

Chapter 6 “unit 1”

Consignment

**Consignment: –**

It means to send or transfer of goods by one person to another for the purpose of sale on commission basis. In case of consignment, ownership is not transferred only possession is transfer. It is a method of selling goods on the commission basis.

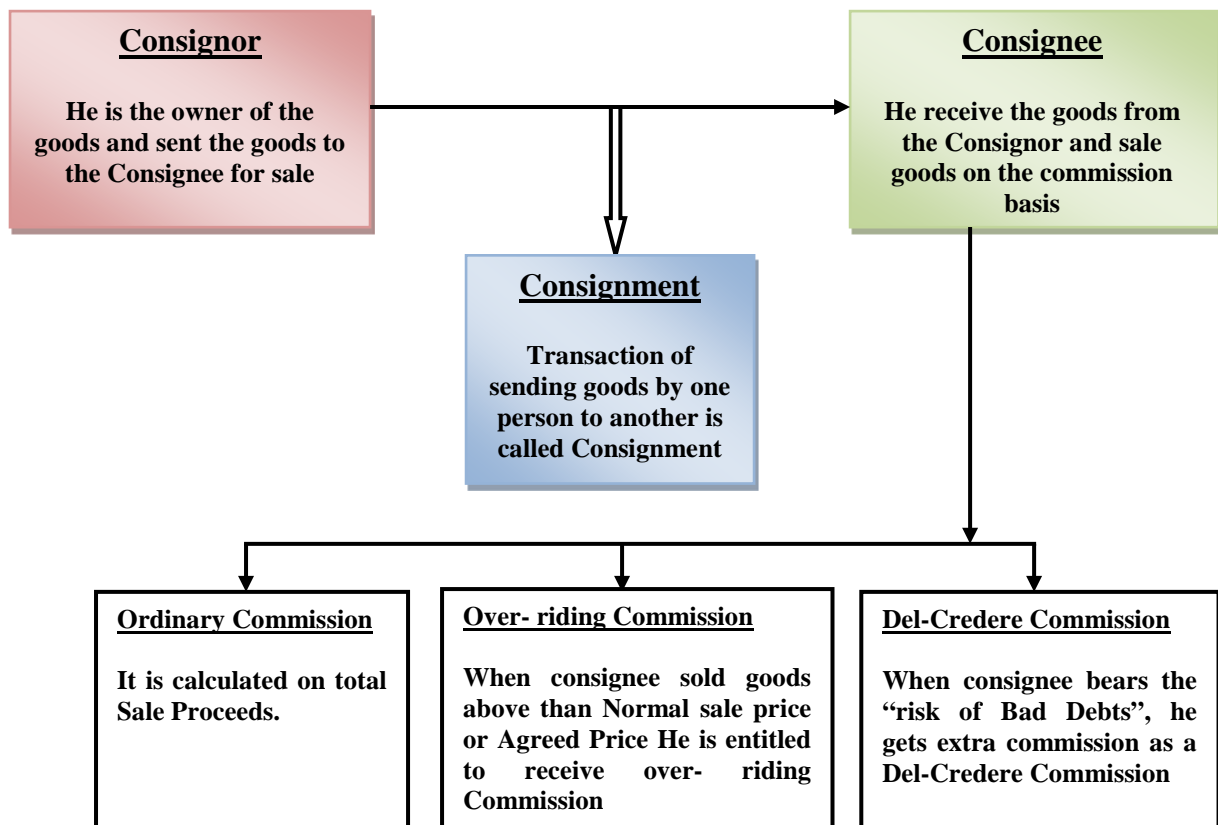
**Parties of consignment:-**

**There are two parties in case of Consignment:-**

- (i) Consignor
- (ii) Consignee

(i) **Consignor:** - The person who sends the goods is called consignor. He is owner of the goods and so he is called principal. If goods are destroy even in consignee’s Godown risk of loss, lies with consignor because ownership is remain with the consignor.

(ii) **Consignee:** - The person who received the goods is called consignee. He is the agent of the consignor. He sold the goods on behalf of the consignor and gets commission as his remuneration.



Proforma Invoice:-

When the consignor sends Goods to the consignee, he prepares only a proforma invoice and not an invoice. A proforma invoice is just like an invoice but it really not invoice. The object of proforma invoice is only to convey information to the consignee regarding quantity, varieties and prices of goods send and expenses incurred and not to make him liable like a trade debtor.

<u>Proforma Invoice</u>	25-7-2013
<p>Innovative Commerce Institute B-19; Main Road, Patel Chest New Delhi 110009</p>	
<p>Consigned to: - Ignite Institute Main Road Nirankari</p>	
<p>10 Pc. CA-CPT Accounts Book 5Pc. CA-CPT Law Book</p>	
<p>Rs.7,000 For Innovative Commerce Institute Sabby Manager</p>	

Account Sales:-

It is a periodical summary statement sent by the consignee to the consignor it is the detail of transaction made by the consignee it contains details regarding:-

- (i) Sales made by consignee
- (ii) Expenses incurred by the consignee on behalf of consignor
- (iii) Commission earned
- (iv) Unsold stock left with the consignee
- (v) Advance payment or security deposit (if any) with the consignor and the extent to which it has been adjusted towards amount due.
- (vi) Balance payment due or remitted after taking all adjustments

Commission: - Consignee gets three types of commission:-

- (i) **Ordinary or Normal Commission:** Consignee gets always ordinary commission. It is calculated on total sales made by consignee whether cash or credit. Normally it is calculated on "Total Sale Proceeds" but in certain times he only receives commission on Invoice Price of goods sold.
- (ii) **Del Credere Commission:** Consignee gets Del Credere Commission when he bears the risk of bad debts. It is the extra commission received by consignee. When consignor allows Del Credere Commission to consignee **Bad debts is not** recorded in consignment A/c. It is normally calculated on Credit Sales Proceeds but in lack of information it may be calculated on "Total sales Proceeds".
- (iii) **Over-riding commission:** When consignee sold goods above then its invoice price (Agreed price/fixed price) he is entitled to get Over-riding commission. This Commission is given to consignee for his hard work in introducing a new product in the market. It is calculated on additional (difference) price (sale price – agreed price) \* Rate of commission.

Calculation of Commission:-

- Normal Commission = Total Sales Proceeds x Normal Rate of Commission
- Del Credere Commission = Total Sales Proceeds x Del Credere Rate of Commission
- Over-riding commission = (Sales Price – Invoice Price or agreed Price of Goods sold) x Over-riding Rate of commission

When consignee receive More than one commission and any one commission is receivable after all commission

$$\text{Amount of Second Commission} = \frac{\text{Value on which commission is allowed}}{(100 + \text{Rate of Second Commission})} \times \text{Rate of Second Commission}$$

**Example 1:-**

Nagaraj of Kolkata consigned 100 radio sets to Ram Lal of Patna. The invoice price is Rs. 600 per set. Ram Lal was entitled to a commission of 7 ½ % on sales plus 2 ½ % del credere commission and 10% of any excess of price realised over invoiced price. Ram Lal took delivery of radio sets. Ram Lal sold 70 Radio sets Rs. 800 each, 30 of them on credit. Calculate Total Commission payable to Ram Lal

[Rs. 7,000]

**Example 2:-**

Shah sends goods on consignment to Rao. The terms are that **Rao will receive 10% commission on the invoice price (which is cost plus 25%) and 20% of any price realised above the invoice price.** Shah sent goods costing Rs, 1, 60,000. Rao sold 3/4 goods for Rs, 1, 95,000. Calculate Total Commission Payable to Rao.

