Chapter 2 – Joint Ventures

The Ethiopian Commercial code: Joint Ventures (Articles 271 – 279)

Definition: -

- A Joint Venture is an agreement between partners on terms mutually agreed and is subject to the general principles of partnerships.

Characteristics of Joint Venture:

- Joint Ventures do not have legal personality.
- It does not have to be known to third parties, and are not publicized.
- Every partner owns his contribution
- Limited Life – dissolution of Joint Venture may be on completion of the project, by request of one of the partners or death or bankruptcy of one of the partners.
- Un Limited Liability – each partner is individually liable to creditors for debts incurred by the Joint venture.
- Non-taxable entity – partnership is not required to pay taxes. Taxes are paid by the partners on their share of income that is distributed from the profits.
- It is established by memorandum of association which will specify venturers' share and division of income.

Accounting for Joint Ventures

Joint ventures differ from partnership in that it is limited to carrying out a single project – such as cinema production, oil/gas exploration, building construction, and acquisition, development and sale of real property etc.

Joint Ventures are less common in present day business community.

Dissolution:

Joint ventures may be dissolved for the following reasons:

- Expiry of period/time fixed
- Completion of the venture
- Failure of performance
- Acquisition by one partner of all the shares
- Agreement of venturers
- Death, bankruptcy, incapacity of a partner
- Court decision

Types of joint Ventures:

- Simple Joint Venture
- Corporate Joint Venture

Corporate joint Ventures:

- Corporate joint venture refers to a corporation or a Private Limited Company (PLC) owned and operated by small group of investors (venturers) established as a separate and specific business or project for mutual Benefit.
- It started and is incorporated by American Companies established for overseas operations by a corporation whose ownership is divided between two or more countries – i.e. Joint venture with a foreign country.
- The purpose is:
    - to share risks and rewards of developing new market product or technology.
    - Combine complementary technological knowledge
    - Pool resources in developing production in other facilities
- Joint venturers participate (directly or indirectly) in management of the corporate joint venture. They are not passive investors.
- Its shares are not transferrable and not traded in public
- They are usually large size & long duration
- Government may be member of the Joint venture

Accounting Procedures for corporate joint Ventures:

Accounting Principles Board (APB) opinion No 18

- **Investors** should account for their investments in the stock of the corporate joint Venture by the Equity method. Journal entries as follows:

Investment in AB Co. (Joint Venture)	xxx,xxx	
Cash		xxx,xxx
To record investment in Joint Venture		

Investment in AB Co. (Joint Venture)	xxx,xxx	
Investment Income		xxx,xxx
To record share of AB Co. Joint Venture Net income		

- **Corporate Joint Venture** maintains accounting records and produces reports as a separate entity. The usual ledger accounts of assets, liabilities, stockholders

equity, revenue and expense accounts are maintained. Accrual method of accounting is used and notes to the financial statements are part of the reports.

Accounting for simple Joint Ventures (non-corporate):

Two methods of accounting for joint ventures:

- The Equity method
- Proportionate share method

Equity method of accounting for investments in Joint Venture:

E.g. Arthur Co. and Betty Co. each invested $400,000 for a 50% interest in AB Company Joint Venture on January 1, 2017. Condensed financial statements of AB Co for 2017 were as follows:

AB Company (Joint Venture)
Income Statement
For the Year 2017

Revenue		$ 2,000,000
Less: Cost and Expense		1,500,000
Net Income		500,000
Division of Net Income:		
Arthur Co	250,000	
Betty Co	250,000	
Total	500,000	

AB Company (Joint Venture)
Statement of Venturers' Capital
For the Year 2017

	Arthur Co	Betty Co.	Combined
Investments January 1	$ 400,000	$ 400,000	$ 800,000
Add: Net Income	250,000	250,000	500,000
Venturers' Capital Dec. 31	650,000	650,000	1,300,000

AB Company (Joint Venture)
Balance Sheet
As at December 31, 2017

Assets		
Current Assets		$ 1,600,000
Other Assets		2,400,000
Total Assets		4,000,000
Liabilities & Venturers' Capital		
Current Liabilities		$ 800,000
Long term debt		1,900,000
Venturers' Capital:		
Arthur Company	650,000	
Betty Company	650,000	1,300,000
Total Liab & Venturers' Capital		4,000,000

Journal Entries by Venturers – Arthur Co. and Betty Co. under the equity system of Accounting:

2017			
Jan. 1	Investment in AB Co. (Joint Venture)	400,000	
	Cash		400,000
	To record investment in Joint Venture		
Dec. 31	Investment in AB Co. (Joint Venture)	250,000	
	Investment Income		250,000
	To record share of AB Co. Joint Venture		
	Net income (500,000 x 50% = 250,000)		

Proportionate Share method of accounting for investments in Joint Venture:

In addition to the above two entries, Arthur and Betty each pass the following entries:

Dec. 31	Current Assets (1600000 x 50%)	800,000	
	Other Assets (2400000 x 50%)	1,200,000	
	Costs & Expenses (1,500,000 x 50%)	750,000	
	Investment income	250,000	
	Current Liability (800,000 x 50%)		400,000
	Long Term Debt (1,900,000 x 50%)		950,000
	Revenue		1,000,000
	Investment in AB co (J.Venture)		650,000

Note: IFRS standard (IAS 31) permits the choice of using Equity or proportionate Share method. However for use of equity method for non-corporate Joint Ventures, Entities are required to disclose material assets and liabilities in the notes to the accounts.

Exercise – Joint ventures

Ex 3-18 of Text book, Modern Advanced Accounting by John Larson

On January 2 2019, Yale Corporation and Zola Corporation each invested $500,000 cash in an incorporated or simple Joint Venture, Y-Z Construction Company to build a road project. The income and losses of Y-Z Co. were to be shared equally.

On December 31, 2019, financial statements of Y-Z Company showed total revenue $800,000; total costs and expenses $600,000; Total current assets $600,000;

Y-Z Company
Income Statement
For the year ended Dec. 31, 2019

Total Revenues	*800,000*	
Total costs & Expenses	*600,000*	
Net Income		*200,000*
Distribution		
Yale Corporation	*$ 100,000*	
Zola Corporation	*100,000*	
Total	*200,000*	

Y-Z Company
Balance sheet
As At Dec. 31, 2019

Total Current Assets	*$ 600,000*
Net Plant Assets	*1,500,000*
Total Assets	*2,100,000*
Liabilities & Capital	
Current Liabilities	*$ 300,000*
Long Term Debt	*600,000*
Yale Corporation, Capital	*600,000*
Zola Corporation, Capital	*600,000*
Total Liab & Capital	*2,100,000*

Required:

a) Prepare Journal Entries for Yale Corporation under the ***Equity method*** of Accounting:
   (i) To record the original investment on January 2, 2019
   (ii) For the year ended December 31, 2019, to record its share of Y-Z income.

b) Prepare additional Journal Entry for Yale Corporation on December 31, 2019 to complete the journal entries (together with those in a(ii) above) required for investment in Y-Z Co. under the ***proportionate share method*** of Accounting.