



Meaning

Consignment business refer to the business of sending goods to the agents for sale. In such a business, the consignor retains the ownership of the goods although the goods are in possession of the agent. The agent has to sell the goods on behalf of and at the risk of the consignor who is his principal. The owner of the goods who sends the goods to the agent is called the Consignor. The agent is called the consignee. He sells goods on behalf of his principal. He receives the commission as his remuneration.

Necessity of Consignment Sales

The manufacturers and wholesalers are usually concentrated in one place. They cannot reach distant markets. They are also not aware of the marketing conditions prevailing in strange and new markets. However, by appointing agents, they can sell their goods in a wider market. Thus, they can maximise their profits by maximising the sales in wider market through consignment sales. They get the benefit of the services rendered by the consignee. The consignee contacts the parties and arranges for the sales. Thus the manufacturers and wholesalers are relieved of the burden of reaching the distant market and making sales arrangement. Sometimes, the manufacturers and wholesalers do not have personel and financial resources to speed up their distribution network. In such circumstances, the consignment sales are preferred by them.

Advantages of Consignment

To the Consignor:

1. The Consignor can widen market for his goods through Consignment sales. He can make sales in new and distant market.
2. He is relieved of the responsibility of sales.
3. He can maximise his profits.
4. He gets the benefit of close knowledge of the consignee about the marketing conditions.

To the Consignee:

1. The Consignee earns by way of commission.
2. He can carry on consignment sales in addition to his normal business.
3. He can increase his income.

Relationship between Consignor and Consignee

The manufacturers and traders usually appoint their agents at different places in the country to exploit sales opportunities in different areas. Such agents may be appointed in foreign countries also to exploit sales opportunities in the foreign market. These agents are generally local people, who know the marketing conditions well. Therefore, they find themselves in a better position to sell the goods on behalf of the manufacturers traders. These agents or representatives work on commission. The amount of commission is based on total sales effected by them.

The representatives or agents are very helpful to the manufacturers and traders as they know the marketing conditions well. They possess intimate knowledge of the nature of Competition in the market, needs and preferences of the customers, the fashions going on in the market, their buying motives, buying power etc. Therefore, they can exploit the sales opportunities properly.

The agents undertake the task of selling goods at the risk of the manufacturers or traders. They are not responsible for any loss or damage. The expenses incurred by the agents are also borne by the manufacturers or traders. The relation of the manufacturer and the agent is that of a principal and an agent. The agent has to act according to the instructions given by the principal. The manufacturers or wholesalers supply goods to the agents for sale. The method of supplying the goods to the agents for sale is known as consignment method. Though the goods supplied to the agent are in his possession, he does not get any right of ownership. The goods remaining unsold are to be returned to the principal at his cost.

Difference between a Consignment and a Sale

| Consignment | Sale |
|--|---|
| 1. The property in goods remains with the person who consigns. | 1. The property in goods passess to the buyer after the sale is made. |
| 2. The person to whom the goods are consigned is an agent. | 2. The person to whom the goods are sold is a buyer. |

| | |
|---|---|
| 3. Goods consigned may be returned by the agent to the principal if he fails to sell the goods. | 3. Goods sold are not returned except for some special reasons. |
| 4. In consignment, the losses and damages are borne by the consignor – the principal. | 4. In sale, the losses and damages are borne by the buyer. |

Formalities in Consignment

The following formalities are involved in consignment:

1. The Consignor and the Consignee enter into a contract. The Consignor and Consignee agree to certain terms and conditions such as rate of commission, method of sale, the nature of goods to be sold etc.
2. The Consignor sends the goods to the Consignee along with the proforma invoice. He incurs certain expenses on consignment.
3. The Consignee sells the goods as per the instructions of the Consignor.
4. The Consignee periodically sends an Accounts Sales to the consignor. The account sales gives details of goods sold, advance if any, expenses incurred by the Consignee, Consignee's Commission and balance to be paid to the Consignor etc.
5. The Consignor periodically finalises the consignment accounts in order to know profit or loss on consignment.
6. The Consignee maintains the consignor's account and closes it after the final settlement is made.

Difference between Consignment and Goods on Sale or Return

In consignment, goods are supplied to an agent, but in sale or Return, goods are supplied to an optional buyer. In Consignment, the agent is allowed commission at a certain rate on sales made by him whereas in Sale or Return, no commission is allowed to an optional buyer.

Some Important Terms

Consignor: A consignor is a person who consigns goods for sale. He is the owner or principal.

Consignee: A consignee is a person to whom goods are consigned. He is an agent.

Commission: This is the remuneration payable to the consignee for selling the goods. It is based on amount of sales effected by him.

Proforma Invoice

A Proforma Invoice is sent by the consignor to the consignee along with the goods. It is a statement giving the particulars of goods supplied i.e. quantity, weight, measurement, price, marking, packing etc. Proforma invoice may be prepared either at cost price or at invoice price in order to enable the Consignee to sell the goods at maximum profits. Normally, a proforma invoice is prepared at a higher price. The main purpose of preparing the invoice at a higher price is to keep the consignee in dark about the actual profit earned by the consignor. The difference between a proforma invoice and an invoice is as given below:

| Proforma Invoice | Invoice |
|---|--|
| 1. Proforma Invoice is sent to the prospective customer or consignee. | 1. Invoice is sent to the buyer. |
| 2. Proforma Invoice is sent before the goods are despatched. | 2. Invoice is sent after the goods are despatched. |
| 3. Proforma Invoice does not involve an actual sale. | 3. Invoice is sent on actual sale. |
| 4. Proforma Invoice is sent, if required. | 4. Invoice is sent regularly. |
| 5. Prospect is not required to pay the value of the Proforma Invoice. | 5. Buyer has to pay the value of the invoice. |

Purposes of a Proforma Invoice:

The following are the main purposes for which a Proforma Invoice is sent:

1. It may be sent as a quotation in reply to the enquiry made by a customer.
2. It may be sent to the prospective buyer, when goods are sent on approval.
3. It may be sent to the prospective buyer when the seller intends to secure payment before the despatch of goods.
4. It may be sent to the prospective buyer when goods are sent to the foreign agent on consignment basis.

Specimen of a Proforma Invoice:

| Proforma Invoice | | | | |
|-----------------------|---|--|-------------------------|---------------|
| Suresh and Co. | | | | |
| Telegram | | Fort, Bombay | | |
| Phone: 324534 | | Dt. 12.12.2008 | | |
| Buyer's Name: | | G.D. Chandark Bandra (E), Bombay-51 | | |
| Sr. No. | Particulars | Rate | Quantity | ₹ Ps. |
| 1. | Book-keeping and Accountancy by Prof. Ranade and Prof. Railkar. | 13.00 | 10 | 130.00 |
| 2. | Organisation of Commerce by Prof. Ramanand and Sagar. | 10.00 | 10 | 100.00 |
| 3. | Secretarial Practice by Chitnis and Cherian. | 10.00 | 10 | <u>100.00</u> |
| | | | | 330.00 |
| | Less : 10% Trade Discount | | | 33.00 |
| | | | | <u>297</u> |
| E and O.E. | | | Signature of the Seller | |

Expenses of Consignment

A Consignor has to pay for expenses while consigning goods to a consignee. Such expenses may be carriage, cartage, dock dues, freight, Insurance etc. All such expenses should be charged to Consignment Account.

A Consignee also has to incur expenses on dock dues, unloading charges, cartage, warehouse rent etc. These expenses may be paid by the consignee and debited to Consignor's Account in his books. While settling the accounts the Consignee deducts the amount of expenses incurred by him as well as his commission, and sends the net amount less advance, if any, to the Consignor on Account.

Advance on Consignment

Generally, the Consignee sends some amount to the Consignor as an advance. Such an advance is not a part of sales proceeds and therefore, it should not be credited to Consignment Account. Advance is paid to the consignor as a security for the goods lying with the Consignee. It should be posted to the credit of the consignee's personal account. The advance may be made by way of accepting a bill of exchange drawn by the Consignor. The bill of exchange received may be discounted with the banker and cash may be obtained. The amount of discount is treated in two different ways. If it is treated as a special expense regarding Consignment it should be debited to consignment account. If it is treated as an ordinary financial expense, it should be charged to Profit and Loss Account.

