⭐ JOINT VENTURE — SUMMARY (CMA Foundation Paper 02)

Exam Crux (MCQ-Oriented Notes)

1 Meaning of Joint Venture

A Joint Venture (JV) is a temporary partnership between two or more parties to carry out a specific business/project for profit.

✓ Short-term

✓ Specific purpose

✓ Profits/losses shared in agreed ratio

Example:

A & B undertake a contract to supply 5,000 mobile phones to a company for ₹20 lakh. They share profits 3:2.

---

2 Features of a Joint Venture

- Temporary partnership
- Profit-sharing agreed
- No firm name required
- Separate books may or may not be kept
- Co-venturers are jointly responsible

3 Difference: Joint Venture vs Partnership

Basis	Joint Venture	Partnership
Duration	Short-term	Long-term
Objective	Specific project	Continuous business
Accounting	Two methods	Full books
Agreement	Mostly oral	Written agreement usually
Firm Name	Not compulsory	Compulsory usually

4 Methods of Keeping Accounts in Joint Venture

Method 1: When Separate Books are Maintained

A separate set of books is opened in the name of Joint Venture Account.

Important Accounts

- Joint Venture A/c
- Co-venturer's Personal A/c
- Bank A/c

Entries

For expenses incurred:

Joint Venture A/c Dr

To Bank/Co-venturer's A/c

For sales made:

Bank/Debtors A/c Dr

To Joint Venture A/c

For commission:

Joint Venture A/c Dr

To Co-venturer's A/c

Profit transfer:

Joint Venture A/c (Profit)

To Co-venturer's A/c (in ratio)

Example – Method 1

A and B start a joint venture to sell machinery.

- A buys machinery for ₹50,000
- B pays installation expenses ₹5,000
- Goods sold for ₹70,000
- Profit sharing 1:1

Solution

Joint Venture A/c

Particulars	Amount	Particulars	Amount
To Machinery (A)	50,000	By Sales	70,000
To Installation (B)	5,000		
To Profit transferred A & B	15,000		
Total	70,000	Total	70,000

Profit = 70,000 – 55,000 = ₹15,000

A = 7,500 ; B = 7,500

5 Method 2: When Each Co-Venturer Keeps Their Own Books

Both parties maintain only their own transactions.

They prepare:

(1) Joint Venture with X A/c

(2) Memorandum Joint Venture A/c

Why Memorandum JV A/c?

Because each venturer records only his transactions → Memorandum JV A/c is prepared to find the overall profit.

Entries (in own books)

For expenses paid by co-venturer

JV with Other Venturer A/c Dr
    To Cash/Bank A/c

For goods supplied

JV with Other Venturer A/c Dr
    To Purchases/Stock A/c

For commission earned

Other Venturer A/c Dr
    To Commission A/c

Share of Profit

JV with Other Venturer A/c Dr
    To Profit & Loss A/c

6 Commission in Joint Venture

Co-venturers may receive commission, types include:

- Ordinary Commission – % of sale
- Del-Credere Commission – % for taking risk of bad debts
- Managerial / Performance Commission – based on profit

Example:

B earns 5% commission on sales of ₹1,00,000.

Commission = ₹5,000.

Entry:

Joint Venture A/c Dr 5,000
    To B's A/c 5,000

7 Unsold Stock in Joint Venture

If closing stock remains, value is taken as:

Stock Taken Over by Co-Venturer

Co-Venturer A/c Dr
    To Joint Venture A/c

Stock on Joint Venture (Unsold)

Stock A/c Dr
To Joint Venture A/c

Example – Unsold Stock
Remaining stock ₹10,000 taken over by A at cost.
Entry:
A's A/c Dr 10,000
To Joint Venture A/c

◈ 1. Why is Memorandum Joint Venture A/c Needed?

In many joint ventures, each venturer records only the transactions done by himself.

This creates a problem:
✓ No single ledger shows combined profit or loss.
✓ Each venturer has partial information only.
☞ To solve this, a Memorandum Joint Venture Account is prepared – outside the books (similar to a working note).
It is used only to calculate the overall profit or loss of the venture.

◈ 2. Important Point

⚠ Memorandum Joint Venture Account is NOT a ledger account.

- It does not appear in Trial Balance
- It is not balanced in personal books
- It is not posted anywhere else

It is simply a statement prepared from the information collected.

◈ 3. When is MJVA Prepared?

Scenario	MJVA Required?
Separate set of books maintained	✗ Not required
One venturer keeps accounts on behalf of all	✗ Not required
Each venturer keeps accounts independently	✓ MJVA required

◈ 4. Purpose of MJVA

◎ To find total profit or loss of the joint venture.

After knowing the profit/loss, each venturer passes their share of profit entry in their own books:

- To record profit earned, or
- To record loss incurred

---

5. Structure / Format of MJVA

The format is similar to a Trading & Profit & Loss Account.

Memorandum Joint Venture Account

Dr.	Amount	Cr.	Amount
To Goods supplied by venturer(s)	₹	By Sales	₹
To Expenses by venturer(s)	₹	By Closing Stock (if any)	₹
		By Goods taken over by venturer	₹
To Profit (Balancing Figure)	₹		
Total	₹	Total	₹

If the right side > left side → Profit

If left side > right side → Loss

---

6. Step-by-Step Approach

Step 1: Collect all expenses

Both venturers' expenses are debited.

Step 2: Collect all goods supplied

All goods supplied to the venture by venturers are debited.

Step 3: Collect all sale proceeds

All sales (cash + credit) credited.

Step 4: Include closing stock / goods taken over

These increase the credit side.

Step 5: Balance the account

Difference = Profit or Loss.

Step 6: Share profit between venturers

= Profit × Share ratio.

Step 7: Each venturer passes entry

JV with Other Venturer A/c Dr

To Profit A/c

◈ 9. Why MJVA is Called a "Memorandum"?

Because it is:

- A statement, not a ledger
- Used only for computation
- Not posted
- Not recorded in books
- Prepared just like a working note