UNIT 13 JOINT VENTURE ACCOUNTS

Structure

13.0 OBJECTIVES

After studying this unit you should be able to:

- explain the meaning and importance of a joint venture
- distinguish joint venture from partnership and consignment
- record joint venture transactions in the books of one venturer
- record joint venture transactions in the books of all venturers
- prepare Memorandum Joint Venture Account
- prepare separate set of books for the joint venture business

13.1 INTRODUCTION

In Unit 10, 11 and 12 you have studied how various transactions related to the consignments are recorded in the books of the concerned parties. The basic objective of preparing the Consignment Account is to ascertain the profit or loss on each consignment. Similarly, when some persons join hands to carry out a specific job or a project (called joint venture), each person (called co-venturer) would like to ascertain his share of profit or loss from the joint venture business. For this purpose they record the transactions related to the joint venture business in their own books or prepare a separate set of hooks altogether. In this unit you will learn how various transactions related to the joint venture business are recorded when separate set of books are prepared and when the co-venturers decide to record them in their own books without preparing a separate set.

13.2 WHAT IS A JOINT VENTURE?

When two or more persons join together to carry out a specific business venture and share the profits on an agreed basis it is called a 'joint venture'. Each one of them who join as a party to the joint venture is called 'Co-venturer'. No firm name is normally used for the joint venture business because its duration is limited to a short period. During this period, the co-venturers are free to carry on their own business as usual, unless agreed otherwise. The business relationship amongst the co-venturer comes to an end as soon as the venture is completed. **Thus a joint venture is some kind of a temporary partnership between two or more persons who have agreed to jointly carry out a specific venture.** The joint ventures are quite common in construction business, consignment, sale and purchase of property, underwriting of shares and debentures, etc. For example, A and B agreed to construct a college building for which they pooled their resources and skill. A provided Rs. 6 lakh and B Rs. 4 lakh as capital. They completed the building and shared the profits in the ratio of their contributions to capital. In this example, joining hands by A and B to construct a building is a joint venture. A and B are co-venturers. They will share the profits in the ratio of 6 and 4 (same as the ratio of their capitals).

From the above discussion thk essential features of a joint venture can be listed as follows:

1 It is formed by two or more persons.

2 The purpose is to execute a particular venture or project.

3 No specific firm name is used for the joint venture business.

4 It is of a temporary nature. Hence, the agreement regarding the venture automatically stands terminated as soon as the venture is completed.

5 The co-venturers share profit and loss in the agreed ratio. However, in the absence of any other agreement between the co-venturers, the profits and losses are to be shared equally.

6 During the tenure of joint venture, the co-venturers are free to continue with their own business unless agreed otherwise.

The main advantages of a joint venture are:

1 **Sufficient Resources:** Since two or more persons pool their resources, there is sufficient capital available.

2 **Ability and Experience:** In joint venture the different venturers may be having different skills and experience. The benefit of their common wisdom will be available to the venture.

3 **Spreading of Risk:** The co-venturers agree to share the profits and losses in a particular ratio. This implies that the risk is also borne by them in that ratio.

13.3 JOINT VENTLTRE AND CONSIGNMENT

Even though both consignment and joint venture are in the nature of an agreement between different parties, there arc many points of difference between the two. The main points of difference are as follows:

Consignment	.Joint Venture
1 Normally two persons are involved, the consignor and the consignee.	Number of co-venturers is usually two, but it may also be more than two.
2 The relationship between the consignor and the consignee is that of principal and agent.	The relationship between co-venturers is that of partnership.
3 The arrangement may continue for a long time.	The relationship comes to an end as soon as the venture is completed.
4 The funds are provided by the consignor.	All the co-venturers contribute to a common pool.
5 The consignee acts merely as an agent and he has to follow the instructions of the consignor.	The co-venturers have equal authority to take decisions.
6 Consignment is generally concerned with the sale of movable goods.	Joint Venture may be for sale of goods or for carrying on any other activity like construction of building, investment in shares, etc.

7	The profit belongs to the consignor only. The consignee is entitled only to his commission.	The profit is shared by all the co-venturers.
8	The consignor owns the goods.	There is joint ownership.
9	There is only one method of maintaining the accounts for consignment transactions.	There are four methods of maintaining accounts for the joint venture.

13.4 JOINT VENTURE AND PARTNERSHIP

Though joint venture is in the nature of a temporary partnership but in the strict legal sense it is not a partnership. Both in joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But, there are some basic differences between the two. They are as follows:

	Partnership	Joint Venture
1	A partnership firm always has a name.	There is no need for firm name.
2	It is of a continuous nature.	It comes to an end as soon as the work is completed.
3	Separate set of books have to be maintained.	There is no need for a separate set of books, the accounts can be maintained even in one of the co-venturer's books only.
4	No partner can carry an a similar business.	The co-venturers are free to carry on the business of a similar nature.
5	Though the registration of partnership is not compulsory but it is considered desirable.	There is no need for registration at all.
6	A minor can also be admitted to the benefits of the firm.	A minor cannot be a co-venturer as he is incompetent to enter into a contract.

Check Your Progress-A

1 A & B enter into a joint venture for the construction of a building. They contributed Rs. 2,00,000 and Rs. 3,00,000 respectively. They agreed to share the profits or losses in the ratio of their contribution to capital. The profit for the joint venture is Rs. 45,000. State (i) the names of the co-venturers, and (ii) each co-venturer's share of profit.

i) ....

ii) ....

2 . State whether each of the following statements is True or False.

i) A joint venture is a partnership formed under the Indian Partnership Act ....

ii) A Joint venture has a definite life. ....

iii) Joint venture is the same thing as consignment ....

iv) Joint venture agreement must be registered ....

v) Co-venturers share the profits in the agreed ratio. ....

13.5 ACCOUNTING TREATMENT

Broadly speaking, accounts of a joint venture business can be kept in any one of the following four ways:

1 **In the books of one co-venturer:** In case the business is not very large, only one of the venturers may be entrusted with the task of recording the transactions in his books. In

that case all other co-venturers will send their contributions to such venturer and he will open a Joint Venture Account and the personal accounts of other co-venturers in his books.

2 In the books of ail the co-venturers: When all co-venturers are working actively, each one of them shall open a Joint Venture Account and the personal accounts of other co-venturers in his books. In such a situation, each co-venturer informs others about the transactions undertaken by him so that they can incorporate them in their books.