[Rs. 24,000]

**Example 3:-**

On 1<sup>st</sup> September goods of the value of Rs. 2,64,000 were consigned by Shyam Lal of Bangalore to his agent Mahesh of Cochin at **pro-forma invoice price of 20% profit on cost price.** He was entitled to 5% commission on gross sales and an additional 3% **del credere commission on credit sales only.** Three-fourth of the good was sold at 33 ½ % profit on cost, half of which credit sales. Calculate Total Commission payable to Mahesh.

[Rs. 17,160]

**Example 4:-**

Narayan ji of Beawar sent their famous Til Papur valuation Rs. 80,000, to M/s Patwari Mishthan bhandar of Ghaziabad. Patwari sold goods costing Rs. 60,000 for Rs.1, 22,000 (Rs. 86,000 for cash and 36,000 on credit) patwari took over good for their own use costing Rs. 6,000. The consignee is entitled to a commission of 5 % on cash sales and 4 % on credit sale. For goods taken over by the consignee, the valuation of would be cost plus cost plus 10% and the same consignee would not be entitled to any commission over the same. Calculate Total Commission payable to Patwari Mishthan Bhandar

[Rs. 5,740]

**Example 5:-**

X of Kolkata sent on 15<sup>th</sup> January 2010 a consignment of 500 bicycles **costing Rs. 1,000 each.** Y sold on 4<sup>th</sup> April 2010, 300 Bicycle @ Rs. 1,600 per Bicycle and again on 20<sup>th</sup> June 2010, 150 per Bicycle @ Rs. 1,720. Y was entitled to a commission of Rs. 250 Per bicycle sold **plus one-fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 1,250 per Bicycle sold.** Calculate Total amount of Commission payable to Y.

**Solution:-**

Calculation of Commission payable to Y  
 Gross Sales = (300 x 1,600) + (150 x 1,720)  
 Let total commission payable = x  
 $x = [250 \times 450] + \frac{1}{4} [7,38,000 - x - (1,250 \times 450)]$   
 $x = 1,12,500 + 43,875 - \frac{x}{4}$   
 $x + \frac{x}{4} = 1,56,375$   
 $\frac{5x}{4} = 1,56,375$   
 $x = \text{Rs. } 1,25,100$

**Example 6:-**

X of Kolkata send out goods costing Rs. 1,00,000 to Y of Delhi. 3/5<sup>th</sup> of the goods were sold by consignee for Rs. 70,000. Commission 2% on sale plus 20% of gross sale less all commission exceeds cost price. What is the amount of commission.

**[Rs. 2,833 ]**

**Example 7:-**

A of Mumbai sold goods to B of Delhi; the goods are to be sold at 125% of cost which is invoice price. Commission 10% on sale at invoice price and 25% of any surplus realized above invoice price. 10% of the goods sent out on consignment, invoice value of which is Rs. 12,500 were destroyed. 75% of the total consignment is sold by B at Rs. 1,00,000. What will be the amount of commission payable to B?

**[Rs. 10,937.50]**

**Example 8:-**

X of Kolkata send out goods costing Rs. 1,00,000 to Y of Mumbai at cost + 25%. Consignor’s expenses Rs. 2,000. 3/5<sup>th</sup> of the goods were sold by Consignee at Rs. 85,000. Commission 2% on sale + 20% of gross sale less all commission exceeds invoice value. What is the amount of commission.

**[Rs. 3,083]**



**Q.1**

Jeevan of Jaipur sends jaipuri quilts on consignment to Piyush of Patna. The terms were that Piyush will receive 10% commission (including del credere) on invoice price (which is cost plus 25%) and 20% of any price realized above invoice price. Jeevan sent goods for Rs. 90,000 at invoice price. 3/4 of the goods were sold Rs. 70,000. Calculation Commission payable to Piyush

**[Rs.7,250]**

<p><b>2. X Sends out goods costing Rs. 2,00,000 to Y. 3/5<sup>th</sup> of the goods were sold by consignee for Rs. 1,40,000 Commission 2% on sale plus 20% of gross sale less all commission exceeds cost price. The amount of commission will be:</b></p>	
(a) Rs. 5,667	(c) Rs. 6,000
(b) Rs. 5,800	(d) Rs. 5,600

**Treatment of Loss: Losses may be classified in to two types**

(i)Normal Loss

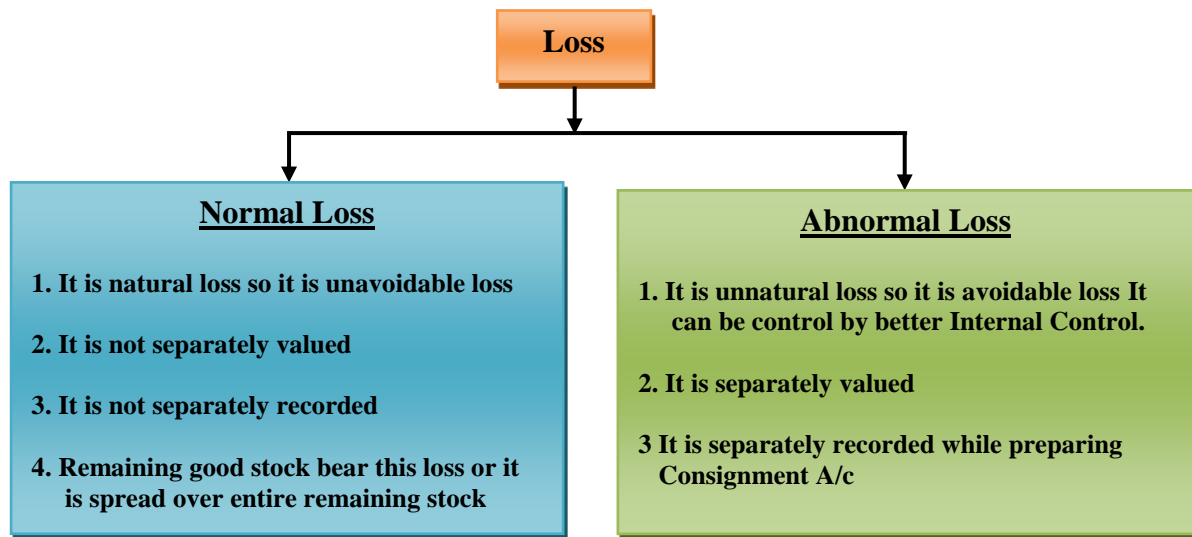
(ii)Abnormal Loss

**Normal Loss:**

It is unavoidable loss. It is natural loss due to inherent feature of goods for example- Evaporation, Normal Leakage/Spoilage. **It is not separately valued.** It is spread over entire stock while calculating consignment stock.

**Abnormal Loss:**

It is avoidable loss and is usually caused by accident, theft, fire, leakage, breakage, pilferage etc. It can be control by better internal control. It is separately calculated.



