

## 8

# Consignment Accounts

### Learning objectives :

After going through this chapter you will be able to

- Understand the meaning of consignment and the meaning of terms related to consignment.
- Know the distinction between (a) Proforma Invoice & Invoice. (b) Consignment & Sale (c) Consignment & Joint Venture
- Prepare Proforma Invoice and Account sale
- Follow accounting treatment of Consignment transactions in the books of Consignor & Consignee
- Understand the procedure of computation of Commission, Del-credere Commission & Overriding Commission receivable by Consignee
- Know the procedure of valuation of unsold stock with consignee under different conditions
- Understand the treatment and valuation of Normal loss and abnormal loss of goods sent on Consignment
- Learn accounting procedure of goods sent on Consignment at cost price and at invoice price
- Understand the accounting for damaged goods, loss due to carelessness of Consignee and abnormal profit
- Learn accounting for fall in market price of stock, repairing charges on damaged goods and sale of damaged goods
- Calculate profit share and special commission of consignee
- Learn accounting procedure for conversion of Joint Venture into consignment

In these days of globalisation, advertisement and revolution in the means of communication the markets for commodities have expanded from local level to international level. It is the ethical and social responsibility of business to make available particular article to the consumer easily and timely. This is possible only when the business set up agencies at different places. These agents can carry on different commodities to different markets easily. It is necessity of market and to maximise the profit of business. This has given rise to consignment business.

### Meaning of Consignment :

When goods are sent by the owner or the Principal to his agent or any other representative on the condition of selling goods on his behalf for which the later will be given commission at a specified rate as remuneration, it is called consignment. The person who sends goods is called consignor. He is responsible for all profits and losses along with all expenses and risk, if any.

### Characteristics of Consignment

1. The goods are sent by the consignor to the consignee for the purpose of sale.
2. The relationship between the consignor and the consignee is that of Principal and Agent.
3. Consignment is not sale of goods.
4. Consignee acts as per the instructions of the consignor.
5. Consignee has the right to receive commission on goods sold.

6. The rightful owner of goods is the consignor.
7. Consignee is the Bailee of goods. Security of goods is his responsibility.

### Some main terms in Consignment

1. **Consignment-** When goods are sent by Consignor to Consignee for the purpose of sale on which he will be entitled to receive commission it is called Consignment. In this, goods sent by consigner to consignee is called as outward consignment and for consignee, it is inward consignment.
2. **Consignor-** The person who sends goods to the agent for the purpose of sale is called Consignor or the Principal.
3. **Consignee-** The person to whom goods are sent on Consignment is called Consignee.
4. **Commission-** On sale of goods the consignee is entitled to receive consideration called Commission. It is of three types-
  - (a) **Ordinary Commission-** Consignee is given commissions on the selling Price of goods sold or it's Invoice price at a specified percentage. It is the remuneration of the consignee for work done.
  - (b) **Delcredere Commission-** If Consignee has been given the right to sell goods on credit by the Consignor, there is the possibility of bad debts in such a case. This Loss is to be borne by the Consignor. In case the consignee undertakes the responsibility for collecting the debts and to bear the loss of bad debt, or in such a case, he will receive additional commission at a certain rate, which is called Delcredere Commission. This commission is also calculated on total sale in the absence of any clear information.
  - (c) **Over-riding Commission-** If consignor gives right to consignee to sell the goods above invoice price, then a commission is given on excess amount over actual invoice price called overriding commission.
5. **Proforma Invoice –** When goods are sent to the consignee, a Proforma Invoice in the form of an Invoice is sent by the consignor. It contains particulars as regards name of goods, number or quantity or weight/measurement, marking, packing etc, to identify the same. The necessary instructions are also given in it for selling goods at Invoice price or at higher than invoice price along with the rate and type of commission.
6. **Advance on consignment-** If consignee sends some amount by cheque or bills receivable in advance prior to sale to the consignor, then it is called as advance on consignment. If bills receivable is discounted by the consignor; the amount written on debit side of Consignment Account is loss.
7. **Account Sale-** After selling the goods, documents containing details regarding quantity and quality of goods sold, selling price, expenses incurred by him, his commission, details of advance given etc., are mentioned. This document is called Account sale.

### Difference between Consignment and Sale

Basics of Difference	Consignment	Sale
(1) Relationship	In consignment, two parties are consignor and consignee	In sale, two parties are purchaser and seller
(2) Ownership	In consignment, ownership in goods remains with the consignor.	In case of sale, ownership is transferred to the buyer as soon as it is sold.
(3) Risk of Loss	In consignment risk of loss and damage remains with the consignor.	In sale of goods, the risk of loss or damage is of the buyer.
(4) Consideration	In case of consignment, consignee receives commission as consideration.	In case of sale of goods, the seller gets profit on sale.
(5) Particulars	In case of consignment proforma invoice is sent.	In case of sale of goods, invoice is given to the purchaser.

### Difference between Consignment and Joint Venture

Basis of Difference	Consignment	Joint Venture
(1) Relevant Act	Rules regarding agency or mutual relationship are applicable.	Mutual relationship rules are applicable.
(2) Relationship	In consignment relationship between two parties is of consignor and consignee.	In Joint Venture, relationship between co-venturers is like partnership.
(3) Capital Contribution	In consignment, consignor contributes capital, not the consignee.	In Joint Venture generally all co-venturers contribute towards capital.
(4) Sharing of Profit	In consignment, profit earned belongs to consignor only.	In Joint venture, profit earned is shared by all co-venturers.
(5) Period	The period of working in consignment is more than that of Joint Venture.	Joint venture is a short time temporary partnership.
(6) Account Sale	In consignment, after selling goods, consignee sends account sale.	In Joint venture, transactions related to himself are exchanged by all co-venturers.

### Accounting Treatment of Consignment Transactions

Necessary Accounts required in the books of consignor	Necessary Accounts required in the books of consignee
1. Consignment A/c 2. Consignee's A/c 3. Goods sent on Consignment A/c 4. Other accounts : Abnormal Loss A/c	1. Consignor's A/c 2. Commission A/c

### Journal Entries Relating to Consignment Transactions

Transactions	Books of Consignor	Books of Consignee
(1) Goods sent on consignment	Consignment A/c Dr. To Goods sent on consignment A/c	No entry is passed when goods are received.
(2) Expenses incurred by consignor	Consignment A/c Dr. To Cash/Bank A/c	No entry is passed for expenses incurred by consignor.
(3) Advance received by consignor	Cash/Bank/B/R A/c Dr. To Consignee's A/c	Consignor's A/c Dr. To Cash or Bank A/c
(4) If B/R discounted by Consignor	Bank A/c Dr. Consignment A/c (for discount) Dr. To B/R A/c	No entry is passed when acceptance is discounted by consignor.
(5) Expenses paid by consignee	Consignment A/c Dr. To Consignee's A/c	Consignor's A/c Dr. To Cash or Bank A/c
(6) Goods returned by consignee	Goods sent on Consignment A/c Dr. To Consignment A/c	No entry is passed for returning goods to consignor.
(7) Goods sold by Consignee	Consignee's A/c Dr. To Consignment A/c	Cash/Bank A/c (Cash Sales) Dr. Debtor's A/c (Credit Sales) Dr. To Consignor's A/c
(8) Amount of Commission of consignee	Consignment A/c Dr. To Consignee's A/c	Consignor's A/c Dr. To Commission A/c

(9) Unsold Stock with Consignee	Goods with Agent A/c or Unsold Stock A/c To Consignment A/c	Dr. Dr.	No entry is passed for unsold stock that remained.
(10) Balance received from Consignee	Cash/Bank A/c To Consignee's A/c	Dr.	Consignor's A/c To Cash / Bank A/c
(11) Amount of Profit on Consignment	Consignment A/c To Profit & Loss A/c	Dr.	No entry passed in consignee's books.
(12) For Loss on Consignment	Profit & Loss A/c To Consignment A/c	Dr.	No entry is required in the books of Consignee.
(13) Closing Goods sent on Consignment A/c	Goods sent on consignment A/c To Trading A/c	Dr.	No entry is required.
(14) Transferring commission A/c	No entry		Commission A/c To Profit & Loss A/c

### Valuation of unsold stock

It is necessary to calculate the value of unsold stock so that such unsold stock is brought in the balance sheet of the consignor. Valuation of unsold stock is done as under-

- (i) Actual value of unsold stock at cost price or market price, whichever is less.
- (ii) Add proportionate expenses incurred by the consignor (such as freight, carriage on purchase, export and import duties, loading charges).
- (iii) Add proportionate expenses of non-recurring nature incurred by consignee such as freight on loading and unloading, octroi, wages, insurance of goods in transit etc. .

