

JOINT VENTURE ACCOUNTS

Introduction

Joint Venture is a temporary form of business organization. Two or more people having requisite skill sets come together to form a temporary partnership. This is called a Joint Venture. There is a Memorandum of Undertaking (MOU) signed for this purpose.

Accounting Entries

There may be three ways of maintaining the books of account for the joint venture business. They are:

- Where separate books of accounts are maintained
- Where no separate books of accounts are maintained
- Memorandum Joint Venture

(a) When Separate Books are Maintained

As the business duration is short, the books of accounts are not very comprehensive. The basic purpose is to know profit or loss on account of the joint venture.

- Like a normal P & L A/c, a "Joint Venture A/c" is opened which records all transactions related to the activities carried out. The net result of this a/c will be either profit or loss.
- To record cash/bank transactions a "Joint Bank A/c" is maintained. This could take a form of cash book with cash and bank column. It will record, the initial contributions made by each co-venturer, proceeds of sales, expenses and distribution of net balances among co-venturers on dissolution of the venture.
- To record transaction related to co-venturers, "Co-Venturers' personal A/cs" are also maintained.

The accounting entries are normally as follows:

| No. | Transaction | Entry | |
|-----|--|---|-----|
| 1 | Contribution of co-venturers | Joint Bank A/c [with total] To Co-Venturers A/c [with individual sum contributed] | Dr. |
| 2 | On purchase of goods | Joint Venture A/C To, Joint Bank/ Supplier's/ Co-Venturers A/c | Dr. |
| 3 | On making payment to suppliers of goods | Supplier's A/c. [with total] To Cash/ Joint Bank/ B/P A/c [with payment made] To Joint Venture A/c [with discount received] | Dr. |
| 4 | On supply of goods out of own stock by any of the co-venturers | Joint Venture A/c To Co-Venturer's Personal A/c | Dr. |
| 5 | On payment of expenses | Joint Venture A/c To Joint Bank/ Co-Venturers A/c | Dr. |

| | | | |
|----|---|---|---------------------------|
| 6 | For sale of goods sold | For cash Joint Bank A/c To Joint Venture A/c For credit Customer's A/c To Joint Venture A/c By any Co-venturers Co-venturer's A/c To Joint Venture A/c | Dr. Dr. Dr. |
| 7 | On receiving payment from a customer | Cash/ Joint Bank/ B/R A/c [with payment received] Joint Venture A/c [with discount allowed/ bad debts] To Customer's A/c [with total] | Dr. Dr. |
| 8 | Contract / sale price received in form of shares / cash | Joint Bank A/c Shares A/c To Joint Venture A/c | Dr. Dr. |
| 9 | Commission / salary to co-venturers | Joint Venture A/c To Co-Venturers A/c | Dr. |
| 10 | Unsold goods taken over by co-venturers | Co-Venturers A/c To Joint Venture A/c | Dr. |
| 11 | Shares taken over by co-venturers | Co-Venturers A/c To Shares | Dr. |
| 12 | If shares are sold in open market | Joint Bank A/c To Shares | Dr. |
| 13 | For profit on joint venture | Joint Venture A/c To Co-Venturers A/c | Dr. |
| 14 | For loss on joint venture | Co-Venturers A/c To Joint Venture A/c | Dr. |
| 15 | For final distribution of funds | In case of a debit balance Joint Bank A/c To Co-Venturer's Personal A/c In case of a credit balance Co-Venturers A/c To Joint Bank A/c | Dr. Dr. |

(b) When no Separate Books of Accounts are Maintained

The co-venturers may decide not to keep separate books of account for the venture if it is for a very short period of time. In this case, all co-venturers will have account for the transactions in their own books. Here no Joint Bank A/c is opened and the co-venturers do not contribute in cash. Goods are supplied by them from out of their stocks and expenses for the venture are also settled the same way.

Each co-venturer will prepare a Joint Venture A/c and the other Co-Venturer's A/c in his books. Naturally, the profit or loss is separately calculated by each co-venturer. Each co-venturer will take into A/c all transactions i.e. done by himself and by his co-venturer as well.

The accounting entries are:

| In books of Co-venturer A | | In books of co-venturer B | |
|--|-----|---------------------------|-----|
| When goods are supplied and expenses paid by A | | | |
| Joint Venture A/c | Dr. | Joint Venture A/c | Dr. |
| To Goods A/c | | To A's A/c | |
| To Cash / Bank A/c | | | |
| When goods are supplied by B and expenses paid by B | | | |
| Joint Venture A/c | Dr. | Joint Venture A/c | Dr. |
| To B's A/c | | To Goods A/c | |
| | | To Cash / Bank A/c | |
| When advance is given by A to B or bill accepted by A | | | |
| B's A/c Dr. | | Cash / Bank A/c | Dr. |
| To Cash / Bank A/c | | B/R A/c | Dr. |
| To B/P A/c | | To A's A/c | |
| When sale proceeds are received by A | | | |
| Cash / Bank A/c | Dr. | A's A/c | Dr. |
| To Joint Venture A/c | | To Joint Venture A/c | |
| When sale proceeds are received by B | | | |
| B's A/c | Dr. | Cash / Bank A/c | Dr. |
| To Joint Venture A/c | | To Joint Venture A/c | |
| For unsold goods taken over by A | | | |
| Goods A/c | Dr. | A's A/c | Dr. |
| To Joint Venture A/c | | To Joint Venture A/c | |
| For unsold goods taken over by B | | | |
| B's A/c | Dr. | Goods A/c | Dr. |
| To Joint Venture A/c | | To Joint Venture A/c | |
| For profit on joint venture business | | | |
| Joint Venture A/c | Dr. | Joint Venture A/c | Dr. |
| To B's A/c | | To A's A/c | |
| To P & L A/c | | To P & L A/c | |
| For loss on joint venture business | | | |
| B's A/c | Dr. | A's A/c | Dr. |
| P & L A/c | Dr. | P & L A/c | Dr. |
| To Joint Venture A/c | | To Joint Venture A/c | |

After closure the business of joint venture, the co-venturer who has received surplus cash will remit it to the other co-venturer.

(c) Memorandum Joint Venture Account

When all the parties keep accounts, the method adopted for recording the transactions relating to joint venture, is called Memorandum Joint venture method. Here each Co-Venturer records only those joint venture transactions which are affected by him

Each Co-Venturer sends a periodic statement of joint venture transactions effected by him only, to the other Co- Venturer and on receipt of the aforesaid statement, each Co-Venturer prepares Memorandum Joint Venture Account in order to ascertain the profit/loss on Joint Venture transactions.

Since this account is in fact, not a part and parcel of double entry system the word 'memorandum' is prefixed.

Journal Entries:

The journal entries which may be required at any point of time, are summarized below:

| | | | | |
|-----------|------------|---|-----|-----------------------------|
| 1. | (a) | On receipt of any amount/Bills Receivable from other Co- Venturer: | | |
| | | Cash/Bank/Bills Receivable A/c | Dr. | |
| | | To Joint Venture with A/c | | |
| | (b) | On discounting Bills Receivable: | | |
| | | Bank A/c | Dr. | (with net proceeds) |
| | | Joint Venture withA/c | Dr. | (with discount) |
| | | To Bills Receivable A/c | | (with total) |
| 2. | | On purchase of goods: | | |
| | | Joint Venture withA/c | Dr. | (with total) |
| | | To Cash/Bank A/c | | (with cash purchase) |
| | | To Supplier's A/c | | (with credit purchase) |
| 3. | | On making payment to supplier | | |
| | | Supplier's A/c | Dr. | (with total) |
| | | To Cash/Bank/Bills Payable A/c | | (with payment made) |
| | | To Joint Venture with A/c | | (with discount received) |
| 4. | | On supply of goods out of own stock: | | |
| | | Joint Venture withA/c | Dr. | (if supplies at cost) |
| | | To Purchases/Goods sent on Joint Venture A/c | | (if supplies at profit) |
| | | To Sales A/c | | |
| 5. | | On payment of expenses: | | |
| | | Joint Venture withA/c | Dr. | (with total) |
| | | To Cash/Bank A/c | | (with cash expenses) |
| | | To Creditor's A/c | | (with outstanding expenses) |
| 6. | | On sale of goods: | | |
| | | Cash/Bank A/c | Dr. | (with cash sales) |
| | | Customer's A/c | Dr. | (with credit sales) |
| | | To Joint Venture with A/c | | (with total) |
| 7. | | On receiving payment from a customer: | | |
| | | Cash/Bank A/c | Dr. | (with the payment received) |
| | | Joint Venture withA/c | Dr. | (discount allowed/bad debt) |
| | | To Customer's A/c | | (with total) |
| 8. | | On taking away of unsold goods: | | |
| | | Goods sent on Joint Venture A/c | Dr. | |
| | | To Joint Venture with A/c | | |
| 9. | | On considering some commission/salary to the Co-Venturer: | | |
| | | Joint Venture withA/c | Dr. | |
| | | To Commission/Salary A/c | | |

| | | | | |
|------------|------------|--|-----|--|
| 10. | | On recording the share of Profit/Loss: | | |
| | (a) | When profit- | | |
| | | Joint Venture withA/c | Dr. | |
| | | To Profit & Loss A/c | | |
| | (b) | When loss- | | |
| | | Profit & Loss A/c | Dr. | |
| | | To Joint Venture withA/c | | |
| 11. | | On settlement of balance of Joint Venture with A/c: | | |
| | (a) | When there is a debit balance: | | |
| | | Cash/Bank A/c | Dr. | |
| | | To Joint Venture with A/c | | |
| | (b) | When there is a credit balance: | | |
| | | Joint Venture withA/c | Dr. | |
| | | To Cash/Bank A/c | | |



ASSIGNMENTS FOR CLASS

1).

