UNIT 12 CONSIGNMENT ACCOUNTS-III

Structure

12.0 OBJECTIVES

After studying this unit you should be able to:

- explain the meaning of invoice price and the reasons for consigning goods at invoice price
- compute cost price and invoice price in different situations
- explain the meaning sf loading and pass necessary entries for its adjustment in consignment account
- prepare books of the consignor and the consignee based on invoice price

12.1 INTRODUCTION

In Units 10 and 11 you have learnt about the recording of transactions relating to consignments in books of both the consignor and the consignee. You know that the goods sent on consignment are recorded in Consignment Accaunt at cost price. Sometimes, the consignor does not want to reveal the cost of goods to the consignee and, therefore, invoices the goods at a price which is higher than the cost price. Such price is known as 'invoice price' and the difference between the invoice price and the cost price is called 'loading'. In such a situation, the entry for goods sent on consignment is also recorded at the invoice price which would need an adjustment for loading at the time of computing the profit on consignment. In this unit you will learn how Consignment Account is prepared when the goods are consigned at invoice price and how the necessary adjustments are made at the time of working out the profit on consignment. You will also learn how the invoice price is calculated when the loading is given in the form of a percentage at the cost price or the invoice price.

12.2 CONCEPTS OF INVOICE PRICE

In Unit 11 you learnt that when the consignor sends goods on consignment to the Consignee, he records it in his books at cost and the same is reflected in the proforma invoice. Sometirnes, the consignor does not want the consignee to know the actual cost of goods sent to him, in that case he would consigne the goods at a price other than the cost price. Such price would generally be higher than the cost. It is called the invoice price. In other words the invoice price is equal to the cost price plus a certain amount of profit.

Apart from the intention of not revealing the cost of goods to the consignee there are a number of other reasons why the consignor consignes the goods at invoice price. These are the:

i) The consignee will not be able to assess the profit earned on consignment and therefore may not demand a higher commission.

ii) If the consignee knows about the actual cost of goods he may resort to some dishonest practices such as buying goods for himself at a lower price and then selling them at a higher price in the market.

iii) It would give a fair idea to the consignee of the minimum price at which he is to sell the goods.

You should note that invoice price is not the same thing as selling price. The invoice price is the price at which the consignor sends the goods to the consignee, whereas the selling price is the price at which the consignee sells the goods to the customers. Let us take an example in order to clearly understand the difference between the three prices i.e., the cost price, the invoice price and the selling price. Suppose Gopal consigns goods worth Rs. 15,000 to his agent Ashok at an invoice price of Rs. 18,000. Ashok sells the goods at Rs. 20,000. In this example the cost price (CP) of the goods is Rs. 15,000, the invoice price (IP) of the goods is Rs. 18,000, and the selling price (SP) of the goods Rs. 20,000.

You will observe that the IP is higher than CP whereas SP is higher than the CP as well as the IP, and that the SP and the IP are not the same. If, however, the Consignor directs the consignee to sell the goods at invoice price itself, then the SP and the IP will be the same.

3123 CALCULATION OF COST PRICE AND INVOICE PRICE

You know the relationship between the invoice price (IP) the cost price (CP) and the profit. This can be expressed in the form of an equation as follows.

$$IP = CP + Profit$$

With the help of the above equation, you can find out the missing figure i.e., if any two figures are given the third one can be worked out. For example, if the CP is given as Rs. 150 and the profit as Rs. 50, the invoice price will be

$$\begin{aligned} IP &= CP + Profit \\ &= 150 + 50 \\ &= \text{Rs. } 200 \end{aligned}$$

Similarly, if invoice price and profit are given as Rs. 200 and Rs. 50 respectively, the cost price will be

$$\begin{aligned} IP &= CP + Profit \\ 200 &= CP + 50 \\ CP &= 200 - 50 \\ &= \text{Rs. } 150 \end{aligned}$$

In the above examples, the profit is given as an absolute figure. But, in many cases the profit may be given in the form of a percentage either on cost price or on invoice price. In that case, the calculation of missing price may become difficult. Of course, if the percentage of profit is based on the price, the figure of which is given, you may not face much problem. But if the percentage of profit is based on the price, the figure of which is not given, you may find it difficult to work out the profit and so also the missing price. Let us take different situations where the profit is given in the form of a percentage and we have to work out the missing price. These situations are :

1 CP is given and Profit is given as a percentage of CP, you have to work out IP
2 CP is given and Profit is given as a percentage of IP, you have to work out IP
3 IP is given and Profit is given as a percentage of IP, you have to work out CP
4 IP is given and Profit is given as a percentage of CP, you have to work out CP

Let us take them one by one and find out the missing figure with the help of examples.