#### Important Note:-

Expenses of recurring nature (such as warehouse expenses, establishment, carriage on sales, packing expenses, godown rent or charges, advertisement, and other sale expenses) are not considered for valuation of unsold stock. Simple rule is all such expenses, which are incurred to bring the goods into saleable condition and incurred by consignee for bringing the goods upto the warehouse or godown are of non-recurring nature, which are considered for valuation of unsold stock.

#### Illustration 1:

Mr. Kapil of Udaipur consigned to Mr. Bharat of Bhivadi on 1 June, 2016, 200 cycle @ ₹1,500 per cycle at cost. Bharat accepted of ₹ 1,00,000 B/R on 3rd June 2016. Kapil discounted it from bank at ₹ 90,000 and paid ₹ 3,000 wages, ₹2,000 railway freight and ₹1,000 packing expenses.

Bharat paid ₹ 1,000 for unloading, ₹ 500 octroi and ₹ 2,000 godown rent. Bharat received 5% general commission and 2% delcredere commission. Bharat sold 100 cycles for cash at ₹ 1800 per cycle and 50 cycles on credit @ ₹ 2000 per cycle. Bharat sent account of sale and after deducting expenses and commission on 30 June, 2016. Prepare necessary journal entries in the books of Kapil & Bharat.

#### In the Books of Kapil (Consignor) Journal

Date	Particulars	L/F	Amount (₹)	
			Dr.	Cr.
2016 Jan.,1	Consignment A/c To Goods Sent on Consignment A/c (200 Bicycles @ Rs. 1500 each sent to Bharat on consignment)	Dr.	3,00,000	3,00,000

Jan., 1	Consignment A/c To Cash A/c (Expenses paid by consignor)	Dr.		6,000	6,000
Jan., 1	B/R A/c To Bharat's A/c (B/R received from Bharat)	Dr.		1,00,000	1,00,000
Jan., 3	Bank A/c Consignment A/c To B/R A/c (Bill discounted from Bank)	Dr. Dr.		90,000 10,000	1,00,000
Jan., 30	Consignment A/c To Bharat's A/c (Expenses incurred by Bharat)	Dr.		3,500	3,500
June, 30	Bharat A/c To Consignment A/c (Goods sold)	Dr.		2,80,000	2,80,000
June, 30	Consignment A/c To Bharat's A/c (Commission charged by Bharat)	Dr.		16,000	16,000
June, 30	Unsold Stock A/c To Consignment A/c (Balance of unsold stock)	Dr.		77,250	77,250
June, 30	Consignment A/c To P&L A/c (Profit on Consignment transferred to P&L A/c)	Dr.		21,750	21,750
June, 30	Goods sent on Consignment A/c To Trading A/c (Goods sent on Consignment transferred to Trading A/c)	Dr.		3,00,000	3,00,000
June, 30	Cash A/c To Bharat's A/c (Balance amount received from Bharat)	Dr.		1,60,500	1,60,500

**Ledger in the Books of Kapil  
Consignment A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 Jan., 1	To Goods sent on Consignment A/c	3,00,000	2016 June, 30	By Bharat A/c (Sales)	2,80,000
Jan., 1	To Cash A/c (Exp.)	6,000	June, 30	By unsold stock A/c	77,250
Jan., 3	To B/R A/c (Discount)	10,000			
June, 30	To Bharat's A/c (Exp)	3,500			
June, 30	To Bharat's A/c (Com)	16,000			
June, 30	To P&L A/c (Profit)	21,750			
		<b>3,57,250</b>			<b>3,57,250</b>

**Bharat's A/c (Consignee's A/c)**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
June, 30	To Consignment A/c	2,80,000	2016 Jan. 1	By B/R A/c	1,00,000
			June, 30	By Consignment A/c	3,500
			June, 30	By Consignment A/c	16,000
			June, 30	By Cash A/c (b/f)	1,60,500
		<b>2,80,000</b>			<b>2,80,000</b>

**Goods Sent on Consignment A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
June,30	To Trading A/c	3,00,000	2016 Jan., 1	By Consignment A/c	3,00,000
		<b>3,00,000</b>			<b>3,00,000</b>

**Stock with Agent / Unsold Stock A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
June,30	To Consignment A/c	77,250	June,30	By Balance c/d	77,250
		<b>77,250</b>			<b>77,250</b>

**Working Note :**

- Calculation of Commission
 

(1) Normal Commission	$2,80,000 \times 5/100$	=	₹ 14,000
(2) Delcredere Commission	$1,00,000 \times 2/100$	=	₹ 2,000
			<u>₹ 16,000</u>
- Unsold Stock / Stock with Agent : Balance Cycles  $(200 - 150) = 50$ 

Price	$50 \times 1,500$	=	₹ 75,000
Consignment Expenses (Proportionate)	$6000/200 \times 50$	=	₹ 1,500
Agent Expenses (proportionate)	$1500/200 \times 50$	=	₹ 750
			<u>₹ 77,250</u>

**In the Books of Bharat's (Consignee)  
Journal**

Date	Particulars	L/F	Amount (₹)	
			Dr.	Cr.
2016, Jan.,1	Kapil's A/c Dr. To B/P A/c (Acceptance given to Kapil)		1,00,000	1,00,000
June, 30	Kapil's A/c Dr. To cash A/c (Expenses incurred)		3,500	3,500
June, 30	Cash proceeds A/c Dr. To Kapil's A/c (Sale proceeds received in cash)		2,80,000	2,80,000

June, 30	Kapil's A/c To Commission A/c (Commission due)	Dr.	16,000	16,000
June, 30	Kapil's A/c To Cash A/c (Balance amount remitted)	Dr.	1,60,500	1,60,500
June, 30	Commission A/c To P & L A/c (Commission transferred to P & L A/c)	Dr.	16,000	16,000

**In the Books of Bharat  
Kapil's A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 Jan., 1	To B/P A/c	1,00,000	June, 30	By Cash A/c	2,80,000
June 30	To Cash A/c (exp.)	3,500			
June 30	To Commission A/c	16,000			
June 30	To Cash A/c (B/F)	1,60,500			
		<b>2,80,000</b>			<b>2,80,000</b>

**Commission A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
June, 30	To P & L A/c	16,000	June, 30	By Kapil's A/c	16,000
		<b>16,000</b>			<b>16,000</b>

**Bearing the amount of Bad debts on credit Sales**

- When Delcredere commission is not allowed to the consignee the loss of bad debt will be borne by the consignor.
- When consignee is allowed Delcredere commission, the loss of bad debts will be borne by the consignee. The amount of Bad debts will be debited in consignee's commission A/c. The following entries are passed.

