

CONSIGNMENT ACCOUNT

To consign means to send. Consignment account deals with the situation where one person sends goods to the other to be sold on behalf of and at the risk of the former. The person who sends the goods, i.e. the owner / principal, is called the **consignor** and the person who sells the goods on behalf of the principal, i.e. the agent, is called the **consignee**.

When the goods are sent by the consignor, it is recorded as outward consignment in his books.

When the consignee receives the same, it is recorded as inward consignment in his books.

The following are the characteristics of consignment account :

1. The party which sends the goods is called the consignor.
2. Only the possession and not the ownership of the goods is given to the consignee.
3. Since consignor is the owner of the goods, he bears the risk of loss of the goods.
4. When the goods are sent on consignment basis, sales invoice is not prepared. Instead, a rough invoice called "Proforma invoice" is prepared by the consignor.
5. When the consignor sends the goods, it is recorded as "outward consignment" in his books.
6. When the consignee receives the goods, it is recorded as "inward consignment" in his books.
7. Consignee gets commission for his services from the consignor. He usually recovers from the consignor all the expenses incurred by him on consignment. This can, however, be changed by an agreement between the two parties.
8. When the consignee is new, the consignor may require him to pay some security in the form of advance i.e. cash or bills of exchange.
9. The agent periodically sends a statement to the consignor called "Account sales". It shows the sales made by the consignee, expenses incurred by him on behalf of the principal, commission earned by him as well as balance due to the principal.

Valuation of stock :

As per AS-2, consignment stock is valued at cost or Net Realizable value whichever is less which is calculated as under :

Cost of consignment stock :

| | |
|---|----|
| Proportion purchase price of the unsold goods | XX |
|---|----|

(Total Purchase cost / total quantity x unsold quantity)

| | |
|---|----|
| Add : Proportionate expenses of consignor | XX |
|---|----|

(Expenses of consignor / total quantity x unsold quantity)

| | |
|---|----|
| Add : Proportionate expenses of consignee | XX |
|---|----|

CPT ACCOUNTS**CALIBRE COACHING CLASSES**

(Expenses of consignee / Quantity recd. by consignee x
unsold quantity)

—
XX

Net Realizable Value :

Expected selling price in the ordinary course of business

XX

Less : Estimated expenses to complete the goods

XX

Less : Estimated expenses to sell the goods

XX

XX

Normal Loss :

Normal loss is the loss of essential and unavoidable nature. It is not under the control of the parties. Since it is essential and unavoidable, it is spread over the entire consignment while valuing the closing stock. As a result of this, the cost of good units increases.

$$\text{Cost per unit (of good units)} = \frac{\text{Total cost}}{\text{Total quantity} - \text{Normal loss quantity}}$$

No entry is passed for the abnormal loss in the books of the consignor.

Abnormal Loss :

Abnormal loss is accidental or unnecessary loss. It is valued on the same line as that of the closing stock. In order to find the normal profit on consignment, abnormal loss is credited to consignment account and debited to profit and loss account.

Abnormal Loss

Total cost + exp. of consignor + Non-recurring exp of consignee

Total quantity

Quantity recd. by consignee

} x abnormal loss
quantity

Expenses on goods returned by the consignee :

Expenses on goods returned by the consignee are debited to consignment account. However, these expenses are ignored while valuing closing stock as it is incurred after the goods reach the consignee's godown.