3 Memorandum Joint Venture Account: Sometimes each co-venturer records only such transactions as are directly concerned with him. In that case he cannot work out the profit or loss because his books do not include all transactions of the joint venture. Hence, for calculating the profit or loss of the joint venture, a Memorandum Joint Venture Account has to be prepared by incorporating all transactions related to the joint venture. Thereafter the Joint Venture Account is completed and closed.

4 Separate Set of Books: Sometimes, for the sake of convenience, a separate set of books are maintained for the joint venture. Under this system a Joint Bank Account, a Joint Venture Account and the personal accounts of all the co-venturers are to be opened in 'the independent set of books of account.

Let us now study these methods one by one in detail.

13.5.1 Recording in the Books of one Co-venturer

If the joint venture business is not very large, the task of recording transactions can very well he entrusted to one of the co-venturers. He will prepare a Joint Venture Account and the personal accounts of other co-venturers. The Joint Venture Account is prepared for ascertaining the profit or loss of the joint venture. The personal account of other co-venturers are prepared to find out the amount due from them. As stated earlier, each co-venturer is also entitled to carry on his own business and these transactions will be in addition to what he records in respect of his own business. The following journal entries are passed in his books before preparing the necessary accounts of the joint venture.

1 When the co-venturers send their contribution:

Cash/Bank A/c Dr.
To Co-venturer's Personal A/c

2 When the goods are purchased for the joint venture:

Joint Venture A/c Dr.
To Cash/Bank A/c

3 When the goods are supplied from his own stock by the co-venturer who is recording the transactions:

Joint Venture A/c Dr.
To Purchases A/c

Here we are crediting Purchases Account because he is supplying the goods from his own stock at cost. But if the goods are supplied by him at n price other than the cost price, we shall credit the Sales Account instead of the Purchases Account.

4 When the goods are supplied by other co-venturers:

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

5 When some expenditure is incurred on account of the joint venture:

Joint Venture A/c Dr.
To Cash/Bank A/c

But, if expenses are paid by a co-venturer other than the one who is recording the transactions, then the entry will be:

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

Here we have debited the Joint Venture Account because it is an expenditure on account of the joint venture business.

6 When the co-venturer recording the transactions sells the goods:

a) For cash sales:

Cash/Bank A/c Dr.
To Joint Venture A/c

b) For credit sales:

Debtor's Personal A/c Dr.
To Joint Venture A/c

7 When cash is received from debtors:

Cash/Bank A/c Dr.
To Debtor's Personal A/c

8 When some cash discount is allowed to the debtor making payment, or some bad debts are incurred:

Joint Venture A/c Dr.
To Debtor's Personal A/c

9. When sales are made by other co-venturers:

Co-venturer's Personal A/c Dr.
To Joint Venture A/c

10 When some cash or bills receivable are received from other co-venturers on account of sales made by them:

Cash/Bank/Bills Receivable A/c Dr.
To Co-venturer's Personal A/c

11 When the co-venturers recording the transactions is entitled to some commission or salary:

Joint Venture A/c Dr
To Commission/Salary A/c

Joint Venture Account is debited as it is an expenditure related to the joint venture business.

12 When the unsold stock of joint venture is taken over by the co-venturer recording the transactions:

Purchases A/c Dr.
To Joint Venture A/c

If the unsold stock is taken over by some other co-venturer, the journal entry will be:

Co-venturer's Personal A/c Dr.
To Joint Venture A/c

After passing the above entries, the Joint Venture Account is prepared. The balance of this account will show either profit or loss which is to be shared by all the co-venturers in their profit sharing ratio. This will require the following further entries:

a) If it shows profit:

Joint Venture A/c Dr.
To Profit & Loss A/c
(his own share)
To Co-venturers' Personal A/cs
(individually for their shares)

b) If it results in loss:

Profit & Loss A/c Dr.
(his own share of loss)
Co-venturers' Personal A/cs Dr.
(individually for their shares)
To Joint Venture A/c

After closing the Joint Venture Account, we have to find out the amount due to other co-venturers. When this amount is sent to them, we record the following entry.

Co-venturers' Personal A/cs Dr.
To Cash/Bank A/c

Look at Illustration 1. It shows the journal entries as well as the different accounts in the ledger of the co-venturer who is recording the transactions relating to the joint venture business in his books.

Illustration 1

Rajesh and Suresh entered into a contract to construct a building for Rs. 4,00,000. Rajesh and Suresh contributed Rs. 2,00,000 and Rs. 1,50,000 respectively. They agreed to share profits and losses in the ratio of 4:3. It was decided that the work will be looked after by Rajesh who will be paid 5% commission on contract price in addition to his share of profits. Rajesh purchased the necessary materials for Rs. 3,20,000 and paid Rs. 9.000 for expenses. Rajesh also contributed building materials from his own stock worth Rs. 20,000. Rs. 5,000 remained to be paid for wages.

Suresh took over the stock of materials for an agreed valuation of Rs. 16,000. The building was completed and the contract money was duly received.

Record the above transactions in the books of Rajesh and show the Joint Venture Account and Suresh's Account assuming that the outstanding wages were paid by Rajesh.

In the Books of Rajesh

Journal Entries

Date	Particulars		L.F.	Dr. Amount	Cr. Amount
				Rs.	Rs.
	Cash A/c	Dr.		1,50,000	
	To Suresh				1,50,000
	(Being cash received from Suresh)				
	Joint Venture A/c	Dr.		3,20,000	
	To Cash A/c				3,20,000
	(Being materials purchased)				
	Joint Venture A/c	Dr.		9,000	
	To Cash A/c				9,000
	(Being expenses paid)				
	Joint Venture A/c	Dr.		20,000	
	To Purchases A/c				20,000
	(Being material supplied from personal stock)				
	Joint Venture A/c	Dr.		5,000	
	To Outstanding Wages A/c				5,000
	(Being outstanding wages)				
	Joint Venture A/c	Dr.		20,000	
	To Commission A/c				20,000
	(Being Commission @ 5%)				
	Cash Account	Dr.		4,00,000	
	To Joint Venture				4,00,000
	(Being the contract price received)				
	Suresh	Dr.		16,000	
	To Joint Venture A/c				16,000
	(Being goods taken over by Suresh)				
	Joint Venture A/c	Dr.		42,000	
	To Profit & Loss A/c				
	To Suresh				
	(Being the profit shared)				
	Outstanding Wages A/c	Dr.		5,000	
	To Cush A/c				5,000
	(Being wages paid by Rajesh)				
	Suresh	Dr.		1,52,000	
	To Cash A/c				1,52,000
	(Being the nmount due paid)				

