

# Consignment Account



**Discipline Courses-I**

**Semester-I**

**Paper : I**

**Unit-IV**

**Lesson: Consignment Account**

**Lesson Developer: Priyanka Chaddha**

**College/Department: Bharati College, Commerce, University of Delhi**

## Consignment



## Table of Contents

### Lesson: Consignment Account

- 1: Learning Outcomes
- 2: Introduction
- 3: Concept of Consignment
- 4: Features of Consignment
- 5: Importance of Consignment
- 6: Difference Between Consignment and sale
- 7: Accounting terminology for Consignment
- 8: Accounting Entries for Consignment
  - 8.1: Accounting entries in the books of consignor
  - 8.2: Accounting entries in the books of consignee
  - 8.3: Accounting treatment for special items
- 9: Comprehensive Illustrations
  - Summary
  - Exercises
  - Glossary
  - References

### 1. Learning Outcomes:

After you have read this chapter, you should be able to:

- understand the meaning of the term 'Consignment',
- identify parties involved in consignment and their rights and obligations,
- differentiate between consignment and sale,
- understand the accounting treatment of different items in consignment,
- learn how to post relevant journal entries and prepare different accounts in different situations in consignment,
- identify different types of losses involved in consignment and their accounting treatment.

## 2. Introduction:

The producers cannot reach everywhere to sell their produce. They reach their consumers through the wholesalers or retailers. They also hire other channels for distribution of goods. The goods are also made available at different places through the agents and agencies. Generally it is seen that a producer or a wholesaler appoints agents at different markets or in different parts of the country to sell goods on their behalf against commission. One such arrangement is consignment.

## 3. Concept Of consignment

The literal meaning of consignment is the collection or batch of goods sent to different places or person(s) through any mode of transport that is aero plane, ship, railway or road. This is also known as shipment, or dispatch. However, in accounting terminology, consignment has the special meaning attached to it. The whole process or an arrangement of appointing agent and providing goods to him for sale on commission basis is known as Consignment.

It involves two parties:

Figure 1: Parties in Consignment



Thus the consignment refers to sending of goods from consignor to consignee for the purpose of final sale on commission basis but goods remain as the property of consignor till their ultimate sale.

The consignment denotes the whole set of transactions right from appointing the agent, fixing the terms and conditions along with the commission, dispatching the goods to the consignee, sale of the goods on behalf of the consignor to giving details and payments to the consignor. The consignee has to report of each sale that takes place in the particular

## Consignment

period in time so that the consignor is able to assess the sales, expenses and value his stock correctly as per the accounting rules. This intense interactive relationship between the consignor and the consignee is the result of its peculiar characteristics and that calls for a clear understanding of the features of consignment.

### 4. Features of Consignment

- Consignment involves only transfer of possession of goods from the consignor to consignee but ownership of goods remains with the consignor only. All unsold goods are the property of consignor only.
- It is not a sale of goods by consignor to consignee. It involves just an appointment of consignee to sell goods to final consumers located at different places, on his behalf.
- In consignment agreement, the consignor is obliged to pay pre decided commission as per the agreement which is generally based on total value of selling goods on his behalf to the consignee and also reimburse all expenses incurred by the consignee in storage and selling of goods. The expenditure incurred for even an advertisement for the sale and promotion of the goods, belonging to the consignor, is borne by the consignor.
- The consignor and consignee share the relationship of principal and agent as consignee acts as an agent to sell goods on behalf of his principal i.e. consignor against commission. After sale, consignee is obliged to send all sale proceeds after deducting his commission to the consignor. All profits and losses belong to consignor only.
- Since the ownership of goods lies with consignor only. So he has to bear all the risks and loss of the goods till its final sale i.e. goods are to be sold at his own risk. Consignee is not liable for any loss or risk provided he has exercised sufficient care in protecting the principal's goods from damage and destruction.

### 5. Importance of Consignment

- Consignment helps producers to bring economies of large-scale production with the increased sale. It facilitates high sale as a result of which large scale of production is required and this leads to economies of scale as large-scale production results to fall in cost per unit.
- It is more profitable for those manufacturers who are having their branches at different places in domestic country or in other countries. As in such situations, the local agents of that place have much knowledge of that market as compared to the manufacturers. So he facilitates more profitable sale by approaching local customers.
- If prospective buyer is not easily approachable by a producer because of long distance between them the agent plays an important role to contact them on regular basis and to ensure prompt delivery of goods to them out of his stock of consigned goods by consignor.

### 6. Difference between Consignment and Sale

## Consignment

### **Value Addition 1: Pause and Think**

#### **Sale and Consignment - whether two sides of the same coin.**

Read the following two situations and answer the questions given below:

- 'M' of Delhi sends goods to 'N' of Mumbai to maintain his stock and 'M' himself bears all expenses and risks involved.
- 'X' of Delhi sends goods to 'Y' of Mumbai on immediate payment by 'Y' and 'Y' becomes the owner of goods and is going to bear all risks and losses involved in those goods.

Question: Do the above two cases involve the selling of goods?

Question: If not, which one indicates the sale of goods and what is being indicated in other case?

Situation 1 does not indicate sale of goods as ownership still remains with 'M' even if goods are in possession of 'N'. It shows only transfer of possession and not the ownership and this is nothing but the main feature of consignment. 'M' sends goods to 'N' to sell them to final consumers against commission.

Situation 2 indicates sale as it involves immediate transfer of ownership from 'X' to 'Y' after making payment; 'Y' has to bear all risks and losses that indicates that he has become the owner of goods.

Thus it can be said that both sale and consignment involves transfer of goods but they are different from each other on the basis of their other features. They do not convey the same meaning.

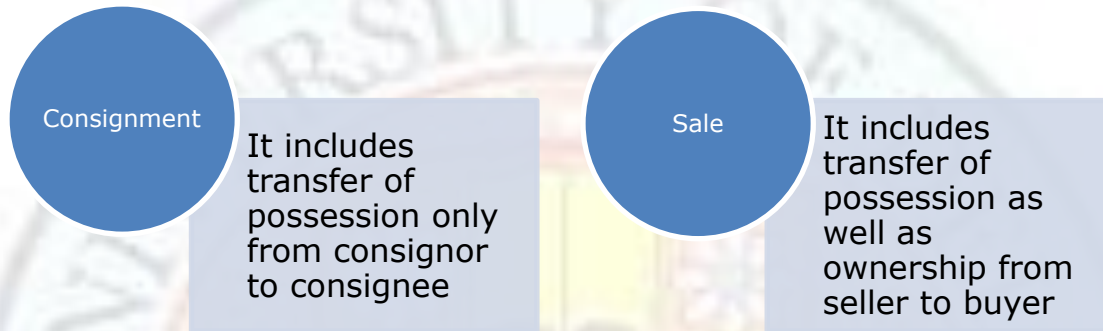
It boils down to the fact that consignment and sale are different. This distinction can be highlighted on the following basis of their features:

<b>Features</b>	<b>Consignment</b>	<b>Sale</b>
<b>1. Ownership right</b>	In consignment consignor enjoys the ownership of goods till the ultimate sale. It involves only transfer of possession from consignor to consignee.	In sale, ownership and possession transfer from seller to buyer immediately after the sale deed.
<b>2. Parties involved</b>	This involves transaction between consignor (who sends the goods) and consignee (who sells goods on behalf of consignor).	This is a transaction between seller (who sells goods) and buyer (who purchases the goods).
<b>3. Relation between two parties</b>	Consignor and consignee enjoy relationship of principal and agent.	There is a relationship of seller and buyer only till the payment is made and goods are sold.
<b>4. Consideration</b>	Consignee gets commission for selling goods on behalf of consignor	Seller sells goods to buyers for realizing sale price from the buyers as consideration.

## Consignment

<b>5. Reimbursement of expenses</b>	Consignor has to reimburse consignee for all expenses incurred by consignee for storing and selling goods of consignor.	Seller is not responsible for the expenses incurred by buyer.
<b>6. Risk bearing</b>	Consignor bears all risk of loss or damage till the sale of goods.	Buyers bear all risks after sale of goods.

Figure 2: Comparison of Consignment with Sale



## 7. Accounting Terminology for Consignment

Because of the peculiar characteristics of consignment, the accounting of consignment needs special treatment. All the expenses, sales and stock are treated differently since the ownership is not transferred to consignee though the possession is with him.

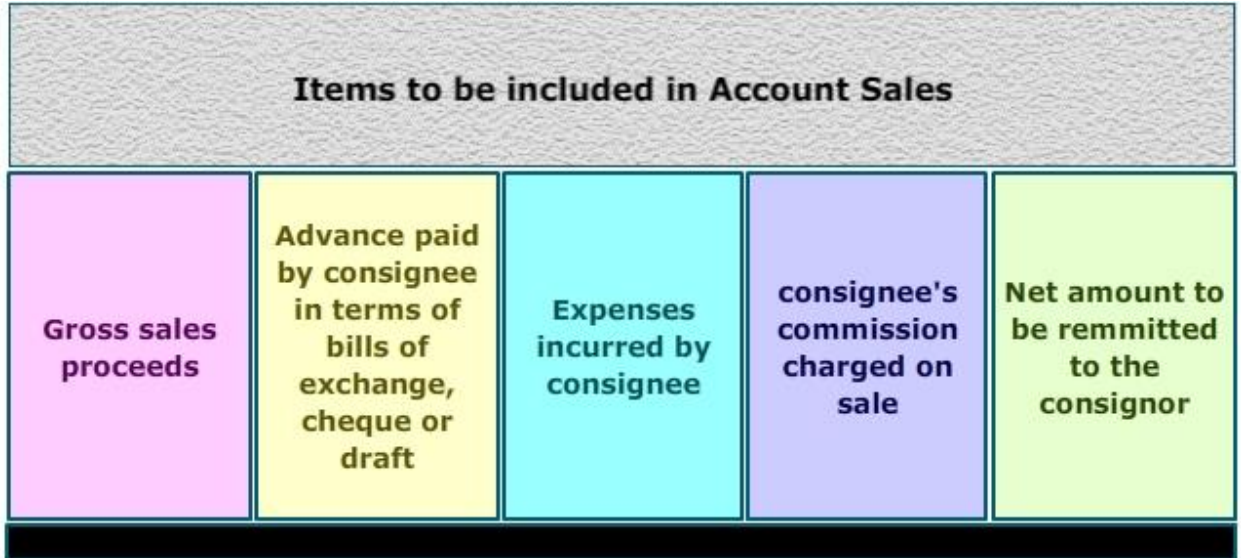
It also calls for maintenance of proper accounting records by both consignor and consignee as consignor is supposed to calculate profit and loss of particular consignment and consignee is supposed to give full record of account sales to the consignor. So both maintain proper accounts in their respective books. But the consignor has to be careful with regard to the valuation of stock. It is better to comprehend the different items and documents used during the entire set of transactions.

**Proforma invoice:** When a consignor consigns goods to consignee, he prepares a statement highlighting the details like quality, quantity in terms of weight or number, price at which goods are consigned, expenses incurred by him for the consigned goods and sent it to the consignee to enable him to identify the consignment and make him aware about the details of particular consignment.

**Account Sales:** Account sales is defined as a statement of account prepared by a consignee to provide the following details to the consignor. This may be prepared on periodical basis or on the completion of consignment or at the end of the specified period as agreed at the time of entering into an agreement:

Figure 3: Account Sales

## Consignment



It is required to be prepared to calculate net amount due to the consignor out of the total amount of sales proceeds due to the consignor. Thus an account sale shows the details of gross sale proceeds and then calculation of net sale proceeds for the consignor by deducting expenses incurred by consignee, his commission, any advance paid by him from the gross sale proceeds. On the basis of this, account sales, the consignor records accounting entries in his books to complete consignment account and consignee's personal account.

**Advance on consignment:** The consignor on sending the goods to consignee for sale, may ask the consignee to make some advance payment for the goods consigned as a security deposit. This advance payment can be made either by issuing cheque, bank draft, cash or accepting a bills payable for that amount. This advance payment is shown in the books of the consignor as a liability and is finally adjusted on receiving the account sales prepared by the consignee showing the net sale proceeds for the consignor.

**Commission:** The consignee provides his services as an agent for selling consignor's goods on his behalf in consideration to the reward or remuneration in terms of commission. Thus the commission of consignee is defined as remuneration paid to the consignee by the consignor for selling his goods on his behalf. There are 3 types of commission that can be paid to the consignee:

- a) **Ordinary Commission:** It is also known as commission on sale proceeds as it is a normal commission charged by the consignee as a fixed percentage of total sales. So higher the sale, the more will be this commission.
- b) **Del Credere Commission:** Sometimes consignee sells goods on credit basis i.e. as a credit sale. This involves the risk of bad debts, as some debtor may become defaulters in making their payment. This risk of bad debt is to be borne by the consignor in normal cases. But in special case, this risk or loss of bad debt is to be



## Consignment

borne by the consignee against some special commission charged by him. This special commission is known as del credere which is payable by consignor to the consignee for bearing the risk of bad debts involved in the credit sales transaction. Thus it is a payment for an insurance against the risk of non-recovery of debts. In this case consignor receives the total amount of gross sale proceeds of cash and credit sale and loss of bad debts is to be borne by the consignee, he cannot charge this loss from the consignor if he is charging this special commission from the consignor. This commission may be calculated on total sale or on credit sale as agreed between the consignor and consignee. In absence of any specific information it is calculated on total sale.

