

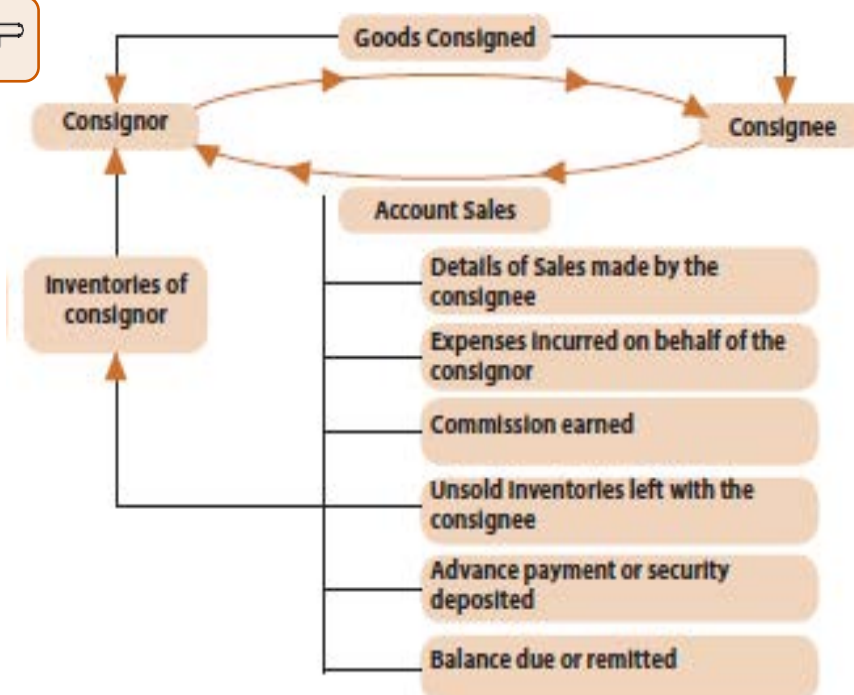
## UNIT - 3 CONSIGNMENT

### LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Understand the special features of consignment business, meaning of the terms consignor and consignee.
- ◆ Analyse the difference between the two transactions – sale and consignment and understand that why consignment is termed as special transaction.
- ◆ Practice the accounting treatments for consignment transactions and events in the books of consignor and consignee.
- ◆ Note the variations in accounting when goods are sent at cost and goods are sent above the cost.
- ◆ Learn the technique of computing value of consignment inventory lying with the consignee and also the amount of inventory reserve in it.
- ◆ Learn the technique of computing cost of abnormal loss and treatment of insurance claim in relation to it.
- ◆ Understand the distinction between ordinary commission, del-credere commission and over-riding commission paid to the consignee.
- ◆ See the variation of accounting treatment for bad debts when consignee is paid ordinary commission and when consignee is paid del-credere commission in addition to it.
- ◆ Understand the reason of including/excluding various expenditures to cost while valuing the goods returned by the consignee.

### UNIT OVERVIEW





### 3.1 MEANING OF CONSIGNMENT ACCOUNT

To consign means to send. In Accounting, the term “consignment account” relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former. The following should be noted carefully:

- (i) The party which sends the goods (consignor) is called principal.
- (ii) The party to whom goods are sent (consignee) is called agent.
- (iii) The ownership of the goods, i.e., the property in the goods, remains with the consignor or the principal – the agent or the consignee does not become their owner even though goods are in his possession. On sale, of course, the buyer will become the owner.
- (iv) The consignor does not send an invoice to the consignee. He sends only a **proforma invoice**, a statement that looks like an invoice but is really not one. The object of the proforma invoice is only to convey information to the consignee regarding particulars of the goods sent.
- (v) Usually, the consignee recovers from the consignor all expenses incurred by him on the consignment. This however can be changed by agreement between the two parties.
- (vi) It is also usual for the consignee to give an advance to the consignor in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods.
- (vii) For his work, the consignee receives a commission calculated on the basis of gross sale. For ordinary commission the consignee is not responsible for any bad debt that may arise. If the agent is to be made responsible for bad debts, he is to be paid a commission called **del-credere commission**. It is calculated on total sales, not merely on credit sales until and unless agreed.
- (viii) Periodically, the consignee sends to the consignor a statement called **Account Sales**. It sets out the sales made by the consignee, the expenses incurred on behalf of the consignor, the commission earned by the consignee and the balance due to the consignor.
- (ix) Firms usually like to ascertain the profit or loss on each consignment or consignments to each consignee.

Consignment Account relates to accounts dealing with such business where one person sends goods to another person on the basis that such goods will be sold on behalf of and at the risk of the former.



### 3.2 DISTINCTIONS

#### 3.2.1 CONSIGNMENT AND SALE

S.No.	Consignment	Sale
1.	Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee.	The ownership of the goods transfers with the transfer of goods from the seller to the buyer.
2.	The consignee can return the unsold goods to the consignor.	Goods sold are the property of the buyer and can be returned only if the seller agrees.

3.	Consignor bears the loss of goods held with the consignee.	It is the buyer who will bear the loss if any, after the transfer of goods.
4.	The relationship between the consignor and the consignee is that of a principal and agent.	The relationship between the seller and the buyer is that of a creditor and a debtor.
5.	Expenses done by the consignee to receive the goods and to keep it safely are borne by the consignor unless there is any other agreement.	Expenses incurred by the buyer are to be borne by the buyer itself after the transfer of goods.

### 3.2.2 DISTINCTION BETWEEN COMMISSION AND DISCOUNT

	Commission	Discount
	<p>Commission may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and is usually based on a percentage of the amounts involved.</p> <p>Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the books of the party availing such facility or service.</p>	<p>The term discount refers to any reduction or rebate allowed and is used to express one of the following situations:</p> <p>An allowance given for the settlement of a debt before it is due i.e. cash discount.</p> <p>An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases.</p>



## 3.3 ACCOUNTING FOR CONSIGNMENT TRANSACTIONS AND EVENTS IN THE BOOKS OF THE CONSIGNOR

For ascertaining profit or loss on any transaction (or series of transactions) there is one golden rule; open an account for the transaction (or series of transactions) and (i) put down the cost of goods and other expenses incurred or to be incurred on the debit side; and (ii) enter the sale proceeds as also the cost of goods remaining unsold on the right hand side or the credit side. The difference between the total of the two sides will reveal profit or loss. There is profit if the credit side is more.

The consignor often dispatches goods to various consignees and he would be interested to ascertain the profit or loss from each consignment separately. Therefore, a separate consignment account has to be prepared for each consignment. Each consignment account is a nominal-cum-personal account and constitutes a profit and loss account in respect of the transactions to which it relates.

The consignor records the following transactions in his book of accounts:

- When goods are consigned or dispatched: it is to be reiterated that when goods are sent to the consignee, the transaction does not result in a sale and only the possession of the goods changes. Therefore, the personal account of consignee is not debited and also sales account is not credited. The following entry is recorded by the consignor:

Consignment (say to Star trading) Account	Dr.
To Goods Sent on Consignment Account	



8. For unsold consignment stock: In case some of the goods sent on consignment are still unsold at the time of preparing final accounts, the unsold inventory is recorded as consignment stock with following entry:

Consignment Stock Account Dr.  
     To Consignment Account

9. For commission payable to consignee

Consignment Account Dr.  
     To Consignee's Personal Account

We shall illustrate the scheme of entries on the basis of the following information:

 **ILLUSTRATION 1**

*Exe sent on 1st July, 2019 to Wye goods costing ₹ 50,000 and spent ₹ 1,000 on packing etc. On 3rd July, 2019, Wye received the goods and sent his acceptance to Exe for ₹ 30,000 payable at 3 months. Wye spent ₹ 2,000 on freight and cartage, ₹ 500 on godown rent and ₹ 300 on insurance. On 31st December, 2019 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for ₹ 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay ₹ 600 due from him. Show the necessary journal entries in the books of consignor. Also prepare ledger accounts.*

