Hints:

i) Discount will not be debited to consignment Account
ii) Bad Debts will be borne by the Consignee and debited to his commission account.
iii) Del Credre commission is computed on total sales.

(Answer: Profit on consignment Rs. 27,300; Amount due from consignee Rs. 2,04,050.)

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.

UNIT 11 CONSIGNMENT ACCOUNTS-II

Structure

11.0 OBJECTIVES

After studying this unit you should be able to:

- record consignment transactions directly in the ledger accounts of the consignor and the consignee
- compute the value of unsold stock
- explain the nature of normal and abnormal losses
- compute the value of unsold goods in case of normal loss
- explain the treatment of normal and abnormal losses of goods and their impact on profit.

11.1 INTRODUCTION

In Unit 10 you learnt about the basic accounting framework relating to the goods sent on cohsignment basis i.e., the entries to be passed in the books of consignor and the consignee. You know the method of working out the profit on each consignment when all goods are sold out. In practice you will find that at the time of submitting the Account Sales, some goods may remain unsold. Then, there is also a possibility of loss while the goods are in transit or while they are lying in the godown of the consignee. Such loss may occur due to normal or abnormal causes. In this unit you will learn how the value of unsold goods is worked out and recorded in books of account. You will also learn about the treatment of normal and abnormal losses which may take place in transit or in the godown of the consignee and their impact on valuation of stock and the profit on consignment.

11.2 DIRECT RECORDING IN THE LEDGER

You know for each consignment the consignor prepares the consignment Account, the Goods Sent on Consignment Account and the Consignee's Account in his books, whereas the consignee prepares the Consignor's Account and the Commission Account in his books. In Unit 10 you learnt that all transactions relating to consignment are first recorded in the Journal and then posted into the above mentioned ledger accounts. Sometimes, you may be asked to prepare the ledger accounts directly i.e., without passing any journal entries. You should therefore learn how to prepare these accounts directly.

You should debit the Consignment Account with the cost of goads consigned, expenses incurred by the consignor, expenses incurred by the consignee and the consignee's commission; and credit it with sales (both cash and credit) and the goods returned by the consignee. The Consignee's Account will be debited with the sales made by him and credited with his expenses, commission and the remittances made to the consignor.

The Consignor's Account in the books of consignee is just the reverse of Consignee's Account in Consignor's books. It is debited with the expenses incurred by the consignee, the commission due to him and the remittances made to the consignor on account; and credited with the total amount of sales.

Look at Illustration I and see how the consignment transactions are recorded directly in the ledger accounts.

Illustration 1

Gursharan & Co. of Delhi consigned on January 1, 1988, 50 cases of glassware costing Rs. 40.000 to Singh & Co. of Calcutta for sale on commission @ 5% on gross sale proceeds. Gursharan & Co. paid Rs. 500 for freight and carriage and Rs. 600 for packing.

Singh & Co. took the delivery of goods on January 5, 1988 and paid Rs. 300 for clearing charges, Rs. 200 for carriage, Rs. 50 for miscellaneous expenses, and Rs, 100 for godown rent.

They sold 15 cases @ Rs. 1,000 each, 25 cases @ Rs. 1,200 each and 10 cases @ Rs. 1,100 each.

On April 5, 1988 Singh & Co. sent a bank 'draft for Rs. 15,000 to Gursharan & Co. on account, On April 10, 1988 Singh & Co. forwarded an Account Sales together with a bill of exchange for the balance due.

Prepare the necessary ledger accounts in the books of both the parties.

Solution

Books of Gursharan & Co.

Consignment to Singh & Co's Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 1	To Goods Sent on Consignment A/c	40,000	Apr.10	By Singh & Co. (Sales)	56,000
" 1	To Bank A/c Freight and Carriage 500 Packing 600	1,100			
Apr.10	To Singh & Co. (Expenses) Clearing charges 300 Carriage 200 Misc. Expenses 50 Godown Rent 100	650			
" 10	To Singh & Co. (commission)	2,800			
" 10	To Profit & Loss A/c (Profit transferred)	11,450			
		56,000			56,000

Goods Sent on Consignment Account

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Apr.10	To Trading A/c	40,000	Jan. 1	By Consignment to Singh & Co. A/c	40,000

Singh & Co's Account

1988		Rs.	1988		Rs.
			Apr. 5	By Bank A/c	15,000
Apr. 10	To Consignment to Singh & Co. A/c	56,000	" 10	By Consignment to Singh & Co. A/c (Expenses)	650
			" 10	By Consignment to Singh & Co. A/c (Commission)	2,800
			" 10	By Bills Receivable A/c (Balance)	37,550
		56,000			56,000

Uooks of Singh & Co

Gursharan & Co's Account

Dr.					Cr.
1988		Rs.	1988		Rs.
Apr. 5	To Bank A/c	15,000	Apr. 10	By Bank A/c (Sales)	56,000
" 10	To Cash A/c (Expenses)	650			
" 10	To Commission A/c	2,800			
" 10	To Bills Payable A/c	37,550			
		56,000			56,000

Commission Account

1988		Rs.	1988		Rs.
Apr. 10	To Profit & Loss A/c	2,800	Apr. 10	By Gursharan & Co. A/c	2,800

11.3 UNSOLD STOCK

In Illustration 1 you saw that Singh & Co. sold all the goods consigned to them. But, in practice, you will find that at the time of submitting the account sale, a part of goods consigned will still be unsold arid will be lying with tlie consignee. In order to calculate tlie true profit or loss on consigninent the unsold stock should be valued and accounted for. Let us therefore learn first how the unsold stock is valued.

