

**UDHNA COLLEGE**  
**FYBCOM SEM-II**  
**ACCOUNTING FOR SPECIFIC BUSINESSES**

**Unit:3 Joint Venture Account**

**CONTENTS:**

Introduction, meaning, features of Joint Venture, Difference between Partnership and Joint Venture, Methods of keeping accounts i.e.

- (i) When a separate set of books is kept for a Joint Venture and
  - (ii) when no separate set of books is kept for the Joint Venture
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• **INTRODUCTION:**

An association of two or more persons or we may say **temporary partnership** combined for the carrying out a specific business, and divide profit or loss thereof in agreed ratio is called a **Joint Venture**. Concerned parties to joint venture are known as **co-venturers**. The liabilities of co-ventures are limited to their profit sharing ratio or as per agreed terms –

Suppose ‘A’ and ‘B’ undertake the job to develop a park for a consideration of Rs. 50,000/- Lacs. Since they come together for a work on a specific project, it will termed as joint venture and each of them (A and B) will be called as a co-venture. Further, this venture will automatically terminate once the project is completed.

• **Major Features and Characteristics of Joint Venture**

Following are the major features of a joint venture –

- There is an agreement between two or more persons.
- Joint venture is made for the specific execution of a business plan/project.
- It is a temporary partnership with or without the use of a firm name.
- Agreement for joint ventures is automatically dissolved as soon as specific project is over.
- Profit & loss share are shared on the same terms and conditions agreed upon. However, in the absence of any agreement, profit & loss share will be divided equally.

- **Partnership and Joint Venture**

There are following differences between partnership and joint venture –

- **Firm's name-** Partnership always carried on with **firm's name**, but for the joint venture, no such firm's name is required.
- **Persons known as-**The persons who run the business on partnership are called as **partners** and the persons who agreed to take the project as joint venture are called as **co-venturers**.
- **Period-** Normally, a partnership is constituted for a long period (including various projects), whereas joint venture is formed to complete a specific job/project.
- **Rules & Regulations:** Partnership is governed under the Partnership Act, 1932, whereas there is no enactment of such kind for the joint ventures. However, as a matter of fact in law, a joint venture is treated as a partnership.
- **Limit of Members-**There is no limit specified for the numbers of co-venturers, but the number of partners is limited.
- **Liability of a member-** Liability of a partner is unlimited and may extent of his business and personal estate, whereas under joint venture, liabilities of co-venturers are limited to the particular assignment or project agreed upon.
- **Joint Venture and Consignment**

Major differences between joint venture and consignment may be summarized as –

- **Relationship** – The co-venturers of a Joint venture are the owners of a Joint venture, whereas relationship of a consignor and consignee is of owner and Agent.
- **Sharing of Profits** – On the other hand, the co-venturers of a joint venture share profits as per the agreed profit sharing ratio.  
There is no distribution of profit between a consignor and consignee, consignee only gets commission on sale made by him.
- **Ownership of Goods** – Ownership of the goods remains with the consignor. Consignor transfers only possession to the consignee, but every co-venturer of a joint venture is the co-owner of the goods/project.
- **Contribution of Funds** – Investment is done by the consignor only. On the other hand, funds are contributed by all co-ventures in a certain agreed proportion.

- **Continuity of Business** – In case of a joint venture, there is no continuity of the business once project is completed. On the other hand, if, everything goes smooth, consignment is a continuous process.
- Accounting Records

To keep a record of the joint venture transactions, there are three following types of accounting methods –

- **When one of the Venturers keeps Accounts,**
- **When Separate Books of Accounts are kept for the Joint Venture, and**
- **When Separate Books of Accounts are not kept for the Joint Venture.**

Let's discuss each of them separately –

### When one of the Venturers keeps Accounts

If one of the co-venturers is appointed to manage the joint venture, he is awarded an extra commission or remuneration out of the profit for his services.

