Chapter 7A

Accounting for Special Transactions - 1. Consignment

1. Consignment

1.1 Meaning of Consignment

1. **Meaning:** To consign means **"to send"**. In Accounting, Consignment refers to a situation where a person (called Consignor) sends goods to another person (called Consignee), for the purpose of selling the goods on behalf of, and at the risk of the Consignor.

2. **Parties:** The two parties involved in a Consignment transaction are –
   (a) **Consignor:** The person sending the goods – also called as **Principal**.
   (b) **Consignee:** The person to whom the goods are sent – also called as **Agent**.

3. **Example**: Prahlad of Chennai sent 100 radio sets at ₹1,000 each, on consignment basis to Arun of Delhi, on the agreement that Arun should sell them in Delhi, on Prahlad's behalf.

1.2 Features of a Consignment Transaction

1. **Goods:** Goods sent under consignment agreement are called "Goods Sent on Consignment".
2. **Ownership:** Though the goods are actually sold by the Consignee, the ownership of the goods, till it is sold, will remain with the Consignor only. However, on sale by Consignee, the Buyer will become the owner.
3. **Proforma Invoice:** The Consignor does not send a Sales Invoice to the Consignee. Instead, he will send a **Proforma Invoice**, which is a statement that looks like invoice. Proforma Invoice is sent to convey the information about the goods consigned.
4. **Expenses of Sale:** Generally, expenses relating to consignment incurred by Consignee, will be recovered from the Consignor. However, such Expenses can be shared, by **mutual agreement** between the parties.
5. **Advance Money:** Usually, the Consignee gives an advance to the Consignor in the form of Cash or Bill of Exchange. This Advance Money will be adjusted against the sale proceeds of the goods.
6. **Commission:** The Consignee is entitled to a Commission, which is calculated on the basis of Gross Sales made by him. [**Note:** See separate question for various types of Commission.]
7. **Bad Debts**: Generally, the Consignee will **not** be responsible for Bad Debts. If the Consignee is to be made responsible for Bad Debts, he shall be paid an extra commission called **Del Credere Commission**. This Commission is calculated on the Total Sales, and not merely on the Credit Sales.
8. **Account Sales:** The Consignee sends a periodic statement of account, to the Consignor. This Statement is called Account Sales. This Statement contains details of –
   (a) Sales made by the Consignee,
   (b) Expenses incurred on behalf of the Consignor (and reimbursable to the Consignee),
   (c) Commission earned by the Consignee,
   (d) Unsold Stock, if any, left with the Consignee, and
   (e) Net Balance due to / due from the Consignor.

1.3 Consignment and Sale

Basis	Consignment	Sale
1. Parties	1. Consignor, and 2. Consignee.	1. Seller, and 2. Buyer.
2. Ownership of Goods	Ownership remains with Consignor till goods are sold. There is no transfer of ownership to the Consignee.	Ownership of goods will be transferred to the Buyer immediately upon sale.
3. Risk	Risk of loss or damage of goods lies with the Consignor only.	Risk of loss or damage of goods lies with the Buyer once the goods are sold.
4. Return of Goods	Consignee can return the unsold goods to the Consignor.	Generally, Buyer cannot return goods once it is sold to him.
5. Relationship between Parties	**Principal – Agent** relationship. Consignor = Principal. Consignee = Agent.	**Creditor – Debtor** relationship. Seller = Creditor (in Buyer's Books). Buyer = Debtor (in Seller's Books).
6. Expenses	Expenses are borne by the Consignor.	After sales, the expenses are borne by Buyer.
7. Invoice	A **Proforma Invoice** is prepared.	Original Sale Invoice is prepared.

1.4 Various types of Commission, in a Consignment Transaction

There are three types of Commission paid by the Consignor to the Consignee for the services rendered –

1. Ordinary Commission or Normal Commission	• It is computed at a fixed percentage of **Gross Sales Proceeds** made by the Consignee. • There is no distinction between a Cash Sale and a Credit Sale for computing the Ordinary Commission. • The Normal Commission constitutes the remuneration of the Consignee, for the agency services rendered by him. • When only Normal Commission is paid, the **Consignor** bears the risk of Bad Debts.
2. Del Credere Commission	• To increase sales and to encourage the Consignee, the Consignor provides an additional commission known as Del–Credere Commission. • When Del–Credere Commission is paid, the **Consignee** bears the risk of Bad Debts. • Del–Credere Commission is calculated on **Total Sales**, unless there is any agreement between the parties, to calculate it on Credit Sales only.
3. Over–riding Commission	• It is an extra commission paid by the Consignor– (a) to promote sales at a higher price than specified, or (b) to encourage the Consignee to put in extra efforts in introducing the new product in the market. • Depending on the agreement, such Commission will be calculated on Total Sales or on the difference between Actual Sales and Sales at Invoice Price.

1.5 Goods consigned at above Cost

1. **Goods invoiced above cost:** If the Consignor does not want to reveal the real Cost of Goods consigned to the Consignee, he may prepare the Proforma Invoice at a value **higher** than the Cost thereof.

2. **Accounting:** If goods are invoiced above cost, – (a) the goods consigned, i.e. "Goods Sent on Consignment", and (b) Closing Stock, will be recorded at Invoice Price in Consignment A/c.

3. **Removal of Loading:** Loading = Difference between Invoice Price and Cost (i.e. Profit Element added to arrive at the Invoice Price). The Loading on goods consigned, and on Closing Stock will be **reversed** at the end of the financial period.

4. **Journal Entries: Refer Para 1.8**

1.6 Valuation of Closing Stock lying with Consignee

1. **Principle**: Stock should be valued at **Cost or Net Realisable Value,** whichever is **lower**.

2. **Determination of Cost:** All items of Cost incurred till the goods reach the premises of the Consignee must be taken into account. So, for the purposes of Consignment Stock Valuation, Cost means –

Cost of Goods sent by Consignor	+	Proportionate Direct Expenses incurred by Consignor	+	Proportionate Direct (Non–Recurring) Expenses incurred by Consignor

3. **Other Points:**
   (a) When goods are **invoiced above cost**, Closing Stock should first be valued including loading, i.e. Profit element. Thereafter, the loading thereon must be reversed by creating Stock Reserve.
   (b) **Indirect Expenses** incurred by Consignor, e.g. Discount on B/R, other expenses not related to sending the goods, etc. should not be considered in Stock Valuation.
   (c) Expenses incurred **after** the goods have reached the Consignee's Godown should **not** be taken into account for Stock Valuation.
   (d) Commission Due to Consignee and Bad Debts, should **not** be included for Stock Valuation.
   (e) If the question is silent, all Expenses incurred by Consignor will be included for Stock Valuation, and all Expenses incurred by the Consignee will be excluded.

Illustration 1: Valuation of Closing Stock

Pankaj consigned 100 radio sets to Arun at an Invoice Price of ₹1,250 (Cost plus 25% mark–up on Cost). The following further details are available –

- **Pankaj incurred ₹5,000 towards Transportation and Insurance Charges.**
- **Arun incurred ₹2,500 towards taking delivery of goods, ₹12,500 towards advertising and selling expenses.**
- **Arun is entitled to a Commission of 10%. As per the Account Sales, Arun had sold 85 sets at ₹1,250 per set.**

1. **What will be the value of Closing Stock in this case?**
2. **Due to introduction of mp3 technology, the demand for radio sets have fallen. The current market price is only ₹400 per unit. To enable this sale, an additional selling expense ₹25 per unit needs to be incurred. What will be the value of Closing Stock in such a scenario?**

Solution: **1. Closing Stock Valuation as per Standard Principles**

	Particulars	Total Amount	Quantity	Avg Rate p.u.
1.	Goods sent by Consignor (Invoice Price)	₹1,25,000	100 uts	₹1,250
2.	Direct Expenses of Consignor (Transport & Insurance)	₹ 5,000	100 uts	₹ 50
3.	Direct Expenses of Consignee (taking delivery)	₹ 2,500	100 uts	₹ 25
	Total			₹1,325
4.	Cost of Closing Stock (100 – 85) = 15 units at ₹1,325	₹ 19,875		
5.	Loading on Closing Stock (₹250 p.u. for 15 units)	₹ 3,750		
6.	Net Cost of Closing Stock (4 – 5)	₹ 16,125		

Note: Advertising, Selling and Commission Expenses are not includible in Stock Valuation.

