

**Chapter 4**  
**Joint venture Accounts**

**Joint venture**

A joint venture is a temporary partnership of two or more persons engaged in any particular business adventure of enterprise of short or seasonal duration

**Difference between consignment and joint venture**

Consignment	Joint venture
Long term trading relation	Short term specific purpose
Profit usually commission	Total profit usually shared
Involves consignor and consignee	Involves co-venturers
Control exercised by consignor	Both parties have control over decision

**There are two methods in which joint venture accounts can be kept**

1. **No separate set of books or separate bank accounts are kept** for smaller joint ventures. Each of the parties will record in their own books only those transactions with which they have been concerned
2. **For large-scale or long-term joint ventures, a separate bank account and separate set of books are kept.** In such cases the calculation of profit is not difficult. It is similar to preparing a set of financial statements in an ordinary business

**Accounting for small joint ventures**

**Practice Question**

White of London and Green of Glasgow enter into a joint venture. White is to supply the goods and pay some of the expenses. Green is to sell the goods and receive the cash, and pay the remainder of the expenses. Profits are to be shared equally.

Details of the transactions are as follows:

	\$
White supplied the goods costing	1,800
White paid wages	200
White paid for storage expenses	160
Green paid transport expenses	120
Green paid selling expenses	320
Green received cash from sales of all the goods	3,200

**Solution**

White and Green will each have entered up their own part of the transactions. White will have opened an account named 'Joint Venture with Green'. Similarly, Green will have opened a 'Joint Venture with White' account

*In White's books:*

Payments by White:	Debit joint venture with Green Credit Cash Book
Goods supplied to Green:	Debit joint venture with Green Credit purchases

*In Green's books:*

Payments by Green:	Debit joint venture with White Credit Cash Book
Cash received by Green:	Debit Cash Book Credit joint venture with White

*White's books (in London):*

Joint Venture with Green

	£	
Purchases	1,800	
Cash: wages	200	
Cash: storage expenses	160	

*Green's books (in Glasgow):*

Joint Venture with White

	£		£
Cash: transport expenses	120	Cash: sales	3,200
Cash: selling expenses	320		

At this stage, White and Green know only the details in their own set of books. They do not yet know what the details are in the other person's books.

This means that they cannot yet calculate profits, or find out how much cash has to be paid or received to close the venture. To do this they must each send a copy of their joint venture accounts to the other person. Each person will then draw up a memorandum joint venture account, to include all the details from each joint venture account. The memorandum joint venture account is not a double entry account. It is drawn up only (a) to find out the shares of net profit or loss, and (b) to help calculate the amounts payable and receivable to close the venture.

**Resource Pack/Accounting/A Level (Paper 3)**

**White and Green  
Memorandum Joint Venture Account**

	£	£		£
Purchases		1,800	Sales	3,200
Wages		200		
Storage expenses		160		
Transport expenses		120		
Selling expenses		320		
Net profit:				
White (one-half)	300			
Green (one-half)	<u>300</u>			
		<u>600</u>		
		<u>3,200</u>		<u>3,200</u>

Note: The profit is the difference between the two sides of the account. You find out what the balancing figure is; in this case, it is £600. Then you split it in the profit sharing ratio. In this case, profits are shared equally. White and Green, therefore, each receive half the profit, £300 each. Now you enter the figures, £300 to White, £300 to Green, and the total of £600, which balances and closes off the account.

Transfer share of profit to individual personal accounts

*White's books (in London):*

**Joint Venture with Green**

	£		
Purchases	1,800		
Cash: wages	200		
Cash: storage expenses	160		
Share of profit transferred to profit and loss account	300		

*Green's books (in Glasgow):*

**Joint Venture with White**

	£		£
Cash: transport expenses	120	Cash: sales	3,200
Cash: selling expenses	320		
Share of profit transferred to profit and loss account	300		

**Balancing off ledgers**

*White's books (in London):*

**Joint Venture with Green**

	£		£
Purchases	1,800	<b>Balance c/d</b>	<b>2,460</b>
Cash: wages	200		
Cash: storage expenses	160		
Share of profit transferred to profit and loss account	300		
	<u>2,460</u>		<u>2,460</u>
Balance b/d	2,460		

*Green's books (in Glasgow):*

**Joint Venture with White**

	£		£
Cash: transport expenses	120	Cash: sales	3,200
Cash: selling expenses	320		
Share of profit transferred to profit and loss account	300		
<b>Balance c/d</b>	<b><u>2,460</u></b>		
	<u>3,200</u>		<u>3,200</u>
		Balance b/d	2,460

**Note**

If the balance brought down is a credit balance, money is owing to the other party in the joint venture. In this case, Green owes White the amount shown by the credit balance, £2,460.