**Calculation of Abnormal Loss:-**

It is calculated on Cost price of goods Consigned and never on Invoice Price of goods.

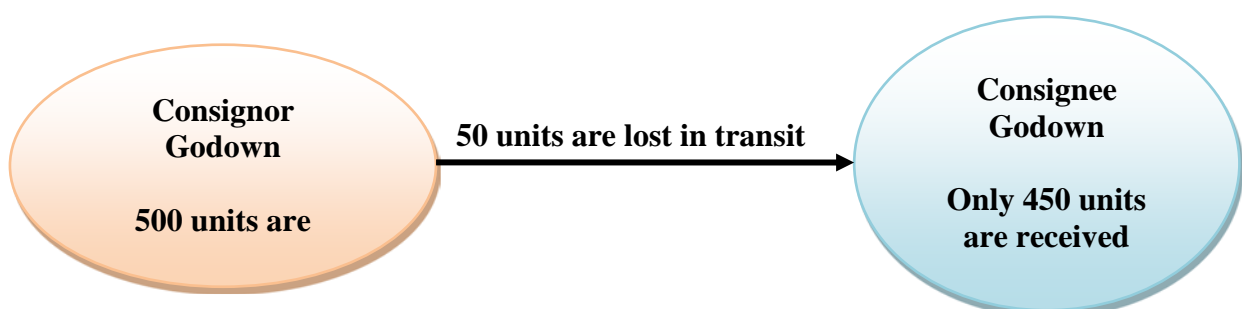
**When there is only Abnormal Loss:-**

$$\text{Cost of Abnormal Loss} = \frac{\text{Lost (in Unit/Qty)}}{\text{Total goods sent (in Unit/Qty)}} \times \text{Total cost of goods}$$

*Total Cost of goods includes Cost Price of Goods + All Expenses incurred by Consignor + Direct Expenses incurred by Consignee (as per situation may or may not be taken)*

**Situations where Abnormal Loss is held:-**

**Situation 1<sup>ST</sup>:- If Loss is held "in Transit"**



In "Total cost of goods" Expenses incurred by Consignee will not be taken

**Example 9:-**

Chandni Boutique of Jaipur sent 1,000 pieces of Sanganeri printed Bed Sheets at Rs. 130 per piece on consignment sale to Suresh Totla and Co. of Surat. The consignor paid Rs. 3,000, for fright and transit insurance. 100 bed sheets were damaged in transit due to fire. The consignee spent Rs. 2,000, on godown rent Rs. 1,200, on insurance and Rs. 1,000 on clearing expenses. The salvage value of damaged goods was estimated at Rs. 800. Calculate amount of Actual value of Abnormal Loss.

**Solution:-**

Cost of Abnormal Loss =  $(100 / 1,000) \times [(130 \times 1,000) + 3,000] = \text{Rs. } 13,300$   
 Less: - Salvage Value = Rs. 800  
 Actual Value of Abnormal Loss =  $(13,300 - 800) \text{ Rs. } 12,500$

**Example 10:-**

Nagaraj of Kolkata consigned 100 radio sets **costing Rs. 500 each** to Ram Lal of Patna. The invoice was **made proforma at Rs.600 per set.** Ram Lal was to bear all expenses incurred after the goods reached his godown. While sending the good Nagaraj paid Rs. 1,500 as forwarding Expenses and insurance. In transit 10 Radio sets were damaged and Nagaraj recovered Rs. 4,000 from Insurance Company. Ram Lal took delivery of the remaining radio sets paying Rs. 4,500 as freight cartage etc. He paid Rs. 500 as storage and selling Expenses. Calculate amount of Actual value of Abnormal Loss.

**Solution:-**

Cost of Abnormal Loss =  $(10 / 100) \times [(100 \times 500) + 1,500] = \text{Rs. } 5,150$   
 Less: - Insurance Claim Received = Rs. 4,000  
 Actual Value of Abnormal Loss =  $(5,150 - 4,000) \text{ Rs. } 1,150$

**Example 11 (a):-**

Philips Radio Company consigned 100 transistors to their agent Paul Radios of Delhi. The cost price of each transistor is Rs. 75. The consignor paid Rs. 200 for freight, Rs. 50 for cartage, and Rs. 400 for insurance. Five transistors were totally destroyed in transit. The insurance claim of Rs. 300 was admitted by the insurance company. The consignee took the delivery of 95 radios and spent clearing charges Rs. 190, cartage Rs. 95, godown rent Rs. 250 and selling expenses Rs. 150. They sold all the units at Rs. 100 each. Paul radios are entitled to 5% commission on total sale. The balance due was remitted by way of a bank draft. Calculate the Abnormal Loss.

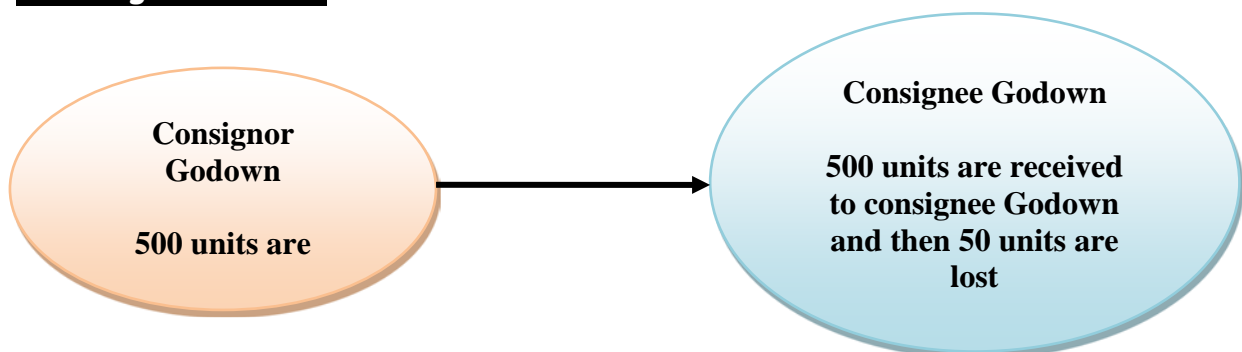
**[Rs. 408]**

**Example 11 (b):-**

X of Kolkata sends out goods costing Rs. 3,00,000 to Y of Mumbai at cost + 25%. Consignor's expenses Rs. 5,000. 1/10<sup>th</sup> of the goods were lost in transit. Insurance claim received Rs. 3,000. The net loss on account of abnormal loss is:

**[Rs. 27,500]**

**Situation 2<sup>nd</sup>:- If Loss is held "at Consignee Godown" after reaching goods in consignee Godown**



In "Total cost of goods" Direct or Non Recurring Expenses incurred by Consignee is also taken

**Example 12:-**

On 1<sup>st</sup> Jan 2011 Goods **cost price of which was Rs. 66,000** were consigned by Ram, Dhan of Delhi to agent Haldi Ram of Dadri at a proforma **invoice price of 20% above cost**. Haldi Ram paid freight and other forwarding charges amounting to Rs. 2,000. He was allowed Rs. 1,000 per month towards establishment cost; Haldi Ram paid Rs. 500 as rent of godown for 3 months ended 31<sup>st</sup> March 2011. Three-fourth of the goods were sold for Rs. 66,000 half of which were credit sales. **Half of the balance of goods was stolen**, but the stock being insured, a claim lodged for Rs. 7,000 was settled for Rs. 6,900. Calculate amount of Actual value of Abnormal Loss.