Joint Venture Account

Dr. Particulars		Amount	Particulars	Cr. Amount
		Rs.		Rs.
To Cash A/c (Purchases)		3,20,000	By Cash A/c	4,00,000
To Cash A/c (Expenses)		9,000	By Suresh	16,000
To Purchases A/c (Material Supplied)		20,000		
To Outstanding Wages A/c		5,000		
To Commission A/c		20,000		
To Profit transferred to:				
Profit & Loss A/c	24,000			
Suresh	18,000	42,000		
		4,16,000		4,16,000

Suresh's Account

	Rs.		Rs.
To Joint Venture A/c	16,000	By Cash A/c	1,50,000
To Cash A/c	1,52,000	By Joint Venture A/c	18,000
	1,68,000		1,68,000

Illustration 2

Anand and Prakash entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. Anand supplied goods worth Rs. 60,000 to Prakash and incurred expenses amounting *to* Rs. 2,000 for freight and insurance. During transit the goods costing Rs. 5,000 were damaged and a sum of Rs. 3,000 was received from the insurance company. Prakash reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire damaged the balance stock lying unsold with Prakash. The goods were not insured and Prakash agreed to compensate Anand by paying in cash 80% of the aggregate of the original cost of such goods, plus proportionate expenses incurred by Anand. Apart from the joint venture share of profit, Prakash was also entitled to a commission @ 5% on net profits of the joint venture after charging such commission. Selling expenses incurred by Prakash totalled Rs. 1,000. Prakash had earlier remitted an advance of Rs. 10,000. Prakash paid the balance due to Anand by a bank draft. You are required to prepare the Joint Venture Account, and Prakash's Account in Anand's books.

Solution:

In the Ledger of Anand

Joint Venture Account

Dr. Particulars		Amount	Particulars	Cr. Amount
		Rs.		Rs.
To Purchase A/c (Goods supplied)		60,000	By Bank A/c (Insurance)	3,000
To Bank A/c (Expenses)		2,000	By Prakash (Sales)	64,350
To Prakash (Expenses)		1,000	By Prakash (Agreed value of damaged goods)	4,546
To Prakash (Commission -1/21 of Rs. 8,896)		424		
To Profit transferred to:				
Profit & Loss A/c	5,648			
Prakash	2,824	8,472		
		71,896		71,896

Prakash's Account

	Rs.		Rs.
To Joint Venture A/c (Sales)	64,350	By Bnnk A/c (Advance)	10,000
To Joint Venture A/c (Claim for damaged goods)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture Ak (Profit)	2,824
		By Bank A/c (Balance received by draft)	54,648
	68,896		68,896

Working Notes:

	Rs.
1 Calculation **of Sales:**	
Cost of goods sent	60,000
Less Damage in transit	5,000
Cost of remaining goods	55,000
Cost of goods sold (90% of Rs. 55,000)	49,500
Add Profit 30% of Rs. 49,500	14,850
Sales	64,350

2 **Loss** by **fire borne** by Prakash:

	Rs.
Cost of goods in stock (10% of 55,000)	5,500
Add Proportionate Expenses $\frac{2{,}000 \times 5{,}500}{60{,}000}$	183
Total Loss	5,683
80% of this loss	4,546

3 Abnormal loss on account of damage in transit relates to the joint venture. Hence no calculation is needed.

13.5.2 Recording in the Books of all Co-venturers

Under the second method, all transactions relating to the joint venture are recorded in the books of all the co-venturers. In order to complete the Joint Venture Account in the books of all co-venturers, each co-venturer sends the necessary information about his dealings to the other co-venturers. There is not much of a difference in the recording of transactions berween the first and the second method. We will be having similar entries in the joint venture accounts in each co-venturer's books who shall all open the personal accounts of other co-venturers. Look at Illustration 3 to clearly understand the recording of transactions under the second method.

Illustration 3

Arvind and Babloo entered into a joint venture agreeing to share profits and losses equally. The following transactions took place during the course of venture:

	Rs.
Arvind bought goods for cash	2,550
Babloo bought goods for cash	7,000
Arvind paid storage charges	500
Babloo paid freight and insurance	800
Babloo sold goods for cash	7,000

Babloo received 3% commission on sales	210
Sales made by Arvind	5,000
Commission payable to Arvind	150
Babloo took over the unsold stock	560

Prepare the necessary ledger; accounts in the book of Arvind and Babloo assuming that the accounts are finally settled between them.

Solution

Ledger of Arvind

Joint Venture Account

Dr. Cr.

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To Cash A/c (goods purchased)		2,500	By Babloo (sales)	7,000
To Babloo (goods purchased)		7,000	By Cash (sales)	5,000
To Cash A/c (expenses)		500	By Babloo (stock taken over)	560
To Babloo (expenses)		800		
To Babloo (commission)		210		
To Commission A/c		150		
To Profit transferred to:				
Babloo	700			
Profit & Loss A/c	700	1,400		
		12,560		12,560

Babloo's Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Joint Venture A/c (sales)	7,000	By Joint Venture A/c (goods purchased)	7,000
To Joint Venture A/c (stock taken over)	560	By Joint Venture A/c (expenses)	800
To Cnsh A/c (balance due paid)	1,150	By Joint Venture A/c (commission)	210
		By Joint Venture A/c (share of profit)	700
	8,710		8,710

Ledger of Babloo

Joint Venture Account

Dr. **Cr.**

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To Arvind (Goods purchased)		2,500	By Cash A/c (Sales)	7,000
To Cash A/c (Goods purchased)		7,000	By Arvind (Sales)	5,000
To Arvind (Expenses)		500	By Purchases A/c (Stock taken over)	560
To Cash A/c (Expenses)		800		
To Commission A/c		210		
To Arvind (Commission)		150		
To Profit transferred to:				
Arvind	790			
Profit & Loss A/c	700	1,400		
		12,560		12,560

Arvind's Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Joint Venture A/c (Sales)	5,000	By Joint Venture A/c (Goods purchased)	2.500
		By Joint Venture A/c (Expenses)	500
		By Joint Venture A/c (Commission)	150
		By Joint Venture A/c (Share of profit)	700
		By Cash A/c (Balance due recieved)	1,150
	5,000		5,000

13.5.3 Memorandum Joint Venture Account Method

In the method discussed above each co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books, But. unde: the Memorandum Joint Venture Account Method each co-venturer will record only those transactions relating to the joint venture which are directly concerned with him, and not those of others. Under this method each co-venturer opens a Joint Venture Account including the name of the other co-venturer. For example, if A and B are partners in a joint venture, then in the books of A it will be termed as 'Joint Venture with B Account' and in the books of B it will be termed its 'Joint Venture with A Account': Each co-venturer will record only such transactions which are actually effected by him. For example, if goods are purchased by A for the joint venture, it will be recorded only by A and not by other co-venturers. Similarly, if goods are sold by B, it will be recorded in the books of B only. This account is in the nature of a personal account and, therefore, will not disclose the profit or loss of the venture. For that purpose. we prepre an additional account called 'Memorandum Joint Venture Account'. This is like Profit and Loss A/c.