 **SOLUTION**

**Journal Entries in the books of Consignor**

		₹	₹
1	<i>Open Consignment Account and debit it with the cost of goods and credit it with "Goods sent on Consignment Account".</i>		
1/7/2019	Consignment to Wye A/c <span style="float: right;">Dr.</span> To Goods Sent on Consignment A/c	50,000	50,000
2	<i>For the expenses incurred by the consignor, debit Consignment Account and credit cash or Bank, as the case may be.</i>		
1/7/2019	Consignment to Wye A/c <span style="float: right;">Dr.</span> To Bank A/c	1,000	1,000
3	<i>If the consignee sends an advance, debit Cash (or Bank) or Bills Receivable and credit the consignee's personal account</i>		
3/7/2019	Bills Receivable A/c <span style="float: right;">Dr.</span> To Wye  (Note: Wye's account has appeared only now, in the previous two entries his account did not figure since he is not personally involved)	30,000	30,000

4	Wye's acceptance will mature on 6/10/2019 Assuming it was met, the entry will be:			
6/10/2019	Bank A/c To Bills Receivable A/c	Dr.	30,000	30,000
	<i>(Note: If such bill is discounted by consignor with the bank before maturity, pass usual entry for discounting a bill. <u>The discount on bills may either be treated as consignment expenses and charged to Consignment A/c or it may be treated as general financial charges and charged to Profit &amp; Loss Account</u>)</i>			
5	On receipt of Account sale			
31/12/2019	(a) For sales made by the consignee, debit his personal account and credit Consignment Account Wye To Consignment to Wye A/c	Dr.	55,000	55,000
31/12/2019	(b) For expenses incurred by the consignee as well as bad debts suffered by him on behalf of the consignor, debit Consignment Account and credit Consignee Account Consignment to Wye A/c (2,000+500+300+600) To Wye	Dr.	3,400	3,400
31/12/2019	(c) For commission due to the consignee, debit Consignment Account and credit the consignee. Consignment to Wye A/c(10% on ₹ 55,000) To Wye		5,500	5,500
	(d) For the remittance that may accompany the Account Sales, debit Bank and credit the consignee. Bank A/c To Wye	Dr.	16,100	16,100
6	For the goods that may remain unsold debit the Consignment Stock Account and credit Consignment Account.			
31/12/2019	Inventories on Consignment A/c To Consignment to Wye A/c	Dr.	10,600	10,600
	<b>Note:</b> (i) Cost of Inventories			
	1/5 of Cost to consignor		₹ 10,000	
	1/5 of expense incurred by the consignor		₹ 200	
	1/5 of freight (direct exp. Of consignee)		₹ 400	
			<u>₹ 10,600</u>	

	(ii) Inventories on Consignment Account is an asset; it will be shown in the balance sheet of the consignor and next year it will be transferred to the debit of the Consignment Account.			
7	<i>At this stage the Consignment Account will reveal profit or loss (see the account given below). The profit or loss will be transferred to the Profit and Loss Account of the consignor by debit to the Consignment Account.</i>			
31/12/2019	Consignment to Wye A/c To Profit and Loss A/c	Dr.	5,700	5,700
8	<i>The Goods sent on Consignment Account should be closed by transfer to the Trading Account debit the former and credit the latter:</i>			
31/12/2019	Goods sent on Consignment Account To Trading Account	Dr.	50,000	50,000

### Important Ledger Accounts

#### Consignment to Wye Account

2019	Particulars	₹	2019	Particulars	₹
1-Jul	To Goods sent on Consignment A/c	50,000	Dec. 31	By Wye-sale Proceeds	55,000
1-Jul	To Bank(expenses)	1,000	Dec. 31	By Inventories on Consignment Account	10,600
Dec. 31	To Wye-expenses & bad debt	3,400			
Dec. 31	To Wye-commission	5,500			
Dec. 31	To P&L Account-transfer of profit	5,700			
		65,600			65,600

#### Goods sent on consignment account

2019	Particulars	₹	2019	Particulars	₹
Dec. 31	To Trading A/c	50,000	July 1	By Consignment to Wye A/c	50,000

#### Inventories on Consignment account

2019	Particulars	₹	2019	Particulars	₹
Dec. 31 2020	To Consignment to Wye A/c	10,600	Dec. 31	By Balance c/d	10,600
Jan. 1	To Balance b/d	10,600			

## Wye's account

2019		₹	2019		₹
Dec. 31	To Consignment Wye A/c	55,000	3-Jul	By Bills Receivable Account	30,000
				By Consignment to Wye A/c – Expenses & bad debt	3,400
				Commission	5,500
				By Bank (balance received)	16,100
		55,000			55,000

### 3.4 VALUATION OF INVENTORIES

The principle is that inventories should be valued at cost or net realizable value whichever is lower, the same principle as is practised for preparing final accounts. In the case of consignment, cost means not only the cost of the goods as such to the consignor but also all expenses incurred till the goods reach the premises of the consignee. Such expenses include packaging, freight, cartage, insurance in transit, octroi, import duty etc. But expenses incurred after the goods have reached the consignee's godown (such as godown rent, insurance of godown, delivery charges, salesman salaries) are not treated as part of the cost of purchase for valuing inventories on hand. That is why in the case given above, inventories has been valued ignoring godown rent and insurance.

**Note:** Sometimes an examination problem states only that the consignor's expenses amounted to such amount and that consignee spent so much. If details are not available, then for valuing inventories the expenses incurred by the consignor should be treated as part of cost while those incurred by the consignee should be ignored.

If the expected selling price of inventories on hand is lower than the cost, the inventories should be valued at expected net selling price only, i.e. expected selling price less delivery expenses, etc.

### 3.5 GOODS INVOICED ABOVE COST

Sometimes the proforma invoice is made out at a value higher than the cost and entries in the books of the consignor are made out on that basis – even the inventories remaining unsold will initially be valued on the basis of the invoice price. It must be remembered, however, that the profit or loss can be ascertained only if sale proceeds (plus) inventories on hand, valued on cost basis, is compared with the cost of the goods concerned together with expenses. Hence, if entries are first made on invoice basis, the effect of the loading (i.e., amount added to arrive at the invoice price) must be removed by additional entries. Suppose in the example given above, if the invoice is cost plus 20%, i.e., ₹ 60,000 for the goods sent to Wye. The entries will be initially:

	Particulars		₹	₹
(i)	Consignment to Wye A/c	Dr.	60,000	



	To Goods sent on Consignment A/c			60,000
(ii)	Consignment to Wye A/c	Dr.	1,000	
	To Bank			1,000
(iii)	Bills Receivable A/c	Dr.	30,000	
	To Wye			30,000
(iv)	Bank A/c	Dr.	30,000	
	To Bills Receivable A/c			30,000
(v)	Wye	Dr.	55,000	
	To Consignment to Wye A/c			55,000
(vi)	Consignment to Wye A/c	Dr.	3,400	
	To Wye			3,400
(vii)	Consignment to Wye A/c	Dr.	5,500	
	To Wye			5,500
(viii)	Bank A/c	Dr.	16,100	
	To Wye			16,100
(ix)	Inventories on Consignment A/c	Dr.	12,600	
	To Consignment to Wye A/c			12,600
	[1/5 of 60,000 + 1/5 of (1,000 + 2,000)]			

[Students will see that except for difference in the amounts in entries (i) and (ix), these and other entries are the same as those already given.]

Additional entries (before ascertaining profit) to remove the effect of loading:

(a)	Goods sent on Consignment A/c	Dr.	10,000	
	To Consignment to Wye A/c			10,000

[Entry (i) reversed to the extent of loading in order to debit the Consignment A/c on cost basis].

(b)	Consignment to Wye A/c	Dr.	2,000	
	To Inventory Reserve Account			2,000

(The amount of loading included in the value of the closing Inventories is unrealised profit – hence reserve is created by debit to the Consignment Account).