**Solution:-**

Cost of Abnormal Loss =  $(1 / 8) \times [66,000 + 2,000 + 0] = \text{Rs. } 8,500$   
 Less: - Insurance Claim Received = Rs. 6,900  
 Actual Value of Abnormal Loss =  $(8,500 - 6,900) \text{ Rs. } 1,600$

**Example 13:-**

On 1<sup>st</sup> September **goods of the value of Rs. 2,64,000** were cosigned by Shyamlal of Bangalore to his agent Mahesh of Cochin at pro- forma invoice price of 20% profit on cost price. Shyamlal paid insurance and other forwarding charges on consignment amounting to Rs.10,000. Mahesh was allowed Rs. 2,000 being establishment cost. Mahesh made expenses of Rs, 2,040 as landing charges. Three-fourth of the good was sold at  $33 \frac{1}{3} \%$  profit on cost, half of which were credit sales. **On half of the balance of goods were destroyed by fire** and a claim lodged for Rs. 28,000 was settled at a discount of 10%. The balances of goods were in stock. Calculate amount of Actual value of Abnormal Loss.

**Solution:-**

Cost of Abnormal Loss =  $(1 / 8) \times [2,64,000 + 10,000 + 2,040] = \text{Rs. } 34,505$   
 Less: - Insurance Claim Received = Rs. 25,200  
 Actual Value of Abnormal Loss =  $(34,505 - 25,200) = \text{Rs. } 9,305$

**When there is both Normal and Abnormal Loss:-**

*First Abnormal Loss and then Normal Loss:-*

$$\text{Cost of Abnormal Loss} = \frac{\text{Lost (in Unit/Qty)}}{\text{Total goods sent (in Unit/Qty)}} \times \text{Total cost of goods}$$

*First Normal Loss and then Abnormal Loss:-*

$$\text{Cost of Abnormal Loss} = \frac{\text{Lost (in Unit/Qty)}}{\text{Total goods sent (in Unit/Qty) - Normal loss (in Unit/Qty)}} \times \text{Total cost}$$

**First Abnormal Loss in transit and then Normal Loss:-**

**Example 14:-**

United Breweries of Bangalore consigned 5,000 litres of liquor to Duggal Bros. of Delhi on 1<sup>st</sup> February 2011 .The goods are charged at a proforma **Invoice Value of Rs. 3,00,000 including profit of 20% on invoice value**. United breweries paid Rs. 7,500 as freight and insurance charges. **During Transit 200 liters of liquor were destroyed** for which the insurance company paid directly to the consignor Rs. 7,500 in full settlement of the claim. On 25<sup>th</sup> February Duggal Bros. paid for carriage and clearing charges Rs. 4,650. Other expense paid by the consignee was godown rent Rs. 1,800 and sales – man’s salary Rs. 1,350. On 31<sup>st</sup> March, 2011 Duggal Bros. reported that 4,000 liters were sold at Rs. 2,47,500 and **50 liters were lost due to evaporation**. Calculate the value of Abnormal Loss.



**Calculation of Abnormal Loss:-**

Value of Abnormal Loss =  $[200/5,000 \times (2,40,000 + 7,500)] = \text{Rs.}9,900$   
 Less: - Amount Received from Insurance Company =  $\text{Rs.}7,500$   
 Actual Abnormal Loss =  $9,900 - 7,500 = \text{Rs.}2,400$

**Example 15:-**

From the following details calculate Amount of Abnormal Loss:-

15,000 Litres of oil at Rs. 100 per Litre are sent by consignor to consignee. Expenses paid by consignor for Freight Rs.25,000 and insurance Rs. 20,000. 500 Litres of oil was lost in transit due to breakage of Jar. The Consignor allowed 100 Litres as Normal Loss

Value of Abnormal Loss =  $[500/15,000 \times (15,00,000 + 45,000)] = \text{Rs.}51,500$

**First Normal Loss in Transit and then Abnormal Loss in :-**

**Example 16:-**

From the following details calculate Amount of Abnormal Loss:-

15,000 Litres of oil at Rs. 100 per Litre are sent by consignor to consignee. Expenses paid by consignor for Freight Rs.25,000 and insurance Rs. 20,000. The Consignor allowed 100 Litres as Normal Loss due to leakage in transit. 500 Litres of oil was lost in Godown due to breakage of Jar.

Value of Abnormal Loss =  $[500/14,900 \times (15,00,000 + 45,000)] = \text{Rs.}51,846$

**Consignment Stock: –**

Goods which are not sold by consignee (laying in the godown) is called consignment stock

**Valuation of consignment stock:-**

**Valuation of Consignment stock (when there is no normal loss):-**

**If there is any abnormal Loss it does not affect the stock valuation because abnormal Loss is sepretaly calculated**

Cost/Invoice price of good unsold	XXXX
[Remaining unsold Stock x Rate]	
<b>Add: Proportionate expenses incurred by consignor</b>	
$\frac{\text{Unsold stock (Unit/Qty)}}{\text{Total goods send (in Unit/Qty)}} \times \text{All expenses}$	XXXX
<b>Add: Proportionate expenses incurred by consignee</b>	
$\frac{\text{Unsold stock (Unit/Qty)}}{\text{Stocks reached at consignee Godown (in Unit/Qty)}} \times \text{Direct Expenses}$	XXXX



<p><b>Expenses taken:</b> – Non Recurring or Direct Expenses Such As Clearing Charges, Delivery Charges ,Unloading charges, freight, non selling expenses, Custom Duty, Octroi, Carriage Inward, Transport Charges up to Godown.</p> <p><b>Expenses not taken:</b> – Recurring or Indirect Expenses Such as warehouse charges, insurance, brokerage, Godown Rent, commission, Wages Printing and Stationery ,advertising, expenses on goods damage or return, miscellaneous expenses, repair expenses, selling expenses ,General Expenses, Other Expenses, Expenses on Various Accounts etc.</p>	
Stock at Consignment	XXXXX

**Example 17:-**

A sent goods worth Rs. 10,000 to B and paid Rs. 1,200 for packing and Rs. 800 for insurance. B took the delivery of the goods and paid Rs. 2,000 freight, Rs. 400 for cartage and unloading, Rs. 600 for godown rent, Rs. 400 as selling expenses and Rs. 800 for insurance. B sold three-fourth of the goods for Rs. 1,800. Calculate the value of closing Stock.