#### Journal Entries

|   |   |
|---|---|
| When share of investment received from other co-venturers | Cash/Bank A/cDr<br>To Co-venturers A/c  |
| When goods are purchased                                  | Joint Venture A/cDr<br>To Cash A/c (in case of cash purchase)<br>Or<br>To Creditors A/c (for credit purchase) |
| When expenses incurred                                    | Joint Venture A/c Dr<br>To Cash A/c   |
| When goods are sold                                       | Cash /Debtors A/C Dr.<br>To Joint Venture A/c   |

|  |  |
|--|--|
| When commission allowed to working co-venturer   | Joint Venture A/c Dr<br>To Commission A/c                                    |
| In case of Profit balance of joint venture, account will be transferred to profit & Loss (own share of working co-venturer) and other co-venture's personal accounts | Joint Venture A/c Dr<br>To Profit & Loss A/c<br>To Co-venturers personal A/c |
| In case of Loss  | Profit & Loss A/c Dr<br>To Joint Venture A/c                                 |
| On settlement of accounts  | All Co-venturer A/c Dr<br>To Cash/Bank A/c                                   |

### **When Separate Books of Accounts are kept for the Joint Venture**

Under this method, all co-venturers contribute their share of investment and deposit their shares in a Joint Bank account — newly opened for the specific purpose of the Joint Venture. They may use this bank account to make any kind of payments and to deposit sale proceeds or any other kind of receipts.

In addition to Bank account, a Joint venture account is also opened in the books to keep records of all transactions routed through this account.

This category of accounts is a personal account of the each co-venturer. Thus following three accounts are opened –

- Joint Bank Account
- Joint Venture Account
- Personal account of co-venturers

### **When Separate Books of Accounts are not kept for the Joint Venture**

It is of two types –

- When all venturers keep separate accounts
- Memorandum joint venture method

### **When all Venturers keep Separate Accounts –**

- Separate Joint venture account and personal accounts of other co-venturers are opened under this method of accounting.
- Joint venture account is debited and bank account or creditor account is credited on the account of goods purchased or expensed.
- Joint venture account is credited and a bank account or debtor account is debited in case of either cash sale or credit sale.
- Each co-venturer debits joint venture account and credits personal accounts of other co-venturer on the account of either goods purchased or expensed by other co-venturers.
- Joint venture account is credited and personal account of others co-venturer account is debited in case of sale made by other co-venturers.
- Joint venture account is debited and commission account is credited if, commission is receivable, but if commission is receivable by other co-venturer, then the concerned co-venturer account will be credited instead of the commission account.
- If unsold stock is taken, then goods account will be debited by crediting Joint venture account. On the other hand, if unsold stock is taken by any other co-venturer, then personal account of the co-venturer will be debited.
- Balance in the joint venture accounts represents profit or loss and later that amount of profit or loss will be transferred to the personal accounts of co-venturers.

**Note** – Above transactions are possible only when all the co-venturers exchange information's on regular basis.

### **Memorandum Joint Venture Method**

Important features of memorandum method are given as hereunder –

- Only one personal account is opened by each co-venturer in his book named Joint Venture account with..... (Name of other co-venturer). Same process will be followed by other co-venturer in his books of accounts.
- Only one personal account will be opened by each co-venturer irrespective of the fact, how many other co-venturers are exists. For example, there is a joint

venture of 4 person A,B,C, & D; now, A in his books will open only one personal account named as ***Joint venture with B,C, & D account***.

- Each party will record only those transactions in his book, which are done by him; the transactions done by other co-venturers will be ignored.
- In addition to above said personal account, a combined account named as “memorandum joint venture account” will also be opened.
- Memorandum account is merely a combined account of personal accounts opened by each co-venturer. Debit side of personal account will be transferred to the memorandum account and the credit side of personal account will be transferred to the credit side of memorandum account.
- Transactions done by co-venturers among themselves including cash received or paid by one co-venturer to other will be ignored at the time of preparation of a memorandum account.
- Balance of memorandum joint venture account will represent profit or loss of the particular business. Further, the profit or loss will be transferred to the individual co-venturer account in their profit sharing ratio.