1 **CP is given and the profit is given as a percentage on CP**

Suppose the CP of a product is Rs. 200 which is invoiced at 20% profit on cost. The IP will be calculated as follows.

$$IP = CP + Profit$$

$$IP = 200 + \left(\frac{20}{100} \times 200\right)$$

$IP = 200 + 40$
$IP = Rs.\ 240$

2 **CP is given and the profit is given as percentage on IP**
Suppose CP of a product is Rs. 200 which is invoiced at 20% profit on IP. IP will be calculated as follows.

Let us assume that the IP is X
IP = CP + Profit

$$X = 200 + \left(\frac{20}{100} \times X\right)$$
$$X = 200 + \frac{20}{100}X$$
$$X - \frac{20}{100}X = 200$$
$$\frac{100X - 20X}{100} = 200$$
$$\frac{80}{100}X = 200$$
$$X = \frac{200 \times 100}{80} = Rs.\ 250$$

So the IP is Rs. 250 and the Profit is Rs. 50. Now you can verify that the profit is 20% on invoice Price.

$$\text{Profit} = \frac{20}{100} \text{ of IP}$$
$$= \frac{20}{100} \times 250$$
$$= Rs.\ 50$$

3 **IP is given and the profit is given as percentage of IP :** Suppose the IP of a product is Rs. 500 and Profit is ***25%*** on ***IP.*** The missing figure **i.e.,** the CP is worked out **as** follows.

$$IP = CP + \text{Profit}$$
$$500 = CP + \frac{25}{100} \times 500$$
$$500 = CP + 125$$
$$CP = 500 - 125$$
$$CP = Rs.\ 375$$

4 **IP is given and the profit is given as a percentage of CP: Suppose** the IP is Rs. 600 and Profit is 20% on CP then CP will be calculated as follows.

Let us assume CP to be X

$$IP = CP + \text{Profit}$$
$$600 = X + \frac{20}{100}X$$
$$600 = \frac{100X + 20X}{100}$$
$$600 = \frac{120}{100}X$$
$$X = \frac{600 \times 100}{120}$$
$$X = Rs.\ \mathbf{500}$$

So the CP is Rs. 500 and Profit is Rs. 100. Now you can verify that the profit is 20% on cost.

$$\text{Profit} = \frac{20}{100} \times CP$$
$$= \frac{20}{100} \times 500$$
$$= Rs.\ 100$$

12.4 LOADING

12.4.1 What is Loading?

You know that the invoice price is obtained by adding a certain amount of profit to the cost price. The amount of profit which is added to the cost in order to arrive at the invoice price is called loading. In other words, loading is the difference between the invoice price and the cost price

Loading = IP – **CP**

For example, if the invoice price is Rs. 10,000 and the cost price is Rs. 7,500, the amount of loading will be

Loading = IP – CP or Number of units × (IP per unit – CP per unit)
= 10,000 – 7,500
= Rs. ***2,500.***

If the invoice price or the cost price is given and the profit (loading) is given in the form of a percentage either on IP or CP, the loading can be worked out directly in the same manner as we worked out the IP or CP in the examples under sub-section **12.3.**

12.4.2 Items which Involve Loading

Loading is usually involved in all such items which are recorded at the invoice: price in the Consignment Account. These items are:

1 Opening Stock
2 Goods Sent on Consignment
3 Goods Returned by the Consignee
4 Closing Stock.

You have to compute the loading in respect of all the above items and make necessary adjustments in books of the consignor.

12.4.3 Adjustment of Loading

You know the profit is the difference, between selling price and cost price. In Consignment Account prepared earlier, the goods sent on consignment and the other related items were shown at cost. Hence you had no problem in computing the profit. But, when the goods sent on consignment and other related items are shown in the Consignment Account at invoice price, it becomes necessary to adjust the loading in the Consignment Account so as to bring down the invoice price to the level of cost. If such adjustment is not done, the profit figure will be incorrect. There is also a possibility that the Consignment Account shows loss because the difference between the selling price and the invoice price is generally small which cannot cover all expenses. Look at figure **12.1** and see the difference between the actual profit and the profit without adjustment. The profit thus calculated will be the difference between sales and invoice price.

