Dr.		52,500	
To X				52,500
(Being the goods supplied and expenses incurred)				
Joint Venture A/c	Dr.		6,500	
To Bank				6,500
(Being the expenses paid)				

Bank	Dr.	30,000	
To Joint Venture A/c			30,000
(Being the receipt of sale proceeds)			
Drawing A/c	Dr.	10,000	
To Joint Venture A/c			10,000
(Being the goods withdrawn for own use)			
X	Dr.	11,000	
To Joint Venture A/c			11,000
(Being the taking over the balance stock in hand by X)			
X	Dr.	4,000	
Profit and Loss A/c	Dr.	4,000	
To Joint Venture A/c			8,000
(For sharing of loss in equal ratio)			
X	Dr.	37,500	
To Bank			37,500
(Being the draft remitted X)			

Ledger A/cs

Joint Venture A/c

Dr. Cr.

Particulars	**Rs.**	**Particulars**		**Rs.**
To X (goods supplied)	50,000	By Bank (by sales)		30,000
To X (expenses)	2,500	By Drawing of goods		10,000
To Bank (expenses)	6,500	By (Balance stock taken by X)		11,000
		By X	4000	
		P & LA/c	4000	
		(Loss)		8,000
	59,000			59,000

X's A/c

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Joint Venture A/c	11,000	By Joint Venture A/c (Good and expenses)	52,500
To Joint Venture A/c (Loss)	4,000		
To Bank	32,500		52,500
	52,500		

B) Memorandum Joint Venture Account Method

In the method discussed above each co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books. But, under the Memorandum Joint Venture Account Method each co-venturer will record only those transactions relating to the joint venture which are directly concerned with him and not those of others.

a) Under this method each co-venturer opens a Joint Venture Account including the name of the other co-venturer. The heading of the account is 'Joint Venture with (name of coventurer) Account'. The Joint Venturer with (name of co-venturer) Account is a personal account and it does not show any profit or loss. The following entries will be made in this account :

i) Joint Venture with..........................Account Dr.

To cash/Bank/Creditors Account

(Being payments by cheque or cash or liabilities incurred on Joint Venture)

ii) Cash/Debtors Accounts Dr.

To Joint Venture............Account

(Being sale Cash/Credit made on account of Joint Venture)

b) A separate 'Joint Venture Memorandum Account' is prepared to ascertain profit or loss in Joint Venture. It is just like profit and loss account, all the expenses and losses are debited to it and all incomes and gains are credited to it. All the items of personal accounts will also appear on the same side of 'Joint Venture Memorandum Account'. The balance of Joint Venture Memorandum Account shows profits or loss on joint venture and each party makes an entry for his share of profits or losses. The journal entry is as under :

Joint Venture with.................Account Dr.

To Profit and Loss Account

(Being profit earned on Joint Ventures)

Or

Profit and Loss Account Dr.

To Joint Venture with................Account

(Being loss effected on Joint Venture)

Illustration - 2

A and B entered into a Joint venture involving the buying and selling of old railway material with an agreement to share profit or loss equally. (*The amount is in Rs. Hundreds*). The cost of the material purchased was Rs. 30,000 which was paid by A, who drew bill of Rs. 20,000 on B at three months' period.

The bill was discounted by A at cost of Rs. 160. The transactions relating to the ventures were:

1) A paid Rs. 200 for carriage, Rs. 600 for commission on sales and Rs. 100 for travelling expenses (ii) B paid Rs. 80 for travelling expenses and Rs. 120 for sundry expenses (iii) Sales made by A amounted to Rs. 21,400 less allowance for faulty goods Rs. 400 and (iv) Sales made by B were Rs. 15,000.

The remaining goods were retained by A and B for their private use and these were charged to them as Rs. 1600 and Rs. 2400 respectively. A was credited with sum of Rs. 300 to cover the cost for warehousing and insurance. The expenses in connection with the discounting to the bill were to be treated as a charge against the venture. Prepare the ledger accounts in the books of both the parties and also the memorandum joint venture account.

Solution

Dr. **Memorandum Joint Venture A/c** Cr.

