**WEEK NINE**

**TOPIC: JOINT VENTURE ACCOUNTS**

**CONTENT**

1. Definition of Joint Venture.
2. Accounting entries required for joint ventures.
3. Practical illustration of joint ventures.

**Definition**

Joint venture is a business relationship of two or more persons or venturers, for the purpose of carrying on a particular transaction with the aim of profit making. The principle of Joint Venture borrows from partnership but the difference is that the Venture ceases operation immediate the purpose of its establishment is achieved.

Joint Venture is not a going concern.

Major account prepared are:

i. Individual Joint Ventures Account: basically, the individual in joint ventures prepares joint ventures account affecting him in his books.

ii. Memorandum Joint Venture Account: This is profit and loss account of joint ventures. In this account, profit or loss attributed to each joint-venturer is ascertained and shared between the individuals concerned.

**Accounting entries**

1. Debits all expenses to individual Joint Venture account.
2. Credited all revenue to Individual Joint Venture account.
3. In Memorandum Joint Venture account.

i. Credit both revenue of Joint Venture.

ii. Debits both expenses of Joint Ventures.

**EVALUATION QUESTIONS**:

1. State three similarities between Joint Venture and Partnership.

2. List four differences between Joint Venture and Partnership.

**Practical Illustration**: Biodun (Kaduna based) and (Kola Lagos based) agreed to enter into Joint Venture in 1992, for the purchase of textile materials in Onitsha and resell.

Biodun and Kola agreed to share the profit or loss in ratio 3:2 respectively. The following transactions took place.

1992 Feb. 1 Biodun made a cash purchase of goods N2,200

4 Kola bought N3,500 worth of goods

10 Biodun purchased goods for N4,000

15 Biodun sold goods for cash N5000 selling expenses N430

20 Kola sold goods for cash, N6,500

25 The remaining items were dispatched to Kaduna by Kola, transport expenses N600

27 Biodun sold goods N10,200

**Prepare**: (a) Individual Joint Venture account

(b) Memorandum Joint Ventures account

**Note**: In individual Joint Ventures account, if balance b/d is in the credit side, it implies that the persons or firm has received more than he is entitled to. So he need to pay the amount of the balance to the other party who has received less than his entitlement.

(a) In the books of Biodun:

**Solution Joint Ventures with Kola**

1992 N 1992 N

Feb. 1 Purchases 2,200 Feb. 15 Sales 5,000

“ 4 Purchases 4,000 Sales 10,200

“ 15 Selling expenses 430

“ 29 Share of profit 6,582

“ Bal. c/d 1988

15,200 15,200

Mar. 3 Cheque to Kola 1,988 M. I Balance b/d 1,988

In the Books of Kola:

**Joint Venture with Biodun**

1992 N 1992 N

Feb. 4 Purchases 3,500 Feb. 29 Sales 6,500

25 Transports Exp. 600 29 Balance c/d 1,988

29 Share of Profit 4,388

8,488 8,488

Mar. 1 Balance 1,988 Mar. 3 Cheque from Biodun 1,988

(b) In the books of Kola and Biodun:

**Memorandum Joint Ventures Accounts**

1992 1992

Purchases: Biodun 6,200 Sales Biodun 15,200

Kola 3,500 Kola 6,500

Selling exp. Biodun 430

Transport exp. Kola 600

Share of profit 10,730

Biodun (3/5 x 10, 790) 6,582

Kola (2/5 x 10,970) 4,388

21,700 21,700

**Evaluation Questilon**

1. Define Joint Venture.

2. Mention the major accounts prepared in Joint Venture.

**Reading Assignment**: Essential Financial Accounting page 343-348

**WEEKEND ASSIGNMENT**

1. The major account in Joint Venture are \_\_\_\_\_\_\_\_\_\_\_\_

(a) Individual Joint Ventures account and memorandum (b) Profit and Loss account and balance sheet (c) appropriation account and balance sheet (d) cash book and ledger

2. Expenditure of each joint venture is \_\_\_\_\_\_\_\_\_\_\_\_

(a) credited (b) debited (c) all of the above (d) none of the above

3. Revenue of each joint venture is \_\_\_\_\_\_

(a) credited (b) debited (c) none of the above (d) all of the above

4. In memorandum account revenue is \_\_\_\_\_\_\_

(a) Debited (b) Credited (c) averted (d) included

5. In memorandum account expenditure is \_\_\_\_\_\_\_\_\_\_\_\_\_\_

(a) included (b) excluded (c) debited (d) credited

**THEORY**

A & B entered into a Joint Venture in a consignment of 100 articles each costing N10.

A supplies such goods and sends them to B for sale, paying carriage there on N20. B is to have 10% commission on sales and the profit divided in the ratio of 2:1

It was found that 10 articles were below standard, and it was agreed that. A would take them back and sell them as his own goods without commission and loss thereon being borne sorely by A. It was further agreed that at the same time 5 articles be returned to A as he was in a position to effect a sale (on account of the Joint Venture) at N18 each, being a better price than what B could get. B sells the remaining articles (less 3 articles taken over by him at an agreed price of N 11 each) at N14 each. The carriage on the goods returned by B to A is N4, and it is agreed that N2 thereof relate to the cost of returning the articles and to be borne by A.

Show the accounts of A in B’s books. B in A’s books and Memorandum Joint Venture Account.

**GENERAL EVALUATION/REVISION QUESTIONS**

1. Explain the following : (a) bank loan (b) bank overdraft (c) standing order (d credit

transfer

1. State five reasons for making provision for depreciation on fixed assets
2. List four accounts found in each of the following (a) nominal ledger (b) private ledger

(c) general ledger

4 What is the difference between depreciation and amortization

5 List five examples each of assets associated with depreciation and amortization