Figure 12.1

	Rs.		
Cost price	15,000		
Invoice Price	18,000	Rs. 3,000 Loading	
Sale Price	20,000	**Rs. 2,000 Profit Without Adjustment**	Re. 5,000 Actual Profit

From Figure 12.1 it is clear that if no adjustment is made the profit will be Rs. 2,000 whereas the actual profit is Rs. 5,000 Therefore, in order to calculate the actual profit earned on any consignment all the items shown at invoice price are to be brought down to the level of cost by adj sting the amount of loading on each of them. Let us now take the items involving loading one by one and see how the necessary adjustments are made.

I **Opening Stock** : Opening stock is always shown on the debit side of Consignment Account, In case the stock is shown at invoice price, the difference between the invoice price and the cost price of the stock will he shown on the credit side of the Consignment Account by passing the following journal entry.

Stock Reserve A/c - Dr
To Consignment A/c
(Being unloading on opening stock)

2 Goods Sent on Consignment : Goods sent on Consignment are shown on the debit side of Consignment Account. In order to nullify the effect of invoice price, the difference between the invoice price and the cost price in respect of goods sent on consignment will be shown on the credit side of the Consignment Account by passing the following journal entry.

Goods Sent on Consignment A/c Dr.
To Consignment A/c
(Being unloading on goods sent on consignment)

3 **Goods** Returned **by** the consignee : As the return of goods is shown on the credit side of Consignment Account, the adjustment for the loading will be made on the debit side of consignment Account with the help of the following journal entry

Consignment A/c Dr.
To Goods Sent on Consignment A/c
(Being loading on goods returned)

4 **Closing Stock** : Since closing stock is shown on the credit side of Consignment Account, the adjustment for the loading will be made on the debit side with the help of the following journal entry.

Consignment A/c **Dr.**
To Stock Reserve
(Being unloading on closing stock)

Thus you will observe that the adjustment entry for loading in the Consignment Account is made on the opposite side of the original entry. For example the closing stock is shown on the credit side of the Consignment Account whereas its adjustment is shown on the debit side of the Consignment Account. This is how the effect of loading in Consignment Account is neutralised and the invoice price is brought down to the cost level. You should remember that the adjustment for loading is to be made in the books of the Consignor only. The consignee does not record any entries for the items involving loading. Therefore no adjustment is needed in his books.

Check Your Progress A

1 Indicate whether the following statements are True or False.

i) Consignor always consigns goods at invoice price ....
ii) Sending goods at invoice price shall result in less profit in the Consignment Account, if no adjustment is made for the loading. ....
iii) Invoice price is always equal to selling price. ....
iv) Consignor consigns the goods at invoice price to conceal the actual profit earned on consignment. ....
v) Loading on closing stock will be nullified by debiting Stock Reserve Account and crediting Closing Stock Account. ....
vi) All the entries of adjustment for loading are recorded in the books of consignee. ....

2 What is Loading ?

....

....

....

3 Name the items that involve loading.

....

....

....

4 Work out the following problems :

i) Cost price of a fan is Rs. 500 and loading is Rs. 100. What is the invoice price. ..

ii) Cost price of a watch is Rs. 150. It is consigned at $33\frac{1}{3}\%$ above cost. Find out the invoice price.

iii) Cost price of a bicycle is Rs. 500. It is invoiced at a profit of 20% on invoice price. What is the invoice price?

iv) A ceiling fan is consigned at an invoice price of Rs. 250. Invoice price is cost plus a profit of 10% on the invoice price. What is the cost price.

v) Invoice price of a chair is Rs. 300 which is 20% above cost. Find out its cost price.

5 Find out the loading in the fallowing cases :

i) Goods costing Rs. 1,800 are invoiced at Rs. 2,200.

ii) Cost price Rs. 600 invoiced at a profit of 20% above cost

iii) Cost price is Rs. 600 invoiced at a profit of 20% on invoice price.

iv) Invoice price is Rs. 600 involving profit of 20% on invoice price.

v) Invoice price is Rs. 600 involving profit of 20% above cost.

