

UDHNA COLLEGE

FYBCOM SEM-II

Accounting for Specific Businesses

UNIT-2 CONSIGNMENT ACCOUNTS:

Contents:

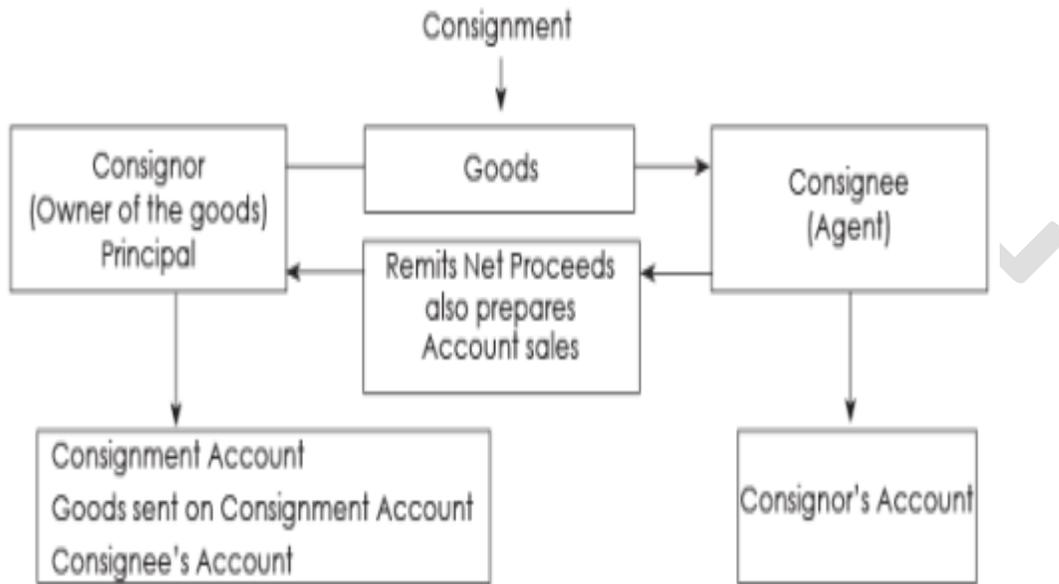
Introduction to Consignment, Difference between Sale and Consignment, Terms used in consignment like Proforma Invoice, Normal & Abnormal Loss, Valuation of Closing Stock, General & Del-Credere Commission etc., Procedure for Consignment Transactions, Accounting treatment i.e., Journal entries as well as Ledger accounts in the books of consigner and consignee

I) Meaning and Features of Consignment: Consignment is a process under which the owner consigns his materials to his agent/salesman for the purpose of shipping, transfer, sale etc.

Important points that throw more light on the nature and scope of a consignment –

- Here, ultimate ownership of the goods remains with the manufacturer or whole seller who handovers goods to his agent for sale on commission basis. Consignment is merely a transfer of possession of goods not an ownership.
- Since ownership of goods remain with the manufacturer (consignor), consignee (agent) is not responsible for any loss or destruction of goods.
- The goods are sold on owner's risk and hence, profit/loss goes to owner.

- Consignee only gets re-imbusement of expenses incurred by him and commission on sale made by him, because sale that proceeds belongs to owner (consignor).



II) Important Terms:

- **Pro-forma Invoice**

Invoice implies that the sale has taken place, but pro-forma invoice is not an invoice. Proforma invoice is a statement prepared by the consignor of goods showing quantity, quality, and price of the goods. Such pro-forma invoice is issued by **the consignor to consignee** regarding the goods before the sale actually takes place.

- **Account Sale:** Statement showing the details of goods received, goods sold, expenses incurred, commission charged, remittances made, and due balance is called Account Sale and it is remitted by the **consignee to the consignor** of goods on a periodic basis.

- **Commission**

There are **three** types of commission payable to consignee on sale of the goods –

1. **General Commission** – This is usually a fixed percentage on the total sale, calculated as per mutually agreed terms.
2. **Del-credere Commission** – “An agreement by which an agent or factor, in consideration of an additional premium or commission (called a del credere commission), engages, when he sells goods on credit, to insure, warrant, or guarantee to his principal the solvency of the purchaser, the engagement of the factor being to pay the debt himself if it is not punctually discharged by the buyer when it becomes due.” A del-credere commission is paid by the consignor to his agent for taking additional risk of recovery of debts from the consignee on an account of credit sales made by him (agent) on consignor's behalf.
3. **Additional Commission:**