#### EXERCISE:

Q1) For which type of business out of the following is joint venture suitable :

1. Paper mill
2. Steel factory
3. House building contract
4. Film distribution
5. Poultry farming
6. Publishing business

Q2) Kesar and Chandan entered into joint venture business. For business they purchased goods of Rs.283800. Kesar sold for Rs.160149 and Chandan sold for Rs.98835.9% profit was added on the cost.

Kesar and Chandan both partners takeover stock at cost in the ratio of 2:3. Write journal entries.

Q3) Rami and Nami are partners in a joint venture sharing profit and losses in the proportion of 3:2 respectively. Rami supplied goods of Rs.81000 for joint venture and paid Rs.1620 for carriage on goods supplied.

Nami sold all goods and realized Rs.108180. Nami paid the amount due to Rami and settled the account. Write journal entries in the books of Nami.

Q4) Taral and Akash joined in joint venture. They purchased goods worth Rs.187500 of which goods worth Rs.168750 were sold for Rs.225000. The unsold stock was taken over by Taral, yielding a gross profit at half the average rate made on sales. Write journal entry in the books of Akash for goods taken.

Q5) Kajol and Ajay agreed to construct community hall. They decided to share profit or loss in 10:6 respectively.

A bank account is opened in which kajol and Ajay deposited Rs.800000 and Rs.600000

The contract price was agreed at RS.3600000 payable 70% by cash and the balance by debentures.

Amount paid as expenses from their joint bank account:

Architect fees: Rs.200000

Materials: Rs.1500000

Wages: Rs.460000

Materials of Rs.260000 supplied by kajol from her stock and paid Rs.2400 for carriage. Remuneration of Rs.72000 is to be paid to Ajay for his supervision work.

Contract price was received as per agreement on completion of contract. Debentures of Rs.600000 were sold at 20% discount and remaining debentures were purchased by Kajol at half the price.

Partners account was closed after amount paid from joint bank account.

From the above details prepare:

- a. Joint venture account
- b. Partners capital account
- c. Joint bank account.

Q6) Hiya and Agna have entered into joint venture sharing profit/ losses in the ratio of 4:5 respectively. They opened joint bank account by paying Rs.603000 in the ratio of profit and loss.

They agreed to use joint bank account for purchase and sale, while expenses related to joint venture are to be paid personally.

Each partner has obtained 9% commission on sales. Hiya has got commission of Rs.40905

1. Hiya purchased apples of Rs.331650 and Aagna purchased pineapple of Rs.217080

2. Hiya paid following expenses:

Cartage Rs.8100

Octroi Rs.10800

Administrative expenses Rs.11000

3. Aagna paid following expenses:

Wages Rs.6300

Insurance Rs.3600

Salesman salary Rs.10090

4. Hiya sold 91% apples by cash and remaining 9% sold to Dh waj on credit.

5. Aagna sold 92% pineapples for Rs.272720, while remaining pineapples sold at cost less 50%.

6. Dh waj sent full payment.

From the above particulars prepare Joint bank account, joint venture account, partners' capital account and pass journal entries related to Dh waj.

Q7) Ronak, Taral and Harshil entered into joint venture to underwrite 300000 equity shares of Rs.10 each and to pay all expenses up to allotment of Akash ltd. The company agreed to issue 10% additional equity shares of Rs. 10 each fully paid up as underwriting commission.

They deposited Rs.300000 in to the joint bank account as per their profit and loss sharing ratio 5:3:2 respectively. They paid 2% expenses of equity share capital from the joint bank account.

At the end of subscription, it was found that application of shares were received 10% less from public. In order to buy these shares 70% amount was paid from the joint bank account, while 50% and 30% of remaining amount was paid by Ronak and Taral respectively and balance amount paid by Harshil.

Ronak paid 10%, Taral paid 6% and Harshil paid 4% as other expenses on the amount paid from joint bank account for expenses and buying the shares.

Akash ltd. issued the shares as underwriting commission. Ronak sold 50% shares at a profit of 20% on its issued price, Taral sold 30% shares at a profit of 25% on its issued price, while remaining shares were sold by Harshil at a profit of 30% on its issued price, the amount of which was deposited into joint bank account. All partners are eligible to get 5% commission on their sales. Partners account was settled. Prepare Joint bank account, Joint venture account and Partners' capital account.