Figure 4: Types of Commission to Consignee



- c) **Overriding commission:** Sometimes consignor offers some extra commission over and above ordinary commission to encourage consignee to boost the sale of existing product at higher price or to introduce a new product line in the market. This extra commission is known as overriding commission that is to be calculated on total sales or on the surplus sale proceeds over and above the minimum sale price decided by the consignor.

<b>Value Addition 2: Exercise</b>
<b>Different Types of Commission Available to Consignee</b>

## Consignment

Ajay sends goods to Vijay on consignment on the following terms:

- a) Vijay will get 20% commission on the invoice price.
- b) He will also get 10% of price realized over and above the invoice price
- c) In addition he takes the charge of loss that may be there because of non-recovery of debt. For that he will get an additional commission of 2.5%.

Ajay sent goods whose invoice price was Rs. 4,00,000. Vijay sold 4/5<sup>th</sup> of the goods for Rs. 3,50,000.

After studying the above problem, answer the following questions:

- i. How can be the above three mentioned commission classified into different categories of commission?
- ii. Give reasons for such classification.
- iii. At what amount del credere commission will be calculated?
- iv. At what amount overriding commission will be calculated?
- v. Calculate three types of commission in the above cases study.

(Answer: Ordinary commission: Rs. 64000, Overriding commission: Rs. 3000 and Del credere commission: Rs. 8750.)

**Consignment expenses:** Consignment expenses are those expenses that are to be incurred by consignor and/or consignee for the goods sent on consignment. They are of two types:

**Non-recurring or direct expenses:** They are those expenses which are spent in bringing the goods from consignor's place to consignee's place i.e. all those expenses which are spent to bring the goods to the selling place of consignee. They are included in the total cost of the consigned goods and thus they also become a part of cost of unsold stock and abnormal loss. They may be spent by either consignor or consignee or both. For example: Freight or carriage on purchase, insurance of goods in transit, custom duty, octroi, loading and unloading charges, import duty, clearing charges, landing charges etc.

**Recurring expenses or indirect Expenses:** These expenses are generally incurred by consignee after receiving the goods from consignor at his selling place like consignee's godown. They are often incurred on regular basis. They are not included in the valuation of total cost of good, consignment stock and abnormal loss For example: Salesman's commission, selling expenses, advertising, distribution expenses, storage charges, godown rent, insurance of godown etc.

### Value Addition 3: Activity

#### Classification of Commission to Consignee

Following is the list of expenses incurred by consignor and consignee on the particular consignment. Read them carefully and classify them into direct and

# Consignment

indirect expenses.

**Expenses incurred by Consignor:** Cartage, Dock Dues, Transit insurance

**Expenses incurred by consignee:** Unloading charges, warehouse charges, Brokerage on sale, expenses on goods damaged in warehouse.

Discuss the list of classified expenses prepared by you in your peer group.

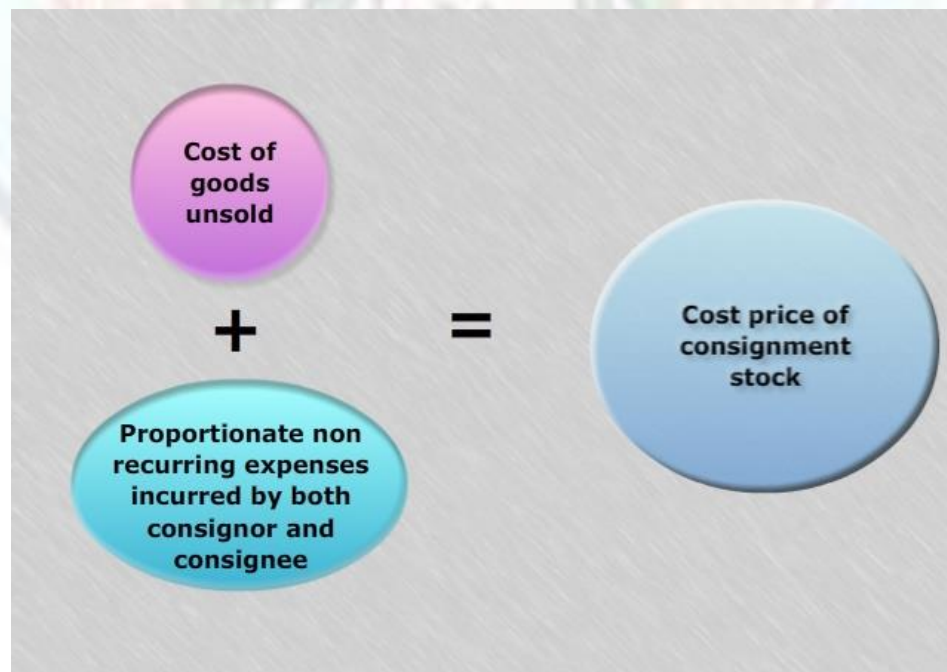
**Valuation of unsold stock:** It is not always possible that total stock of consigned goods is sold out by consignee. Some stock can remain unsold with the consignee. These goods that remain unsold with the consignee are known as consignment stock. Their valuation is required to record such consignment stock in the balance sheet of consignor. This stock that is left with the consignee is valued at cost price or market price whichever is less.

## Value Addition 4: Did You Know?

### Indian Accounting Standard for Inventory Valuation

Indian Accounting standard IAS 2 is followed for accounting treatment of inventories in final accounts i.e. how to value inventory in final accounts to solve the primary issue in accounting of at what amount inventory is to be recognized as an asset and carried forward to the next years until it is sold and revenues are recognized. This standard defines that inventories should be measured at cost price or its net realizable value in the market whichever is less. This principal is used to prevent the company from overstating the value of its inventory as an asset at its cost if market price is less as compared to its cost.

Figure 5: Cost price of Consignment Stock



## Consignment

Non-recurring expenses or direct expenses are all such expenses which are incurred by consignor or consignee to bring these goods from consignor's place to consignee's place like freight or carriage on purchase, custom duties, insurance of goods in transit, loading and unloading charges etc. All selling expenses (recurring expenses) like warehousing charges, advertising, packing expenses, carriage on sales, salesman's expenses etc. are to be excluded while calculating cost price of unsold stock.

For example if one fifth of the consigned goods remain unsold, then one fifth of direct expenses incurred by both consignor and consignee are to be added in the cost of these goods.

Market price of consignment stock is also known as Net Realizable Value of these goods i.e. the value that shall be realized if unsold goods would have been sold in the market. It is to be calculated by deducting variable sale expenses on the sale of such goods like commission on sale etc.

Figure 6: Net Realisable Value



### **Value Addition 5: Exercise**

#### **Valuation of Consignment Stock**

From the following information, calculate the value of unsold stock at the end of the year to be shown in consignment account:

- i. Goods consigned to consignee Y by X: 200 radio sets @ Rs. 2,000.
- ii. Expenses paid by consignor X: Freight Rs 5,000, Insurance charges Rs 3,000
- iii. Expenses incurred by Y: Carriage on goods received Rs. 2,000, warehouse rent Rs. 1,000 and Selling expenses Rs. 6,000
- iv. Units sold by consignee Y: 160 units @ Rs. 2,100
- v. Unsold stock can also be sold at the market price of Rs. 2,100.

Solution:

<b>Calculations</b>	<b>Amount in Rupees</b>
Units unsold are 200-160=40 units	
Cost of 40 units unsold @ Rs. 2000 each	80,000
Add: Proportionate direct expenses incurred by consignor	
Freight and insurance (5000+3000)*40/2000	1,600
Add: Proportionate direct expenses incurred by consignee	
Carriage (2000)*40/2000	400

## Consignment

Total cost of unsold stock	82,000
Net Realisable value i.e. Market value of these unsold stock 40 units @ Rs. 2100	84,000
Since Cost of good unsold is lower than its market value, so it will be valued at Rs. 82,000 in the consignment account.	

### 8. Accounting Treatment for Consignment

The transactions are recorded either in the journal or in the ledger or in both in the books of consignor as well as in the books of consignee.

#### 8.1 Accounting Treatment in the books of Consignor

##### Journal Entries in the books of consignor:

He calculates profit and loss on each separate consignment of goods by opening separate consignment accounts to record all transactions relating to each consignment. He is supposed to record following journal entries:

- i. When goods are sent from the consignor to the consignee on consignment:

Consignment A/c (cost of goods consigned) Dr.  
    To Goods sent on Consignment A/c  
(being goods costing rupees.....sent on consignment)

- ii. When some advance is received from the consignee as security deposit:

Cash/bank/Bills receivable A/c (with advance amount) Dr.  
    To Consignee's personal A/c  
(being advance amounting rupees.....is received from consignee by cash/bank/accepting bills payable for that)

- iii. When expenses are incurred by the consignor on consignment:

Consignment A/c (expenses incurred) Dr.  
    To Bank A/c  
(being expenses incurred by consignor on consignment)  
    Note: details of expenses should be given

- iv. When consigned goods are received by the consignee:  
    No entry is made

- v. When expenses are incurred by the consignee on consignment:

Consignment A/c (expenses incurred) Dr.  
    To Consignee's personal A/c  
(being expenses incurred by consignee on consignment)  
    Note: details of expenses should be given

## Consignment

- vi. When consignee returns some goods back to consignor:

Goods sent on Consignment A/c(cost of goods consigned) Dr.  
To Consignment A/c  
(being goods costing rupees.....returned from consignee to consignor)

- vii. When sales are made by the consignee for consigned goods:

Consignee's personal A/c (Gross sale proceeds) Dr.  
To Consignment A/c  
(being goods(units of goods sold) are sold by consignee at rupees.....)

- viii. When consignee earned commission is to be charged

Consignment A/c ( commission amount) Dr.  
To Consignee's personal A/c  
(being commission due to consignee is to be charged from consignment account)  
Note: Details of types of commission is to be mentioned

- ix. When bad debts are to be charged, if any :

Consignment A/c (bad debt amount) Dr.  
To Consignee's personal A/c  
(being bad debts are to be charged from consignee)  
Note: If del credere commission is given to consignee, then it is not to be charged from consignee, then no entry is made for bad debt in consignor's books

- x. When some goods are taken by the consignee for personal use:

Consignee's personal A/c (cost of goods taken) Dr.  
To Consignment A/c  
(being some goods are taken by consignee for his personal use)

- xi. For stock at the end remaining unsold with the consignee:

Stock on Consignment A/c (expenses incurred) Dr.  
To Consignment A/c  
(being unsold stock is to be calculated and shown as a closing stock)  
Note: calculation of closing stock should be shown in the working note

- xii. For profit or loss on consignment:

Consignment A/c (Amount of profit) Dr.  
To General Profit and Loss A/c  
(being profit earned on consignment is transferred to general profit and loss account)

Note: In case of Loss:

General Profit and Loss A/c ( Amount of Loss) Dr.  
To Consignment A/c  
(being loss on consignment is charged from general profit and loss account)

- xiii. For net amount received from consignee on consignment:

## Consignment

Bank/Bill Receivable A/c (Net amount received from consignee) Dr.  
    To Consignee's personal A/c  
(being net amount as shown in account sale of consignee is received by bank/  
Accepting bills payable for that)

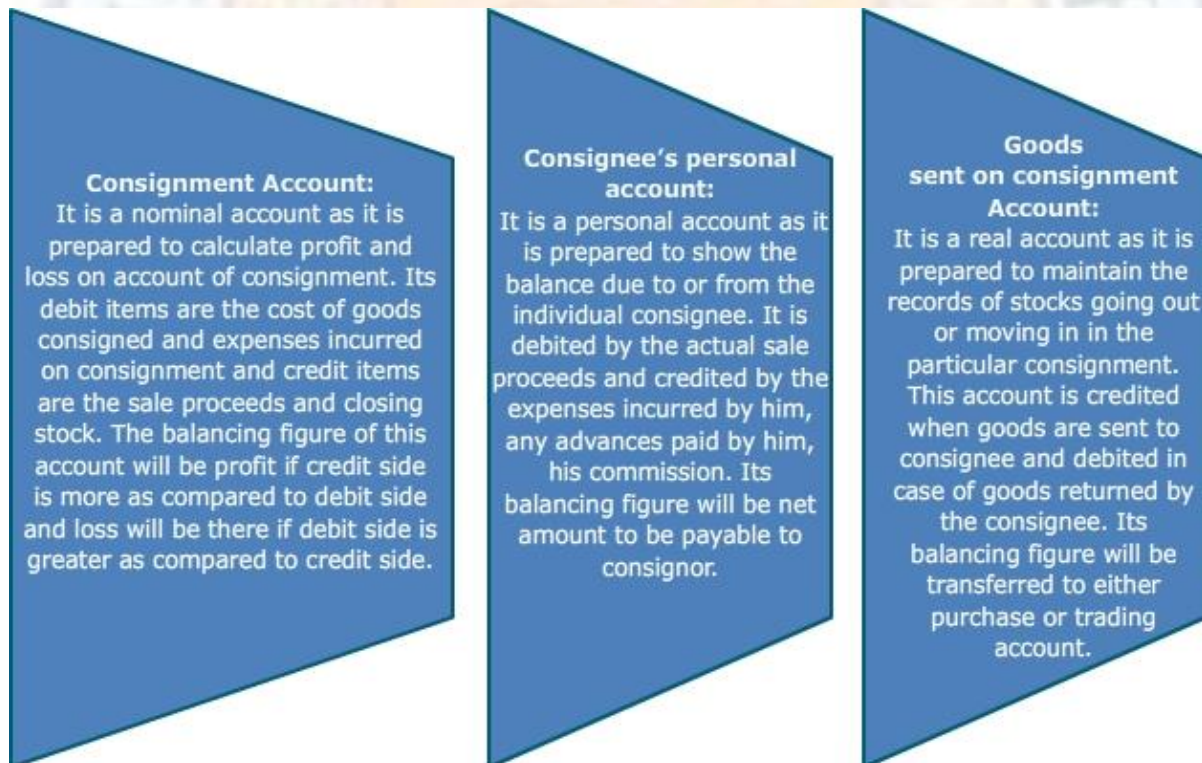
- xiv. At last cost of goods sent on consignment is transferred to purchase account or trading account:

