

FINANCIAL ACCOUNTING AND REPORTING II(ACT212)

LECTURE NOTES PREPARED BY:
OYELAKUN OYETOLA-TAU/SSPF/164
DEPARTMENT OF ACCOUNTING

Joint Venture Account

MEANING OF JOINT VENTURE

- A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses.

FEATURES OF A JOINT VENTURE

The main features of a joint venture are specifically made clear.

- Two or more persons are needed.
- It is an agreement to execute a particular venture or a project.
- The joint venture business may not have a specific name.
- It is of temporary nature. So the agreement regarding the venture automatically stands terminated as soon as the venture is complete.
- The co-ventures share profit and loss in an agreed ratio. The profits and losses are to be shared equally if not agreed otherwise.
- The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.

Joint Venture Account(Differences Between Joint Venture and Partnership)

Partnership

- A Partnership firm always has a name
- It is of a continuous nature.
- Separate sets of books have to be maintained
- No partner can carry on a similar business
- Though the registration of partnership is not compulsory desirable
- A minor can also be admitted to the benefits of the firm

Joint Venture

- There is no need of firm's name.
- It comes to an end as soon as the work is complete.
- There is no need for separate sets of books.
- The co-venturers are free to carry on the business of a similar nature.
- There no need for registration at all.
- A minor cannot be a co-venturer as he is incompetent to enter into a contract.

Joint Venture Account

METHODS OF RECORDING JOINT VENTURE TRANSACTIONS

Joint venture accounts can be kept under any of the following three methods :

- ✓ Each co-venture records the transaction in his own books and opens "Joint Venture Account" and accounts of his fellow partners.
- ✓ One common Joint Venture Account on memorandum basis is prepared to find the profit or loss made on trading. It is not a part of the double entry system. Under this system each one of the partners open only one account which is of the nature of personal account. The account is called. "Joint venture witha/c."
- ✓ Venturers agree to keep a separate set of books and a person is made incharge of recording of all transactions. Generally this method is not adopted.

Each co-venturer records the transactions

- Under this system the "Joint Venture Account" is opened and debited with the value of goods bought and expenses incurred. Cash account or the party which has supplied the goods or incurred the expenses will be credited. When the sales proceeds are received, the party receiving it, will debit cash (for Debtors) account and credit the Joint Venture Account. The other parties will debit the recipient party and credit the Joint Venture Account.

Joint Venture Account

Books of Accounts Maintained in Joint Venture

It is important to note that party's joint ventures are at liberty to maintain their own books of account. This account is called the joint venture with other party account.

Joint Venture with the other Party Account

This is an account maintained by each party in which they records all the expenses made on behalf of the business and all the receipt of income from the business.

Accounting entries requirements:

Debit:

- Purchases
- All expenses paid and all expenses taken over.
- Share of profit
- Amount refunded by the other parties.

Credit:

- Proceed from sales
- Assets taken over
- Amount to be refunded to the other joint venture or party
- Share of loss

Joint Venture Account

Memorandum Joint Venture Account

The memorandum joint venture account is drawn up to calculate the profit or loss due to each party to the Joint Venture. This is by capturing or aggregating expenses incurred by the parties and the monies received by them, assets taken over, expenses to be settled by each party. The Memorandum Joint Venture Account is also used to compute and produce the amount due to the settlement from and to each party.

The Accounting Requirement for Memorandum Joint Venture Account is thus:

Debit:

- All Purchases
- All Wages and Salaries
- Other Expenses incurred/taken over
- Net profit as apportioned according to sharing ratio.

Credit:

- All Sales Proceeds
- All Assets taken over
- Loss as apportioned according to the sharing ratio.

Consignment Account

Definition of Peculiar Terms

- ❑ **Consignment:** A consignment may be described as the goods sent (dispatched) by the principal (owner) to the agent (representative) for sales purposes.
- ❑ **Consignor:** The consignor is the sender or principal owner of the goods being sent to the agent for sales.
- ❑ **Consignee:** This is the receiver or agent to whom the consignment (goods) is being dispatched or sent to.
- ❑ **Consignment outwards:** This is considered the worth of goods sent from the consignor to the consignee.
- ❑ **Consignment inwards:** The worth of the goods which the consignee receives from the consignor.
- ❑ **Del credel:** Refers to the additional commission paid to the consignee whereby he has agreed to make up for any loss which the consignor may suffer as a result of bad debts. They may also agree that the agent be remunerated based on the percentage of profits.