Calculation of Closing Stock:-

Particulars	Rs.
Cost of 1/4 <sup>th</sup> of goods (10,000 x ¼)	2,500
Add:- Proportionate Expenses incurred by Consignor [(1,200 + 800) x 1/4 ]	500
Add:- Proportionate Expenses incurred by Consignee [(2,000 + 400) x 1/4]	600
Value of Closing Stock	3,600

**Valuation of Consignment stock (when there is normal loss):-**

<p>Cost/Invoice price of good unsold</p> <p style="text-align: right;">XXXX</p> $\frac{\text{Unsold stock (in Unit/Qty)}}{\text{Total goods sent (in Unit/Qty) – Normal loss (in Unit/Qty)}} \times \text{Total Cost}$ <p><i>Total Cost includes Cost Price of Goods + All Expenses incurred by Consignor + Direct Expenses incurred by Consignee)</i></p>	
<p><b>Expenses taken:</b> – Non Recurring or Direct Expenses Such As Clearing Charges, Delivery Charges ,Unloading charges, freight, non selling expenses, Custom Duty, Octroi, Carriage Inward, Transport Charges up to Godown.</p> <p><b>Expenses not taken:</b> - Recurring or Indirect Expenses Such as warehouse charges, insurance, brokerage, Godown Rent, commission, Wages Printing and Stationery ,advertising, expenses on goods damage or return, miscellaneous expenses, repair expenses, selling expenses ,General Expenses, Other Expenses, Expenses on Various Accounts etc)</p>	
Stock at Consignment	XXXX

**Example 18:-**

Z Conigned 2,000 kg. of vegetables costing Rs. 60,000. Expenses incurred were Rs. 6,000. If loss due to natural deterioration in quality is 20 kg. and if 1620 kg. were sold , calculate the value of stock at the end.

$$\text{Value of Closing Stock} = \left( \frac{360}{2,000 - 20} \right) \times (60,000 + 6,000) = \text{Rs.12,000}$$

**Example 19:-**

Ram consigned 2,000 tons of coal at Rs.50 per ton to Shyam of Delhi. He paid Rs. 20,000 as freight. Due to normal wastage 1,950 tons only were received by Shyam. He paid Rs. 5,000 as unloading cartage charges. Goods sold were 1,300 tons. You are required to calculate the value of Closing Stock.

$$\text{Value of Closing Stock} = \left( \frac{650}{1950} \right) \times [(2,000 \times 50) 20,000 + 5,000] = \text{Rs.41,667}$$

**Valuation of Consignment stock when there is both normal and Abnormal loss:-First Abnormal Loss and then Normal Loss**

Cost/Invoice price of good unsold	XXXX
$\frac{\text{Unsold stock (in Unit/Qty)}}{\text{Total goods sent (in Unit/Qty) - Both Normal and Abnormal loss (in Unit/Qty)}} \times \text{Total Cost minus Cost of Abnormal Loss}$	
<p><b>Total Expenses = [Cost or Invoice Price of Goods + All Expenses incurred by Consignor + Direct Expenses incurred by Consignee] - Cost of Abnormal Loss</b></p>	
<p><b>Expenses taken :-</b> Non Recurring or Direct Expenses Such As Clearing Charges, Delivery Charges ,Unloading charges, freight, non selling expenses, Custom Duty, Octroi, Carriage Inward, Transport Charges up to Godown.</p> <p><b>Expenses not taken:-</b> Recurring or Indirect Expenses Such as warehouse charges, insurance, brokerage, Godown Rent, commission, Wages, Printing and Stationery ,advertising, expenses on goods damage or return, miscellaneous expenses, repair expenses, selling expenses ,General Expenses, Other Expenses, Expenses on Various Accounts etc)</p>	XXXX
Stock at Consignment	XXXXX

**Example 20:-**

Deepak Oil Mills Cochin consigned 2,500 kg. Castrol oil to Madhu & Co. Varanasi on April 1, 1987. The cost of oil was Rs. 188 per kg. The consignor paid Rs. 900 towards carriage, freight and insurance in transit. During transit 250 kg oil was accidentally destroyed for which the insurance company paid directly to the consignor Rs. 2,200 in full settlement of the claim. Madhu & Co. took delivery of the consignment on April 10 and accepted a bill drawn on them by Deepak Oil Mills of Rs. 5,000 for 2 months. On June 30, 1987 Madhu & Co. reported that 1,750 kg were sold at Rs. 25 per kg. The expenses of the consignee were Rs. 1,850 towards godown rent advertisement and salaries of salesmen. Madhu & Co. Charged a commission of 3% plus 2% Del Credere Commission Madhu & Co. further reported a loss of 20 kg. due to leakage. Prepare necessary ledger account in the books of the consignor.

**[Abnormal Loss Rs. 4,590; Consignment Stock Rs.8,892]**

**Valuation of Consignment Stock in Transit: -**

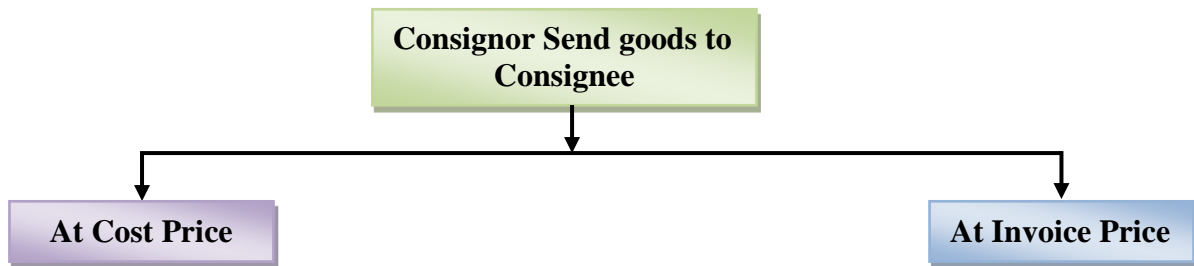
Consignment stocks in transit are valued in same way as “Consignment Stock is valued” but consignee’s expenses are not considered.

**Example 21:-**

Raj of Patna sends out 1,000 boxes to Syam of Kolkata costing Rs. 250 each. Consignor’s expenses Rs. 15,000. 1/5<sup>th</sup> of the boxes were still in transit. 3/4<sup>th</sup> of the goods received by consignee, were sold. The value of goods still in transit will be:

**[Rs. 53,000]**

**When Goods sent by Consignor to Consignee**



- When goods are sent by Consignor to Consignee at the Cost Price then Consignor prepare its Consignment A/c at the Cost Price.
- When goods are sent by Consignor to Consignee at the Invoice Price then Consignor prepare its Consignment A/c at the Invoice Price

**When Goods sent by Consignor to Consignee at Cost Price**

**In the Books of Consignor**

Consignment to .....(Name of City).....A/c [**At Cost Price**]

Dr.	Rs.	Particulars	Rs.	Cr.
To Goods Sent on Consignment A/c	xxxx	By Consignee A/c (Sale Proceeds)	xxxx	
To Bank A/c (Expenses incurred by Consignor)	xxxx	By Abnormal Loss A/c Or	xxxx	
To Consignee A/c (Expenses incurred By Consignee)	xxxx	By Insurance Company A/c ( Amount of Claim Admitted by Insurance Company)	xxxx	
To Consignee A/c (All type of Commission)	xxxx	By Profit and Loss A/c (Irrecoverable Amount of Loss)	xxxx	
To Profit and Loss A/c – Profit on Consignment transferred to General Profit and Loss A/c	xxxx	By Consignment Stock A/c	xxxx	
	<b>Total</b>			<b>Total</b>

