

Joint Venture

1. Introduction

a. Meaning

- It is a business arrangement in which two or more parties agree to pool their resources to gain a strategic edge in the market.
- Entities or persons often enter into a joint venture to pursue specific projects.
- It is a very short duration business, generally confined to single transactions like underwriting of shares, construction of building, etc.

b. Features of Joint venture

- Two or more persons are needed
- It is an agreement to execute a particular project.
- Joint venture business may not have a specific name

c. Difference between Joint venture and Partnership

<u>Partnership</u>	<u>Joint venture</u>
• Always carried on with firm's name • Persons who run the business in partnership are called as partners • Generally, constructed for a long period. • Governed by The Partnership Act, 1932	• No such firm name is required • Persons who agreed to take the project as joint venture are called as co-ventures • It is for short duration. • No enactment of such kind for the joint ventures.

2. Accounting of Joint venture

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 -

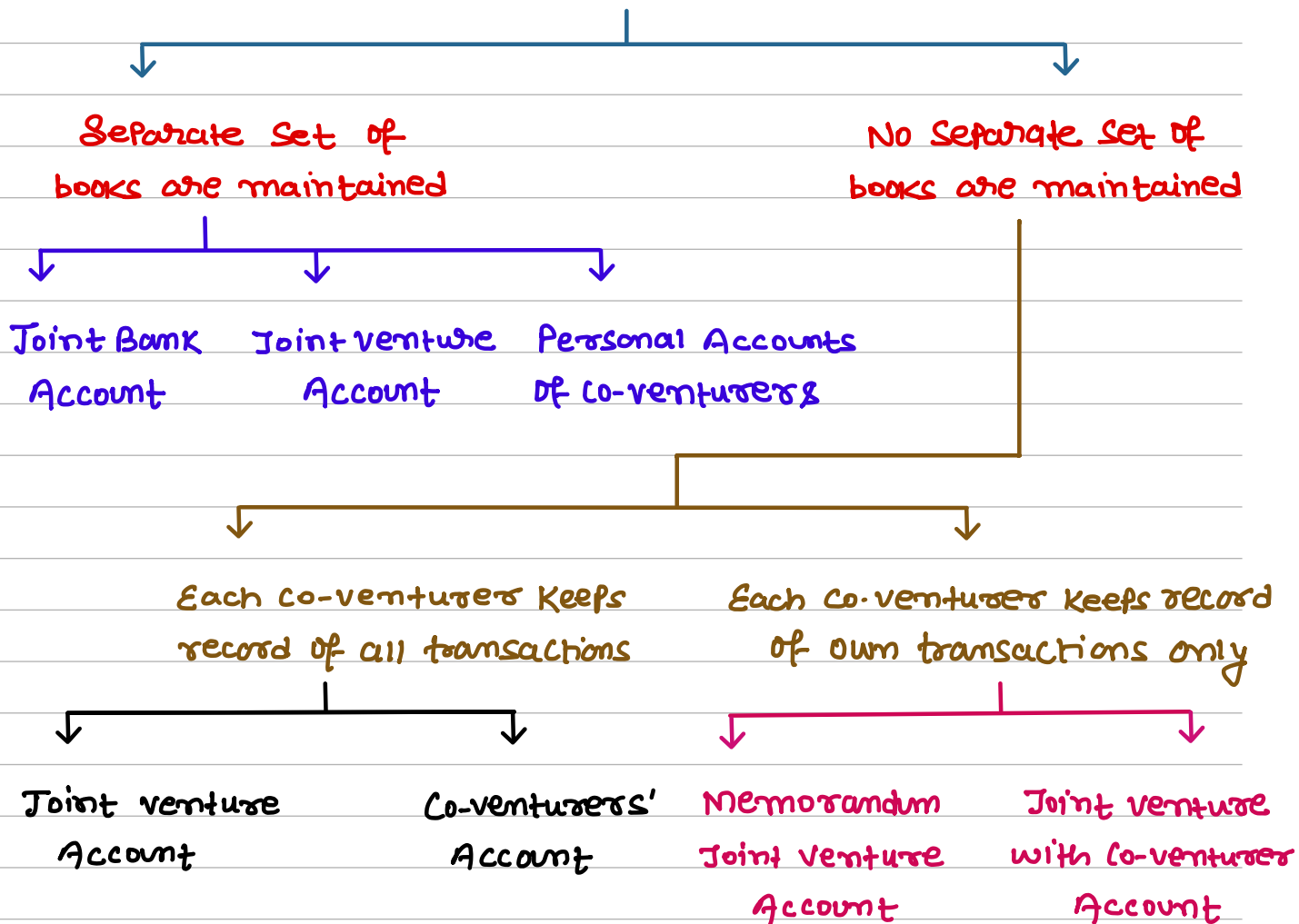
i) When separate set of books are maintained

ii) When no separate set of books are maintained

- Each co-venturer keeps records of all transactions

- Each co-venturer keeps records of its own transactions only [Memorandum Joint Venture]