Account Sales

As and when goods are sold by the Consignee, Account Sales is sent by him to the Consignor. Account Sale is nothing but a statement stating the details of goods sold i.e. quantity and type of goods sold, the rate and total value of goods sold during the period. From this total value, amount of commission, expenses and advance, if any, is deducted. If the account sale is made in foreign currency, it will be necessary to convert the figures into our currency as per the rate of exchange prevailing on the date of receipt of the Account Sale.

| Specimen of Account Sales | | |
|--|----|-----|
| Haresh Book Depot Delhi | | |
| Dated: 15 th June, 2008 | | |
| Re: Consignment 1000 books received from Kamal Publishers, Bombay for sale on their account and at their risk. | | |
| Account Sales | | |
| | ₹ | ₹ |
| 50 Books sold @ ₹ 10 each | | 500 |
| Less: Charges | | |
| Freight and Insurance | 10 | |
| Carriage | 25 | |

| | | |
|---|----|-----------------------|
| Commission 10% | 50 | 85 |
| Net proceeds | | 415 |
| Less: Advance given | | 200 |
| | | 215 |
| Balance due remitted as per Bank draft enclosed | | 215 |
| | | 000 |
| E and O.E. | | For Haresh Book Depot |

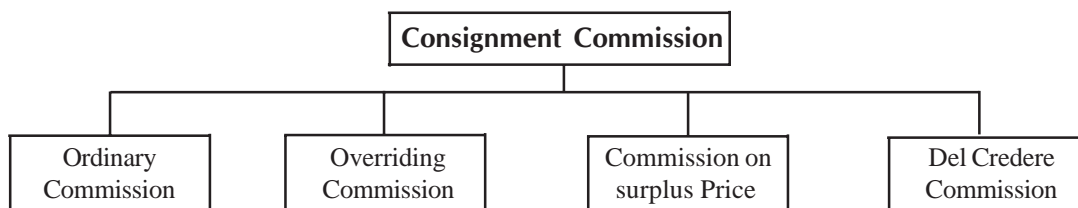
The main contents of an account sales are as enlisted below:

- gross sales proceeds;
- expenses incurred by the consignee on consignment;
- commission payable to the consignee;
- the amount already sent as an advance to the Consignor;
- the balance either to be remitted or remitted alongwith Account Sales to the Consignor.

Commission of Consignee

The consignee sells the goods on behalf of the consignor. He sells the goods at the risk of the consignor. He incurs the expenses on consignment such as unloading charges, insurance charges of godown, warehousing charges, octroi duty, etc. on behalf of the consignor. He is entitled to receive the commission at an agreed rate. Usually, the commission is paid as a percentage of the total sales effected by him. He may also be paid an extra commission if he sells the goods at a higher price. Such an extra commission is paid to him as an incentive to sell the goods at the maximum possible price.

Types of Commission:



Ordinary Commission: the normal commission allowed to the consignee. It is allowed on total sales (cash sales plus credit sales) at a certain percentage.

Overriding Commission: It is allowed in addition to the normal commission for additional efforts put in by the consignee for creation of demand for the product in the market. It is calculated at a certain percentage on the total sales.

Commission on Surplus Price: It is allowed to the consignee to encourage him to sell the goods at a higher price on cash or on credit basis. In this case, two rates are fixed. One at a certain percentage on invoice price of goods sold. It is normally lower. Another rate is fixed for any surplus price realised over and above the invoice price. It is normally fixed at a higher rate.

Del credere Commission: The consignee may sell goods either on cash or on credit basis unless otherwise instructed. When the goods are sold on credit, there is a possibility of loss on account of non-recovery from debtors. In case the debtors fail to make payment, there will be a loss due to bad debt. This loss is borne by the consignor. The consignor may allow additional commission to the consignee for taking the additional responsibility of recovery of dues from customers. In this case, the consignee bears the loss on account of bad debt if any. It is calculated at a certain percentage on total sales. The special commission allowed to the consignee for additional work of collection is called del credere commission. Once the del credere commission is allowed, the consignee gives guarantee of recovery from the customers. Any bad debt loss is to be borne by the consignee.

Accounting of Consignment Transactions

Consignment transactions are recorded by both the parties i.e. the Consignor and the Consignee. The Consignor opens Consignment Account to find out profit or loss on consignment transactions which is transferred to Profit and Loss Account. Consignment Account is a nominal account. He also keeps Consignee's Account to know the amount due from the Consignee.

The Consignee maintains Consignor's Account to find out the amount due to the Consignor. He may maintain Consignment Debtors Account also.

The specimen journal entries are as given in the following chart:

A Chart showing Specimen Journal Entries

| Transactions | In the Books of the Consignor | In the Book of the Consignee |
|---------------------------------------|---|---|
| 1. Goods set on consignment | Consignment A/c Dr. To Goods sent on Consignment | No Entry |
| 2. Expenses incurred by the consignor | Consignment A/c Dr. To Cash A/c | No Entry |
| 3. Advance given by the consignee | | |
| i) By cheque | Bank A/c Dr. To Consignee's A/c | Consignor's A/c Dr. To Bank A/c |
| ii) By bill | Bill Receivable A/c Dr. To Consignee's A/c | Consignor's A/c Dr. To Bills Payable A/c |
| 4. Discounting of the bill | Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c | No Entry |
| 5. Goods returned by consignee | Goods sent on Consignment A/c Dr. To Consignment A/c | No Entry |
| 6. Goods sold by consignee | | |
| i) for cash | Consignee's a/c Dr. To Consignment A/c | Cash A/c Dr. To Consignor's A/c |
| ii) on credit | Consignee's A/c Dr. To Consignment A/c | Consignment Debtors A/c Dr. To Consignor's A/c |

| Transactions | In the Books of the Consignor | In the Books of the Consignee |
|---|---|--|
| 7. Expenses incurred by consignee | Consignment A/c To Consignee's A/c | Consignor's A/c To Cash A/c |
| 8. Collection of cash by consignee from consignment debtors | No Entry | Cash A/c To Consignment Debtors A/c |
| 9. Bad debts incurred | | |
| i) When no del credere commission is allowed | Consignment A/c To Consignee's A/c | Consignor's A/c To Consignment Debtor's A/c |
| ii) When del credere commission is allowed | No Entry | Bad Debts A/c To Consignment Debtors A/c |
| 10. Goods taken by the consignee | Consignee's A/c To Consignment A/c | Purchase A/c To Consignor's A/c |
| 11. Commission due to consignee | Consignment A/c To Consignee's A/c | Consignor's A/c To Commission A/c |
| 12. Amount sent by consignee against sale proceeds | | |
| i) In Cash | Cash A/c To Consignee's A/c | Consignor's A/c To Cash A/c |
| ii) By Bank Draft | Bank A/c To Consignee's A/c | Consignor's A/c To Bank A/c |
| iii) By Bills | Bills Receivable A/c To Consignee's A/c | Consignor's A/c To Bills Payable A/c |
| 13. Accounting of closing stock with consignee | Consignment Stock A/c To Consignment A/c | No Entry |
| 14. Normal loss of goods | No Entry | No Entry |
| 15. Abnormal loss of goods | Abnormal Loss A/c To Consignment A/c | No Entry |
| 16. If the abnormal loss is recoverable | Insurer's A/c To Abnormal Loss A/c | No Entry |
| 17. If abnormal loss is irrecoverable | Profit and Loss A/c To Abnormal Loss A/c | No Entry |
| 18. Profit on consignment | Consignment A/c To Profit and Loss A/c | No Entry |
| 19. Loss on consignment | Profit and Loss A/c To Consignment A/c | No Entry |
| 20. Closing goods sent on Consignment Account | Goods sent on Consignment A/c To Trading A/c | No Entry |

Valuation of Consignment Stock

Goods sent on consignment by the consignor may not be sold. Therefore, the unsold goods in the possession of the consignee have to be properly valued. Proper valuation of unsold stock is essential as they are to be taken into account for realistic determination of profit or loss on consignment.

The Stock of goods which are lying unsold with the consignee should be valued at cost plus proportionate amount of non-recurring expenses incurred. Non-recurring expenses means the expenses which increase the cost of the goods. For example, freight, carriage, cartage, insurance incurred by the consignor and carriage, custom duty, dock duty etc. incurred by the consignee are the expenses which increase the cost of the goods at the consignee's place. Commission allowed to a consignee is a recurring charge and therefore, it should not be apportioned. In other words, all such expenses which are paid for the purpose of making the goods ready for sale at the consignee's place should be taken into account while calculating the value of stock. Normally, the consignor is required to incur carriage, insurance, freight etc. and the consignee is required to incur import duty, custom charges, clearing charges, Octroi duty, transport charges, etc. Proportion of such expenses should be taken into account while calculating the value of stock. In addition to the above, the consignee may be required to incur godown rent, advertisement charges, brokerage, commission, packing etc. These expenses are of recurring nature and therefore, proportion of such expenses should not be taken into account while making valuation of the stock.

The following illustration explains as to how consignment stock is valued.