**1. When Bad debt Loss is borne by consignor**

Books of Consignor			Books of Consignee		
Consignment A/c	Dr.	with the Amount of	Cash/Bank A/c	Dr.	(Amount received)
To Consignee's A/c		Bad Debts	Consignor's A/c	Dr.	(Bad debts)
			To Consignment Debtors A/c (Credit Sale)		

**2. When Bad debt Loss in borne by the Consignee**

No entry is passed for Bad debts.	Cash/Bank A/c	Dr.	(Amount received)
	Commission A/c	Dr.	(Bad debts)
	To Consignment Debtors A/c (Credit Sale)		

## Loss of goods sent on consignment

When some of the goods sent on consignment are lost on the way or in transit or damaged or stolen, its treatment in books depends on the nature and type of loss. Accordingly the loss may be normal or abnormal.

**1. Normal Loss :** When Loss is incurred due to the present nature of commodity and due to inherent nature of commodity, which is unavoidable it is called normal Loss.

**Accounting treatment :** No entry is required to be passed for normal loss but the cost of remaining stock (good stock) is inflated by the cost of units lost.

$$\text{Cost of unsold Stock} = \frac{\text{Cost of goods sent on consignment} \times \text{units of unsold stock}}{\text{Total number of units} - \text{Units of Normal Loss}}$$

#### Illustration 2 :

Mr. Rakesh of Mumbai sent 2000 tons of Coal on consignment @ ₹ 300 per ton. Consigner paid ₹10,000 carriage and ₹ 8,000 for wages. Consignee spent ₹ 2,000 for expenses. Mr. Deepak received 10 per cent less coal. Deepak sold 1500 ton coal @ ₹ 400 per ton. Calculate value of unsold stock.

#### Solution :

$$\text{Units of Normal Loss} = 2,000 \times 10\% = 200$$

$$\text{Remaining good units} = 2,000 - 200 = 1,800 \text{ tonnes.} \quad \text{₹}$$

Total cost of 2,000 units dispatched by consignee	6,00,000
Add : Expenses Incurred by Consignor (10,000 + 8000)	18,000
Add : Expenses Incurred by Consignee	2,000
<b>Total Cost of 2,000 tonnes</b>	<b>6,20,000</b>

$$\text{Cost of unsold Stock} = \frac{\text{₹ } 6,20,000}{1,800} \times 300 \text{ (tonnes)} = \text{₹ } 1,03,333$$

**2. Abnormal Loss :** The loss of stock which is due to carelessness or abnormal reasons is called abnormal loss. This loss is calculated as under :

- Loss in Transit :** (Loss of stock that occurred before goods reached consignee's Warehouse) - In this case, to get value of abnormal loss proportionate share of consignor's expenses are added in the cost of stock lost. Consignee's expenses are not included.
- Loss of stock in Consignee's Godown :** In this case, value of abnormal loss is calculated : the cost of goods destroyed by adding proportionate expenses of the consignor as-well-as proportionate non-recurring (Direct) expenses of the Consignee.

**Accounting Treatment of Abnormal Loss of stock :** This Loss is to be borne by the Consignor, as such, the required entries will be passed in the books of the Consignor only.

#### (1) When Abnormal Loss Occurs

Abnormal Loss A/c	Dr.	Amount of Abnormal Loss
To Consignment A/c		

#### (2) If stock is insured and insurance Company admits the claim

Insurance Company A/c	Dr.	With the amount of claim admitted
Profit & Loss A/c	Dr.	With the amount not admitted
To Abnormal Loss A/c		Total amount of claim
Bank A/c	Dr.	Admitted claim received from Insurance Company
To Insurance Company A/c		To Insurance Company

#### Illustration 3 :

Bharat Cycles Ltd. of Mumbai sent 400 cycles @ ₹200 per cycle to Chandra & Sons of Udaipur. Consigne paid ₹ 1,400 carriage and ₹ 600 for insurance. On the way due to truck accident 100 cycles are fully destroyed and only 1/4 of purchase price is received from them. Then Chandra & Sons sold 240 cycle @ ₹ 250 per cycle and sent the demand draft after deducting ₹ 1,200 for octroi, ₹ 600 for sales expenses, and ₹ 2400 for his commission. Consignor got ₹ 12,500 from insurance Co. for abnormal loss. Calculate the value of abnormal loss and unsold stock. (a) if abnormal loss occurs in transit of goods (b) if abnormal loss occurs at consignee's godown.



**Solution :****(a) Calculation of amount of Abnormal Loss in Transit** ₹

(1) Cost of 100 cycles = 100 x ₹ 200	=	20,000
Add: Proportionate Expenses of Consignor = $\frac{2,000 \times 100}{400}$	=	<u>500</u>
Total Abnormal Loss		20,500
Less: Amount realized from destroyed cycles $2000 \times \frac{1}{4} \times 100$	=	<u>5,000</u>
Net Cost of Abnormal Loss		15,500
Less: Amount of the claim admitted & received from Insurance company		<u>12,500</u>
Net Loss to be transferred to Profit & Loss A/c		<u><u>3,000</u></u>

**(2) Value of unsold stock : 400 – 100 – 240 = 60 cycles**

Cost price of 60 cycles @ ₹ 200	12,000
Add: Proportionate Expenses of Consignor ( ₹ 2,000 x 60 ) ÷ 400	300
Add: Proportionate Expenses of Consignee (direct) $\frac{1200}{300} \times 60$	240
Total Cost of 60 cycles	<u><u>12,540</u></u>

**(3) Abnormal Loss occurs in Consignee's Godown :**

Cost of 100 cycles = 100 x ₹200	20,000
Add: Proportionate expenses of Consignor and Consignee	800
₹ 2,000 + 1,200 = $\frac{3,200 \times 100}{400}$	<u><u>20,800</u></u>

Abnormal Loss

**Note:** The Loss in Consignee's Godown is due to carelessness of the consignee, so this loss will be borne by the Consignee.

**Illustration 4 :**

On 1 January 2016, Himi Glass Works of Mumbai consigned to Parth of Bhilwara 100 cases at ₹ 16000 on cost. He paid ₹ 1000 Railway freight, ₹ 2000 wages. During transit 10 cases were lost and remaining cases were received by Parth. He paid octroi ₹ 1000, sales expenses ₹ 500, godown rent ₹ 500. Parth sold 75 cases @ ₹ 200 per case. Parth received 5% commission on sales and remaining amount was sent to consignor by consignee.

Prepare Consignment and consignee's account in the books of Himi Glass Works.

**Solution :**

**In the Books of Himi Glass Works, Mumbai**  
**Consignment Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 Jan, 1	To Goods sent on Consignment A/c	16,000		By Parth's A/c (Sales)	15,000
	To Cash A/c (Exp.)	3,000		By Abnormal Loss	1,900
	To Parth's A/c (Exp.)	2,000		By Unsold Stock	3,017
	To Parth's A/c (Commission)	750		By P & L (Loss)	1,833
		<u>21,750</u>			<u>21,750</u>

- (1) Computation of commission :  $15,000 \times 5\%$  = ₹ 750
- (2) Amount of Abnormal Loss :  $10 \text{ cases} \times 160$  = ₹ 1,600  
 Add : Proportionate Consignor's Expenses =  $\text{₹ } 300 \times 10/100$  = ₹ 300 = ₹ 1,900
- (3) Unsold stock =  $100 \text{ cases} - 10 - 75 = 15 \times \text{₹ } 160$  = ₹ 2,400  
 Add: Proportionate Exps. of Consignor =  $23,000 \times 5/100$  = ₹ 450  
 Add: Proportionate Exps. of Consignee =  $\text{₹ } 1,000 \times 15/100$  = ₹ 167  
 = ₹ 3,017

**Parth's Account (Consignee's A/c)**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	15,000		By Consignment A/c	2,000
				By Consignment A/c	750
				By Bank A/c (B/F)	12,250
		<b>15,000</b>			<b>15,000</b>

**Illustration 5 :**

Mayank Coal Co. consigned to Dhaval Sales Ltd. 1000 quintal coal @ ₹40 per quintal. He paid loading ₹ 500, railway freight ₹ 3500. Dhaval Sales Ltd. sold 800 quintal coal @ ₹ 60 per quintal and paid sales exp. ₹ 1600, fire insurance ₹ 200. Agent received 5% commission on sales, consignee reported a shortage of 20 quintals coal on the whole consignment. Prepare Consignment Account in the books of Consignor and calculate the value of unsold stock.