- **Non-Recurring Expenses**-Expenses, which increases the cost of the goods and are of non-recurring nature and incurred till the goods reach the warehouse of consignee may called direct or non-recurring expenses. For e.g. clearing charges, customs, octroi, carriage outward etc. These expenses are added in calculation of closing stock as well as Abnormal loss.
- **Recurring Expenses**- Warehouse rent, storage charges, advertisement expenses, salaries, etc. comes under the category of the indirect or **recurring** expenses. The distinctions between direct and indirect expenses are important especially at the time of valuation of the unsold closing stock. For e.g. Godown Rent, Insurance, Office & Administrative charges, Selling & distribution expenses.
- **Loss of Goods**

There may be two types of losses as explained below –

1. **Normal Loss** – Normal loss may occur due to inherent characteristics of goods like evaporation, drying up of goods, etc. It is not separately shown in the consignment account, but included in the cost of goods sold and the closing stock by inflating the rate per unit. To calculate the quantity of unsold stock, following formula is used.

Here, Net quantity received = Goods consigned quantity – Normal loss quantity

For e.g. oil, petrol, food items, raw material of textile etc.

2. **Abnormal Loss** – An abnormal loss may occur due to any accidental reason. It is credited to the consignment account to calculate actual profitability. Valuation of abnormal loss is done on the same basis as explained earlier i.e. proportionate cost + proportionate expenses of consignor + proportionate direct/non-recurring expenses of consignor.

Journal entries in the books of Consignor

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1.Entry for sending goods	Consignment a/c	Dr.	Xxxx	
	To Goods sent on consignment a/c			xxxx
	(Being goods sent on the consignment basis)			
2.Entry for consignor's expenses	Consignment a/c	Dr.	Xxxx	
	To Cash/Bank a/c			xxxx
	(Being expenses for consignment)			
3.Entry for consignee's expenses	Consignment a/c	Dr.	Xxxx	
	To Consignee a/c			xxxx
	(Being expenses for consignment by consignee)			
4.Entry for advance given by consignee	Cash/Bank/B.R. a/c	Dr.	Xxxx	

	To Consignee a/c			xxxx
	(Being receipt of advance)			
5.Entry for sales	Consignee a/c	Dr.	Xxxx	
	To Consignment a/c			xxxx
	(Being sale of goods)			
6.Entry for commission	Consignment a/c	Dr.	Xxxx	
	To Consignee			xxxx
	(Being commission recorded)			
7.Entry for collection from debtors	No Entry			
8.Entry for Bad Debts				
(a)In the presence of Del-credre commission	No entry			
(b) In the absence of Del-credre commission	Consignment a/c	Dr.	Xxxx	
	To Consignee a/c			xxxx
	(Being bad debts			

	recorded)			
9.Entry for the final profit	Consignment a/c	Dr.	Xxxx	
	To Profit and loss a/c			xxxx
	(Being transfer of profit to P&L a/c)			
10.Entry for final remittance	Bank a/c/Bills rec. A/c	Dr.	Xxxx	
	To Consignee			xxxx
	(Being payment to consignee)			
1. Entry for Balance in Goods sent a/c	Goods sent consignment a/c	Dr.	Xxxx	
	To Trading a/c			xxxx
	(Being balance transferred to trading account)			
12.Entry for the closing stock	Consignment stock a/c	Dr.	Xxxx	
	To Consignment a/c			
	(Being closing stock transferred)			
13. Entry for	P & L A/c	Dr.		
	Insurance Company/ Cash	Dr.		

Abnormal loss	A/c			
	To Consignment A/c			

- **Calculation for Abnormal Loss:**

Cost of Goods damaged-----

+ Prop. Exp. of consignor-----

+ Proportionate recurring expenses of consignee-----

Total cost of Goods damaged -----

- Claim accepted by Insurance Co.-----

Abnormal Loss -----

- **Valuation of Closing Stock:**

Cost/ Invoice price of Closing Stock -----

+ proportionate expenses of consignor-----

+ proportionate Recurring expenses of consignee-----

-Repairing Expenses (If any) -----

Total Cost of Closing stock

OR

Valuation of Closing Stock:

Particulars	Units	Amount
Cost of Goods Sent		
Add: Expenses paid by consignor		
Less: Abnormal loss		

Less: Good-in Transit		
Less: Normal Loss		
Add: Expenses of consignee		
Cost of salable goods		

Closing Stock= Units of Closing stock*Value of goods received by consignee/Number of units received by consignee

EXERCISE:

