

## ACCOUNTING FOR JOINT VENTURES

### Introduction and Meaning of joint Venture

Joint venture is a short term business undertaking jointly by two or more persons who share the profits and losses in an agreed ratio. If there is no agreement concerning the sharing of profits or losses, it is shared equally by all the parties.

**Co-venturers:** the parties who have agreed to undertake the joint venture are called co-venturers or joint venturers.

**Definition:**

1. It is described as a temporary partnership without the use of the firm name, such temporary partnership comes to an end on the completion of the venture undertaking. Example are construction of building, underwriting of shares and debentures, consignment of goods etc.

**Definition:** 2. Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfil a specific purpose such as accomplishing a task, activity or project.

In other words, it is a temporary partnership, established for a definite purpose, which may or may not uses a specific firm name.

**Features of joint venture:**

1. It is short duration special purpose partnership.
2. Parties in joint venture are called co-venturers.
3. Co-venturers can contribute funds or supply stock from their regular business.
4. Co-venturers share profit or loss of the venture at agreed ratio likewise partnership.
5. Generally, profit or loss of the venture is calculated on completion of the venture.
6. Accounting for joint venture is done on liquidation basis. Going concern concept is not appropriate for joint venture accounting.

## Salient Features of Joint Venture

1. **Agreement:** Two or more firms come to an agreement, to undertake a business, for a definite purpose and are bound by it.
2. **Joint Control:** There exist a joint control of the co-venturers over business assets, operations, administration and even the venture.
3. **Pooling of resources and expertise:** Firms pool their resources like capital, manpower, technical know-how, and expertise, which helps in large-scale production.
4. **Sharing of profit and loss:** The co-venturers agree to share the profits and losses of the business in an agreed ratio. The computation of the profit and loss is usually done at the end of the venture, however, when it continues for the long duration, the profit and loss is calculated annually.
5. **Access to advanced technology:** By entering into joint venture firms get access to various techniques of production, marketing and doing business, which decreases the overall cost and also improves quality.
6. **Dissolution:** Once the term or purpose of the joint venture is complete, the agreement comes to an end, and the accounts of the co-venturers, are settled, as and when it is dissolved.

The co-venturers are free to carry on their own business, unless otherwise provided in the joint venture agreement, during the life of the venture.

## Objectives of Joint Venture:

1. To enter foreign market and even new or emerging market.
2. To reduce the risk factor for heavy investment.
3. To make optimum utilisation of resources.
4. To gain economies of scale.
5. To achieve synergy.
6. Joint ventures are primarily formed for construction of dams and roads, film production, buying and selling of goods etc.

## Advantages and Disadvantages of Joint Venture

### Advantages

- **Sufficient Resources:** Since two or more persons pool their resources, there is sufficient capital available.
- **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.
- **Spreading of Risk:** The co-ventures agree to share the profits and losses in a particular ratio. This implies that the risk is also borne by them in that ratio.
- **Diversification:** Diversification of business by producing new products or new area of business.
- Increased productivity and greater profits.

### Disadvantages

1. It takes time and efforts to form the right relationship.
2. The objectives of each partner may differ. The objectives need to be clearly defined and communicated to everyone involved.
3. Imbalance in the share of capital, expertise, investment etc., may cause friction between the partners.
4. Difference in the culture and style of business lead to poor co-operation.
5. Lack of assuming responsibility by the partners may lead to the collapse of business. Lack of communication between the partners may affect the business.

## Difference Between Joint Venture and Consignment

The main differences between joint venture and consignment are as under:

Point of difference	Joint venture	Consignment
<b>1. Nature</b>	It is a temporary partnership business without a firm name.	: It is an extension of business by principal through agent
<b>2. Parties</b>	The parties involving in joint venture are known as co-ventures	Consignor and consignee are involving parties in the consignment.
<b>3. Relation</b>	The relation between co-ventures is just like the partners in partnership firm.	The relation between the consignor and consignee is 'principal and agent'.
<b>4. Sharing Profit</b>	The profits and losses of joint venture are shared among the co-ventures in their agreed proportion.	The profits and losses are not shared between the consignor and consignee. Consignee gets only the commission
<b>5. Rights</b>	The co-ventures in a joint venture have equal rights	In consignment, the consignor enjoys principal's right whereas consignee enjoys the right of agent.
<b>6. Exchange of Information</b>	The co-ventures exchange the required information among them regularly.	The consignee prepares an account sale which contains a details of business activities carried on and is being sent to the consignor.
<b>7. Ownership</b>	All the co-ventures are the owners of the joint venture.	The consignor is the owner of the business.
<b>8. Method of Maintaining Accounts</b>	There are different methods of maintaining accounts in joint venture. As per agreement the co-ventures maintain their account	In consignment, there is only one method of maintaining account.
<b>9. Basis of Account</b>	Cash basis of accounting is applicable in joint venture.	Actual basis is adopted in consignment
<b>10. Continuity</b>	As soon as the particular venture is completed, the joint venture is terminated.	The continuity of business exists according to the willingness of both consignor and consignee.