**Solution :**

**In the Books of Mayank Coal Co.  
Consignment Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on Consignment A/c	40,000.00		By Dhaval & Sons (Sales) (800x60)	48,000.00
	To Cash A/c (Exp.)	4,000.00		By Unsold stock	8,081.63
	To Dhaval Sales Ltd A/c (Exp.)	1,800.00		$\frac{(40000 + 4000)}{980} \times 180$	
	To Parth's A/c (Commission)	2,400.00			
	To P&L A/c (Profit)	7,881.63			
		<b>56,081.63</b>			<b>56,081.63</b>

**When goods are consigned at Invoice Price and Accounting**

When goods are consigned by the consignor at Invoice Price, the following entries will be passed at invoice price: (1) Goods sent on Consignment, (2) Unsold Stock (opening and closing both) (3) Abnormal Loss. But invoice price includes profit also with the cost, means Invoice Price = Cost + Profit. Under such circumstances the effect of the profit will have to be eliminated, only then correct profit on consignment would be known.

The following are the adjusting entries, which are to be passed so as to eliminate the effect of Profit. The entries will be passed in the books of the Consignor only :

1.	For profit included in the net amount of goods sent on consignment (Net value of goods = Goods sent on consignment - Goods Returned by consignee)	Goods sent on consignment A/c Dr. To Consignment A/c (With the difference between the invoice price and cost price)
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2.	For amount of profit included in Opening balance of unsold stock.	Stock Reserve A/c To Consignment A/c (With the amount of difference)	Dr.
3.	For profit included in closing balance of unsold stock.	Consignment A/c To Stock Reserve A/c (With the amount of difference)	Dr.
4.	For profit included in the value of abnormal loss.	Consignment A/c To Abnormal Loss A/c (With the amount of difference between invoice price and cost price)	Dr.

**Note 1:** While preparing Final Accounts, unsold stock will be shown at Cost Price : Invoice Price - Stock Reserve.

**Note 2:** In the absence of clear information about solving the problem at Invoice Price or Cost Price, students may solve the question at Cost Price or at invoice price as they like.

#### Illustration 6 :

Krishna Engineering co. sent 500 Table Fans at @ ₹ 600 per fan to Suman Ele. Store at Invoice Price, which is 25% above the Cost Price. Consignor paid ₹ 5,000 freight ₹ 2,000 packing charges. Consignee sent account of sale showing sale of 400 fans @ ₹ 800 per fan and paid advertisement ₹ 1,000, godown rent ₹ 500. Consignee received commission @ 5% on Invoice Price and 20% above on Invoice Price as additional commission. Prepare Consignment Account at Invoice Price.

#### Consignment Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods Sent on Consignment A/c	3,00,000		By Suman Ele. store (Sales) 400 x 800	3,20,000
	To Cash A/c (Exp.) (5000+2000)	7,000		By Goods Sent on Consignment A/c (300000 x 25/125)	60,000
	To Suman Electric store A/c (Exp.) (1000+500)	1,500		By Unsold stock	61,400
	To Suman Ele. store General Com. 12000				
	Additional Com. <u>16000</u>	28,000			
	To Stock Reserve A/c	12,000			
	To Profit & Loss A/c	92,900			
		<b>4,41,400</b>			<b>4,41,400</b>

#### Working Notes :

(1) Calculation of Commission

(i) Ordinary Commission on Invoice Price =  $400 \times 600$  or ₹ 2,40,000, 5% of ₹ 2,40,000 = ₹ 12,000  
(ii) Over riding Commission = Excess over Invoice Price  $400 \times ₹ 200$  or 80,000 x 2% = ₹ 16,000  
₹ 28,000

(2) Value of unsold Stock =  $500 - 400 = 100$  Fans x 600 = ₹ 60,000  
Add: Proportionate Expenses of Consignor :  $7,000 \times 100/500$  = ₹ 1,400  
Value of Unsold Stock ₹ 61,400

(3) Cost of 100 Fans = 100 x 480	= ₹ 48,000
Add: Proportionate Expenses	= ₹ 1,400
	<u>₹ 49,400</u>

Therefore Stock Reserve = ₹ 61,400 – 49,400 = ₹ 12 000

### Fall in Market Price of Stock

If the market price of unsold stock is less than its Cost Price, it will be valued at market price. It means if any goods are lying either with the Agent or with consignor, its cost is reduced.

#### Illustration 7:

Mrs. Rekha of Bombay purchased 400 salwar suits @ ₹ 600 per suit and sent to Varsha of Jaipur 200 suits @ ₹ 900 per suit at invoice price. Consignor paid ₹ 5000 as expenses on consignment and consignee sold suits 150 @ ₹ 1000 per suit in cash and paid sundry expenses ₹ 2500. Mrs. Rekha sold 120 suits at ₹ 900 per suit and paid sales expenses ₹ 2000. Due to fall in market value, stock valued at 10% less than cost price. Consignee will get 5% general commission and overriding commission @ 15% on excess amount received over ₹ 900 per suit.

Prepare in the books of Rekha, Consignment Account and Trading and P & L Account.

#### In the Books of Rekha of Bombay Consignment Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods Sent on Consignment A/c	1,20,000		By Varsha (Sales)	1,50,000
	To Cash A/c (Exp.)	5,000		By Unsold Stock	28,250
	To Varsha (Exp.)	2,500			
	To Varsha (Commission)				
	General 7500				
	Overriding 2250	9,750			
	To Profit & Loss A/c	41,000			
		<u>1,78,250</u>			<u>1,78,250</u>

#### Working Notes :

<b>(1) Computation of commission</b>	(₹)
(i) General Commission ₹1,50,000 x 5%	= 7,500
(ii) Add over riding Commission ₹ 1,50,000 – (150 x 900) = 15,000 x 15%	= 2,250
Total Commission	<u>9,750</u>
<b>(2) Valuation of Stock with Agent</b>	
Cost of unsold Stock 50 x 600	= 30,000
Less fall in market price 10%	= 3,000
Add : Proportionate Exp. of Consignor ₹5,000 x 50/200	= 1,250
	<u>28,250</u>

#### Trading and Profit & Loss Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Purchases (400 x 600)	2,40,000		By Goods sent on Consignment	1,20,000
	To Gross Profit	31,200		By sales (120 x 900)	1,08,000
				By closing stock at cost	

			80 x 600 = 48000	
			(-) 10% of 48000 4800	43,200
		<b>2,71,200</b>		<b>2,71,200</b>
To Selling exp.		2,000	By Gross profit (Trading A/c)	31,200
To Net profit		70,200	By Consignment A/c (Profit)	41,000
		<b>72,200</b>		<b>72,200</b>

## Sale of Damaged Goods by Consignee

### Illustration 8 :

Mr. Hitesh of Bangalore consigned goods to Mr. Mahesh of Ajmer on 1 January, 2015 for ₹30,000 at cost price. Consignor paid for carriage and insurance ₹ 900. Due to heavy rain fall 10% goods was damaged. Consignee paid clearing charges ₹ 250, godown rent ₹ 200. On 20th February 2015 consignor received ₹ 2500 from Insurance Company. Consignee sent Account sale showing that 2/3 of the remaining goods sold in cash for ₹ 35000 and received ₹ 500 from damaged goods. Consignee sent remaining amount through bearer. Consignee will receive 8% commission on total sales.