12.5 ACCOUNTING FOR GOODS SENT AT INVOICE PRICE

You have learnt about the concept of invoice price, the calculation of loading involved and the adjustment entries to be passed in respect of all items involving loading. As for the recording of transactions for goods consigned at invoice price, the treatment in books of the consignee is not affected at all. Even in the books of the consignor all entries remain the same. But, the amounts with which the four items involving loading (opening stock, goods sent on consignment, goods returned by the consignee, and closing stock) will reflect the invoice price. Then, at the time of working out the profit on consignment, you will have to pass the necessary adjustment entries for the loading involved in respect of all the four item as stated earlier. Look at illustrations 1 to 4 and see how various consignment transactions have been recorded when goods are invoiced at the invoice price.

Illustration 1

Ages Cycle Co., Delhi sent 100 bicycles on January 1,1987 to Murugan Enterprises, Madras. The cost of each bicycle was Rs. 500 and it was invoiced at Rs. 600. Ages Cycle Co. incurred Rs. 2,000 on freight and insurance and received Rs. 30,000 as advance from Murugan Enterprises. Murugan Enterprises paid Rs. 1,000 as octroi and carriage, Rs. 800 as rent and Rs. 600 as insurance. By June 30, 1987 they had sold 100 bicycles for Rs. 62,500. Murugan Enterprises are entitled to a commission @ 10% on the proforma invoice price and 20% of any surplus realised over and above the invoice price. Murugan Enterprises remitted the amount due from them by a bank draft.

You are required to prepare ledger accounts in the books of both parties

Solution :

Books of Ages Cycle Co.

Consignment to Madras Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1987		Rs.	1987		Rs.
Jan. 1	To Goods Sent on Consignment A/c (IP)	60,000	Jan.30	By Murugan Enterprises (Sales)	62,500
" 1	To Bank (Expenses)	2,000	" 30	By Goods Send on Consignment A/c (Loading)	10,000
" 30	To Murugan Enterprises (Consignee's expenses)	2,400			
" 30	To Murugan Enterprises (Commission)	6,500			
" 30	To Profit & Loss A/c (Profit transferred)	1,600			
		72,500			72,500

Murugan Enterprise's Account

Dr.					Cr.
1987		Rs.	1987		Rs.
Jan.30	To Consignment to Madras A/c (Sales)	62,500	Jan.1	By Bank A/c (Advance)	30,000
			Jan.30	By Consignment to Madras A/c (Expenses)	2,400
			"	By Consignment to Madras A/c (Com.)	6.500
			"	By Bank A/c (Balance)	23.600
		62,500			62,500

Goods Sent on Consignment Account

1987			1987		Rs.
June 30	To Consignment to Madras A/c (Loading)		Jan.1	By Consignment to Madras A/c (IP)	60,000
" 30	To Trading A/c	50,000			
		60,000			60,000

Books of Murugan Enterprises

Ages Cycle Co. Account

Dr.					Cr.
1987		Rs.	1987		Rs.
Jan. 1	To Bank A/c (Advance)	30,000	June30	By Bank A/c (Sales)	62.500
" 1	To Bank A/c (Expenses)	2,400			
June 30	To Commission A/c	6,500			
" 30	To Bank A/c (Balance)	23,600			
		62,500			62,500

Commission Account

1987		Rs.	1987		Rs.
June30	To Profit and Loss A/c	6,500	June30	By Ages Cycle Co.	6,500

Working Notes

1	**Loading on** Goods Sent on Consignment	Rs.
	Total cost of 100 bicycles (500 x 100)	50,000
	Total Invoice price of 100 bicycles (600 x 100)	60,000
	Loading involved (IP–CP)	10,000
2	Commission	Rs.
	10% on Proforma Invoice Price of Rs. 60,000	6,000
	20% on Surplus realised (Rs. 2,500)	500
		6,500

3 Since there are no opening and closing stocks and the goods returned by the consignee, the adjustment for loading has been made only in respect of the goods sent on consignment.