(Rs. In 000)

Particulars	**Rs.**	**Particulars**	**Rs.**
To Materials	30,000	By Sales	36,000
To discount on Bill	160	(21000 + 15000)	
To carriage	200	By stock taken by	
To Commission	600	A 1600	4,000
To Travelling (100+8)	180	B 2400	
To Sundry expenses	120		
To Warehousing expenses	300		
To Profit A : 4220			
B : 4220	8,440		
	40,000		40,000

In the Books of A

Joint Venture with B A/c

(Rs. in 000)

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Bank (material)		30,000	By Bank (sales)	21,000
To discount on bill		160	By Stock taken	1,600
To Bank			By Balance c/d	12,980
Carriage	200			
Commission	600			
Travelling exp.	100			
Warehousing	300	1,200		
By Profit & Loss A/c		4,220		
		35,580		35,580
To Balance b/d		12,980		

In the Books of B

Joint Venture with A A/c

Dr. Cr.

(Rs. in '000)

Particulars		Rs.	Particulars	Rs.
To Bank			By Bank (Sales)	15,000
Travelling Exp.	80		By Stock taken	2,400
Sundry Exp.	120	200		
To Profit & Loss A/c		4,220		
To Balance c/d		12,980		
		17,400		17400
			By Balance b/d	12980

Sometimes 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-venturers 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 conventurer is recorded in the joint venture account. Thus, the net amount of interest is also taken into amount before ascertaining the profit or loss on joint venture.

Illustration 3

A and B enter into a joint venture sharing profits and losses equally. A purchased goods for Rs. 5,000 for cash on January 1, 1999. On the same day Bought goods for Rs. 10,000 on credit and spend Rs. 1,000 on freight etc. Further expenses were incurred as follows :

On 1.2.1999	Rs. 1,500 by B
On 12.3.1999	Rs. 500 by A

Sales were made by each one of them as follows :

15.1.1999	Rs. 3,000 by A
13.1.1999	Rs. 6,000 by B
15.2.1999	Rs. 3,000 by A
1.3.1999	Rs. 4,000 by B

Creditors for goods were paid as follows

1.2.1999	Rs. 5,000 by A
1.3.1999	Rs. 5,000 by B

On March 31, 1999 the balance of stock was taken over by B at Rs. 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. Prepare necessary ledger accounts in the books of venturers as per Memorandum Joint Venture Account Method.

Solution

Memorandum Joint Venture Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To A (cost of goods)	5,000	By A (sales)	6,000
To B (Cost of goods)	10,000	By B (sales)	10,000
To B (Freight etc.)	1,000	By B (interest)	50
To A (expenses)	500	By B (stock taken)	9,000
To B (expenses)	1,500		
To A (interest)	135		
Profit transferred			
A : 3457			
B : 3458	6,915		
	25,050		25050

Joint Venture with B Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1999			1999		
Jan. 1	To Bank A/c (Purchase)	5,000	Jan 15	By Bank A/c (Sales)	3,000

Feb. 1	To Bank A/c (Creditors)	5,000	Feb. 15	By Bank A/c (Sales)	3,000
Mar. 1	To Bank A/c (Expenses)	500	Mar. 15	By Bank A/c (Final settlement)	8,902
Mar. 31	To Interest a/c	135			
Mar. 31	To Profit & Loss A/c	3,457			
		14,092			14,902

B's Books

Joint Venture with A Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
1999			1999		
Jan 1	To Bank A/c (Freight)	1,000	Jan 31	By Bank (Sales)	6,000
Feb. 1	To Bank A/c (Exp)	1,500	Mar. 31	By Bank (sales)	4,000
Mar. 1	To Bank A/c (Crs)	5,000	Mar. 31	By Goods A/c Stock taken over	9,000
Mar. 31	To Profit & Loss A/c	3,458	Mar. 31	By Interest A/c	50
Mar. 31	To Bank A/c (Amt. Paid in Final Statement)	8,092			
		19,050			19,050

Calculation of Interest :

Payment by A

Date	Amount	Month	Product (Rs.)	
1.1.99	Rs. 5,000	3	15,000	(5,000 x 3)
1.3.99	Rs. 500	1	500	(500 x 1)
1.2.99	Rs. 5,000	2	10,000	(5,000 x 2)
			25,000	