Prepare in the books Hitesh, Consignment Account and Abnormal Loss Account.

### In the Books of Hitesh Consignment Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on Consignment A/c	30,000		By Mahesh's A/c (sales)	35,000
	To Cash A/c (Exp.)	900		By Abnormal Loss A/c	3,090
	To Mahesh (Exp.) (250+200)	450		By Unsold Stock A/c	9,353
	To Mahesh's A/c (Commission 8% of 35000)	2,800			
	To Profit & Loss A/c	13,292			
		<b>47,443</b>			<b>47,443</b>

### Working Note :

#### Valuation of Unsold Stock

Cost of total Stock	₹ 30,000
Add : Expenses of Consignor	₹ 900
	₹ 30,900
Less : Abnormal Loss ₹ 30,900 x 10%	₹ 3,090
	₹ 27,810
Add : Non-recurring expenses of Consignee	₹ 250
Cost of total Goods for valuation	₹ 28,060
Value of Unsold Stock = ₹ 28,060 x 1/3	₹ 9,353

### Abnormal Loss A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	3,090		By Mahesh (Sales of Damaged goods)	500
	To Mahesh (com.) 500 x 8%	40		By Bank A/c	2,500
	By P & L A/c	130			
		<b>3,130</b>			<b>3,130</b>

**Illustration 9 :**

Mr. Harsit of Ahmedabad consigned 300 sarees @ ₹225 per saree to Gopesh of Udaipur at invoice price (cost price ₹ 150 per saree). Harsit paid expenses ₹ 3000 on consignment. Harsit wrote a bill on Gopesh of ₹ 25,000 for three months, which was accepted by him. Harsit discounts it from bank for ₹ 24,500. Gopesh paid octroi ₹ 900 and sold 250 sarees to Usha for ₹ 200 each, 20 sarees were stolen from godown, Gopesh is entitled 5% general commission, 2% delcredare commission. Accounts are prepared at cost price.

Prepare Consignment Account, Gopesh Account, and Abnormal Loss Account in the books of Harsit and Harsit Account in the books of Gopesh.

**In the Books of Harsit  
Consignment Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on Consignment A/c	45,000		By Gopesh A/c (Sales) (250 x 200)	50,000
	To Cash A/c (Expenses)	3,000		By Abnormal Loss	3,260
	To B/R (Discount)	500		By Unsold Stock	4,890
	To Gopesh (Expenses)	900			
	To Gopesh (Commission)				
	Gen. Com.      2500				
	Del. Com      1000	3,500			
	To Profit & Loss A/c	5,250			
		<b>58,150</b>			<b>58,150</b>

**Working Note :**

	₹
(i) Ordinary Commission (₹ 50,000 x 5%)	2,500
Delcredere Commission (₹ 50,000 x 2%)	1,000
Total Commission	<u>3,500</u>
(ii) Valuation of Abnormal Loss	
Cost of Abnormal Loss of goods (20 x ₹ 150)	3,000
Add : Proportionate Exp. of Consignor (3,000 x 20)/300	200
Add : Proportionate Exp. of consignee (900 ÷ 300 = 3 x 20)	60
Value of Abnormal Loss	<u>3,260</u>
(iii) Valuation of unsold stock (3000 – 2500 – 200 = 30 x ₹150)	= 4,500
Add : Proportionate Expenses of consignor (₹3,000 x 30) / 300	300
Add : Proportionate Expenses of Agent ₹ 900 x 30 / 90	= 90
Value of unsold stock	<u>4,890</u>

**Gopesh's A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	50,000		By B/R A/c	25,000
				By Consignment A/c	900
				By Consignment A/c	3,500
				By Balance c/d	20,600
		<b>50,000</b>			<b>50,000</b>

**Goods Sent on Consignment A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Trading A/c	45,000		By Consignment A/c	45,000
		<b>45,000</b>			<b>45,000</b>

**Abnormal Loss A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	3,260		By P&L A/c	3,260
		<b>3,260</b>			<b>3,260</b>

**In the Books of Gopesh  
Harsit's A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To B/P A/c	25,000		By Cash A/c (Sale)	50,000
	To Cash A/c (Expenses)	900			
	To Commission	3,500			
	To Balance c/d	20,600			
		<b>50,000</b>			<b>50,000</b>

## Share in Profit to Consignee or Special Commission

**Illustration 10 :**

Himi Garments of Bangalore sent goods to agent costing ₹33,000 at invoice price, which is 20% higher than cost to Sheela Garments (Agent) of Ahmedabad on consignment. Consigner paid ₹ 1250 for insurance and freight. Agent paid ₹ 250 as clearing charges and establishment expenses ₹ 750. Agent sold 3/4 of goods at cost plus 1/3 for profit. Half of the remaining goods destroyed by the fire. Insurance company accepted the claim for ₹ 4,500, which is settled at 90% of the said amount. Agent will get 5 percent commission on gross sales and, 3 percent delcredere commission. He will also get 5% of the Profit as special commission (after deducting such commission). Prepare Consignment Account, Abnormal loss account in the books of consignor. Consigner received balance amount from consignee through bank draft. Accounting is done at invoice price. (Excluding abnormal loss).

**Solution :**

**Books of Consignor**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on Consignment A/c	39,600		By Sheela Garments (Sales)	33,000
	33000 x 120 / 100			By Goods sent on Consignment A/c (39600 – 33000)	6,600
	To Bank A/c (Expenses)	1,250		By Abnormal Loss	4,312.50
	To Sheela Garments (Expenses) (250+750)	1,000		By Unsold Stock	5,137.50
	To Sheela Garments (Commission)	2,640			
	To Stock Reserve	825			
	To Sheela Garments (Special Commission)	178			
	To Profit & Loss A/c	3,557			
		<b>49,050</b>			<b>49,050</b>

**Working Notes :**

(1)	Valuation of Abnormal Loss ( $1 - \frac{3}{4} = \frac{1}{4} \times \frac{1}{2} = 1/8$ )	(₹)
	Cost of Abnormal Loss = ₹ 33,000 – $\frac{3}{4}$ (Sale) ₹ 24,750 = $8,250 \times \frac{1}{2}$	= 4,125.00
	Add : Proportionate Expenses (Consignor ₹ 1,250 + consignee ₹250) = ₹ 1500 $\times \frac{1}{8}$	= 187.50
	Total	<u>4,312.50</u>
(2)	Valuation of Unsold Stock : Unsold Stock ( $\frac{1}{2}$ of $\frac{1}{4} = 1/8$ )	
	Cost = ₹ 33,000 $\times \frac{1}{8}$ = ₹ 4,125 + Proportionate Expenses ₹ 187.50	= 4,312.50
	Add : Stock Reserve (₹ 4,125 $\times 20\%$ )	= 825.00
	Total	<u>5,137.50</u>
(3)	Calculation of Sale: $33,000 \times \frac{3}{4} \times \frac{4}{3}$	= 33,000
(4)	Computation of Commission	
	General Commission = 5% of ₹ 33,000	= 1,650
	Delcredere Commission = 3% of ₹ 33,000	= 990
		<u>2,640</u>
(5)	Calculation of Special Commission and Net Profit :	
	Profit before charging such commission ( ₹ 49,050 – 45,315)	3,735
	Less : Special Commission 5% of ₹ 3,735	178
	Net Profit	<u>3,557</u>

**Abnormal Loss Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	4312.50		By Insurance Co. (4500 $\times$ 90%)	4050
				By P&L A/c	262.50
		<b>4312.50</b>			<b>4312.50</b>

**Conversion of Consignment into joint Venture**

Sometimes the Consignor and consignee take decision in the middle of the process of consignment that the present relationship will be converted into Joint Venture hence the consignee in such a case will be entitled to receive share in profit instead of commission. Unsold stock with consignee will be transferred to Joint Venture Account and transactions will be recorded accordingly. It is called conversion of Consignment into Joint Venture.