11.3.1 Valuation of Unsold Stock

You know that valuation of unsold stock is usually done at cost. Cost in case of consignment stock would include the cost at which the goods are consigned plus the proportionate non-recurring expenses i.e., all those expenses incurred till the goods reach the godown of the consignee. You should note that all non-recurring expenses, whether incurred by the consignor or by the consignees, are to be taken into account. In the absence of details of expenditure incurred by the consignee, all expenses incurred by him are to be taken as recurring expenses and thus are not to be considered in the calculation of closing stock. In other words, while valuing the closing stock we add such proportionate expenses to the cost price that have been incurred upto the time the goods are brought to the plnce of the consignee. Any other expenses paid by the consignor or the consignee after this point will not be considered, as these expenses do not add to the value of the goods. Such expenses are godown rent, selling expenses, carriage outwards, godown insurance, discount etc.

Following expenses are usually added for calculation of closing stock.

Carriage and Freight
Loading Charges
Customs Duty
Clearing Charges
Dock dues
Carriage paid upto the godown
Unloading Charges

Following are the expenses which are not considered for calculation of closing stock

Godown Rent
Discount
Bad Debts
Insurance of the goods in the godown
Selling and Distribution Expenses.

You will notice that all expenses incurred by the consignor are considered for valuation of the closing stock. The problem arises only in case of consignee's expenses. The consignee's expenses which are to be included in the value of closing stock are those expenses which are incurred till the goods reach the godown of the consignee. Any other expenses incurred thereafter are ignored for purposes of closing stock valuation.

Look at Illustration 2 and see how the unsold stock is valued.

Illustration 2

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 for freight, Rs. 400 for cartage and unloading, Rs. 600 for godown rent, Rs. 400 as selling expenses and Rs. R00 for insurance, B sold three fourth of the goods for Rs, 1,800. Calculate the value of closing stock.

Solution

1. Coat of Unsold Stock:		Rs. 2,500	(1/4 of 10,000)
2. Non-recurring Expenses :			
	Incurred by Consignor	Ks, 2,000	(1,200 + 800)
	Incurred by Consignee	Rs. 2,400	(2.000 + 400)
		Rs. 4,400	

3 Value of Closing Stock :

Cost of Unsold stock + $\left(\text{Non-recurring Expenses} \times \frac{\text{Cost of Unsold Stock}}{\text{Cost of Goods Consigned}}\right)$

= Rs. 2.500 + (4,400 × 2,500/10,000)

= Rs. 2.500 + 1,100

= Rs. 3,600

Note : The godown rent, selling expenses and insurance being recurring expenses have not been included in tne value of closing stock

11.3.2 Accounting Treatment of Unsold Stock

Since the value of unsold stock affects the profit or loss on any consignment, its valuation and recording In the books of consignor is very important, It is shown on the credit side of Consignment Account for which the following journal entry will be passed.

Consignment Stock A/c	Dr.
To Consignment A/c	
(Being the value of closing stock)	

The Consignee, however, will not pass any entry for the closing stock. It is because he is not the owner of the goods and does not pass any entry even when he receives or returns the goods,

Look at Illustration 3 and see how the closing stock is valued and treated in the books of account.

Illustration 3

On January 1,1988 Universal Sports, Delhi consigned 180 cases of sports goods costing Rs. 360 each to Gemini Sports, Bombay. They paid Rs 360 for insurance nnd Rs. 1,800 for freight. Gemini Sports are entitled to a commission of 10% on gross sales.

Gemini Sports received the consignment on January 15 and sent a 60 days bill for Rs 10,000 Io Universal Sports. The bill was discounted for Rs. 9,900.

On opening the cases the consignee found 10 cases of wrong description and returned them, paying return freight of Rs 400.

Gemini Sports sold 120 cases @ Rs 600 each for cash and 20 cases @ Rs. 700 each on credit. Gemini Sports spent Rs. 720 on clearing charges and Rs. 600 on carriage outwards. They incurred bad debts amounting to Rs 400. The accounts were settled on June 30, and the balance remitted by cheque. Show necessary ledger accounts in the books of both the parties.

Solution

Books of Universal Sports, Delhi

Consignment Account

Dr. Cr.