**Consignee A/c**

Dr.	Rs.	Particulars	Rs.	Cr.
To Consignment A/c	xxxx	By Consignment A/c	xxxx	
		By Consignment A/c	xxxx	
		By Cash ( Payment as advance)	xxxx	
		By Bill of Exchange ( Mode of Payment)	xxxx	
<b>To Balance c/d ( If advance is paid )</b>	<b>xxxx</b>	By Bank ( Mode of Payment )	xxxx	
		By Balance c/d (If any payment is due but not received)	xxxx	
	<b>Total</b>			<b>Total</b>

**Amount to be Send by Consignee to consignor = Sale proceeds of goods minus Expenses incurred by consignee and commission earned (and Advance money if it is also Deposited as a Security)**

**Goods Sent to Consignment A/c**

Dr.	Rs.	Cr.	Rs.
Particulars		Particulars	
To Trading A/c – Transfer	xxxx	By Consignment to .....A/c	xxxx
	Total		Total

**Abnormal Loss A/c**

Dr.	Rs.	Cr.	Rs.
Particulars		Particulars	
To Consignment to ..... A/c	xxxx	By Insurance Company A/c	xxxx
		By Profit and Loss A/c	xxxx
	Total		Total

**Note:** – 1.Certain times Consignee sends a Bills of Exchange as payment to the Consignor. Consignor discounted the Bills of Exchange with the bank. Some Discount Charges is Charged by the bank for this service. **This “Discount Charges” is not consider as Consignment Expenses** and so it is not recorded in Consignment A/c it is normal finance expenses so it will debited in General Profit and Loss A/c

2 Expenses making on Bank Draft is a Consignment expenses and hence it is debited in Consignment A/c

3. When Consignee sends Some Money **as an Advance or Securities Deposit** and there is also some Closing Stock at Consignment. Some portion of Advance will be carried forward. It is calculated in the following manner:-

**Amount of Advance to be Carried forward:-**

$$= \text{Amount of Advance or Deposit} \times \frac{\text{Unsold stock at Consignment}}{\text{Stock Send by Consignor to Consignee}}$$

**Example 21:-**

Goods sent out on consignment Rs. 2,00,000. Consignor’s expenses Rs. 5,000. Consignee’s expenses Rs. 2,000. Cash sales Rs. 1,00,000, credit sales Rs. 1,10,000. Consignment stock Rs. 40,000. Ordinary commission payable to consignee Rs. 3,000. Del-credere commission Rs. 2,000. The amount irrecoverable from customers Rs. 2,000. What will be the profit on consignment ?

**[Rs. 38,000]**

<b>22.</b> A sent out goods costing Rs. 2,00,000 to B. Consignor’s expenses Rs. 5,000. Consignee’s Expenses in relation to sales Rs. 3000. 4/5 <sup>th</sup> of the goods were sold at 20% above cost. The profit on consignment will be:	
(a) Rs. 25,000	(c) Rs. 25,200
(b) Rs. 31,000	(d) Rs. 5,000

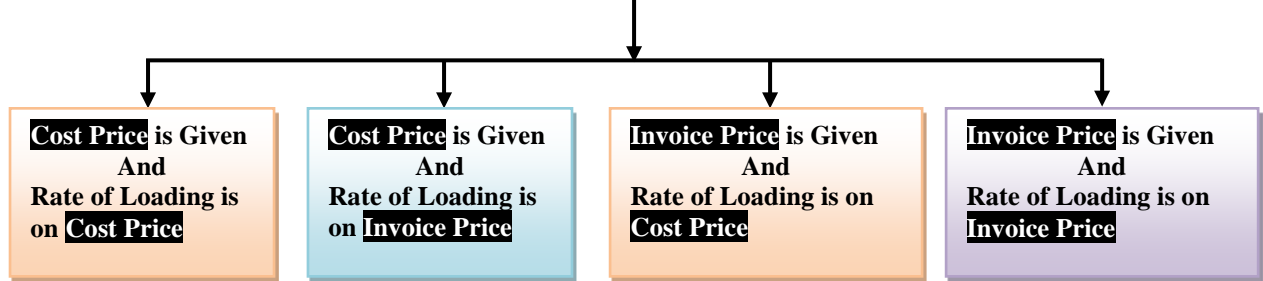
**When goods are sent by Consignor to Consignee at Invoice Price:-**

Invoice Price = Cost Price + Profit / Margin / Profit Margin / Loading

Loading = Invoice Price – Cost Price

Rate of Loading =  $\frac{\text{Loading}}{\text{Invoice Price}}$

**There are four Type of Question of Loading**



**Case 1<sup>st</sup>:-** When “Cost Price” is given =5,000

Rate of Loading = 25 % on “Cost Price”

$$\text{Loading} = 5,000 \times \frac{25}{100} = 1,250$$

Invoice Price = Cost Price + Loading = 5,000 + 1,250 = 6,250

Rate of Loading = Loading / Invoice Price = 1,250 / 6,250 = 1/5

**Case 2<sup>nd</sup>:-** When “Cost Price” is given =5,000

Rate of Loading = 25 % on “Invoice Price”

Let Invoice Price = 100

$$\text{Loading} = 100 \times \frac{25}{100} = 25$$

Rate of Loading = Loading / Invoice Price = 25 / 100 = 1/4

**Case 3<sup>rd</sup>:-** When “Invoice Price” is given =5,000

Rate of Loading = 25 % on “Cost Price”

Let Cost Price = 100

$$\text{Loading} = 100 \times \frac{25}{100} = 25$$

Invoice Price = Cost Price + Loading = 100 + 25 = 125

Rate of Loading = Loading / Invoice Price = 25 / 125 = 1/5

**Case 4<sup>th</sup>**:- When “Invoice Price” is given =5,000

Rate of Loading = 25 % on “Invoice Price”

$$\text{Loading} = 5,000 \times \frac{25}{100} = 1,250$$

Rate of Loading = Loading / Invoice Price = 1,250 / 5,000 = 1/

**Easy Rules of Relationship between Profits on Cost & Profits on Sale**

<u>Profit on Cost</u> Numerator divided by Denominator minus Numerator	<u>Profit on Sales</u> Numerator divided by Denominator Plus Numerator
<b>Minus</b>	<b>Plus</b>
20 % on Cost or 1/5 on Cost	1/6 on Sales or 16 -2/3 % on Sales
25 % on Cost or 1/4 on Cost	1/5 on Sales or 20 % on Sales
33-1/3 % on Cost or 1/3 on Cost	1/4 on Sales or 25% on Sales
50 % on Cost or 1/2 on Cost	1/3 on Sales or 33-1/3 % on Sales
66-2/3% on Cost or 2/3 on Cost	2/5 on Sales or 40 % on Sales
100 % on Cost or 1/1 on Cost	1/2 on Sales or 50 % on Sales
200 % on Cost or 2/1 on Cost	2/3 on Sales or 66-2/3% on Sales
300 % on Cost or 3/1 on Cost	3/4 on Sales or 75 % on Sales
400 % on Cost or 4/1 on Cost	4/5 on Sales or 80 % on Sales

