

Consignment

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Fundamentals Of Accounting

Learning Objectives

- *After studying this unit, you will be able to :*
- Understand the special features of consignment business, meaning of the terms consignor and consignee.
- Analyse the difference between the two transaction – sale and consignment and understand that why consignment is termed as special transaction.

Learning Objectives

- Practise the accounting treatments for consignment transactions and events in the books of consignor and consignee.
- Learn the technique of computing value of closing stock lying with the consignor and also the amount of stock reserve in it

Learning Objectives

- Learn the technique of computing cost of abnormal loss and treatment of insurance claim in relation to it.
- Understand the distinction between ordinary commission, del-credere commission and over-riding commission paid to the consignee.
- See the variation of accounting treatment for bad debts when consignee is paid ordinary commission and when consignee is paid del-credere commission in addition.

MEANING OF CONSIGNMENT ACCOUNT

To consign means to send.

In Accounting, the term “consignment account” relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former.

IMPORTANT NOTES

The following should be noted carefully:

- (i) The party which sends the goods (consignor) is called principal.
- (ii) The party to whom goods are sent (consignee) is called agent.
- (iii) The ownership of the goods, i.e., the property in the goods, remains with the consignor or the principal – the agent does not become their owner even though they are in his possession. On sale, of course, the buyer will become the owner.

IMPORTANT NOTES

(iv) The principal does not send an invoice to the agent. He sends only a proforma invoice, a statement that looks like an invoice but is really not one. The object of the proforma invoice is to convey information to the agent regarding particulars of the goods sent.

(v) Usually, the agent recovers from the principal all expenses incurred by him on the consignment. This however can be changed by agreement between the two parties.

IMPORTANT NOTES

(vi) It is also usual for the agent to give an advance to the principal in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods.

(vii) For his work the agent receives a commission, calculated on the basis of gross sale. For ordinary commission the agent is not responsible for any bad debt that may arise. If the agent is to be made responsible for bad

IMPORTANT NOTES

Debts, he is to be paid a commission called del-credere commission. It is calculated on total sales, not merely on credit sales until and unless agreed.

(viii) Periodically, the agent sends to the principal a statement called Account Sales. It sets out the sales made by the agent, the expenses incurred on behalf of the principal, the commission earned by the agent and the balance due to the principal.

IMPORTANT NOTES

- (ix) Firms usually like to ascertain the profit or loss on each consignment or consignments to each agent.

Consignment Account relates to accounts dealing with such business where one person sends goods to another person on the basis that such goods will be sold on behalf of and at the risk of the former.

DISTINCTION BETWEEN CONSIGNMENT AND SALE

S. No.	Consignment	Sale
1.	Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee	The ownership of the goods transfers with the transfer of goods from the seller to the buyer

CONTINUED

2.	The consignee can return the unsold goods to the consignor.	Goods sold are the property of the buyer and can be returned only if the seller agrees.
3.	Consignor bears the loss of goods held with the consignee.	It is the buyer who will bear the loss if any, after the delivery of goods.

CONTINUED

4.	The relationship between the consignor and the consignee is that of a principal and agent.	The relationship between the seller and the buyer is that of a creditor and a debtor.
5.	Expenses done by the consignee to receive the goods and to keep it safely is borne by the consignor.	Expenses incurred by the buyer are to be borne by the buyer itself after the delivery of goods

VALUATION OF STOCK

The principle is that stock should be valued at cost or net realisable value whichever is lower, the same principle as is practised for preparing final accounts.

In the case of consignment, cost means not only the cost of the goods as such to the consignor but also all expenses incurred till the goods reach the premises of the consignee. Such expenses

Continued

Include packaging, freight, cartage, insurance in transit, octroi, etc. But expenses incurred after the goods have reached the consignee's godown (such as godown rent, insurance of godown, delivery charges) are not treated as part of the cost of purchase for valuing stock on hand.

COMMISSION

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods. Three types of commission can be provided by the consignor to the consignee, as per the agreement, either simultaneously or in isolation. They are:

ORDINARY COMMISSION

The term commission simply denotes ordinary commission. It is based on fixed percentage of the gross sales proceeds made by the consignee. It is given by the consignor regardless of whether the consignee is making credit sales or not. This type of commission does not give any protection to the consignor from bad debts and is provided on total sales.