Date	**Particulars**		Amount	Date	Particulars		Amount
1988			Rs.	1988			Rs.
Jan 1	To Goods Sent on Consignment A/c		64,800	Jan. 15	By Goods Sent on Consignment A/c (Returns)		3,600
" 1	To Bank A/c (Expenses)						
	Insurance	360					
	Freight	1,800	2,160	June 30	By Gemini Sports		
					Cash Sales	72,000	
					Credit Sale	14,000	86,000
" 15	To Gemini Sports (Freight on goods returned)		400	" 30	By Consignment Stock A/c		11,280
June 30	To Gemini Sports (Expenses)						
	Clearing Charges	720					
	Carriage Outwnrd		1,320				
" 30	To Gemini Sports (Bad Debts)		400				
" 30	To Gemini Sports (Commission)		8,600				
" 30	To Profit & Loss A/c (Profit transferred)		23,200				
			1,00,880				1,00,880

Gemini Sports Account

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
June 30	To Consignment A/c (Sales)	86,000	Jan. 15	By Bills Receivable A/c (Advance)	10,000
			" 15	By Consignment A/c (Freight on returns)	400
			June 30	By Consignment A/c (Expenses)	1,320
			" 30	By Consignment A/c (Bad Debts)	400
			" 30	By Consignment A/c (Commission)	8,600
			" 30	By Bank A/c	65,280
		86,000			86,000

(foods **Sent on Consignment** Account

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 15	**To Consignment A/c**	3,600	Jan. 1	By **Consignment A/c**	64,800
June 30	To Trailing A/c	61,200			
		64,800			64,800

Hooks of Gemini Spurts

Universal Sports Account

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		
Jan. 15	To Bills payable A/c	10,000	June 30	By Cash A/c (Cash Sales)	72,000
" 15	To Cash A/c (Freight on returns)	400	" 30	By Debtors A/c (Credit Sales)	14,000
June30	To Cash A/c (Expenses)	1,320			
" 30	To Debtors A/c (Bud Debts)	400			
" 30	To Commission A/c	8,600			
" 30	To Bank A/c	65,280			
		86,000			86,000

Commission Account

1988		Rs.	1988		Rs.
June 30	To Profit & Loss A/c	8,600	June 30	By Universal Sports	8,600

Working Notes

1 **Closing Stock Valuation** :

$$\text{Number of Closing Units} \times \text{Cost Price Per Unit} + \left(\text{Non-recurring Expenses} \times \frac{\text{Closing Stock Units}}{\text{No. of Units Consigned}}\right)$$

= 30 × 360 + (2,880 × 30/180)
= 10,800 t 480
= Rs. 11,280.

(Nan-recurring Expenses include all the expenses of consignor and clearing charges paid by the consignee)

2 **Goods Returned to the Consignor** : The goods returned are to be valued at Cost Price only. They should not include any other expenses. However, all the expenses incurred by the consignee to return the goods should be considered as the expenses on that consignment. So the Consignment Account is debited and the Consignee's Account is credited with the amount of expenses incurred on returns.

Check Your Progress-A

1 Tick the correct alternative

a) The cost of consignment stock is the cost at which the goods are consigned plus
   i) the non-recurring expenses'
   ii) proportionate non-recurring,expenses
   iii) all the recurring expenses

b) Non-recurring expenses are the expenses incurred
   i) after the goods reach the godown of the consignee
   ii) in transportation
   iii) till the goods reach the godown of the consignee

c) Consignment stock is shown on
   i) credit side of Consignee's Account
   ii) credit side of Consignment Account
   iii) debit side of Consignor's Account ,

d) Goods returned by the consignee should be charged to the Consignment Account at
   i) cost price
   ii) market price
   iii) cost or market price whichever is lower

e) Expenses incurred in forwarding the defective goods should be debited to
   i) Profit and Loss Account
   ii) Consignment Account
   iii) Goods Sent on Consignment Account

11.4 LOSS OF GOODS

Under Consignment arrangement, when goods are transferred from one place to another, there is a possibility of loss in transit. The loss can also take place in the godown of the consignee. The loss may occur due to factors like evaporation, leakage, mishandling etc., or due to some accident or theft. Such losses can be broadly divided into two types.

a) Normal Loss and
b) Abnormal Loss.

Let us discuss the exact nature of these losses and their accounting treatment,

11.4.1 Normal Loss

It is a loss which is due to the inherent nature of the goods consigned. It may arise in the process of loading and unloading of goods, breaking of bulk pieces into smaller ones, weighing or due to evaporation, processing, etc. For example while loading or unloading or weighing coal, some part is bound to fall down in powdered form. Similarly the petroleum products are bound to loose weight due to evaporation or leakage. This type of loss is unavoidable. It can be reduced to some extent but cannot be eliminated altogether. Since this loss occurs in the ordinary course of business and is on account of inner characteristics of the goods, it is called a normal loss.

Nonnal loss is not shown separately in the books of accounts. The cost of normal loss is spread over the remaining units, thereby increasing the cost per unit of the goods. For example 10,000 tons of coal is sent on consignment costing Rs. 100 each. The normal wastage is 2% i.e., 200 tons. Let us see how normal loss leads to an inflated cost price per unit.

Total Cost of 10,000 = Rs. 10,00,000 (10,000 X 100)
Total units = 10,000 tons
Normal Loss = 200 tons
Remaining units = 9,800 tons

Rs. 10,00,000 will now be the cost of 9,800 tons as the cost of normal loss is borne by the remaining units. The cost per unit will therefore be 10,00,000/9,800 = Rs. 102.04 approximately.