1. Suraj has sent 18750 kgs of jivraj tea on consignment at Rs.150 per kg and spent Rs.18750 as direct expenses. Due to accident 750 kg tea was lost in transit. The insurance company admitted a claim of Rs.108750. pass necessary journal entries in the books of Suraj.
2. Devarsh of Daman consigned 750 pen drives to Dhey of Dharampur at invoice price of Rs.400 each. The invoice price is fixed after adding 33 ¹/₃% on cost price. He paid Rs.11250 for expenses while sending the goods. In transit 75 pen drives were damaged, against it insurance company accepted a claim of 60%. These damage goods sold for cash at 40% discount on cost price by Dhey. Write journal entry for abnormal loss.
3. Chandni draw a bill of five month on 1-1-2019 on star which was accepted and return by star after one and half month. A bill discounted by Chandni Rs.21875 as discount, at the rate of 12% p.a. Pass journal entry in the books of Chandni.
4. Find out the value of closing stock of consignment from the following information:
 Oil sent on consignment 25000 litres.....Rs.625000
 Expenses paid by consignor..... Rs.15625

Oil destroyed in transit..... 5000 litres
 Freight and duty paid by consigneeRs.6250
 Amount paid by insurance company.....Rs.62500
 Loss due to natural causes.....625 litres
 Oil sold by consignee16875 litres

5. Consignor draw on consignee a three months bill on 1-4-2019, which was discounted in the bank Rs.20250 discount. The rate of discount is 0.75% per month. Pass journal entry in the books of consignor.

Q6) On 1st sep.2020, Vijay Co. of Surat sent consignment of 1000 Table fans costing Rs.300 each to Bipin of Bombay. The freight and other charges on consignment amounted to Rs.25,000. 100 fans were destroyed in transit due to accident and insurance co. accepted the claim of Rs.12,000. Bipin paid Rs.18,000 for expenses of remaining goods.

The consignee accepted a bill of Rs.1,00,000 drawn by consignor, which latter discounted for Rs.95,000. From the account Sale received from consignee it was seen that 800 fans were sold at Rs.450 each. Consignee has paid Rs.6000 for storage and advertisement. Consignee was entitled to a commission of 5% on sales. Prepare Consignment A/c in the books of Consignor.

Q7) Riddhi sends 500 watches for consignment sale to Pinal. Pro-forma invoice was prepared at Rs.400 per watch. The cost price per watch was Rs.350.

While sending goods she paid Rs. 7500 for expenses, which includes Rs.1500 for insurance premium. In transit, 50 watches were destroyed. The insurance company paid 90% of cost prices as claim. Pinal sold remaining watches at invoice price. The selling expenses was Rs.3000. Pinal paid the balancing

amount after deducting 2% commission on sales. Prepare necessary accounts in the books of Riddhi and Riddhi's account in the books of Pinal.

Q8) Shri.Sneh started consignment business of sending bicycles on consignment to Jeet from 1-1-2014. From the information given below, prepare consignment account.

Particulars	2019	2020
No. of bicycles sent on consignment	40	60
Cost price per bicycle	Rs.500	Rs.600
Expenses paid by consignor	Rs.1000	Rs.1500
Advertisement expenses paid by consignee	Rs.2000	Rs.3000
No. of bicycle sold	35	50
Invoice price per bicycle	Rs.600	Rs.750
Sales price	Rs.800	RS.800

Rate of commission is 5% on invoice price of bicycle sold.

Q9) From the following information prepare consignment account and consignee's account in the books of Jaitra for the year ending on 30-6-2019:

1. Jaitra consigned goods to Bhavya at an invoice price on 1-7-2018. The proforma invoice was made out a figure so as to show a profit of 20% on invoice price.
2. While sending the goods Jaitra paid Rs.5000 for freight and insurance.
3. On 1-7-2018 Jaitra drew a bill of 3 months for Rs.300000 on Bhavya, which was immediately returned by the later duly accepted. On 4-8-2018 Jaitra discounted this bill in the bank at the rate of 10% p.a.
4. Invoice price of goods fully destroyed in transit was Rs.62500 of which insurance company accepted a claim of Rs.45000

5. Bhavya paid expenses Rs.2500 for landing, Rs.1500 for advertisement, Rs.2250 for transport charge and Rs.3000 for selling expenses.
6. Invoice price of unsold stock lying with Bhavya at the end of the year Rs.150000
7. Bhavya returned unsaleable goods worth Rs.37500 invoice price and paid Rs.2500 for return expenses.
8. Bhavya is entitled to get 5% general commission and 1% del creder commission. He was to be paid 10% (after charging his commission and profit sharing) of net profit. Rs.62500 general commission was payable to Bhavya. The proportion of cash sale and credit sale is 1:3.
9. Out of credit sale, Rs.50000 was made to a customer on the recommendation of Jaitra, who was declared insolvent and 80% of amount was recovered from him.
10. All goods were sold by Bhavya at a profit of 25% on invoice price.