The Consignment Account will now reveal a profit of ₹ 5,700 the same as before. It will be transferred to the P&L A/c. Similarly entry given in 8 in the earlier illustration will be made to transfer the balance in the Goods sent on Consignment Account in the earlier illustration ₹ 50,000) after entry in (a) above to the credit of Trading Account. The accounts (except for Wye whose account will be the same as already shown) are given below:

## Consignment to Wye Account

2019	Particulars	₹	2019	Particulars	₹
1-Jul	To Goods sent on Consignment A/c	60,000	Dec. 31	By Wye	
	To Bank A/c – expenses	1,000		Sales proceeds	55,000
Dec. 31	To Wye-expenses & bad debt	3,400		By Inventories on Consignment A/c	12,600
“	To Wye-commission	5,500		By Goods sent on Consignment A/c (loading)	10,000
	To Inventory Reserve A/c	2,000			
“	To Profit and Loss A/c transfer of profit	5,700			
		77,600			77,600

## Goods sent on Consignment Account

2019		₹	2019		₹
Dec. 31	To Consignment to Wye A/c – loading	10,000	1-Jul	By Consignment to Wye A/c	60,000
	To Trading A/c –transfer (bal. fig.)	50,000			
		60,000			60,000

## Inventories on Consignment Account

2019		₹	2019		₹
Dec. 31	To Consignment to Wye A/c	12,600	Dec. 31	By Balance c/d	12,600
2020					
Jan. 1	Balance b/d	12,600			

## Inventory Reserve Account

2019		₹	2019		₹
Dec. 31	To Balance c/d	2,000	Dec. 31 2019	By Consignment to Wye A/c	2,000
			Jan. 1, 2020	By Balance b/d	2,000

The last two accounts will be carried forward to the next year and their balance will then be transferred to the Consignment Account – ₹ 12,600 on the debit side and ₹ 2,000 on the credit. This year in the balance sheet the net amount of ₹ 10,600 will be shown on the assets side as shown below:

	₹
Inventories on consignment	12,600
Less: Inventory Reserve	2,000
	10,600

*What would be the situation if the commission to Wye includes del-credere commission also?*

In that case Wye would not be able to charge the bad debt of ₹ 600 to Exe; he will have to bear the loss himself. The student can see that then the profit on consignment will be ₹ 6,300.

In this regard it is to be noted that when del – credere commission is paid to the consignee, the consignee account is debited in the books of consignor for both cash and credit sales. But if no such del – credere commission is paid then consignee account cannot be debited for credit sales and in that case the following entry is passed in the books of consignor for credit sales.

Consignment Trade receivables A/c	Dr.
To Consignment A/c	

The difference is because in case del-credere commission is paid to consignee then consignee is responsible to bear any loss of bad debts and he will have to pay full amount of sales to consigner. Accordingly, in the books of consignor, whole amount (cash sales plus credit sales) is shown as receivable from consignee. On the other hand if del-credere commission is not paid than consignor is responsible to bear loss of bad debts, therefore, till the time consignee has not received money from customers, it is not shown as receivable from consignee.

### 3.6 NORMAL LOSS

If some loss is unavoidable, it would be spread over the entire consignment while valuing inventories. The total cost plus expenses incurred should be divided by the quantity available after the normal loss to ascertain the cost per unit. Suppose 10,000 kg of apples are consigned to a wholesaler, the cost being ₹ 30 per kg, plus ₹ 40,000 of freight. It is concluded that a loss of 15% is unavoidable. The cost per kg will be ₹3,40,000/8,500 or ₹ 40. If the unsold inventory is 1,000 kg its value will be ₹ 40,000.

Accordingly, no entry is recorded for normal loss and same is considered as expense which is considered for valuation of remaining inventory.

### 3.7 ABNORMAL LOSS

If any accidental or unnecessary loss occurs, the proper thing to do is to find out the cost of the goods thus lost and then to credit the Consignment Account and debit the Profit and Loss Account – this will enable the consignor to know what profit would have been earned had the loss not taken place.

Suppose 1,000 sewing machines costing ₹ 2,500 each are sent on consignment basis and ₹ 10,000 are spent on freight etc. 20 machines are damaged beyond repair. The amount of loss will be:

Cost = 20 × 2500	₹ 50,000
Expenses = (20×10,000)/1000	₹ 200
	<u>₹ 50,200</u>

This amount should be credited to the Consignment Account and debited to the P&L A/c. If any amount, say, ₹ 40,000 is received from the insurance company, then debit to the P&L A/c will be only ₹ 10,200. But the credit to the Consignment Account will still be ₹ 50,200. ₹ 40,000 will have been debited to the Bank Account.

Students shall note that abnormal loss is valued just like inventories in hand.

Students should be careful while valuing goods lost in transit and goods lost in consignee's godown. Both are abnormal loss but in case of former consignee's non-recurring expenses are not to be included whereas it is to be included in latter case.

Further, for the purpose of valuation of inventory in hand, it should be noted that while normal loss is considered as part of cost of remaining goods, whereas abnormal loss is ignored. In the example given above assume that 10,000 Kg apples were sent in 10 different trucks and out of which one truck met an accident and 500Kg apples were destroyed. In such case cost of remaining apples will be computed as below:

	Qty.	Amount (₹)
Total apples shipped	10,000	3,40,000 (@ ₹34 per Kg including freight)
Apples lost in accident	500	17,000 (@ ₹34 per Kg including freight)
Remaining apples	9,500	3,23,000 (@ ₹34 per Kg including freight)
Normal loss (15%)	1,425	Nil
Remaining saleable apples	8,075	3,23,000 (@ ₹40 per Kg)

It is clear from above example that abnormal loss will not have impact on per unit cost, however, per unit cost will change due to normal cost as the remaining quantity will absorb cost of normal loss whereas abnormal loss will be immediately expensed off to profit or loss.

#### Distinctions between normal and abnormal loss

Normal loss	Abnormal loss
Normal loss occurs due to inherent nature of the goods being shipped e.g. leakage, evaporation, loss of perishable goods etc.	Abnormal loss occurs mainly because of unforeseen events e.g. accident or natural calamity etc.
Normal loss is not accounted for immediately and is loaded on the remaining goods. It gets accounted for as cost of remaining goods as and when they are sold.	Abnormal loss is accounted for immediately in profit and loss account.
As normal loss is added to cost of remaining goods, it impact gross profit.	Abnormal loss does not impact gross profit.
Insurance companies generally do not cover normal loss as it is expected to be incurred on each consignment or storage of goods.	Insurance is generally available for abnormal losses.
Normal loss is almost certain however it may vary from time to time.	Abnormal loss is because of unforeseen events and is not certain.

Following entry is recorded for abnormal loss:

Abnormal Loss Account	Dr.
To Consignment Account	

If abnormal loss is recoverable from the insurance company

Insurance Company's Account	Dr.
To Abnormal Loss Account	

If abnormal loss is recoverable from the consignee

Consignee's Personal Account	Dr.
To Abnormal Loss Account	

If abnormal loss is not recoverable, Abnormal Loss Account is transferred to Profit & Loss Account.

## 3.8 COMMISSION

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods. Three types of commission can be provided by the consignor to the consignee, as per the agreement, either simultaneously or in isolation. They are:

### 3.8.1 Ordinary Commission

The term **commission** simply denotes **ordinary commission**. It is based on fixed percentage of the gross sales proceeds made by the consignee. It is given by the consignor regardless of whether the consignee is making credit sales or not. This type of commission does not give any protection to the consignor from bad debts and is provided on total sales.

### 3.8.2 Del-credere Commission

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as **del-credere commission**. This additional commission when provided to the consignee gives a protection to the consignor against bad debts. In other words, after providing the del-credere commission, bad debts is no more the loss of the consignor. It is calculated on total sales unless there is any agreement between the consignor and the consignee to provide it on credit sales only.

### 3.8.3 Over-riding Commission

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price than specified or to encourage the consignee to put hard work in introducing new product in the market. Depending on the agreement it is calculated on total sales or on the difference between actual sales and sales at invoice price or any specified price. In order to encourage the consignee to earn higher margins, it can also be in the form of share of additional profits made by consignee on sale of goods.