Goods sent on Consignment A/c (Cost of goods consigned) Dr.  
    To Purchase or Trading A/c  
(being cost of good sent on consignment is transferred to purchase or trading  
account)

### Ledger Accounts in the books of Consignor

In order to keep a proper record of all transactions related to a particular consignment, after recording journal entries consignor prepares the following three accounts for each consignment separately:

Figure 7: Types of Ledger accounts in Consignor's Books



Proforma of the above mentioned three ledgers accounts in the books of consignor are as follows:

### Books of the Consignor

## Consignment

Dr.	<b>Consignment to Chennai Account</b>		Cr.
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c	.....	By consignee's personal A/c: Cash sales	.....
		Credit sales	.....
To bank A/c- Expenses incurred by consignor	.....	By goods sent on consignment A/c- Goods returned by consignee	.....
To consignee's personal A/c- Expenses incurred by consignee	.....	By consignee's personal A/c- Goods taken by consignee for personal use	.....
Commission charged by him	.....		.....
Bad debts (in case del credere commission is not allowed)	.....	By stock on consignment's A/c- unsold stock	.....
To profit and loss A/c- in case of profit	.....	By profit and loss A/c- In case of loss	.....

Dr.	<b>Consignee's Personal Account</b>		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Sale proceeds	.....	By Cash/Bank/ B/R A/c (advance)	.....
To consignment A/c- Goods returned	.....	By Consignment A/c- Expenses of consignee	.....
		Commission	.....
		By bank A/c – Net amount received from consignee	.....
		By balance C/d- Advance carried forward for unsold goods	.....



## Consignment

Dr.	<b>Goods sent on Consignment Account</b>		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Goods returned	.....	By Consignment A/c- Goods sent	.....
To purchases or trading A/c - transfer	.....		

### 8.2 Accounting Treatment in the books of Consignee

#### Journal Entries in the books of Consignee:

As consignment is different from sale, the goods sent to consignee cannot be treated as sale as a result of which the consignee cannot treat the consignor as his creditor and consignor cannot treat consignee as his debtor. Hence no entry is passed by the consignee at the time of receiving goods from the consignor. He generally maintains a stock register to record full details of goods so received. He records the following transactions to maintain proper records:

- i. When goods are received by the consignee from the consignor:  

No Entry

(Note: As it is not a sale so consignee is not required to pass journal entry on receiving goods from consignor as it is not a double entry. Details are recorded in a register just to maintain a record)
  
- ii. When some advance is paid by the consignee to consignor as security deposit:  

Consignor's personal A/c (with advance amount) Dr.

To Cash/bank/Bills payable A/c

(being advance amounting rupees.....is paid consignee to consignor by cash/bank/accepting bills receivable for that)
  
- iii. When expenses are incurred by the consignee on consignment:  

Consignor's personal A/c( expenses incurred) Dr.

To bank A/c

(being expenses incurred by consignee on goods received in consignment)

Note: details of expenses should be given
  
- iv. When consignee returns some goods back to consignor:  

No Entry

## Consignment

Note: As no entry is made for goods received so goods returned is also not a part of double entry system

- v. When sales are made by the consignee for cash sales:

Cash A/c (cash sale proceeds) Dr.  
    To Consignor's personal A/c  
(being goods(units of goods sold) are sold by consignee for cash at rupees.....)

- vi. When sales are made by the consignee on credit :

Consignment debtors A/c (credit sale amount) Dr.  
    To Consignor's personal A/c  
(being goods(units of goods sold) are sold by consignee on credit at rupees.....)

- vii. When consignee earned commission on sale

Consignor's personal A/c(commission amount) Dr.  
    To commission A/c  
(being commission earned by consignee is to be charged from consignment account)  
Note: Details of types of commission is to be mentioned)

- viii. When consignee receives cash from debtor:

Bank A/c (cash received) Dr.  
    To Consignment debtors A/c  
(being cash amounting rupees..... received from debtor)

- ix. When bad debts are to be charged, if any :

- a. If no del credere commission is paid-

Consignor's personal A/c( bad debt amount) Dr.  
    To Consignment debtor A/c  
(being bad debts are to be charged from consignor)

- b. If del credere commission is paid-

Bad debt A/c (bad debt amount) Dr.  
    To Consignment debtor A/c  
(being bad debts are to be charged from consignor)

Note: Then this loss of bad debt is to be transferred to commission account to find out net gain or loss in this regard and thus following entry is to be passed.

- c. Bad debts are to be transferred to commission account-

Commission A/c Dr.  
    To Bad debts A/c  
(being bad debts as a loss are transferred to commission account)

- x. For stock at the end remaining unsold with the consignee:

No Entry  
(being unsold stock does not constitute double entry)

## Consignment

xi. For final amount remitted to the consignor:

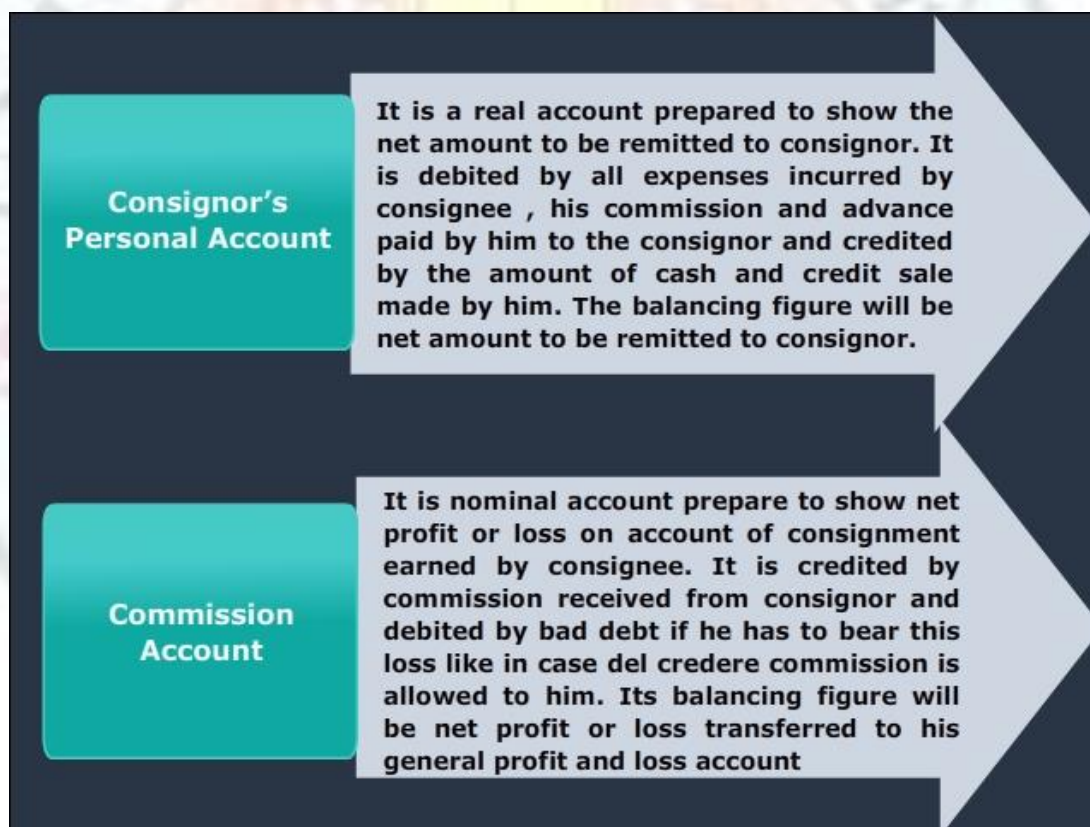
Consignor's personal A/c	Dr.
To Cash/Bank A/c	
(being net amount remitted to Consignor's by cash /bank draft)	

xii. For profit or loss on consignment being net commission is to be transferred to general profit and loss account:

Commission A/c (Amount of net profit)	Dr.
To General Profit and Loss A/c	
(being profit earned on consignment in term of commission is transferred to general profit and loss account)	

### Ledgers Accounts in the books of consignee:

Figure: 8 Types of Accounts in the Consignee's Books



Proforma of the above mentioned accounts are given below:

Dr.	Consignor's Personal Account	Cr.
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>
	<b>Amount</b>	

## Consignment

To cash/bank A/c- Expenses incurred by him	.....	By Bank A/c –cash sales	.....
To Cash/Bank/ B/R A/c (advance paid by him)	.....	By Consignment debtors A/c- Credit sales	.....
To commission A/c- Consignee’s commission	.....	By balance C/d- Advance carried forward for unsold goods	.....
To bank A/c – Final account paid to consignor	.....		

Dr. Commission Account Cr.

Particulars	Amount	Particulars	Amount
Tobad debts (if del credere commission is allowed)	.....	By consignor’s personal A/c- Consignee commission	.....
To Profit and loss A/c	.....		

### Illustration 1:

AK Ltd manufacturer of TV sets at Kanpur consigned TV sets regularly to Goel brothers of Bhopal. From the following information, pass necessary journal entries in the books of the parties and also prepares relevant accounts for the year ending Dec 31, 2012.

- On 1<sup>st</sup> Jan 2012, AK Ltd consigned 300 sets at Rs. 400 each.
- Expenses incurred by AK Ltd was Rs. 1500 for freight and insurance of goods
- Goel brothers received the consignment on March 25, 2012 and paid the following expenses:  
Unloading charges of Rs 500  
Freight of Rs. 300
- Goel brothers sent an account sales to AK Ltd on November 1, 2012 showing that 250 sets were sold by them @ Rs. 500 each and remaining 50 sets were sold @ Rs. 450 each.
- Goel brothers remitted the amount due to AK Ltd after deducting his commission @ 15% on gross sales proceeds.

### Solution:

## Consignment

Entries in the books of AK Ltd

Date	Particulars	Debit Amount	Credit Amount
2012 Jan 1	Consignment A/c(cost of goods consigned)Dr  To Goods sent on Consignment A/c  (being 300 TV sets costing @ Rs. 400 each sent to Goel brothers on consignment)	1,20,000	1,20,000
Jan 1	Consignment A/c (expenses incurred) Dr To bank A/c  (being expenses of freight and insurance of Rs. 1500 were incurred by AK Ltd on consignment)	1500	1500
March 25	Consignment A/c (expenses incurred) Dr To consignee's personal A/c  (being expenses of unloading charges of Rs. 500 and freight of Rs 300 were incurred by Goel Brothers on receiving the consignment)	800	800
Nov 1	Goel Brothers' A/c (sale proceeds) Dr To Consignment A/c  (being 250 sets @ Rs 500 each and 50 sets at Rs. 450 each were sold by Goel Brothers as per account sales)	1,47,500	1,47,500
Nov 1	Consignment A/c(commission amount) Dr To Goel Brothers' A/c  (being commission @15% of 1,47,500 due to Goel brothers charged from consignment account)	22,125	22,125
Nov 1	Consignment A/c (Amount of profit) Dr To General Profit and Loss A/c  (being profit earned on consignment of Rs. 3,075 transferred to general profit and loss account)	3,075	3,075
Nov 1	Bank A/c(Net amount received from consignee) Dr To Goel Brothers' A/c  (being net amount as shown in account sale of Goel brothers received by him through bank draft )	1,25,375	1,25,375
Nov 1	Goods sent on Consignment A/c(Cost of goods consigned)Dr To Purchase A/c	1,20,000	1,20,000

## Consignment

	(being cost of good sent on consignment of Rs 1,20,000 transferred to purchase account).		
--	--	--	--

Dr.	Consignment Account		Cr.
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c	1,20,000	By Goel Brothers A/c: Sales proceeds	
To Bank A/c: Expenses incurred by consignor Freight & Insurance	1,500	250 sets @ Rs. 500 each      1,25,000 50 sets @ Rs. 450 each      22,500	1,47,500
To Goel Brothers A/c- Expenses incurred by consignee: Unloading charges 500 Freight                      300	800		
Commission charged by him 15% of 1,47,500	22,125		
To profit and loss A/c-profit	3,075		
	1,47,500		1,47,500

Dr.	Goel Brothers Account		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Sale proceeds	1,47,500	By Consignment A/c- Expenses: Unloading charges 500 Freight                      300	800
		Commission	22,125
		By bank A/c - Net amount received from consignee	124575

## Consignment

	1,47,500		1,47,500
--	----------	--	----------

Dr. Goods sent on Consignment Account Cr.