Illustration: 1

Example: Suppose 50 Radio sets are sent on consignment at a cost of ₹ 1,000 per set. The consignor spent ₹ 2,000 on freight. The Consignee spent ₹ 3,000 for octroi duty and ₹ 2,000 for insurance of godown. Presuming that 30 sets are sold out, how the stock will be valued?

| | | |
|--|---|--------|
| | ₹ | |
| 20 Radio sets at ₹ 1,000 | = | 20,000 |
| Plus: Proportionate Expenses | | |
| Incurred by the Consignor $\frac{20 \times 2,000}{50}$ | = | 800 |
| Plus: Proportionate Non-recurring Expenses | | |
| Incurred by the Consignee | = | 1,200 |
| Value of Stock | | 22,000 |

Seeps in Stock Valuation:

1. To ascertain the volume of closing stock, volume of good sent on consignment less volume of goods sold out = volume of closing stock. If the quantity is not given in the problem, the cost should be considered instead of volume in the above formula.

$$\frac{20 \times 3,000}{50}$$

2. (i) To determine the cost price of the consignment stock. This is given by:

$$\left(\begin{array}{l} \text{Volume of} \\ \text{Closing Stock} \end{array} \times \text{Cost per unit} \right) + \begin{array}{l} \text{Proportion ate} \\ \text{Non - recurring Epenses} \end{array}$$

- (ii) The proportionate non-recurring expenses are calculated as given below:

$$\frac{\text{Total Non-recurring Expenses}}{\text{Volume of Goods or}} \times \frac{\text{Volume of Stock or Cost of Stock}}{1}$$

Some of the non-recurring expenses are:

(a) Incurred by the Consignor:

Freight, packing expenses, forwarding expenses, insurance.

(b) incurred by the Consignee:

Freight, carriage inward, octroi duty, custom duty, dock duty, excise duty, unloading charges.

3. Calculate the net realisable value of goods lying unsold with the consignee.
4. Select the lower of the two as the value of goods lying unsold with the consignee.

Loss of Stock

Sometimes, the goods supplied by the Consignor to the Consignee may be partly damaged in transit and the party stands to loss on this account. Such a loss should be properly valued and taken into books of accounts. The valuation of loss is to be made as per the principles that are followed in valuation of unsold stock.

Normal Loss:

In valuation of the consignment stock, the normal loss of goods has to be taken into account. A normal loss implies a loss which is inherent and unavoidable. It occurs despite due precautions. The following example will explain better as to how normal loss is taken into account while valuing stock.

Illustration: 2

Example: Alpha Traders, Mumbai despatched 50 tonnes of coal to Beta Manufacturers of Calcutta costing ₹ 100 per tonne. They pay ₹ 5,000 towards freight. The consignee receives only 47 tonnes of coal.

In this case, the total cost of coal comes to ₹ 10,000 [(50 × 100) + 5,000] to the Consignor. But the consignee receives only 47 tonnes of coal. Thus there is a loss of 3 tonnes which is unavoidable in

case of such a material. Therefore, the legitimate cost of 47 tonnes should be taken as ₹ $\frac{10,000}{47} = ₹$

213 (Approx) or ₹ 116 (approx).

Supposing, 5 tonnes are unsold, the value of stock should be 5 × 213 = ₹ 1065

Abnormal Loss:

As against the normal loss, the abnormal loss is caused by carelessness, negligence or bad luck. It is in fact, avoidable. It reduces the value of the stock and profit on consignment. If some stock is stolen, the loss on account of theft should be computed as we value the stock. The loss should be credited to the Consignment Account and debited to Profit and Loss Account. This is based on the logic that correct profit on consignment should be ascertained without being unduly influenced by abnormal loss. Secondly, the Profit and Loss Account would show the reduced profit. If some loss is recoverable from the Insurance company, the loss to be debited to Profit and Loss Account should be reduced to that extent.

Goods in Transit

Sometimes the goods consigned by the consignor do not reach the consignee as they are in transit. Such goods are called as goods in transit. Such goods are to be valued like Closing Stock. Such goods are valued at cost plus proportionate expenses incurred by the consignor. The entry for this is the same as closing stock of goods. The consignees book will not show any entry of these goods.

Discounting of Bill Received on Consignment

Sometimes, the bills received from the consignee are discounted by the consignor due to urgency of cash. The bank deducts some amount which is called as discount. It is calculated at the rate of interest for the unexpired period. Such discount is charged to P and L A/c. However, if it is treated as a consignment expense, it should be debited to Consignment A/ c.

Accounting Entries

1. When the goods are not insured and damaged in transit:

| | |
|---------------------------|-----|
| Loss by Fire/Accident A/c | Dr. |
| To Consignment A/c | |
2. When the insured goods are damaged:

| | |
|---------------------------|-----|
| Loss by Fire/Accident A/c | Dr. |
| To Consignment A/c | |
3. When Insurance claim is received:

| | |
|------------------------------|-----|
| Bank A/c | Dr. |
| To Loss by Fire/Accident A/c | |
4. The balance in loss by Fire/Accident Account is transferred to Profit and Loss Account:

| | |
|------------------------------|-----|
| Profit and Loss A/c | Dr. |
| To Loss by Fire/Accident A/c | |

After passing this entry the loss by Fire/Accident Account is closed.

Consignment Inwards

Consignee is merely an agent. He does not become an owner of the goods that he has received from the consignor. The expenses incurred are borne by the Consignor. Therefore, no entries are passed in the books of the Consignee. When goods are received and expenses are incurred by the consignee he gets them reimbursed from the Consignor. He is entitled to his commission only.

In the Books of a Consignor

| Dr. | Specimen Form of a Consignment A/c | | Cr. |
|--|------------------------------------|--|-------|
| | ₹ | | ₹ |
| To Goods sent on Consignment ... | ... | | |
| To Bank: | | | |
| Carriage ... | ... | By Goods sent on Consignment (Excess Value) | ... |
| Insurance ... | ... | By Goods sent on Consignment (Returned) | ... |
| Misc. Expenses ... | ... | By Insurance Co. (Insurance Claims) | ... |
| To Consignee's A/c: | | By Profit and Loss (Uncovered Loss) | ... |
| Import Duty ... | ... | By Consignee's A/c (Sale Proceeds) | ... |
| Dock Dues ... | ... | By Consignment Stock A/c | ... |
| Octroi ... | ... | By Profit and Loss A/c (Loss) | ... |
| Carriage ... | ... | | |
| Insurance ... | ... | | |
| Godown Rent ... | ... | | |
| Misc. Expenses ... | ... | | |
| To Consignment Stock Reserve | ... | | |
| To Profit and Loss A/c (Profit) | ... | | - |
| | ===== | | ===== |
| Dr. | Specimen of a Consignee's A/c | | Cr. |
| | ₹ | | ₹ |
| To Consignment A/c (Sales Proceeds) | ... | By Consignment A/c (All Expenses incurred by the Consignee and commission) | ... |
| | | By Bank (Advance by Draft) | ... |
| | | By Bills Receivable (Advance) | ... |
| | - | By Bank (Payment of Balance) | ... |
| | ===== | | ===== |

In the Books of a Consignee

| Dr. | Consignor's A/c | | Cr. |
|------------------------------|-----------------|--------------------------|------------|
| | ₹ | | ₹ |
| To Bank (Expenses) | ... | By Bank (Sales Proceeds) | ... |
| To Commission | ... | | |
| To Bills Payable (Advance) | ... | | |
| To Bank (Payment of Balance) | <u>...</u> | | <u>-</u> |
| | <u>...</u> | | <u>...</u> |

Illustration: 3

(Simple Problem)

Jay s/o. consigned 50 boxes of tea costing ₹ 100 per box to Sohanlal. Ratanlal paid freight ₹ 500, insurance ₹ 200 and sundry expenses ₹ 80. He drew a bill of exchange on Akash and received it from Akash and Lo. Duty accepted for ₹ 3,000. The bill was discounted with the Bank by giving a discount of ₹ 100.

Mr. Sohanlal sold 30 boxes of tea at ₹ 150. He paid ₹ 180 for carriage. He was entitled to a commission of 5% on total sales. The balance due was sent by bank draft.

Give Consignment Account and Sohanlals Account in the books of the consignor.

Solution:

In the Books of Ratanlal

| Dr. | Consignment to Sohanlal A/c | | Cr. |
|------------------------------|-----------------------------|-------------|---|
| | | ₹ | ₹ |
| To Goods sent on Consignment | | 5000 | By Sohanlal (Sales) 4500 By Consignment Stock 2384 |
| To Bank | | | |
| Freight | 500 | | |
| Insurance | 200 | | |
| Sundry Expenses | <u>80</u> | 780 | |
| To Discount | | 100 | |
| To Sohanlals A/c | | | |
| Carriage | 180 | | |
| Commission | <u>225</u> | 405 | |
| To Profit and Loss A/c | | <u>599</u> | <u>-</u> |
| | | <u>6884</u> | <u>6884</u> |

| Dr. | Consignment to Sohanlal A/c | | | Cr. |
|--------------------|-----------------------------|---------------------|-------|---------------|
| | ₹ | | | ₹ |
| To Consignment A/c | 45,000 | By Consignment A/c | | |
| | | Carriage | 180 | |
| | | Commission | 2,250 | 2,430 |
| | | By Bills Receivable | | 10,000 |
| | - | By Bank A/c | | <u>32,570</u> |
| | <u>45,000</u> | | | <u>45,500</u> |

Note:

| | |
|---|--------------|
| 1. Valuation of Stock: | ₹ |
| 20 boxes @ ₹ 100 | = 2,000 |
| + Proportionate Expenses $\frac{20 \times 960}{50}$ | = <u>384</u> |
| | <u>2384</u> |

Exercise: 1

Ajay of Delhi sent on consignment goods to Banita of Baroda 100 sewing machines on consignment costing ₹ 200 each. The consignor paid ₹ 1,000 by way of freight and insurance. Banita spent ₹ 500 by way of godown rent and other expenses. At the end of the year 10 machines remaining unsold with Banita. The consignee sold sewing machines @ ₹ 250 per machine. Banita remitted the sale proceeds after deducting expenses and her commission which was 5% of the goods sold.