Interest = 25,500 x $\frac{12}{100}$ x $\frac{1}{12}$ = Rs. 255

Receipts by A

15.1.99	Rs. 3,000	2.5	7,500	(3,000 X 2 ½)
15.2.99	Rs. 3,000	1.5	4,500	(3,000 x 1 ½)
			12,000	

Interest = 12,000 x 12/100 x 1/12 = 120

Net Interest due = 265 - 120 = Rs. 135

Payment by B

1.1.99	Rs. 1,000	3	3,000
1.2.99	Rs. 1,500	2	3,000
1.3.99	Rs. 5,000	1	5,000
			11,000

Interest = 11,000 x 12/100 x 1/12 = Rs. 110

Receipts by B

31.1.99	Rs. 6,000	2	12,000
1.3.99	Rs. 4,000	1	4,000
			16,000

Interest = 16,000 x 12/100 x 1/12 = Rs. 160

Net Interest due from B = 160 - 110 = Rs. 50

C) Separate Books

Recording of transactions is done not in books of parties but in a separate set of books. Co-venturer first contributes to a common bank account and then all payments are made through it. Accounts of parties are also opened. Profit or Loss on Joint Venture is transferred to the respective partner's accounts in due ratios. Finally, the books are closed with the close of the venture.

Three main accounts opened under separate set of accounts are:

1. Joint Venture Account
2. Joint Bank Account, and
3. Personal Capital Accounts of Joint Venturers.

The following entries will be passed under this system

1) When cash is invested by Joint Venturer

Joint Bank A/c Dr.

To Capital Accounts of Joint Venturers.

(Being cash invested by Joint Venturers and deposited into the Bank)

2) When purchases are made for joint venture out of bank A/c

Joint Venture A/c Dr.

To Joint Bank A/c

(Being Purchase made for Joint Venture)

3) When expenses are incurred for joint venture out of Bank A/c

Joint Venture A/c Dr.

To Joint Bank A/c

(Being expenses incurred for Joint Venture Account)

4) When sales are made

Joint Bank A/c Dr.

To Sales

(Being sales made and receipts from sales deposited into Bank)

5) When some products are left unsold and are taken away by Joint Venturers

Capital accounts of Joint Venturer A/c Dr.

To Joint Venture A/c

(Being unsold stock taken by Joint Venturers)

6 (a) For Profit on Joint Venture account

Joint Venture A/c Dr.

To capital accounts of Joint Venturers A/c

(Being profit earned on Joint Venturers)

6 (b) The reverse entry will be passed in cases of losses on Joint Venture.

Illustration 4

X and Y enter into joint venture to underwrite public issue of Reliance Ltd. They agree to guarantee the subscription at par on 1,00,000 shares of Rs. 10 each of Reliance Ltd. and sharing profits and losses in the ratio of 2:3. The terms with the company are 4.5 % commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement Rs. 5,000; Printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by X. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken by X and Y who provided the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio of 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows : 25% at a price of Rs. 9 per share, 50% at a price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account and the Accounts of X and Y showing the final statement.

Solution

Joint Venture Account

Dr. Cr.

Particulars		**Rs.**	**Particulars**	**Rs.**
To			By Joint A/c	45,000
Advertisement	5000		(commission)	
Printing	2000		By shares a/c	60,000
Postage	600	7,600	(commission)	
To Shares A/c		23,400		
(Loss on sale)				
To profit transferred to				
X:	29,600			
Y:	44,400	74,000		
		1,05,000		1,05,000

Joint Bank Account

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To X (contribution)	60,000	By Shares A/c	1,20,000
To Y (contribution)	60,000	By X (commission)	20,000
To Joint Venture	45,000	By Y (commission)	25,000

(Commission)		By X (final settlement)	70,000
To Shares A/c (sale for		By Y (final settlement)	72,000
cash) 25% 40,500			
50% 78,750			
15% 22,950	1,42,200		
	3,07,200		3,07,200

Share Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Joint Bank a/c	1,20,000	By Joint Bank A/c (Sale of Shares)	40,500
To Joint Venture (commission)	60,000	By Joint Bank A/c (sale of shares)	78,750
		By Joint Bank A/c (Sale of shares)	22,950
		By X (shares taken over)	7,200
		By Y (shares taken over)	7,200
		By Joint Venture A/c	23,400
	1,80,000		1,80,000