### 3.9 RETURN OF GOODS FROM THE CONSIGNEE

Consigned goods can be returned by the consignee because of many reasons like poor quality or not upto the specimen or destroyed in transit etc. In such a situation, the question arises what is the valuation of returned goods. Consigned goods returned by the consignee to the consignor are valued at the price at which it was consigned to the consignee. Expenses incurred by the consignee to send those goods back to the consignor are not taken into consideration while valuing it because the goods were already in a salable conditions and location and changing the location back from consignee to consignor is not a cost which must have to be incurred to sell the goods. This is generally called secondary freight in accounting terms.



### 3.10 ACCOUNT SALES

An account sale is the periodical summary statement sent by the consignee to the consignor. It contains details regarding –

- (a) sales made,
- (b) expenses incurred on behalf of the consignor,
- (c) commission earned,
- (d) unsold inventories left with the consignee,
- (e) advance payment or security deposited with the consignor and the extent to which it has been adjusted,
- (f) balance payment due or remitted.

It is a summary statement and is different from Sales Account.



### 3.11 ACCOUNTING IN THE BOOKS OF THE CONSIGNEE

The consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He debits or credits the consignor for all these as the case may be. Following entries are recorded in the books of consignee:

1. On making sales
 

Cash/Bank Account/Debtors	Dr.
To Consignor's Personal Account	
2. For expenses incurred and his commission
 

Consignor's Personal Account	Dr.
To Bank Account	
3. For advance paid to consignor
 

Consignor's Personal Account	Dr.
To Bank Account	

4. For recording bad debts
- Bad Debts Account Dr.
- To Customer's Account
5. For writing off bad debts
- (a) When del-credere commission is not allowed
- Consignor's Personal Account Dr.
- To Bad Debts Account
- (b) When del-credere commission is allowed
- Commission Account Dr.
- To Bad Debts Account

### ILLUSTRATION 2

Exe sent on 1st July, 2019 to Wye goods costing ₹ 50,000 and spent ₹ 1,000 on packing etc. On 3rd July, 2019, Wye received the goods and sent his acceptance to Exe for ₹ 30,000 payable at 3 months. Wye spent ₹ 2,000 on freight and cartage, ₹ 500 on godown rent and ₹ 300 on insurance. On 31st December, 2019 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for ₹ 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay ₹ 600 due from him. Show the necessary journal entries in the consignee's book.

### SOLUTION

#### Journal Entries in the books of Consignee

2019	Particulars		₹	₹
1	On sending the acceptance to Exe			
July 3	Exe <span style="float: right;">Dr.</span>		30,000	
	To Bills Payable A/c			30,000
2	On meeting expenses on the consignment:			
July 3	Exe <span style="float: right;">Dr.</span>		2,800	
	To Bank			2,800
3	On meeting his acceptance:			
Oct. 6	Bills payable <span style="float: right;">Dr.</span>		30,000	
	To Bank			30,000
4	On sales being effected:			
	Trade receivables/Bank <span style="float: right;">Dr.</span>		55,000	
	To Exe			55,000

5	On there being a bad debt: Exe To Trade receivables	Dr.	600	600
6	On earning the commission: Exe To Commission Earned A/c	Dr.	5,500	5,500
7	On settling the account to Exe: Exe To Bank	Dr.	16,100	16,100

If the commission includes del-credere commission also, he would not be able to debit Exe for the bad debt. In that case the debit should be to the Commission Earned Account whose net balance will then be ₹4,900 and he will have to pay ₹16,700 to Exe.

### ILLUSTRATION 3

1,000 toys consigned by Rosie & Co. of Calcutta to Sahoo of Srinagar at a cost of ₹150 each. Rosie & Co. paid freight ₹ 10,000 and insurance ₹ 1,500. During the voyage 100 toys were totally damaged by fire and had to be thrown overboard. Sahoo took delivery of the remaining toys and paid ₹14,400 as customs duty. Sahoo sent a bank draft to Rosie & Co. for ₹50,000 as advance payment and later sent an account sales showing that 800 toys had been sold at ₹220 each. Expenses incurred by Sahoo on godown rent and advertisement, etc., amounted to ₹2,000. Sahoo was entitled to commission of 5 per cent. One of the credit customers could not pay for 5 toys.

You are required to prepare the Consignment Account, Goods sent on consignment, Inventories on consignment account and Sahoo's a/c in the books of Rosie & Co., assuming that nothing has been recovered from the insurers due to a defect in the policy. Sahoo settled his account immediately.

### SOLUTION

#### In the books of M/s Rosie & Co

Dr.		Consignment to Sahoo Account		Cr	
Particulars	₹	Particulars	₹		
To Goods sent on Consignment A/c	1,50,000	By Sahoo- sale Proceeds	1,76,000		
To Bank(expenses)	11,500	By Abnormal loss Ac (loss by fire)	16,150		
Freight	10,000				
Insurance	<u>1,500</u>				
To Sahoo-expenses	26,300	By Inventories on consignment	17,750		
Customs duty	14,400				
Sundry expenses	2,000				
Commission (5%)	8,800				
Bad debt (220*5)	<u>1,100</u>				
To P&L Account-transfer of profit	22,100				
	<u>2,09,900</u>				<u>2,09,900</u>



Dr.		Goods sent on consignment account		Cr	
Particulars	₹	Particulars	₹	Particulars	₹
To Trading A/c	1,50,000	By Consignment to Sahoo A/c	1,50,000		
	1,50,000		1,50,000		
Dr.		Inventories on Consignment account		Cr	
Particulars	₹	Particulars	₹	Particulars	₹
To Consignment to Wye A/c	17,750	By Balance c/d	17,750		
	17,750		17,750		
Dr.		Sahoo's account		Cr	
Particulars	₹	Particulars	₹	Particulars	₹
To Consignment to Sahoo A/c	1,76,000	By bank (bank draft as advance)	50,000		
		By consignment to Sahoo A/c			
		Customs duty	14,400		
		Sundry expenses	2,000		
		Commission	8,800		
		Bad debts	<u>1,100</u>		26,300
		By balance amount remitted			99,700
	1,76,000				1,76,000

Working notes :

(a) Computation of the abnormal loss- 100 toys

a. Cost of 100 toys	100 x 150	15000
b. Freight charges- 100 toys	10000/1000 x 100	1000
c. Insurance- 100 toys	1500/1000 x 100	<u>150</u>
a. Abnormal loss		16,150

(b) Computation of the Closing stock- (1000-100-800)

a. Cost of 100 toys	100 x 150	15000
b. Freight charges- 100 toys	10000/1000 x 100	1000
c. Insurance- 100 toys	1500/1000 x 100	150
d. Customs duty-100 toys	14400/900 x 100	<u>1600</u>
Closing stock		17,750

#### ILLUSTRATION 4

Nike sports Co. of New Delhi consigned 100 shoes to Adidas Co. of Ahmedabad costing ₹ 1,500 each, invoiced at ₹ 2,000 each. The consignor paid freight ₹ 10,000 and insurance in transit ₹ 1,500. During transit, 10 shoes were totally damaged.

Adidas Co took delivery of remaining shoes and paid ₹ 1,530 for octroi duty. Adidas co. sent a bank draft to Nike sports Co. for ₹ 50,000 as advance and later on sent an account sales showing that 80 shoes had been sold @ ₹ 2,200 each. Expenses incurred by Adidas Co. on godown rent were ₹ 2,000. Adidas Co. is entitled to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price.

Prepare consignment account, consignee's account and the related working notes account in the books of the Nike sports Co.

 SOLUTION

In the books of M/s Nike sports Co.