If the balance brought down is a debit balance, money is due from the other party in the joint venture. In this case White is owed the amount of the balance, £2,460 by

**The payment is now made by Green to White and the final entry is made in each of the joint venture accounts, closing off the accounts**

White's books (in London):

Joint Venture with Green			
	£		£
Purchases	1,800	Balance c/d	2,460
Cash: wages	200		
Cash: storage expenses	160		
Share of profit transferred to profit and loss account	300		
	<u>2,460</u>		<u>2,460</u>
Balance b/d	<u>2,460</u>	Cash in settlement from Green	<u>2,460</u>

Green's books (in Glasgow):

Joint Venture with White			
	£		£
Cash: transport expenses	120	Cash: sales	3,200
Cash: selling expenses	320		
Share of profit transferred to profit and loss account	300		
Balance c/d	<u>2,460</u>		<u>3,200</u>
	<u>3,200</u>		<u>3,200</u>
Cash in settlement to White	<u>2,460</u>	Balance b/d	<u>2,460</u>

### Practice questions

1. Stanley and Barclay enter a joint venture to share profits or losses equally resulting from dealings in second hand digital TVs. Both parties take an active part in the business, each recording his own transactions. They have no joint banking account or separate set of books

20X3

- July 1 Stanley buys four TVs for a total of £1,100.
- " 3 Stanley pays for repairs £840.
- " 4 Barclay pays office rent £300 and advertising expenses £90.
- " 6 Barclay pays for packaging materials £34.
- " 7 Barclay buys a TV in excellent condition for £600.
- " 31 Stanley sells the five TVs to various customers, the sales being completed on this date, and totalling £3,100.

Show the relevant accounts in the books of both joint venturers.

**Resource Pack/Accounting/A Level (Paper 3)**

2. Frank entered into a joint venture with Graham for the purchase and sale of robot mowers. They agreed that profits and losses should be shared equally.

The following transactions took place:

- (a) Frank purchased mowers for £120,400 and paid carriage £320.
- (b) Graham purchased mowers for £14,860 and paid carriage £84.
- (c) Graham paid to Frank £70,000.
- (d) Frank sold mowers for £104,590 and sent a cheque for £50,000 to Graham.
- (e) Graham sold for £19,200 all the mowers he had purchased.
- (f) The unsold mowers in the possession of Frank were taken over by him at a valuation of £40,000.
- (g) The amount due from one venturer to the other was paid and the joint venture was dissolved.

**You are required to prepare:**

- (i) a statement to show the net profit or loss of the joint venture, and
- (ii) the accounts for the joint venture in the books of Frank and Graham.

3. Bull, Craig and Finch entered into a joint venture for dealing in strawberries. The transactions connected with this venture were

20X9

- May 1 Bull rented land for two months for £600.
- " 2 Craig supplied plants cost £510.
- " 3 Bull employed labour for planting £260.
- " 16 Craig charged motor expenses £49.
- " 19 Bull employed labour for fertilising £180.
- " 29 Bull paid the following expenses: Sundries £19, Labour £210, Fertiliser £74.
- June 11 Finch employed labour for lifting strawberries £416.
- " 24 Sale expenses paid by Finch £318.
- " 26 Finch received cash from sale proceeds £2,916.

**Required:**

Show the joint venture accounts in the books of Bull, Craig and Finch. Also show in full the method of arriving at the profit on the venture which is to be apportioned: Bull four-sevenths; Craig two-sevenths; Finch one-seventh.

Any outstanding balances between the parties are settled by cheque on 31 July.

4. Rock, Hill and Pine enter into a joint venture for dealing in paintings. The following transactions took place:

20X4		
May	1	Rock rented a shop paying 3 months rent £2,100.
"	3	Hill bought a van for £2,200.
"	5	Hill bought paintings for £18,000.
"	17	Pine received cash from sale proceeds of paintings £31,410.
"	23	Rock bought paintings for £317,000.
June	9	Van broke down. Pine agreed to use his own van for the job until cessation of the joint venture at an agreed charge of £600.
"	14	Van bought on May 3 was sold for £1,700. Proceeds were kept by Rock.
"	17	Sales of paintings, cash being paid by Hill £4,220.
"	25	Lighting bills paid for shop by Pine £86.
"	29	Pine bought paintings for £1,700.
July	3	General expenses of shop paid for £1,090, Pine and Rock paying half each.
"	16	Paintings sold by Pine £2,300, proceeds being kept by him.
"	31	Joint venture ended. The paintings still in stock were taken over at an agreed valuation of £6,200 by Hill.