Maintenance of Joint Venture Accounts



3. Separate Set of Books are Maintained

Following three accounts are maintained -

i) Joint venture Account

- In this account all expenses (Revenue, Capital, Paid by co-venturers or out of Joint Bank) and revenue (to outsiders or taken by co-venturers) are recorded.
- Net results of this account is Profit or loss.

ii) Joint Bank Account

- To record cash/Bank transactions a Joint Bank is maintained. This is basically the cash books of the business.

iii) Co-venturers Account

- It is Personal A/c of Co-venturers.

Journal Entries

i) Contributions made by the Co-venturers

Joint Bank A/c
To Co-venturers A/c

ii) Expenses Paid

Joint Venture A/c	--- Dr.	✓
To Joint Bank		Paid through JB
To Co-venturers A/c		Paid by Co-venturers

iii) Goods Supplied by Co-venturer

Joint venture	✓
To Co-venturers A/c	✓

iv) Sale Proceed

Joint Bank A/c	-- Dr.	Received in JB
Co-venturers A/c	-- Dr.	Received by Co-venturers
To Joint venture A/c		✓

v) Asset Taken over by Co-venturers

Co-venturers A/c --- Dr.

To Joint venture A/c

Agreed value

vi) Liabilities taken over by Co-venturers

Joint venture A/c --- Dr.

To Co-venturers A/c

✓

✓

vii) Profit/Loss on venture

Profit

Joint Venture A/c --- Dr.

To Co-venturers A/c

Loss

Co-venturers A/c

To Joint Venture

viii) Final Settlement

Co-Venturers A/c

To Joint Bank A/c

✓

✓

Ledgers

Dr.	Joint venture Account		Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Co-venturers A/c	✓	By Joint Bank A/c	✓
- Goods/Asset		- Consideration	
- Expenses			
To Joint Bank A/c	✓	By Asset/Share	✓
- Goods/Asset		- Consideration	
- Expenses			
To loss on asset out of consideration taken over by Co-venturers	✓	By Co-venturers	Agreed value
		- Materials taken over	
		By Joint Bank [Claim]	✓
To Profit on venture		By loss on venture	
- Co-venturers'	✓	- Co-venturers'	✓

Notes:-

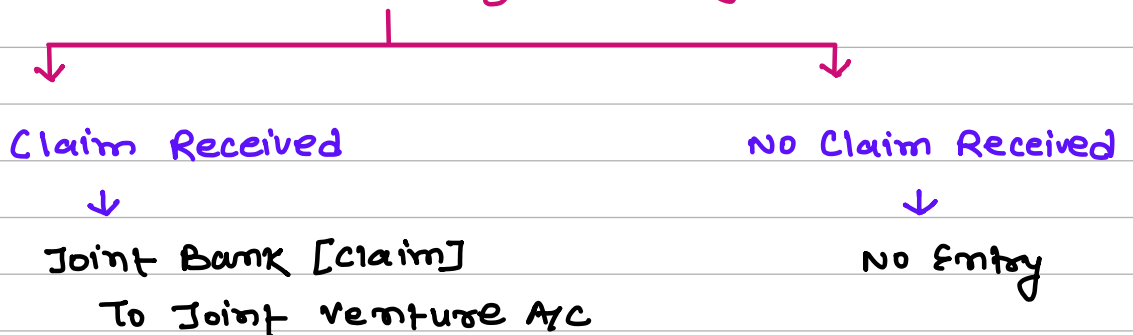
- i) Material taken over by Co-venturers at the end will be recorded at agreed value i.e, value at which it has been taken over and no profit or loss on such shall be accounted separately.

Co-venturers	Agreed
To Joint venture A/c	value

- ii) Asset (out of consideration) taken over by Co-venture shall be recorded at agreed value but Profit or loss on such shall be accounted for.

Co-venturers A/c ---- Dr.	Agreed value
Joint venture A/c	B/f [loss]
To Asset (shares)	Consideration value
To Joint venture	B/f [Profit]

- iii) Material / Asset Destroyed (e.g. by fire)



- iv) If Profit sharing ratio is based on Contribution made by Co-venturers' then Contribution in Cash as well as material / asset contributed both shall be considered.