Commission :

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the goods. Commission can be classified into following three categories as under :

| Ordinary commission | Del-credere commission | Over-riding commission |
|---|--|---|
| It is the simple commission which is allowed to all the consignees on total sales effected by them. | It is the commission provided to the consignee for protecting the consignor against the risk of bad debts. | It is provided when the consignee gives specialized services like: <ul style="list-style-type: none"> ➤ Introducing a new product in the market or entering a new market; or ➤ Supervising the work of the other consignees in the specified area; or ➤ Selling the goods at a price higher than the fixed selling price |
| It is calculated on total sales | It is calculated on total sales unless there is an agreement to provide it on credit sales | It is calculated on total sales or on the difference between actual sales and sales at invoice price |
| Guarantee against bad debts is not given. | Guarantee against bad debts is given. | Guarantee against bad debts is not given. |

Hints for solving the questions :

1. Consignee does not pass any entry for the movement of goods like goods received from the consignor, goods returned to the consignor, normal / abnormal loss, consignment stock etc. as he is not the owner of the goods.
2. When the goods are sent by the consignor to the consignee at invoice price then the effect of loading (profit element) must be removed from the opposite side of the account using the same account name as that of the original entry.

3. Consignee passes entry only when he sends advance to the consignor, makes a sale, incurs expenses on consignment and earns commission. He debits or credits consignor's account for these items. However, when del-credere commission is given to him, bad debts are debited to commission account or Profit and Loss account.

4. Amount due to consignor / Amount of Final settlement :

| | | |
|--|-----------|-----------|
| Sales proceeds | | XX |
| Less : Advance payment to consignor | XX | |
| Expenses incurred by consignee | XX | |
| Commission due to consignee | XX | |
| Bad debts if del-credere commission is not given | <u>XX</u> | <u>XX</u> |
| Amount due to consignor | | <u>XX</u> |

5. Commission equation :

$$X + 0 \text{---} X = (\text{Sales} \times \% \text{ commission}) + 0 \text{---} (\text{Sales} - \text{Cost} / \text{Invoice price of goods sold})$$

6. Calculation of over-riding commission :

| | |
|---------------------------------|-----------|
| Actual Sales | XX |
| (-) Sales at invoice price | <u>XX</u> |
| Surplus | <u>XX</u> |
| <u>Commission :</u> | |
| --- % on sales at Invoice price | XX |
| --- % on Surplus | <u>XX</u> |
| Total commission | <u>XX</u> |

7. When the goods are lost in transit or are still in transit, consignee's expenses are not considered for calculating abnormal loss or goods in transit.

8. When there is no normal or abnormal loss, closing stock is valued as under :

$$\frac{\text{Total cost of purchase} + \text{exp. of consignor} + \text{Non- recurring exp. of consignee} \times \text{unsold qty.}}{\text{Total quantity}}$$

9. To calculate the net abnormal loss, always consider the cost of the goods and not the invoice price.

10. Goods sent on consignment are always credited to General Trading Account at COST.

11. Calculation of profit on consignment :

| | | |
|--|-----------|-----------|
| Sales proceeds | | XX |
| (+) Abnormal loss | | XX |
| (+) Closing stock | | <u>XX</u> |
| | | XX |
| (-) Opening stock | XX | |
| Goods sent on consignment | XX | |
| Expenses of consignor | XX | |
| Expenses and commission of consignee | XX | |
| Bad debts if del-credere commission is not given | <u>XX</u> | <u>XX</u> |
| Profit / (Loss) | | <u>XX</u> |

12. When the consignee gives Bills to the consignor and the consignor discounts the same, the discounting charges are debited to General Profit and Loss Account.

13. Amount of commission to be transferred by the consignee to his Profit and Loss Account is the total amount of commission **Less bad debts** borne by him (if del-credere commission is received).

Multiple choice questions :

Goods in transit :

- A of Kolkata sends 500 boxes to B of Delhi costing Rs. 200 each. Consignor's expenses Rs. 5,000. $\frac{1}{5}$ th of the boxes were still in transit. $\frac{3}{4}$ of the goods received by consignee were sold. The amount of goods still in transit will be :
 - Rs.20,000
 - Rs. 21,000
 - Rs. 21,200
 - None

Profit on consignment

- In the books of consignee, the profit on consignment will be transferred to :
 - General Trading Account
 - General Profit & Loss Account
 - Drawings Account
 - None of the above
- In the books of the consignor, the loss on consignment will be transferred to :
 - Consignee's Account