**Required:**

Show the joint venture accounts in the books of the three parties. Show in full the workings needed to arrive at the profit on the venture. The profit or loss was to be split: Hill one-half; Rock one-third; Pine one-sixth. Any outstanding balances between the parties were settled on 31 July 20X4.

### Accounting for large joint ventures

For large-scale or long-term joint ventures, a separate bank account and separate set of books are kept. In such cases the calculation of profit is not difficult. It is similar to preparing a set of financial statements in an ordinary business.

Following ledgers are made in such case:

1. Joint venture account
2. Co-venture 's account
3. Joint bank account

### Accounting entries

(1) When the contribution made by the co venture's

Bank account	Dr
Co ventures account	Cr

**(2) When the expenses paid through joint bank account**

Joint venture account	Dr
Bank account	Cr

**(3) When the expenses paid or materials supplied by the co-ventures from private account**

Joint venture	Dr
Co ventures account	Cr

**(4) When the sales proceeds or collections**

Bank account	Dr
Joint venture account	Cr

**(5) When the collections received by co ventures**

Co ventures account	Dr
Joint venture account	Cr

**(6) When the assets taken over by the coventures'**

Co ventures account	Dr
Joint venture account	Cr

**(7) When the liabilities taken over by the coventures'**

Joint venture account	Dr
Co ventures account	Cr

**(8) When there is profit on joint venture**

Joint venture account	Dr
Co ventures account	Cr

**(9) When there is loss on joint venture'**

Co ventures account	Dr
Joint venture account	Cr

**(10) When the final settlement made to coventures'**

Co ventures account	Dr
Bank account	Cr



**Past Paper Questions**

**Q # 1** Ahmed and Bashmir have separate garage businesses and have agreed to form a joint venture to buy and sell second hand cars.

They have agreed to share the profits and losses as two thirds to Ahmed and one third to Bashmir.

They record purchases and sales of cars in their own books of account.

The following financial information is available for the period of the joint venture.

	Ahmed	Bashmir
	\$	\$
Credit purchases	24 500	17 600
Expenses	3 200	2 300
Commissions received	1 000	
Discount received	500	100
Cash sales	6 000	4 800
Credit sales	32 000	50 700
Returns inwards	4 500	
Irrecoverable debts		300

It was agreed that Bashmir would take over the inventory of unsold cars at the end of the venture.

Bashmir has advised that he has an inventory of unsold cars at the end of the venture valued at \$6500.

**REQUIRED**

(a) Prepare the memorandum joint venture account. [9]

(b) Prepare the joint venture account in the books of Ahmed and show the balance due to or from Bashmir. [8]

(c) State the heading under which the balance due will be shown in Ahmed's statement of financial position. [1]

**Additional information**

Ahmed has discovered that Bashmir did not hold any inventory but had sold the closing inventory of cars for \$12 500.

**REQUIRED**

(d) Calculate:

(i) The correct **total** profit for the joint venture. Start your calculation with your answer from (a) [3]

(ii) The extra profit due to Ahmed from the joint venture. [1]

(e) Evaluate whether or not Ahmed should have entered into the joint venture with Bashmir.

Justify your answer. [3]

**June 2016**

**Resource Pack/Accounting/A Level (Paper 3)**

**Q # 2** Greaves and Hurst participated in a joint venture sharing profits and losses in the ratio 2 : 1. Greaves provided goods valued at \$15 000 and incurred costs of \$900.

Hurst provided goods valued at \$10 000 and incurred costs of \$800.  
Greaves sold **all** of the goods for \$35 000.

It was agreed that a commission of 10% of the sales value would be paid to the person making the sale. The joint venture was then dissolved.

**REQUIRED**

(a) Explain **two** benefits to Greaves and Hurst of forming a joint venture. [4]

(b) Calculate the share of profit by Greaves and Hurst from the joint venture [6]

**Additional information**

A separate set of books of account are maintained to record the transactions of the joint venture. Greaves and Hurst kept their own transactions with the joint venture in their own books.

