JOINT VENTURES

Joint venture is a very **short duration "business"** (generally confined to a single transaction) entered into by two or more persons jointly. In other words, it is a **temporary partnership** between two or more persons **without using the firm name** , for limited a purpose.
Persons who jointly undertake a venture are known as **"Co-venturers"** or **"Joint-venturers"**.

Features of Joint Venture :

1. It is a short duration special purpose partnership.
2. It is easy to form. No legal formalities like registration etc. are required.
3. Co-venturers may contribute funds for running the venture or supply stock from their regular business.
4. Co-venturers share profit / loss in an agreed ratio or equal ratio.
5. Generally profit / loss is computed at the completion of the venture.
6. **Going concern assumption** of accounting is **not followed**. Rather **liquidation approach is followed.**
7. Like partnership, **liability** of the co-venturers is **unlimited**.

Difference between Joint Venture and partnership :

Points	Joint Venture	Partnership
1. Meaning	It is a very short duration business undertaken by two or more persons jointly.	It is a relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
2. Members	They are called Co-venturers	They are called partners.
3. Limit	There is no limit on no. of co-venturers	There is legal limit of 20 members.
4. Act governing	No specific Act is there.	Partnership firms are governed by Indian Partnership Act, 1932.
5. Scope	It is limited to specific venture.	It is not limited to specific venture.
6. Mutual agency	There is no mutual agency between co-venturers.	Mutual agency is the most essential element of partnership.

7. Period	It is for a short / temporary period.	It is for long / indefinite period.
Firm name	There is no need for firm name.	Firm name is required.
8. Ascertainment of profit / loss	It is normally ascertained at the end of the venture or on interim basis annually.	It is ascertained annually.
9. Separate set of books	It may not have separate set of books.	It has separate set of books.
10. Final Accounts	Only joint venture account is prepared.	Profit and Loss Account and Balance-Sheet are prepared annually.
11. End	It comes to an end when the venture gets completed.	It does not come to an end on completion of the venture.
12. Admission of minor	A minor cannot be a co-venturer as he is not competent to contract.	A minor can be admitted to the profits of the firm
13. Basis of accounting	Accounting is done on liquidation basis.	Accounting is done on going concern basis.
14. Competition	A co-venturer can run competing business.	A partner generally do not involve in competing business.

Methods of maintaining Joint Venture Accounts :

I. When separate set of books of accounts is maintained :

Under this method, a separate set of books of accounts is kept in the name of joint venture. Three accounts are required to be opened :

a) Joint Venture Account – It is a **Nominal Account.** All expenses, whether capital or revenue, are debited to it, whereas all incomes are credited. The resultant figure is profit or loss of the venture which is transferred to **Co-venturers Account**.

b) Co-venturers' Account **–** It is a **Representative Personal Account.** On the credit side, it records investment made by co-venturer into the joint venture, interest, commission, share of profit etc. due to him. On the debit side, withdrawals and share of loss is recorded. The balancing figure in the account is the amount of final settlement which is transferred to **Joint Bank Account**.

c) Joint Bank Account – It is **Personal Account**. All receipts are debited whereas all payments are credited to Joint Bank Account.

Journal Entries :

Points	**Entries**
1. Initial contribution by co-venturers	Joint Bank A/c Dr. To Co-Venturer's A/c
2. Materials supplied or expenses incurred by co-venturers	Joint Venture A/c Dr. To Co-Venturer's A/c
3. Expenses paid out of Joint Bank Account	Joint Venture A/c Dr. To Joint Bank Account
4. Sale proceeds received	Joint Bank / Co-venturer's A/c Dr. To Joint Venture A/c
5. Unsold stock or closing assets taken over by the co-venturers	Co-venturer's A/c Dr. To Joint Venture A/c
6. Profit of venture	Joint Venture A/c Dr. To Co-Venturers A/c [Reverse entry in case of loss]
7. Close co-venturers Account and transfer the balancing figure to Joint Bank Account. Joint Bank Account must tally.	

II. <u>When separate set of books of accounts is not maintained</u> :

Under this method, any one or both the co- venturers can maintain Joint venture records in their regular books of accounts. Two accounts are required to be maintained by the recording co-venturer :

a) Joint Venture Account : it is a **Nominal Account**. All expenses, whether capital or revenue, are debited to this Account and all the incomes are credited. The balancing figure, being profit or loss, is transferred to co-venturer's account in agreed profit sharing ratio.

b) Other co-venturer's : It is a **Personal Account** . it records the transactions of the other co-venturer only. The balancing figure in the account is the amount of final settlement.