Q9) On 1st April 2019, Jaitra consigned some smart phones to Ronak at invoice price of Rs.9999 each. The invoice price was fixed after adding $33\frac{1}{3}$ % profit on invoice price. Jaitra incurred the following expenses at the time of dispatching the smart phones:

Freight Rs.25000

Insurance Rs. 100000

Ronak is entitled to get 11% commission on total sales and 5% del creder commission on credit sales. Ronak paid Rs, 18000 for clearing charge and Rs.30000 for selling expenses.

He sold $\frac{4}{5}$ of consigned phones at $33\frac{1}{3}$ % profit on invoice price at 10% trade discount, of which $\frac{1}{4}$ smart phones were sold on credit. It was found that $\frac{1}{2}$ smart

phones of the remaining were still in transit and remaining phones were destroyed. Insurance company admitted the claim at 10% less.

Total sales made by Ronak in which Rs.1439856 was cash sales. Ronak sent a bank draft for the balance amount.

Write journal entries in the books of Jaitra.

Q10) Shahid of Mumbai consigned goods to Saif of Delhi at an invoice price of Rs.270000 on 1-4-2018, including freight and insurance of Rs.20000. The invoice price is fixed after adding 25% on cost price.

On 1-4-2018 Shahid drew a bill of Rs.100000 for five months on Saif, which was immediately returned by the later, duly accepted. Shahid discounted the bill with a bank on 1-6-2018 at 12% discount p.a.

Saif is entitled to get 10% general commission and 5 % Del creder commission. In addition to this is also given 10% of net profit as a share in profit.

Saif was allowed Rs.12000 p.a. towards establishment expenses. On 31-12-2018 Saif sent an account sale and a bank draft for the amount due from him. He reported in the account sale that:

1. He paid Rs.10000 for octroi and Rs.5600 for selling expenses.
2. He returned 5% unsaleable goods and paid Rs.1000 for return purpose.
3. 50% goods were sold for cash at 25% profit on invoice price.
4. 20% goods were sold on credit to Akshay at 30% profit on invoice price.
5. 10% goods were sold to Amir as per Shahid's recommendation at 40% profit on invoice price.
6. 5% goods were purchased by him for his personal use at the invoice price.

7. 5 % goods were damaged in godown due to earthquake, against it, insurance company accepted a claim of 70%. These damaged goods sold to Salman for cash at 50% discount on cost price.
8. After paying 80% amount both customer were declared insolvent and 80% could be recovered from their estate.
9. Repairing expenses of Rs.1050 is estimated for remaining goods to make them saleable.

From the above particulars prepare Consignment account and Saif's account in the books of Shahid.

Q11) On 1-1-18 Arihant oil company of Mumbai, consigned 1000 barrels of oil, cost Rs.800 per barrel to Vardhman oil company. The consignor paid Rs.50000 as freight and insurance. 25 barrels were destroyed in transit for which the insurance company settled the claim at Rs.15000.

Vardhman Oil Company accepted a bill for Rs.50000 for 3 months. He informed that:

1. Clearing charges 11250, godown rent 10000, salaries of salesman Rs.30000 and advertisement expenses Rs.20000 were paid by him.
2. 750 barrels were sold at Rs.1200 per barrel.
3. 25 barrels were damaged due to leakage which is considered as normal loss.

The consignee is entitled for 5% commission on sale. Varhaman Company sent the draft of the amount due. Prepare necessary accounts in the books of Arihant Co.

Q12) VNSGU-APRIL 2024

200 tins of oil at Rs. 1,800 per tin of 15 kg each were sent by Amarchand to Surat to be sold on consignment. He paid Rs. 3,000 for expenses. Normal loss is

considered to be 10%. Calculate the value of closing stock and write journal entry if the quantity left is 570 kg oil.

Q13) VNSGU-APRIL 2024

Consignor draws on consignee a three months bill on 1-1-24, which was discounted in the bank at Rs. 24,300 discount. The rate of discount is 0.90% per Month. Pass Journal entries in the books of consignor.

Q14)VNSGU-APRIL 2024

X Ltd. of Gujarat sent 3,000 sarees on consignment to Y Ltd. of Kolkata at the invoice price of Rs. 150 per saree having cost price of Rs.100. The consignor paid Rs. 6,000 for packing and freight. 10 sarees got damaged in the transit. Insurance company accepted 60% claim.