X's Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Joint Bank A/c (Commission)	20,000	By Joint Venture A/c (Expenses)	7,600
To Shares A/c	7,200	By Joint Bank A/c (Commission)	60,000
To Joint bank A/c (Final Settlement)	70,000	By Joint Venture A/c (Profit)	29,600
	97,200		97,200

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c (Commission)	25,000	By Joint Bank A/c (Commission)	60,000
To Shares A/c	7,200	By Joint Venture A/c (Profit)	44,400
To Joint Bank A/c (Final Settlement)	72,200		
	1,04,400		1,04,400

Working Notes

1. Distribution of commission received in cash

   4.5 % of Rs. 10,00,000 = Rs. 45,000

   Xs shares 4/9 x 45,000 = Rs. 20,000

   Y's shares 5/9 x 45,000 = Rs. 25,000

2. Treatment of shares received

   Shares received by way of commission

   6,000

   Shares not subscribed by public

   12,000

   Total Number of shares received

   18,000

a) Sold for cash

25% of 18,000 i.e. 4,500 shares sold @ Rs. 9 per share Rs. 40,500

50% of 18,000 i.e. 9,000 shares sold @ Rs. 8.75 per share Rs. 78,750

15% of 18,000 i.e. 2,700 shares sold @ Rs. 8.50 per share
Rs. 22,950.

b) Dividend amongst X and Y

10 % of the remaining shares i.e. 1,800 shares are taken over equally by X and Y at an agreed price of Rs. 8 per share.

X : 900 shares @ Rs. 8 per share = Rs. 7200

Y : 900 shares @ Rs. 8 per share = Rs. 7200

1.6 SUMMARY

A joint venture is a contractual arrangement between two or more parties to undertake an economic activity, which is subject to joint control, i.e., agreed sharing of power to govern the financial and operating policies of an economic activity, so as to obtain benefits from it. A joint venture arises because of the limitations of a person due to constraint of available time, money expertise to execute a job etc. Despite broad similarities between joint venture and partnership, the two types of business differ considerably. A joint venture can also be distinguished from the consignment although both forms of business arise because of inherent limitations of a person to undertake a business effectively on his own. It is necessary to maintain proper accounts of all transactions of joint venture so that correct profit or loss on joint venture may be ascertained. The main methods of recording joint venture transactions are by creating an independent set of books of the joint venture which do not form part of the accounting system of an co-venturer, to record all the transactions of the joint venture, whether, entered by himself or by his co-venturer and to record only those transactions of the joint venture in which he himself features.

1.7 KEYWORDS

Joint Venture: When two or more persons joint together to carry out a specific business and share the profits or losses on predetermined basis, it is known as a joint venture.

Co-venturer Account: It is a personal account and debited with sales made by the co-venturer or goods taken by him and is credited with assets given by him for the venture and expenses paid by him.

Memorandum Joint Venture Account: The profit or loss of the venture is computed in an account which is not part of the double entry mechanism and is termed as Memorandum Joint Venture Account.

1.8 SELF ASSESSMENT QUESTIONS

1. Define a joint venture and give its various features. Name the different methods used to record joint venture transactions.
2. Distinguish joint venture from consignment and partnership.
3. Give the various journal entries to be passed in case where separate set of books are maintained for recording joint venture transactions.
4. What is a Memorandum Joint Venture Account? Give the various journal entries when accounts are maintained under this method.
5. Give the various journal entries to be passed in case where no separate set of books are maintained for recording joint venture transactions.
6. Ramesh and Suresh entered into a joint venture to purchase and sell hosiery goods. Profit and losses were to be shared equally. Ramesh financed the venture and Suresh undertook the sales on a commission of 5% on the sales proceeds. Ramesh purchased goods to the value of Rs. 50,000 less 5% trade discount, paid freight Rs. 1,500 and advanced Rs. 1,200 to Suresh to meet expenses. Suresh expended for carriage Rs.

300, rent Rs. 450, advertisement Rs. 200 and sundries Rs. 150. Sales made by Suresh amounted to Rs. 67,500. It was agreed that Ramesh should receive Rs. 2,500 as interest.