Q8) Jani and Mani entered in to a joint venture to purchase a piece of land and construct "Jamnagar Society". They decided to share profit and loss in the ratio of 3:2 respectively. They deposited 4500000 in their joint bank account as per their profit sharing ratio.

They purchased 30000 sq. meters of land at 110 per sq. meters which were paid from joint bank account. They paid the following expenses:

| <b>Particulars</b>                    | <b>Amount</b> |
|---------------------------------------|---------------|
| Land leveling expenses                | 150000        |
| Local taxes                           | 75000         |
| Stamp duty                            | 15000         |
| Compound wall expenses(paid by Jani)  | 375000        |
| Income from selling earth             | 75000         |
| Advertisement (paid by Jani)          | 30000         |
| Architect fees(paid by Mani)          | 15000         |
| Wages of earth digging( paid by Mani) | 15000         |

They decided to sale 250 sq. meters plot land,1/4 of land was left for public roads and 1/10 of land was allotted for common plot. Jani sold 31 plots for cash at 50% profit on cost price. Mani sold 50% plots for cash at 30% profit on cost price. Jani is entitled to get 10% commission on sales made by him.

Jani and Mani distributed remaining plots in 3:1 ratio at 10 % profit on cost. All the transaction regarding purchase, sales and expenses are done through joint bank account.

Prepare Joint bank account, joint venture account, partners' capital account.

Q9) APRIL 2023

Axata and Arpita entered into Joint Venture business. For business they purchased goods of Rs. 5,67,600. Axata made sales of Rs. 3,20,298 and Arpita made sales of Rs. 1,97,670. 9% must be earned on sales. Both partners took the closing stock on cost in the ratio of 2:3. Pass the journal entries.

Q10) APRIL 2023

Avani, Ankita and Aastha agreed to construct a building for a company. They decided to share profit or loss in 3:2:1 ratio respectively. They deposited Rs. 10,80,000 in their joint bank account as per their profit sharing ratio. Following expenses were paid from Joint Bank A/c.

Wages ..... Rs. 7,80,000

Materials ..... Rs. 12,20,000

Plant ..... Rs. 80,000

Architect fees paid by Avani Rs. 60,000. Mixture machine brought by Ankita Rs. 1,10,000. Vehicles brought by Aastha Rs. 80,000. On completion of the work, Avani took away materials in stock for Rs.50,000. Ankita took away mixture machine for Rs. 40,000 and Aastha took vehicles for Rs. 60,000. Plant received Rs. 20,000. Rs. 18,00,000 (being 75% amount of contract price) was received through bank draft and 12% debentures were received which were purchased by Avani at 20% less than its face value.

Prepare Joint Venture A/c, Joint Bank A/c and Partners Capital A/c in the books of the firm assuming that account have been settled among the partners

Q11) APRIL 2024

Tapi and Ganga entered into joint venture. They purchased goods worth Rs.1,87,500 out of which Rs. 1,68,750 goods are sold by Rs. 2,25,000. The unsold stock was taken over by Tapi, yielding a gross profit at half the average rate made on sales. Write journal entry in the books of Ganga for Goods taken.

Q12) APRIL 2024

On 1st October, 2023 Anna and Shetty entered into Joint venture sharing profit and Losses in the ratio of 3: 2. They deposited Rs. 62,500 and Rs. 37,500 respectively

into their joint bank account and decided that joint bank account is to be used for purchase and sale while joint venture expenses should be paid by each partner out of their private funds. Anna is to be paid salary of Rs. 250 per month for general administration and Shetty is to be paid commission at 5% on sales affected by him.

Anna purchased goods worth Rs. 81,250 and paid for expenses Rs. 6,250 Shetty sold some of the goods for Rs. 75,000 and paid selling expenses Rs. 625 unsold goods worth Rs. 25,000 were taken over by Anna. Accounts were settled on 31st March, 2024. Prepare necessary accounts to record the above Transactions.

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