## Distinction between joint venture and partnership

Point of difference	Joint Venture	Partnership
<b>1. Meaning</b>	Joint Venture is a business formed by two or more than two persons for a limited period and a specific purpose.	A business arrangement where two or more persons agree to carry on business and have mutual share in the profits and losses, is known as Partnership.
<b>2. Governing Act</b>	There is no such specific act.	The partnership is governed by the Indian Partnership Act, 1932.
<b>3. Business carried on by</b>	Co-venturers	Partners
<b>4. Status of Minor</b>	A minor cannot become a co-venturer.	A minor can become a partner to the benefits of the firms.
<b>5. Basis of Accounting</b>	Liquidation	Going Concern
<b>6. Trade Name</b>	No	Yes
<b>7. Ascertainment of Profit</b>	At the end of the venture or on interim basis as the case may be.	Annually

### Methods of maintaining Joint Venture Accounts

There are different methods of recording joint venture transactions. They can be broadly classified into two following methods:

- I. When separate set of books are maintained
- II. When separate set of books are not maintained.

#### I. When separate set of books are maintained.

Under this system three following accounts are prepared:

1. Joint Bank Account.
2. Joint Venture Account
3. Co-venturers Accounts

### Journal entries:

Following are the journal entries made when separate set of books are maintained:

Particulars	L F	Dr Amount ₹	Cr Amount ₹
1. when contribution made by co-venturers		Joint bank A/c Dr	To co-venturer's A/c
2. when the expenses paid through Joint bank A/c		Joint venture A/c Dr	To Joint bank A/c
3. when the expenses paid or materials supplied by the co-venturers from the private account		Joint venture A/c Dr	To co-venturer's A/c
4. Sales proceeds or collections		Joint bank A/c Dr	To Joint venture A/c
5. Collections received by co-venturers		Co-venturer's A/c Dr	To Joint venture A/c
6. Assets taken over by co-venturers		Co-venturer's A/c Dr	To Joint venture A/c
7. Liabilities taken over by co-venturers		Joint venture A/c Dr	To co-venturer's A/c
8. Profit on Joint venture		Joint venture A/c Dr	To co-venturer's A/c
9. Loss on joint venture		Co-venturer's A/c Dr	To Joint venture A/c
10. Final settlement by co-venturers		Co-venturer's A/c Dr	To Joint Bank A/c

**1. Joint Bank Account:** The co-venturers opens separate bank Account for joint venture transaction by making initial contributions. It is opened jointly.

### Format of Joint Bank A/c

Dr		Cr	
Particulars	Amount ₹	Particulars	Amount ₹
To Co-venturers A/c (share of capital by cash)	XXX	By Joint venture A/c (for purchases from joint bank a/c)	XXX
To Joint venture A/c (for cash sales)	XXX	By Joint venture A/c ( for expenses paid out of joint bank a/c)	XXX
To Joint venture A/c (For sale of asset)	XXX	By Co-venturers A/c (B/F) (for payment made to co-venturers on final settlement)	XXX
To Joint venture A/c ( contract price received in cash)	XXX		
To co- venturers A/c ( amount received from co-venturers on final settlement)	XXX		
	XXX		XXX

**2. Joint Venture Account:** this account is prepared for the purpose of ascertainment of venture profit. This account is debited for all venture expenses and its credited for all sales collections. Venture profit or loss is transferred to co-venturers accounts.

### Format of Joint Venture A/c

Dr			Cr
Particulars	Amount ₹	Particulars	Amount ₹
To Co-venturers A/c (contribution in the form of Goods)	XXX	By Joint bank a/c (for cash Sales)	XXX
To Joint Bank A/c (for cash purchases from joint bank a/c)	XXX	By Debtor's A/c (for credit sales)	XXX
To Creditor's A/c (For credit purchases)	XXX	By Co-venturer's a/c (for collection received by co-venturers)	XXX
To Joint Bank A/c ( for expenses paid out of joint bank a/c)	XXX	By Co-venturer's a/c ( for unsold stock (asset)taken over by co-venturer)	Xxx
To Co-venturer's A/c (for commission, interest etc. payable to co-ventures)	XXX	By Joint Bank a/c (for sale of asset)	xxx
To Co-venturer's A/c ( for liabilities taken over by co-venturer)	XXX	By Joint Bank a/c	XXX
To Equity shares a/c ( for loss due to under valuation shares)	xxx	By Equity shares a/c ( for profit due to over valuation of shares)	Xxx
To Debtors A/c( for cash discount allowed to debtors)	xxx	By Equity shares A/c(for contract price received in cash and shares)	xxx
To Debtors A/c (for bad debts from customers)	xxx	By creditor's A/c (for cash discount allowed by creditors)	xxx
To Co-venturer a/c( for profit on joint venture)	xxx	By Co-venturer's A/c ( for loss on joint venture)	xxx
	xxxx		xxxx



3. **Co-venturers account:** Personal accounts of venturers are maintained to keep record of their contributions of cash, goods or meeting venture expenditure directly and direct payment received by them on venture transaction. This account is closed simultaneously with the closure of joint bank account.

#### Format of Co-venturers account

Dr			Cr
Particulars	Amount ₹	Particulars	Amount ₹
To Joint Venture A/c (for collection received by co-venturers)	XXX	By Joint bank a/c (share of capital by cash)	XXX
To Joint Venture A/c (for unsold stock (asset) taken over by a co-venturer)	XXX	By Joint Venture A/c (for contribution in the form of goods)	XXX
To Joint Venture A/c (loss on Joint venture)	XXX	By Joint Venture A/c (for expenses paid by co-venturers)	XXX
To Joint Bank A/c (for payment made to co-venturers on final settlement)	XXX	By Joint Venture A/c (for commission, interest etc. payable to co-ventures)	XXX
		By Joint Venture A/c (for liabilities taken over by co-venturer)	XXX
		By Joint Venture A/c (for profit on joint venture)	XXX
		By Joint Bank A/c( amount received from co-venturers on final settlement)	XXX
	XXXX		XXXX