- b. General Trading Account
 - c. General Profit & Loss Account
 - d. Bank Account
4. Ram of Delhi sends out Goods costing Rs. 2,00,000 to Shyam of Brindaban. Consignor's expenses Rs. 5,000. consignee's expenses in relation to sales were Rs. 2,000. $\frac{4}{5}$ of the goods were sold at 20% above cost. The profit on consignment will be :
- a. Rs. 26,000
 - b. Rs. 32,000
 - c. Rs. 26,200
 - d. Rs. (6,000)
5. Sachin of Saurashtra sends out to Saurav of Kolkata, goods costing Rs. 2,00,000 at cost + 25%, with the instruction to sell it at cost + 50%. If $\frac{4}{5}$ th of the goods are sold at stipulated selling price and the commission allowable on sales is 2%, what will be the profit on consignment in the books of the consignor.
- a. Rs. 86,200
 - b. Rs. 70,000
 - c. Rs. 75,200
 - d. Rs. 76,800
6. Goods sent on consignment Rs. 7,60,000. Opening consignment stock Rs. 48,000. Cash sales Rs. 7,00,000. Consignor's expenses Rs. 20,000. Consignee's expenses Rs. 12,000. Commission Rs. 20,000. Closing consignment stock Rs. 3,00,000. The profit on consignment will be :
- a. Rs. 1,50,000
 - b. Rs. 1,40,000
 - c. Rs. 92,000
 - d. None of the above.
7. X of Kolkata sends out 1,000 boxes to Y of Delhi costing Rs. 20 each. Consignor's expenses Rs. 2,000. $\frac{4}{5}$ th of the boxes were sold at Rs. 25 each. The profit on consignment will be :
- a. RS. 2,400
 - b. Rs. 2,000
 - c. Rs. 3,000
 - d. Rs. 3,500
8. Goods sent out on consignment RS. 2,00,000, consignor's expenses Rs. 5,000, consignee's expenses Rs. 2,000, cash sales Rs. 1,00,000, credit sales Rs. 1,10,000, consignment stock Rs.

40,000, ordinary commission payable to consignee Rs. 3,000, del-credere commission Rs. 2,000, the amount irrecoverable from customer Rs. 2,000. What will be the profit on consignment?

- a. Rs. 38,000
 - b. Rs. 40,000
 - c. Rs. 36,000
 - d. Rs. 43,000
9. Goods sent out on consignment Rs.. 2,00,000, consignor's expenses Rs. 5,000, consignee's expenses Rs. 2,000, cash sales Rs. 1,00,000, credit sales Rs. 1,10,000, consignment stock Rs. 40,000, ordinary commission payable to consignee Rs. 3,000, the amount irrecoverable from customer Rs. 2,000. What will be the profit on consignment?
- a. Rs. 38,000
 - b. Rs. 40,000
 - c. Rs.43,000
 - d. None

Final settlement amount :

10. Rahul of Hubli sent goods of the value of Rs. 8,250 to Rajni of Kanpur. He paid freight Rs. 650 and insurance Rs. 400. he drew a bill on Rajni at 3 months after date for Rs. 3,000 as an advance against consignment and discounted the bill for Rs. 2,960. Received account sales from Rajni showing that a part of the goods had realized gross Rs. 8,350 and that his expenses and commission amounted to Rs. 870. The stock unsold was valued at Rs. 2,750. Consignee wants to remit a draft for the amount due. The amount of draft will be :
- a. Rs. 2,130
 - b. Rs. 4,480
 - c. Rs. 5,130
 - d. Rs. 5,090
11. Chetan of Bangalore sends out goods costing Rs. 3,000 to Yashwant of Mumbai. Freight and insurance paid by the consignor Rs. 100. Consignee's expenses Rs. 200. $\frac{4}{5}$ th of the goods were sold for Rs. 3,000. Commission is 2% on sales. Consignee wants to settle the account with the help of a bank draft. Rhe amount of draft will be :
- a. Rs. 2,470
 - b. Rs. 2,800
 - c. Rs. 3,000
 - d. Rs. 1,800