2. Effect of Market Price Reduction, i.e. Cost or NRV, whichever is lower.

- NRV = Total Realisable Value – Realisation Expenses = ₹400 – ₹25 = ₹375 per unit.
- Hence, NRV of Closing Stock of 15 units = ₹5,625.
- In the revised scenario, Closing Stock should be valued at Cost ₹16,125 or NRV ₹5,625, whichever is **lower**. Hence, Value of Closing Stock is ₹5,625 only.

1.7 Accounting for Normal Loss and Abnormal Loss in Consignment

The words "Normal Loss" and "Abnormal Loss" refer basically to the **quantity of goods lost**. Such losses have a financial value, and are dealt with in the following manner –

Basis	Normal Loss	Abnormal Loss
Meaning	Loss that is expected or unavoidable, is called **Normal Loss.**	Loss due to any accident or unforeseen cause, is called **Abnormal Loss.**
Example	While consigning liquids like oils, petrol, etc. any loss in quantity due to spilling or evaporation is considered as Normal Loss.	If the entire or a huge quantity of oil / petrol is lost due to lorry accident / fire, etc. it is considered as Abnormal Loss.

Basis	Normal Loss	Abnormal Loss
Insurance Claim	No recovery is possible from Insurance Company.	Insurance Company may reimburse a suitable amount, not exceeding the value of goods lost.
Accounting Treatment	Total Cost Plus Expenses should be divided by the quantity available after Normal Loss.	Abnormal Loss should be valued in the same manner as Closing Stock, and credited to Consignment Account.
Journal Entry	There is no Journal Entry as such for Normal Loss. It is adjusted by way of quantity deduction only. So, Average Cost per unit = $\frac{\text{Total Cost incurred for Total Quantity}}{\text{Total Quantity } \textbf{Less} \text{ Normal Loss}}$	(a) For recording **value** of Abnormal Loss: Abnormal Loss A/c Dr. To Consignment A/c (b) For recording Insurance **Claim**, and transfer of **Net Loss** Bank / Insurance Claim Rec'ble Dr. Profit and Loss A/c Dr. To Abnormal Loss A/c

Illustration 2: Treatment of Normal and Abnormal Loss – Cost incurred at different stages

Pankaj consigned 10,000 litres of Oil to Arun at a cost of ₹55 per litre. The following further details are available –

- **Pankaj incurred transportation and insurance cost of ₹7,500.**
- **During transit, 250 liters were expected to be lost by way of evaporation.**
- **Arun received only 9,000 litres and incurred ₹9,900 towards taking delivery of goods, ₹12,500 towards advertising and selling expenses. It was found that 750 litres of oil were lost in transit due to accident.**
- **Arun is entitled to a Commission of 10%. As per the Account Sales, Arun had sold 7000 litres at ₹75 per litre.**
- **Arun also reported that there was a loss of 500 litres of oil in his godown, due to leakage of packets. This loss was not covered by Insurance.**

1. **Compute the value of Closing Stock and Abnormal Loss.**
2. **Give Journal Entries for recording Abnormal Loss if Insurance Claim is accepted at ₹36,000 for transit loss.**

Solution: **1. Computation of Average Rate per litre**

	Particulars	Amount	Relevant Qtty (litres)	Average Rate per litre
1.	Goods sent by Consignor (₹55 × 10,000 litres)	₹5,50,000	10,000 – 250 = 9,750 litres	₹56.41
2.	Direct Expenses of Consignor (Transport & Insurance)	₹ 7,500	10,000 – 250 = 9,750 litres	₹ 0.77
3.	Direct Expenses of Consignee (taking delivery)	₹ 9,900	Received Qtty = 9,000 litres	₹ 1.10
	Total			**₹58.28**

Note: Advertising, Selling and Commission Expenses are not includible in Stock Valuation.

2. Valuation of Closing Stock and Abnormal Loss

Particulars	Abnormal Loss during Transit	Abnormal Loss in Consignee's Godown	Closing Stock
1. Quantity involved	Given = 750 litres	Given = 500 litres	Recd – Sold – Lost =9000–7000 –500 = 1,500 ltrs
2. Rate per litre	56.41+0.77 = **₹57.18**	(as above) = **₹58.28**	(as above) = **₹58.28**
3. Value (1× 2)	**₹42,885**	**₹29,140**	**₹87,420**

Note: Direct Expenses of Consignee have **not** been included for valuation of Loss in Transit, since that cost has **not been incurred at that stage.**

3. Journal Entries in respect of Abnormal Loss

Abnormal Loss during Transit	Abnormal Loss in Consignee's Godown
(a) For recording **value** of Abnormal Loss: Abnormal Loss A/c Dr. 42,885 To Consignment A/c 42,885	(a) For recording **value** of Abnormal Loss: Abnormal Loss A/c Dr. 29,140 To Consignment A/c 29,140

Abnormal Loss during Transit	Abnormal Loss in Consignee's Godown
(b) For recording Insurance **Claim**, and transfer of **Net Loss** Insurance Claim Rec'ble Dr. 36,000 Profit and Loss A/c Dr. 6,885 To Abnormal Loss A/c 42,885	(b) For transfer of **Net Loss** to P&L A/c: Profit and Loss A/c Dr. 29,140 To Abnormal Loss A/c 29,140 (**Note:** Here, it is assumed that the Consignor has to bear the risk of this Abnormal Loss.)

1.8 Journal Entries in the books of the Consignor

Scheme of Journal Entries in the books of the CONSIGNOR

	Transaction	Journal Entry
1.	Goods sent on Consignment	Consignment Account Dr. To Goods sent on Consignment A/c
2.	Expenses incurred by Consignor, for goods sent on Consignment (e.g. Transportation, Insurance, etc.)	Consignment Account Dr. To Cash / Bank
3.	Advance given by Consignee, by way of Cash or Cheque or Bill of Exchange	Cash / Bank / Bills Receivable A/c Dr. To Consignee Account
4.	Bills Receivable given by Consignee, discounted with Bank	Bank Account Dr. Discount Account Dr. To Bills Receivable Account
5.	Expenses incurred by the Consignee on behalf of the Consignor (e.g. Unloading, Advertisement)	Consignment Account Dr. To Consignee Account
6.	Goods sold by the Consignee (as per Account Sales received from him)	Consignee Account Dr. To Consignment Account
7.	Commission on Sales due to Consignee	Consignment Account Dr. To Consignee Account
8.	Bad Debts as per Account Sales reported by Consignee (**Note:** This Journal Entry is not applicable if the Consignee himself bears the risk of Bad Debts, i.e. when Del Credere Commission is paid)	Consignment Account Dr. To Consignee Account
9.	Goods received back from the Consignee	Goods sent on Consignment A/c Dr. To Consignment
10.	Goods taken over by Consignee or goods lost through Consignee's negligence, and is chargeable to him	Consignee's Account Dr. To Consignment Account
11.	Closing Stock lying with the Consignee	Consignment Stock Account Dr. To Consignment Account
12.	Sundry Debtors, if any, at the end of the period	Consignment Debtors A/c Dr. To Consignment Account
13.	Profit from Consignment transfer to P&L A/c	Consignment Account Dr. To Profit and Loss Account
14.	Loss from Consignment, if any, transfer to P&L A/c	Profit and Loss Account Dr. To Consignment Account
15.	Remittance received from Consignee along with Account Sales	Cash / Bank / Bills Receivable A/c Dr. To Consignee Account
16.	Removal of loading on Goods Sent on Consignment (applicable **only** when goods are invoiced above cost)	Goods Sent on Consignment Account Dr. To Consignment Account
17.	Removal of loading on Closing Stock (applicable **only** when goods are invoiced above cost)	Consignment Account Dr. To Stock Reserve Account
18.	Goods sent on Consignment A/c – balance transferred to Trading Account	Goods sent on Consignment A/c Dr. To Trading Account

Note: In respect of Consignment Stock in Transit, i.e. goods not yet reached the Consignee, the Journal Entry stated in 11 above is passed. Valuation will be Cost of Goods + Direct Exps of Consignor only.