Y Ltd. sold 2,500 sarees at Rs.160 per saree for cash, 50 sarees at Rs.170 sold on credit to Mayank and 40 sarees at Rs. 175 were sold to Z Ltd. on recommendation of X Ltd. and incurred Rs. 1500 for selling expenses and remitted Rs.2, 50,000 to Gujarat account. He is entitled to a commission of 5% on total sales plus a further of 25% commission on any surplus price realized over Rs.150 per saree. 1,500 series were sold by X Ltd. at Gujarat at Rs. 110 per saree. In the books of X Ltd. you are required to prepare Account, and

(1) Consignment Account, and

(2)Y Ltd. Account.

Q15(VNSGU-APRIL 2024

O General Company consigned 100 A.C. to Surat Trading Co. on 1-1-2023. The invoice price was Rs. 20,000 per A.C. But pro-forma invoice price was made out at a figure to show a profit of 25% on invoice price. O General Company paid the

expenses of carriage Rs. 2,500, freight Rs. 5,000 and insurance Rs. 7,500 at the time of sending goods.

Surat Trading Company accepted a bill of Rs. 5, 00,000 for five months and returned. O General Company discounted the bill after two months at 12% p.a. Surat Trading Company is entitled to get 10% general commission and 5% Del-Cruder commission. In addition to this he is also to be given 10% of net profit as a share in profit. On 31-12-2023 Surat Trading Company sent an account sales and a bank draft for the amount due from him. It was reported in the account sale that:

(1) He paid Rs. 1,000 for carriage, Rs. 4,000 for octopi and Rs. 1,360 for advertisement.

(2) He sold 3/5 A.C. at 30% profit for cash.

(3) He sold 1/5 A.C. at 50% profit to Patel Brothers on credit.

(4) He sold 1/20 Act 40% profit to Majethiya as per the recommendation and responsibility O General Company.

(5) He purchased 1/100 A.C. for his personal use at the invoice price.

(6) 1/25 A.C. was damaged due to negligence of storekeeper in his go down. Insurance Co. sanctioned 30% less. He sold these damaged goods at 50% less for cash.

7. Both customers became bankrupt after paying 90% and received 90 paise per rupee as final dividend from their estate.

8. Remaining goods require some repairing expenses to make them saleable, Which is estimated Rs. 2,000.

From the above particulars, Prepare consignment A/c. in the books of consigner.

Q16) VNSGU APRIL 2024

Write Short Note on: Normal loss and Abnormal loss in Consignment Account

Q17) VNSGU APRIL 2023

Consignor drew on the consignee a three-month bill on 1st January, 2022 which was discounted in bank at Rs. 12,000 discount. The rate of discount is 10% p.a. Pass the journal entries in the books of consignor.

Q18) VNSGU APRIL 2023

The difference between Invoice price and Cost price transferred to _____ A/c.

Q19) VNSGU APRIL 2023

On 1st February, 2022 Atik consigned 1,000 toys of Rs. 200 each to Aarti at an invoice price of Rs. 240 each. Atik incurred the following expenses at the time of dispatching the goods.

Freight Rs. 2,000

Insurance Rs. 8,000

Aarti is entitled to get 10% commission on total sales and 5% del credere commission on credit sales.

On 31st March, 2022, Aarti sent an account sale and a bank draft for the payment due from her. According to the account sale received, 500 toys at Rs. 280 each were sold for cash and 200 toys at Rs. 300 each on credit. The consignee incurred the following expenses:

Clearing Charges: Rs. 1,700

Warehousing & Storage: Rs. 3,400

Packing and Selling expenses: Rs. 1,200

During the transit 50 toys were totally damaged and insurance company admitted the claim of Rs. 7,200. It was found that 100 toys were still in transit.

Among Credit sales 90% amount could be received.

Prepare consignment A/c and Consignee A/c in the books of consignor.

Q20 VNSGU APRIL 2023

Sayan Oil mill consigned 8,000 litres of chemicals to Akhil of Vapi at Rs. 160 per litre. He paid Rs. 16,000 for expenses. The consignee accepted a bill of Rs. 1,92,000 drawn by the consignor for three months which the later discounted at Rs. 3,200 discount. 400 litres chemical was destroyed in transit for which the insurance co. paid a claim of Rs. 9,600. Akhil paid Rs. 19,200 as sales expenses.

From the account sale received from consignee, it was seen that 6,400 litres chemicals were sold at Rs. 200 there was a shortage of 200 litres due to natural causes. The consignee was entitled to a commission of 5% and a del credere commission of 2%. The consignee sent a bank draft for the balance along with the account sale.

A customer to whom the consignee has sold goods for Rs. 10,000 on credit was declared insolvent and only 50 paise against a rupee could be recovered from his estate.

Prepare necessary accounts in the books of Baroda oil mill.