Let us say A and B enter into a joint venture and certain transactions have taken place for which the following entries will be passed in each co-venturer's books.

1 **A purchases goods for cash:**
This transaction shall be recorded in the books of A only. The entry will be:

Joint Venture with B A/c	Dr.
To Cash A/c	

2 **A incurs some expenditure on account of the joint venture:**
It shall be recorded in A's books only. The entry will be:

Joint Venture with B A/c	Dr.
To Cash A/c	

3 **B sells goods for cash:**
No entry will be made in A's books. But the following entry will be made in B's books:

Cash Account	Dr.
To Joint Venture with A A/c	

4 **B sends money to A:**
a) It shall be recorded in B's books as follows:

Joint Venture with A A/c	Dr.
To Cash/Bank A/c	

b) It shall be recorded in A's books as follows:

Cash/Bank/ A/c	Dr
To Joint Venture with B A/c	

As stated earlier, for ascertaining the profit or loss on the joint venture, we prepare a Memorandum Joint Venture Account. This account is prepared exactly on the pattern of Profit & Loss Account. Since this account does not form part of the double entry system, the word 'Memorandum' is prefixed.

The method of preparing this account is very simple. It is prepared on the basis of information supplied by all the co-venturers. The debit entries appearing in the personal accounts of all co-venturers are written on the debit side of the Memorandum Account and the entries appearing on the credit side of those accounts are shown on the credit side of the Memorandum Joint Venture Account. However, **you should remember that the transactions which do not relate to an item of expense or income are to be excluded from this Memorandum Account.** The difference in the totals of the debit side and the credit side represents profit or loss. The profit or loss thus calculated is then shared by the co-venturers in the agreed profit sharing ratio.

Each co-venturer will record only his share of profit or loss. In the event of **profit,** the entries shall be:

In the books of A

Joint Venture with B A/c	Dr.
To Profit & Loss A/c	

In the books of B

Joint Venture with A A/c	Dr.
To Profit & Loss A/c	

In the event of Loss the entries shall be reversed as follows:

In the books of A

Profit and Loss A/c Dr.
To Joint Venture with B A/c

In the books of B

Profit and Loss A/c Dr.
To Joint Venture with A A/c

In the end each venturer balances the 'Joint Venture with ....Account' in his books and settles the account by paying or receiving cash. Look at Illustration 4 carefully to understand the Memorandum Joint Venture Account Method.

Illustration 4

Prem of Delhi and Satish of Calcutta entered into a joint venture for the purchase and sale of goods. The profits and losses are to be shared in the ratio of 2:1.

Prem purchased goods for Rs. 40,000 and sent them to Satish paying Rs. 3,000 for freight and insurance. Prem also incurre sundry expenses amounting to Rs. 400. Satish sold goods for Rs. 55,000 and incurred Rs. 6,000 as expenses. Unsold stock valued at Rs. 7,000 was taken over by Satish. Satish remitted the balance due to Prem by a bank draft.

Each party's ledger contains a record of his own transactions in the Joint Venture Account. Prepare (a) Memorandum Joint Venture Account, (b) Joint Venture with Satish's Account in Prem's ledger, and (c) Joint Venture with Prem's Account in Satish's ledger.

Solution:

Ledger of Prcm

Joint Venture with Satish Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Bank A/c (Purchases)	40,000	By Bank A/c (In Final Settlement)	51,800
To Bank A/c (Freight & Ins.)	3,000		
To Bank A/c Sundry Exp.)	400		
To Profit & Loss A/c (Share of profit)	8,400		
	51,800		51,800

Ledger of Setish

Joint Venture with Prem Account

Dr. Cr.

	Rs.		Rs.
To Bank A/c (expenses)	6,000	By Bank A/c (sales)	55,000
To Profit & Loss A/c	4,200	By Purchases A/c (stock taken over)	7,000
To Bank A/c (final settlement)	51,800		
	62,000		62,000

Memorandum Joint Venture Account

		Rs.			Rs.
To Prem:			By Satish		
Goods	40,000		Sale Proceeds	55,000	
Freight Insurance	3,000		Stock taken over	7,000	62,000
Sundry Expenses	400				
		43,400			
To Satish (expenses)		6,000			
To Profit transferred to					
Prem	8,400				
Satish	4.200	12.600			
		62,000			62.000

Interest in Joint Venture Transactions: When the co-venturers invest money in joint venture business and receive back the amounts on different dates, ir is quite usual for them to agree to calculate interest at a certain rate. Each co-venturer is entitled to receive interest on the amounts invested by him and pay interest on thk amounts received by him. You should remember that only the net interest receivable from, or payable to, the co-venturer is recorded in the Joint Venture Account. Thus, the net amount of interest is also taken into account before ascertaining the profit or loss on joint venture. For clarification look at Illustration 5.

Illustration 5

Anand and Bimal enter into a joint venture sharing profits and losses equally. Anand purchased goods for Rs. 5,000 for cash and Bimal spent Rs. 1,000 on freight, etc., on January 1, 1988. On the same day, Bimal bought goods for Rs. 10,000 on credit. Further expenses were incurred as follows:

On 1-2-1988	Rs. 1,000 by Bimal
On 1-3-1988	Rs. 500 by Anand

Sales were made by each one of them as follows:

15-1-1988	Rs. 3,000 by Anand
31-1-1988	Rs. 6,000 by Bimal
15-2-1988	Rs. 3,000 by Anand
1-3-1988	Rs. 4,000 by Bimal

Creditors for goods were paid as follows:

1-2-1988	Rs. 5,000 by Anand
1-3-1988	Rs. 5,000 by Bimal

On March 31, 1988 the balance of stock was taken over by Bimal at Rs. 9,000. The accounts between the co-venturers were settled by cash payment on this date. The co-venturers are entitled to interest at 12% per annum. Prepare necessary ledger accounts in the books of venturers as per Memorandum Joint Venture Account Method.

Solution:

Memorandum Joint Venture Account

Dr. Cr.