As stated earlier, **no separate entry is passed for the normal loss. The effect of this is reflected in the valuation of closing stock only.**

If the consignee is able to sell all the goods so that there is no stock left unsold, the question of normal loss becomes irrelevant. The problem arises only when some goods are left unsold with the consignee. In that case we shall first calculate the inflated cost per unit as explained above, and then the closing stock shall be valued by multiplying the number of units in stock with the inflated cost per unit. The value of closing stock can also be computed directly (without calculating the inflated cost per unit) with the help of the following formula.

$$\text{Total Cost of Goods Consigned} \times \frac{\text{Unsold Units}}{\text{Remaining Units}}$$

Look at Illustration 4 and see how the closing stock is valued when there is normal loss.

Illustration 4

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 charges. Goods sold were 1,300 tons. You are required to calculate the value of closing stock.

Solution

	Rs.
Cost of 2,000 tons of coal at Rs. 50 per ton	1,00,000
Add:	
Freight paid by the Consignor	20,000
Unloading charges paid by the consignee	5,000
Total Cost of Goods	1,25,000

Unsold **units**:	Tons.
Total Units	2,000
Units Lost	50
Remaining Units	1,950
Units Sold	1,300
Units Unsold	650

Value of Closing **Stock**:

		Rs.
Cost of 2,000 tons	=	1,25,000
Cost of 1,950 (2,000 – 50) tons	=	1,25,000

Inflated Cost per ton $= \frac{1,25,000}{1,950}$ = Rs. 64.10

Value of Closing Stock = Number of unsold units × Inflated cost per unit
= 650 × 64.10
= 41.665 approx.

Alternatively

Total Cost of Goods Consigned × $\frac{\text{Unsold Units}}{\text{Remaining Units}}$

= Rs. 125,000 × $\frac{650}{1,950}$

= Rs. 41,667

11.4.2 Abnormal Loss

The loss which occurs due to negligence, inefficiency or some accident is treated as abnormal loss. For example loss of goods due to fire, floods, earth quakes, riots. war, theft etc. Such a loss does not occur on account of inherent nature of the product but on account of the operation of certain external forces.

Abnormal loss is calculated in the same manner as the value of closing stock. In other words in order to calculate the abnormal loss all the proportionate non-recurring expenses incurred upto the point of loss are also added to the cost of abnormal loss units. The formula for calculation of abnormal loss is as follows:

Cost of Abnormal Loss Units=

Na of Abnormal Loss Units x Cost Per Unit +

Non-recurring Expenses upto the point of loss x $\frac{\text{No. of Abnonnal Loss Units}}{\text{No. of Units Consigned}}$

Since the abnormal loss is not incidental to the consignment, it should be shown separately in the books of accounts. The total abnormal loss is credited to the Consignment Account. The following entry is passed in the books of the consignor.

Abnormal Loss A/c Dr.
To Consignment A/c
(Being loss on account of ...)

Such an abnormal loss may be
i) Uninsured
ii) Partially Insured
iii) Fully Insured

i) **When the loss is Uninsured:** In case the abnormal loss is not insured with an insurance company, the total amount of the loss is transferred to Profit & Loss Account by passing the following entry.

Profit & Loss A/c Dr.
To Abnormal Loss A/c
(Being Abnormal Loss transferred to P&L A/c)

ii) When the loss is partially insured: In case the abnormal loss is insured and the claim is admitted for a part of the loss then the following entry is passed

Insurance Company's A/c	Dr.
Profit & Loss A/c	Dr.
To Abnormal Loss A/c	
(Being partial claim admitted)	

Insurance Company will be debited with the amount of claim admitted and only the balance amount (total loss minus the claim) is transferred to Profit & Loss Account.

iii) When the toss is fully insured: In case the loss is fully insured and the total 'claim' is admitted by the insurance company, the following entry will be passed.

Insurance Company's A/c	Dr.
To Abnormal Loss A/c	
(Being claim fully admitted)	

Nothing is transferred to the Profit & Loss Account as the claim for the whole amount of loss had been admitted by the insurance company. No loss is to be borne by the Consignor,

Look at Illustration 5 and see how abnormal loss is calculated and treated in the books of accounts.

Illustration 5

Philips Radio Company consigned 100 transistors to their agent Paul Radios, Delhi. The cost price of each transistor is Rs. 75. The consignors 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 Rs. 190 for clearing charges, Rs. 95 for cartage, Rs. 250 on godown rent and Rs. 150 as selling expenses. They sold all the units at Rs 100 each. Paul Radios are entitled to 5% commission on total sales. The balance due was remitted by way of a bank draft. Calculate the abnormal loss and prepare necessary ledger accounts in the books of both the parties.

Solution

Abnormal Loss = Number of Abnormal Loss Units x Cost Price Per Unit + on-recurring expenses before loss x $\left(\frac{\text{Abnormal Loss Units}}{\text{Total Units}}\right)$

$= 5 \times 75 + (650 \times 5/100)$

$= 375 + 12.50$

= Rs. 407.50 say Rs. 4.08

Books of Philips Radio Company

Consignment Account

Dr. | **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Goods Sent on Consignment A/c	7,500		By Abnormal Loss A/c	408
	To Bank A/c (Expenses)	650		By Paul Radios (Sales)	9,500
	To Paul Radios (Expenses)	685			
	To Paul Radios (Commission)	475			
	To Profit & Loss A/c (Profit transferred)	598			
		9,908			9,908

Paul Radio's Account

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Consignment A/c (Sales)	9,500		By Consignment A/c (Expenses)	685
				By Consignment A/c (Commission)	475
				By Bank A/c	8,340
		9.500			0,500

Goods Sent on Consignment A/c

		Rs.			Rs.
	To Trading A/c	7,500		By Consignment A/c	7,500

Abnormal Loss Account

		Rs.			Rs.
	To Consignment A/c	408		By Insurance Company's A/c	300
				By Profit & Loss A/c	108
		408			408

Books of Paul Radios

Philips Radio's Account

Dr. Cr.