Illustration 2

Raj Traders of Ludhiana consigned 100 computers costing Rs. 20,000 each to Bahadur of Gauhati at 10% above cost. Raj Traders incurred Rs. 500 for packing and other charges on each computer. The consignee received the consignment by paying Rs. 1,500 for railway charges, Rs. 1,300 for 'insurance and Rs. 200 for carriage. He submitted an Account Sales as follows:

20 Computers sold at Rs. 25,000 each for cash
50 Computers sold on credit at Rs. 30,000 each
10 taken for his own stock at Rs. 25,000 each

Consignee remitted the balance after deducting his commission at 10% on sales. Assuming that original entries are made at invoice price and consignment stock is valued at invoice price, write necessary accounts in the books of Raj Traders.

Solution:

Books of Raj Traders

Consignment to Gauhati Account

Dr. Particulars	Amount	Particulars	Cr. Amount
	Rs.		Rs.
To Goods Sent on Consignment A/c (IP)	22,00,000	By Bahadur (Sales)	22,50,000
To Bank A/c (Consignor's expenses)	50,000	By Consignment Stock A/c (IP)	4,50,600
To Bahadur (Consignee's expenses)	3,000	By Goods Sent on Consignment A/c 'Loading on goods sent)	2,00,000
To Bahndur (Commission)	2,25,000		
To Stock Reserve A/c (Loading on closing stock)	40,000		
To Profit & Loss A/c (Profit transferred)	3,82,600		
	29,00,600		29,00,600

Goods Sent on Consignment Account

	Rs.		Rs.
To Consignment A/c (Loading)	2,00,000	By Consignment A/c (IP)	22,00,000
To Trading A/c	20,00,000		
	22,00,000		22,00,000

Bahadur of Gauhati Account

	Rs.		Rs.
To Consignment A/c (Sales proceeds)	22,50,000	By Consignment A/c (Expenses)	3,000
		By Consignment A/c (Commission)	2,25,000
		By Balance c/d	20,22,000
	22,50,000		22,50,000

Stack Reserve Account

	Rs.		Rs.
To Balance c/d	40,000	By Consignment A/c (Loading)	40,000

Working Notes

1 **Calculation of Invoice Price per computer**

Cost price of each computer — Rs. 20,000

Invoice price 10% above the cost price

Invoice price = Cost price + 10% of cost price

$$= 20,000 + \frac{10}{100} \times 20,000$$

$$= 20,000 + 2000$$

$$= \text{Rs. } 22,000$$

2 **Calculation of closing stock** While calculating closing stock proportionate nun-recurring expenses are added, as you learnt in the previous unit.

		Rs.
Total invoice price of 20 computers (Rs. 22,000 x 20)		4,40,000
Add: proportionate non-recurring expenses by the		
Consignor	50,000	
Consignee	3,000	
	53,000	
proportionate expenses (Rs. 53,000 x 20/100)		10,600
		4,50,600

3 **Calculation of loading :**

Invoice price per computer	22,000
Cost price per computer	20,000
Loading (IP–CP) per computer	2,000

a) Total loading on goods sent on consignment of 100 computers (2,000 x 100) = Rs.2,00,000

b) Total loading on closing stock of 20 computers (200 × 20) = Rs. 40,000

Illustration 3

Ram Das of Hyderabad consigned goods costing Rs. 72,000 to Prakash of Cochin at a pro-forma invoice price which is cost plus a profit of 1/6th on invoice price. The consignor paid Rs. 1,800 as insurance and other charges. Prakash received the goods and paid Rs. 3,000 for freight and other charges. He was allowed 3% commission on gross sales. Three fourths of the goods were sold at $33\frac{1}{3}$% profit on cost, half of which were credit sales. Half of the balance was stolen, but the stock being insured, a claim was lodged for Rs. 8,000 and was settled for Rs. 7,000. Balance of stock was valued at proforma invoice price. Write up the Consignment and the Abnormal Loss Accounts.