Prepare Consignment Account and Consignee's Account in the books of the consignor.

| | | |
|------------------------------|---|---------|
| [Ans. Profit on Consignment | ₹ | 1,975 |
| Value of Unsold stock | ₹ | 2,100 |
| Amount remitted by Consignee | ₹ | 20,875] |

Consigning Goods at a Higher Price

When the consignor thinks that the consignee should have no knowledge of the cost goods consigned, he prepares no knowledge of the cost of goods consigned, he prepares a proforma invoice at a higher price. Another object of preparing proforma invoice at a higher price is to keep the consignee in dark about the actual amount of profits earned on consignment. So far as accounting treatment is concerned, there is no difference. The entries are made in the books of accounts as per the invoice price and then the difference in the value is adjusted. Such problems of adjustment in the value will arise in the case of the following items only:

- (1) Goods sent on consignment, (2) Consignment stock.

Specimen Accounting Entries

1. When the goods are sent on consignment:

| | | |
|----------------------------------|-----|------------------------|
| Consignment A/c | Dr. | |
| To Goods sent on Consignment A/c | | <i>(Invoice Price)</i> |

(Being the goods sent on consignment at invoice price)

2. When the difference between the invoice price and cost price of goods sent on consignment is adjusted:

| | | |
|-------------------------------|-----|--|
| Goods sent on Consignment A/c | Dr. | |
| To Consignment A/c | | |

(Being the difference adjusted in the values)

3. When the unsold stock with the consignee is taken into account:

| | | |
|-----------------------|-----|--|
| Consignment Stock A/c | Dr. | |
| To Consignment A/c | | |

(Being the stock taken into account at invoice price)

4. When the difference between the invoice price and cost price of stock is adjusted:

| | | |
|----------------------------------|-----|--|
| Consignment A/c | Dr. | |
| To Consignment Stock Reserve A/c | | |

(Being the difference adjusted in the values)

At the end of the year, Consignment stock account is shown in the Balance Sheet by deducting consignment stock reserve from it.

Illustration: 4

(Goods consigned at higher price)

On 1st March, 2009; Surendra Kumar of Calcutta, consigned goods of ₹ 1,100 to Gosalia of Nagpur at a proforma invoice value of ₹ 1,500. Surendra Kapur paid ₹ 40 for freight and insurance, Navnithbhai paid ₹ 100 for carriage and other expenses. Navnithbhai sent a bank draft of ₹ 200 to Surendra Kapur as an advance, Navnithbhai sold all the goods for ₹ 1,600. Navnithbhai was entitled to a commission of 5% on sale proceeds. Navnithbhai remitted the balance to Shri Surendra Kapur after deducting his commission and expenses.

Give Consignment Account and Navnithbhais Account in the books of Surendra Kapur.

Solution:**In the Books of Surendra Kapur**

| Dr. | | Consignment to Nagpur A/c | | Cr. | |
|--|--------------|--------------------------------------|-----------|-----|--------------|
| | ₹ | | | | ₹ |
| To Goods sent on Consignment A/c | 1,500 | By Goods sent on Consignment (diff.) | | | 400 |
| To Bank (Freight and Insurance) | 40 | By Navnithbhai (Sale Proceeds) | | | 1,600 |
| To Navnithbhai's A/c (Carriage and Other Expenses) | 100 | | | | |
| To Navnithbhais A/c (Commission) | 80 | | | | |
| To Profit and Loss A/c | 280 | | | | - |
| | <u>2,000</u> | | | | <u>2,000</u> |
| Dr. | | Navnithbhais A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To consignment A/c (Sale Proceeds) | 1,600 | By Bank (Advance) | | | 200 |
| | | By Consignment A/c: | | | |
| | | Carriage | 100 | | |
| | | Commission | <u>80</u> | | 180 |
| | - | By Bank | | | <u>1,220</u> |
| | <u>1,600</u> | | | | <u>1,600</u> |

Exercise: 2**(simple questions)**

On 1st June, 2008 Kapur of Bombay consigned 100 cases costing ₹ 700 each to Shirodkar of Sholapur. Bendre paid ₹ 500 for carriage. Shirole paid ₹ 100 for Octroi and ₹ 350 for carriage and other expenses. Shirole sent ₹ 4,000 as an advance against the consignment. Shirole sold 90 cases for ₹ 72,000 Shirole is entitled to a Commission of 5% on total sales. Pass journal entries in the books of both the parties.

[Ans. Profit ₹ 4,54]

Exercise: 3**(Consignment at invoice price)**

Champaklal of Bombay consigned 100 cases of tea powder to Maniklal of Ahmedabad. The cost of 100 cases was ₹ 15,000 but they were consigned at an invoice price of ₹ 20,000. Champaklal paid ₹ 300 for freight and insurance. Maniklal paid carriage and other charges ₹ 1,000. He sent a Bank draft

of ₹ 3,000 as an advance. Maniklal sold 90 cases for ₹ 18,000 and sent a remittance for the balance due to the consignor after deducting 5% commission on gross sale proceeds.

Show ledger accounts in the books of the consignor.

[Ans. Profit ₹ 1,980]

Illustration: 5

(Del Credere Commission allowed)

M/s. ABC and Co. of Mumbai sent 10 boxes of tea powder at ₹ 70 per box, to Shamlal of Solapur. The boxes were invoiced at ₹ 100 per box and paid ₹ 70 for carriage and ₹ 30 on miscellaneous heads. Shamlal sold 5 boxes at ₹ 100 per box for cash and 5 boxes at ₹ 110 per box on credit. M/s. ABC and Co. drew a bill for three month for ₹ 600 which was duly accepted by Shamlal. Shamlal incurred ₹ 50 for Carriage and ₹ 20 for Sundry charges. Shamlal was entitled to 5% commission and 2% del credere commission on total sale proceeds. Shamlal remitted the balance to M/s. ABC and Co., and settled the account.

Open Consignment Account and Shamlal s Account in the books of M/s. Ramdayal and Co., and Ramdayal and Companys Account in the books of Shamlal.

Solution:

In the Books of M/s. ABC and Co.

| Dr. | Consignment to Solapur A/c | | Cr. |
|-------------------------------------|----------------------------|--------------|-------------------------------------|
| | | ₹ | |
| To Goods sent on Consignment A/c | | 1,000 | By Goods sent on Consignment A/c |
| To Bank: | | | By Shamlal's A/c (Sale Proceeds) |
| Carriage | 70 | | |
| Miscellaneous Expenses | 30 | 100 | |
| | <u> </u> | | |
| To Shamlal's A/c | | | |
| Carriage | 50 | | |
| Sundry Expenses | 20 | 70 | |
| | <u> </u> | | |
| To Shamlal's A/c | | | |
| Commission | | 74 | |
| To Profit and Loss A/c | | 106 | |
| | | <u>1,350</u> | |
| | | | <u> </u> |
| | | | <u>1,350</u> |

| Dr. | Shamlals A/c | | Cr. |
|-----------------------------------|--------------|--|--------------|
| | ₹ | | ₹ |
| To Consignment (Sale Proceeds) | 1,050 | By Consignment A/c (Carriage and Sundry Expenses) | 70 |
| | | By Consignment A/c (Commission) | 74 |
| | | By Bills Receivable | 600 |
| | - | By Bank A/c | <u>306</u> |
| | <u>1,050</u> | | <u>1,050</u> |

In the Books of Shamlal

| Dr. | M/s. ABC and Co. | | Cr. |
|------------------------|------------------|-----------------|--------------|
| | ₹ | | ₹ |
| To Bills Payable A/c | 600 | By Bank A/c | |
| To Bank A/c (Expenses) | 70 | (Sale Proceeds) | 1,050 |
| To Commission | 74 | | |
| To Bank A/c | <u>306</u> | | - |
| | <u>1,050</u> | | <u>1,050</u> |

Exercise: 4**(Del-credere Commission given)**

A consigned 100 sewing machines to B. The cost of each machine was ₹ 200 but the invoice was prepared at 20% above cost. A paid ₹ 400 for carriage B sent a draft of ₹ 5,000 to A as an advance.

B sold 80 machines at ₹ 260 each. B paid for freight ₹ 350 and for insurance ₹ 100 B was entitled to a commission of 5% on sale and 2% as, del credere commission.

The balance due was sent to A by a bank draft.

Raise Consignment Account and Consignee's Account in the books of the consignor.