Particulars	Amount	Particulars	Amount
To purchases or trading A/c - transfer	1,20,000	By Consignment A/c- Goods sent	1,20,000
	1,20,000		1,20,000

### Entries in the books of Goel Brothers

Date	Particulars	Debit Amount	Credit Amount
Mar 25	AK Ltd A/c( expenses incurred)   Dr To bank A/c  (being expenses such as unloading charges of Rs. 500 and freight of Rs. 300 incurred by Goel brother on goods received in consignment)	800	800
Nov 1	Bank A/c (sale proceeds)   Dr To AK Ltd A/c  (being 250 sets @ Rs 500 each and 50 sets @ Rs 450 each sold by Goel Brothers for cash )	1,47,500	1,47,500
Nov 1	AK Ltd A/c(commission amount)   Dr To commission A/c  (being commission due @15% of 1,47,500 )	22,125	22,125
Nov 1	Commission A/c(Amount of net profit)   Dr To General Profit and Loss A/c  (being profit in terms of commission of Rs 22,125 earned on consignment is transferred to general profit and loss account)	22,125	22,125

Dr. AK Ltd Account Cr.

Particulars	Amount	Particulars	Amount
-------------	--------	-------------	--------

## Consignment

To bank A/c- Expenses incurred by him Unloading 500 Freight <u>300</u>	800	By Bank A/c –cash sales	1,47,500
To commission A/c	22,125		
To bank A/c – Final amount remitted to AK Ltd	1,24,575		
	1,47,500		1,47,500

Dr.	Commission Account		Cr.
Particulars	Amount	Particulars	Amount
To Profit and loss A/c	22,125	By AK Ltd A/c- Consignee commission	22,125
	22,125		22,125

### 8.3 Accounting Treatment for Special Items

#### Treatment of Goods sent to Consignee at Invoice Price

Consignor sends goods to consignee at cost price or sometimes at a price higher than the cost price. This higher price is known as Invoice price. Thus invoice price is a price that is higher than the cost price.

$$\text{Invoice price} = \text{Cost} + \text{Profit (loading)}$$

Profit is calculated generally as a percentage of cost but if it is given to calculate loading as a percentage of invoice price, then it is to be calculated as per the given condition.

The objective of consignor for sending goods at invoice price is not to disclose the cost price of goods to the consignee. For consignee, invoice price is assumed to be the minimum selling price i.e. he is required to sell the goods at a price equal to or higher than the invoice price.

When the goods are sent by the consignor at invoice price, then the consignment account is prepared with the invoice value of the goods consigned. But this leads to the problem of calculating actual profits as for calculation of actual profit, cost price is to be taken into consideration. Thus to calculate actual profit, consignor has to pass adjustment entries to



## Consignment

remove the impact of the loading i.e. the profit margin included in invoice price as compare to the cost price. Following adjustment entries are to be passed:

- a) For adjustment of Loading in opening stock:

Stock Reserve A/c (Profit included in opening stock)	Dr.
To Consignment A/c	
(being loading part of opening stock is to be adjusted by opening a stock reserve account)	

- b) For adjustment of Loading in goods sent to consignee:

Goods sent on consignment A/c	Dr.
To Consignment A/c	
(being profit margin included in goods sent is to adjusted with the difference between invoice and cost price of goods sent)	

- c) For adjustment of loading in closing stock:

Consignment A/c (Profit included in closing stock)	Dr.
To Stock Reserve A/c	
(being loading part of closing stock is to be adjusted by debiting stock reserve account in consignment account)	
Note: In the beginning of next year, this stock reserve will be shown on the credit side of consignment account.	

### Illustration 2:

MN Company of Calcutta consigned goods costing Rs. 2,00,000 to Neeraj of at an invoice price with 25% on cost. MN company paid insurance and other charges of Rs. 4,000. Neeraj sold part of consignment for Rs. 1,80,000 at flat price of 20% over invoice price and spent octroi of Rs. 2500, Rs. 3,500 as godown charges and Rs. 2,000 as selling and distribution expenses. He is entitled to a commission of 5% on sales and 10% of the net profit after charging his commission on sales. Neeraj remitted the amount due by bank draft. Prepare the consignment account in the books of MN company along with the appropriate notes of goods unsold and commission.

### Solution:

Dr.	Consignment Account	Cr.	
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (at invoice price of cost plus 25%)	2,50,000	By Neeraj A/c: Sales proceeds	1,80,000
To Bank A/c: Insurance and other charges incurred by consignor	4,000	By goods sent on consignment A/c (Loading in goods sent i.e. 25% of 2,00,000)	50,000
		By consignment stock at invoice price	1,02,600

## Consignment

To Neeraj A/c:			
Octroi	2,500		
Godown charge	3,500		
Selling expenses	<u>2,000</u>		
		8,000	
To Neeraj A/c:			
Commission charged by him 5% of 1,80,000		9000	
To Stock reserve- (Loading in closing stock)		20,000	
To profit and loss A/c- profit		41,600	
		<u>3,32,600</u>	
			3,32,600
To Neeraj- share of profit (10% of 41,600)		4,160	By balance b/d
		<u>37,440</u>	
		41600	41600

### Adjustment Entries for loading:

- a) For adjustment of Loading in goods sent to consignee:

Goods sent on consignment A/c	Dr.	50,000	
To Consignment A/c			50,000
(being profit margin of Rs. 50,000 included in goods sent is to adjusted )			

- b) For adjustment of loading in closing stock:

Consignment A/c (Profit included in closing stock)	Dr.	20,000	
To Stock Reserve A/c			20,000
(being loading part of closing stock of Rs. 20,000 is to be adjusted by debiting stock reserve account in consignment account)			

### Working Notes:

1. Consignment stock (value of unsold stock at invoice price):

Invoice price of units sold	1,80,000*100/120	=	1,50,000
Invoice price of goods consigned			<u>2,50,000</u>
Invoice price of goods unsold	2,00,000-1,50,000	=	1,00,000
Add: Proportionate direct expenses incurred by consignor	4000*1,00,000/250000=		1,600
Add: Proportionate direct expenses incurred by consignee (Octroi)	2500*100000/250000 =		1,000
			<u>1,02,600</u>
Value of unsold stock at invoice price		=	1,02,600

## Consignment

2. Stock reserve in unsold stock:
- |  |   |        |
|--|---|--------|
| Loading in goods consigned of invoice price Rs. 2,50,000 | = | 50,000 |
| Loading in unsold stock of invoice price Rs. 1,00,000    | = | 20000  |
| (50000*100000/250000)                                    |   |        |

### Treatment of loss of goods

Consigned goods may be lost or damaged while in transit from consignor's place to consignee's place or after they reach at consignee's place. In accounting, treatment of loss of goods depends upon the nature and type of loss. There may be two types of losses:

Figure 9: Normal and Abnormal Loss

Types of Losses	
<b>Normal Loss</b> • Unavoidable and recurring loss	<b>Abnormal Loss</b> • Avoidable and non recurring losses

- a) **Normal Loss:** Normal loss is the loss that arises due to unavoidable or usual reasons because of the nature of the product. Like leakage, evaporation, dusting, loss on deterioration, breakage etc. Like in the refinery of oil some leakage or evaporation is considered as normal. This loss can be estimated in advance on the basis of past experience as it is recurring and unavoidable. Since it is caused in normal routine, it is included in the part of direct cost of consignment on the basis of the principle that in case of normal loss total cost of consigned goods is considered as the total cost of goods sent less the units lost in normal loss. In other words it can be said the in case of normal loss, total cost of goods sent becomes cost of goods received. As a result of this cost, consignment stock gets increased proportionately as it is to be calculated by inflating its price. It can be calculated as:

Figure 10: Value of Consignment Stock to the Consignee

Total value of goods sent* units of closing stock/units actually received by the consignee	=	Value of consignment stock
---	---	-------------------------------

### Illustration 3:

## Consignment

X consigned 2000 tons of coal @ Rs. 250 per ton to Z. X paid Rs. 21,000 as freight and loading charges. Z took the delivery and paid Rs. 9,000 as unloading charges. He also paid warehouse rent of Rs. 12,000. Loss due to natural detonation is estimated to be 3% of the coal consigned. Z sold 1500 tons of coal @ Rs 350 per ton. He charged his commission @5% on gross sales proceeds. You are required to show the treatment of loss due to natural detonation in the valuation of unsold stock.

### Solution:

Valuation of closing stock is done on the proportionate basis of total cost of goods in the following way:

Total cost of the goods consigned-	
Cost of 2000 tons @ Rs. 250	5,00,000
Add: Direct expenses incurred by consignor	21,000
Add: Direct expenses incurred by consignee (unloading charges)	9,000
Total cost of goods consigned	5,30,000
Units consigned	2000
Less: Units lost as normal loss @3% of 2000	60
Total units received by consignee	1940

Hence total cost of goods consigned of Rs. 5,30,000 becomes the cost of goods received i.e. cost of 1940 units as 60 units were lost because of natural reason. So in order to charge normal loss, price of remaining goods gets inflated. Hence valuation of unsold stock of 440 units(2000-60-1500) is done as

$$\text{Value of unsold stock} = 530000 \times 440 / 1940 = \text{Rs. } 1,20,206$$

- b) **Abnormal loss:** Abnormal loss is that loss of stock that is uncertain and unavoidable. It is generally caused because of external factor like loss caused by theft, fire, earthquake, abnormal damage or breakage etc. Since it is not recurring or cannot be estimated in advance, it cannot become the part of total cost of goods consigned. Thus price is not inflated to charge abnormal loss. It is calculated like the valuation of consignment stock i.e.

Value of abnormal loss = Cost of goods lost + proportionate direct expenses incurred by both consignor and consignee.

While calculating proportionate direct expenses for abnormal loss, it is required to check the timings of its occurrence. Like, if it is incurred when goods are in transit, then only consignor's part of direct expenses is to be considered as goods not been received by consignee, so he has not incurred any expenses on these goods till then. So his expenses would not become a part of valuation of abnormal loss. But, if that

## Consignment

loss is incurred after goods have been received by consignee, then direct expenses incurred by both consignor and consignee would have to be taken into consideration. Abnormal loss is adjusted in consignment account by crediting it to the consignment account as it is to be transferred to general profit and loss account so that profitability of consignment account is not affected. Abnormal loss is an insurable loss i.e. insurance can be taken in advance to minimize this kind of loss. In case the consigned stock is insured then if any abnormal loss occurs due to the risk covered in insurance then consignor can receive insurance claim for the loss. In that case value of abnormal loss will be shown in profit and loss account by the amount of abnormal loss as reduced by the amount of insurance claim received. Though in consignment account abnormal loss is to be credited by its full amount whether it is insured or not.

The accounting treatment of abnormal loss includes the following journal entries:

- i. When abnormal loss is not insured and thus can be recovered:

Abnormal loss A/c (with total loss) Dr.  
    To Consignment A/c  
(being abnormal loss credited to consignment account)

Profit and Loss A/c (with total loss) Dr.  
    To abnormal loss A/c  
(being abnormal loss charged through profit and loss account)

- ii. When abnormal loss is fully insured and its full amount is recoverable from an insurance company:

Abnormal loss A/c (with total loss) Dr.  
    To Consignment A/c  
(being abnormal loss credited to consignment account)

Insurance Company A/c (with total claim) Dr.  
    To abnormal loss A/c  
(being abnormal loss amount claimed and fully received from an insurance company)

- iii. When abnormal loss is insured but partial amount is recoverable from an insurance company:

Abnormal loss A/c (with total loss) Dr.  
    To Consignment A/c  
(being abnormal loss credited to consignment account)

Insurance Company A/c (with claim received) Dr.  
    To abnormal loss A/c  
(being abnormal loss amount claimed and received from an insurance company)

Profit and Loss A/c (with loss not recovered) Dr.  
    To abnormal loss A/c  
(being unrecovered amount of abnormal loss charged through profit and loss account)

## Consignment

It is to be noted that if both normal loss and abnormal loss occur simultaneously, then it has to be seen which one has occurred first. Like if normal loss occurs before abnormal loss, then abnormal loss is to be valued at inflated price i.e. after adjusting normal loss in the total cost of consigned goods. But if abnormal loss occurs before normal loss then abnormal loss is to be valued at actual cost and not at inflated price i.e. normal loss is not considered in this case while calculating abnormal loss. If it is not mentioned which loss occurs first then generally first case is considered i.e. normal loss is assumed to be occurred before abnormal loss.