DEL-CREDERE Comm.

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. This additional commission when provided to the consignee gives a protection to the consignor against bad debts (i.e. bad debts is no more the loss of the consignor. It is calculated on total sales unless there is any agreement between the consignor and the consignee to provide it on credit sales only.

OVER-RIDING COMMISSION

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price than specified or to encourage the consignee to put hard work in introducing new product in the market. Depending on the agreement it is calculated on total sales or on the difference between actual sales and sales at invoice price or any specified price.

ACCOUNT SALES

An account sale is the periodical summary statement sent by the consignee to the consignor. It contains details regarding –

- (a) sales made,
- (b) expenses incurred on behalf of the consignor,
- (c) commission earned,

Continued

- (d) unsold stock left with the consignee,
- (e) advance payment or security deposited with the consignor and the extent to which it has been adjusted,
- (f) balance payment due or remitted.

It is a summary statement and is different from Sales Account

ADVANCE BY CONSIGNEE vs SECURITY AGAINST CONSG.

Generally the consignor insist the consignee for some advance payment for the goods consigned at the time of delivery of goods. This advance payment is adjusted in full against the amount due by the consignee on account of the goods sold.

Continued

But if the advance money deposited by the consignee is in the form of security against the goods consigned then the full amount is not adjusted against the amount due by the consignee to the consignor on account of goods sold in case, there is any unsold stock left with the consignee. In that case proportionate security in respect of unsold goods is carried forward till the time the respective goods held with the consignee are sold.

Illustration 1

Exe sent on 1st July, 2006 to Wye goods casting Rs. 50,000 and spent Rs. 1,000 on packing etc. On 3rd July, 2006, Wye received the goods and sent his acceptance to Exe for Rs. 30,000 payable at 3 months. Wye spent Rs. 2,000 on freight and cartage, Rs. 500 on godown rent and Rs. 300 on insurance. On 31st

Continued

December, 2006 he sent his Account Sales (alongwith the amount due to Exe) Showing that 4/5 of the goods had been sold for Rs. 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay Rs. 600 due from him. Show the necessary ledgers accounts.

Solution

Important Ledger Accounts

Consignment to Wye Account

2006		Rs.	2006		Rs.
July 1	To Goods sent on Consignment A/c	50,000	Dec. 31	By Wye-sale Proceeds	55,000
July 1	To Bank expenses	1,000		By Stock on Consignment Account	10,600

Continued

Dec.31	To Wye- expenses & bad debt	3,400			
Dec. 31	To Wye- commission	5,500			
Dec. 31	To P&L Account- transfer of profit	5,700			
		65,600			65,600

Continued

Goods sent on consignment account

2006		Rs.	2006		Rs.
Dec.31	To Trading A/c	50,000	July 1	By consignment to Wye A/c	50,000

Stock on consignment account

2006		Rs.	2006		Rs.
Dec.31 2007	To Consignment	10,600	Dec.31	By Balance c/d	10,600
Jan.1	To Balance b/d	10,600			

Continued

Wye's account

2006		Rs.	2006		Rs.
Dec.31	To Consignment Wye A/c	55,000	July 3	By Bills Receivable Account	
				By Consignment to Wye A/c – Expenses & bad dept	30,000
				Commission	3,400
				By Bank	5,500
				(balance Received)	16,100
		55,000			55,000

Illustration 2

Miss Rakhi consigned 1,000 radio sets costing Rs. 900 each to Miss Geeta, her agent on 1st July, 2006. Miss Rakhi incurred the following expenditure on sending the consignment.

Freight	Rs. 7,650
Insurance	Rs. 3,250

Continued

Miss Geeta received the delivery of 950 radio sets. An account sale dated 30th November, 2006 showed that 750 sets were sold for Rs. 9,00,000 and Miss Geeta incurred Rs. 10,500 for carriage.

Miss Geeta was entitled to commission 6% on the sales effected by her. She incurred expenses amounting to Rs. 2,500 for repairing the damaged radio sets remaining in the stock.