[Ans. Profit ₹ 2,664]

Exercise: 5**(Goods invoiced at higher Price)**

On 1st January, 2009; Jay Hind Cycles Ltd. of Mumbai consigned 500 bicycles costing ₹ 300 each to Mukherji of Calcutta but the proforma invoice was made out at ₹ 400 each. The company incurred ₹ 10,000 for freight, insurance etc.

Company received a bank draft for ₹ 50,000 from Mukherji as an advance. Mukherji was allowed a commission of 10% on sales.

Godown Rent ₹ 3,000; Advertisement ₹ 2,000.

Mukherji sent an account sales showing 450 cycles had been sold for ₹ 500 each. The account sale was accompanied by bank draft.

Assume the company closes its books on 31st December and pass entries in the books at proforma invoice price and value the stock at cost price proportionate expenses of consignor only.

Prepare Consignment Account in the books of Company and Company s Account in the books of Mukherji.

[Ans. Profit ₹ 53,000]

Illustration: 6

(Calculation of Surplus Commission)

On 1st June, 2009; Chandrasekhar of Chandrapur consigned goods to Badrinath of Mumbai for sale at invoice price. Badrinath is entitled to commission of $2\frac{1}{2}$ on invoice price and 15% of any surplus price realised. Goods costing ₹ 14,000 were consigned to Badrinath at the invoice price of ₹ 16,400. Chandrasekhar paid ₹ 950 for expenses. On 31st March, 2008; an account sale received from Badrinath shows that he made sales of ₹ 15,000 in respect of 75% of the quantity of goods consigned. Badrinath paid ₹ 700 for expenses and accepted a bill of ₹ 6,000 and remitted the balance to Chandrasekhar in settlement of his account.

Show Consignment Account and Badrinaths Account in the books of Chandrasekhar.

Solution:

In the Books of Chandrasekhar

| Dr. | consignment to Bombay A/c | | Cr. | |
|----------------------------------|---------------------------|---------------|----------------------------------|---------------|
| | | ₹ | ₹ | |
| To Goods sent on Consignment A/c | | 16,400 | By Goods sent on Consignment A/c | 2,400 |
| To Bank A/c (Expenses) | | 950 | By Badrinaths A/c | |
| To Badrinaths A/c | | | (Sale Proceeds) | 15,000 |
| Expenses | 700 | | By Consignment Stock A/c | 4,513 |
| Commission | <u>713</u> | 1,413 | | |
| To Consignment Stock Reserve A/c | | 600 | | |
| To Profit and Loss A/c | | <u>2,550</u> | | - |
| | | <u>21,913</u> | | <u>21,913</u> |

| Dr. | | Badrinaths A/c | | Cr. | |
|---------------------------------------|--------|--------------------------------|--|-----|--------|
| | ₹ | | | | ₹ |
| To Consignment A/c (Sale Proceeds) | 15,000 | By Consignment (Expenses) | | | 700 |
| | | By Consignment (Commission) | | | 713 |
| | | By Bills Receivable A/c | | | 6,000 |
| | - | By Bank | | | 7,587 |
| | 15,000 | | | | 15,000 |

Note:

1. Commission at $2\frac{1}{2}\%$ on Invoice Price ₹

$$\frac{3}{4} \text{ of Total Invoice Value}$$

$$\therefore \text{ of } 16,400 = 12,300$$

$$\therefore \text{ of } 12,300 \qquad \qquad \qquad 308$$

Surplus Commission:

| | | | |
|------------------------------|--------|---|-----|
| Selling Price | 15,000 | | |
| Less: Invoice Price of goods | 12,300 | | |
| 2,700 of 2,700 | | = | 405 |
| | | | 713 |

2. Valuation of Closing Stock: ₹

At Invoice Price:

$$\frac{1}{4} \text{ of the Invoice Price}$$

$$\therefore \frac{1}{4} \text{ of } 16,400 \qquad \qquad \qquad = \quad 4,100$$

+ Proportionate Expenses

$$\frac{1}{4} \text{ of } 700 \qquad \qquad \qquad = \quad 175$$

$$+ \frac{1}{4} \text{ of } 950 \qquad \qquad \qquad = \quad 238$$

4,513

At Cost Price:

| | | | |
|----|------------------------------|-----------------|--------------|
| | $\frac{1}{4}$ of 14,000 | = | 3,500 |
| + | Proportionate Expenses | | |
| | $\frac{1}{4}$ of 700 | = | 175 |
| | $\frac{1}{4}$ of 950 | = | <u>238</u> |
| | | | <u>3,913</u> |
| 3. | Calculation of Stock Reserve | 4,513 - 3,913 = | <u>600</u> |

Exercise: 6

(Surplus Commission)

The Zero Cycles Ltd., Mumbai appointed Bhatti Cycles of Chandrapur as their selling agent on the undermentioned terms and conditions.

- (a) Supplied cycles to be sold at invoice price or over.
- (b) Bhatti Cycles an authorised agent at Chandrapur, is entitled to a commission of $12\frac{1}{2}\%$ on the invoice price and 25% of any surplus amount realised.
- (c) On 1st January, 2007; 1,500 bicycles were consigned to Bhatti Cycles of Chandrapur. Each bicycle costing ₹ 60 including freight and invoiced at ₹ 80 each.
- (d) A bill for ₹ 25,000 is drawn on Bhatti Cycles, Chandrapur as an advance. The bill is discounted for ₹ 24,750. The amount of the discount is to be treated as an expense of the consignment.
- (e) Before 31st December, 2007; Bhatti Cycles sold 1,000 bicycles at an average price of ₹ 95 per bicycles.
- (f) Consignee made the following expenses:
For advertisement and selling expenses ₹ 4,500; Godown Rent, Insurance etc. ₹ 3,000.
- (g) Bank draft is received from Baheti Cycle towards the balance.

Prepare consignment Account and Bhatti Cycles Account in the books of zero Cycles Ltd., Bombay assuming that the entries are made on the invoice price.

[Ans. Profit ₹ 18,250]

Illustration: 7**(Return of defective goods, Surplus commission)**

Miss. Priya, the proprietor of Modern Sewing Machines sent on consignment to Mr. Suryakumar 100 sewing machines costing ₹ 300 each. The machines were sent at an invoice price which is 25% above cost price. Miss Suryakumari spent ₹ 800 on freight and insurance.

Mr. Suryakumar received a delivery of 90 machines, 10 being lost in transit, and paid ₹ 500 for carriage etc. Mr. Suryakumar sold 70 machines on credit at ₹ 500. He found 5 machines defective and therefore returned them to consignor at a cost of ₹ 60. He is entitled to a commission of 5% on invoice price, 10% on surplus price realised and 1 % del credere commission.

Show Consignment Account and Suryakumars Account in the books of Modern Sewing Machines.

Solution:**In the Books of Modern Sewing Machines**

| Dr. | | Consignment to Suryakumar A/c | | Cr. | |
|--|------------|-------------------------------|--|--|---------------|
| | | ₹ | | | ₹ |
| To Goods sent on Consignment | | 37,500 | | By Goods sent on Consignment | 7,500 |
| To Bank: Freight and Insurance | | 800 | | By Goods sent on Consignment (Returns) | 1,500 |
| To Suryakumars A/c Carriage | | 500 | | By Suryakumar (Sale Proceeds) | 35,000 |
| To Suryakumars A/c Commission | 2,188 | | | By Profit and Loss A/c (Loss in Transit) | 3,080 |
| To Suryakumars A/c Del Credere | <u>350</u> | 2,538 | | By Consignment Stock A/c | 5,828 |
| To Suryakumars A/c (Cost of returning goods) | | 60 | | | |
| To Consignment Stock Reserve A/c | | 1,125 | | | |
| To Profit and Loss A/c | | <u>10,385</u> | | | |
| | | <u>52,908</u> | | | <u>52,908</u> |
| Dr. | | Mr. Suryakumars A/c | | Cr. | |
| | | ₹ | | | ₹ |
| To Consignment A/c (Sale Proceeds) | | 35,000 | | By Consignment A/c (Carriage) | 500 |
| | | | | By Consignment A/c | 2,538 |
| | | | | By Consignment A/c (Cost of returning goods) | 60 |
| | | <u>-</u> | | By Balance c/d | <u>31,902</u> |
| | | <u>35,000</u> | | | <u>35,000</u> |

Note:

| | | |
|----|---------------------------------------|--|
| 1. | Valuation of Stock: | ₹ |
| | At Invoice Price: | |
| | 15 machine @ ₹ 375 | = 5,625 |
| | + Proportionate Expenses | $\frac{15 \times 800}{100} = 120$ |
| | | $\frac{15 \times 500}{90} = \underline{83}$ |
| | | <u>5,828</u> |
| | At Cost Price: | |
| | 15 Machines @ ₹ 300 | = 4,500 |
| | + Proportionate Expenses | $\frac{15 \times 800}{100} = 120$ |
| | | $\frac{15 \times 500}{90} = \underline{83}$ |
| | | <u>4,703</u> |
| 2. | Valuation of Loss: | |
| | 10 Machines @ ₹ 300 | = 3,000 |
| | + Proportionate Expenses of Consignor | $\frac{800 \times 10}{100} = \underline{80}$ |
| | | <u>3,080</u> |
| 3. | Calculation of Commission: | ₹ |
| | Invoice Price of 70 machines: | |
| | 70 × 375 | = 26,250 |
| | 5% of 26,250 | = 1,313 |
| | Surplus price Realised: | |
| | Selling price | 35,000 |
| | Less: Invoice price | <u>26,250</u> |
| | 10% of ₹ | 8,750 = <u>875</u> |
| | | <u>2,188</u> |

4. Calculation of Stock Reserve:
 = 5,828 - 4,703
 = 1,125
5. Goods returned should be valued at cost.

Exercise: 7

A and Co. of Nagpur sent 100 sewing machines on consignment to Nandini of Nasik, spent ₹ 250 on packing. The cost of each machine was ₹ 112 but it was now invoiced at 25% above cost.