### Illustration 4:

Ahmed Oil of Patna consigned 500 tins of 20 Kg each of coconut oil to AK Mishra Distributor of Chennai @ Rs. 80 per Kg on Jan 1, 2012 and incurred following expenses:

Freight & Insurance	Rs. 4,000
Carriage outward	Rs. 2,000

During transit 10 tins were accidentally destroyed on Jan 10, 2012. Insurance company admitted a claim of Rs. 14,000 and paid insurance amount to the consignor directly.

AK Mishra distributor took the delivery and incurred expenses like Octroi- Rs. 9,800, storage expenses- Rs. 5,500 and selling expenses- Rs. 4,000. On March 31, 2012, AK Mishra reported that it sold 400 tins @ Rs. 120 per Kg. It also reported to Ahmed oil a further loss of 10 tins due to leakage that is considered to be normal loss.

AK Mishra distributors are entitled a commission of 5% plus 2% del credere. It paid the amount due in respect of consignment on 31<sup>st</sup> March, 2012. Show the consignment account, consignee account and abnormal loss account in the books of consignor in case insurance claim was received for half of the total loss amount.

### Solution:

Dr.	Consignment Account	Cr.	
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (500*20*80)	8,00,000	By AK Mishra Distributor A/c: Sales proceeds (400*20*120)	9,60,000
To Bank A/c: (Expenses of consignor)		By Abnormal loss A/c (Loss in transit)- Note 1	16,120
Freight & Insurance 4000			
Carriage 2000	6,000	By consignment stock- Note 2	1,33,280
To AK Mishra Distributor A/c: (Expenses of consignee)			
Octroi 9,800			
Storage charge 5,500			
Selling expenses 4,000	19,300		
To AK Mishra Distributor			

## Consignment

A/c: (Commission charged by him) : Ordinary      48,000 (5% of 9,60,000) Del Credere    19,200 (2% of 9,60,000) <u>          </u>	67,200	
To profit and loss A/c- profit transferred	2,16,900	
	<u>11,09,400</u>	<u>11,09,400</u>

Dr. AK Mishra Distributor Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Sale proceeds	9,60,000	By Consignment A/c- Expenses:	
		Octroi            9,800	
		Storage         5,500	
		Selling expenses <u>4,000</u>	19,300
		By Consignment A/c (Commission )	67,200
		By bank A/c – Net amount remitted by consignee	8,73,500
	<u>9,60,000</u>		<u>9,60,000</u>

Dr. Abnormal Loss Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Loss in transit	16,120	By Insurance claim received (50% of total loss)	8,060
		By profit and loss A/c (Balanced loss transferred to P/L A/c)	8,060
	<u>16,120</u>		<u>16,120</u>

## Consignment

Working Notes:

1. Loss in transit:

Cost of oil destroyed		
(10 tins of 20 each) 200 Kg @ Rs. 80 per Kg		=16,000
Add Direct proportionate expenses of consignor:		
Freight and insurance in transit Rs. 4,000		
Loading charges	Rs. 2,000	6000*10/500=120
		=16,120

Note: Direct expenses of consignor is not to be taken while calculating loss in transit as this loss occurred before goods reached to consignee, so he has not incurred any expenses on such lost units.

2. Consignment stock ( value of unsold stock):

Cost of 500 tins of 20 Kg each @ Rs. 80 per kg	500*20*80	= 8,00,000
Add: Proportionate direct expenses incurred by consignor		= 6,000
Add: Proportionate direct expenses incurred by consignee(Octroi)		= 9,800
Less: Loss in transit		=16,120
		=7,99,680

Units consigned            500 tins  
 Units lost in transit      10 tins  
 Units lost in normal loss 10 tins  
 Hence units received = 500-10-10=480 units  
 Thus 7,99,680 is the cost of units received by consignee i.e. 480 units.  
 Thus the cost of unsold units i.e. 480-400= 80 units is calculated as:  
 Cost of unsold units= 799680\*80/480= Rs. 1,33,280.

## 8. Comprehensive Illustrations

### Illustration 1:

AB Oil Co. of Delhi consigned 1,000 barrels of oils to XY Oil Co. of Agra costing Rs. 800 per barrel.

AB Co. incurred freight and insurance expenses of Rs. 50,000. 25 barrels were destroyed in transit

due to leakage considered to be normal.

XY Co. received the consignment and accepted a bill drawn upon them by AB Oil Co. for Rs. 5,00,00

for 3 months. In their account sales, they reported the following details:

- 750 barrels were sold @ Rs. 1200 per barrel.
- Expenses incurred by them:



## Consignment

- Clearing charges                      Rs. 8,000
- Warehouse rent                        Rs. 40,000
- Advertisement expenses Rs. 20,000
- 25 barrels of oils were lost due to fire in godown.

XY Co. charged commission @ 5% on total sales made by them. They paid the net sale proceeds amount to consignor by bank draft.

Show the consignment account, XY Co. account and abnormal loss account in the books of AB Co.

### Solution:

Dr.	Consignment Account	Cr.		
	<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
	To goods sent on consignment A/c (1000*800)	8,00,000	By XY Co.: Sales proceeds (750*1200)	9,00,000
	To Bank A/c: Freight and Insurance incurred by consignor	50,000	By Abnormal loss (Note 1)	22,000
	To XY Co.: Expenses		By consignment stock (Note 2)	1,76,000
	Clearing charges 8,000			
	Warehouse rent 40,000			
	Advertisement Expenses                      20,000	68,000		
	To XY Co.: Commission @5% *9,00,000	45,000		
	To profit and loss A/c-profit	1,35,000		
		10,98,000		10,98,000
	To Neeraj- share of profit (20% of 1,35,000)	27,000	By balance b/d	1,35,000
	To Profit & Loss A/c- Profit transferred	1,08,000		
		1,35,000		1,35,000

Dr.	XY Oil Company Account	Cr.		
	<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>

## Consignment

To consignment A/c- Sale proceeds	9,00,000	By B/R (Advanced paid by accepting bill)	5,00,000
		By Consignment A/c- Expenses: Clearing charges 8,000 Warehouse rent 40,000 Advertisement Expenses 20,000	68,000
		By Consignment A/c (Commission )	45,000
		By bank A/c – Net amount remitted by consignee	2,87,000
	9,00,000		9,00,000

Dr.	Abnormal Loss Account		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Abnormal loss	22,000	By profit and loss A/c (loss transferred to P/L A/c)	22,000
	22,000		22,000

### Working Notes:

1. Abnormal Loss :	
Cost of oil sent (1000*800)	=8,00,000
Add Direct expenses of consignor:	
Freight and insurance in transit	=50,000
Add: Direct expenses of consignee:	
Clearing charges	=8,000
	=8,58,000

Units sent	1000 barrels
Less: Normal loss units	<u>25 barrels</u>

Units received by consignee 975 barrels

## Consignment

Amount of abnormal loss of 25 units =8,58,000\*25/975=22,000

2. Consignment stock ( value of unsold stock):  
 Value of unsold stock of 200 barrels  
 (975 units received-25 abnormal loss-750 units sold) = 8,58,000\*200/975  
= Rs. 1,76,000

**Illustration 2:**

Aman consigned 1600 units of goods @ Rs 100 per unit to Naman at an invoice price of cost plus 25%. Aman incurred freight charges of Rs. 15,000. Naman accepted a bills of exchange for Rs. 1,40,000 on receiving the consignment. He incurred expenses of Rs. 2,000 as rent and Rs. 1,000 on insurance. He sold  $\frac{3}{4}$  of the goods for Rs. 1,68,000 on cash and credit basis. He charged commission @ 5% of invoice price of goods sold and 20% of any price realized above the invoice price on the condition that he will meet his expenses himself. One of the debtors failed to pay the amount of Rs. 4,000 on account of credit sale. At the end of the year, owing to recession in the market, selling price of good has come down by 5% of Rs 125.

Show the consignment account, Naman account in the books of Aman and Consignor account in the books of Naman.

**Solution:**

Dr.	Consignment Account		Cr.
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (1,60,000+25% * 1,60,000)	2,00,000	By Naman A/c: Sales proceeds	1,68,000
To Bank A/c: Freight and Insurance incurred by consignor	15,000	By goods sent on consignment (Loading in goods sent) $2,00,000 * \frac{1}{5}$	40,000
To Naman A/c: Bad debts 4,000 Commission 11,100 (Note 1)	15,100	By consignment stock (Note 2)	53,750
To consignment stock reserve: Loading in unsold stock (50,000*1/5)	10,000		
To profit and loss A/c-profit	21,650		
	2,61,750		2,61,750

## Consignment

Dr.	Naman Account		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Sale proceeds	1,68,000	By B/R (Advanced paid by accepting bill)	1,40,000
		By Consignment A/c- Bad debts      4,000 Commission    11,100	15,100
		By balance c/d Net balance amount to be remitted to consignor	12,900
	1,68,000		1,68,000

Dr.	Aman Account		Cr.
Particulars	Amount	Particulars	Amount
To bills payable	1,40,000	By cash / debtor sales	1,68,000
To commission A/c	11,100		
To debtors A/c (bad debts)	4,000		
To balance c/d – balance amount to be remitted to Aman	12,900		
	1,68,000		1,68,000

### Working Notes:

1. Commission earned by Naman
 

Invoice price of goods sold $(2,00,000 \times \frac{3}{4}) = 1,50,000$	
Commission @ 5% of invoice price $(1,50,000 \times .05)$	= 7,500
Extra commission on excess sale value $(1,68,000 - 1,50,000) \times .2$	<u>= 3,600</u>

## Consignment

	=11,100
2. Valuation of closing stock	
Invoice price of units unsold (2,00,000*1/4)	=50,000
Add Direct proportionate expenses of consignor:	
Freight and insurance (15,000*1/4)	=3750
Less: Stock Reserve (50,000*1/5)	=10,000
	=43,750

Net realizable value of unsold goods of 400 units (1600*1/4):	
Sale price     400*(125-5%*125)= 400*118.75	=47,500
Less: Commission 5%*47,500	=2,375

Net realizable value= 47,500-2,375= 45,125

Hence Cost of unsold goods of Rs. 43,750 is less as compared to its net realizable value of Rs. 45,125. So it is valued at its cost.

### Illustration 3:

M consigned 1000 box of dinner sets costing @ Rs. 900 per set to P. M spent Rs. 1650 for carriage, Rs. 6250 for octroi and Rs. 3000 for insurance. P received the delivery of 950 sets. His account sales provided that 750 sets were sold half on cash and half on credit for Rs. 9,00,000 and he incurred Rs. 5000 for carriage, Rs. 5,500 for octroi at the time of receiving goods. There was a further loss of 50 units because of fire in the godown of P. P was entitled to commission @ 6% on the sales made by him. P also incurred Rs. 3,500 as expenses for repairing the damaged sets remaining in the stock. M claimed insurance company that was admitted at Rs. 40,000. There was a customer who became insolvent and paid Rs. 10,000 for his claim of Rs. 15,000 in full and final settlement. Show the consignment account, P's account and abnormal loss account in the books of M.

### Solution:

Dr.	Consignment Account	Cr.	
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (1000*900)	9,00,000	By XY Co.:	
To Bank A/c:		Cash Sales 4,50,000	9,00,000
Expenses incurred by consignor		Credit sales 4,50,000	
Carriage           1,650			
Freight            6,250		By Abnormal loss (Note 1)	91,643
Insurance         3,000	10,900	By consignment stock (Note 2)	1,38,293
To P's A/c : Expenses			

## Consignment

incurred by consignee Carriage            5,000 Custom duty        5,500 Repair                3,500 <hr style="width: 100px; margin-left: 0;"/>	14,000			
To P's A/c: Commission @6% *9,00,000	54,000			
To bad debt (15000-10000)	5,000			
To profit and loss A/c-profit	1,46,036			
	<hr style="width: 100px; margin-left: 0;"/>			
	11,29,936			11,29,936

Dr.	P's Account		Cr.
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
To consignment A/c-Sale proceeds	9,00,000	By Consignment A/c-Expenses:	
		Carriage            5,000	
		Custom duty        5,500	14,000
		Repairs            3,500	<hr style="width: 100px; margin-left: 0;"/>
		By Consignment A/c (Commission )	54,000
		By balance c/d – Net amount to be remitted to consignor	8,32,000
	<hr style="width: 100px; margin-left: 0;"/>		<hr style="width: 100px; margin-left: 0;"/>
	9,00,000		9,00,000

Dr.	Abnormal Loss Account		Cr.
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
To consignment A/c-Abnormal loss in transit	45,545	By bank-Insurance claim received	40,000
Loss due to fire	46,098		
	<hr style="width: 100px; margin-left: 0;"/>	By profit and loss A/c (loss transferred	51,643
	91,643		

## Consignment

		to P/L A/c)	
	91,643		91,643
			91,643

**Working Notes:**

1. Abnormal Loss :

Loss in transit:

Cost of 50 sets lost @ 900 per set (50\*900) =45,000

Add Direct proportionate expenses of consignor:

Freight and insurance in transit (10900\*50/1000) = 545

Loss in transit

Direct proportionate:

Cost of 50 sets lost @ 900 per set (50\*900) =45,000

Add Direct proportionate expenses of consignor:

Freight and insurance in transit (10900\*50/1000) = 545

Add: Direct expenses of consignee:

Carriage and custom duty (10500\*50/950) = 553

=46,098

Total abnormal loss = 45,545+46,098=91,643

2. Consignment stock ( value of unsold stock):

Value of unsold stock of 150 sets

(1000-50 loss in transit-50 loss by fire-750 units sold) is calculated as:

Cost of 150 sets unsold @ 900 per set (150\*900) =1,35,000

Add Direct proportionate expenses of consignor:

Freight and insurance in transit (10900\*150/1000) = 1,635

Add: Direct expenses of consignee:

Carriage and custom duty (10500\*150/950) = 1,658

=1,38,293

**Illustration 4:**

Anandi boutique of jodhpur sent 1000 pieces of lakhnavi printed cotton suits costing Rs. 230 per piece on consignment to Savita of Surat at an invoice price of Rs. 330. The consignor incurred Insurance charges of Rs. 8000. 100 pieces were damaged in transit due to fire. The consignee received the delivery of consignment and paid Rs. 5,000 for godown rent, Rs. 3,200 for warehouse insurance and Rs. 5,400 as clearing charges. The consignee made a sale of 700 pieces @ Rs. 500 per piece on cash basis. She is entitled to a commission of 10% on total sale and a bonus of 5% on profit earned by consignor after charging such commission and bonus. The salvage value of damaged pieces was

## Consignment

estimated at Rs. 800. The consignor claimed insurance company for the claim and it paid Rs. 20,000 for the claim in cash.