**Illustration 11 :**

Swastik toys of Udaipur sent ₹40,000 toys to Manu toys of Salumber on consignment for sale, on the basis of 5% commission. Consignor paid ₹ 4,000 for packing and carriage. Consignee paid ₹ 1,000 for carrying goods to godown. Consignee sold 80% goods for ₹ 50,000 and paid remaining amount. Consignee denied to work on commission for the remaining goods.

Consignor proposed to consignee for carrying business on joint venture by taking  $\frac{1}{3}$  share in profit and loss. Consignee accepted it. Consignor sent goods worth ₹ 20,000 to Manu toys of Salmber on joint venture. Swastik toys spent ₹ 2,000 and Manu toys spent ₹ 1,500. Manu toys retain the goods costing ₹ 1,500 at same value and remaining goods sold at ₹ 40,000. Accounts are settled between both parties.

Prepare necessary accounts in the books of both the parties.

**In the books of Swastik Toys  
Consignment Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on	40,000		By Manu Toys (sale)	50,000



Consignment A/c			By Joint venture (Transfer to joint venture a/c)	9,000
To Bank (Expenses)	4,000		(40,000 x 20%) + (5000 x 20%)	
To Manu Toys (Exp.)	1,000			
To Manu Toys (com.) (5% of 50,000)	2,500			
To P & L A/c	11,500			
	<b>59,000</b>			<b>59,000</b>

**Joint Venture Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c (Transfer)	9,000		By Manu toys (sales)	40,000
	To Purchase (goods supplied)	20,000		By Manu toys (Goods Taken)	1,500
	To Bank A/c (expenses)	2,000			
	To Manu Toys (exp.)	1,500			
	To Profit on Joint Venture				
	P&L           6000				
	Manu toys <u>3000</u>	9,000			
		<b>41,500</b>			<b>41,500</b>

**Manu Toys Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment A/c	50,000		By Consignment a/c	1,000
				By Consignment a/c	2,500
				By Bank a/c (b/f)	46,500
		<b>50,000</b>			<b>50,000</b>
	To Joint venture a/c (sales)	40,000		By Joint venture a/c (Exp.)	1,500
	To Joint venture a/c (Exp.)	1,500		By Joint venture a/c (Share of Profit)	3,000
				By Bank a/c (b/f)	37,000
		<b>41,500</b>			<b>41,500</b>

**In the Books of Manu's Toys**

**Joint Venture Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Swastik Toys (stock on consignment)	9,000		By Bank A/c (sales)	40,000
	To Swastik Toys (Goods Supplied)	20,000		By Purchase (stock taken)	1,500
	To Swastik Toys (Exp.)	2,000			
	To Bank a/c (Exp.)	1,500			
	To Profit				
	P&L           3000				
	Swastik Toys <u>6000</u>	9,000			
		<b>41,500</b>			<b>41,500</b>

## Swastik Toys Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Bank A/c (expenses)	1,000		By Bank A/c (sales)	50,000
	To Commission	2,500			
	To Bank a/c (b/f)	46,500			
		50,000			50,000
	To Bank A/c (b/f)	37,000		By Joint venture (stock)	9,000
				By Joint venture (Goods)	20,000
				By Joint venture (Exp.)	2,000
				By P&L A/c (Profit)	6,000
		37,000			37,000

## Repairs of Partially Damaged Goods

When some amount is spent for repairing damaged goods to bring them to saleable condition, the Journal entry passed is as follow :

- (1) The amount spent on repairing of such goods is treated as Consignment Expenses :**

Consignment A/c Dr.

To Cash/Bank A/c

(Being repair charges incurred on partially damaged goods)

- (2) Amount of Repairs to be included in the cost of damaged goods :**

The cost of damaged goods will be enhanced by the amount spent on their repair to bring them to saleable condition. In this case cost of Abnormal Loss will be determined by adding this amount in cost. In such a case, the amount to be charged to Profit & Loss A/c will be :

**Abnormal Loss to be debited to P & LA/c = Cost of Damaged goods + Amount of Repairs – Saleable Amount.**

- (3) If partly damaged goods become good units after repairing them :**

It can be sold at price of good unit, then such amount is added in the cost of unsold stock.

### Illustration 12:

Rajendra sent 100 fans @ ₹800 per fan to Narendra on consignment. Consigner paid ₹ 2000 for carriage and other expenses. 20 fans are left unsold with consignee, out of which 8 are damaged. Repairs ₹ 1000 paid to make good the damaged fans. Give the Journal entry for expenses on repairs, if:

- (1) Repair expenses are treated as consignment expenses.
- (2) Repair expenses included in the value of damaged goods and then the value of damaged fans is ₹400 per fan, then calculate value of abnormal loss too.
- (3) After repair the damaged fans can be sold as good fans, then calculate the value of unsold stock.

### Solution :

- |                     |     |      |      |
|---------------------|-----|------|------|
| (i) Consignment A/c | Dr. | 1000 |      |
| To Cash A/c         |     |      | 1000 |

(Repair of partially damaged goods debited to Consignment A/c)

₹

- (ii) Cost of Abnormal Loss**

Cost price of 8 Fans ₹ 800 each.

6,400

Add : Proportionate Expenses paid by consignor ( $2000 \times 8/100$ )

160

6,560

Add : Repairs of damaged units

1,000

Total Cost of damaged stock	7,560
Less : Actual value of damaged fans 8 x ₹ 400	3,200
Abnormal Loss debited to P & L A/c	<u>4,360</u>
<b>(iii) Value of unsold stock</b>	
Cost of 20 fans @ ₹ 800 each	16,000
Add : Proportionate Expenses paid by consignor (2000 x 20 / 100)	<u>400</u>
	16,400
Add : Repairs of damaged units	<u>1,000</u>
Value of unsold stock	<u>17,400</u>

## Summary

- **Consignment** : When goods are sent by the consignor to the Consignee for selling them and for which the later will be entitled to receive commission, is called Consignment. Goods sent by consignor is called outward Consignment and received by consignee is called Inward Consignment.
- **Consignee** : A party to whom goods are sent on consignment which is to be sold to consumers. Is also known as Agent.
- **Consignor** : An owner of goods who dispatches goods on Consignment for sale. He is also known as principal.
- **Advance on Consignment** : This amount is paid by consignee to the consignor before the sale on Consignment as security deposit for goods sent to him.
- **Difference between Consignment and Sale** : In consignment, ownership of goods lies with the consignor, whereas in sale of goods ownership is transferred to buyer.
- **Valuation of Unsold Stock** : It is valued at cost price or market price, whichever is less. There after proportionate expenses incurred by consignor and proportionate non-recurring expenses incurred by Consignee are added.
- **Loss of Goods on Consignment** : The loss may be normal or abnormal. There is no separate accounting treatment for normal loss. The cost of normal loss is absorbed by good units. On the other hand Abnormal Loss is valued and shown separately in Consignment A/c.
- **Consignment of Goods at Invoice Price** : When goods are consigned by the consignor at Invoice Price, in that case the amount of profit remains included in the value of goods sent on consignment. For unsold stock and Abnormal Loss, adjustment is made.
- **Fall in market price of goods** : In this case, unsold sock is valued at market price.
- **Share in Profit to Consignee** : Sometimes Consignor and consignee enter into agreement that the later will receive some share in profit as a special commission in addition to other commissions. In this case consignment A/c will be debited and Agent A/c credited with the amount of such share of profit.
- **Conversion of Consignment into Joint Venture** : Under this case unsold stock of Consignment will be transferred to Joint Venture A/c and there after entries will be passed as in case of Joint Venture.