Dr.

Co-venturers' Account

Cr.

Particulars	Co-venturer	Co-venturer	Particulars	Co-venturer	Co-venturer
To Joint venture	✓	✓	By Joint Bank	✓	✓
- material taken over			- cash contribution		
To Asset	✓	✓	By Joint venturer	✓	✓
- e.g. shares			- goods provided/		
To Loss on venture	✓	✓	expenses paid		
To Joint Bank	✓	✓	By Profit on venture	✓	✓
- settlement					
	✓	✓		✓	✓

Joint Bank Account

To Co-venturer	✓	By Joint venture	✓
- contribution		- Expenses	
To Joint venture	✓	- Asset purchased	
- Consideration		By Co-venturer	✓
- Asset on JV sold		- settlement	
- Claim on materials or asset destroyed			
	✓		✓

4. Separate Books Not Maintained and Co-venturer keeps Record of all Transactions

- Let there are two Co-venturers named A and B
- For rough idea we can take it as Consignment Accounting in the books of consignor to some extent.

Journal Entries [In the books of A]

i) Goods supplied to venture (including to Co-venturer) and Expenses Paid

Joint venture A/c ---- Dr. ✓

To Bank	→	Expenses Paid by A
To Purchase	→	Goods Supplied by A
To B's A/c	→	Expenses Paid/Goods Supplied by B.

ii) Sale Proceed Received

Cash/Bank A/c ---Dr.	Received by A
B's A/c A/c -----Dr.	Received by B
To Joint Venture A/c	✓

iii) Unsold Goods taken over

Purchase A/c ---Dr.	Taken over by A
B's A/c -----Dr.	Taken over by B
To Joint Venture A/c	✓

iv) Profit or loss on venture

Profit

Joint venture A/c --Dr.	✓
To P/L A/c	Share of A
To B's A/c	Share of B

Loss

P/L A/c--Dr.	Share of A
B's A/c--Dr.	Share of B
To Joint venture A/c	✓

Note:- In above Entries B is other Co-venturer

Ledgers [In the books of A]

Joint venture Account			
Dr.			Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Cash/Bank A/c	✓	By Cash/Bank A/c	✓
- Expenses Paid by A		- Sale Consideration received by A	
To Purchase	✓	By Purchase A/c	✓
- Goods supplied by A		- Goods taken over by A	
To B's A/c		By B's A/c	
- Expenses Paid by B	✓	- Sale Consideration received by B	✓
- Goods supplied by B	✓	- Goods taken over by B	✓
To Share of Profit		By Share of Loss	
- P/L A/c	✓	- P/L A/c	✓
- B's A/c	✓	- B's A/c	✓
	✓✓		✓✓

B's Account			
Dr.			Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Joint venture	✓	By Bank	✓
- Sales		- Advance	
To Joint venture	✓	By Joint venture	✓
- Goods taken		- Goods and Expense	
To Joint venture	✓	By Joint venture	✓
- Share of loss		- Share of Profit	
To Bank	✓	By Bank	✓
- Settlement		- Settlement	
	✓✓		✓✓

Debit Side - B Ko Kya or Kitna mila hai

Credit Side - B Ko Kya Mitna Chahiye ya wo pay kiya h.

5. Separate Books Not Maintained and Co-venturer keeps Record of his Transactions only [Memorandum method]

Dr. Memorandum Joint Venture Account Cr.			
Particulars	Amount ₹	Particulars	Amount ₹
To A		By Bank	✓
- Goods	✓	- Sale Proceed	
- Expenses	✓		
To B		By A	✓
- Goods	✓	- Consideration	
- Expenses	✓	By B	✓
		- Consideration	
To Bank			
- Other Expenses	✓	By share of loss	
		- A	✓
To Share of Profit		- B	✓
- A	✓		
- B	✓		
	✓✓		✓✓

In the books of A

Dr. Joint Venture with B Account Cr.			
Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	✓	By Bank	✓
- Amount sent		- Amount received	
To Share of Profit	✓	By Purchase	✓
		- Stock taken	
To Bank A/c	✓		
- Settlement		By Share of Loss A/c	
		By Bank A/c	✓
		- Settlement	✓
	✓✓		✓✓

Debit Side - A ne Kya invest Kiya hai + share of profit

Credit Side - A ko Kya-Kya mil chuka hai.