**REQUIRED**

(c) Prepare the following ledger accounts:

(i) Greaves account with the joint venture

(ii) Hurst account with the joint venture [9]

**Additional information**

Following the closure of the joint venture, Greaves and Hurst have received more orders and are considering forming a partnership.

**REQUIRED**

(d) Advise Greaves and Hurst whether or not they should form a partnership. Justify your answer by discussing the advantages and disadvantages of forming the partnership [6]

**June 2017**

**Q # 3** Raj and John enter into a joint venture to share profits and losses equally.

Both take an active role in the business which sells bicycles.

Each records his own transactions.

There is no joint bank account.

**Resource Pack/Accounting/A Level (Paper 3)**

During May 2017 the following transactions took place.

May	1	Raj purchased 12 bicycles for \$900 and also paid carriage of \$90.
	2	Raj paid \$160 for repairs to the bicycles.
	4	John paid garage rental of \$100 and advertising costs of \$70.
	10	Raj sold all the bicycles he purchased for \$1850.
	14	Raj paid John \$500.
	15	John purchased 4 bicycles for \$200 and also paid carriage of \$50.
	20	Raj paid \$120 for repairs to the bicycles which John had purchased.
	26	John kept one bicycle for his daughter. This bicycle was valued at \$60. The rest of the bicycles were sold by Raj for \$340.
	30	The amounts due from one party to the other were paid in full.

The joint venture was then dissolved.

**Required**

(a) Prepare a statement to calculate the profit or loss from the venture. [6]

(b) Prepare the:

(i) Joint venture account with John in Raj's books of account [5]

(ii) Joint venture account with Raj in John's books of account. [7]

(c) State one benefit to both Raj and John of setting up a joint venture. [2]

**Additional information**

John is interested in working with Raj again but is proposing that they form a partnership, sharing profits and losses equally. Raj is unsure whether he should take this action.

(d) Advise Raj whether or not he should enter into a partnership with John. Justify your advice and support your answer with calculations, where appropriate. [5]

**Nov 2017**

**Q # 4** Alice and Belinda formed a joint venture to make and sell greeting cards. Alice was responsible for the production and Belinda for the selling and distribution. They agreed to share the profit equally.

A separate set of books of account was maintained to record the transactions of the joint venture. The following took place relating to the joint venture.

1 Alice and Belinda paid \$500 each into the joint venture bank account.

2 Equipment costing \$700 was bought and paid for from the joint venture bank account.

3 Alice paid \$900 for materials from her own bank account.

**Resource Pack/Accounting/A Level (Paper 3)**

4 Belinda paid selling and distribution costs of \$850 from her own bank account.

5 Belinda made sales to the value of \$4100 and paid the money into her own bank account.

6 At the end of the joint venture Alice sold the equipment for \$450 and paid the money into her own bank account.

7 The profit was calculated and the bank account closed.

**Required**

(a) Prepare the following ledger accounts:

(i) Joint venture account [5]

(ii) Alice account [4]

(iii) Belinda account [3]

(iv) Joint venture bank account [4]

**Additional information**

Belinda is now considering repeating the joint venture. She could repeat it with Alice, in which case all cash flows could be expected to be the same as before. Alternatively she could enter into a joint venture with Veena.

Veena creates higher quality greeting cards. The selling price would be double that of Alice's greeting cards and material costs would be 50% higher than with Alice. Veena would want a profit share of 80%. Belinda assumes the number of greeting cards sold would be unchanged and that all other costs would be the same as before.

(b) (i) Calculate Belinda's profit share if she enters into a joint venture with Veena. [4]

(ii) Advise Belinda whether or not she should enter into the joint venture with Veena. Justify your answer. [5]

**Nov 2018**

**Q # 5** Kia and Zarina entered into a joint venture sharing profits and losses in the ratio 3:2 respectively.

Both took an active role in the business to buy and sell chains and necklaces after repairing them. Each recorded her own transactions in her own books of account.

The following transactions took place:

April	1	Kia purchased broken chains and necklace parts for \$400.
	2	Kia repaired the broken chains and necklaces at a cost of \$160.
	4	Zarina paid rent of \$180 and advertising costs of \$90.
	6	Zarina paid the packaging cost, \$60.
	8	Kia sold all the repaired chains and necklaces for \$950.
	10	Zarina purchased broken chains and necklace parts for \$120.