<b>23.</b> Goods of the invoice value Rs. 2,40,000 sent out to consignment at 20% profit on cost. The Loading amount will be:	
(a) Rs. 40,000	(c) Rs. 50,000
(b) Rs. 48,000	(d) None
<b>24.</b> A invoiced certain goods so as to show a profit of 20% on invoice price 1/10 <sup>th</sup> of the goods were lost in transit. The cost price of goods loss is Rs. 40,000. The invoice value of goods sent out is:	
(a) Rs. 5,00,000	(c) Rs. 4,50,000
(b) Rs. 4,80,000	(d) Rs. 4,00,000
<b>25.</b> P Sent out goods costing Rs. 45,000 to Y at cost + 33 1/3%. 1/10 <sup>th</sup> of goods were lost in transit. 2/3 <sup>rd</sup> of goods are sold at 20% above IP. The amount of sale value will be:	
(a) Rs. 54,000	(c) Rs. 60,000
(b) Rs. 43,200	(d) Rs. 36,000
<b>26.</b> Goods Costing Rs. 1,80,000 sent out to consignee to show a profit of 20% on invoice price. Invoice price of the goods will be:	
(a) Rs. 2,16,000	(c) Rs. 2,10,000
(b) Rs. 2,25,000	(d) None



In the Books of Consignor

Consignment to .....(Name of City).....A/c [At Invoice Price]

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment Stock A/c b/d	xxxx	By Stock Reserve A/c (Loading on Opening Stock at Consignment)	xxxx
To Goods Sent on Consignment A/c	xxxx	By Goods Sent on Consignment A/c (Loading on Goods sent)	xxxx
		By Consignee A/c (Sale Proceeds)	xxxx
To Bank A/c (Expenses incurred by Consignor)	xxxx	By Abnormal Loss A/c Or By Insurance Company A/c ( Amount of Claim Admitted by Insurance Company) By Profit and Loss A/c (Irrecoverable Amount of Loss)	xxxx
To Consignee A/c (Expenses incurred By Consignee)	xxxx		
To Consignee A/c (All type of Commission)	xxxx		
To Stock Reserve A/c (Loading on Closing Stock at Consignment)	xxxx	By Consignment Stock A/c (Closing Stock of goods at Consignment)	xxxx
To Profit and Loss A/c – Profit on Consignment transferred to General Profit and Loss A/c	xxxx		
	<b>Total</b>		<b>Total</b>

Note:-

1. Calculation of Stock Reserve at Unsold Stock at Consignment: - Stock Reserve is calculated on only Invoice Price portion of unsold Stock and not on Proportionate expenses incurred by either consignor or Consignee or both

2. **When there is a “Normal Loss” and Goods are sent on Consignment at Invoice Price the Consignment Stock may be Valued at Cost Price after adding Proportionate expenses incurred by consignor and Consignee and there is no need to record Stock Reserve in Debit Side.**

Goods Sent to Consignment A/c

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment to ..... A/c		By Consignment to .....A/c	xxxx
To Trading A/c – Transfer	xxxx		
	<b>Total</b>		<b>Total</b>

Note:-

1. Cost price of “balance of Goods sent on Consignment” is transferred to Trading A/c

**Example 22:-**

Rahim of Kolkata sends out 1,000 boxes to Ram of Delhi costing Rs. 100 each at an Invoice price of Rs. 120 each. Goods send out on consignment to be credit in general trading account will be:

**[Rs. 1,00,00]**

## Some Special Important Points:-

### **1. When Damaged and Unsalable Goods are Return by Consignee:-**

- The Expenses incurred on goods return to Consignor is Consignment expenses and hence it is debited in Consignment A/c. It is recorded by Debiting Consignment A/c and Crediting Consignee Personal Account
- The goods which are return to the Consignor due to damage and Unsalable Condition is always valued at lower of Cost (Cost for Consignor or without taking effect of Loading) or Marker Price but not considering the effect of Proportionate expenses paid by Consignor or Consignee or both.
- Loss arising due to Damaged goods is generally transferred to Profit and Loss A/c Like Abnormal Loss

#### Valuation of Consignment Stock

Invoice Price of Remaining Goods	XXXX
Less:- Profit Margin or Loading	(XXXX)
Cost price of Remaining Goods	XXXX
Less Reduction in Price	(XXXX)
Value of Goods that is taken	XXXX

### **2. Fall in the Market Price of Goods:-**

- Fall in Market Price of goods means there is a permanent decline in Value of Goods and there is no chance to increase the Price of Goods
- When there is sudden fall in the market price of the goods consigned, the stock should be valued at Market Price. It is immaterial whether the goods were invoiced at Invoice Price or Cost Price

#### Valuation of Consignment Stock

Invoice Price of Remaining Goods	XXXX
Less:- Profit Margin or Loading	(XXXX)
Cost price of Remaining Goods	XXXX
Less Fall in Price	(XXXX)
Value of Goods after fall in Price	XXXX
<b>Add :- Proportionate Expenses incurred by Consignor</b>	<b>XXXX</b>
<b>Add :- Proportionate Expenses incurred by Consignee</b>	<b>XXXX</b>
<b>Value of Consignment Stock</b>	<b>XXXX</b>

Note: - In the book of Accounts of CA-CPT Proportionate expenses incurred by Consignor or Consignee has not taken.

**In the books of Consignee: - Certain times consignee also prepare its personal book. Generally consignee prepare following Ledger A/c**

**In the books of Consignee**

**Consignor Personal A/c ..... (Name of Consignor)**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bank A/c ( Expenses on Consignment)	xxxx	By Bank A/c – Cash Sale of goods	xxxx
To Commission A/c	xxxx	By Consignment Debtor A/c – Credit Sale	xxxx
To Cash ( Deposit to Consignor)			xxxx
To Bills Payable A/c ( Mode of Payment)	xxxx	By Purchase A/c – if any goods taken by consignee	
To Bank ( Mode of Payment )	xxxx		
To Balance c/d (If any payment is still due and not paid)		By Balance c/d ( if any advance is give)	
	Total		Total

**Consignment Debtors A/c**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignor Personal A/c	xxxx	By Bank – Collection from Debtors	xxxx
		By Bad Debts A/c	xxxx
	Total		Total

**Bad Debts A/c**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment Debtor A/c – Credit Sale	xxxx	By Commission A/c- If Del Credere Commission is received	xxxx
	Total		Total

**Commission Earned A/c**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bad Debts A/c	xxxx	By Consignor Personal A/c	xxxx
To Profit and Loss A/c	xxxx		
	Total		Total

**Note: - Commission Received from Consignor will be transferred to General Profit and Loss Account.**

**Bills payable A/c**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance c/d	xxxx	By Consignor Personal A/c	xxxx
	Total		Total