Continued

Miss Rakhi lodged a claim with the insurance company which was admitted at Rs. 35,000. Show the Consignment Account and Miss Geeta's Account in the books of Miss Rakhi.

Solution

In the books of Miss Rakhi Consignment Account

	Rs.	Rs.		Rs.
To goods sent on Consignment A/c		9,00,000	By Miss Geeta	9,00,000
To Cash			By Insurance Co.	35,000
Freight	7,650		By Profit & Loss A/c abnormal loss	10,545
Insurance	3,250	10,900		
To Miss Geeta				

Continued

Carriage	10,500		By	
Repairs	2,500		Consignment	
Commission	54,000	67,000	Stock	1,84,391
To Profit & Loss		1,52,036		
A/c		11,29,936		11,29,936

Continued

Miss Geeta's Account

	Rs.		Rs.
To consignment A/c (Sales)	9,00,000	By Consignment A/c	
		Expenses:	
		Carriage	10,500
		Repairs	2,500
		Commission	54,000
			67,000
		By Bank	8,33,000
	<u>9,00,000</u>		<u>9,00,000</u>

Note: It is assumed that the agent has remitted the amount due from her.

Working Notes

1. Abnormal loss:

Cost to the consignor: 50 sets

@ Rs. 900

45,000

Add: Proportionate expenses
incurred by the consignor

$50 \times 10,900$

1,000

545

Less: Insurance claim

45,545

35,000

10,545

Working Notes

2. Valuation of Stock

200 sets @ Rs. 900		1,80,000
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Add: Proportionate expenses

of the consignor	$\frac{200 \times 10,900}{1,000}$	2,180
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Carriage and customs duty

By the consignee	$\frac{200 \times 10,500}{950}$	$\frac{2,211}{1,84,391}$
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Illustration 3

Vandana Traders of Delhi purchased 10,000 pieces of Sarees @ Rs. 100 per Saree. Out of these Sarees, 6,000 Sarees were sent on consignment to Vastralaya of Jabalpur at the selling price of Rs. 120 per Saree. The consignors paid Rs. 3,000 for packaging and freight.

Continued

Vastralaya sold 5,000 Sarees at Rs. 125 per Saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Delhi on account. They are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realised over Rs. 120 per Saree.

3,000 Sarees were sold at Rs. 110 per Saree.

Continued

Owing to fall in market price, the value of the stock of Sarees in hand is to be reduced by 10%.

Prepare the Consignment Account and Trading Account in the books of Vandana Traders and their account in the books of the agent Messrs Vastralaya of Jabalpur.

Solution

Vandana Traders, Delhi

Consignment Account

	Rs.		Rs.
To Goods sent on Consignment	7,20,000	By Vastrayala (Sales)	6,25,000
To Bank (expenses)	3,000	By Goods Sent on Consignment (loading)	1,20,000
To Vastrayala - Expenses	1,000	By Stock out on Consignment	1,08,450
Comission	36,250		
To Stock Reserve	18,000		
To Net Profit	75,200		
	8,53,450		8,53,450

Continued

Trading Account for the period ending....

	Rs.		Rs.
To Purchases 10,00,000		By Sales	3,30,000
Less: Goods on		By Closing Stock	90,000
Consignment 6,00,000	4,00,000	By Profit on	
To Net Profit	95,200	Consignment	75,200
	<u>4,95,200</u>		<u>4,95,200</u>

Continued

Vastralaya, Jabalpur Vandana Traders (Delhi) Account

	Rs.		Rs.
To Bank (Expenses)	1,000	By Bank/Sundry Debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	<u>6,25,000</u>		<u>6,25,000</u>

Working Notes

Rs.

(1) Commission payable

5% on Rs. 6,25,000

31,250

20% on Rs. 25,000

5,000

36,250

(2) The closing stock will be

1,000 Sarees @ Rs. 120 =

1,20,000

Working Notes

Add: Proportionate
expenses

$$\left[\text{Rs. } 3,000 \times \frac{1,000}{6,000} \right]$$

500

1,20,500

Less: 10%

12,050

Consignment Stock

(at loaded amount)

1,08,450

Loading = Rs. 20 x 1,000 – 10% = Rs. 18,000

(3) It is better to transfer profit on consignment to profit and loss account instead of trading account.