**Resource Pack/Accounting/A Level (Paper 3)**

15	Kia purchased broken chains and necklace parts for \$200.
20	Zarina repaired the broken chains and necklaces at a cost of \$220.
26	Kia sold all the repaired chains and necklaces for \$840.
30	Kia and Zarina settled their accounts with each other and the joint venture was dissolved.

**Required**

- (a) Calculate the profit or loss from the joint venture. [4]
- (b) Prepare the:
- (i) joint venture with Kia's account in Zarina's books of account [8]  
(ii) joint venture with Zarina's account in Kia's books of account. [6]
- (c) Explain one benefit to both Kia and Zarina of setting up a joint venture. [2]

**Additional information**

Zarina is interested in working with Kia again but is proposing that they enter into a formal partnership agreement, sharing profits and losses equally. Kia is not sure about this.

- (d) Advise Kia whether or not she should enter into a partnership with Zarina. Justify your answer. [5]

**Nov 2018**

**Q # 6** Roberto and Sasha formed a joint venture. They sold sports equipment from a market stall in the month before a major sporting event took place in their hometown. They shared profits and losses equally.

The following transactions took place

- 1 Roberto and Sasha introduced cash to open the joint venture bank account.
- 2 Sasha paid the rent on the stall.
- 3 Roberto paid for some fixtures to be used on the stall.
- 4 The joint venture bank account was used to buy inventory.

These transactions were recorded in the books of the joint venture.

The joint venture account and the joint venture bank account appeared as follows:

Joint venture account

		\$			\$
June 1	Sasha	200			
	Roberto	120			
	Joint venture bank account	1700			

Joint venture bank account

		\$			\$
May 31	Roberto	1000	June 1	Joint venture account	1700
	Sasha	1000			

(a) Explain what took place on 31 May. [2]

(b) Explain why the transactions which took place on 31 May were not recorded in the joint venture account. [2]

**Additional information**

By the end of the month all the sports equipment was sold and sales had totalled \$2500. Of this amount, \$1800 was paid into the joint venture bank account. Roberto kept the remainder for personal use.

At the end of the month the fixtures were sold for \$50 and the proceeds paid into the joint venture bank account.

The profit was then calculated and the bank account closed

(c) Calculate the share of profit for each party to the joint venture. [3]

(d) Prepare the ledger accounts as they would appear in the books of the joint venture for:

(i) Roberto [5]

(ii) Sasha. [4]

**Additional information**

The major sporting event which took place will become an annual event. Both parties wish to repeat the joint venture but Roberto is insisting that the mark-up applied should be 75%.

(e) Advise Sasha whether or not she should agree to repeat the joint venture. Justify your answer using both financial and non-financial factors. [5]

(f) Explain how a business selling sports equipment differs from a sports club which also sells equipment to its members. [4]

**May 2019**

**Q # 7** Amit and Bonnie entered into a joint venture to sell street food from a market stall during the holiday season, sharing profits and losses equally. The following information is available.

1 Amit and Bonnie each paid \$850 into the joint venture bank account.

2 Amit paid the rent, \$600, on the market stall.

3 Bonnie owned some catering equipment which she transferred to the joint venture at an agreed valuation of \$1100.

4 Purchases of \$8080 and other running expenses of \$620 were paid from the joint venture bank account.

5 Amit took \$700 of the sales proceeds for his own use, while Bonnie took \$3300. Remaining sales proceeds of \$6100 were paid directly into the joint venture bank account.

6 At the end of the joint venture the catering equipment was sold at its agreed value of \$1100 and the proceeds were paid into the joint venture bank account.

7 The profit was then calculated and the joint venture bank account was closed

(a) Prepare the joint venture account. [9]

(b) Prepare Bonnie's account in the books of the joint venture. [5]

#### **Additional information**

Amit and Bonnie are considering entering into another joint venture in the following year. They are considering renting a larger stall at a rent of \$1500. They think they could sell double the amount of food whilst maintaining the same selling prices. They expect to receive discounts for bulk buying of purchases such that the gross margin would increase by 10%.

(c) Calculate the increase in gross profit which is expected to arise if the proposed joint venture takes place. [5]

(d) Advise Amit and Bonnie whether or not they should enter into the proposed joint venture. Justify your answer. [4]

(e) Explain how a party to a joint venture, who has to pay money into its bank account at the close of the venture, is similar to a partner with a debit balance on the current account. [2]

**Nov 2019**