One case containing 5 machines was lost in transit. Nandini paid ₹ 475 as freight on the remaining machines. He had to spend ₹ 95 as cartage and octroi duty and ₹ 190 as god own rent and 50 as other expenses. He sold 75 machines @ ₹ 190. He found 10 machines defective and therefore returned them to Nagpur at cost. Nandini is entitled to a commission of 5% on invoice price and 20% of any excess price realised on the invoice price and 1 % del credere commission. Nandini could not realise sale proceeds of 5 machines.

Prepare Consignment Account, Consignees Account, Consignment Stock Account and Consignment Stock Reserve Account in the books of A and Co.

[Ans. Profit on consignment ₹ 3,470. Loss ₹ 572.50. Stock Account ₹ 1,485. Commission ₹ 1417.50]

Illustration: 8**(Delcredere Commission Discount on bill discounted)**

M/s Dilip and Co. of Bombay consigned to Balkrishna of Nagpur 1000 bags of tobacco costing ₹ 250 per bag. They were invoiced at 20% above cost price. M/s Dilip and Co. paid ₹ 1,500 for insurance, ₹ 3,500 for carriage and ₹ 5,000 for miscellaneous expenses.

On receiving the consignment Mr. Balkrishna accepted a Bill for half the amount of invoice price M/s Dilip and Co discounted the Bill for ₹ 1,47,500 and discount was charged to consignment Account.

Mr. Balkrishna sent an Account sales which shows as :

- (a) Cash sales of 600 bags @ ₹ 350 each.
- (b) Credit sales of 300 bags @ ₹ 400 each.
- (c) Mr. Balkrishna took 50 bags for his own use @ ₹ 320 per bag.
- (d) Expenses paid by Balkrishna were godown rent ₹ 3,000 and selling expenses ₹ 5,000.
- (e) Mr. Balkrishna remitted the balance due by a draft after deducting his expenses and commission @ 10% on sales and del-credere commission @ 2% on credit sales of 300 bags only.

Show Consignment Account in the Books of M/s Dilip and Co. and Dilip and Co.s. Account in the books of Mr. Balkrishna.

Solution:

In the Books of Dilip and Co.

| Dr. | | Consignment to Nagpur A/c | | Cr. | |
|------------------------------|--------------|---------------------------|--|------------------------------|-----------------|
| | | ₹ | | | ₹ |
| To Goods sent on Consignment | | 3,00,000 | | By Goods sent on Consignment | 50,000 |
| To Cash: | | | | By Balkrishna: | |
| Insurance | 1,500 | | | Cash Sales | 2,10,000 |
| Carriage | 3,500 | | | Credit Sales | 1,20,000 |
| Misc. Expenditure | <u>5,000</u> | 10,000 | | Own Use | <u>16,000</u> |
| To Discount | | 2,500 | | By Consignment | |
| To Balkrishna: | | | | Stock A/c | 15,500 |
| Godown Rent | 3,000 | | | | |
| Selling Expenses | <u>5,000</u> | 8,000 | | | |
| To Commission | | 37,000 | | | |
| To Consignment Stock Reserve | | 2,500 | | | |
| To Profit and Loss A/c | | <u>51,500</u> | | | - |
| | | <u>4,11,500</u> | | | <u>4,11,500</u> |

In the Books of Balkrishna

| Dr. | | Dilipand Cos A/c | | Cr. | |
|--------------------|--|------------------|--|----------------------------|-----------------|
| | | ₹ | | | ₹ |
| To Bills Payable | | 1,50,000 | | By Cash | 2,10,000 |
| To Cash (Expenses) | | 8,000 | | By Consignment Debtors A/c | 1,20,000 |
| To Commission | | 37,000 | | By Goods A/c | 16,000 |
| To Bank | | <u>1,51,000</u> | | | - |
| | | <u>3,46,000</u> | | | <u>3,46,000</u> |

Exercise: 8

(Del credere Commission given)

Mr. X from Calcutta consigned to Mr. Y of Patna, 100 machines. The original cost price of every machine is ₹ 260 but it has been valued at ₹ 320 each in the invoice. X has spent ₹ 800 on packing etc. Mr. Y has accepted a bill drawn by Mr. X for ₹ 16,000.

Mr. Y informed that 80 machines were sold at ₹ 300 each and that has incurred the following expenses :

Railway freight of ₹ 1,200; Rent for the godown ₹ 100 and Insurance ₹ 20.

Consignor is authorised to get ordinary commission of 6% and $1\frac{1}{2}$ % Del credere commission.

Pass the necessary journal entries for the above transaction in the books of the Consignor and give the Consignment Account and the Consignee's Account in his ledger assuming that the entries are made on the invoice price.

[Ans. Profit ₹ 3,200]

Exercise: 9

(Discount on bill discounted)

Usha Fans, Calcutta, consigned to Vijay and Sons, Amravati 100 fans, costing ₹ 250 each at 20% above cost and paid ₹ 100 for insurance ₹ 400 for carrying and ₹ 500 for other expenses. Vijay and Sons accepted a bill for ₹ 15,000 after receiving consignment.

Usha Fans then discounted the bill for ₹ 14,700 and in due course, received an Account Sales showing:

- Credit Sales 60 fans @ ₹ 350 each.
- Cash sales 30 fans at ₹ 400 each.
- Expenses incurred by Vijay and Sons: Godown Rent ₹ 300; Carriage ₹ 500; Commissions ₹ 1,730.
- Vijay and Sons took 5 fans for their own use at an agreed value of ₹ 320 each.
- Vijay and Sons received ₹ 20,300 from the debtors allowed ₹ 300 as discount and incurred bad debts ₹ 400. They remitted the balance due by a bank draft sent with the account sales.
- The discount on the bill is to be treated as a consignment expenses.

Write up Consignment Account and Consignees Account in the books of Usha fans.

[Ans. Profit ₹ 6,095]

Exercise: 10

(Discount on bill discounted)

Vikrant and Co. of Ahmednagar consigned to Mr. Vikas of Beed 1,000 radio sets costing ₹ 250 per set. The proforma invoice was prepared at 20% above the cost price. Vikrant and Co. paid ₹ 1,500 for insurance, ₹ 3,500 for carriage and ₹ 5,000 for sundry expenses.

On receipt of consignment, Mr. Vikas accepted a bill for ₹ 1,50,000 which was discounted by Vikrant and Co., with the bank for ₹ 1,47,500 and discount was charged to Consignment Account.

Mr. Vikas sent an Account Sales which showed as follows:

- Cash sales of 600 radio sets at ₹ 350 each.
- Credit sales of 300 radio sets at ₹ 400 each.

- (c) Cash sales of 50 radio sets at ₹ 320 each
- (d) Expenses paid by Vikas were:
Godown Rent ₹ 3,000; Selling Expenses ₹ 5,000.
- (e) Mr. Vikas remitted the balance due by bank draft after deducting his expenses and commission at the rate of 10% on gross sales and del-credere commission at 2% on credit sales.

You are required to prepare Consignment Account, Vikas Account, Goods sent on Consignment Account and Consignment Stock Account in the books of Vikrant and Co.

Illustration: 9

(Bad debts incurred)

Dipti of Ahmedabad consigned to Swati of Nagpur the goods of the value of ₹ 15,000 and invoiced them so as to show 25% profit on sales Dipti paid ₹ 935 for freight, ₹ 352 for insurance and ₹ 231 for other expenses. Dipti received a bill from Swati for ₹ 10,000 for 3 months and discounted with Bank at 8% p.a. and discount was charged to Consignment Account.

- (a) $\frac{4}{5}$ of the goods were sold for ₹ 18,000 out of which cash sales amounted to ₹ 6,000.
- (b) Expenses incurred by Swati: discount ₹ 300; godown rent ₹ 150 and other selling expenses ₹ 50.
- (c) Bad Debts incurred ₹ 1600. Consignee was entitled to 10% commission on total sales and 2% del credere commission on credit sales. Swati remitted the balance by bank draft.

Prepare Consignment Account and Swati s Account in the books of Dipti.