Dr.		Consignment to Adidas Co. Account		Cr	
Particulars	₹	Particulars	₹		
To Goods sent on Consignment A/c	2,00,000	By goods sent on consignment	50,000		
To Bank (expenses)	11,500	By Adidas Co- sale Proceeds	1,76,000		
Freight	10,000				
Insurance	<u>1,500</u>				
To Adidas Co.-expenses	15,530	By Abnormal loss Ac (loss in transit)	16,150		
Octroi duty	1,530				
Go-down rent	2,000				
Commission (WN)	<u>12,000</u>				
To Reserve on closing stock	5,000	By Inventories on consignment	21,320		
To P&L Account-transfer of profit	31,440				
	<u>2,63,470</u>				<u>2,63,470</u>

Dr.		Adidas Co. account		Cr	
Particulars	₹	Particulars	₹		
To Consignment to Adidas A/c	1,76,000	By bank (bank draft as advance)	50,000		
		By consignment to Adidas A/c			
		Octroi duty	1,530		
		Go-down rent	2,000		15,530
		Commission (WN)	<u>12,000</u>		
		By balance amount remitted			1,10,470
	<u>1,76,000</u>				<u>1,76,000</u>

Working notes :

(a) Computation of the abnormal loss- 10 shoes

a.	Cost of 100 shoes	10 x 1500	15000
b.	Freight charges- 100 shoes	10000/100 x 10	1000
c.	Insurance- 100 shoes	1500/100 x 10	<u>150</u>
	Abnormal loss		<u>16,150</u>

## (b) Computation of the Closing stock- (100-10-80)

a.	Invoice price of 10 shoes	$10 \times 2000$	20,000
b.	Freight charges- 10 shoes	$10000/100 \times 10$	1000
c.	Insurance- 10 shoes	$1500/100 \times 10$	150
d.	Octroi duty-10 shoes	$1530/90 \times 10$	170
	Closing stock		<u>21,320</u>

(c) Stock reserve on the goods sent on consignment= 100 shoes x 500 (2000-1500) = 50,000

(d) Stock reserve on the closing stock of consigned goods= 10 shoes x 500 (2000-1500) = 5000

(e) Computation of over-riding commission payable to Adidas Co.

Sales at invoice price=  $80 \times 2000 = 1,60,000$ Commission at 5% on the above=  $5\% \times 1,60,000 = 8000$ Surplus over the invoice price=  $2200-2000 = ₹ 200$ Commission of 25% over the surplus=  $200 \times 80 = 16000 \times 25\% = 4000$ Total commission = Normal + surplus commission =  $8000+4000 = 12,000$ 

### 3.12 ADVANCE BY THE CONSIGNEE VS SECURITY AGAINST THE CONSIGNMENT

Generally the consignor insist the consignee for some advance payment for the goods consigned at the time of delivery of goods. This advance payment is adjusted in full against the amount due by the consignee on account of the goods sold.

But if the advance money deposited by the consignee is in the form of security against the goods consigned then the full amount is not adjusted against the amount due by the consignee to the consignor on account of goods sold if, there is any unsold inventory left with the consignee. In that case proportionate security in respect of unsold goods is carried forward till the time the respective goods held with the consignee are sold.



#### ILLUSTRATION 5

Miss Rakhi consigned 1,000 radio sets costing ₹900 each to Miss Geeta, her agent on 1st July, 2020. Miss Rakhi incurred the following expenditure on sending the consignment.

Freight	₹ 7,650
Insurance	₹ 3,250

Miss Geeta received the delivery of 950 radio sets. An account sale dated 30th November, 2020 showed that 750 sets were sold for ₹9,00,000 and Miss Geeta incurred ₹10,500 for carriage.

Miss Geeta was entitled to commission 6% on the sales effected by her. She incurred expenses amounting to ₹2,500 for repairing the damaged radio sets remaining in the inventories.

Miss Rakhi lodged a claim with the insurance company which was admitted at ₹35,000. Show the Consignment Account and Miss Geeta's Account in the books of Miss Rakhi.

 SOLUTION

In the books of Miss Rakhi  
Consignment Account

Particulars			₹	Particulars		₹
To	Goods sent on Consignment A/c		9,00,000	By	Miss Geeta	9,00,000
				By	Insurance Co.	35,000
To	Cash			By	Profit & Loss A/c	
	Freight	7,650			abnormal loss(net)	10,545
	Insurance	3,250	10,900	By	Consignment Inventories	1,84,391
To	Miss Geeta					
	Carriage	10,500				
	Repairs	2,500				
	Commission	54,000	67,000			
To	Profit & Loss A/c		1,52,036			
			11,29,936			11,29,936

Miss Geeta's Account

Particulars	₹		Particulars	₹	₹
To Consignment A/c (Sales)	9,00,000	By	Consignment A/c		
			Expenses:		
			Carriage	10,500	
			Repairs	2,500	
			Commission	54,000	67,000
		By	Bank(bal. fig.)		8,33,000
	9,00,000				9,00,000

Note: It is assumed that the agent has remitted the amount due from her.

Working Notes:

1. Abnormal loss :

Cost to the consignor: 50 sets @ ₹ 900 45,000

Add: Proportionate expenses incurred by the consignor  $\frac{50 \times 10,900}{1,000}$  545

Gross abnormal loss 45,545

Less: Insurance claim (35,000)

Net abnormal loss 10,545

2. Valuation of Inventories

200 sets @ ₹ 900 1,80,000

Add: Proportionate expenses of the consignor	2,180
Add: Carriage paid by the consignee	<u>2,211</u>
	<u>1,84,391</u>

### ILLUSTRATION 6

Vikram Milk Foods Co. Ltd. of Vikrampur sent to Sunder Stores, Sonepuri 5,000 kgs of baby food packed in 2,000 tins of net weight 1 kg and 6,000 packets of net weight 1/2 kg for sale on consignment basis. The consignee's commission was fixed at 5% of sale proceeds. The cost price and selling price of the product were as under:

	1 kg. tin	1/2 kg. packet
	₹	₹
Cost Price	10	6
Selling Price	15	7

The consignment was booked on freight "To Pay" basis, and freight charges came to 2% of selling value. One case containing 50 (1kg. tins) was lost in transit and the transport carrier admitted a claim of ₹ 450.

At the end of the first half-year, the following information is gathered from the "Account Sales" sent by the consignee:

- (i) Sale proceeds:
- |       |                 |
|-------|-----------------|
| 1,500 | 1 kg. tins      |
| 4,000 | 1/2 kg. packets |
- (ii) Store rent and insurance charges ₹ 600.

Find out the value of closing inventory on consignment.

Show the Consignment A/c and the Consignee's A/c in the books of Vikram Milk Food Co. Ltd. assuming that the consignee had paid the amount due from him.

### SOLUTION

#### Vikram Milk Foods Co. Ltd. Consignment to Sonepuri Account

Particulars		₹	Particulars		₹
To Goods sent on Consignment A/c			By Sunder Stores		
2,000 1 kg. tins @ ₹ 10	20,000		1,500 1 kg. tins @ ₹ 15	22,500	
6,000 1/2 kg. pkts. @ ₹ 6	36,000	56,000	4,000 1/2 kg. pkts. @ ₹ 7	28,000	50,500
To Sunder Stores:			By Insurance - Claim		450
Freight	1,440		By Profit & Loss A/c - abnormal loss(Net)		65
Rent and insurance	600		By Inventory on consignment A/c		16,915
Commission	2,525	4,565			

To Profit & Loss A/c – Profit		7,365		
		67,930		67,930

## Sunder Stores, Sonepuri

Particulars	₹	Particulars	₹
To Consignment to Sonepuri Account - Sales Proceeds	50,500	By Consignment to Sonepuri Account - Freight	1,440
		Rent & Insurance	600
		Commission	2,525
		By Bank(Bal. fig)	45,935
	50,500		50,500

## Working Notes:

## (i) Sale value of total consignment:

2,000 1 kg. tins @ ₹ 15	30,000
6,000 1/2 kg. pkts. @ ₹ 7	42,000
	<hr/> 72,000

## (ii) Freight @ 2% of above

1,440

## (iii) Inventories at the end:

450 1 kg. tins @ ₹ 10 (Selling Price ₹ 6,750)	4,500
2,000 1/2 kg. pkts. @ ₹ 6 (Selling Price ₹ 14,000)	12,000
	<hr/> 16,500
Add: Freight 2% of (Selling Price ₹ 20,750)	415
	<hr/> 16,915

## (iv) Loss in transit:

Cost of 50 1 kg. tins @ ₹ 10	500
Freight @ 2% of Selling Price ₹ 750	15
Gross abnormal Loss	515
Less : Claim	(450)
Net abnormal Loss	<hr/> 65

 ILLUSTRATION 7

Shri Mehta of Mumbai consigns 1,000 cases of goods costing ₹ 1,000 each to Shri Sundaram of Chennai. Shri Mehta pays the following expenses in connection with consignment:

	₹
Carriage	10,000

Freight	30,000
Loading charges	10,000
Shri Sundaram sells 700 cases at ₹ 1,400 per case and incurs the following expenses:	
Clearing charges	8,500
Warehousing and storage	17,000
Packing and selling expenses	6,000

It is found that 50 cases have been lost in transit and 100 cases are still in transit.

Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

 SOLUTION

In the books of Shri Mehta  
Consignment to Sundaram of Chennai Account

Particulars	₹	Particulars	₹	₹
To Goods sent on Consignment	10,00,000	By Sundaram (Sales)		9,80,000
To Bank (Expenses)	50,000	By Loss in Transit 50 cases @ ₹1,050 each		52,500
To Sundaram (Expenses)	31,500	By Consignment Inventories		
To Sundaram (Commission)	98,000	In hand 150 @ ₹ 1,060 each	1,59,000	
To Profit on Consignment to Profit & Loss A/c	1,17,000	In transit 100 @ ₹ 1,050 each	1,05,000	2,64,000
	12,96,500			12,96,500

Sundaram's Account

Particulars	₹	Particulars	₹
To Consignment to Chennai A/c	9,80,000	By Consignment A/c (Expenses)	31,500
		By Consignment A/c (Commission)	98,000
		By Balance c/d	8,50,500
	9,80,000		9,80,000

Working Notes:

- Consignor's expenses on 1,000 cases amounts to ₹50,000; it comes to ₹50 per case. The cost of cases lost will be computed at ₹1,050 per case.
- Sundaram has incurred ₹ 8,500 on clearing 850 cases, i.e., ₹10 per case; while valuing closing inventories with the agent ₹10 per case has been added to cases in hand with the agent.

- (iii) It has been assumed that balance of ₹8,50,500 is not yet paid.

### ILLUSTRATION 8

Ajay of Mumbai consigned to Vijay of Delhi, goods to be sold at invoice price which represents 125% of cost. Vijay is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Ajay were ₹10,000. The account sales received by Ajay shows that Vijay has effected sales amounting to ₹1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 8,000. 10% of consignment goods of the value of ₹12,500 were destroyed in fire at the Delhi godown. Vijay remitted the balance in favour of Ajay. Prepare consignment account and the account of Vijay in the books of Ajay along with the necessary calculations.

### SOLUTION

#### Books of Ajay Consignment to Vijay Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,25,000	By Goods sent on Consignment A/c (Loading)	25,000
To Cash A/c	10,000	By Abnormal Loss	11,000
To Vijay (Expenses)	8,000	By Vijay (Sales)	1,00,000
To Vijay (Commission)	10,938	By Inventories on Consignment A/c	20,250
To Inventories Reserve A/c	3,750	By General Profit & Loss A/c	1,438
	1,57,688		1,57,688

#### Vijay's Account

Particulars	₹	Particulars	₹
To Consignment A/c	1,00,000	By Consignment A/c	8,000
		By Consignment A/c	10,938
		By Bank A/c	81,062
	1,00,000		1,00,000

#### Working Notes:

- Calculation of value of goods sent on consignment:  
 Abnormal Loss at Invoice price ₹ 12,500.  
 Abnormal Loss as a percentage of total consignment = 10%.  
 Hence the value of goods sent on consignment = ₹ 12,500 X 100/ 10 = ₹ 1,25,000.  
 Loading of goods sent on consignment = ₹ 1,25,000 X 25/125 = ₹ 25,000.
- Calculation of abnormal loss (10%):  
 Abnormal Loss at Invoice price ₹ 12,500  
 Abnormal Loss at cost = ₹ 12,500 X 100/125 = ₹ 10,000



Proportionate expenses of Ajay (10 % of ₹10,000)	=	<u>₹ 1,000</u>
	=	<u>₹ 11,000</u>

3. Calculation of closing Inventories (15%):

Ajay's Basic Invoice price of consignment	=	₹ 1,25,000
Ajay's expenses on consignment	=	<u>₹ 10,000</u>
		<u>₹ 1,35,000</u>

Value of closing Inventories = 15% of ₹ 1,35,000	=	₹ 20,250
--	---	----------

Loading in closing Inventories = ₹25,000 X 15/100	=	₹ 3,750
---	---	---------

Where ₹18,750 (15% of ₹1,25,000) is the basic invoice price of the goods sent on consignment remaining unsold.

4. Calculation of commission:

Invoice price of the goods sold	=	75% of ₹ 1,25,000 = ₹ 93,750
Excess of selling price over invoice price	=	₹ 6,250 (₹ 1,00,000- ₹ 93,750)
Total commission	=	10% of ₹ 93,750 + 25% of ₹ 6,250
	=	₹ 9,375 + ₹ 1,562.50
	=	₹ 10,937.50 OR 10,938

Note:

1. It has been assumed that final payment received from Vijay.
2. Abnormal loss is always calculated at cost even if invoice price of goods is given.
3. Value of inventories always valued at invoice price if invoice price is given.

## SUMMARY

- ◆ In Consignment one person (consignor) sends goods to another person (consignee) to be sold on behalf of and at the risk of the former.
- ◆ In the case of consignment, cost means not only the cost of the goods as such to the consignor but also all expenses incurred till the goods reaches the premises of the consignee. Such expenses include packaging, freight, cartage, insurance in transit, octroi, etc.
- ◆ Expenses incurred after the goods have reached the consignee's godown (such as godown rent, insurance of godown, delivery charges) are not treated as part of the cost of purchase for valuing inventories on hand.
- ◆ If the expected selling price of inventories on hand is lower than the cost, the value put on the inventories should be expected net selling price only, i.e. expected selling price less delivery expenses, etc. i.e. expenses necessary for sales.
- ◆ Proforma invoice is made to show the high value of goods consigned than the cost and entries in the books of the consignor are made out on that basis. Even the inventories remaining unsold will initially be valued on the basis of the invoice price.

- ◆ Hence, if entries are first made on invoice basis, the effect of the loading (i.e., amount added to arrive at the invoice price) must be removed by additional entries to ascertain profit or loss.
- ◆ Abnormal loss is valued just like inventories in hand. Students should be careful while valuing goods lost in transit and goods lost in consignee's godown. Both are abnormal loss but in case of former consignee's non-recurring expenses are not to be included whereas it is to be included in case of latter.
- ◆ Normal loss, is an unavoidable loss and be spread over the entire consignment while valuing inventories. The total cost plus expenses incurred should be divided by the quantity available after the normal loss to ascertain the cost per unit.
- ◆ Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods. Three types of commission can be provided by the consignor to the consignee, as per the agreement, either simultaneously or in isolation. They are:
  - ✦ Ordinary commission
  - ✦ Del-credere commission
  - ✦ Over-riding commission
- ◆ For accounting of consignee, he is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He debits or credits the consignor for all these as the case may be.
- ◆ Abnormal loss is always calculated at cost even if invoice price of goods is given.
- ◆ Value of inventories always valued at invoice price if invoice price is given.

