

*Shri J. H. Bhalodia Women's College- Rajkot*  
*Financial accounting - 2*

**B.Com. Sem. II**  
*Joint Venture Accounts*

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**Introduction :** In certain circumstances few persons may predict good profit in a very short term business also. But these persons may not commence the business due to lack of courage in capital. Support of another person may induce him to commence the business. This business is of a short term. So, this venture is the temporary for short duration without naming the firm. It is known as Joint Venture.

### Meaning

- ✚ “Joint venture is the temporary partnership for short duration generally without naming the firm”.
- ✚ “Joint venture is a short term partnership of two or more persons who have joined for execution of specific business act and agreed to share profit and loss in a certain ratio.”

### **Examples regarding suitable business**

#### **Activities for a Joint venture**

1. Arranging industrial fair
2. Arranging Entertainment / Fun fair
3. Arranging musical programmes
4. A stall in a fair
5. Making an advertisement film
6. Exporting or importing of some goods
7. Hiring a ship for a definite trip
8. A construction contract for building a house, a bridge or a road
9. To supply some articles to government or to an institute
10. To buy and sell scrap
11. To join for consignment purpose
12. To develop land and properties

## Various methods for Joint venture accounting

- A. Recording Joint venture transactions by only one partner**
- B. Recording Joint venture transactions by all partners**
- C. Independent books for Joint venture when a separate Joint bank account is used**

## PROFORMA OF JOINT VENTURE A/C

| Particulars   | Amt. Rs. | Particulars  | Amt. Rs. |
|---|----------|--|----------|
| To Cash A/c (Purchase by self)                              | xxxx     | By Cash A/c (Sales by self)  | xxxx     |
| To Co-partner's A/c (Purchase and Goods sent by co-partner) | xxxx     | By Debtors A/c (Sale on credit)  | xxxx     |
| To Capital A/c (Remuneration)                               | xxxx     | By Co-partner's A/c (Sale by Co-partner in cash or on credit)                            | xxxx     |
| To Cash A/c (Expenses paid in cash by self)                 | xxxx     | By Closing Stock (unsold stock Of Joint venture with addition of proportionate expenses) | xxxx     |
| To Co-partners A/c (Expenses paid by co-partner)            | xxxx     | By Purchase A/c (purchase Stock by self)   | xxxx     |
| To Commission A/c (Amount of Commission receivable, if any) | xxxx     | By Co-partner's A/c (purchase Of stock by co-partner)                                    | xxxx     |
| To Debtors A/c (Bad Debts and discount allowed)             | xxxx     |  |          |
| To P & L A/c (share of profit)                              | xxxx     |  |          |

### Co-partner's A/c in Joint Venture A/c

| Particulars                         | Amt. Rs. | Particulars                                   | Amt. Rs. |
|-------------------------------------|----------|---|----------|
| To Joint venture A/c                |          | By Cash A/c (Capital)                         | xxxx     |
| Cash sales                          | xxxx     | By Joint venture A/c (goods purchased by him) | xxxx     |
| Sale on credit                      | xxxx     | By Joint venture A/c (Profit)                 | xxxx     |
| Stock purchased by him self         | xxxx     | By Joint venture A/c (Expenses paid)          | xxxx     |
| To Joint venture A/c (Loss)         | xxxx     |   |          |
| To Cash/Bank A/c (Final settlement) | xxxx     |   |          |

# PRACTICAL EXERCISE

## A. Recording Joint venture transactions by only one partner

1. Shankar of Shivakashi purchased two packets of fire crackers at the rate of Rs. 46,000 each on dt. 31-10-2010 and sent these two packets to Ganesh of Gangapur for selling. Both Shankar and Ganesh entered into a Joint venture for selling of fire crackers. Shankar paid Rs. 800 for freight and Rs. 800 for insurance premium.
  - ✚ On dt. 4-11-2010 Ganesh paid Rs. 2000 for administrative expenses, Rs. 3000 for shop rent and Rs. 800 for light bill. Ganesh is entitled to receive selling commission of Rs. 2560.
  - ✚ Shankar has discounted bill receivable of Rs. 40,000 at Rs. 39,120 which was accepted by Ganesh.
  - ✚ On dt. 14-11-2010 complete stock of fire crackers was sold for Rs. 1,28,000 and Ganesh ha sent demand draft for net amount of final settlement.
  - ✚ Pass journal entries in books of Shankar.
  - ✚ Prepare Joint venture account and co-partner Ganesh A/c also.