## Glossary

- (1) **Account Sale** : This is a document sent by Consignee to the Consignor after the sale showing details of gross sale proceeds, the expenses incurred by him and the amount of commission charged etc.
- (2) **Proforma Invoice** : When goods are sent to agent by Consignor, an informative raw-invoice is sent by consignor to consignee, so that consignee will not sell the goods below such price.
- (3) **Consignment Account** : During the process of goods sent by consignor to consignee, an account in prepared by the consignor is called as Consignment Account.
- (4) **Delcredere Commission** : This commission is allowed to the agent in order to cover the risk of loss due to bad debts.

- (5) **Additional Commission** : It is an extra Commission in addition to ordinary Commission usually given for selling goods above Invoice Price.
- (6) **Unsold Stock with Agent** : The Stock of goods left after the sale by the consignee is called unsold stock or stock with Agent. It is valued at cost or market price whichever is less and by adding proportionate direct expenses incurred by Consignor and Consignee.
- (7) **Normal Loss**: The loss of stock which is unavoidable, natural and is due to inherent nature of commodity is known as normal loss.
- (8) **Abnormal Loss**: When loss is caused by theft, fire, pilferage and abnormal breakages etc, it is called Abnormal Loss.

## Questions for Exercise

### Multiple Choice Questions :

- Nature of Consignment Account is:
  - Real Account
  - Personal Account
  - Nominal Account
  - Agent Account
- What is the relation between consignor and consignee?
  - Owner and Employee
  - Purchaser and Seller
  - Principal and Agent
  - Debtors and Creditors
- The statement of Account, which is sent by the consignee after selling goods is known as :
  - Invoice
  - Statement of Sale
  - Account of Sale
  - Performa Invoice
- In Consignment, while valuing remaining unsold stock with consignee, which proportionate expenses of consignee are added :
  - Octroi and Freight
  - Godown Rent
  - Advertisement expenses
  - Sales expenses
- Consignor sent goods to consignee on consignment, consignor paid 5% commission on invoice price and 20% above on invoice price. Consignor sent goods worth ₹80000 at an invoice price of ₹ 100000. Which is sold for ₹ 1,10,000 the amount of commission for agent will be :
  - ₹ 7,000
  - ₹ 8,000
  - ₹ 10,000
  - ₹ 5,800
- Goods sent on consignment worth ₹ 12000 that is 20% above the cost price. The cost of such goods will be:
  - ₹ 9,600
  - ₹ 15 000
  - ₹ 14,400
  - ₹10,000
- B/R received from consignee ₹ 10,000 consignor discounted from bank for ₹ 9,600. What entry will be passed for discounting the bill ?
  - |              |     |         |          |
|--------------|-----|---------|----------|
| Bank A/c     | Dr. | ₹ 9,600 |          |
| Discount A/c | Dr. | ₹ 400   |          |
| To B/R A/c   |     |         | ₹ 10,000 |
  - |                    |     |         |          |
|--------------------|-----|---------|----------|
| Bank A/c           | Dr. | ₹ 9,600 |          |
| To Consignment A/c |     |         | ₹ 400    |
| To B/R A/c         |     |         | ₹ 10,000 |
  - |                 |     |         |          |
|-----------------|-----|---------|----------|
| Bank A/c        | Dr. | ₹ 9,600 |          |
| Consignment A/c | Dr. | ₹ 400   |          |
| To B/R A/c      |     |         | ₹ 10,000 |

(d) Bank A/c	Dr.	₹ 9,600	
Discount A/c	Dr.	₹ 400	
To Consignment A/c			₹ 10,000

8. Ramesh sent 250 cycles @ ₹ 200 per cycles at invoice price to Naresh on consignment. It includes 25% profit on cost price, consignor paid expenses ₹ 2000. Consignee informed that 50 cycles remain unsold, those cycles can sell at ₹ 190 per cycle, what will be value of unsold stock :
- (a) ₹ 9900                      (b) ₹ 9500                      (c) ₹ 8400                      (d) ₹ 8000

#### Very Short Answer Type Questions :

- What is difference between Delcredere Commission and Additional Commission?
- What is Account sale? Who prepares it?
- Give two differences between Invoice and Proforma Invoice?
- An agent is entitled to get Delcredere Commission. What entry he will pass, if a bad debt due to credit sale occurs.
- Jitu sent goods on consignment at cost ₹ 10,000. He paid ₹ 1000 for carriage and insurance. Agent paid ₹ 2,500 for octroi and ₹ 400 for selling expenses. Agent sold 80% goods. Calculate value of unsold stock
- Goods sent on consignment at cost plus 20%. Calculate the invoice value of goods costing ₹ 12,000.
- Anil sent 50 fans box at ₹ 1,000 per fan to Sunil on consignment and paid ₹ 5,000 for consignment expenses. On the way 5 fans was stolen. Sunil took the delivery of remaining fans and paid freight ₹ 800. Calculate the value of abnormal loss.
- If consignee is not entitled for Delcredere commission and ₹ 1,500 due to debtor becomes bad, what entry will be passed in the books of consigner for such bad-debts.
- Goods lost from consignees godown worth ₹ 10,000. Insurance Co. accepted the claim for ₹ 9,000. In which account such difference will be transferred.
- 2000 Kg Gur sent on consignment @ ₹ 20 per Kg. 100 kg became abnormal loss. 1500 kg goods sold by consignee. Calculate the value of unsold stock.

**Answer :** ₹ 8421

#### Short Answer Type Questions :

- What are the differences between Consignment and Sale ?
- Give two examples of Normal Loss and Abnormal Loss.
- What are the differences between Consignment and Joint Venture?
- What are the differences between Invoice and Proforma Invoice?
- While calculating value of remaining goods with consignee, which expenses paid by agent are not added?
- Chandra sent goods worth ₹ 50,000 at invoice price to Shakuntla by adding 25% profit on cost. Expenses for sending the goods were ₹ 1000 and Shankuntla spent ₹ 2000 for receiving the goods. Consignee sold 4/5 part of goods received by him. Calculate the value of unsold stock.
- Vivek paid to Bhavesh 5% general commission on sale and 2.5% Del credere commission. Bhavesh sold goods worth ₹ 60,000 including ₹ 40,000 on credit sales. What amount of commission Bhavesh will receive?
- 100 ton coal sent on consignment for ₹ 1300 per ton at invoice price and ₹ 800 per ton at cost price and consignor paid ₹ 20000 for expenses. Agent sold 76 ton coal and paid ₹ 8000 for sales expenses. It is informed that 5 tons coal is found less. Calculate the value of remaining stock with agent.

**Answer :** ₹ 19200.

9. Mr. Harish of Mumbai consigned 20 items to Chain Singh of Jaipur at ₹ 1,800 per item at cost. He spent ₹ 2000 on consignment. On the way 4 items are destroyed. Insurance Co. accepted 80% claim. Consignee sold destroyed goods at ₹ 1000. Calculate the value of abnormal loss.

**Answer :** ₹ 520

10. Ramesh sent 400 T.V. @ ₹ 1500 per T.V. at invoice price to Naresh on consignment. It includes 25% of cost. Ramesh paid ₹ 2000 for sundry expenses. Naresh sold 350 T.V. at ₹ 1800 per T.V. and Naresh paid ₹ 1000 sales expenses and ₹ 2000 advertisement expenses. Calculate the value of unsold stock.

**Answer :** ₹ 60250

#### EssayType Questions :

- How valuation is done for unsold stock with consignee?
- What do you mean by consignment? Explain with example various types of commissions given to consignee.
- Write the difference between accounting for goods on consignment at cost price and at invoice price. Explain with examples.