Illustration 4

Shri Mehta of Bombay consigns 1,000 cases of goods costing Rs. 100 each to Shri Sundaram of Madras.

Shri Mehta Pays the following expenses in connection with consignment:

	Rs.
Carriage	1,000
Freight	3,000
Loading charges	1,000

Continued

Shri Sundaram sells 700 cases at Rs. 140 per case and incurs the following expenses:

Clearing charges	850
Warehousing and storage	1,700
Packing and selling expenses	600

It is found that 50 cases have been lost in transit and 100 cases are still in transit.

Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

Solution

In the books of Shri Mehta Consignment of Madras Account

Dr.	Rs.		Cr. Rs.
To Goods sent on Consignment	1,00,000	By Sundaram (Sales)	98,000
To Bank (Expenses)	5,000	By Loss in Transit	
To Sundaram (Expenses)	3,150	50 cases @ Rs.105 each	5,250
To Sundaram (Commission)	9,800	By Consignment Stock	

Continued

To Profit on Consignment to Profit & Loss A/c	11,700	In hand 150 @ Rs. 106 each 15,900 In transit 100 @ Rs. 105 each 10,500	26,400
	<u>1,29,650</u>		<u>1,29,650</u>

Continued

Sundaram's Account

	Rs.		Cr.
To Consignment to Madras A/c	98,000	By Consignment A/c (Expenses)	3,150
		By Consignment A/c (Commission)	9,800
		By Balance c/d	85,050
	<u>98,000</u>		<u>98,000</u>

Working Notes

- (i) Consignor's expenses on 1,000 cases amounts to Rs. 5,000; it comes to Rs. 5 per case. The cost of cases lost will be computed at Rs. 105 per case.
- (ii) Sundaram has incurred Rs. 850 on clearing 850 cases, i.e., Re. 1 per case; while valuing closing stock with the agent Re. 1 per case has been added to cases in hand with the agent.

MCQ 1

P of Delhi sends out boxes of toothpaste costing Rs. 200 each. Each boxes consist of 12 packets. 60 boxes were sold by consignee at Rs. 20 per packet. Amount of sale value will be:

(a) Rs. 14400

(b) Rs. 12000

(c) Rs. 13200

(d) Rs. 14200

MCQ 2

Goods costing Rs 2,00,000 sent out to consignee at Cost + 25%. Invoice value of the goods will be:

(a) Rs. 250,000

(b) Rs. 2,40,000

(c) Rs. 300,000

(d) Rs. None

MCQ 3

Goods costing Rs 1,80,000 sent out to consignee to show a profit of 20% on Invoice Price. Invoice price of the goods will be:

(a) Rs. 2,16,000

(b) Rs. 2,25,000

(c) Rs. 2,10,000

(d) None

MCQ 4

Goods of the Invoice value Rs 2,40,000 sent out to consignee at 20% profit on cost. The loading amount will be:

- | | |
|----------------|----------------|
| (a) Rs. 40,000 | (b) Rs. 48,000 |
| (c) Rs. 50,000 | (d) None |

MCQ 5

X sent out certain goods to Y of Delhi. $\frac{1}{10}$ of the goods were lost in transit. Invoice value of goods lost Rs 12,500. Invoice value of goods sent out on consignment will be:

(a) Rs. 120,000

(b) Rs. 125,000

(c) Rs. 140,000

(d) Rs. 100,000

MCQ 6

Rabin consigned goods for the value of Rs 8,250 to Raj of Kanpur paid freight etc. of Rs. 650 and insurance Rs 400. Drew a bill on Raj at 3 months after date for Rs 3,000 as an advance against consignment, and discounted the bill for Rs 2960. Received Account Sales from Raj showing that part of the goods had realized gross Rs 8,350 and that his expenses and commission amounted to Rs 870.