Format of Consignment Account

Dr.	Consignment Account		Cr.
Particulars	**₹**	**Particulars**	**₹**
To Goods sent on Consignment A/c To Bank (Expenses of the Consignor) To Consignee A/c (Expenses of Consignee) To Consignee A/c (Commission due) To Stock Reserve (reversal of loading on Goods sent) To Profit & Loss Account (Profit)		By Consignee Account (Sale Proceeds) By Consignment Stock Account By Goods sent on Consignment (reversal of loading on Goods sent) By Abnormal Loss, if any By Profit & Loss Account (Loss, if any)	
Total		**Total**	

1.9 Journal Entries in the books of the Consignee

Scheme of Journal Entries in the books of the CONSIGNEE

	Transaction	Journal Entry
1.	Advance sent as Cash / Cheque / Bill of Exchange	Consignor A/c Dr. To Cash / Bank / Bills Payable A/c
2.	Expenses incurred by Consignee	Consignor A/c Dr. To Cash / Bank A/c
3.	Own Acceptance (B/P) honoured on due date	Bills Payable A/c Dr. To Cash / Bank A/c
4.	Sales made on Consignment Basis	Cash / Bank / Sundry Debtors A/c Dr. To Consignor A/c
5.	Bad Debts (if borne by Consignor)	Consignor A/c Dr. To Sundry Debtors A/c
6.	Bad Debts (if borne by Consignee, for Del–Credere Commission)	Bad Debts (Expense) A/c Dr. To Sundry Debtors A/c
7.	Commission earned by Consignee	Consignor A/c Dr. To Commission Income A/c
8.	Final settlement amount paid to Consignor	Consignor A/c Dr. To Cash / Bank A/c

1.10 Treatment for Advance given by the Consignee

1. **Advance:** The Consignor may insist the Consignee for some amount of Advance Money, for parting with his goods and sending them to the Consignee.
2. **Mode:** This Advance may be paid by way of Cash / Cheque / Bill of Exchange.
3. **Nature:** Advance Money paid by Consignee will be adjusted against the amount due from Consignee at the end of the period. The manner of adjustment depends upon the nature of advance, i.e.
   (a) Normal Advance – fully adjustable, or
   (b) Security against Goods – advance carried forward to the extent of unsold goods.
4. The manner of adjustment is illustrated below –

A. Normal Advance: Pankaj consigned 50 Radio Sets worth ₹1,000 each to Arun, for 10% Commission.

Case	Advance Amt ₹	Qty sold by Arun		Adjustment of Advance	
1	Normal Advance ₹50,000	Fully Sold 50 sets at ₹1,000 pu	 (–) (–) 	Sale Proceeds = 50 sets at ₹1,000 Advance Received Commission due to Arun = 10% Balance payable by Pankaj to Arun	= ₹50,000 = ₹50,000 = ₹ 5,000 = **₹ 5,000**

Case	Advance Amt ₹	Qty sold by Arun	Adjustment of Advance		
2	Normal Advance ₹50,000	Partly Sold 35 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 35 sets at ₹1,000 Advance Received Commission due to Arun = 10% Balance payable by Pankaj to Arun	= ₹ 35,000 = ₹ 50,000 = ₹ 3,500 = ₹ **11,500**
3	Normal Advance ₹40,000	Fully Sold 50 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 50 sets at ₹1,000 Advance Received Commission due to Arun = 10% Balance payable by Arun to Pankaj	= ₹ 50,000 = ₹ 40,000 = ₹ 5,000 = ₹ **5,000**
4	Normal Advance ₹40,000	Partly Sold 35 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 35 sets at ₹1,000 Advance Received Commission due to Arun = 10% Balance payable by Pankaj to Arun	= ₹ 35,000 = ₹ 40,000 = ₹ 3,500 = ₹ **8,500**

Note: In each case above, the parties may settle the amount at the end of the period, or carry the forward the amount in their books as Receivable / Payable, as the case may be.

B. Advance in the nature of Security against Goods: In the above situations, the adjustment will be –

Case	Advance Amt ₹	Qty sold by Arun	Adjustment of Advance		
1	Security Advance ₹50,000	Fully Sold 50 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 50 sets at ₹1,000 Advance Adjusted (full) Commission due to Arun = 10% Balance payable by Pankaj to Arun	= ₹50,000 = ₹50,000 = ₹ 5,000 = ₹ **5,000**
2	Security Advance ₹50,000	Partly Sold 35 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 35 sets at ₹1,000 Advance Adjusted (50,000 × 35/50) Commission due to Arun = 10% Balance payable by Pankaj to Arun	= ₹35,000 = ₹35,000 = ₹ 3,500 = ₹ **3,500**
3	Security Advance ₹40,000	50 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 50 sets at ₹1,000 Advance Adjusted (full) Commission due to Arun = 10% Balance payable by Arun to Pankaj	= ₹50,000 = ₹40,000 = ₹ 5,000 = ₹ **5,000**
4	Security Advance ₹40,000	35 sets at ₹1,000 pu	 (–) (–)	Sale Proceeds = 35 sets at ₹1,000 Advance Adjusted (40,000 × 35/50) Commission due to Arun = 10% Balance payable by Arun to Pankaj	= ₹35,000 = ₹28,000 = ₹ 3,500 = ₹ **3,500**

Note: The unadjusted advance amount will be carried forward by both parties, and will be adjusted when the goods are actually sold by Consignee.

Illustration 3: Accounting for Consignment Transactions

Pankaj consigned 100 radio sets to Arun at an Invoice Price of ₹1,250 (Cost plus 25% mark–up on Cost). The following further details are available –

- **Arun paid an advance of ₹75,000 by way of Bill of Exchange. Pankaj discounted this B/E for ₹73,000.**
- **Pankaj incurred ₹5,000 towards Transportation and Insurance Charges.**
- **Arun incurred ₹2,500 towards taking delivery of goods, ₹12,500 towards advertising and selling expenses.**
- **Arun is entitled to a Commission of 8% + 2% Del Credere Commission.**
- **As per the Account Sales, Arun had sold 85 sets at ₹1,500 per set. A customer for 2 sets had defaulted on payment, and no amount is recoverable from him.**

Give the Journal Entries and Ledger Accounts in the books of Consignor and Consignee.