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To Anand (Cost of goods)		5,000	By Anand (Sales)	6,000
To Bimal (Cost of goods)		10,000	By Bimal (Sales)	10,000
			By Bimal (Interest)	50
To Bimal (Freight etc.)		1,000	By Bimal (Stock taken)	9,000
To Anand (Expenses)		500		
To Bimal (Expenses)		1,500		
To Anand (Interest)		135		
To Profit transferred to				
Anand	3,457			
Bimal	3,458	6,915		
		25,050		25,050

Anand's Ledger

Joint Venture with Bimal Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 1	To Bank A/c (Purchases)	5,000	Jan.15	By Bank A/c (Sales)	3,000
Feb. 1	To Bank A/c (Creditors)	5,000	Feb.15	By Bank A/c (Sales)	3,000
Mar. 1	To Bank A/c (Expenses)	500	Mar.15	By Bank A/c (Final settlement)	8,092
" 31	To Interest A/c	135			
" 31	To Profit & Loss A/c	3,457			
		14,092			14,092

Bimal's Ledger

Joint Venture with **Anand Account**

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 1	To Bank A/c (freight)	1,000	Jan.31	By Bank (sales)	6,000
			Mar.		
Feb. 1	To Sank A/c (expenses)	1,500	" 31	By Bank (sales)	4,000
Mar. 1	To Bank A/c (creditors)	5,000			
Mar.31	To Profit & Loss A/c	3,458	" 31	By Goods A/c (stock taken over)	9,000
" 31	To Bank A/c (Amount paid in final settlement)	8,092	" 31	By Interest A/c	50
		19,050			19,050

Calculation of Interest.

Payments by **Anand**

Date	Amount	Months	Product	
1-1-88	Rs. 5,000	3	15,000	(5.000 x 3)
1-3-88	Rs. 500	1	500	(500 x 1)
1-2-88	Rs. 5,000	2	10,000	(5.000× 2)
			25,500	

$$\text{Interest} = 25,500 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 255$$

Receipts by **Anand**

15-1-88	Rs. 3,000	$2\frac{1}{2}$	7 0	$(3.000 \times 2\frac{1}{2})$
15-2-88	Rs. 3,000	$1\frac{1}{2}$	4,500	$(3,000 \times 1\frac{1}{2})$
			12,000	

$$\text{Interest} = 12,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 120$$

Net Interest due to Anand = 255 − 120 = Ks. 135

Payments by Bimal

1-1-88	Rs. 1,000	3	3,000
1-2-88	Rs. 1.500	2	3.000
1-3-88	Us. 5,000	1	5.000
			11.000

$$\text{Interest} = 11,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 110$$

Receipts by **Bimal**

31-1-88	Rs. 6,000	2	12,000
1-3-88	Rs. 4,000	1	4,000
			16,000

$$\text{Interest} = 16,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 160$$

Net Interest due from Bimal

= 160 − 110 = Rs. 50

Check Your Progress-R

1 Put **a tick** (√) in **the box** for **the** right answer.

a) The goods supplied from his ***stock*** at cost by the co-venturer maintaining the accounts. are debited **to**

i) **Sales** Account ☐

ii) Purchases **Account** ☐

iii) Stock Account ☐

b) In Memorandum Joint Venture Account Method, the co-venturer records
i) His transactions only. ☐
ii) Other co-venturers' transactions only ☐
iii) All the transactions of the Joint venture ☐

c) Memorandum Joint Venture Account is prepared to find out
i) Amount due from the co-venturers ☐
ii) Profit or loss on the joint venture ☐
iii) None of the above ☐

d) The share of profit of the co-venturer maintaining the records is credited to
i) Profit and Loss Account ☐
ii) His personal account ☐
iii) None of the above ☐

e) Any bad debts incurred on account of joint venture are debited to
i) Bad Debts Account ☐
ii) Debtor's Personal Account ☐
iii) Joint Venture Account ☐

13.5.4 Separate Set of Books

So far you have studied the methods of recording joint venture trairsactions where no separate set of books were maintained. Now we shall study another method where co-venturers agree to keep separate set of books for recording the joint venture transactions. When separate set of books are maintained, the joint venture transactions ere recorded as a separate accounting entity on the basis of double entry principles. Under this method the following accounts are opened:

1 Joint Bank Account
2 Joint Venture Account
3 Personal accounts of each co-venturer

Joint Bank Account is a real account like the ordinary Rank Account. All the co-venturers pay or deposit their contribution in this account, **The Joint Venture Account is like a profit and loss account which shows all the expenses and incomes of the joint venture.** The personal accounts of the co-venturers simply show their contributions in the form of goods, cash or expenses and the amounts received by them.

Let us now see the various journal entries which are normally recorded under this method.

1 **When co-venturers contribute their share of capital:**

Joint Bunk A/c Dr.
To Co-venturers' Personal A/cs

2 **When a co-venturer contributed in the form of goods:**

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

3 **When purchases are made for joint venture:**

a) If on cash:

Joint Venture A/c Dr.
To Joint Bank A/c

b) If on credit:

Joint Venture A/c Dr.
To Creditor's Personal A/c

Note that when goods are purchased for the joint venture business, you will debit the joint venture Account not the Purchases Account,

4 **When expenses are incurred on account of joint venture:**

a) If paid out of Joint Bank Account

Joint Venture A/c Dr.
To Joint Bank A/c

b) If paid by a co-venturer

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

5 When goods are sold:

a) For cash sales:

Joint Bank A/c Dr.
To Joint Venture A/c

b) For credit sales:

Debtor's Personal A/c Dr.
To Joint Venture A/c

6 When creditors are paid:

Creditors' Personal A/c Dr.
To Joint Bank Account

7 When amounts are received from debtors:

Joint Bank A/c Dr.
To Debtor's Personal A/c

8 Any commission, interest, etc. payable to a co-venturer:

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

9 Unsold stock taken over by a co-venturer:

Co-venturer's Personal A/c Dr.
To Joint Venture A/c

Now if we balance the Joint Venture Account, it will disclose the amount of profit or loss made on the joint venture which is to be shared by the co-venturers in their profit sharing ratio, The entries for the distribution of profit and loss will be as follows:

a) In ease of profit:

Joint Venture A/c ... Dr.
To Co-venturers' Personal A/cs

b) In case of loss:

Co-venturers' Personal A/cs Dr.
To Joint Venture A/c

This closes the Joint Venture Account. After transferring the amount of profit or loss to the co-venturer's personal accounts, you can find out the amount payable to each one of them. When the payment is made, the journal entry will be as follows:

Co-venturers' Personal A/cs Dr.
To Joint Bank A/c

Your will notice that the balance in the Joint Bank Account will be sufficient to pay-off all the co-venturers, and when the above entries are passed all the accounts will be closed.