MCQ 6 continued

The stock unsold was valued at Rs 2750. Consignee wants to remit a draft for the amount due. The amount of draft will be:

- (a) Rs. 2130 (b) Rs. 4480
- (c) Rs. 5130 (d) Rs. 5090

MCQ 7

X of Kolkata send out 1000 bag to Y of Delhi costing Rs 200 each. Consignor's expenses Rs 2000. Y's expenses non-selling Rs 1000, selling Rs 2000. 100 bags were lost in transit. Value of lost in transit will be:

- | | |
|----------------|----------------|
| (a) Rs. 20,200 | (b) Rs. 20,300 |
| (c) Rs. 20,000 | (d) Rs. 23,000 |

MCQ 8

X of Kolkata sends out 1000 bags to Y on Delhi costing Rs 2000 each. 600 bags were sold at 10% above cost price. Sale value will be:

(a) Rs. 13,20,000

(b) Rs. 13,00,000

(c) Rs. 12,00,000

(d) Rs. 13,50,000

MCQ 9

Which of the following statement is not true:

- (a) If del-crunder's commission is allowed, bad debt will not be recorded in the books of consignor
- (b) If del-crunder's commission is allowed, bad debt will be debited in consignment account
- (c) Del-crunder's commission is allowed by consignor to consignee
- (d) Del-crunder's commission is generally relevant for credit sales

MCQ 10

X of Kolkata sends out 400 bags to Y on Delhi costing Rs 200 each. Consignor expenses Rs 2000. Y expenses non selling Rs 2000, selling 1000. 300 bags were sold by &. Value of consignment stock will be:

- | | |
|----------------|----------------|
| (a) Rs. 20,400 | (b) Rs. 20,200 |
| (c) Rs. 20,000 | (d) Rs. 21,000 |

MCQ 11

X of Kolkata sent out 2000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value. The amount of bill will be:

(a) Rs. 1,74,000

(b) Rs. 2,00,000

(c) Rs. 2,90,000

(d) Rs. 1,20,000

MCQ 12

Which of the following statement is wrong:

- (a) Consignor is the owner of the consignment stock
- (b) Del-credere commission is allowed by consignor to protect himself for bad debt
- (c) Proportionate consignor's expenses is added up with consignment stock
- (d) All proportionate consignee's expenses will be added up for valuation of consignment stock.

MCQ 13

X of Kolkata sends out 500 bags to Y costing Rs 400 each at an invoice price of Rs 500 each. Consignor's A/c expenses Rs. 4000 consignee's expenses, non-selling Rs 1000, selling Rs. 2000. 400 bags were sold.

The amount of consignment stock at Invoice Price will be:

- | | |
|----------------|----------------|
| (a) Rs. 50,900 | (b) Rs. 50,800 |
| (c) Rs. 50,000 | (d) Rs. 51,000 |

MCQ 14

X of Kokata sends out 500 bags to Y costing Rs 400 each at an invoice price of Rs 500 each. Consignor's A/c expenses Rs 4000 consignee's expenses, non-selling Rs 1000, selling Rs. 2000. 400 bags were sold. The amount of Stock Reserve will be

- | | |
|----------------|----------------|
| (a) Rs. 10,000 | (b) Nil |
| (c) Rs. 20,000 | (d) Rs. 20,400 |

MCQ 15

Commission will be shared between:

- (a) consignor & Consignee
- (b) Only Consignee
- (c) Only Consignor
- (d) Third Party

MCQ 16

X of Kolkata sends out certain goods to Y of Mumbai at cost + 25%. $\frac{1}{2}$ of the goods received by Y is sold at 1,76,000 at 10% above IP. Invoice value of goods send out is:

(a) Rs. 300,000

(b) Rs. 3,20,000

(c) Rs. 180,000

(d) Rs. 340,000

MCQ 17

X of Kolkata sends out goods costing 300,000 to Y of Mumbai at cost + 25%. Consignor's expenses Rs 5000. $\frac{1}{10}$ th of the goods were lost in transit. Insurance claim received Rs 3000. The net loss on account of abnormal loss is:

(a) Rs. 27,500

(b) Rs. 25,500

(c) Rs. 30,500

(d) Rs. 27,000

MCQ 18

Rahim of Kolkata sends out 1000 boxes to Ram of Delhi costing Rs 100 each at an IP of Rs 120 each. Goods send out on consignment to be credited in general trading will be:

- | | |
|-----------------|-----------------|
| (a) Rs. 100,000 | (b) Rs. 120,000 |
| (c) Rs. 20,000 | (d) None |

THE END

Consignment