Show the consignment account, Savita account and abnormal loss account in the books of Anandi and Consignor account in the books of Savita.

### Solution:

#### Books of Anandi

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (1000*330)	3,30,000	By Savita A/c: Sales proceeds (700*500)	3,50,000
To Bank A/c: Insurance paid by consignor	8,000	By goods sent on consignment (Loading in goods sent) 1000 units*(330-230)	1,00,000
To Savita A/c: Expenses incurred by consignee		By abnormal loss A/c	23,000
Godown rent      5,000		By consignment stock: Normal stock (Note 2)	68,800
Insurance          3,000	13,400	By Salvaged stock A/c	800
Clearing charges  5,400			
To Savita A/c: Commission (10%*3,50,000)	35,000		
To consignment stock reserve: Loading in unsold stock (200*100)	20,000		
To Savita A/c: Bonus (1,36,200*5/105)	6,486		
To profit and loss A/c-profit (1,36,200-6,486)	1,29,714		
	5,42,600		5,42,600

Dr.		Cr.	
Particulars	Amount	Particulars	Amount





## Consignment

1. Abnormal Loss :

Loss in transit:

Cost of 100 pieces lost @ 230 per piece (100\*230) = 23,000

Add Direct proportionate expenses of consignor:

Freight and insurance 100 pieces (8000\*100/1000)

800

Loss in transit 23,800

Less Salvaged value 800

Net Loss 23,000

Note: In case goods are consigned at invoice price then abnormal loss is to be calculated at cost price and not at invoice price to minimize consignor's loss.

2. Consignment stock ( value of unsold stock):

Value of unsold stock of 200 pieces

(1000-100 loss in transit-700 units sold) is calculated as:

Cost of 200 pieces unsold @ 900 per set (200\*330) =66,000

Add Direct proportionate expenses of consignor:

Freight and insurance in transit (8000\*200/1000) =1,600

Add: Direct expenses of consignee:

Clearing charges (5400\*200/900) =1,200

=68,800

**Illustration 5:**

Narayan of Bhopal consigned goods costing Rs. 80,000 to Mohan of Gujarat. The consignor spent Rs. 5000 on cartage. The consignee paid an advance of Rs. 30,000.

He spent Rs. 2000 as selling expenses. He made sale of goods costing Rs. 60,000 for Rs. 1,22,000, which comprised cash sale of Rs. 86,000 and credit sale of Rs. 36,000. He also took over goods for his personal use out of the goods consigned costing Rs. 6,000 but they were valued at cost plus 10%. There was a loss of goods costing Rs. 5,000 because of fire in the godown and no insurance claim was received for that.

The consignee charged commission @ 5% on cash sale and 4% on credit sales. But no commission was paid in goods taken over for personal use. Creditors paid Rs. 35,000 in full and final settlement i.e. discount of Rs. 1,000 was allowed to them. The consignee remitted the balance amount to the consignor

Show the consignment account, Consignee account and abnormal loss account in the books of Narayan.

**Solution:**

Books of Narayan

Dr.	Consignment Account	Cr.
-----	---------------------	-----

## Consignment

Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c	80,000	By Mohan A/c: Cash sales 86,000 Credit sales <u>36,000</u>	1,22,000
To Bank A/c: Cartage paid by consignor	5,000	By Mohan A/c: Cost of Goods taken for personal use 6,000 Add: (10% of 6,000) <u>600</u>	6,600
To Mohan A/c: Expenses incurred by consignee Selling expenses	2,000	By abnormal loss A/c (Note 1)	5,312
To Mohan A/c: Commission- 5% on cash sale 4,300 4% on credit sale <u>1,440</u>	5,740	By consignment stock A/c: (Note 2)	9,563
To Mohan A/c: (Discount allowed to credit customers)	1,000		
To profit and loss A/c- profit (1,36,200-6,486)	49,735		
	1,43,475		1,43,475

Dr.

Mohan Account

Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Cash Sales 86,000 Credit sales <u>36,000</u>	1,22,000	By cash A/c – Advance paid by consignee	30,000
To consignment A/c: Goods taken for own use	6,600	By Consignment A/c- Selling Expenses incurred by consignee	2,000
		By Consignment A/c- Commission	5,740
		By Consignment A/c- Discount allowed	1,000
		By balance c/d Net balance amount to be remitted to consignor	89,860
	1,28,600		1,28,600

## Consignment

Dr.	Abnormal Loss Account		Cr.
Particulars	Amount	Particulars	Amount
To consignment A/c- Abnormal loss due to fire	5,312	By profit and loss A/c (loss transferred to P/L A/c)	5,312
	5,312		5,312

**Working Notes:**

1. Abnormal Loss :

Loss by fire:

Cost of units lost =5,000

Add Direct proportionate expenses of consignor:  
Cartage paid (5000\*5000/80000) 312

Add: Direct expenses of consignee:  
No direct expenses incurred by consignee 00

=5,312

2. Consignment stock ( value of unsold stock):

Cost of goods consigned =80,000

Less: Cost of goods sold 60,000

Less: Goods for personal use 6,000

Less: Abnormal loss 5,000

Cost of goods unsold = 9,000

Thus Cost of unsold stock costing Rs. 9,000 is calculated as:

Cost of unsold goods = 9,000

Add Direct proportionate expenses of consignor:  
Cartage paid (5000\*9000/80000) = 563

Add: Direct expenses of consignee:  
No direct expenses incurred by consignee = 00

=9,563

**Illustration 6:**

## Consignment

Mehta Groups of Surat consigned 1,000 units of goods costing Rs 100 each at an invoice price of 125 to Sharma group of Chennai. Mehta incurred the following expenses on the consignment:

Carriage Rs. 1,000  
Freight and clearing charges Rs. 4,000

Sharma Group prepared account sales sold 700 units @ Rs. 140 and incurred the following expenses:

Octroi Rs. 850  
Advertisement and selling expenses Rs. 2,300

It is found that 50 units were lost in transit and 100 units are still in transit. Sharma Group charged commission @ 10% on gross sales. They were also entitled for bonus of 20% of net profit after charging such commission and bonus.

Show the consignment account, Consignee account and abnormal loss account in the books of Mehta and consignor account in the books of Sharma Group.

### Solution:

Books of Mehta Group

Dr. Consignment Account Cr.

Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (1000*125)	1,25,000	By Sharma Group A/c: Sales proceeds (700*140)	98,000
To Bank A/c: Expenses paid by consignor:		By goods sent on consignment (Loading in goods sent) 1000 units*(125-100)	25,000
Carriage 1,000		By abnormal loss A/c (Note 1)	5,250
Freight and Clearing charges 4,000	5,000	By consignment stock: With consignee (Note 2)	19,650
To Sharma Group A/c: Expenses incurred by consignee		In Transit (Note 3)	13,000
Octroi 850			
Advertisement & Selling expenses 2,300	3,150		
To Sharma Group A/c: Commission (10%*98000)	9,800		
To consignment stock reserve: Loading in unsold stock (150*25+100*25)	6,250		

## Consignment

To Sharma Group A/c: Bonus (11,700*20/120)	1,950	
To profit and loss A/c- profit (11,700-1,950)	9,750	
	1,60,900	1,60,900

Dr. Sharma Group Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Sale proceeds	98,000	By Consignment A/c- Expenses incurred by consignee	
		Octroi 850	
		Advertisement & Selling expenses 2,300	3,150
		By Consignment A/c- Commission (10%*98000)	9,800
		By Consignment A/c- Bonus earned	1,950
		By balance c/d Net balance amount to be remitted to consignor	83,100
	98,000		98,000

Dr. Abnormal Loss Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Abnormal loss in transit	5,250	By profit and loss A/c (loss transferred to P/L A/c)	5,250
	5,250		5,250

Books of Sharma Group:

## Consignment

Dr. Mehta Group Account Cr.

Particulars	Amount	Particulars	Amount
To bank A/c-		By cash (cash sale)	98,000
Expenses incurred by consignee			
Octroi           850			
Advertisement			
& Selling			
expenses <u>2,300</u>	3,150		
To commission A/c:			
Ordinary	9,800		
Bonus	1,950		
To balance c/d –			
balance amount to			
be remitted to Mehta	83,100		
Group			
	98,000		98,000

### Working Notes:

1. Abnormal Loss :

Loss in transit:

Cost of 50 units lost @ 100 per piece (100\*50) =5,000

Add Direct proportionate expenses of consignor:

Carriage and clearing charges (5000\*50/1000)                     250

Loss in transit 5,250

Note: In case goods are consigned at invoice price then abnormal loss is to be calculated at cost price and not at invoice price to minimize consignor's loss.

2. Consignment stock ( value of unsold stock):

Value of unsold stock of 150 units

(1000-50 loss in transit-100 still in transit-700 units sold) is calculated as:

Cost of 150 pieces unsold @ 125 per unit (150\*125) =18,750

Add Direct proportionate expenses of consignor:

Carriage and clearing charges (5000\*150/1000)                     750

Add: Direct expenses of consignee:

Octroi (850\*150/850) 150

19,650

## Consignment

3. Value of stock in transit:	
Cost of 100 pieces unsold @ 125 per unit (100*125)	=12,500
Add Direct proportionate expenses of consignor:	
Carriage and clearing charges (5000*100/1000)	500
	=13,000

### Illustration 7:

Madhu of Calcutta sent 100 machines costing Rs. 1120 on consignment to Nagma of Pune at an invoice price 25% above cost. She incurred Rs. 2,500 on loading charges.

It was found that 5 machines were lost in transit. A claim on insurance company was made for Rs. 5,000 that was settled at a discount of 10%. Nagma spent Rs. 4750 as freight on remaining machine, octroi of Rs. 950 and Rs. 1900 as warehouse rent. She sold  $\frac{3}{4}$  of total goods consigned before loss in transit @ 50% profit on cost. Half of which were on credit sale. She found that 10 machines were defective and thus returned them to Madhu at the cost of Rs. 500.

Nagma charged commission @5% on invoice price and 20% of any price realized over and above on the invoice price and 1% as a del credere commission on credit sale. She was not able to realize sale proceeds of 5 machines.

Show the consignment account, Consignee account and abnormal loss account in the books of Madhu and consignor account and commission account in the books of consignee.

### Solution:

Books of Madhu Group

Dr. Consignment Account Cr.

Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (100*(1120+25%*1120 =100*1400))	1,40,000	By Nagma A/c: Sales proceeds (75*1,680)	
To Bank A/c: Loading charges paid by consignor	5,000	Cash sale      63,000 Consignment debtor      63,000	1,26,000
To Nagma A/c: Expenses incurred by consignee Freight 4,750 Octroi                      950 Warehouse rent      1,900 Expenses on machine returned      500	8,100	By goods sent on consignment (Loading in goods sent) 100 units*(1400-1120)	28,000
		By abnormal loss A/c (Note 1)	5,725
		By goods sent on consignment Goods	



## Consignment

To Nagma A/c: Commission (Note 3)	10,080	returned at cost price) 10 units*1120	11,200
		By consignment stock: With consignee (Note 2)	14,850
To consignment stock reserve: Loading in unsold stock (10*(1400- 1120))	2,800		
To profit and loss A/c- profit	19,795		
	1,85,775		1,85,775

Dr. Nagma Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Cash sales 63,000 Consignment Debtor 63,000	1,26,000	By Consignment A/c- Expenses incurred by consignee Freight 4,750 Octroi 950 Warehouse rent 1,900 Expenses on machine returned 500	8,100
		By Consignment A/c- Commission	10,080
		By balance c/d Net balance amount to be remitted to consignor	1,07,820
	1,26,000		1,26,000

Dr. Abnormal Loss Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Abnormal loss in transit	5,725	By bank A/c- Insurance claim received	4,500

## Consignment

		(5000-10%*5000)	
		By profit and loss A/c (loss transferred to P/L A/c)	1,225
	5,725		5,725

### Books of Nagma

Dr. Madhu Account Cr.