Solution:

In the Books of Dipti

| Dr. | Consignment to Nagpur A/c | | Cr. | |
|----------------------------------|---------------------------|--------|------------------------------|--------|
| | | ₹ | ₹ | |
| To Goods sent on Consignment A/c | | 18,750 | By Goods sent on Consignment | 3,750 |
| To Bank A/c: | | | By Swati's A/c | 18,000 |
| Freight | 935 | | By Stock on Consignment A/c | 4,050 |
| Insurance | 352 | | | |
| Other Expenses | <u>213</u> | 1,500 | | |
| To Discount | | 200 | | |
| To Swatis A/c: | | | | |
| Discount | 300 | | | |
| Godown Rent | 150 | | | |
| Selling Expenses | 50 | | | |

| | | | | |
|------------------------------|---------------|---------------|-------------------------|---------------|
| General Commission | 1800 | | | |
| Del-credere Commission | <u>360</u> | 2160 | | |
| To Consignment Stock Reserve | | 750 | | |
| To Profit and Loss A/c | | <u>2,440</u> | | <u>-</u> |
| | | <u>25,800</u> | | <u>25,800</u> |
| Dr. Swati's A/c Cr. | | | | |
| | ₹ | | | ₹ |
| To Consignment A/c | 18,000 | | By Bills Receivable A/c | 10,000 |
| | | | By Consignment A/c | 2,160 |
| | <u>-</u> | | By Bank | <u>5,840</u> |
| | <u>18,000</u> | | | <u>18,000</u> |

Exercise: 11**(Bad Debts incurred)**

Green and Co. of Calcutta consigned 80 radios to Patel and Co. of Mumbai at an invoice price of ₹ 24,000, charging 25% on cost. Green and Co., paid insurance ₹ 750, dock charges ₹ 800 and carriage ₹ 200. As an advance, Patel and Co. accepted a bill for ₹ 5,000 drawn by Green and Co. and it was discounted by Green and Co., for ₹ 4,900. Patel and Co. would get a commission of 5% on sales and also a Del Credere commission of 2%. They sold 64 radios for ₹ 19,200 and incurred expenses on freight ₹ 300, clearing charges ₹ 400 and selling expenses ₹ 500. Of the sale proceeds, Patel and Co. could realise only ₹ 18,000 and ₹ 1,200 was considered bad. Patel and Co. sent an account sales and after deducting expenses and their commission they sent a bank draft for the balance due. Give the necessary ledger accounts in the books of Green and Co.

Illustration: 10**(Surplus Commission)**

Hind Cycles Ltd appointed Rameshwari of Madras as their Selling Agent on the following terms:

- Goods to be sold at invoice price or over
- Rameshwari to be entitled to a Commission of 10% on the invoice price and 25% on any Surplus price realised.
- The principal to draw on the agent a 1 months bill for 60% of invoice price.

1,000 cycles were consigned to Rameshwari costing ₹ 140 each invoiced at ₹ 200 each. New Hind Cycles Ltd. incurred expenses amounting to ₹ 2,000.

Rameshwari met her acceptance on due date. She sold 800 cycles at ₹ 230 per cycle and incurred sales expenses ₹ 2,500. She remitted the amount due by means of bank draft. Rameshwari also informed that a customer who purchased 5 cycles at ₹ 230 each has become bankrupt and nothing can be recovered from that customer.

Prepare Consignment Account, Rameshwaris Account in the books of New Hind Cycles Ltd.

Solution:

In the Books of Hind Cycles

| Dr. | | Consignment to Madras A/c | | Cr. | |
|--------------------------------|-----------------|------------------------------|--------------|-----------------|-----------------|
| | ₹ | | | | ₹ |
| To Goods sent on Consignment | 2,00,000 | By Goods sent on Consignment | | 60,000 | |
| To Cash (Expenses) | 2,000 | By Rameshwari Sales | | 1,84,000 | |
| To Rameshwari (Sales Expenses) | 2,500 | By Consignment Stock | | 40,400 | |
| To Rameshwari (Commission) | 22,000 | | | | |
| To Rameshwari (Bad Debts) | 1,150 | | | | |
| To Stock Reserve | 12,000 | | | | |
| To profit and Loss A/c | <u>44,750</u> | | | | - |
| | <u>2,84,400</u> | | | | <u>2,84,400</u> |
| Dr. | | Rameshwaris A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To Consignment | 1,84,000 | By Bills receivable | | 1,20,000 | |
| | | By Consignment Expenses | 2,500 | | |
| | | Commission | 22,000 | | |
| | | Bad Debt | <u>1,150</u> | 25,650 | |
| | - | By Bank | | <u>38,350</u> | |
| | <u>1,84,000</u> | | | <u>1,84,000</u> | |

Exercise: 12**(Special Commission)**

Rahim of Calcutta consigned 100 cases of medicine. Costing ₹ 1,000 per case to Karim of Kanpur on 1st January, 2007. The goods were to be sold at 25% above cost. Any deficiency in selling price was to be borne by Karim. Karim was however, entitled to a special commission @ 25% of any surplus price realised. Karim was further entitled to an ordinary commission of 5% and del Credere commission of $2\frac{1}{2}$ % on all sales. Rahim incurred the following expenses:

Packing charges ₹ 6,000; loading charges ₹ 1,000; lorry hire ₹ 12,000 and railway freight ₹ 21,000.

The cases were received by Karim on 15th January, 2007. The account sales received from Karim on 30th June, 2007 revealed the following:

40 cases sold on 21st March, 2007 @ ₹ 1,500 per case, 30 cases sold on 24th May 2007 @ ₹ 1,200 per cases, 10 cases sold on 30th June, 2007 @ ₹ 1,300. 5 cases were stolen by dishonest employee. A compensation of ₹ 2,000 was realised from him. Karim incurred unloading charges of ₹ 2,000 and warehouse rent ₹ 3,000. Karim enclosed a bank draft for the balance due.

Write up necessary accounts in the books of Rahim.

Illustration: 11**(customer became insolvent)**

S. Gupta of Mumbai sent 500 cases @ ₹ 150 each to M.K. Menon of Chennai S.S. Jala Puri to be sold on his account and at his risk for $7\frac{1}{2}$ % commission and $2\frac{1}{2}$ % Del credere commission and incurred ₹ 5,500 expenses ₹ 20,000 advance has been received. Sri Menon sent an account sale disclosing that 300 cases have been sold for ₹ 230 each and another 100 cases @ ₹ 220 each. He has incurred unloading expenses etc. ₹ 750 and selling expenses ₹ 1,000. He informed that ₹ 1,000 was proved bad since the customer became insolvent and another customer deducted ' 500 due to dispute in quality of goods.

Prepare Consignment to Bombay Account, M.K. Menon Account, Goods sent on Consignment Account, Stock on Consignment Account and Balance Sheet.

Solution:

In the Books of S. Gupta

| Dr. | Consignment to Madras A/c | | Cr. |
|---|---------------------------|--|------------------------|
| | ₹ | | ₹ |
| To Goods sent on Consignment A/c (500 × 150) | 75,000 | By M.K. Menon (Sale Proceeds) A/c (300 × ₹ 230 = ₹ 69,000) | |
| To Bank Expenses | 5,500 | (100 × ₹ 220 = ₹ 22,000) | 91,000 |
| To M.K. Menon A/c: | | By Stock on Consignment A/c ¹ | |
| Unloading Expenses 750 | | | |
| Selling Expenses <u>1,000</u> | 1,750 | | 16,250 |
| To M. k. Menon A/c: | | | |
| Ordinary Commission 6,825 | | | |
| Del Credere Commission <u>2,275</u> | 9,100 | | |
| To Disputed Amount ² | 500 | | |
| To Profit on Consignment transferred to Profit and Loss A/c | <u>15,400</u> | | - |
| | <u><u>1,07,250</u></u> | | <u><u>1,07,250</u></u> |

Notes:

- Valuation of Unsold Stock

| | | |
|--|---|--------|
| Total Cost | ₹ | 75,000 |
| Add: Expenses of Consignor | ₹ | 5,500 |
| Add: Non-recurring Expenses of Consignee | ₹ | 750 |
| Cost Price of 50 cases | ₹ | 81,250 |

$$\begin{aligned} \text{Value of Unsold Stock} &= \frac{\text{₹ } 81,250 \times 100}{500} \\ &= \text{₹ } 1,62,500 \end{aligned}$$

- The loss which arises due to dispute in quality of goods is to be borne by the consignor and as such, it is a charge against the consignment.
- Bad debts is ignored as Del Credere Commission is given.