## TEST YOUR KNOWLEDGE

### True and False

1. Value of the abnormal loss is debited to the consignment account
2. Sales account and account sales are one and the same.
3. Consignor is the owner of consignment stock.
4. Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock.
5. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.
6. Consignment account is a representative personal account.
7. Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost, invoice price, etc.
8. The bad debts in case of del credere commission shall be debited to the Consignment account
9. Abnormal loss is created out of uncontrollable situations and circumstances.
10. The relationship between the consignor and his consignee is that of a seller and a buyer.

### Multiple Choice Questions

- P of Delhi sends out 1,000 boxes of toothpaste costing ₹ 200 each. Each box consist of 12 packets. 600 boxes were sold by consignee at ₹ 20 per packet. Amount of sale value will be:  
(a) ₹1,44,000                      (b) ₹ 1,20,000                      (c) ₹1,32,000
- X of Kolkata sends out 2,000 boxes to Y of Delhi costing ₹ 100 each. Consignor's expenses ₹ 5,000. 1/10th of the boxes were lost in consignee's godown and treated as normal loss. 1,200 boxes were sold by consignee. The value of consignment Inventories will be:  
(a) ₹ 68,333                      (b) ₹ 61,500                      (c) ₹ 60,000
- Which of the following statement is not true:  
(a) If del-credere commission is allowed, bad debt will not be recorded in the books of consignor  
(b) If del-credere commission is allowed, bad debt will be debited in consignment account  
(c) Del-credere commission is provided by consignor to consignee
- X of Kolkata sent out 2,000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value. The amount of bill will be:  
(a) ₹ 1,74,000                      (b) ₹ 2,00,000                      (c) ₹ 2,90,000
- Which of the following statement is wrong:  
(a) Consignor is the owner of the consignment Inventories  
(b) Del-credere commission is allowed by consignor to protect himself from bad debt  
(c) All proportionate consignee's expenses will be added up for valuation of consignment Inventories.
- Out of the following at which point the treatment of "Sales" and "Consignment" is same:  
(a) Ownership transfer.              (b) Money receive.              (c) Inventories outflow.
- If del-credere commission is allowed for bad debt, consignee will debit the bad debt amount to:  
(a) Commission Earned A/c  
(b) Consignor's A/c  
(c) Trade receivables (Customers) A/c
- A proforma invoice is sent by:  
(a) Consignee to Consignor                      (b) Consignor to Consignee  
(c) Customer/Debtors to Consignee
- Which of the following statement is correct:  
(a) Consignee will pass a journal entry in his books at the time of receiving goods from consignor.  
(b) Consignee will not pass any journal entry in his books at the time of receiving goods from consignor.

- (c) The ownership of goods will be transferred to consignee at the time of receiving the goods.
10. Consignment Inventories will be recorded in the balance sheet of consignor on asset side at:
- (a) Invoice Value
  - (b) At Invoice value less Inventories reserve
  - (c) At lower than cost price
11. Which of the following expenses of consignee will be considered as non-selling expenses:
- (a) Advertisement
  - (b) Insurance on freight inward
  - (c) Selling Expenses
12. The consignment accounting is made on the following basis:
- (a) Accrual
  - (b) Realisation
  - (c) Cash Basis
13. Which of the following item is not credited to consignment account?
- (a) Cash sales made by consignee
  - (b) Credit sales made by consignee
  - (c) Inventories Reserve on closing consignment Inventories

### Theory Questions

1. Write short notes on:
- (i) Del-credere commission.
  - (ii) Account sales.
  - (iii) Over-riding commission.
2. Distinguish between:
- (i) Consignment sale and Normal sale.
  - (ii) Commission and Discount.

### Practical Questions

1. X of Delhi purchased 10,000 metres of cloth for ₹ 2,00,000 of which 5,000 metres were sent on consignment to Y of Agra at the selling price of ₹ 30 per metre. X paid ₹ 5,000 for freight and ₹ 500 for packing etc.
- Y sold 4,000 metre at ₹ 40 per metre and incurred ₹ 2,000 for selling expenses. Y is entitled to a commission of 5% on total sales proceeds plus a further 20% on any surplus price realised over ₹ 30

per metre. 3,000 metres were sold at Delhi at ₹ 30 per metre less ₹ 3,000 for expenses and commission. Owing to fall in market price, the inventories of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and Trading and Profit & Loss Account in books of X.

2. D of Delhi appointed A of Agra as its selling agent on the following terms:

Goods to be sold at invoice price or over.

A to be entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realized over invoice price

The principals to draw on the agent a 30 days bill for 80% of the invoice price.

On 1st February, 2020, 1,000 cycles were consigned to A, each cycle costing ₹ 640 including freight and invoiced at ₹ 800.

Before 31<sup>st</sup> March, 2020, (when the principal's books are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of ₹ 930 per cycle, the sale expenses being ₹ 12,500; and remitted the amount due by means of Bank draft.

Twenty of the unsold cycles were shop-spoiled and were to be valued at a depreciation of 50% of cost.

Show by means of ledger accounts how these transactions would be recorded in the books of A and find out the value of closing inventory with A to be recorded in the books of D at cost.

3. Mr. Y consigned 800 packets of toothpaste, each packet containing 100 toothpastes. Cost price of each packet was ₹ 900. Mr. Y Spent ₹ 100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost on the way and Mr. Y lodged claim with the insurance company and could get ₹ 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent ₹ 39,950 as other non-recurring expenses and ₹ 22,500 as recurring expenses. He sold 740 packets at the rate of ₹ 12 per toothpaste. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare Consignment Account. Calculate the cost of inventories at the end, abnormal loss and profit or loss on consignment.

4. A of Agra sent on consignment goods valued ₹ 1,00,000 to B of Mumbai on 1<sup>st</sup> March, 2019. He incurred the expenditure of ₹ 12,000 on freight and insurance. A's accounting year closes on 31st December. B was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. B took delivery of the consignment by incurring expenses of ₹ 3,000 for goods consigned.

On 31.12.2019, B informed on phone that he had sold all the goods for ₹ 1,50,000 by incurring selling expenses of ₹ 2,000. He further informed that only ₹ 1,48,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5.1.2020, A received the cheque for the amount due from B and incurred bank charges of ₹ 260 for collecting the cheque. The amount was credited by the bank on 9.1.2020.

Write up the consignment account finding out the profit/loss on the consignment, B's account, Provision for expenses account and Bank account in the books of the consignor, recording the transactions upto the receipt and collection of the cheque.

## ANSWERS/HINTS

### True and False

1. False: The abnormal loss is credited to the consignment account since it is a reduction in the value of the stock.
2. False: The sales account shows the balance receivable on account of the sales- both cash and credit. Whereas the account sales statement is given by the consignee to the consignor on a periodical basis detailing the transactions done by the former.
3. True: The consignor is the owner of the goods sent on consignment. Consignee is a mere agent appointed to sell the goods for a commission and the mere transfer of possession does not entitle consignee to become the owner of the goods.
4. False: The del-credere commission is the commission paid to the consignee for bearing the loss of the bad debts if any.
5. True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.
6. False: It is a nominal account recording the expenses on the debit and the income on the credit side, balance being the profit/ loss on the consignment account to the trading account.
7. False: Proforma invoice is given by the consignor to the consignee with regard to the goods sent on consignment and their price.
8. False: If del credere commission is given to the consignee then, the bad debts are taken into the accounts of the consignee. It will not appear in the consignment account.
9. False: Abnormal loss occurs due to unforeseen circumstances, but if necessary steps are taken they can be controlled, it is only the natural loss which cannot be controlled since it occurs due to nature of the product.
10. False: The relationship between the consignor and the consignee is that of a principal and agent. It is mere arrangement for sale of goods on behalf of the consignor.