Prabir and Mihir doing business separately as building contractors undertake jointly to build a skyscraper for a newly started public limited company for a contract price of ₹1,00,00,000 payable as ₹80,00,000 in cash and the balance by way of fully paid equity shares of the new company. A Bank A/c was opened for this purpose in which Prabir paid ₹25,00,000 and Mihir ₹15,00,000. The profit sharing ratio was agreed as 2:1 between Prabir and Mihir. The transactions were:

- (a) Advance received from the company ₹50,00,000
- (b) Wages to contractors ₹10,00,000
- (c) Bought materials ₹60,00,000
- (d) Material supplied by Prabir ₹10,00,000
- (e) Material supplied by Mihir ₹15,00,000
- (f) Architect's fees paid from Joint Bank account ₹21,00,000

The contract was completed and the price was duly paid. The joint venture was duly closed by Prabir taking all the shares at ₹18,00,000 and Mihir taking over the balance material for ₹3,00,000. Prepare the Joint Venture A/c, Joint Bank A/c, Co-venturer's A/cs and Shares A/c.

2).

John and Smith entered into a joint venture business to buy and sale garments to share profits or losses in the ratio of 5:3. John supplied 400 bales of shirting at ₹500 each and also paid ₹18,000 as carriage & insurance. Smith supplied 500 bales of suiting at ₹480 each and paid ₹22,000 as advertisement & carriage. John paid ₹50,000 as advance to Smith.

John sold 500 bales of suiting at ₹600 each for cash and also all 400 bales of shirting at ₹650 each for cash. John is entitles for commission of 2.5% on total sales plus an allowance of ₹2,000 for looking after business. The joint venture was closed and the claims were settled.

Prepare Joint Venture A/c and Smith's A/c in the books of John .

3).

M and N decided to work in partnership with the following scheme, agreeing to share profits as under :

They guaranteed the subscription at par of 10,00,000 shares of ₹1 each in U Ltd. And to pay all expenses upto allotment in consideration of U. Ltd. issuing to them 50,000 other shares of ₹1 each fully paid together with a commission @ 5% in cash which will be taken by M and N in 3 : 2.

M and N introduced cash as follows:

| | ₹ |
|-------------------------|-------|
| M— Stamp Charges, etc., | 4,000 |
| Advertising Charges | 3,000 |
| Printing Charges | 3,000 |
| N— Rent | 2,000 |
| Solicitor's Charges | 3,000 |

Application fell short of the 10,00,000 shares by 30,000 shares and N introduced ₹30,000 for the purchase of those shares.

The guarantee having been fulfilled, U Ltd. handed over to the venturers 50,000 shares and also paid the commission in cash. All their holdings were subsequently sold by the venturer N receiving ₹18,000 and M ₹50,000.

Write-up necessary accounts in the books of both the parties on the presumption that Memorandum Joint Venture Account is opened for the purpose.

4).

Daga of Kolkata sent to Lodha of Kanpur goods costing ₹40,000 on consignment at a commission of 5% on gross sales. The packaging and forwarding charges incurred by consignor amounted to ₹4,000. The consignee paid freight and carriage of ₹1,000 at Kanpur. Three-fourth of the goods were sold for ₹48,000. Then the consignee remitted the amount due from him to consignor along with the account sale, but he desired to return the goods still lying unsold with him as he was not agreeable to continue the arrangement of consignment. He was then persuaded to continue on joint venture basis sharing profit or loss as Daga 3/5th and Lodha 2/5th.

Daga then supplied another lot of goods of ₹20,000 and Lodha sold out all the goods in his hand for ₹50,000 (gross). Daga paid expenses ₹2,000 and Lodha ₹1,700 for the second lot of goods.

Show necessary Ledger A/c in the books of both parties. No final settlement of balance due is yet made. For JV accounting use Memorandum JV method.

5).

Satish and Sunit made a JV to underwrite the subscription at par of the equity share capital of Soft Systems Ltd. consisting of 100,000 shares of ₹10 each. They agreed to pay all expenses up to the allotment of shares. They agreed to share profits or losses in the ratio of 3:2. The consideration in return for this underwriting was allotment of 12,000 other shares of ₹10 each at par to be issued to them fully paid. Satish provided for ₹12,000 registration fees, ₹11,000 advertisement, ₹7,500 for printing & distributing prospectus and ₹2,000 for printing & stationery. Sunit paid ₹3,000 office rent, ₹13,750 as legal charges, and ₹9,000 salary of clerks. The issue fell short by 15,000 shares. Satish took these over on joint A/c by paying for the same in full. He sold the entire holding at ₹12 (net). Sunit sold the 12,000 shares allotted as consideration at the same price.

Prepare JV with Sunit Account and Sunit Account in the books of Satish.