Journal Entries

Points	**Entries**
1. Good / Assets supplied or expenses paid by the recording co-venturer	Joint Venture A/c Dr. To Purchases / Assets / Cash / Bank A/c
2. Good / Assets supplied or expenses paid by other co-venturer	Joint Venture A/c Dr. To Other Co-Venturer's A/c
3. Income received or the closing stock or closing assets taken over by the recording co-venturer	Cash / Bank / Purchases / assets A/c Dr. To Joint Venture A/c
4. Income received or the closing stock or closing assets taken over by the other co-venturer	Other Co-venturer's A/c Dr. To Joint Venture A/c
5. Profit of the venture	Joint Venture A/c Dr. To Other Co-Venturers A/c TO Profit and Loss A/c (own share of profit) [Reverse entry in case of loss]
6. Close other co-venturer's account. The balancing figure in the account will be the amount of final settlement (Cash / Bank A/c).	

III. <u>Memorandum Joint Venture Account Method</u> :

Under this method, each co-venturer keeps the record of his own transactions only. A separate A/c called "Investment in Joint Venture with --- (other co-venturer) A/c" or simply "Joint Venture with --- (other co-venturer) A/c".

On the Debit side of the account, the following transactions are recorded :

a) Expenses incurred for the venture
b) Assets or stock supplied to the venture
c) Remittance to the other co-venturer
d) Commission, brokerage or interest receivable from the venture
e) Share of profit

On the Credit side, the following items are recorded :

a) Income of venture received

b) Unsold stock or closing asset of the venture taken over

c) Remittance from the other co-venturer

d) Interest payable to the venture

e) Share of loss

The balancing figure in the account is the amount of final settlement between the co-venturers.

However, for finding out the share of profit or loss, a separate account, called "**Memorandum Joint Venture Account**", is prepared. It is a **rough account** and hence does **not form part of books** of accounts of any of the co-venturer. All the expenses are recorded on the debit side and all the incomes, including takeovers, are recorded on the credit side. The balancing figure in the account is the amount of profit or loss which is distributed in the agreed ratio.

Dr. **Memorandum Joint Venture Account** **Cr.**

	Rs.		**Rs.**
To Cash / Bank A/c	XX	BY Cash / Bank A/c	XX
To Purchases / Assets A/c	XX	By Purchase / Assets A/c	XX
To Cash / Bank Account	XX	By Cash / Bank A/c	XX
To commission / Interest A/c	XX	By Interest A/c	XX
To Profit and Loss A/c	XX	By Profit and Loss A/c	XX
To Cash / Bank A/c (B.F.)	XX	By Cash / Bank A/c (B.F.)	XX
	XXX		XXX

<u>Hints for solving questions</u> :

1. **No entry** is passed for **abnormal losses**. Amount of claim received is credited to Joint Venture A/c.
2. For **finding the amount of profit or loss** on the venture, all items of credit side of J.V. A/c should be put in M+ and all items of Debit side should be put in M-. Then press MR. if it shows a **positive** balance, its **profit** But if it is **negative**, it is **loss**.
3. For **finding out amount of final settlement**, a rough J.V. A/c is prepared. All expenses paid are debited and all incomes are credited to J.V. A/c with co-venturer's name **(method II & III)**. Total of Dr. of any particular name – Total of Cr. = Amount receivable by that co-venturer whereas Total of Cr. – Total of Dr. = Amount payable by that co-venturer.

4. Initial contribution + Expenses on behalf of venture + share of profit – drawings – share of loss = **Final settlement (Method I)**.
5. **Bill discounting charges** are Debited to Joint Venture A/c and Credited to Co-Venturers A/c.
6. Stock taken over by the co-venturers is always recorded at **agreed value**.
7. Joint Venture is not governed under any specific Act. However, in absence of any specific information, **some provisions of Partnership Act may become applicable**.
8. In joint venture, there is no difference between Capital and revenue items. All the exp. and incomes, whether capital or revenue, are entered in joint venture account.
9. Never forget to enter closing stock before finding out profit or loss on venture.
10. Closing stock is valued on **cost basis**.