### Multiple Choice Questions

- |     |     |     |     |     |     |     |     |     |     |     |     |     |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1.  | 2.  | 3.  | 4.  | 5.  | 6.  | 7.  | 8.  | 9.  | 10. | 11. | 12. | 13. |
| (a) | (a) | (b) | (a) | (c) | (c) | (a) | (b) | (b) | (b) | (b) | (a) | (c) |

### Theoretical Questions

1. (i) Del-credere commission is an additional commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Generally, the consignee gets ordinary commission for sales made by him as a percentage of gross sales, over and above, he may get del-credere commission for the additional responsibility of debt collection. Sometimes it is agreed that del-credere commission shall be allowed on credit sales only. However, in the absence of any such agreement the consignor allows del-credere commission on total sales

and not merely on credit sales. If the consignee is entitled to del-credere commission, he has to bear the bad debts; if any, arising, out of credit sale of consignment goods.

(ii) Account sales is a periodic statement furnished by the consignee to the consignor stating therein, the quantity sold, price charged, expenses incurred on behalf of the consignee and commission payable to him in respect of a particular consignment, and the net amount due from him and remittance received if any. It also shows the details of quantity of goods received, destroyed, if any, and still held as stock.

(iii) Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

To provide incentive for supervising the performance of other agents in a particular area.

To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

2. (i) In case of consignment, the property in the goods remains with the consignor until the goods are actually sold. The consignee acts only as a custodian of goods sent by consignor. In consignment, the ownership of goods does not pass on to the consignee in any case. In case of ordinary sale, the ownership of goods passes to the buyer immediately after sale. In case of consignment, the risk attached to the goods remain with the consignor even after sending the goods to the consignee. However, in case of ordinary sale, as soon as the property in the goods passes on to the buyers, the risk attached to the goods also passes at the same time. The relationship between consignor and consignee is that of principal and agent. In case of credit sale, the relationship between the buyer and the seller is that of a debtor and a creditor.

(ii) Commission may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and is usually based on a percentage of the amounts involved.

Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the books of the party availing such facility or service.

The term discount refers to any reduction or rebate allowed and is used to express one of the following situations:

An allowance given for the settlement of a debt before it is due i.e. cash discount.

An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases.

## Practical Questions

### Answer 1

#### In the books of Mr. X Consignment Account

Particulars	Amount ₹	Particulars	Amount ₹
To Goods sent on Consignment Account	1,50,000	By Y's account: (Sales)	1,60,000
To Bank account: Freight and packing etc.	5,500	By Goods sent on consignment (Cancellation of loading)	50,000
To Y's account:		By Inventories on consignment (W.N.2)	28,990
Selling expenses	2,000		
Commission (W.N.1)	16,000		
To Inventories Reserve (W.N.3)	10,000		
To Profit and loss account (profit on consignment transferred)	55,490		
	2,38,990		2,38,990

#### Trading and Profit and Loss Account for the year ended.....

Particulars	Amount ₹	Particulars	Amount ₹
To Purchases	2,00,000	By Sales	90,000
To Gross profit c/d	26,000	By Goods sent on consignment	1,00,000
		By Inventories in hand Cost	₹ 40,000
		Less: 10%	4,000
	2,26,000		36,000
			2,26,000
To Expenses and commission	3,000	By Gross profit b/d	26,000
To Net profit	78,490	By Consignment A/c (profit on consignment)	55,490
	81,490		81,490

#### Working Notes:

i.	Calculation of commission payable to Y:	₹
	Total sale proceeds of Y	1,60,000
	Surplus proceeds realised over ₹ 30 per metre [4,000 x ₹ (40-30)]	40,000



Commission:		
5% of total sale proceeds (5% of ₹ 1,60,000)		8,000
20% of surplus (20% of ₹ 40,000)		<u>8,000</u>
		16,000
ii. Inventories on Consignment:		₹
Cost of consignment Inventories (1000 mtrs@ ₹ 30)		30,000
Add: Expenses of consignor (5,500X1/5)		<u>1,100</u>
		31,100
Less: Reduction of 10% in cost due to fall in market price (20,000+1,100) x 10%		<u>2,110</u>
		28,990
iii. Loading (₹10 x 1,000 mtrs)		10,000

## Answer 2

## D's Account

2020		₹	2020		₹
Feb. 1	To Bills payable A/c (80% of ₹ 8,00,000)	6,40,000	Mar. 31	By Cash/Bank A/c (820x ₹930)	7,62,600
Mar. 31	To Cash A/c (expenses)	12,500			
	To Commission earned A/c	70,520			
	To Bank A/c	39,580			
		<u>7,62,600</u>			<u>7,62,600</u>

## Bills Payable Account

2020		₹	2020		₹
Mar. 5	To Cash/Bank A/c	6,40,000	Feb. 1	By D's A/c	6,40,000
		<u>6,40,000</u>			<u>6,40,000</u>

## Value of closing inventory with A

	₹
160 cycles at ₹ 640 (cost price including freight)	1,02,400
20 cycles (shop-spoiled) at 50% of the cost i.e. at ₹ 320 each	6,400
Value of closing inventory with A i.e. the amount (net effect of the loading) at which D will account for in his books on 31st March, 2020	<u>1,08,800</u>

## Working Note:

## 1. Calculation of commission:

	₹
7.5 % on the invoice price amount (820x ₹ 800) i.e. ₹ 6,56,000	49,200
20% on the surplus price amount (820 x ₹ 130) ₹ 1,06,600	21,320
	70,520

## 2.

	₹
<b>Abnormal loss:</b>	
Cost of packet lost during transit	900
Add: Expenses incurred by Y	100
Gross Abnormal loss	1,000
Less: Insurance claim received	(570)
Net Abnormal loss	430

## 3. Cost of inventories at the end:

	₹
59 packets @ ₹ 900	53,100
Add: Expenses incurred by Y (59x ₹100)	5,900
Add: Proportionate (non-recurring) expenses incurred by the consignee (59/799x ₹39,950)	2,950
	61,950

## 4.

Closing inventories	No. of packets
Packets consigned	800
Less: Packet lost in transit	(1)
	799
Less: Packets sold	740
	59

## Answer 3

## Consignment Account

	₹		₹
To Goods sent on consignment A/c (800 x ₹ 900)	7,20,000	By Consignee's A/c-Sales (740 x100x ₹ 12)	8,88,000
To Cash A/c	80,000		

(expenses 800 x ₹100)		By Abnormal Loss Cash A/c (insurance claim)	570
To Consignee's A/c:		By Profit and loss account (abnormal loss)	430
Recurring expenses	22,500		
Non-recurring expenses	39,950	By Consignment stock A/c	61,950
Commission @ 2% on ₹ 8,88,000	17,760		
Del-credere commission @ 1% on ₹ 8,88,000	8,880		
To Profit and loss A/c (profit on consignment)	61,860		
	9,50,950		9,50,950

## Answer 4

In the books of Mr. A  
Consignment to Mumbai Account

2019		₹	2019		₹
March 1	To Goods sent on consignment A/c	1,00,000	Dec. 31	By B's A/cs	1,50,000
	To Cash A/c (freight and insurance)	12,000			
	To B's A/c:				
	Clearance expenses 3,000				
	Selling expenses 2,000				
	Commission				
	@ 5% on ₹ 1,50,000 = 7,500				
	Del-credere commission @3% on ₹ 1,50,000 = 4,500	17,000			
Dec. 31	To Provision for expenses (bank charges)	260			
	To Profit and loss A/c (profit on consignment)	20,740			
		1,50,000			1,50,000

B's Account

2019		₹	2019		₹
Dec. 31	To Consignment A/c	1,50,000	Dec. 31	By Consignment A/c-	
				Clearance expenses	3,000
				Selling expenses	2,000

				Commission	7,500	
				Del-credere commission	4,500	17,000
				By Balance c/d		1,33,000
		1,50,000				1,50,000
2020			2020			
Jan. 1	To Balance b/d	1,33,000	Jan. 5	By Bank A/c		1,33,000

#### Bank Account

2020		₹	2020		₹
Jan. 5	To B's account	1,33,000	Jan. 5	By Bank charges	260
			Jan. 5	By Balance c/d	1,32,740
		1,33,000			1,33,000

#### Provision for Expenses Account

2020		₹	2020		₹
Jan. 5	To Bank charges	260	Jan. 1	By Balance b/d	260
		260			260