Solution :

Consignment to Cochin Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goods Sent on Consignment A/c	86,400	By Prakash (Sales)	72,000
To Bank A/c (Consignor's expenses)	1,800	By Abnormal Loss A/c	9,600
To Prakash [Freight and other charges)	3 000	By Consignment Stock A/c (Unsold stock)	11,400
To Prakash (Commission on Sales)	2,160		
To Stock Reserve A/c (Loading on closing stock)	1,800	To Goods Sent on Consignment A/c (Loading)	14,400
To Profit & Loss A/c (Profit transferred)	12,240		
	1,07,400		1,07,400

Abnormal Loss Account

	Rs.		Rs.
To Consignment to Cochin A/c	9.600	By Bank A/c (Insurance)	
		By Profit & Loss A/c (Balance transferred)	2.600
	9,600		9,600

Working Notes

1 **Invoice Price of the Goods Sent:**

Cost price (CP) of the Goods: Rs. 72,000

IP = CP + Profit

Let IP be X .

$$X = 72,000 + \frac{1}{6}X$$

$$X - \frac{1}{6}X = 72,000$$

$$\frac{6X - X}{6} = 72,000$$

$$\frac{5X}{6} = 72,000$$

$$X = 72,000 \times \frac{6}{5} = \text{Rs. } 86,400$$

2 **Sale of price of 3/4 of the goods:** $\left(\frac{3}{4}\text{th of the goods sold at a profit of } 33\frac{1}{3}\% \text{ on cost}\right)$

CP of 3/4th goods (72,000 × 3/4) = Rs. 54,000

Add $33\frac{1}{3}\%$ of cost as profit = Rs. $\frac{18,000}{72,000}$

$\left(54,000 \times \frac{100}{300}\right)$

Sales = Rs. 72,000

3 . Value of **closing stock:**

Invoice Prince of Goods Consigned	Rs. 86,400
IP of stock left unsold (86,400 × 1/14)	Rs. 21,600
Less IP of the goods a lost in transit (21,600 × 1/2)	Rs. 10,800
IP of stock with the consignee after the loss (21,600 – 10,800) .	Rs. 10,800
Add proportionate expenses (1/8 x 4.800)	600
Value of closing stock	11,400

4 ***Cost of Goods Lost*** **(Abnormal Loss)** Goods lost is half of the goods unsold i.e.,

1/2 × 1/ 4 = 1/8th of goods consigned

CP of abnormal loss (1/8 × 72,000)	0,000
Add proportionate non-recurring expenses (1/8 × 4,800)	600
Cost of Abnormal Loss	9,600

5 **Loading on Closing Stock :**

	Rs.
IP (1/8 of 86,400)	10,800
CP (1/8 of 72,000)	9,000
Loading	1,800

Illustration 4

Verma Bros. of Bombay consigned goods at the invoice price of Rs. 1,00,000 which is 25% above cost price, to their agent Kabir Agency, Ahmedabad. The consignor incurred Rs. 5,000 for carriage and freight and Rs. 3,500 for insurance. Verma Bros. received Rs. 25,000 as advance against the consignment.

The consignee is allowed 3% commission on **all** sales. Any goods taken by the consignee himself or lost through consignee's negligence shall he valued at cost plus $12\frac{1}{2}\%$ and no commission would be allowed on them. The consignee sold 4/5th of the goods consigned for Rs. 1,40,000. Goods of the invoice price of Rs. 10,000 were taken by the consignee and the remaining goods were lust through his negligence. The consignee paid Rs. 2,500 for advertisement and selling expenses. Prepare necessary accounts in the books of the consignor.

Solution:

Consignment to Ahmedabad Account

Dr. Particulars		Particulars	Cr. Amount
			Rs.
To Goods Sent on Consignment A/c	1,00,000	By Kabir Agency (Sales)	1,40,000
To Bank A/c (Expenses)	8,500	By Kabir Agency	9,000
To Kabir Agency (Consignee's expenses)	2.500		
To Kabir Agency (Commission)	4,200	By Kabir Agency (Stock lost).	9,000
To Profit & Loss A/c (Profit transferred)	62,800	By Goods sent on Consignment A/c (Loading)	20,000
	1,78,000		1,78,000

Kabir's Account

	Rs.		Rs.
		By Bank A/c (Advance)	25,000
To Consignment to Ahmedabad A/c (Sales)	1,40,000	By Consignment to Ahmedabad A/c (Expenses)	2,500
To Consignment to Ahmedabad A/c	9,000	By Consignment to Ahmedabad A/c (Commission)	4,200
To Consignment to Ahmedabad A/c (Balance)	9,000	By Balance c/d	1,26,300
	1,58,000		1,58,000

Working Notes

1 **Calculation of CP of Goods Consigned** IP of the Goods Sent is Rs. 1,00,000 which is *25%* above cost.