Calculation of commission

12. Rao of Kolkata sent goods costing Rs. 1,00,000 to Yayati of Uttar Pradesh. $\frac{3}{5}$ th of the goods were sold by the consignee for Rs. 70,000. Commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of commission will be :
- Rs. 2,833
 - Rs. 2,900
 - Rs. 3,000
 - Rs. 2,500
13. Zinia of Mumbai sends out goods to Utsav of Ahmedabad at 25% profit on cost price. Invoice price of the goods is Rs. 2,00,000. $\frac{4}{5}$ th of the goods were sold by the consignee at Rs. 1,76,000. Commission 2% upto invoice value and 10% of any surplus above invoice value. The amount of commission will be:
- Rs. 4,800
 - Rs. 5,200
 - Rs. 3,200
 - Rs. 1,600
14. Anand sends goods to Binu to be sold at 125% of cost which is invoice price. Commission 10% on sales and 25% of any surplus realized above IP. 10% of the goods sent out on consignment, invoice value of which is Rs. 12,500 were destroyed. 75% of the total consignment is sold by Binu at Rs. 1,00,000. What will be the amount of commission payable to Binu?
- Rs. 10937.50
 - Rs. 10,000
 - Rs. 9,000
 - Rs. 9700
15. X of Kolkata sends out goods costing Rs. 1,00,000 to Y of Mumbai at cost + 25%. Consignor's expenses Rs. 2,000. $\frac{3}{5}$ th of the goods were sold by the consignee at Rs. 85,000. commission 2% on sales + 20% of the gross sales less all commission exceeds invoice price. Amount of commission will be :
- Rs. 3,083
 - Rs. 3,000
 - Rs. 2,500
 - Rs. 2,000
16. Xevier of Kolkata sends out goods costing Rs. 3,00,000 to Yajna of Delhi. Commission payable is 2% on sales + 3% on sales as del-credere commission. The entire stock is sold by the consignee

for Rs. 4,00,000. However, the consignee is able to recover only Rs. 3,95,000 from the debtors.

The amount of profit to be transferred to P/L as net commission by the consignee will be :

- a. Rs. 15,000
- b. Rs. 22,000
- c. Rs. 21,000
- d. Rs. 20,000

17. A consignee sold goods costing Rs 1,00,000 at a profit of Rs. 20,000. Out of the total sales 40% was credit sales as per the terms of agreement, the consignee will get 5% ordinary commission, 2% del-credere commission on credit sales and 3% over riding commission on amount in excess of cost price. The amount of commission will be :

- a. Rs. 7,560
- b. Rs. 7,680
- c. Rs. 9,000
- d. Rs. 6,000

18. Mr. A consigned goods costing Rs. 2,50,000 to Mr. B at an IP of Rs. 3,00,000. The goods were to be sold at IP or above. Mr. B was entitled to a commission of 5% on sales at IP and 30% of any surplus realized above IP. Mr. B sold some goods at IP of Rs. 2,00,000 and some at 10% above cost price i.e. Rs. 1,10,000. The amount of commission will be

- a. Rs. 18,000
- b. Rs. 15,000
- c. Rs. 12,500
- d. Rs. 15,500

Return of goods

19. Goods costing Rs. 80,000 were consigned by Manoj and Co. to Anita and Co. for Rs. 1,00,000. Expenses of consignor in this respect were Rs. 6,000. Consignee spent Rs. 6,000 on Octroi and Rs. 3,000 for selling the goods. Some of the goods costing Rs. 10,000 were returned by the consignee and incurred an expense of Rs. 800. The amount to be credited to consignment account for goods returned will be :

- a. Rs. 12,500
- b. Rs. 11,500
- c. Rs. 14,000
- d. Rs. 14,100