## B. Recording Joint venture transactions by all partners

2. Aman and Aum begins Joint venture for buying and selling toys and decide to share profit and loss in ratio of 3:1. Aman has paid Rs. 75,000 for purchase of toys. Aman has drawn Hundi of Rs. 50,000 of three month's maturity period on Aum. This Hundi was discounted by Aman at 10 % rate.

Following transactions regarding Joint venture were recorded :

- 1) Aman has paid Rs. 500 carriage rent, Rs. 1500 selling commission and Rs. 250 travelling exp.
- 2) Aum has paid Rs. 200 for travelling exp. and Rs. 300 for sundry expenses.
- 3) Aman effected sell for Rs. 53,500 but was compensated Rs. 1,000 for damaged toys.
- 4) Aum sold toys worth Rs. 37,500. Toys of Rs. 3,000 and Rs. 4,500 value remain unsold. Aum agreed to purchase these toys at a price equivalent to cost plus percentage of gross profit on sale.

Aman is entitled to receive credit for Rs. 750 for Godown Rent and Insurance charges.

Discount charges of Hundi are considered as Joint venture expense.

❖ **Prepare :**

In books of Aman : Joint venture account & Aum's account

In books of Aum : Joint venture account & Aman's account

[Sau. Uni. FY March – 2001]

3. Pankaj of Jamnagar purchased woolen goods and sent to Dinesh for sale for Joint venture purpose. They share profit and losses equally. On dt. 1-7-2006 Pankaj purchased goods worth Rs. 10,000 and sent to Dinesh paying freight and other expenses Rs. 1000. He draws up a bill receivable for Rs. 8,000 payable after six months.

Dinesh accepted the bill which was discounted for Rs. 7800 by Pankaj.

On dt. 31-12-2006 Dinesh informed Pankaj that he had incurred expenses Rs. 1200 and that the entire goods had been sold for Rs. 18,000. Dinesh remitted the requisite sum to Pankaj.

**Required :** In each party's books, Joint venture account and the account of the other partner.

[Sau. Uni. F.Y. 1994]

## C. Independent books for Joint venture when a separate Joint bank account is used

4. Kadhi and Dal entered into Joint venture for check dam construction. For this purpose they opened a joint bank account in which Kadhi deposited Rs. 5,00,000 and Dal deposited Rs. 6,00,000.

The contract price was Rs. 20,00,000 of which 75 % amount is payable in cash and remaining amount in shares and debentures.

The following expenses were paid from bank :

|              |          |
|--------------|----------|
| Materials    | 7,00,000 |
| Wages        | 3,00,000 |
| Map-designes | 1,00,000 |
| Legal fees   | 50,000   |

- + Goods worth Rs. 1,50,000 provided by Kadhi personally.
- + Dal worked as a supervisor also, he will be paid 3 % of contract price as of extra remuneration.
- + On completion of the contract Kadhi purchased remaining material for Rs. 50,000.
- + Contract price received as per agreement. Shares and Debentures worth Rs. 5,00,000 are sold in the market for Rs. 6,00,000.
- + **From the above information, you are required to prepare :**
  - [1] Joint venture account.
  - [2] Capital accounts of the partners.
  - [3] Joint bank accounts.

[Sau. Uni. March, 2003]

**5.** A, B and C entered into Joint venture to share profit and loss into the ratio 5 : 3 : 2. They deposited Rs. 9,00,000 in joint bank account as profit and loss ratio. Following expenses paid from Joint bank account.

- + Material Rs. 3,00,000, Wages 50,000, Plant 20,000, Rent 25,000, Advertisement 15,000. Computer (Paid by A) 40,000, Vehicle (Paid by B) 80,000, Insurance (Paid by C) 10,000.
- + Rs. 8,00,000 (80 % of contract price) cash and rest of the amount by debenture. This debentures purchased by **B** at 10 % less. After completing contract, **A** purchased remaining stock Rs. 20,000. **B** purchased computer for Rs. 30,000 and **C** purchased vehicle for Rs. 40,000. Accounts were settled.
- + Prepare Joint venture Account, Joint Bank Account and Partners Account.