Consignment Account

Accounts Entries for Consignment

There are records and accounts which are and often sent from the consignee to the consignor to explain or show the affairs of their transactions. These accounts are:

i. Statement showing the goods received.

ii. Statement showing the sales made.

ii. Statement showing the expenses incurred.

iv. Statement showing the commission charged.

Statement showing the remittances made with the resultant balances due by him also called account sales.

Consignment Account

Accounts maintained by the Consignor In the books by the consignor

The consignor keeps and maintains some special account to enable him record the various transactions between him the consignor (principal) and the consignee. The accounts are:

1. The consignment account: The consignment account can be compared to a trading, profit and loss account. Infact, it is a special form of trading, profit and loss account. This is because the principles applied to the account is applicable to trading, profit and loss account.

Accounting Entries - When goods are sent at cost price:

a. Total cost of goods:

Dr. Consignment account with total cost price of goods sent out.

Cr. Goods sent out on consignment account

Consignment Account

b. Balance of goods at the end of the period:

Dr. The Stock Account

Cr. Purchases or Trading Account

c. Expenses incurred by consignor on consignment:

Dr. The Consignment Account

Cr. Cash account.

Dr. The Expense Accounts

Dr. The Consignment Account.

(d) Receipt/remittance from consignee

Dr. Personal Account with Gross proceed

Cr. Consignment Account

Consignment Account

- **Note:** That the consignor expects the proceeds of sales less (expenses + commission) from the consignee. A personal account is opened for the consignee to do this.
- In a case that profits made on consignment, the balance will be transferred to the credit side of the profit or loss on consignment account. But if it is a loss, it will be entered on the credit side and transferred to the debit side of profit and loss on consignment account to be transferred to the profit and loss account at the end of the accounting period.

Consignment Account

Illustration 1

On the 1st of January 2015, the Managing Director of Janney Limited located in Dubai sent some consignment (shoes) to its agent in Nigeria (Clerk Agencies) goods worth ₦250,000.00. The consignor, Janney Ltd paid the following expenses in regards to the consignment (carriage and freight expenses) of ₦17,500; Insurance of ₦5,000. Clerk Agencies is entitled to 5% selling commissions and 1.25% deledere commission. On January 30th, Clerk Agencies sent his account on the sales as follows:

- 20th January sold goods = ~~₦400,000.00~~
- 25th January Expenses incurred = ~~₦30,000.00~~
- Stock on hand as at 30th January = ~~₦7,500.00~~
On the 31st of January = ~~₦7,500.00~~

You are required to show the necessary accounts to record the transactions in the books of the consignor on the consignment as at 31st of January.

Consignment Account

In the book of the Consignee

The consignee has been defined as that agent of the principal who receives the goods for the purposes of resale. The consignee maintains some accounts on his own to reflect his transaction with the principal. Entries in consignee's books can be presented in two different ways. Thus:

The First Approach:

On receipt of the consignment: The consignee only makes entries in his stock books when:

He makes no entries at all on the books of accounts (as the goods are not assumed to be purchases).

If he incurs expenses on handing of the goods like landing charges, import duties, warehousing and storage.

Dr Cash or Debtor's Personal Account

Cr Cash (creditors or expenses)

Consignment Account

He raises a memorandum entry in the stock book to reflect thus;

- Dr. Cash or Debtors with cash received on sales
- Cr. Consignor's Personal Account.

To record the commission due to the consignee:

- Dr consignor's personal account
- Cr commission Account

Close the consignor's account by issuing a draft to the consignor at the end of the account year; the consignor has the balance due to the or from the consignee, which will appear in the Balance sheet as creditor or debtor.

- Dr the Bad debt account
- Cr del credere account with any outstanding debt.

Consignment Account

Illustration 2 (oun)

On the 1st of March, 2016 Ranchers Electronics Limited sent a consignment of electronics to its agent Sammy Electronic Nigeria.