		Rs.			Rs.
	To Bank A/c (Expenses)	685		By Bank A/c (Sales)	9,500
	To Commission A/c	475			
	To Bank A/c	8,340			
		9,500			9,500

Commission Account

		Rs.			Rs.
	To Profit & Loss A/c	475		By Philips Radios	475

Effect of abnormal loss on valuation of closing stock: The value of closing stock is also effected in case of abnormal loss. Abnormal loss may occur either in the godown of the consignee or in transit. Let us see the effect of abnormal loss on the closing stock under both situations,

When the abnormal loss occurs in the godown of the consignee the valuation of closing stock is not effected because the expenses incurred after reach the godown of the consignee are not to be taken into account for the purpose. Hence, the normal formula will be followed for the valuation of closing stock. Look at Illustration 6 and see how the abnormal Ioss and the value of closing stock is calculated when the abnormal loss occurs in the godown of the consignee.

Illustration 6

Vanaspati Ltd. consigned 5,000 kg, of vanaspati ghee to Ashoka Dealers, Chandigarh. Each kg. of ghee costs Rs. 8. Vanaspati Ltd. paid Rs 50 for carriage, Rs. 250 for packing and Rs. 200 for insurance in transit.

After three months from the date of the consignment of goods Ashoka Dealers reported that 3,500 kg. of ghee was sold @ Rs. 9.50 per kg. and expenses were Rs. 500 on godown rent and Rs. 750 on salesmen salary. Ashoka Dealers are entitled to a commission of 5% on sales 500 kg. of ghee was accidentally destroyed in the godown. Insurance claim of Rs. 3,500 was admitted. Prepare the necessary ledger accounts in the books of both the parties.

Solution:

Books of Vanaspati Ltd.

Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Goods Sent on Consignment A/c	40,000		By Abnormal Loss A/c	4,050
	To Bank A/c (Expenses)	500		By Ashoka Dealers (Sales)	33,250

	Rs.		Rs.
To Ashoka Dealers (Expenses)	1,250	By Consignment Stock A/c	8,100
To Ashoka Dealers (Commission)	1,662		
To Profit & Loss A/c	1,988		
	45,400		45,400

Ashoka Dealer's Account

	Rs.		Rs.
To Consignment A/c (Sales)	33.250	By Consignment A/c (Expenses)	1,250
		By Consignment A/c (Commission)	1,662
		By Balance C/d	30,338
	33,250		33.250

Goods Sent on Consignment **Account**

	Rs.		Rs.
To Trading A/c	40,000	By Consignment A/c	40,000

Abnormnl Loss Account

	Rs.		Rs.
To Consignment A/c	4,050	By Insurance Company's A/c	3,500
		By Profit & Loss A/c	550
	4,050		4,050

Note: Abnormal loss has been worked out as follows:

Cost of 500 units = 4,000
(500 × 8)
Add Proportionate
non-recurring expenses = 50
(500/5,000 × 500) = 4,050

Books of Ashokn Dealers

Vanaspati Ltd's Account

Dr.			Cr.
	Rs.		Rs.
To Bank A/c (Expenses)	1,250	By Bank A/c (Sales)	33,250
To Commission A/c	1,662		
To Balance c/d	30,338		
	33,250		33,250

Commission Account

	Rs.		Rs.
To Profit & Loss A/c	1,662	By Vannspnti Ltd.	1,662

You have learnt that when abnormal loss occurs in the godown of the consignee the closing stock valuation is not affected. But it is not so when the abnormal loss occurs in transit. The closing stock valuation is also affected due to abnormal loss in transit because some non-recurring expenses may be incurred after the loss has taken place. Hence, when such loss occurs in transit, you will have to distinguish between the non-recurring expenses incurred before the loss and the non-recurring expenses incurred after the loss. The non-recurring expenses incurred before the loss relate to the total units consigned whereas the non-recurring expenses incurred after the loss relate to the remaining units (total units'rninus abnormal loss units) only. So, the expenses before the loss will be proportionately divided amongst the total units, whereas the expenses incurred after the loss will be proportionately divided amongst the remaining units.

Look at Illustration 7 and see how closing stock and abnormal loss are calculated and treated when such a loss occurs in transit.

Illustration 7

On June 10,1988, Modi & Co., Patiala consigned 500 cases of goods costing Rs. 150 each to Sethi & Co., Calcutta. On the same date, the consignor paid Rs. 2,500 for freight and carriage, Rs. 1,000 as loading charges, and Rs. 1,200 for insurance. On July 1, 1988 the consignee paid Rs. 1,800 for clearing charges, Rs. 1,750 for warehousing and storage charges, and Rs. 900 for packing and selling expenses. He also remitted a bank draft for Rs. 15,000 as an advance against the consignment. On July 5, 1968 they sold 275 cases at Rs. 200 each. Sethi & Co. are entitled to 5% commission on the gross proceeds of sales. It is found that 50 cases have been lost in transit. Sethi & Co submitted an account sale on July 10, 1988. Prepare the necessary ledger accounts in the books of the consignor.