Remaining unsold goods costing Rs. 2,500 were retained by Suresh and those were charged to him at a price to show the same rate of gross profit (without charging any expenditure) as that made on the total sales (excluding those goods taken).

Give journal entries in the books of Ramesh and Suresh and also prepare the necessary ledger accounts in their books.

7. Vikas and Vishal entered into a joint venture of underwriting 1,00,000 shares of Rs. 10 each at par issued by a joint stock company. The consideration for underwriting the shares was 2,500 other shares of Rs. 10 each fully paid to be issued to them.

   The public took up 90,000 shares and the remaining 10,000 shares of the guaranteed issued were taken up by Vikas and Vishal who provide cash equally for the purchase of remaining shares. The entire share holding of the joint venture was then sold through other brokers: 50% at a price of Rs. 10 less brokerage 50 paise per share; 20% at Rs. 9.50 less brokerage 50 paise per share and the balance were taken up by Vikas and Vishal equally at Rs. 9 per share. Expenses on account of joint venture were: advertisement Rs. 750 and other expenses Rs. 250. You are required to prepare; (a) Joint Venture Account; (b) Joint Bank Account; and (c) Accounts of Vikas and Vishal.

8. A and B entered into a joint venture for the purchase and sale of materials auctioned by the Government. A agreed to provide funds for the purchase of materials, and B to devote his time. The profit and loss was to be shared equally, subject to a credit of Rs. 500 to A by way of interest on

his capital. A purchased materials worth Rs. 50,000; and drew a bill at two months for Rs. 20,000 on B which was duly accepted by the latter. The bill was discounted at a cost of Rs. 260. The various expenses relating to the venture were:

a) A paid Rs. 250 for carriage, Rs. 100 for brokerage, and Rs. 50 for miscellaneous expenses.

b) B paid Rs. 300 for commission, Rs. 200 for insurance, and Rs. 100 for miscellaneous expenses.

The total sales amounted to Rs. 72,000 (cash). There was, however, some stock of unsold goods which was taken over by both the parties, at Rs. 200 by A and at Rs. 300 by B. B paid the amount due to A. The expenses in connection with the discounting of the bill were to be treated as a charge against the venture. Prepare Joint Venture Account in the books of A and B separately and a Memorandum Joint Venture Account.

9. C of Calcutta and D of Delhi entered into a joint venture for the purpose of buying and selling second-hand motor cars, C to make purchases and D to effect sales. The profit or loss was to be shared as to C two-fifths and D three-fifths. A sum of Rs. 10,000 was remitted by D to C towards the venture.

C purchased 10 cars for Rs. 8,000, paid Rs. 4,350 for their reconditioning and sent them to Delhi. His other expenses were -Buying Commission 2½ per cent and Sundry Expenses Rs. 350.

D took delivery of the cars by paying Rs. 750 for railway freight and Rs. 375 for octroi. He sold four cars at Rs. 1,600 each, two at Rs. 1,800 each and three at Rs. 2,250 each. He retained the remaining car for himself at an agreed value of Rs. 2,100. His expenses were-Insurance Rs. 150; Garage Rent Rs. 250; Brokerage Rs. 685; Sundries Rs. 450.

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

1.9 SUGGESTED READINGS

1. Fundamentals of Accounting by R.L. Gupta and V.K. Gupta, Sultan Chand and Sons, New Delhi.
2. Advanced Accounting by R.L. Gupta and M. Radhaswamy, Sultan Chand and Sons, New Delhi.
3. Advanced Accounting by Ashok Sehgal and Deepak Sehgal, Taxmann Allied Services Pvt. Ltd., New Delhi.
4. Advanced Accounts by M.C. Shukla, T.S. Grewal and S.C. Gupta, S. Chand and Co. Ltd., New Delhi.
5. Fundamentals of Advanced Accounting by R.S.N. Pillai and V. Bagavathi, S. Chand and Co. Ltd., New Delhi.
6. Studies in Advanced Accounting by S.N. Maheshwari, Sultan Chand and Sons, New Delhi.
7. Financial Accounting by Shashi K. Gupta, Nisha Aggarwal and Neeti Gupta, Kalyani Publishers, Ludhiana.