Solution: **IN THE BOOKS OF PANKAJ (CONSIGNOR)**

1. Journal Entries

	Particulars		Dr.	Cr.
1.	Consignment Account To Goods sent on Consignment A/c (Being 100 radio sets at ₹1,250 pu sent on Consignment basis to Arun)	Dr.	1,25,000	1,25,000
2.	Bills Receivable A/c To Arun A/c (Being Advance given by Consignee, by way of Bill of Exchange)	Dr.	75,000	75,000
3.	Bank A/c Discount on B/E To Bills Receivable A/c (Being B/R given by Consignee Arun, discounted with Bank)	Dr. Dr.	73,000 2,000	75,000
4.	Consignment Account To Cash / Bank (Being Trpt & Insurance Exps incurred for goods sent on Consignment)	Dr.	5,000	5,000
5.	Arun A/c To Consignment Account (Being Account Sales received from Consignee, 85 sets sold at ₹1,500 pu)	Dr.	1,27,500	1,27,500
6	Consignment Account To Arun A/c (Being Consignee's Expenses reimbursable, i.e. Unloading ₹2,500 + Advt ₹12,500 + Commission at 10% of ₹1,27,500 = ₹12,750)	Dr.	27,750	27,750
7.	Stock on Consignment A/c To Consignment A/c (Being Closing Stock 15 radio sets at ₹1,325 – See computation below)	Dr.	19,875	19,875
8.	Goods sent on Consignment A/c To Consignment A/c (Being removal of loading on consigned goods, i.e. 100 sets at ₹250 pu)	Dr.	25,000	25,000
9.	Consignment Account To Stock Reserve (Being removal of loading on Closing Stock, i.e. 15 sets at ₹250 pu)	Dr.	3,750	3,750
10.	Consignment Account To Profit and Loss Account (Being Profit on Consignment, as below, transferred to P&L)	Dr.	10,875	10,875
11.	Goods sent on Consignment A/c To Trading A/c (Being transfer of goods sent on Consignment, to Trading A/c)	Dr.	1,00,000	1,00,000

Note: Since Consignee is entitled to Del Credere Commission also, risk of Bad Debts will be borne by him.

2. Consignment A/c

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,25,000	By Arun A/c (Sales made by Agent)	1,27,500
To Cash / Bank (Trpt & Insurance)	5,000	By Stock on Consignment A/c	19,875
To Arun A/c – Delivery	2,500	By Goods sent on Consignment A/c	
– Advertisement	12,500	(loading removal)	25,000
– 10% Commission	12,750		
To Stock Reserve (Loading Removal)	3,750		
To P&L A/c (Profit on Consignment)	**10,875**		
Total	**1,51,125**	**Total**	**1,72,375**

3. Goods sent on Consignment A/c

Particulars	₹	Particulars	₹
To Consignment A/c (loading removal) To Trading A/c (Transfer)	25,000 1,00,000	By Consignment A/c (goods sent)	1,25,000
Total	**1,25,000**	**Total**	**1,25,000**

4. Arun (Consignee) A/c

Particulars	₹	Particulars	₹
To Consignment A/c (sales made)	1,27,500	By Bills Receivable A/c (advance recd)	75,000
		By Consignment A/c – Delivery	2,500
		– Advertisement	12,500
		– 10% Commission	12,750
		By balance c/d	**24,750**
Total	**1,27,500**	**Total**	**1,27,500**

5. Closing Stock Valuation

	Particulars	Total Amount	Quantity	Avg Rate p.u.
1.	Goods sent by Consignor (Invoice Price)	₹ 1,25,000	100 uts	₹ 1,250
2.	Direct Expenses of Consignor (Transport & Insurance)	₹ 5,000	100 uts	₹ 50
3.	Direct Expenses of Consignee (taking delivery)	₹ 2,500	100 uts	₹ 25
	Total			₹1,325
4.	Cost of Closing Stock (100 – 85) = 15 units at ₹1,325	₹ 19,875		
5.	Loading on Closing Stock (₹250 p.u. for 15 units)	₹ 3,750		
6.	Net Cost of Closing Stock (4 – 5)	₹ 16,125		

IN THE BOOKS OF ARUN (CONSIGNEE)

1. Journal Entries

	Particulars		Dr.	Cr.
1.	Bills Payable A/c	Dr.	75,000	
	To Pankaj A/c			75,000
	(Being Advance given to Consignor, by way of Bill of Exchange)			
2.	Pankaj A/c	Dr.	15,000	
	To Cash / Bank			15,000
	(Being Expenses incurred on Consignment reimbursable by Pankaj, i.e. Unloading ₹2,500 + Advt ₹12,500)			
3.	Cash / Bank / Sundry Debtors	Dr.	1,27,500	
	To Pankaj A/c			1,27,500
	(Being 85 sets sold at ₹1,500 pu on Consignment A/c for Pankaj)			
4.	Pankaj A/c	Dr.	12,750	
	To Commission Income A/c			12,750
	(Being Commission Income earned at 10% on Consignment Sales)			
5.	Bad Debts	Dr.	3,000	
	To Sundry Debtors			3,000
	(Being Bad Debts incurred, not reimbursable by Consignor)			
6.	Cash / Bank	Dr.	75,000	
	To Bills Payable A/c			75,000
	(Being Bills Payable honoured on due date)			

2. Pankaj (Consignor) A/c

Particulars	₹	Particulars	₹
To Bills Payable A/c (advance paid)	75,000	By Cash / Bank / Drs A/c (sales made)	1,27,500
To Cash / Bank A/c – Delivery	2,500		
– Advertisement	12,500		
To Commission Income A/c	12,750		
To balance c/d	**24,750**		
Total	**1,27,500**	**Total**	**1,27,500**

3. Profit and Loss Account (Extract)

Particulars	₹	Particulars	₹
To Bad Debts (Consignment Debtors)	3,000	By Commission Income	12,750

Illustration 4: Accounting for Consignment Transactions

On 1st January, Lila & Co of Calcutta consigned 100 Cases of Milk Powder to Shila & Co of Bombay. The Goods were charged at a Proforma Invoice Value of ₹10,000 including a Profit of 25% on Invoice Price. On the same date, the Consignors paid ₹600 for Freight and Insurance. On 1st July, the Consignees paid Transport Charges ₹ 1,200 and sent to the Consignors a Bank Draft for ₹4,000 as advance. On 1st August, they sold 80 Cases for ₹ 10,500 and sent a remittance for the balance due to the Consignors after deducting Commission at the rate 5% on Gross Sale Proceeds. Show the Consignment Account and Shila & Co's Account in Lila & Co.'s Books.

Solution: **In Lila & Co's Ledger Consignment to Bombay Account**

Date	Particulars		₹	Date	Particulars		₹
Jan1	To Goods Sent on Consignment		10,000	Jan1	By Goods Sent on Consignment (Loading) 10,000 × 25%		2,500
Jan1	To Bank (Freight & Insurance)		600				
July1	To Shila & Co			Aug1	By Shila& Co (Sales)		10,500
	Transport Charges	1,200			By Stock out on Consignment	2,000	
	Commission(5%)	525	1,725		**Add:** Expenses (1/5 of 1,800) **(Note)**	360	2,360
	To Stock Reserve (25% of 2,000)		500				
	To Profit transferred to P & L A/c		2,535				
			15,360				**15,360**

Note:

(a) Direct Expenses (i.e. 1,000 + 200 + 600 = 1,800) included in valuation of Closing Stock.

(b) Value of Stock = 20 out of 100Units

Hence, Value of Stock = 20% of [Goods sent on Consignment + Consignor's Direct Costs + Consignee's Direct Costs]

Value of Stock = 20% of ₹10,000 + 20% on (₹600 + ₹1,200) = 2,000 + 1,200 = ₹2,360.

Illustration 5: Accounting for Consignment Transactions

X of Delhi purchased 10,000 pieces of Sarees @ ₹100 per Saree. Out of these Sarees, 6,000 were sent on Consignment to Y of Agra at a Selling Price of ₹120 per Saree. The Consignor paid ₹3,000 for Packing and Freight. Y sold 5,000 Sarees at ₹125 per Saree and incurred ₹1,000 for Selling Expenses and remitted ₹5,00,000 to Delhi A/c. Y is entitled to a Commission of 5% on Total Sales plus a further 20% Commission on any surplus realized over 120 per Saree. 3,000 Sarees were sold in Delhi at ₹110 per Saree. Owing to fall in Market Price, the value of stock of Sarees in hand is to be reduced by 10%. Prepare the Consignment Account in the books of X and their account in the books of the Agent Y of Agra.