Treatment of cash discount : When some cash discount is allowed by the creditors it will be an item of gain for the joint venture. Hence it is credited to the Joint Venture Account. The journal entry will be:

Creditor's Personal A/c Dr.
To Joint Venture A/c

Similarly, when some cash discount is allowed to the debtors it will be an item of loss for the joint venture and, therefore, is debited, to the Joint Venture Account. The journal entry will be:

Joint Venture A/c Dr.
To Debtor's Personal A/c

The same entry is passed in case of bad debts. Look at Illustration 6 and see how the concerned accounts are prepared when separate set of books are maintained for the joint venture business.

Illustration 6

Vikas and Salil entered into a joint venture to construct a building for a joint stock company. The contract price was settled at Rs. 25 lakh, payable Rs. 20 lakh in cash and the balance in the form of fully paid equity shares of the company. They opened a Joint Bank Account wherein Vikas deposited Rs. 6 lakh and Salil paid in Rs. 3 lakh. They agreed to share the profits and losses in the ratio of 2:1.

They purchased materials for Rs. 3 lakh for cash and Rs. 10 lakh worth on credit from Anil. They paid Rs. 4,50,000 for wages, etc., and Rs. 70,000 for other expenses. Vikas and Salil supplied materials worth Rs. 2,00,000 and Rs. 80,000 respectively. Architect's fees of Rs. 10,000 was paid by Vikas. The contract was duly completed and the price received as stipulated. Anil was paid Rs. 9,80,000 in full settlement. Vikas agreed to take up the shares of the company at a valuation of Rs. 4,40,000. Salil took over the remaining material at an agreed value of Rs. 70,000.

Separate books are maintained for joint venture business. Prepare the necessary ledger accounts.

Solution:

Joint Venture Account

Dr. Cr.

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To Joint Bank A/c (Material)		3,00,000	By Joint Bank A/c	20,00,000
To Anil (Credit purchases)		10,00,000	By Equity shares A/c	5,00,000
To Joint Bank A/c (Wages)		4,50,000	By Anil (Discount)	20,000
To Joint Bank A/c (Expenses)		70,000	By Salil (Material taken over)	70,000
To Vikas (Material)		2,00,000		
To Salil (Material)		80,000		
To Vikas (Architects fee)		10,000		
To Equity Shares A/c (Loss)		60,000		
To Rrofit transferred to:				
Vikas	2,80,000			
Salil	1,40,000	4,20,000		
		25,90,000		25,90,000

Joint Bank Account

	Amount		Amount
	Rs.		Rs.
To Vikas	6,00,000	By Joint Venture A/c (Material)	3,00,000
To Salil	3,00,000	By Joint Venture A/c (Wages)	4,50,000
To Joint Venture A/c	20,00,000	By Joint Venture A/c (Expenses)	
		By Anil (creditor paid)	9,80,000
		By Vikas	6,50,000
		By Salil	4,50,000
	29,00,000		29,00,000

Vikas's Account

	Amount		Amount
	Rs.		Rs.
To Equity Shares A/c	4,40,000	By Joint Bank A/c	6,00,000
To Joint Bank A/c	6,50,000	By Joint Venture (Material)	2,00,000
		By Joint Venture (Architect fees)	10,000
		By Joint Venture (Profit)	2,80,000
	10,90,000		10,90,000

Salil's Account

	Amount		Amount
	Rs.		Rs.
To Joint Venture (Material)	70,000	By Joint Bank A/c	3,00,000
To Joint Bank A/c	4,50,000	By Joint Venture A/c (Material)	80,000
		By Joint Venture (Profit)	1,40,000
	5,20,000		5,20,000

Equity Shares Account

Dr.			Cr.
	Rs.		Rs.
To Joint Venture A/c	5,00,000	By Vikes	4.40,000
		By Joint Venture A/c (Loss transferred)	60.000
	5,00,000		5,00,000

Anil's Account

	Rs.		Rs.
To Joint Bank A/c	9,80,000	By Joint Venture A/c (Materials)	10,00,000
To Joint Venture A/c (Discount)	20,000		
	10,00,000		10,00,000

Underwriting of Shares: Let us now take an illustration where the co-venturers agreed to underwrite the shares or debentures of a limited company. Underwriting means agreeing to buy shares that are not subscribed by the public. For this service they receive some commission which may be paid partly in the fonn of shares of the company and partly in cash. The shares thus received are sold to the public or taken over by the co-venturers at an agreed price. Look at Illustration 7 and see how accounts are prepared for the joint venture of underwriting the shares when separate set of books are maintained.

Illustration 7

A and B enter into a joint venture to guarantee the subscription at par of 1,00,000 shares of Rs. 10 each of a limited company, and sharing profits and losses in the ratio of 2:3. The terms with the company are : $4\frac{1}{2}$% commission payable in cash and 6.000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement Rs. *5,000;* printing and stationery Rs. 1,000 and postage Rs. 600. All expenses are paid by **A.** The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken up by A and B who provicled the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share; 50% at a price of Rs. 8.75 per share. 15% at a price of Rs. 8.50 per share, and the remaining 10% is taken over by **A** and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account. Joint Bank Account, Shares Account. and the accounls of A and B showing the final settlement.

Solution

Joint Venture Account

Dr. Particulars		Amount	Particulars	Cr. Amount
		Rs.		Rs.
To A			By Joint Bank A/c (commission)	45.000
Advertisement	5,000		By Shares A/c (commission)	60,000
Printing	2.000			
Postage	600	7.600		
To Shares A/c (loss on sale)		23.400		
To Profit transferred to:				
A	29,600			
B	44,400	74.000		
		1,05,000		1,05,000

Bank Account

		Rs.		Rs.
To A (contribution)		60,000	By Shares A/c	1,20,000
To B. (contribution)		60,000	By A (commission)	20,000
To Joint Venture A/c (commission)		45,000	By B (commission)	25,000
To Shares A/c (sale For cash)			By A (final settlement)	70,000
25%	40.500		By 5 (final settlement)	72,200
50%	78,750			
15%	22,950	1,42,200		
		3,07,200		3,07,200

Shar[redacted]ccount

Dr. Particulars	Amount	Particulars	Cr. Amount
	Rs.		Rs.
To Joint Bank A/c	1.20.000	By Joint Bank A/c (Sale of shares)	40,500
So Joint Venture (Commission)	60,000	By Joint Rank A/c (Sale of shares)	78,750
		By Joint Bank A/c (Sale of shares)	22,950
		By A (shares taken over)	7,200
		By B (Shares taken over)	7,200
		By Joint Venture A/c (Loss)	23,400
	1,80,000		1,80,000

