

JOINT VENTURE

- A Joint Venture is a very short duration business
- JV will be entered into by 2 or more persons jointly, in order to earn profit and share it in an agreed ratio
- It may be described as a TEMPORARY PARTNERSHIP between 2 or more persons without the use of the FIRM NAME, for a limited purpose.
e.g. joint consignment of goods, joint construction of a building etc.)
- The persons who have so agreed to undertake a JV are known as JOINT VENTURERS or CO-VENTURERS.
- There is a chance that co-venturers are in business, then they often supply goods from their regular business for the JV.
- The JV (Limited Partnership) automatically expires on the completion of the venture for which it is formed

FEATURES OF JV :

- It is short duration special purpose partnership
- Parties in venture are called CO-VENTURERS
- Co-venturers may contribute funds for running the venture or supply Inventories from their regular business
- Co-venturers share profit / loss of the venture at an agreed ratio like Partnership
- Generally, profit / loss is computed on completion of the venture

- Going concern assumption of accounting is not appropriate for JV accounting. There does not arise problem of distinction between CAPITAL AND REVENUE EXPENDITURE.
- P&M etc. when used in venture are first charged to Venture account at cost. On completion of venture, such assets are revalued and may be taken by one of the ventures
- **DISTINCTION BETWEEN JV and PARTNERSHIP**

S. No.	Joint Venture	Partnership
1	It is limited to specific venture	It is not limited to specific venture
2	The persons carrying on business are called co-venturers	PARTNERS
3	The P&L will be ascertained at the time of completion of venture	ANNUAL BASIS
4	No Act is governing this	Governed by Indian Partnership Act, 1932
5	There is no need for firm name	Partnership firms always have FIRM NAME
6	There is no need for a separate set of books. The accounts can be maintained even in one of the Co-venturer's books.	Separate set of books essential
7	A minor cannot be a co-venturer as he is INCOMETENT TO CONTRACT	A minor can be admitted to the benefits of the firm
8	Accounting for JV is done on LIQUIDATION BASIS	Accounting for Partnership is done on GOING CONCERN BASIS

- **METHODS OF MAINTAINING JOINT VENTURE ACCOUNTS**

Generally, there are 2 ways to keep records Joint Venture

1. When separate set of books are maintained
2. When no separate set of books are maintained

WHEN SEPARATE SET OF BOOKS ARE MAINTAINED

- a) Joint Bank a/c
- b) Joint Venture a/c
- c) Personal Accounts of the Co-Venturers

Joint Bank a/c

- The Co-Venturers open a separate bank a/c for the venture transactions by making initial contributions.
- It is generally operated jointly
- Expenses are met from this a/c
- Also, sales or collections from transactions are deposited to this a/c
- On completion of the venture, this a/c is closed and the balances are shared among the co-venturers.

Joint Venture a/c

- This a/c is prepared for measurement of venture profit
- All the expenses related to the venture are to be debited and incomes are to be credited
- Venture profit / loss to be transferred to CO-VENTURERES' a/cs

Co-Venturers' A/c

- These a/cs are maintained to keep record of their contributions of cash, goods or meeting venture expenses etc..
- This a/c is closed simultaneously with the closure of the JB a/c

Journal Entries (When separate set of books are maintained)

1. Joint Bank a/c Dr.
 To Co-Venturers A/c
 (Being initial contribution by the co-venturers in the JB a/c)

2. Joint Venture a/c Dr.
 To Joint Bank a/c
 (Being exp. paid out of JB a/c)

3. Joint Venture a/c Dr.
 To Co-Venturers a/c
 (Being material supplied by the venturer or direct payments made by
 Venturer)

4. Joint Bank a/c Dr.
 To Joint Venture
 (Being Sale or payment received)

5. Co-venturers a/c Dr.
 To Joint Venture
 (Being sale or payment received directly by the co-venturer)

6. Joint Venture a/c Dr.
 To Co-venturer
 (Being profit shared among co-venturers)

7. Co-venturers a/c Dr.
 To Joint Bank
 (Being closure of JB a/c)

e.g. 1

- Mr. A and Mr. B enter a JV to prepare a film for the Government. The Govt. agrees to pay Rs.1 lakh. Mr. B contributed Rs.10000 and Mr. C contributes Rs.15000. These amounts are paid into a JB a/c. Payments are made out of JB a/c were :
 - Purchase of equipment - Rs.6000
 - Hire of equipment - Rs.5000
 - Wages - Rs.45000
 - Materials - Rs.10000
 - Office Exp. - Rs.5000

Mr. A paid Rs.2000 as licensing fees. On completion, the film was found defective and Govt. made a deduction of Rs.10000.

