

Difference Between Joint Venture And Consignment

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

1. Nature

Joint venture: It is a temporary partnership business without a firm name.

Consignment: It is an extension of business by principal through agent.

2. Parties

Joint venture: The parties involving in joint venture are known as co-ventures.

Consignment: Consignor and consignee are involving parties in the consignment.

3. Relation

Joint venture: The relation between co-ventures is just like the partners in partnership firm.

Consignment: The relation between the consignor and consignee is 'principal and agent'.

4. Sharing Profit

Joint venture: The profits and losses of joint venture are shared among the co-ventures in their agreed proportion.

Consignment: The profits and losses are not shared between the consignor and consignee. Consignee gets only the commission.

5. Rights

Joint venture: The co-ventures in a joint venture have equal rights.

Consignment: In consignment, the consignor enjoys principal's right whereas consignee enjoys the right of agent.

6. Exchange Of Information

Joint venture: The co-ventures exchange the required information among them regularly.

Consignment: The consignee prepares an account sale which contains a details of business activities carried on and is being sent to the consignor.

7. Ownership

Joint Venture: All the co-ventures are the owners of the joint venture.

Consignment: The consignor is the owner of the business.

8. Method of Maintaining Accounts

Joint venture: There are different methods of maintaining accounts in joint venture. As per agreement the co-ventures maintain their account.

Consignment: In consignment, there is only one method of maintaining account.

9. Continuity

Joint venture: As soon as the particular venture is completed, the joint venture is terminated.

Consignment: The continuity of business exists according to the willingness of both consignor and consignee.

9 - Joint Venture Accounts

Nature of joint ventures

Sometimes a particular business venture can best be done by two or more businesses joining together to do it instead of doing it separately. The joining together is for that one venture only, it is not joining together to make a continuing business. Such projects are known as **joint ventures**. For instance, a merchant might provide the capital, the transport to the markets and the selling skills. The farmer grows the produce. The profits or losses are then shared between them in agreed ratios. It is like a partnership, but only for this one transaction. There may be several joint ventures between the same businesses, but each one is a separate venture. The agreements for each venture **may be** different from each other.

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.

Accounting for smaller joint ventures

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. Example 1 gives an example of such a joint venture.

Example 1

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

Advantages

- help your business grow faster, increase productivity and generate greater profits
- access to new markets and distribution networks
- increased capacity
- sharing of risks and costs (ie liability) with a partner
- access to greater resources, including specialised staff, technology and finance
- enable growth without having to borrow funds or look for outside investors
- use your joint venture partner's customer database to market your product
- offer your partner's services and products to your existing customers
- join forces in purchasing, research and development
- It is Flexible e.g. a joint venture can have a limited lifespan and only cover part of what you do, thus limiting the commitment for both parties and the business' exposure

Disadvantages

- the objectives of the venture are not clear and communicated to everyone involved
- the partners have different objectives for the joint venture
- the partners bring in different levels of expertise, investment or assets into the venture
- different cultures and management styles result in poor integration and co-operation
- the partners don't provide sufficient leadership and support in the early stages

Exercises

Ex 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.

Ex 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.

Ex 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.

Ex 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.

Joint Venture Accounts

- Q1. 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]

[Total: 25]

Q2. 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 made 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 advantages and disadvantages of forming the partnership. [6]

[Total: 25]