Solution: **1. Consignment Account (in the books of Consignor X)**

Particulars			₹	Particulars	₹
To Goods sent on Consignment (6,000 × ₹120)			7,20,000	By Y – Sales (5,000 × ₹125)	6,25,000
To BankA/c	–Expenses		3,000	By Goods sent on Consignment –Loading (6,000 × ₹20)	1,20,000
To Y'sA/c	–Selling Expenses	1,000		By Stock on Consignment **(WN 2)**	1,08,450
	– Commission **(WN 1)**	36,250	37,250		
To Stock Reserve **(WN 3)**			18,000		
To Net Profit **(Bal. fig.)**			**75,200**		
Total			**8,53,450**	**Total**	**8,53,450**

2. X's Account (in the books of Agent Y of Agra)

Particulars	₹	Particulars	₹
To Bank A/c – Expenses To Commission **(WN 1)** To Bank A/c – Remittance To Balance c/d **(Bal. fig.)**	1,000 36,250 5,00,000 87,750	By Bank A/c – Sales	6,25,000
Total	**6,25,000**	**Total**	**6,25,000**

Working Notes:

1. Computation of Commission Payable

Particulars	₹
5% on Total Sales (₹6,25,000 × 5%)	31,250
20% on Surplus (₹6,25,000 – ₹6,00,000) [i.e. Sales at ₹120 = 5,000 Sarees × ₹120 = ₹6,00,000]	5,000
Total Commission Payable	36,250

2. Valuation of Closing Stock on Consignment

Particulars	₹
Closing Stock (1,000 Sarees × ₹120 + Proportionate Expenses $\frac{3{,}000 \times 1{,}000}{6{,}000}$)	1,20,500
Less: 10% Written down	12,050
Valuation of Closing Stock	**1,08,450**

3. Loading on Closing Stock (Stock Reserve) = (1,000 Sarees × ₹ 20) Less 10% Write down = ₹18,000

Illustration 6: Accounting for Consignment Transactions

A of Agra sent on Consignment goods valued ₹1,00,000 to B of Bombay on 1st March. He incurred an expenditure of ₹12,000 on Freight and Insurance. A's accounting year closes on 31st December. B was entitled to a Commission of 5% on Gross Sales plus a Del–Credere Commission of 3%. B took delivery of Consignment by incurring Expenses of ₹3,000 for goods consigned. On 31st December, B informed on phone that he had sold all the Goods for ₹1,50,000 by incurring the Selling Expenses of ₹2,000. He further informed that only ₹1,48,000 had been realized and rest was considered irrecoverable, and would be sending the Cheque in a day or so for the amount due along with the Accounts Sale. On 5th January, A received the Cheque for the amount due from B and incurred Bank Charges of ₹260 for collecting the Cheque. The amount was credited by the Bank on 9th January. Write up the –

(a) Consignment Account finding out the Profit / Loss on the Consignment,
(b) B's Account,
(c) Provision for Expenses Account and
(d) Bank Accounting the books of the Consignor, recording the transactions upto the receipt and collection of the Cheque.

Solution:

1. In the Books of Mr. A Consignment Account

Date	Particulars		₹	Date	Particulars	₹
March 1	To Goods sent on Consignment A/c To Cash A/c (Freight and Insurance) To B's A/c: Clearance Expenses Selling Expenses	 3,000 2,000	1,00,000 12,000	Dec. 31	By B's A/c **[Note]**	1,50,000
  Dec. 31	Commission @ 5% on₹1,50,000 Del–credere Comn. @ 3% on ₹1,50,000 To Provision for Expenses (Bank Charges) To Profit and Loss A/c (Profit on Consignment)	7,500 4,500	 17,000 260 20,740			
			1,50,000			**1,50,000**

Note: Since Del–Credere Commission is paid, the **Consignee** bears the risk of Bad Debts amounting to ₹2,000.

2. B's Account

Date	Particulars	₹	Date	Particulars		₹
Dec. 31	To Consignment A/c	1,50,000	Dec. 31	By Consignment A/c – Clearance Expenses Selling Expenses	 3,000 2,000	

Date	Particulars	₹	Date	Particulars		₹
				Commission	7,500	
				Del–credere Commission	4,500	17,500
				By Balance c/d		1,33,000
	Total	**1,50,000**		**Total**		**1,50,000**
Jan. 1	To Balance b/d	1,33,000	Jan. 5	By Bank A/c		1,33,000

3. Bank Account

Date	Particulars	₹	Date	Particulars	₹
Jan. 5	To B's account	1,33,000	Jan.5	By Bank Charges	260
			Jan.5	By Balance c/d	1,32,740
		1,33,000			**1,33,000**

4. Provision for Expenses Account

Date	Particulars	₹	Date	Particulars	₹
Jan. 5	To Bank Charges	260	Jan. 1	By Balance b/d	260
		260			**260**

Illustration 7: Accounting for Consignment Transactions

Mr. Y consigned 800 Packets of Tooth Paste, each Packet containing 100 Tooth Pastes. Cost Price of each Packet was ₹ 900. Mr. Y spent ₹ 100 per Packet as Cartage, Freight, Insurance and Forwarding Charges. One Packet was lost on the way and Mr. Y lodged Claim with the Insurance Company and could get ₹ 570 as Claim on average basis. Consignee took delivery of the rest and sold 740 Packets at the rate of ₹ 12 per Tooth Paste. He incurred Recurring Expenses ₹ 22,500 and Non Recurring Expenses ₹ 39,950. He was entitled to 2% of Commission on Sales plus 1% Del–credre Commission. You are required to prepare Consignment Account. Calculate the Cost of Stock at the end, abnormal Loss and Profit or Loss on Consignment.

Solution:

1. Abnormal Loss

	Cost of Packet lost during transit	900
Add:	Expenses incurred by Y	100
Less:	Insurance Claim received	(570)
	Actual Loss	**430**

2. Cost of Stock at the end

Closing Units 59 × Packets @ 900 **(Note)**	53,100
Add: Expenses incurred by Y (59 × ₹100)	5,900
Add: Proportionate Expenses (59/799 × ₹39,950)	2,950
Closing Stock	**61,950**

Note: Closing Units = Packets Consigned 800 **Less** Packets lost in transit 1 **Less** Packets sold 740 = 59 Units.

3. Consignment Account

	₹		₹
To Goods sent on Consignment (800 × ₹900)	7,20,000	By Consignee's A/c – Sales (740 × 100 × ₹12)	8,88,000
To Cash A/c (Expenses 800 × ₹100)	80,000	By Cash A/c (Insurance Claim)	570
To Consignee's A/c		By Profit and Loss A/c (Abnormal Loss)	430
Recurring Expenses	22,500	By Consignment Stock A/c	61,950
Non Recurring Expenses	39,950		
Commission @ 2% on ₹8,88,000	17,760		
Del–credere Comn. @ 1% on ₹8,88,000	8,880		
To Profit and Loss A/c (Profit on Consignment)	61,860		
Total	**9,50,950**	**Total**	**9,50,950**

Illustration 8: Accounting for Consignment Transactions

D of Delhi appointed A of Agra as its Selling Agent on the following terms:

(a) Goods to be sold at Invoice Price or over.

(b) A to be entitled to a Commission of 7.5% on the Invoice Price and 20% of any Surplus Price realized.

(c) The Principals to draw on the Agent a 30 days bill for 80% of the Invoice Price.