Solution

Books of Modi & Co

Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
June 10	To Goods Sent on Consignment A/c (500 cases)	75,000	July 10	By Sethi & Co. (Soles 275 cases)	55,000
" 10	To Bank A/c (Consignor's Expenses)	4,700	" 10	By Abnormal loss A/c (Loss in transit 50 cases)	7,970
			" 10	By Consignment Stock A/c	28,595
July 10	To Sethi & Co. (Consignee's Expenses)	4,450			
" 10	To Sethi & Co. (Commission)	2,750			
" 10	To Profit & Loss A/c (transfer of profit)	4,665			
		91,565			91,565

Sethi & Co. Account (Consignee)

1988		Rs.	1988		Rs.
July 10	To Consignment A/c (Sale proceeds)	55,000	July 1	By Bank A/c (Advance)	15,000
			" 10	By Consignment A/c (Consignee expenses)	4,450
			" 10	By Consignment A/c (Commission)	2,750
			" 10	By Balance c/d	32,800
		55,000			55,000

Goods Sent on Consignment Account

1988		Rs.	1988		Rs.
July 10	To Trading A/c	75,000	June 10	By Consignment A/c	75,000

Notes:

1 **All** expenses incurred by the consignor and the clearing charges incurred by the consignee are non-recurring expenses.

2 Abnormal Loss:

Number of Abnormal Loss Units x Cost Price Per Unit

$$+\left(\text{Non-recurring Expenses up to the point of loss} \times \frac{\text{Abnormal Loss Units}}{\text{Total Units Consigned}}\right)$$

$$= (50 \times 150) + \left(4{,}700 \times \frac{50}{500}\right)$$

$$= 7{,}500 + 470 \quad = \quad \text{Rs. } 7{,}970$$

3 Valuation **of** Closing Stock:

Number of Closing Units = 175

Cost Price Per Unit = Rs. 150

So, Cost of Unsold stock will be = 175 x 150 = Rs. 26,250

Non-recumng expenses before loss = Rs. 4,700
(2,500 + 1,000 + 1,200)

Since these expenses are incurred on total consignment i.e., 500 units, the proportionate amount of expenses for consignment stock will be

$$4{,}700 \times \frac{175}{500} = \text{Rs. } 1{,}645$$

Non-recurring expenses after loss = Rs. 1,800 i.e., clearing charges of the consignee, as they are incurred after the consignment reaches the consignee they would relate to 450 units (500–50). Hence, the proportionate amount of these expenses for consignment stock will be 1,800 × 1751450 = Rs. 700

Now the value of closing stock will be as follows:

Cost of unsold stock (175 x 1150)	= Rs. 26,250
Add proportionate Expenses	
i) before loss	= Rs. 1,645
ii) After loss	= Rs. 700
Value of Unsold stock	= Rs. 28,595

The above method of valuation of closing stock can be put in the form of a formula which is as follows:

Number of Unsold Units × Cost price per unit

$$+ \text{Non-recurring expenses before loss} \times \frac{\text{Unsold Units}}{\text{Total Units}}$$

$$+ \text{Non-recurring expenses before loss} \times \frac{\text{Unsold Units}}{\text{Total Units} - \text{Abnormal Loss Units}}$$

11.4.3 Where Normal and Abnormal Losses Occur Simultaneously

In the Illustration done earlier you had either the normal loss or the abnormal loss on the consignment. But it is quite possible that both normal and abnormal losses occur simultaneously in connection with the same consignment. In such a situation, the abnormal loss will be calculated in the same manner as discussed in sub-section 11.4.2. But, the valuation of closing stock needs special attention as the normal loss is also involved. In order to calculate the value of closing stock the following procedure will be followed:

i) Take the total cost of goods consigned and add all the non-recumng expenses incurred by the consignor as well as the consignee.

ii) Deduct the quantity and cost of abnormal loss from the total number of goods consigned and the cost as obtained in (i) above respectively.

iii) Deduct the quantity of normal loss from the quantity worked out in (ii) above without making any adjustment in cost.

iv) Now you will be left with the cost of goods of the good units with the consignee. Calculate cost per unit of these-units by dividing the cost (remaining after deducting the cost of abnormal loss) by the number of good units.

v) Multiply the number of unsold units with the cost per unit obtained in (iv) above to arrive at the value of unsold stock.

Look at Illustration 8 and *see* how cost of abnormal loss and the value of unsold stock are calculated when the normal and abnormal losses occur simultaneously.

Illustration 8

Deepak Oil Mills, Cochin consigned 2,500 kg. of castor oil to Madhu & Co., Varanasi on April 1, 1987. The cost of oil was Rs. 18 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 Rs. 2,200 in full settlement of the claim directly to the consignor.

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 credre commission. Madhu & Co. further reported a loss of 20 kg. due to leakage. Prepare the necessary ledger accounts in the books of the consignor.