Particulars	Amount	Particulars	Amount
To bank A/c- Expenses incurred by consignee		By Bank A/c -cash sales	63,000
Freight 4,750		By Consignment debtor A/c- Credit sale	63,000
Octroi 950			
Warehouse rent 1,900			
Expenses on machine returned 500	8,100		
To Commission A/c	10,080		
To balance c/d Net balance amount to be remitted to consignor	1,07,820		
	1,26,000		1,26,000

Dr. Commission Account Cr.

Particulars	Amount	Particulars	Amount
To bad debts A/c (5*1680)	8,400	By Madhu A/c- Consignee commission	10,080
To Profit and loss A/c	1,680		

## Consignment

	10,080	
		10,080

### Working Notes:

1. Abnormal Loss :

Loss in transit:

Cost of 5 machines lost @ 1120 per machine(5\*1120) =5,600

Add Direct proportionate expenses of consignor:

Loading charges (2500\*5/100) 125

Loss in transit =5,725

Note: In case goods are consigned at invoice price then abnormal loss is to be calculated at cost price and not at invoice price to minimize consignor's loss.

2. Consignment stock (value of unsold stock):

Value of unsold stock of 10 machines

(100-5 loss in transit-10 returned-75 units sold) is calculated as:

Invoice price of 10 machines unsold @ 1400 per unit (10\*1400) =14,000

Add Direct proportionate expenses of consignor:

Loading charges (2500\*10/100) 250

Add: Direct expenses of consignee:

Freight & Octroi (5700\*10/95) 600

(Note: 95= 100 goods consigned- 5 lost in transit) =14,850

3. Commission:

Ordinary Commission= 5% of invoice price of machine sold

= (75 units sold\*1,400 invoice price)\*5/100 = 5,250

Add: Overriding commission=20% of excess of sale price over invoice price

= (75 units sold\*(1680-1400))\*20/100 4,200

Add: Del credere commission= 1% on total credit sale

= 63,000\*1/100 630

10,080

### Illustration 8:

AB of Bhopal consigned goods costing Rs. 80,000 at an invoice price of cost plus 20% of invoice price to the MN of Nepal. AB incurred the following expenses on consignment:

Octroi Rs. 6,000

Insurance Rs. 2,000

During transit one tenth of the total goods consigned were lost by fire and sum of Rs. 4,000 was claimed and received from insurance company.

## Consignment

MN spent Rs. 3,600 as clearing charges to receive goods He also incurred Rs. 6,400 for warehouse rent and Rs. 3,400 for advertisement expenses. It was also observed that one ninth of the remaining goods were also destroyed in godown because of fire in godown and nothing was recovered from insurance company for the same.

MN prepared an account sales to show that half of the original goods consigned was sold for Rs. 70,000. They were entitled to the commission @ 5% on total sale proceeds. At the end of the year they paid the remaining amount due to consignor out of the gross sale proceeds by sending a bank draft for the same in the favor of consignor. No sale could be made for the remaining unsold units, so it was taken back by the consignor at a further expenses incurred by the consignee of Rs. 6,000.

Show the consignment account, Consignee account and abnormal loss account in the books of AB and Consignor account in the books of MN.

### Solution:

Books of AB Group

Dr. Consignment Account Cr.

Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c (Note 1)	1,00,000	By MN A/c: Sales proceeds	70,000
To Bank A/c: Expenses paid by consignor Octroi <span style="float: right;">6,000</span> Insurance <span style="float: right;">2,000</span>	8,000	By goods sent on consignment (Loading in goods sent) (Note 1)	20,000
To MN A/c: Expenses incurred by consignee Clearing charges <span style="float: right;">3,600</span> Warehouse rent <span style="float: right;">7,000</span> Advertisement expense <span style="float: right;">4,000</span>	14,600	By abnormal loss A/c (Note 2) Loss in transit <span style="float: right;">8,800</span> Loss in godown <span style="float: right;">9,200</span>	18,000
To MN A/c: Commission (5%*70,000)	3,500	By goods sent on consignment (Goods returned at cost price ) (Note 3)	27,600
To MN A/c: Expenses on goods returned	6,000		
To profit and loss A/c-	3,500		

## Consignment

profit		
	1,35,600	1,35,600

Dr. MN Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Sales proceeds	70,000	By Consignment A/c- Expenses incurred by consignee Clearing charges 3,600 Warehouse rent 7,000 Advertisement Expense 4,000	14,600
		By Consignment A/c- Commission	3,500
		By Consignment A/c- Expenses on goods returned	6,000
		By bank A/c Net balance amount remitted to consignor	45,900
	70,000		70,000

Dr. Abnormal Loss Account Cr.

Particulars	Amount	Particulars	Amount
To consignment A/c- Abnormal loss in transit	8,800	By bank A/c- Insurance claim received	4,000
Abnormal loss in godown	9,200	By profit and loss A/c (loss transferred to P/L A/c)	14,000
	18,000		18,000

Books of MN

## Consignment

Dr.	AB Account		Cr.
Particulars	Amount	Particulars	Amount
To bank A/c- Expenses incurred by consignee Clearing charge 3,600 Warehouse rent                   7,000 Advertisement Expense 4,000	14,600	By Bank A/c –sales proceeds	70,000
To Commission A/c	3,500		
To bank A/c: Expenses on goods returned	6,000		
To bank A/c Net balance amount remitted to consignor	45,900		
	70,000		70,000

Dr.	Commission Account		Cr.
Particulars	Amount	Particulars	Amount
To Profit and loss A/c	3,500	By AB A/c- Consignee commission	3,500
	3,500		3,500

### Working Notes:

1. Invoice price:
 

Cost price of goods sent	=80,000
Add: Loading (20% of invoice price means 25% of cost price)	
So Loading is 25% of 80,000	20,000
	=1,00,000
  
2. Abnormal Loss :

## Consignment

Loss in transit:	
Cost of units lost $1/10^{\text{th}}$ of 80,000	=8,000
Add: Direct proportionate expenses of consignor:	
Octroi & insurance charges (8000*1/10)	<u>800</u>
Loss in transit	<u>=8,800</u>

Note: In case goods are consigned at invoice price then abnormal loss is to be calculated at cost price and not at invoice price to minimize consignor's loss.

Loss in godown:	
Cost of units lost $1/9^{\text{th}}$ of (80,000- 8,000 units lost in transit)	=8,000
Add: Direct proportionate expenses of consignor:	
Octroi & insurance charges (8,000*1/10)	800
Add: Direct proportionate expenses of consignee:	
Clearing charges (3,600*8,000/72,000)	400
Loss in godown	<u>=9,200</u>

3. Consignment stock ( value of unsold stock returned back to consignor):

Cost of unsold stock costing Rs. 24,000	
(Rs. 80,000- Rs. 8,000 loss in transit- Rs. 8,000 loss in godown- Rs. 40,000 sold) is calculated as:	
Cost price of units unsold	=24,000
Add Direct proportionate expenses of consignor:	
Loading charges (8,000*24,000/80,000)	2,400
Add: Direct expenses of consignee:	
Clearing charges (3,600*24,000/72,000)	1,200
	<u>=27,600</u>

**Illustration 9:**

Soni consigned goods costing Rs. 1,00,000 to Rajesh on Jan 1, 2012. He incurred the following expenses:

Octroi	Rs. 2,000
Freight	Rs. 1,000

He closes his books on half yearly basis i.e. on June 30 and December 31.

For the period ended June 30, 2012, Rajesh sent an account sales providing the following information:

- He sold 70% of the goods consigned for Rs. 90,000 but he was able to collect Rs. 60,000 till June 30.
- He incurred the following expenses:
 

Unloading Charges	Rs. 3,000
Selling expenses	Rs. 2,000

## Consignment

Rajesh charged commission @ 5% including 2% as del credere commission on gross sales proceeds. He sent bank draft to Soni for the net balance due on the basis of collection made by him along with the account sales. Soni had to pay Rs. 30 as bank charges to get that draft encashed.

For the period ended December 31, 2012, Rajesh sent another account sales to disclose the following information:

- He sold the remaining stock for Rs. 40,000.
- He incurred Rs. 1,500 for selling those goods.
- He collected all dues from customers except one who became insolvent and paid Rs. 500 out of his total debt of Rs. 1,500.

Rajesh sent the final bank draft to Soni for the remaining due amount. Soni had to spend Rs. 20 as bank charges to get that draft encashed.

Show the consignment account, Consignee account in the books of Soni.

### Solution:

Books of Soni Group

Dr. Consignment Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2012 Jan 1	To goods sent on consignment A/c	1,00,000	2012 June 30	By Rajesh A/c: Cash sale 60,000 Credit Sales <u>30,000</u>	90,000
Jan 1	To Cash A/c: Expenses paid by consignor Octroi 2,000 Freight <u>1,000</u>	3,000	June 30	By Consignment stock A/c (Note 3)	31,800
June 30	To Rajesh A/c: Expenses incurred by consignee Unloading charges 3,000 Selling expense <u>2,000</u>	5,000			
June 30	To Rajesh A/c: Ordinary Commission - 3%*90,000-2,700 Del Credere -2%* 90,000-1,800 <u>                                </u>	4,500			



## Consignment

June 30	To profit and loss A/c- profit	9,300			
		1,21,800			1,21,800
2012 July 1	To consignment stock A/c	31,800	2012 Dec 31	By Rajesh A/c: Sales proceeds	40,000
Dec 31	To Rajesh A/c: Selling Expenses incurred by consignee	1,500			
	To Rajesh A/c: Ordinary Commission - 3%* 40,000 Del Credere - 2%* 40,000	1,200 800			
		2,000			
Dec 31	To bank charges (paid after June 30 but before Dec 31, so debited by whole amount in second half year)	50			
Dec 31	To profit and loss A/c- profit	4,650			
		40,000			40,000

Dr.			Rajesh Account			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount			
2012 June 30	To consignment A/c- Cash sale 60,000 Consignment Debtors A/c 30,000	90,000	2012 June 30	By Consignment A/c Expenses incurred by consignee Unloading Charges 3,000 Selling expense 2,000	5,000			
			June 30	By Consignment A/c Commission charged by consignee	4,500			
			June 30	By Bank A/c				

## Consignment

				(bank draft paid by consignee (60,000 cash received- 5,000 expenses paid- 4,500 commission))	51,500
			June 30	By balance C/d	29,000
		90,000			90,000
2012			2012		
July 1	To balance b/d	29,000	Dec 31	By Consignment A/c Selling Expenses incurred by consignee	1,200
Dec 31	To consignment A/c- Sales proceeds	40,000	Dec 31	By Consignment A/c Commission charged by consignee	2,000
			Dec 31	By Bank A/c (bank draft paid by consignee For the remaining amount)	65,800
		69,000			69,000

### Working Note:

1. Consignment stock ( value of unsold stock):
 

Cost price of units unsold (30%* 1,00,000)	=30,000
Add Direct proportionate expenses of consignor:	
Octroi & Freight charges (30%*3,000)	900
 Add: Direct expenses of consignee:	
Clearing charges (30%*3,000)	900
	31,800
  
2. Since del credere commission was paid to consignee so he will bear the loss of bad debts amounting Rs. 1,000 (1,500-500) out of his commission. Consignor does not show this loss in his books.

## Consignment

### Illustration 10:

Ranbir consigned goods costing Rs. 2,00,000 to Sanjay on the following conditions:

- Sanjay would be entitled to get commission @ 5% on cash sale and 4% of credit sale.
- Goods taken over by Sanjay or loss because of his negligence would be charge from Sanjay at cost plus 10% and no commission would be paid on them.

Ranbir incurred the following expenses:

Loading Charges	Rs. 7,000
Insurance Charges	Rs. 3,160

Ranbir received Rs. 75,000 from Sanjay as an advance against the consignment. Sanjay sent an account sales providing the following information:

- He sold goods costing Rs. 1,50,000 for Rs. 2,50,000, out of which 80% sale was on cash basis and remaining on credit basis.
- He incurred the selling expenses amounting Rs. 3,000.
- Goods costing Rs. 8,000 were taken over by Sanjay for his personal use and also goods costing Rs. 5,000 were lost in his godown because of his negligence.

Sanjay sent bank draft to Ranbir for the net balance due on the goods sold.

Show the consignment account, Consignee account in the books of Ranbir.

### Solution:

In the Books of Ranbir

Dr.

Consignment Account

Cr.