The goods were worth 850,000

Paid freight expenses 159,500

Insurance fee ₦317,000

It was agreed that Sammy Limited will receive 7½% commission on sales. On 25th March, 2016 Sammy Electronics made sales of ₦1,360,000.00. Sammy also incurred expenses of ₦102,000. Stock in the hand of the consignee as at 31st March was ₦25,500. Sammy electronics remitted:

Cash ₦136,000

Cheque ₦595,000

You are required to show the accounts in the books of Sammy Electronics as at 31st, March, 2016.

Royalties Account

Definition of Royalty

Royalty is the payment which is made by one person to another for the use of a certain asset.

Important Terms In Connection With Royalty

- **Landlord or lessor** :- The person who is the owner of the assets and surrender the right of its use to some other person and receives the consideration as royalty is called 'Lessor'.
- **Lessee** :- The person who pays the royalty in consideration for the use of that asset is called Lessee.
- **Minimum or Dead or Fixed Rent** :- It is the minimum amount of rent which the lessee is required to pay to landlord whether he (lessee) has desired any benefit or not out of the right or property rented out to him by the lessor. Thus, such minimum rent is fixed at the time of agreement between the two parties.

Differences Between Rent and Royalty

- Rent is paid for the use of tangible assets such as building, machinery, whereas royalty is paid for the use of intangible assets or special right such as mines, patent right.
- Rent is fixed, but the amount of royalty is not fixed and depends on number of articles produced or sold.

Royalties Account

Important Terms In Connection With Royalty

- **Shortworking** : The excess of minimum rent over royalty calculated on the basis of output or sales is termed as shortworking. $\text{Shortworking} = \text{Minimum Rent} - \text{Royalty}$

Recoupment of shortworking : Royalty agreement may contain a clause that shortworking can be recouped by the lessee in the following manner:

- **Without any time limit:** According to this clause in the agreement the time limit for the recoupment of shortworkings is not mentioned. So, the shortworkings, then, may be recouped throughout the period of the lease.
- **With fixed time limit:** There may be a clause in the agreement that the shortworkings can be recouped in the given first few years of the lease such as first three years, first four years or first five years.
- **When shortworkings can be recouped in the next few years:** In this clause of agreement, the period allowed for recoupment of each year's shortworking is calculated from the year during which the shortworkings arose.

Royalties Account

Kinds of Royalties

- Royalties in connection with mines.
- Royalties regarding oil-wells.
- Royalties regarding Brick Making
- Royalties regarding Patents.
- Royalties regarding copyright.

Royalty Account

- Royalty account is a nominal account in nature and is synonymous with rent account. Since, it is a nominal account, it is debited in the books of lessee as ordinary business expenditure and credited in the books of landlord as income for him. Royalty account is closed at the end of every accounting year by transferring to Profit and Loss Account.

Procedures and Journal Entries

- It should be noted that in accounting for royalty, the accounting/double entries are to be made/passed for each of the variables on the working schedule in each year.

Royalties Account

Illustration

- ❑ Bengal Coal Ltd., leased in a colliery on 1st Jan. 2001 at a minimum rent of ₹15,000 merging into a royalty of ₹1 per ton with a right to recoup shortworkings over the first three years of the lease. The output for the first four years of the lease was 8,000, 13,000, 21,000 and 18,000 tones respectively. Pass necessary journal entries in the books of the company and show the necessary ledger accounts.

Contract Account

Definition

- ❑ Contract account contains the cost of a building or engineering construction job involving huge amount of money. The criterion for charging cost to the contract account is that the expenditure must relate to the contract alone. Upon completion of the contract, the agreed contract price is transferred from the contract account to the personal account of the customer/contract awarder.

Contract Materials

- ❑ These are (1) materials purchased specifically for the job (2) materials obtained from the contractor's main store and issued to the job/contract
- ❑ Cost of materials issued to the contract is calculated based on quantity used. The cost is debited to the contract account and credited to the store account.