A's Account

Particulars	Amount	Particulars	Amount
	Rs.		
To Joint Rank A/c (Commission)	20.000	By Joint Venture A/c (Expenses)	7,600
To Shares A/c	7,200	By Joint Bank A/c (Contribution)	60,000
To Joint Bank A/c (Final settlement)	70,000	By Joint Venture A/c (Profit)	29.600
	97,200		97,200

B's Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Joint Bank A/c (Commission)	25,000	By Joint Rank A/c (Contribution)	60,000
To Shares A/c	7,200	By Joint Venture A/c (Profit)	44,400
To Joint Bank A/c (Final settlement)	72,200		
	1,04,400		1,04,400

Working Notes

1 **Distribution of commission received in cash**

$4\frac{1}{2}\%$ of 10,00,000 = Rs. 45,000

A's share 4/9 x 45,000 = Rs. 20,000

B's share 5/9 x 45,000 = Rs. 25,000

2 **Treatment of shares received :**

Shares received by way of commission	6,000
Shares not subscribed by public	12,000
Total number of shares received	18,000

a) **Sold for cash**

	Rs.
25% of 18,000 i.e., 4.500 shares sold @ Rs. 9 per share	40,500
50% of 18,000 i.e., 9.000 shares sold @ Rs. 8.75 per share	78,750
15% of 18,000 i.e., 2,700 shares sold @ Rs. 8.50 per share	22,950

b) **Divided amongst A and B**

10% of the remaining shares i.e, 1,800 shares are raken over equally by A & B at an agreed price of Rs. 8 per share.

A: 900 shares @ Rs. 8 per share	Rs. 7.200
B: 900 shares @ Rs. 8 per share	Rs. 7,200

Check Your Progress-C

1 What is the need for maintaining separate set of books for the joint venture?

....

....

....

....

2 Fill in the blanks:

i) Joint Bank Account is like a .... Account.

ii) When co-venturers' contribution is in the form of goods.................... Account is debited.

iii) All the amounts paid out of joint bank are credited to .... Account.

iv) Co-Venturers' contribution in cash is debited to Joint Bank Account and credited to .... Account.

v) In underwriting of shares, the ....shares are taken over by the underwriters.

13.5 LET US SUM UP

Joint Venture is a temporary partnership between two or more persons who have agreed to undertake jointly a specific project or a job. On the completion of the project or the job, the joint venture will automatically come to an end. The joint venture differs from consignment and partnership in many ways.

The accounts for the joint venture business can be kept in four ways : (i) all recording be done in the books of one co-venturer only, (ii) the accounting records be maintained by each one of them in their own books, (iii) each co-venturer records his own transactions relating to the joint venture and on the completion of the project a Memorandum Joint Venture Account is prepared to find out the profit or loss, or (iv) separate set of books of accounts may be maintained for the joint business and a joint account be opened in the bank.

Under the first method only one co-venturer records the joint venture transactions who opens a Joint Venture Account and the personal accounts of other co-venturers. Under the second method each co-venturer opens a Joint Venture Account and the personal accounts of other co-venlurers. The Joint Venture Account serves the purpose of Profit and Loss Account. Under the third method, no Joint Venture Account is maintained. Eacn co-venturer simply opens the personal accounts of other co-venturers and for ascertaining the profit or loss of the venture, a Memorandum Joint Venture Account is prepared.

When any of the above three methods is followed no separate books are maintained for the Joint Venture business. All transactions are recorded in the books of the co-venturers themselves. Under the fourth method a separate set of books are prepared for the joint venture business treating it as a separate accounting entity, and all transactions are recorded strictly according to the double entry system, The main accounts prepared under this method are (i) Joint Venture Account (ii) Joint Banking Account, and (iii) the personal accounts of the co-venturers. In this case also the Joint Venture Account serves the purpose of a Profit and Loss Account.

13.9 KEY WORDS

Co-venturer : Persons who are parties to the agreement for carrying out the joint venture business.

Joint Venture : A temporary partnership between two or more persons who agree to carry out a specific job or a project.

Memorandum Joint Venture **Account :** An account prepared for ascertaining the profit or loss of a joint venture where no Joint Venture Account is prepared by co-venturers.

Shares : A unit of the share capital of a company.

Underwriting : An undertaking to take up the shares which are not subscribed by the public.

13.8 SOME USEFUL BOOKS

Maheshwari, S.N. 1986. *Introduction to Accounting,* Vikas Publishing House: New Delhi. (Chapter 2 Section II)

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting, R.* Chand & Co., New Delhi. (Chapter 3 Vol. II)

William Pickles. 1932. *Accountancy*, E.L.S.S. and Pitman, London. (Chapter 16).

Gupta, R.L. and M. Radhaswamy. 1986. *Advanced Accountancy* Sultan Chand & Sons, New Delhi (Chapter 16)

13.9 ANSWERS TO CHECK YOUR PROGRESS

A 1 i) A and B ii) A's share Rs. 18,000 and B's share Rs. 27,000

2 i) False ii) True iii) False iv) False v) True

B 1 a) ii b) i c) ii d) i e) iii

C 2 i) Bank ii) Joint Venture iii) Joint Bank iv) Co-venturers' Personal Accounts v) unsubscribed

13.10 TERMINAL QUESTIONS/EXERCISES

Questions

1 State the salient features of joint venture. Distinguish it from consignment.

2 "Joint Venture is a temporary partnership". Comment and explain how it differs from the partnership.

3 ~ ~ p l ai briefly various methods of recording the joint venlure transaclions without maintaining separate set of books.

4 Explain the separate set of books method for maintaining joint venture accounts.

Exercises

1 Mohan and Sohan were partners in a joint venture sharing profits and losses in the ratio of 3:2. Mohan supplied goods of the value of Rs. 6,000 and incurred an expenditure of Rs. 200. Sohan supplied goods of the value of Rs. 5,000 and his expenses were Rs. 300 Sohan sold all the goods for.a sum of Rs. 18,000. Sohan is entitled to a commission of 4% on sales and he settled his account by sending a bank draft to Mohan. Pass necessary journal entries in the books of both the parties

(Answer: Profit on joint venture Rs. 5,780 Commission Rs. 720)

2 A of Banglore enter into a joint venture with B of Bombay to ship cotton bales to C in Japan. A sends cotton of the value of Rs. 30,000, pays railway freight etc. Rs. 1,500 and sundry expenses Rs. 1,575. B sends goods valued at Rs. 20,750 and pays freight and insurance Rs. 1,200, dock dues Rs. 200, customer charges Rs. 500 and other sundry expenses Rs. 500. A advances to B Rs. 6,000 on account of the venture. B receives Account sale and remittance of 'the net proceeds from C for the whole of the goods amounting to Rs. 80,000.