On 1st February, 1,000 Cycles were consigned to A, each Cycle costing ₹640 including Freight and invoiced at ₹800. Before 31st March, (when the Principal's Books are closed) A met his acceptance on the due date; sold off 820 Cycles at an average Price of ₹930 per Cycle, the Sale Expenses being ₹12,500, and remitted the amount due by means of Bank Draft. Twenty of the unsold Cycles were shop–spoiled and were to be valued at a Depreciation of 50%. Show by means of Ledger Accounts how these transactions would be recorded in the books of A and find out the value of Closing Stock with A at which value D will account for the Balance Stock.

Solution:

1. D's Account

Date	Particulars	₹	Date	Particulars	₹
Feb 1	To Bills Payable (80% of ₹8,00,000)	6,40,000	Mar 31	By Cash/Bank A/c (820 × ₹930)	7,62,600
Mar 31	To Cash A/c (Expenses)	12,500			
Mar 31	To Commission A/c **(WN)**	70,520			
Mar 31	To Bank A/c – Payment **(Bal. fig.)**	**39,580**			
	Total	**7,62,600**		**Total**	**7,62,600**

2. Working Note for Calculation of Commission

Particulars	₹
7.5% on the Invoice Price Amount 820 × ₹800 = ₹6,56,000	49,200
20% on the Surplus Price Amount 820 × ₹130 = ₹1,06,600	21,320
Commission	**70,520**

3. Bills Payable Account

Date	Particulars	₹	Date	Particulars	₹
Mar 4	To Cash / Bank A/c (Settlement)	6,40,000	Feb 1	By D's A/c	6,40,000
	Total	**6,40,000**		**Total**	**6,40,000**

4. Value of Closing Stock with A

Particulars	₹
160 Cycles at ₹640 (Cost Price including Freight)	1,02,400
Add: 20 Cycles (shop–spoiled) at 50% of the Cost i.e. at ₹320 each	6,400
Closing Stock i.e. Amount (Net Effect of the Loading) at which D will account for in his own books	**1,08,800**

Illustration 9: Accounting for Consignment Transactions

Ramesh consigned 2,000 MT of Chemicals at a cost of ₹800 per MT to John. Ramesh paid Freight and Insurance Charges of ₹20,000. Of the above, 500 MT of Chemicals were destroyed by Fire during transit. John cleared the balance of 1,500 MT of Chemicals and sold 1,000 MT at an average price of ₹1,000 per MT. John incurred the following Expenses: Godown Rent ₹5,000, Insurance ₹3,000, Clearing Charges ₹4,500. Insurance Claim received against Fire ₹4,00,000 after admitting the Salvage Value of Stock destroyed by Fire at ₹10,000. John was entitled to a Commission of 10% on Sale Proceeds. John sends the balance to Ramesh after adjusting the Commission and Expenses out of the Sale Proceeds. Prepare a Consignment Account and John's Account in the books of Ramesh.

Solution:

1. In the books of Ramesh Consignment Account

Particulars			₹	Particulars	₹
To Goods sent on Consignment A/c			16,00,000	By John's A/c – Sales 1,000 MT @ ₹1,000	10,00,000
To Bank A/c – Freight & Insurance			20,000	By Abnormal Loss A/c – Cost of 500 MT **(WN 1)**	3,95,000
To John's A/c – Commission @ 10% of Sales			1,00,000	By Consignment Stock A/c – at Cost **(WN 2)**	4,16,500
ToJohn'sA/c:	Godown Rent	5,000			
	Insurance	3,000			
	Clearing Charges	4,500	12,500		
To Profit & Loss A/c – Consignment Profit			79,000		
			18,11,500		**18,11,500**

2. John's Account

Particulars	₹	Particulars	₹
To Consignment A/c – Sales Proceeds	10,00,000	By Consignment: Godown Rent 5,000 Insurance 3,000 Clearing Charges 4,500	12,500
		By Consignment A/c – Commission	1,00,000
		By Bank A/c – Balance paid by John	8,87,500
	10,00,000		**10,00,000**

Working Notes **1. Abnormal Loss**

	Particulars	₹
	Total Cost of Goods = Goods sent on Consignment 16,00,000 + Freight and Insurance 20,000	16,20,000
	Cost of lost 500 MT Chemicals = Cost per MT $\frac{₹16,20,000}{2000MT}$ ₹810 × 500 MT	4,05,000
Less:	Salvage Value	10,000
	Cost of Goods abnormally lost	**3,95,000**

Note: Insurance Claim received ₹4,00,000 will appear in the Abnormal Loss Account. Excess payment received from the Insurance Company over the amount of Loss should be transferred to Profit & Loss Account directly. This will not affect the measurement of Consignment Profit / Loss. Abnormal Loss A/c would appear as follows –

Particulars	₹	Particulars	₹
To Consignment A/c	3,95,000	By Bank A/c – Money received from Insurance Co	4,00,000
To Profit & Loss A/c – Excess Claim	5,000		
Total	**4,00,000**	**Total**	**4,00,000**

Note: Generally, Insurance Claim will not exceed the amount of Abnormal Loss. In a rare case, if this happens, the excess is transferred to Profit & Loss Account.

2. Valuation of Stock

	Particulars	₹
	Effective Cost = Cost per MT ₹810 as per WN 1 + Clearing Charges per MT $\frac{₹4,500}{1,500MT}$	813
	Cost of 500 MT @ ₹813	4,06,500
Add:	Salvage Value of Damaged Stock	10,000
	Value of Closing Stock	**4,16,500**

Illustration 10: Accounting for Consignment Transactions **N19**

Rahim of Bombay consigned to Raju of Madras Goods to be sold at Invoice Price which represents 125% of Cost. Raju is entitled to a Commission of 10% on Sales at Invoice Price and 25% of any excess realized over Invoice Price. The Expenses on Freight and Insurance incurred by Rahim were ₹10,000. The Account Sales received by Mr. Rahim shows that Raju effected Sales aggregating to ₹1,00,000 in respect of 75% of the Consignment. His selling Expenses to be reimbursed were ₹8,000. 10% of the Consignment Goods of the value of ₹12,500 were destroyed in fire at Madras Godown and the Insurance Company paid ₹12,000 Net of Salvage. Raju remitted the balance in favour of Rahim. Prepare Consignment Account and the Account of Mr. Raju in the books of Mr. Rahim along with necessary workings.

Solution: **1. In the books of Mr. Rahim Consignment Account**

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c **(WN 1)**	1,25,000	By Raju A/c – Sales effected	1,00,000
To Bank A/c – Freight & Insurance Expenses	10,000	By Abnormal loss A/c **(WN 1)**	13,500
To Raju A/c – Selling Expenses	8,000	By Goods sent on Consignment A/c (Loading)	25,000
To Raju A/c – Commission **(WN 4)**	10,938	By Stock on Consignment **(WN 3)**	20,250
To Stock Reserve **(WN 3)**	3,750		
To Profit & Loss A/c – (Profit on Consignment)	1,062		
	1,58,750		**1,58,750**

2. Raju's Account

Particulars	₹	Particulars	₹
To Consignment A/c – Sales	1,00,000	By Consignment A/c – Selling Expenses	8,000
		By Consignment A/c – Commission	10,938
		By Bank A/c – balance received	81,062
	1,00,000		**1,00,000**

Workings Notes: **1. Calculation of Abnormal Loss**

	Particulars	₹
	Goods destroyed by Fire (10% of the Consignment)	12,500
	Note: Invoice Value of goods sent on Consignment ₹12,500 × 100/10 = 1,25,000	
Add:	Proportionate expenses incurred by Rahim (10% of ₹10,000)	1,000
	Gross Abonormal Loss at Invoice Price	13,500
Less:	Insurance Claim received	12,000
	Actual Loss	1,500