Entries (see page 368 ess for example) in the book of account of the contractor are:

- ❑ Expenses applicable to the particular contract: debit contract account and credit bank
- ❑ Contract price: debit personal account of contract awarder and credit contract account .
- ❑ Profit on contract: debit contract account and credit contract profit or loss account
- ❑ Payment by customer: debit bank account and credit personal account of the contractor

Contract Account

Retention Money

- It is the fractional(say 10% for example) part of the final contract price withheld by the customer/contract awarder for maximum of 6 months, at the completion of the contract, subject to agreement between the two parties. It acts as the money retained to take care of any defect in the work done by the contractor and it is at the expense of the contractor. It has the same entries as the entries for payment by the customer.

Uncompleted Contract

These are contracts that are not completed at the end of the year. Problem arise in the book of contractor as a result of uncompleted contract. These problems are:

- Progress payment by the customer
- Architect certificate against which progress payment can be made
- Decision to take credit for any profit on the contract concerned

Progress Payment

- It is the payment made by the customer to the contractor as the contract work progress but before the completion of the contract. In case of uncompleted contract, although a record of cost incurred by contractor is kept by him, the customer is interested in paying only the value of work certified and therefore, the customer employs architect to value work done.

Contract Account

Calculation of Maximum Profit Taking on an Uncompleted Contract(see pg 370ess)

The rule is that the contractor should first ensure that adequate provision has been made for all known and reasonably expected contingencies and thereafter;

1. Take profit up to the point of the latest architect certificate. This is commonly called value of work certified
2. Take away expenditure since architect certificate were given from the cost incurred to date. Thereafter, deduct the remaining cost to date from the profit taking in step 1. The result obtained is the notional profit
3. Now calculate two-third of the notional profit and then multiply result obtained by the ratio of progress payment to value of architect certificate
4. The result obtained in step 3 is the profit that will actually be debited to the contract account and credited to the contract profit or loss account.

Contract Work in Progress

The total expenditure on uncompleted contract is considered to be work in progress.

Estate Account

Definition of Estate Account: Estate account contains the cost of a buildings or group of houses being constructed by a builder or property developer. Therefore, the account is prepared when a builder or property developer is constructing a group of houses.

Cost of Land

- ❑ The main feature of an estate account is that the cost of land used for the different houses being constructed will be apportioned using the number plot of land occupied by each of the houses as the basis of apportionment. In other words, the cost of land must be apportioned according to the number of plots used for building purposes.

Accounting Entries For The Cost of Land (see example 1 page 371 ess)

- ❑ The calculated apportioned cost of land is first posted to the debit side of the estate account and thereafter transferred from/ written off the estate account to the contract account.

Cost of Road and Services

- ❑ The cost of providing roads on the housing estate and expenditure on other essential services will be added to the cost of land. In these days, property developers always undertake the cost of providing roads on housing estate and other essential services and this expenditure is added to the cost of the land.

Estate Account

Estate Trading Account: an estate trading account is a contract account. This is because the entries in this account are the same as those in the contract account. In detailed, as the number of houses erected on the area of land is usually large and may be the only operation undertaken by the builder, the contract account is usually called the trading account.

Average Cost of a Dwelling

Once the number of buildings to be erected on a plot has been decided, it is a simple matter to divide the cost of land by the number of houses so as to determine the amount to be charged to each dwelling. For example, if the cost of land is N 63,000 and it was decided to construct 105 dwellings on the land. In this case, the cost to be charges is N63,000 divided by 105 . This gives N600 per house being average cost of a building

Entries in the estate trading account

❑ **Cost of Dwelling:** The first entry in the trading account is the cost of the land and the services provided on the estate. The trading account will be debited by these two figures as and when work started on each dwelling.

Opening Work in progress: Opening work in progress is debited to the trading account.

Closing Work in progress: This is credited to the trading account. Usually the value WIP is given as far as materials, etc.; are concerned but remember to also add or include the cost of land .

Estate Account

- ❑ **Unsold Property at Beginning (Opening stock):** Any opening stock of unsold property from the previous year must be debited to the trading account.
- ❑ **Unsold Property at End (Closing stock):** Any property unsold at the end of the period must be credited to the trading account. This is the same as closing stock.
- ❑ **Sales:** Any sales of property would be credited to the trading account. Alternatively, debit the cash book and credit sales with the sales proceed. Thereafter, write off/transfer the debit balance in the trading account to the sales account.
- ❑ When all entries are made, the profit or loss on trading can be ascertained for the period.

Departmental Account

TO BE CONTINUED.....!