Show the Joint Venture Account and the personal accounts of the co-ventures in the books of A and B

(Answer: Prof t on joint venture Rs. 23,775; Balance due to-A Rs. 50,962.50)

3 Sundar, Bindia and Gora entered into a contract with Mohindra Ltd. for the consturction of a building at a cost of Rs. 5,00,000 payable Rs. 4,00,000 in cash and Rs. 1,00,000 in debentures. They share profits and losses equally.

Sundar, Bindia and Gora contributed Rs. 60,000, Rs. 75,000 and Rs. 40,000 respectively. All these amounts were deposited in a Joint Bank Account. Sundar paid Rs. 7,000 to the architect. Bindia purchased concrete mixture for Rs. 25,000 and Gora brought a motor truck for Rs. 20,000 for joint venture work. They purchased plant for Rs. 24,000, materials for Rs. 2,40,000 in cash and paid Rs. 1,95,000 as wages. After construction of the building Sundar took over the remianing material for Rs. 14,000 and

Bindia took over mixture for Rs. 12,000, Cora took over the motor truck for Rs. 8,000. The plant. was sold for Rs. 6,000. When full price was received from the contractee, Sundar took over the debentures for Rs. 80,000. Prepare Joint Venture Account, Joint Bank Account and the co-venturer's personal accounts.

(Answer: Profit Rs. 9,000. Sundar will bring in Rs. 14,000 and Bindia will get Rs. 91,000 and Gora Rs. 55.000. Joint bank total Rs. 605,000)

4 Ajay and Banwari doing business separately as building contractors undertake jointly to construct a building for a newly set up company with Ks. 1,00,000 payable, Rs.80,000 in cash and Rs. 20,000 in fully paid shares of the company. A Joint Bank Account is opened in their names, Ajay paying in Rs. 25,000 and Banwari Rs. 15,000. They are to share profits and losses in the proportion of 2:1 Their transactions were as follows :

	Rs.
Paid wages	30,000
Bought material	70,000
Materials supplied by Ajay	5,000
Materials supplied by Banwari	4,000
Architect's fee paid by Ajay	2,000

The contract was completed and the price (cash and shares) duly received. The joint venture was closed by Ajay taking up all the shares of the company at an agreed value of Rs. 16,000 and Banwari taking up the stock of materials at an agreed value of Rs. 3,000. Show the necessary ledger accounts.

(Answer : Loss Rs. 12,000; Payments to Ajay Rs. 8,000 and Banwari Rs. 12,000)

5 A, B and C enter into a Joint Venture for the construction of a building for a joint stock company. The contract price is Rs. 2,00,000.

Incidental expenses paid by the co-venturers will be reimbursed to the extent of actual expenditure or Rs. 10,000 whichever is less. A spends Rs. 8,000, B Rs. 10,000 and C Rs. 12.000. The profits and losses are to be shared equally, but C, being a technical person, is entitled to a commission of 10% on the profit of the venture after charging such commission. A Joint Bank Account is opened wherein A deposits Rs. 40,000, B Rs. 30,000 and C Rs. 30.000. B gives his own plant to the venture for Rs. 16,000. Materials worth Rs. 40,000 and wages, of Rs. 60,000 are paid out of the Joint Bank Account.

On completion of the contract, the company paid the agreed contract price (keeping Rs. 20,000 as retention money). The contract price was paid Rs. 60,000 in cash and the balance in equity shares of the company of Rs. 10 each at an agreed value of Rs. 12 per share. The shares were subsequently sold in the market @ Rs. 13 per share. A took over the unused materials at Rs. 2,000. B took over the plant at an agreed value of Rs. 4,000 and the retention money was taken over by C at Rs. 14,000. Show necessary ledger accounts in the books of the joint venture.

Hint: Contract price received is Rs. 1,80,000
Rs. 60,000 in Cash and Rs. 1,20,000 worth of shares @ Rs. 12 per share
So, the number of shares received = 1,20,000/12 = 10,000

(Answer: Profit Rs. 60,000: Final settlement A Rs. 66,000, B Rs. 72,000; and C Rs. 52,000)

6 Devendra and Revindra entered into a joint venture involving the buying and selling of old railway materials, the profit or loss to be shared equally. The cost of the goods purchased was Ks. 42,500 which was paid by Devendra who drew a bill on Ravindra at two months for Rs. 30,000. The bill was discounted by Devendra at a cost of Rs. 240.

The transactions relating to the joint venture were (a) Devendra paid Rs. 300 for carriage, Rs. 500 for commission on sales and Rs. 200 travelling expenses, (b) Ravindra paid Rs. 100 for travelling expenses and Rs. 150 for sundry expenses, (c) Sales made by Devendra amounted to Rs. 20,000, and (d) sales made by Ravindra were Rs. 30,000.

Goods costing Rs. 1,000 and Rs. 1.500 (being unsold stock) were retained by Devendra and Ravindra respectively, and these were charged to them at prices so as to show the same gross profits as made on the total sales. Devendra was credited with a sum of Rs. 400 to cover the cost of warehousing and insurance. The expenses in connection with the bills were to be treated as a charge against the joint venture.

Show the necessary accounts in the books of each party and prepare the Memorandum Join; Venture Account.

(**Answer**: Profit on Joint Venture Rs. 8,735; Payment by Devendra to Ravindra Rs. 2,742.50; Rate of Gross profit 25%; Stock taken over by Devendra valued at Rs. 1,250; and Ravindra at Rs. 1.875)

7 Akash and Vijay enter into a joint venture on January 1, 1987. Akash bought goods costing Rs. 3,000 and on the same day he received a cheque from Vijay for Rs. 1,500. Akash and Vijay incurred expenses as follows:

	Akash	Vijay
	Rs.	Rs.
February 1	300	—
April 1	300	—
March 1		400
May 31		1400

Vijay sold the goods, in two months, namely, on April 1 Rs. 4,800 and on June 30 Rs. 2,400. They share profits and losses equally and interest was to be allowed at 5% p a annum. On June 1 Vijay gives Akash a three months bill for Rs. 2,500 and on June 30 the venture was completed and the accounts settled by cheque between the parties. Calculate interest in months and show the necessary accounts.

(**Answer:** Profit: Akash Rs. 368.70 and Vijay Rs. 368.70; Akash will charge Rs. 100 as interest and Vijay will pay Rs. 47.50 as interest)

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answer to the University. These are for your practice only.