Particulars	Amount	Particulars	Amount
To goods sent on consignment A/c	2,00,000	By Sanjay A/c: Cash sales	
To Bank A/c: Expenses paid by consignor		80% of sale    2,00,000	2,50,000
Loading            7,000		Credit sales	
Insurance         3,160	10,160	20% of sale    50,000	
To Sanjay A/c: Expenses incurred by consignee			
Selling expenses	3,000	By Sanjay A/c: Cost of Goods taken for personal use    8,000	
To Sanjay A/c: Commission- 5% on cash sale    10,000		Add: (10% of 8,000)    800	8,800
4% on credit sale    2,000	12,000	By Sanjay A/c: Goods lost because of his negligence 5,000	
		Add: (10% of 5,000)    500	5,500
		By consignment stock	

## Consignment

		A/c: (Note 1)	38,880
To profit and loss A/c-profit	78,020		
	3,03,180		3,03,180

Dr.		Sanjay Account		Cr.	
Particulars	Amount	Particulars	Amount		
To consignment A/c- Cash Sales 2,00,000 Credit sales 50,000	2,50,000	By cash A/c – Advance paid by consignee	75,000		
To consignment A/c: Goods taken for own use	8,800	By Consignment A/c- Selling Expenses incurred by consignee	3,000		
To consignment A/c: Goods lost	5,500	By Consignment A/c- Commission	12,000		
To balance c/d (Carried forward Advance amount proportionately to unsold stock ) (Note 2)	13,875	By balance c/d Net amount remitted to consignor	1,88,175		
	2,78,175		2,78,175		

1. Consignment stock ( value of unsold stock):
- |                              |           |
|------------------------------|-----------|
| Cost of goods consigned      | =2,00,000 |
| Less: Cost of goods sold     | =1,50,000 |
| Less: Goods for personal use | =8,000    |
| Less: Goods lost             | =5,000    |
|                              | =37,000   |
- Cost of goods unsold =37,000

## Consignment

Thus Cost of unsold stock costing Rs. 37,000 is calculated as:

Cost of unsold goods	=37,000
Add: Direct proportionate expenses of consignor: Cartage paid ( $10160 \times 37000 / 200000$ )	1,880
Add: Direct expenses of consignee: No direct expenses incurred by consignee	00
	<hr/>
	=38,880

2. Advance amount carried forward for unsold stock to next year:  
Advance of Rs. 75,000 paid on goods costing Rs. 2,00,000  
So advance amount for unsold stock costing Rs. 37,000  
 $= 75000 \times 37000 / 200000 = \text{Rs. } 13,875$

### Summary:

- Consignment is the process of sending goods by a consignor to the consignee for sale on commission basis.
- It follows the relationship of principal and agent between consignor and consignee in which agent sells principal's goods on his behalf against commission. The ownership of goods remains with principal and possession with the agent. Consignor is supposed to bear all the risks involved in consignment.
- Consignment helps producers to bring economies of large-scale production as it ensures increased sale in different parts of the same country or across the world.
- Consignment is different from sale as it does not involve transfer of ownership and selling of goods from consignor to consignee.
- Consignor prepares proforma invoice to give the details of goods consigned to the consignee and consignee prepares account sales to give the details of goods sold by him, his expenses and due commission on the units sold.
- There are three different types of commission for consignee i.e. ordinary commission on sale, del credere commission to bear the risk of bad debts and overriding commission to boost the sale at higher price.
- Direct Expenses incurred by consignor and consignee are to be included in the cost of unsold goods and abnormal loss proportionately and indirect expenses incurred by consignee is not included in such valuation.

## Consignment

- Goods can be consigned to consignee at cost price or invoice price. Invoice price is the price higher than cost price as it includes some profit margin so that consignee cannot know about the cost price of goods consigned. This profit part is known as loading and this has to be adjusted in consignment account by passing journal entries.
- There can be two types of loss in consignment i.e. normal loss because of uncontrollable reason and abnormal loss because of controllable reason.
- Normal loss is to be charged from remaining units by inflating their price and abnormal loss is to be transferred to general profit and loss account.
- Both consignor and consignee record journal entries in their respective books and consignor prepares mainly consignment account, consignee account, goods sent on consignment account and abnormal loss account. Consignee prepares consignor account and commission account.

### Exercises:

#### Short Questions:

1. What are the different types of commissions available for consignee?
2. What are the two parties involved in the consignment? What kind of relationship is enjoyed by them?
3. How is normal loss different from abnormal loss?
4. Why is advance on consignment demanded by the consignor?
5. Why does consignee prepare Account sales?
6. On what basis direct and indirect expenses can be distinguished from each other?

#### Long Questions:

1. Why does consignor send goods to consignee at invoice price? What is its impact in consignment account? Explain them with their proper treatment in consignment account.
2. How is consignment different from sale in accounts?
3. What is the treatment of normal loss and abnormal loss in consignment account while valuing the closing stock? Explain them with their suitable reasons.

#### Unsolved Questions

1. Calculate the value of unsold stock from the following information:

Number of units consigned	1,000
Cost per unit	Rs. 50 per unit
Expenses incurred by consignor	Rs. 300
Cartage expense incurred by consignee on receiving the consignment	Rs. 250
Warehouse rent paid by consignee	Rs. 200
Number of units sold	800

## Consignment

Units lost by fire in consignee's godown 50  
(Value of consignment stock: Rs. 7,582.50)

2. Rajat consigned goods costing Rs. 1,60,000 to Sameer on the following conditions:
- Sameer would be entitled to get commission @ 5% on cash sale and 4% of credit sale.
  - Goods taken over by Sameer or loss because of his negligence would be charge from Sameer at cost plus 10% and no commission would be paid on them.

Rajat incurred the following expenses:

Loading Charges Rs. 4060

Insurance Charges Rs. 6,100

Rajat received Rs. 75,000 from Sameer as an advance against the consignment.

Sameer sent an account sales providing the following information:

- He sold goods costing Rs. 1,28,000 for Rs. 2,50,000, out of which 75% sale was on cash basis and remaining on credit basis.
- He incurred the selling expenses amounting Rs. 3,000.
- Goods costing Rs. 8,000 were taken over by Sameer for his personal use and also goods costing Rs. 4,000 were lost in his godown because of his negligence.

Sameer sent bank draft to Rajat for the net balance due on the goods sold.

Calculate the amount of consignment stock and commission payable.

(Value of consignment stock: Rs. 21,270; Commission payable: 11,875)

3. Meena consigned 100 machines on consignment to Nazir costing Rs 140 each machine. Meena spent Rs. 250 on freight. Nazir received the consignment and accepted B/R of Rs. 70,000 as an advance. He found that 5 machines were lost in transit. He spent Rs. 570 as on octroi on goods received and Rs, 190 as warehouse rent. He reported that  $\frac{3}{4}$ th of goods consigned were sold @Rs. 190 each. He also reported that 10 machines were defective and thus he returned them at cost of Rs. 50. He charged commission of 5% on cost price and 20% of any excess price realized over cost price and 1% del credere commission. He was not able to get the payment from debtor of 5 machines. At the end Nazir remitted the remaining amount to the consignor.

Prepare goods sent on consignment account , consignee account and abnormal loss account.  
(Profit from consignment Rs. 730)

4. MP Company of Chennai consigned 100 machines costing Rs. 330 to RS Company of Bhopal at an invoice price of cost plus 20% over cost. MP Co. incurred expenses like loading charges of Rs. 1,250. RS Co. received consignment and spent Rs. 255 as unloading charges and Rs. 1,000 as selling expenses. They reported in their account sales that:

- $\frac{3}{4}$ <sup>th</sup> of total goods consigned sold at a price of Rs. 33,000 out of which 50% of sale was on credit.
- $\frac{1}{8}$ <sup>th</sup> of the total goods consigned at cost were damaged by fire and insurance company made payment of Rs. 4,000.
- They charged commission @8% on gross sales and 5% extra commission on profit after charging such commission.

You are required to prepare a consignment account, consignee and abnormal loss account in the books of consignor.

(Profit on consignment Rs. 3,315)

## Consignment

5. Meena consigned 100 boxes costing Rs. 500 each to Reena at an invoice price of cost plus 20% over cost. Meena incurred expenses like loading charges of Rs. 3,100. Reena received consignment and spent Rs. 2500 as warehouse rent. She reported in her account sales that:

- 40 boxes were sold at an invoice price.
- 30 boxes were sold at a profit of Rs. 100 on invoice price.
- 20 boxes were defective and their estimated selling price would be Rs. 200 per box.
- She was entitled to a commission of 5% on gross sales and overriding commission @20% of any excess price realized over invoice price. She was allowed del credere commission of 1% on total sale proceeds.

You are required to prepare a consignment account, consignee and abnormal loss account in the books of consignor and consignor account in the books of consignee.

(Loss on consignment Rs. 4,440)

6. Rahul of Banaras consigned silk sarees to Rohit of Surat at an invoice price representing 125% of cost. The expenses on loading of Rs. 6,000 and insurance of Rs. 4,000 incurred by Rahul. Rohit was entitled to a commission of 10% on sales at invoice price and overriding commission of 25% of any excess price realized over invoice price. Rohit sent the account sales reporting Rahul that he made a sales of Rs. 1,00,000 in respect of 75% of the consignment after incurring advertisement expenses of Rs. 5,500. 10% of the consignment goods of the invoice value of Rs. 12,500 were destroyed in fire at Rohit's godown and the insurance company paid Rs. 11,000 as a partial insurance claim. Rohit remitted the balance in favor of Rahul. Prepare consignment Account, consignee account in the books of consignor.

(Profit on consignment Rs. 1,062)

7. Ram Cloth house of Delhi purchased 20,000 suits @ Rs. 250 each. Of these 15,000 suits were sent on consignment to Satish cloth stores of Kanpur at an invoice price of cost price plus 20% profit on cost price. The consignor incurred Rs. 10,000 for packing and Rs. 5,000 as insurance charges. The consignee sold 80% of suits consigned at a profit of Rs. 20 per suit after spending Rs. 5,000 towards selling expenses. Half of the sale was on credit basis. The consignee was entitled to a commission of 5% on total sales plus a further bonus of @ 35% on any excess price realized over invoice price. He was allowed a del credere commission of 2% on credit sale. The consignee remitted Rs. 25,00,000 to the consignor on this particular account. Owing to fall in the market price, the value of stock of suits in hand is to be reduced by 10%. The consignee failed to receive payment from one debtor owing Rs. 20,000.

You are required to prepare:

- Consignment account and consignee account in the books of consignor.
- Consignor account and commission accounts in the books of consignee.

(Profit on consignment Account: Rs.5,08,600, Profit in commission Account: Rs. 2,94,400)

8. Bhanu consigned 100 jewellery boxes at Rs.300 per box to Satyam. He spent Rs. 500 as freight expenses. 10 boxes were damaged in transit because of fire. The



## Consignment

consignor recovered from insurance company a claim of Rs. 2,000 for the damaged goods.

Satyam received the consignment and sent his two months acceptance for Rs. 15,000 to the consignor. Following were reported in the Account Sales prepared by consignee:

- 75boxes sold at a profit of Rs 50 per box.
- Damaged bales sold at Rs.140 per bale.
- Consignee spent Rs. 1,700 for taking delivery of the goods by paying octroi expenses and Rs. 300 for warehouse rent.
- Consignee is entitled to 10% commission on all sales except the sale of damaged goods.
- He paid the remaining amount to the consignor through bank draft which was encashed by the consignor after paying Rs. 50 as bank charges

You are required to prepare Consignment account and Consignee account in the books of consignor and also show the working for calculation of consignment stock and abnormal loss.

(Loss on consignment Account: Rs. 1,017 and Net Abnormal loss Rs. 650)

### Glossary:

1. **Bills of Exchange:** It is a legal negotiable instrument in which borrower is promising to pay mentioned amount on it to a lender either on demand or at a set time.
2. **Goods in transit:** It means goods have been dispatched from the consignor's place but they have not been reached at consignee's place till now.
3. **Natural deterioration:** It is the occurrence of physical wear and tear that is unavoidable in spite of the correct use and maintenance of a product. It leads to loss in the value of goods.
4. **Transfer of Ownership:** It refers to the transfer of all rights and risks related to a particular goods from one party to another party.
5. **Transfer of Possession:** It refers to the transfer of goods from one party to another but all rights and title in the goods remains with the first party only.
6. **Cash Remittances:** It is the amount that a consignee is obliged to pay to the consignor after deducting all his dues from gross sale proceeds by cash.
7. **Loading Margin:** The difference between invoice price and the cost price of goods consigned is known as loading margin as it indicates profit margin.

### References:

1. **Work Cited:**

## Consignment

- <http://www.iasplus.com/en/standards/ias2>
- <http://www.accountingtools.com/consignment-accounting>
- J.R.Monga: Basic Financial Accounting
- R.L.Gupta, V.K.Gupta: Principles and practice of Accountancy
- Naseem Ahmed, M.L.Gupta ,Rajender Kumar: Financial Accounting (B.com Sem I)
- Nirmal Gupta, Chhavi Sharma: Financial Accounting (B.Com Sem I)

### 2. Suggested Readings:

- To understand the IAS 2  
<http://www.authorstream.com/Presentation/piyoosh-1571704-accounting-standard-2/>
- Dr. V.K.Goyal: Financial Accounting