It is apparent from the question that the Consignor had issued Consignment goods at Invoice Value. Therefore, it is not proper to show any Gain out of Insurance Claim received. However, the Profit on Insurance is automatically included in Consignment Profit. Abnormal Loss A/c would appear as follows –

Particulars	₹	Particulars	₹
To Consignment A/c	13,500	By Bank A/c – Insurance Claim received	12,000
		By Profit and Loss A/c – Actual Loss transferred	1,500
	13,500		**13,500**

2. Calculation of Stock on Consignment

	Invoice Value (15% of ₹1,25,000)	18,750
Add:	Proportionate Exp. (15% of ₹10,000)	1,500
	Value of Closing Stock	**20,250**
	Stock Reserve required $= \frac{25}{125} \times$ ₹ 18,750	3,750

3. Calculation of Commission payable to Raju

Total Sales (75% of goods)	1,00,000
Less: Sale at Invoice Price (75% × ₹ 1,25,000)	93,750
Excess Sale Proceeds realized by Raju	**6,250**
Commission Payable: @ 10% on Sales 93,750	9,375
@ 25% on excess Sale Proceeds 6,250	1,563

Illustration 11: Accounting for Consignment Transactions

X of Delhi purchased 10,000 meters of Cloth for ₹2,00,000 of which 5,000 meters were sent on Consignment to Y of Agra at the Selling Price of ₹30 per meter. X paid ₹5,000 for freight and ₹500 for packing etc. Y sold 4,000 meters at ₹40 per meter and incurred ₹2,0000 for selling expenses. Y is entitiled to a Commission of 5% on Total Sales Proceeds plus a further 20% on any surplus price realized over ₹30 per meter. 3,000 meters were sold at Delhi at ₹30 per meter less ₹3,000 for Expenses and Commission. Owing to fall in Market Price, the stock of cloth in hand is to be reduced by 10%. Prepare the Consignment Account and Trading and Profit & Loss Account in Books of X and his account in the books of Y.

Solution: **1. Consignment Account (In the books of Mr.X)**

Particulars		₹	Particulars	₹
To Goods sent on Consignment A/c		1,50,000	By Y's A/c – Sales	1,60,000
To Bank A/c	Freight	5,000	By Goods sent on Consignment (Loading)	50,000
	Packing Etc.	500	By Stock on Consignment **(WN 2)**	27,000
To John's A/c:	Selling Expenses	2,000		
	Commission **(WN 1)**	16,000		
To Stock Reserve **(WN 2)**		9,000		
To P&L (Profit on Consignment)		54,500		
Total		**2,37,000**	**Total**	**2,37,000**

2. Trading and Profit and Loss Account

Particulars	₹	Particulars			₹
To Purchases	2,00,000	By Sales			90,000
To Gross Profit c/d	26,000	By Goods sent on Consignment			1,00,000
		By Stock in hand	Cost	₹40,000	
		Less:	10%	₹4,000	36,000

Total	2,26,000	Total	2,26,000
To Expenses and Commission	3,000	By Gross Profit b/d	26,000
To Net Profit	77,500	By Consignment A/c (Profit on Consignment)	54,500
Total	**80,500**	**Total**	**80,500**

3. X's Account (In the books of Y)

Particulars	₹	Particulars	₹
To Cash A/c – Selling Expenses	2,000	By Cash / A/c – Sales Proceeds	1,60,000
To Commission	16,000		
To Balance c/d	1,42,000		
Total	**1,60,000**	**Total**	**1,60,000**

Working Notes:

1. Calculation of Commission payable to Y:

Particulars	₹	Commission
Total Sale Proceeds of Y	1,60,000	5% of ₹1,60,000 = 8,000
Surplus Proceeds realized over ₹30 per meter [4,000 × ₹(40 – 30)]	40,000	20% of ₹40,000 = 8,000
Total Commission		**₹16,000**

2. Stock on Consignment:

	Particulars	₹
	Cost of Consignment Stock (1,000 meters @ ₹20)	20,000
Less:	Reduction of 10% due to fall in Market Price	2,000
	Closing Stock before Loading	18,000
Add:	Loading50%	9,000
	Closing Stock after Loading	27,000

Note: Proportionate Expenses incurred by the Consignor have not been added to the Cost of Consignment Stock, as it has been valued at lower of Cost or Realizable Value.

Illustration 12: Accounting for Consignment Transactions

Mr. Ram and Co. of Delhi purchased 20,000 pieces of sarees @ ₹200 per saree. Out of these, 12,000 sarees were sent on consignment to M/s Laxman Traders of Bombay at the selling price of ₹240 per saree. The consignors paid ₹6,000 for packing and freight. M/s Laxman Traders sold 10,000 sarees @ ₹250 per saree and incurred ₹2,000 towards selling expenses and remitted ₹10,00,000 to Delhi on account. M/s Laxman Traders are entitled to a commission of 5% on Total Sales plus a further 20% commission on any surplus price realized over ₹240 per saree. 6,000 sarees were sold at ₹220 per share by the Consignor. Owing to fall in the market price, the value of stock of sarees in hand is to be reduced by 10%. Prepare the Consignment Account and the account of M/s Laxman Traders in the books of the Consignor.

Solution: **1. Consignment Account (In the books of M/s Ram & Co.Delhi)**

Particulars	₹	Particulars	₹
To Goods sent on Consignment (12,000 × 240)	28,80,000	By Laxman Traders (Sales) (10,000 × 250)	25,00,000
To Bank (Expenses)	6,000	By Goods sent on Consignment (Loading)	4,80,000
To Laxman Traders (Expenses)	2,000	By Stock on Consignment **(WN 1)**	4,32,900
To Laxman Traders (Commission) **[Note]**	1,45,000		
To Stock Reserve **(WN 2)**	72,000		
To Net Profit	3,07,900		
Total	**34,12,900**	**Total**	**34,12,900**

Note: 5% on ₹25,00,000 + 20% on ₹1,00,000 = 1,25,000 + 20,000 = ₹1,45,000.

2. Laxman Traders A/c

Particulars	₹	Particulars	₹
To Consignment A/c (Sales)	25,00,000	By Consignment A/c (Expenses)	2,000
		By Consignment A/c (Commission)	1,45,000
		By Bank	10,00,000
		By Balance c/d	13,53,000
Total	**25,00,000**	**Total**	**25,00,000**

Working Notes:

1. Valuation of Closing Stock on Consignment:		₹
	Consignment Value (2,000 sarees × ₹ 240)	4,80,000
Add:	Proportionate Expenses $\frac{6,000\times2,000}{12,000}$ 12,000	1,000
Less:	10% of (4,80,000 +1,000)	48,100
	Valuation of Closing Stock	**4,32,900**

2. Loading on Closing Stock		₹
	2,000 sarees × ₹ 40	80,000
Less:	10% of 80,000	(8,000)
	Loading on Closing Stock	**72,000**

Illustration 13: Accounting for Consignment Transactions

X of Calcutta on 5thJanuary, sent to Y of Bombay a Consignment of 250 Televisions costing ₹10,000 each. Expenses of ₹7,000 were met by the Consignor, Y of Bombay spent ₹4,500 for clearance on 30th January and the selling expenses were ₹500 per Television as and when the sale made by Y. Y sold, on 4th March, 150 Televisions at ₹14,000 per television and again on 10thApril, 75 televisions at ₹14,400. Mr. Y was entitled to a Commissions of ₹500 per television sold plus one–fourth of the amount by which the Gross Sales Proceeds less Total Commission there on exceeded a sum calculated at the rate of ₹12,500 per television sold, Y sent the Account Sale and the amount due to X on 30th April by Bank Demand Draft. You are required to show the Consignment Account and Y's Account in the books of X.