Books of Deepak Oil Mills

Consignment Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goods Sent on Consignment A/c (2,500 kg)	45,000	By Madhu & Co. (Sale proceeds of 1,750 kg.)	43,750
To Bank A/c (Consignor's expenses)	900		
To Madhu & Co. (Consignee's expenses)	1,850	By Abnormal Loss A/c (250 kg)	4,590
To Madhu & Co. (Commission 3%) = 1,313 (Del credre 2%) = 875	2,188	By Consignment Stock A/c	8,892
To Profit & Loss A/c (Balance)	7,294		
	57.232		57,232

Abnormal Loss Account

	Rs.		Rs.
To Consignment A/c (Sales)	4,590	By Bank A/c (Amount from Insurance Co.)	2,200
		By Profit & Loss A/c (Balance)	2.390
	4,590		4,590

Madhu & Co. Account

	Rs.		Rs.
To Consignment A/c	43,750	By Consignment A/c (Expenses)	1,850
		By Consignment A/c (Commission)	2,188
		By Bank A/c (Advance)	5,000
		By Bnlance	34,712
	43,750		43,750

Goods Sent on Consignment Account

	Rs.		Rs.
To Trading A/c	45,000	By Consignment A/c	45,000

Working Notes:

i) Abnormal Loss

Number of Abnormal Loss Units x Cost Price Per Unit

$$+ \left(\text{Non-recurring expenses before loss} \times \frac{\text{Abnormal Loss Units}}{\text{Total Units}}\right)$$

$$= (250 \times 18) + \left(900 \times \frac{250}{2,500}\right) = 4,500 + 90 = \text{Rs. } 4,590$$

ii) Value of Closing Stock

	Number of Units	Cost
Total Quantity and Cost of Oil	2,500	45,000
Add Non-recurring Expenses	—	900
Total Units	2,500	45,900
Less Abnormal Loss	250	4.590
	2,250	41,310
Less Normal Loss	20	—
Good Units	2,230	41,310
Number of Units Sold	1,750	

So unsold units are (2,230 – 1,750) = 480

Now Value of closing stock (480 units) will be

= 41,310 x 480/2,230

= Rs. 8,892

Check Your Progress-B

1 Fill in the blanks

i) Losses occur either due to inherent nature of the product or due to operation of ....

ii) Loss of weight due to evaporation is a ....loss.

iii) Normal loss affects the valuation of ....

iv) Abnormal loss is .... to Consignment Account.

v) Insurance claim is ....to Abnormal Loss Account.

vi) The amount of loss not accepted by the insurance company is transferred to .... Account

2 How will you treat abnormal loss if

a) loss is fully insured: ....

b) loss is uninsured: ....

c) loss is partly insured: ....

11.5 LET US SUM UP

Sometimes the consignee is not able to sell all goods consigned to him. He is left with some unsold stock, the cost of which must be shown on the credit side of the Consignment Account before calculating the profit on consignment. The cost of the unsold stock shall include the proportionate amount of non-recurring expenses.

When goods are consigned, it is possible that some goods are lost in transit or destroyed while it is lying in the consignee's godown. Such losses may occur either due to the inherent nature of goods or due to some accident. The first is called normal loss and the second abnormal loss.

The normal loss is not shown anywhere in the books of account. It simply inflates the cost per unit of the goods consigned and, therefore, affects the revaluation of closing stock and the profit. But the abnormal loss requires special treatment in the books of account of the consignor. The cost of such loss is worked out in the same manner as the cost of unsold stock and credited to the Consignment Account. Any amount received from the insurance company must be subtracted from the abnormal loss before it is transferred to the Profit and Loss Account.

11.6 KEY WORDS

Normal Loss : Loss caused in the ordinary course of things due to evaporation, leakage, breaking the bulk into pieces etc.

Abnormal Loss : Loss caused on account of storm, fire. accident theft, etc.

11.7 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. 1962 ***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)

11.8 ANSWERS TO CHECK YOUR PROGRESS

A a) ii b) iii c) ii d) i e) ii

B 1 i) external forces ii) normal iii) closing stock iv) credited v) credited vi) Profit & Loss

11.9 TERMINAL QUESTIONS/EXERCISES

Questions.

1 List the expenses taken into account while valuing the unsold stock.
2 What is the difference between normal loss and abnormal loss? Give examples.
3 What procedure is followed for valuation of closing stock when the abnormal and normal losses occur simultaneously.

Exercises

1 Kabir of Jhansi consigned to Moses of Cochin 400 chairs on April 10, 1986. The cost of each chair was Rs. 250. The consignor paid Rs. 2,000 for cartage, freight etc., oh April 12, 1986, and drew a bill on the consignee as an advance against the consignment at 3 months for Rs. 60,000. Later, it was discounted at their bank at 5%. The consignee sold all the goods on July 1, 1986 and submitted an Account Sales showing that the goods realised Rs. 1,20,000. He incurred Rs. 1,000 on carriage inwards and Rs. 550 on selling and other expenses. He was allowed to take 5% commission on the total sales. You are required to show ledger accounts for the above transactions in the books of the consignor and the consignee.