[Sau. Uni. March, 2007]

**6.** Kamchor and Pramadilal entered into a Joint venture as dealer in land. They agreed to share profit and loss in the ratio of 4 : 1. They deposited Rs. 2,50,000 and Rs. 3,50,000 respectively in their joint bank account.

- + They purchased a plot of land measuring 5,000 sq. meters at a cost of Rs. 105 per sq. meter.
- + They paid following expenses from joint bank account.
 

|                           |            |
|---------------------------|------------|
| Registration Charges      | Rs. 22,000 |
| Stamp Duty                | Rs. 15,000 |
| Legal Adviser's Fees      | Rs. 2,500  |
| Miscellaneous Expenditure | Rs. 4,250  |
| Brokerage                 | Rs. 12,000 |
- + They prepared a plan for selling the plot of land. In the said plan 20 % of the land was left over for public roads and 10 % of the land was left over for public-park and remaining land was divided into 25 plots of equal size.
- + 15 plots were sold by Kamchor for Rs. 300 per sq. meter and remaining plots were sold by Pramadilal for Rs/ 325 per sq. meter. Both are entitled for 5 % commission on sales.

+ **Prepare :**

- [1] Joint Venture Account.
- [2] Joint Bank Account.
- [3] Capital Accounts.

[Sau. Uni. F.Y.March,2000, Same as Sau.Uni. May,2011]

7. Drashti, Shrushti and Vrushti agreed to construct a building for a company. They decided to share profit or loss in 3 : 2 : 1 respectively. They deposited Rs. 2,70,000 in their Joint bank account as per their profit sharing ration. Expenses were as under:

✚ **Amount paid from their Joint bank account:**

- ✚ Wages 1,95,000      Material 3,05,000      and      Plant 20,000.
- ✚ Architect fee paid by Drashti Rs. 15,000, mixture machine brought by Shrushti Rs. 27,500 where vehicle brought by Vrushti Rs. 20,000.
- ✚ On completion of the work Drashti took away materials in stock for Rs. 12,500. Shrushti took away mixture machine for Rs. 10,000 and Vrushti took away vehicle for Rs. 15,000. Plant realized Rs. 5,000.
- ✚ Rs. 4,50,000 (being 75 % amount of contract price) was received in bank draft and debentures were received for the balance which were purchased by Drashti at 20 % loss to its face value.
- ✚ **Prepare :** Joint venture account, Joint bank account and partners account in the books of the firm. Assuming that accounts have been settled in between partners.

[Saurashtra Uni. Marcdh, 2009]

## Memorandum of Joint Venture Account

✚ **Following are the main features of a memorandum joint venture account :**

- A. Generally it is prepared by inactive partner.
- B. It is not a ledger account kept as a regular financial statement.
- C. It is a rough record for joint venture.
- D. The purpose of this memorandum joint venture account is to know profit or loss of the joint venture business.

8. A and B agreed to join from dt. 1-1-2006 for a land-developing venture. A bought 9000 sq. meter land for Rs. 90,000 by cash. They decided to sale it in small size plots. An engineer's fees Rs. 1000 was paid by B. 1/3 area of land is reserved for public roads. Total six plots were designed from the rest of the land.

- ✚ On dt. 1-4-2006 two plots were sold @ Rs. 30 per sq. meter. After deducting Rs. 2,000 for registration fees, remaining amount was received by A.
- ✚ On dt. 1-6-2006 rest of the plots were sold @ Rs. 25 per sq. meter. This amount was also received by A.
- ✚ A is entitled for 12 % interest on his amount invested after deducting net sale proceeds. B is entitled for 1 % commission on net sale proceeds.
- ✚ Then after profit will be shared in the ratio of 3 : 1 respectively.
- ✚ Joint venture ends on dt. 1-6-2006.
- ✚ Prepare Memorandum Joint Venture account and Co-partner's Account in the books of A and B.

[Sau. Uni. F.Y.B.Com. April,1991]