#### Answer of Multiple Choice Questions

Question No.	1	2	3	4	5	6	7	8
Answer	c	c	b	a	a	d	c	c

#### Numerical Questions :

1. Mr. Bharat of Alwar sent goods to Kapil of Udaipur for ₹ 100000 on consignment and paid sundry expenses ₹ 20000. Kapil sent ₹ 60000 to Bharat in advance. Kapil paid wages and cartage ₹ 4000 and godown rent ₹ 3000. Kapil sold all the goods for ₹ 1,60,000 in cash. 5% commission on sales is payable to consignee. Kapil sent remaining amount to Bharat. Prepare Journal entries in the books of consignor and consignee and also prepare necessary ledger accounts.

**Answer :** Profit on consignment ₹ 25,000.

2. Mr. Rakesh of Jaipur appoints Mr. Anil of Bhilwara as his selling agent. Rakesh consigned 100 mobile sets @ ₹ 3000 each set to Anil. Rakesh paid expenses ₹ 2800 and Anil paid clearing charges ₹ 1200. Anil sold 70 mobile @ ₹ 4000 each set in cash and 20 mobile sets @ ₹ 4200 each sold on credit. Selling expenses per mobile set ₹ 25 paid. Anil received 6% General commission and 3% Delcredere commission on credit sales. Prepare necessary accounts in the books of Consignor and Consignee. Value of one set is being out of credit sales?

**Answer :** Consignment Profit ₹ 63790 Value of Unsold Stock ₹ 30,400.

3. Bharat Cycle Ltd. of Ajmer appointed Chandra Cycle Store Chitorgarh as his selling agent on the following terms.
- Goods to be sold at invoice price or over.
  - Chandra cycle store will be entitled to get commission of 5% on invoice price and 20% for commission on the value above invoice price.
  - The principal to draw a bill on the agent for 2 months of 60% of invoice price.

600 cycles were consigned to Chandra cycle store Chittor for ₹ 200 per cycle, which was at invoice price ₹ 250 per cycle. Chandra cycle store met his acceptance on due date. Chandra cycle store sold 540 cycles @ ₹ 280 per cycle. His selling expenses were ₹ 1250 and he remitted the amount due by a Bank Draft. The balance stock was valued at 80% due to damage caused by rains. Prepare the necessary ledger Accounts in the books of the both parties.

**Answer :** Profit on Consignment ₹ 29,560.

4. The M. Coal Co. consigned to Mr. Rakesh Sales Ltd. 100 quintals of coal at invoice price of ₹ 40 per quintal. The

company paid ₹ 0.50 per quintal for loading and ₹ 3.50 per quintal for Railway freight. An account sale was received from Mr. Rakesh sales Ltd. showing 800 quintals coal sold at ₹ 60 per quintal, Sales expenses ₹ 1600, insurance ₹ 200, brokerage @ 2% and commission @ 5%. The agent remitted the amount payable by a bank draft and reported a shortage of 20 quintals of coal on the whole consignment. Prepare the necessary accounts in the books of M. Coal Company.

**Answer :** Consignment Profit ₹ 6 921.63, Unsold Stock ₹ 8,081.63.

5. Krishna Glass Works of Mumbai consigned 100 cases of goods to his agent Chandan at ₹ 20000. It includes 25% on cost price. They also paid freight ₹ 500 and insurance ₹ 1000. In course of transit 20 cases were lost and a claim was made. A sum of ₹ 3200 was received from Insurance co. . The agent took delivery of remaining cases and Chandan paid ₹ 800 custom duties, ₹ 80 octroi and ₹ 40 cartage.

Chandan rendered to their principal an account sale showing that 60 cases were sold for ₹ 14000 and paid brokerage at 1.5%. The agent after deducting the expenses incurred by him and his commission at 5% on gross sales proceeds, remitted the balance due by bank draft. Record the above transactions in the ledger of both parties.

**Answer :** Consignment Profit ₹ 1,900, Abnormal Loss ₹ 300, Unsold Stock ₹ 3,730.

6. Kamal Traders consigned 2000 vegetable oil tin @ ₹ 1400 per tin at cost to Himanshi traders and paid railway freight ₹ 20,000. In course of transit 100 tins was Stolen. A sum of ₹ 10,000 is received from insurance company as a claim. Agent took delivery of remaining goods and paid to ₹ 19000 for octroi and ₹ 3000 as selling expenses. He sold ₹ 1700 tins @ ₹ 1500 per tin and charged ₹ 20 per tin sold as commission. Prepare Consignment account and Abnormal Loss account in the books of consignor.

**Answer :** Consignment Profit ₹ 99,000, Abnormal Loss ₹ 41,000, Unsold Stock ₹ 2,84,000.

7. Mr. Ram and Co. of Bombay consigned 1000 radio @ ₹ 500 per Radio on cost and ₹ 600 per radio at invoice price to Mayank Radio Co. Ajmer. Mayank Radio Co. sold 700 Radios @ ₹ 750 per radio. In course of transit 50 Radios damaged and agent claimed from insurance co. Agent received commission on invoice price at 10% and above invoice price 25%. Accounting is made at invoice price. Prepare Consignment account in the books of consignor.

**Answer :** Consignment Profit ₹ 96, 250, Abnormal Loss ₹ 25, 000, Stock Reserve ₹ 25 000.

8. Mahesh sells goods on behalf of Vijay Sales Corporation on consignment basis. On 1 January, 2015 he had with him a stock of ₹ 20000 on consignment. Mahesh had instructions to sell the goods at cost plus 25% and was entitled to get a commission of 4% on sales in addition to 1% Delcredere commission on total sales for guaranteed collection of all sale proceeds. During the year ended 31 December, 2015 cash sales were ₹ 120000 and credit sales ₹ 105000. Expenses paid by Mahesh related to the consignment ₹ 3000. Bad debts were ₹ 3000 and goods sent on consignment ₹ 200000. From the above particulars prepare Consignment Account in the books of Vijay Sales Corporation.

**Answer :** Hint: Cost of Goods Sold ₹ 1,20,000 + 10,5000 = (2,25,000 x 100) 125 = ₹ 1,80,000, Consignment Profit ₹ 30,750, Unsold Stock ₹ 40,000.

9. Deepak of Delhi sent goods on consignment to Vivek of Ranchi and charged profit on proforma invoice price at 25% on cost. The agent received commission @ 7% plus 3% delcredere commission on sales made by him. Stock with Agent at the beginning of the year was 20 bales at invoice price of ₹ 5000. The following transactions took place during the year ended 31st December, 2015.

(i) 100 bales consigned at proforma invoice price ₹ 25000

(ii) Freight and insurance paid by Deepak ₹ 1000

(iii) Advance received from Vivek ₹ 10000

(iv) Sales made by Vivek : (a) 50 bales for cash ₹ 12500; (b) 40 bales for credit ₹ 10800

(v) Advertising expenses paid by agent ₹ 1200 and brokerage allowed by him ₹ 500

(vi) 15 bales were damaged in transit and ₹ 1400 received as compensation. The damaged cases were sold for ₹ 1100

(vii) ₹ 1500 could not be realized from credit sales.

(viii) The agent remitted the balance amount. Prepare necessary accounts in the books of Deepak.

**Answer :** Abnormal Loss ₹ 650, Commission ₹ 2,440, Unsold Stock ₹ 3,150

10. Bharat Store consigned goods worth ₹ 80000 at invoice price (cost price ₹ 60000) to Rajasthan Store. He paid carriage and wages ₹ 500, freight ₹ 800 and insurance ₹ 600. The agent paid octroi and freight ₹ 200, Godown rent ₹ 500 and fire insurance ₹ 500. Rajasthan Store sold goods ₹ 40000 on credit and ₹ 24000 for cash. Stock of invoice price ₹ 16000 remains unsold. 5% commission on total sales and 3% delcredare commission on credit sales is payable to consignee. Prepare Consignment Account in the books of Bharat Stores.

**Answer :** Consignment Profit ₹ 8,920; Unsold Stock ₹ 12,420