(Answer : Profit Rs. 10,450)

2 X of Bangalore consigned 100 bags of cement for sale to his agent Y. Cost price of each bag is Rs. 120. 'X' immediately drew a 4 months bill for Rs. 5,000 on the latter and discounted it with bank at 6% per annum. 'X' paid Rs. 800 on packing and Rs, 250 for carriage. 'Y' spent Rs. 300 as selling expenses. The consignee returned 5 bags. He realised 20 bags at Rs. 130 per bag and 50 bags on credit at Rs. 140 per bag and took the balance in his own stock at Rs. 135 per bag.

Consignee is entitled to get commission of 3% and 2% del credre commission on credit sales. 'Y' recovered all money from debtors except Rs. 500. Prepare the necessary ledger accounts in the books of both parties.

(Answer : Loss Rs. 204)

3 Grover Enterprises, Delhi sent 100 bicycles to Khan Enterprises, Patna. Cost of each cycle was Rs. 640. Grover incurred Rs. 1,500 for freight and Rs. 1,100 for insurance in transit. Khan paid Rs. 650 for cartage and 2,000 towards godown rent and selling expenses. 20 bicycles remained unsold at the end. The remaining bicycles realised Rs. 800 per cycle. Calculate the value of unsold stock.,

(Answer : Cost of unsold stock Rs. 13,450)

4 Kiran Bros. on January 1, 1986 consigned sports materials costing Rs. 10,000 to their agent Kabir Agency. Kiran Bros. paid Rs. 200 for freight and Rs. 100 for insurance and other charges. Consignee received the delivery by paying Rs. 150 for non-recurring expenses on January 15, 1986.

He sent an account sale on February 20,1986 showing that 20% of the stock realised Rs. 3,200 and 30% of the stock was sold on credit for Rs. 3,600.

One customer from whom Rs. 500 was due became insolvent and only 25% of the debt could be recovered. Consignee is entitled to a commission of 5% on sales. Pass journal entries and prepare the necessary ledger accounts.

(Answer : Profit Rs. 860 : Stock Rs. 5,225)

5 Srikanth consigned 2,500 kg. of coconut oil costing Rs. 50,000. Expenses incurred were Rs. 1,400. Consignee spent Rs. 2,000 on unloading and cartage. 100 kg. of oil was lost due to natural deterioration and 1,500 kg. were sold. Calculate the cost of stock at the end?

(Answer : Cost of Stock Rs. 20,025)

6 Kapur of Lucknow consigned 200 bags of rice, each costing Rs. 300 to Jain Traders of Bombay on April 1,1987. The consignor paid Rs. 2,000 towards freight and insurance. 30 bags were damaged in transit. The consignee received on May 31, 1987 Rs. 2,000 on account of the damaged bags from the Insurance Company. On May 31, 1987 the consignee reported that 140 bags were sold at Rs. 375 per bag. The consignee incurred Rs. 2,000 for godown rent and selling expenses. The consignee is allowed 10% commission on the sale proceeds. You are required to prepare the ledger accounts in the books of Mr. Kapur assuming that Jain Traders remit the balance by bank draft on May 31, 1987.

(Answer : Profit Rs. 1,850 : Accidental Loss Rs. 9,300)

7 Dinesh of Delhi consigned 200 sewing machines costing Rs. 150 each to Chander of Calcutta. He paid Rs. 2,800 on insurance and received an advance of Rs. 20,000 from Chander. 30 machines were damaged in transit. Chander took the delivery of the remaining goods and paid Rs. 1,700 for unloading the consignment. He sold 50 machines @ Rs. 270 each for cash and 100 machines @ Rs. 300 each on credit. Chander could not realise Rs. 2,000 from his debtors. Chander recovered Rs. 1,500 from the insurance company. He sold damaged machines for Rs. 2,300.

Chander is entitled to an ordinary commission @ 5% and 3% del credre commission. The accounts were settled and balance remitted by bank draft. Show the necessary ledger accounts in the books of Dinesh.

Hint :

i) Sale of damaged stock as well as the amount recovered from insurance company will be credited to Abnormal Loss Account and debited to Chander's Account.

ii) Commission on sale proceeds of damaged goods @ 5% will be debited to Abnormal Loss Account and credited to Chander's Account.

Answer : Abnormal Loss Rs. 4,920; Value of Unsold Stock Rs. 3,480; Profit Rs. 13,920; Balance due from Chander Rs. 22,005)

8 Sohna Vanaspati, Faridabad consigned 10,000 kg. of ghee to Krishna Dealers of Delhi at Rs. 16 per kg. The consignor paid Rs. 950 as carriage, Rs. 250 as freight and Rs. 400 as insurance in transit. 1,000 kg, of ghee was accidentally destroyed for which an amount of Rs. 8,000 was recovered from the insurance company in full settlement.

Krishna Dealers reported that 8,000 kg. of ghee was sold @ Rs. 20 per kg. They spent Rs. 500 on salesmen salary and Rs. 200 on godown rent. The consignee is entitled to a commission of 5% on sales. Krishna dealers reported a shortage of 40 kg. due to leakage. Prepare necessary ledger accounts in the books of both the parties.

(Answer : Profit Rs. 22,443; Abnormal Loss Rs. 16,160; Closing stock Rs. 15,583)

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.