Solution:

1. Consignment Account

Date	Particulars	₹	Date	Particulars	₹
Jan 15	To Goods sent on Consignment A/c	25,00,000	March 4	By Y's A/c (Sales)	21,00,000
Jan 15	To Bank A/c	7,000	March 4	By Y's A/c (Sales)	10,80,000
Jan 30	To Y's A/c (Clearance Expenses)	4,500	April 30	By Stock on Consignment A/c	2,51,150
March 4	To Y's A/c (Selling Expenses)	75,000			
April 10	To Y's A/c (Selling Expenses)	37,500			
April 30	To Y's A/c (Commission)	1,63,500			
April 30	To Profit transferred to P&L A/c	6,43,650			
		34,31,150			**34,31,150**

2. Y's (Bombay) Account

Date	Particulars	₹	Date	Particulars	₹
March 4	To Consignment A/c – Sales	21,00,000	Jan 30	By Consignment (Clearance Expenses)	4,500
April 10	To Consignment A/c – Sales	10,80,000	March 4	By Consignment A/c (Selling Expenses)	75,000
			April 10	By Consignment A/c (Selling Expenses)	37,500
			April 30	By Consignment A/c (Commission)	1,63,500
			April 30	By Bank A/c	28,99,500
	Total	**31,80,000**		**Total**	**31,80,000**

Working Notes:

Calculation of Commission

Let Total Commission be X. Hence X = 225 × 500 + ¼ [21,00,000 + 10,80,000) – X – (12,500 × 225)]

X = 1,12,500 + ¼ (31,80,00 – X – 28,12,500)

$X = 1,12,500 + 91,875 - \frac{x}{4} \quad \frac{5x}{4} = 2,04,375 \; x = 1,63,500$

Total Commission = ₹ 1,63,500

Valuation of Closing Stock:

	Particulars	₹
Add:	25 Television @ ₹10,000	2,50,000
Add:	Proportionate Expenses of the Consignor $\frac{7,000\times25}{250}$	700
	Proportionate Clearance Expenses paid by the Consignee $\frac{4,500\times25}{250}$	450
	Closing Stock	**2,51,150**

Illustration 14: Consignment **N 19**

Anand of Bangalore consigned to Raj of pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand shows that Raj has effected sales amounting to ₹ 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 9,600. 10% of consignment goods of the value of ₹ 15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and the account of Raj in the books of Anand along with the necessary calculations.

Solution: **1. In the books of Mr. Anand Consignment Account**

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c **(WN 1)**	1,50,000	By Raj A/c – Sales effected	1,20,000
To Bank A/c – Freight & Insurance Expenses	12,000	By Abnormal loss A/c **(WN 1)**	16,200
To Raj A/c – Selling Expenses	9,600	By Goods sent on Consignment A/c (Loading)	30,000
To Raj A/c – Commission **(WN 4)**	13,125	By Stock on Consignment **(WN 3)**	24,300
To Stock Reserve **(WN 3)**	4,500		
To Profit & Loss A/c – (Profit on Consignment)	1,275		
	1,90,500		**1,90,500**

2. Raj's Account

Particulars	₹	Particulars	₹
To Consignment A/c – Sales	1,20,000	By Consignment A/c – Selling Expenses	9,600
		By Consignment A/c – Commission	13,125
		By Bank A/c – balance received	97,275
	1,20,000		**1,20,000**

Workings Notes: **1. Calculation of Abnormal Loss**

	Particulars	₹
	Goods destroyed by Fire (10% of the Consignment) **Note:** Invoice Value of goods sent on Consignment ₹ 15,000 × 100/10 = 1,50,000	15,000
Add:	Proportionate expenses incurred by Rahim (10% of ₹ 12,000)	1,200
	Gross Abnormal Loss at Invoice Price	16,200
Less:	Insurance Claim received	12,000
	Actual Loss	4,200

It is apparent from the question that the Consignor had issued Consignment goods at Invoice Value. Therefore, it is not proper to show any Gain out of Insurance Claim received. However, the Profit on Insurance is automatically included in Consignment Profit. Abnormal Loss A/c would appear as follows –

Particulars	₹	Particulars	₹
To Consignment A/c	16,200	By Bank A/c – Insurance Claim received	12,000
		By Profit and Loss A/c – Actual Loss transferred	4,200
	16,200		**16,200**

2. Calculation of Stock on Consignment

	Invoice Value (15% of ₹ 1,50,000)	22,500
Add:	Proportionate Exp. (15% of ₹ 12,000)	1,800
	Value of Closing Stock	**24,300**
	Stock Reserve required = $\frac{25}{125}$ × ₹ 22,500	4,500

3. Calculation of Commission payable to Raju

Total Sales (75% of goods)	1,20,000
Less: Sale at Invoice Price (75% × ₹ 1,50,000)	1,12,500
Excess Sale Proceeds realized by Raju	**7,500**
Commission Payable: @ 10% on Sales 1,12,500	11,250
@ 25% on excess Sale Proceeds 7,500	1,875

State with reasons, whether the following statements are True or False

Statements	T/F	Reasoning
1. The relationship between Consignor and Consignee is that of Principal and Agent.	True	Consignee can act only on behalf of and at the instructions of the Consignor. Consignee is not a Partner of Consignor.
2. In Consignment, Goods are despatched on the basis that the Goods will be sold on behalf of, at the expenses of and at the risk of the Consignee.	False	In Consignment, Goods are generally sold on behalf of, at the expense of and at the risk of the Consignor. However, if the Consignee gets del–credere Commission, the risk of Bad Debts is borne by him.
3. Account Sales is the Statement sent by the Consignor to the Consignee.	False	Accounts Sales is a statement sent by the Consignee to Consignor, setting out the Sales made by the Consignee, the Expenses incurred on behalf of the Consignor, the Commission earned by the Consignee, any advance given to the Consignor and the balance due to the Consignor.
4. Del–credere Commission is normally calculated on Total Sales.	True	Although it arises in relating to Credit Sales, it is calculated on the total sales, not merely on Credit Sales.
5. Loss of Stock is abnormal, when such Loss is due to inherent characteristics of the Commodities.	False	Loss of Stock is said to be Normal Loss, when such Loss is due to inherent characteristics of the Commodities.
6. Loss of Stock is said to be Normal Loss, when such loss is not due to inherent characteristics of the Commodities.	False	When Loss is caused by Fire, Theft, Abnormal, Spoilage, etc. (i.e. not due to inherent characteristics), such loss is said to be Abnormal Loss.
7. If the Consignee is not authorized to get the Del– credere Commission, then he is liable for all Losses on account of Non–Recovery of Debts.	False	If the Consignee is not authorized to get the Del–Credere Commission, then he is not responsible for any Bad Debts that may arise in due course of business.
8. Consignee has no right in the Profit on goods sent on Consignment.	True	Consignee acts as an Agent to the Consignment. He earns only Commission for the services he renders to Consignor.
9. In Consignment Account, ownership of the Goods remains with the Consignor.	True	The ownership of Goods remains with the Consignor. The Consignee does not become owner even though the goods are in his possession.
10. The Party to whom goods are sent is called 'Consignee'.	True	In Consignment, the party which sends the Goods is called the Consignor, while the party to whom Goods are sent is called the Consignee.
11. Overriding Commission is calculated on Credit Sales only.	False	In case the Sales exceeds a specific amount, an extra commission is allowed to the Consignee. This is termed as Overriding Commission. It is calculated on Total Sales.
12. In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods. **[M 19]**	False	The ownership of Goods remains with the Consignor. The Consignee does not become owner even though the goods are in his possession.
13. If Del Credere Commission is paid to Consignee, the Loss of Bad Debts is to be borne by the Consignor. **[N 18]**	False	**Refer Principles in Page 7.2, Para 1.4** **Hint:** If Del Credere Commission is paid, the Consignee bears the risk of Bad Debts.