The CP shall be calculated as follows.

$$IP = CP + P\ (25\%\ \text{on}\ CP)$$

Let CP be X

$$1,00,000 = X + \frac{25}{100}X$$

$$1,00,000 = X + \frac{1}{4}X$$

$$1,00,000 = \frac{4X + X}{4}$$

$$1,00,000 = \frac{5X}{4}$$

$$\text{or}\ \frac{5X}{4} = 1,00,000$$

$$5X = 1,00,000 \times 4$$

$$X = \frac{1,00,000 \times 4}{5}$$

$$X = 80,000$$

$$CP = \text{Rs.}\ 80,000$$

2 **Value of goods taken by the consignee**

IP of goods taken = Rs. 10,000

CP of goods taken

$$= \text{Rs.}\ 8,000\left(10,000 \times \frac{4}{5}\right)$$

These are to be valued at cost plus $12\frac{1}{2}\%$ on cost. Hence, its value will be

= 8000 + 1000

= Rs. 9,000

3 Value of goods lost due to Consignee's negligence It will be worked in the same manner as the value of goods taken by the consignee.

12.6 LET US SUM UP

Sometimes, in order to conceal the actual profit earned on consignment the consignor invoices the goods to the consignee at a price which is higher than the cost. This is called invoice price (IP). The difference between the'invoice price (IP) and the cost price (CP) is called loading. This affects four items shown in the Consignment Account viz, (i) goods sent on consignment (ii) goods returned by the consignee (iii) opening consignment stock, and (iv) closing consignment stock. In order to work out the actual profit, the effect of loading on all these items has to be nullified, otherwise the Consignment Account will show profit w .ich is less than the profit actually earned.

L ing can be found out by subtracting CP from IP. The calculation of loading is simple w en both CP and IP are given. But it needs special attention when the loading is given as a p centage of CP or IP and only the figure of IP or CP is given. In such a situation, the formula IP = CP+P is used for the calculation of loading or the cost price, invoice price whichever is not given. For the adjustment of loading involved in different items, we have to pass the necessary journal entries in the books of the consignor. However, the hooks of the consignee are not affected by loading because his books do not include any entry in respect of the four items involved.

12.7 KEY WORDS

Invoice Price : The price at which the consignor invoices the **goods** to **the consignee.** It is usually higher than cost.

Loading: Difference between the invoice price and the cost price.

12.8 SOME USEFUL BOOKS

Maheshwari, S.N. 1986. *Introduction* to *Accounting,* Vikas publishing House: New Delhi: (Chapter 1 Section II)

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting,* R. Chand & Co. New Delhi. (Chapter 2)

William Pickles. 1982. *Accountancy,* E.L.B.S. and Pitman: London. (Chapter 17)

Gupta R.L. and M. Radhaswamy. 1986. *Advanced Accountancy,* Sultan Chand & Sons: New Delhi. (Chapter 15)

12.9 ANSWERS TO CHECK YOUR PROGRESS

1 i) False ii) True iii) False iv) True v) False vi) False

2 Difference between IP and CP

3 i) goods sent on consignment
ii) goods returned by the consignee
iii) opening consignment stock
iv) (closing consignment stock

4 i) Rs. 600
ii) Rs. 200

iii) Rs. 625
iv) Rs. 225
v) Rs. 250

5 i) Rs. 400
ii) Rs. 120
iii) Rs. 150
iv) Rs. 120
v) Rs. 100

12.110 TERMINAL QUESTIONS/EXERCISES

Questions

1 What do you understand by invoice price? Give reasons for consigning the goods at the invoice price.

2 What is loading? How do you compute it? Give examples.

3 Name items which are recorded at the invoice price in the Consignment Account. Give journal entries passed for the adjustment of loading in respect of each item.

Exercises

1 Vijay & Co. of Kolhapur consigned 2,000 bicycles on July 18.1988 to Chaudhari of Madras for sale on the following conditions.

a) Cycles may be sold at invoice price or above.
b) Chaudhari is entitled to a commission of $7\frac{1}{2}$% on invoice price of goods sold and 20% on any excess over the invoice price.