The equipment was taken over by Mr. B at a valuation of Rs.2000

Separate books were maintained for the JV whose profits were divided in the ratio of 2:3. Give Ledger a/cs.

Ans.

Joint Bank a/c

To A	10000	By JV	
		Equipment	6000
		Hire	5000
		Wages	45000
		Materials	10000
		Office Exp.	5000
To B	15000	By A	19600
To JV	90000	By B	24400
	115000		115000

Joint Venture a/c

To JB Equipment 6000 Hire 5000 Wages 45000 Materials 10000 Office Exp. 5000	By JB (100000 – 10000) 90000
To A (Licensing Fee) 2000	By B (Equipment taken) 2000
To Profit A 7600 B 11400 ----- 19000	
92000	92000

A's a/c

To JB a/c (Repayment) 19600	By JB a/c 10000
	By JV a/c (Licence) 2000
	By JV (Profit sharing) 7600
19600	19600

B's a/c

To JV (Equipment Taken) 2000	By JB a/c 15000
To JB a/c (Repayment) 24400	By JV (Profit sharing) 11400
26400	26400

WHEN NO SEPARATE SET OF BOOKS ARE MAINTAINED

- In this, each Venturer maintains accounts independently for the venture transactions.
- The standard practice is to keep full records of own transactions as well as transactions of the co-venturer relating to the venture.
- Sometimes, the parties to a venture keep record of their own transactions only. In that case, MEMORANDUM JOINT VENTURE A/C IS PREPARED BY THE PARTIES

e.g. 2

Ram and Rahim enter into a JV to take a building contract for Rs.24 lakhs. They provide the following information regarding the expenditure incurred by them

Description	Ram (Rs.)	Rahim (Rs.)
Materials	680000	500000
Cement	130000	170000
Wages	0	270000
Architect's Fee	100000	0
License Fee	0	50000
Plant	0	200000

Plant was valued at Rs.1 lakh at the end of the contract and Rahim agreed to take it at that value.

Contract amount of Rs.24 lakhs was received by Ram.

Profit / loss to be shared equally.

Prepare JV a/c and Rahim a/c in the books of RAM.

Ans.

Joint Venture a/c

To Bank		By Bank	2400000
Material	680000		
Cement	130000		
Architect Fee	100000		
To Rahim a/c		By Rahim (Plant taken)	
Material	500000		100000
Cement	170000		
Wages	270000		
License Fee	50000		
Plant	200000		
To Net Profit			
Rahim	200000		
P&L	200000		

	400000		
	2500000		2500000

Rahim a/c

To JV (Plant)	100000	By JV	
		Purchases	1190000
To Bank a/c	1290000	By JV	
		Share of Profit	200000
	1390000		1390000

MEMORANDUM JOINT VENTURE ACCOUNT

- It is a rough statement prepared by the venturers for determination of venture profit when they do not maintain full records of venture transactions in the books of accounts.
- Unless this memorandum a/c is prepared, the venturer cannot compute the venture profit

e.g. 3

Ram and Gautham entered into a JV to buy and sell TV sets, on 1.7.2011.

On 1.7.2011, Ram sent a draft for Rs.250000 in favour of Gautham, and on 4.7.2011, the latter purchased 200 sets each at a cost of Rs.2000 each. The sets were sent to Ram by lorry under freight "to pay" for Rs.2000 and were cleared by Ram on 15.7.2011.

Ram effected sales in the following manner :

Date	No. of Sets	Sale price per set	Discount on sale price
16.7.2011	20	3000	10%
31.7.2011	100	2800	0
15.8.2011	80	2700	5%

On 25.8.2011, 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) JV A/c
- (ii) Memorandum JV a/c

Ans.

In the Books of Ram

JOINT VENTURE WITH GAUTHAM A/C

Joint Venture a/c

To Bank (Draft Sent)	250000	By Bank	
		Sale Proceeds	54000
		Sale Proceeds	280000
		Sale Proceeds	205200
To Bank Freight	2000		
To P&L (share of profit)	68600		
To Bank (Draft sent in settlement)	218600		
	539200		539200

Memorandum JV a/c

Cost of 200 sets	400000	Sale proceeds	
		54000	
		280000	
		205200	

			539200
Freight	2000		
Profit			
68600			
68600			
	137200		
	539200		539200