**The accounting treatment of consignment transaction in the books of consignor:-**

Particulars	Dr.	Cr.
<b>For the goods sent on consignment :</b>		
Consignment Account <span style="float:right">Dr.</span> To Goods sent on consignment A/c		
<b>When Goods are sent on Invoice Price then for reversing amount of Loading</b>		
Goods sent on consignment A/c <span style="float:right">Dr.</span> To Consignment A/c		
<b>For the Expenses incurred by the consignor:</b>		
Consignment A/c <span style="float:right">Dr.</span> To Cash / Bank A/c		
<b>For the advance remitted by the consignee:</b>		
Cash / Bank / Bills Receivable A/c <span style="float:right">Dr.</span> To Consignee's personal A/c		
<b>For discounting the bill or promissory note</b>		
Cash / Bank A/c <span style="float:right">Dr.</span> Discount A/c <span style="float:right">Dr.</span> To Bills Receivable A/c		
<b>For good return by the consignee:</b>		
Goods sent on Consignment A/c <span style="float:right">Dr.</span> To Consignment A/c		
<b>For gross proceeds (sale) as per account sale</b>		
Consignee's personal A/c <span style="float:right">Dr.</span> To Consignment A/c		
<b>For expenses incurred by the consignee:</b>		
Consignment A/c <span style="float:right">Dr.</span> To Consignee's personal A/c		
<b>Cash collected by consignee :</b>		
No Entry		
<b>For the commission ordinary and del-credere, deducted by the consignee,</b>		
Consignment A/c <span style="float:right">Dr.</span> To Consignee's personal A/c		
<b>For bad debts for the consignment debtors</b>		
<b>(a) when del- credere commission is not allowed:</b>		
Consignment A/c <span style="float:right">Dr.</span> To Consignee's personal A/c		
<b>(b) when del- credere commission is allowed:</b>		
No Entry		

<b>For the goods taken by the consignee :</b>		
Consignee's Personal A/c To Consignment A/c	Dr.	
<b>For the remittance made by the consignee on settlement</b>		
Cash / Bank / Bills Receivable A/c To Consignee's A/c	Dr.	
<b>For unsold stock on consignment (at cost)</b>		
Consignment stock A/c To Consignment A/c	Dr.	
<b>For Abnormal Loss of Goods</b>		
Abnormal Loss (Stock Destroyed Account) To Consignment A/c	Dr.	
<b>If the abnormal loss is recoverable from the insurance Co.</b>		
Insurance company A/c To abnormal loss A/c	Dr.	
<b>If abnormal loss is not recoverable :</b>		
Profit And Loss A/c To consignment A/c	Dr.	
<b>If the claim is recovered by the consignee:</b>		
Consignee's personal A/c To consignment A/c	Dr.	
<b>For profit on consignment :</b>		
Consignment A/c To Profit & Loss A/c	Dr.	
<b>For Loss on consignment:</b>		
Profit & Loss A/c To consignment A/c	Dr.	
<b>For transferring the amount of Goods sent on consignment account:</b>		
Goods sent on consignment A/c To Trading / Purchase A/c	Dr.	

**Accounting treatment in consignee's Books.**

Consignment is not equivalent to a sale with the result that consignee is not the debtors (whether the goods are consigned at cost price or selling price) until the sale are made by him. Thus no entry is made when the goods are received by him on consignment. The scheme of Journal entry in consignee's books is as under:

	Dr.	Cr.
<b>On making Cash Sale of goods on behalf of consignor</b>		
Cash / Bank A/c <span style="float:right">Dr.</span> To Consignor's Personal A/c		
<b>On making Credit Sale of goods on behalf of consignor</b>		
Consignment Debtors A/c <span style="float:right">Dr.</span> To Consignor's Personal A/c		
<b>For expenses incurred by consignee and for his commission</b>		
Consignor's Personal A/c <span style="float:right">Dr.</span> To Bank (for expense / Commission) A/c		
<b>Advance paid or bill accepted by Consignee:</b>		
Consignor's Personal A/c <span style="float:right">Dr.</span> To Bank / Bill payable A/c		
<b>On Final Settlement of Dues</b>		
Consignor's Personal A/c <span style="float:right">Dr.</span> To Bank / Bills payable A/c		
<b>For Recording Bad Debts</b>		
Bad Debts A/c <span style="float:right">Dr.</span> To Consignment's Customers or Debtors A/c		
<b>For writing off Bad Debts</b>		
<b>(a) when Del-credere commission is not allowed :</b>		
Consignor's Personal A/c <span style="float:right">Dr.</span> To Bed Debts A/c		
<b>(b) when del-credere commission is allowed :</b>		
Commission A/c <span style="float:right">Dr.</span> To Bad Debts A/c		
The Net balance of Commission Account is transferred to Profit and Loss Account of consignee because actual commission is the profit for the consignee.		
<b>For Unsold Stock laying with consignee</b>		
<b>No entry is made in the books of consignee for unsold Stock</b>		

## Important Points:

- Consignment Account is Nominal Account because it is prepared to find out Profit or loss of each Consignment.
- The nature of Consignment account is Revenue in Nature
- The Consignment accounting is made on the “Accrual basis of accounting”.
- In the Books of Consignor , the profit and loss on Consignment business will be transferred to “General Profit and Loss”
- Consignment Account is prepared in books of Consignor
- A Performa invoice is sent by Consignor to Consignee at the time of sending goods.
- If consignor draws a bill on consignee and discounted it with the banker the discounting charges will be debited in General Profit and Loss A/c and not in Consignment Account.
- Consignment Stock will be recorded in the Balance Sheet of consignor on Assets side at “Invoice Value less Stock Reserve”.
- Expenses making on Bank Draft is a Consignment expenses and hence it is debited in Consignment A/c
- One point which is common in Consignment and Sale is “Outflow of Stock”
- The principal (Consignor) does not send an invoice to the agent. He sends only a Performa Invoice, a statement that looks like an invoice but in really it is not an invoice. The object of Performa Invoice is only to convey information to the agent regarding particulars of the goods sent.
- Usually, the agent recovers from the principal all Expenses incurred by him on the consignment. This norm can be changed by agreement between the two parties.
- Normally consignment account has no opening balance so normally there is no Stock Reserve for opening balance.
- If Del – Credere commission is allowed to Consignee for bad debts, Consignee will debit Bad Debts in Commission Earned Account.
- The owner of Consignment stock is consignor
- Consignee sends to Consignor Account Sale which contains the information like –sales made, Expenses incurred on behalf of consignor, Commission earned, an advance (if given) and the balance due to consignor
- Stock lost due to inherent quality or characteristics of the commodities is “Normal Loss”.
- Stock lost due to Fire, Theft, Flood, and Accident is Abnormal Loss.
- The balance of Goods send out on consignment will transfer to “General Trading Account”.
- The commission received from Consignor will transfer to “General Profit and loss Account” in Consignee books
- The risk of stock on consignment lies with consignor

<b>28.</b> A sends 1000 units @ Rs. 56 to be sold on consignment basis. Consignor expenses amounted to Rs. 1000. 50 units were lost in transit. Find the new price per unit. (Loss is unavoidable)	
(a) Rs. 50 per unit	(c) Rs. 58.95 per unit
(b) Rs. 60 per unit	(d) Rs. 57 per unit
<b>29.</b> A consigned 1000 liters of coconut oil @ 50% per Lt. to B. The normal loss is estimated at 5%. The profit was fixed at 14% on the total cost. What is the sale price per liter?	
(a) Rs. 57	(c) Rs. 70
(b) Rs. 60	(d) Rs. 55
<b>30.</b> 10,000 liters of oil were consigned to a wholesale the cost being Rs. 100 per liter by incurring freight Rs. 8,000. 10% of loss of oil unavailable. 8,000 liters were sold by the consignee. The remaining stock of 1000 liters will be value at	
(a) Rs. 1,12,000	(c) Rs. 1,00,800
(b) Rs. 1,11,111	(d) Rs. 1,00,000