The cost of each cycle was Rs. 300 and it was invoiced at cost plus $33\frac{1}{3}$% at cost. Vijay & Co. incurred Rs. 20,000 on freight and insurance. Chaudhari received the consignment on July 14, and accepted a 3 months bill drawn on him by Vijay & Co. for Rs. 2,00,000. Chaudhari paid Rs. 8,000 as custom duty and Rs. 5,000 as insurance and rent for the godown. They sold 1,600 cycles at Rs. 500 each; Give ledger accounts as they would appear in the books of Vijay & Co. and Chaudhari.

(Answer: Profit Rs. 2,12,600; Stock at invoice price Rs. 1,65,600 Amount due from Shri Chaudhary Rs. 5,07,000)

2 On June 10,1987, Raj & Co. of Bombay consigned 100 cases of Red Wine to Singham Bros. of Ceylon. The cost of the consignment amounted to Rs. 7,500 but the goods were charged at proforma invoice price so as to show a profit of 25% on invoice price. On the same date, the consignors paid Rs. 600 for freight and insurance. On July 1, the consignees paid Rs. 1,000 for import duty, Rs. 200 for dock dues, and remitted a bank draft for Rs. 4,000 as an advance against the consignment. On July 15, they sold 80 cases for Rs. 10,500. Singham Bros. are entitled to a commission of 5% on gross proceeds of sales as their remuneration. Show the entries in the books of the consignor and the consignee, assuming that the consignee has remitted the balance due from them by draft.

(Answer : Profit Rs. 2,535; Value of stock Rs. 2,360)

3 Modi Textiles, Delhi consigned to Vinod Enterprises, Calcutta 100 cotton bales. The invoice price of each bale was Rs. 1,500 which includes 20% profit on invoice price. The consignor paid Rs. 2,500 for insurance and Rs. 4,000 for carriage and freight. The consignee received cotton bales and sold 75 bales for cash and realised Rs. 1,12,500. He incurred Rs. 1,800 on godown rent and was allowed 10% commission on sales. 5 cotton bales were spoiled in godown and they are to be valued at 50% depreciation. Show Consignment Account in the books of Modi Textiles.

Hint: The damaged goods are also to be included in stock and they will be valued at 50% of the invoice price and the proportionate expenses.

(Answers: Profit Rs. 1412; Value of stock Rs. 35,212 (including Rs. 3,912 for damaged goods); Amount due from the consignee Rs. 99,450)

4 On January 1, 1988 the Consignment to Ceylon A/c in the books of Unique Clock Makers showed a debit balance of Rs. 3,750. This is represented by the invoice value of 50 clocks which is 25% above cost.

On January 7, they sent another consignment of 2,500 clocks at the invoice price of Rs. 75 each which was 25% above cost. They paid Rs. 1,000 for packing, Rs. 500 for insurance and Rs. 3,000 for carriage and freight. Rama watch Co., the consignee received the clocks on January 21 and paid Rs. 3,000 for custom duty, clearing, etc. They also sent a bank draft for 50% of the invoice price of the goods received. On June 15, they returned 50 clocks which were found defective.

By December 31, 1988 they sold the opening stock of 50 clocks at Rs. 85 each on credit and 2,400 clocks of the new consignment at Rs. 90 each. Their expenses were: advertising Rs. 2,000 salaries Rs. 2,000 and service charges Rs. 250.

The consignee is entitled to a commission of 8% on sales. The consignee could not recover Rs. 250 on account of credit sales. Show the necessary ledger accounts in the books of both the parties.

(Answer: Profit Rs. 43,780; Value of closing stock Rs. 3,900; Amount due from consignees Rs. 1,01,630)

5 A of Agra consigned 100 units of a commodity to D of Delhi. The goods were invoiced at Rs. 150 per unit so as to yield a profit 50% on cost. A incurred Rs. 1,000 on freight and insurance D incurred Rs. 500 on freight and Rs. 800 on rent. Before December 31, 1988 he sold 50 units for cash at Rs. 160 per unit and 20 units on credit for Rs. 175 per unit. He retained his commissions at 5% and 1% del credre on all sales and remitted the balance on December 31, 1988. D noticed that 10 units were damaged on account of bad packing and could sell them only for Rs. 80 per unit. A debtor for Rs. 1,000 to whom goods were sold on credit became insolvent and only 50 paise in a rupee could be recovered. Prepare necessary ledger accounts in the books of A and D.

(Answer: Profit Rs. 1,960; Abnormal Loss Rs. 398; Value of stock Rs. 3,300)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.