M.R. Menon A/c

| Dr. | | (Consignees A/c) | | Cr. | |
|---|--|--|--|----------------|---------------|
| To Consignment to Madras A/c Sale Proceeds | ₹ 91,000 | By Bank-Advance By Consignment to Madras A/c Expenses Commission Dispute Amount | ₹ 20,000 1,750 9,100 500 | By Balance c/d | ₹ 59,650 |
| | <u>-</u> <u>91,000</u> | | | | <u>91,000</u> |
| Dr. | | Goods sent on Consignment A/c | | Cr. | |
| To Trading A/c: Transfer | ₹ <u>75,000</u> <u>75,000</u> | By Consignment to Madras A/c | ₹ <u>75,000</u> <u>75,000</u> | | |
| Dr. | | Stock on Consignment A/c | | Cr. | |
| To Consignment to Madras A/c | ₹ 16,250 <u>-</u> <u>16,250</u> | By Balance c/d | ₹ 16,250 <u>-</u> <u>16,250</u> | | |
| Balance Sheet (Extract) | | | | | |
| as at — | | | | | |
| Liabilities | ₹ | Assets | ₹ | | |
| | | M.K. Menon A/c | 59,650 | | |
| | | Stock on Consignment | 16,250 | | |
| | <u>-</u> <u>-</u> | | <u>-</u> <u>-</u> | | |

Exercise: 13**(customer became bankrupt)**

Mukesh Cycles Ltd., Madras appointed Buvesh Kumar of Ballampur as their selling agent on the following terms:

- Goods to be sold at invoice price or over.
- Buvesh Kumar to be entitled to a commission of 10% on the invoice price and 25% of any surplus price realised.
- The principal to draw on the agent a one months bill for 60% of the invoice price.

1,000 cycles were consigned to Buvesh Kumar costing ₹ 140 invoiced at 200 each. Mukesh Cycles Ltd., incurred expenses amounting to ₹ 2,000.

Buvesh Kumar met this acceptance on due date. He sold off 800 cycles at an average price of ₹ 230 per cycle and incurred sales expenses ₹ 2,500. He remitted the amount due by means of a bank draft. Buvesh Kumar also informed that a customer, who purchased 5 cycles at ₹ 230 each has become bankrupt and nothing could be recovered from the customer.

You are required to prepare Consignment Account. Buvesh Kumars Account in the books Mukesh Cycle Ltd.

(Ans. Profit ₹ 44,787; Stock ₹ 40,400)

Illustration: 12

(Goods taken by Consignee)

M of Calcutta, consigned goods costing ₹ 1,60,000 to R of Mumbai. The terms of the consignment were:

- (a) Consignee to get commission of 5% on cash sales and 4% on credit sales.
- (b) Any goods taken by consignee himself or goods lost through consignees negligence, shall be valued at cost plus $12\frac{1}{2}$ % and no commission will be allowed on them.

The expenses incurred by the consignor were:

Carriage and freight ₹ 6,720 and Insurance ₹ 3,440. The consignor received ₹ 50,000 as an advance against the consignment. Account sales together with a draft for the balance due was received by the consignor showing the following position:

Goods costing ₹ 1,28,000 were sold for cash at ₹ 1,40,000 and on credit at ₹ 1,08,000. Goods costing ₹ 8,000 were taken by R and goods costing ₹ 4,000 were lost through R's negligence. The expenses incurred by R were: Advertisement ₹ 1,720; other selling expenses ₹ 1,080.

Show the ledger accounts in the books of M

Solution:**In the Books of P**

| Dr. | | Consignment to Mumbai A/c | | Cr. | |
|--|--------------|---------------------------|--|---|-----------------|
| | | ₹ | | | ₹ |
| To Goods sent on Consignment | | 1,60,000 | | By R'S A/c Cash Sales | 1,40,000 |
| To Bank Expenses: Carriage and Freight | 6,720 | | | By R A/c Goods taken | |
| Insurance | <u>3,440</u> | 10,160 | | (₹ 8,000 + $12\frac{1}{2}\%$ on ₹ 8,000) | 9,000 |
| To R A/c: Advertisement | 1,720 | | | By R A/c: Goods lost for his negligence | 4,500 |
| Selling Expenses | <u>1,080</u> | 2,800 | | (₹ 4,000 + $12\frac{1}{2}\%$ on ₹ 4,000) | |
| To R A/c: Commission on Cash Sales | 7,000 | | | By Consignment Debtors: Credit Sales | 1,08,000 |
| Commission on Credit Sales | <u>4,320</u> | 11,320 | | By Stock on consignment | 21,270 |
| To Profit on Consignment: Transferred to Profit and Loss A/c | | <u>99,490</u> | | | - |
| | | <u>2,82,700</u> | | | <u>2,82,700</u> |
| Dr. | | R A/c | | Cr. | |
| | | ₹ | | | ₹ |
| To Consignment to Mumbai A/c Cash Sales | | 1,40,000 | | By Bank Advance | 50,000 |
| Goods taken | | 9,000 | | By Consignment to Mumbai A/c: Expenses | 2,800 |
| Goods lost | | 4,500 | | Commission | 11,320 |
| | | - | | By Bank (amount due) | <u>89,380</u> |
| | | <u>1,52,500</u> | | | <u>1,52,500</u> |

| Dr. | | Goods sent on Consignment A/c | | Cr. | |
|------------------------------|-----------------|-------------------------------|--------------------------|----------|-----------------|
| | ₹ | | | | ₹ |
| To Trading A/c - Transfer | 1,60,000 | | By Consignment to Mumbai | 1,60,000 | - |
| | <u>1,60,000</u> | | | | <u>1,60,000</u> |
| Dr. | | Consignment Debtors A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To Consignment to Mumbai A/c | 1,08,000 | | By Balance c/d | 1,08,000 | - |
| | - | | | | - |
| | <u>1,08,000</u> | | | | <u>1,08,000</u> |

Workings:

Valuation of Unsold Stock:

| | |
|--------------------------|------------|
| Total Cost of Goods | ₹ 1,60,000 |
| Add: Consignors Expenses | ₹ 10,160 |
| | ₹ 1,70,160 |

$$\therefore \text{Value of Unsold Stock} = \frac{1,70,160 - 1,48,000}{1,60,000} = ₹ 21,270.$$

Goods lost and partial return by the consignee.

Exercise: 14

(Good taken by the consignee for own use)

Mr. Salkhe of Nagpur consigned to Mr. Honda of Bombay 1,000 bags of tobacco costing ₹ 250 per bag. They were received at 20% above cost price. Mr. Salkhe of Nagpur paid ₹ 1,500 for insurance, ₹ 3,500 for carriage and ₹ 5,000 for sundry expenses.

On receiving the consignment, Mr. Honda of Bombay accepted a bill for half the amount of invoice price. Mr. Salkhe of Nagpur discounted the same bill for ₹ 1,47,500 and discount was charged to Consignment Account.

Mr. Honda of Bombay sent an account sales which showed as:

- Cash sales of 600 bags of tobacco at ₹ 350 each.
- Credit sales of 300 bags of tobacco at ₹ 400 each.
- Mr. Honda of Bombay took 50 bags of tobacco for his own use at ₹ 320 per bag.

- (d) Expenses paid by Mr. Bajaj of Bombay were: for Godown Rent ₹ 3,000 and selling expenses of ₹ 5,000.
- (e) Mr. Honda of Bombay remitted the balance due by a draft after deducting his expenses and commission at 10% on sales and del credere commission at 2% on credit sales of 300 bags of tobacco only.

Show Consignment Account in the books of Mr. Salkhe Ltd. Nagpur and in the books of Honda and Co. Mr. Salkhe Ltd of Nagpurs Account.

[Ans. Stock ₹ 15,500; Profit ₹ 53, 1 00]

Illustration: 13

(Goods in Transit is given)

Sunita of Delhi sends 10,000 units @ ₹ 10 each to Bali of Nasik. Bali received 9,600 units and remaining were in transit and gave a cheque of ₹ 30,000 as advance. Sunita incurred the following expenses:

Freight ₹ 5,000. Insurance ₹ 3,900.

Bali submitted the Account sale stating that 7,500 units were sold @ ₹ 15 each, expenses incurred ₹ 4,800 non-recurring and ₹ 5,000 recurring. Commission is 7% of sales.

Solution:

| Dr. | | Consignment A/c | | Cr. | |
|------------------------------|-----------------|---------------------|--------------|-----|-----------------|
| | ₹ | | | | ₹ |
| To Goods sent on Consignment | 1,00,000 | By Balis A/c | | | 1,12,500 |
| To Cash (Expenses) | 8,900 | | (7,500 × 15) | | |
| To Balis A/c (Expenses) | 9,800 | By Goods in Transit | | | 4,356 |
| To Balis A/c (Commission) | 7,875 | By Closing Stock | | | 23,919 |
| To P and L A/c | 14,200 | | | | - |
| | <u>1,40,775</u> | | | | <u>1,40,775</u> |
| Dr. | | Balis A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To Consignment | 1,12,500 | By Consignment A/c | | | 9,800 |
| | | By Consignment A/c | | | 7,875 |
| | | By Bank | | | 94,825 |
| | 14,200 | | | | - |
| | <u>1,12,500</u> | | | | <u>1,12,500</u> |

1. Goods in transit:

| | |
|---|-------|
| | ₹ |
| 400 units @ ₹ 10 | 4,000 |
| Add: Anitas Proportionate Expenses | 356 |
| $\left(\frac{8,900}{10,00} \times 400 \right)$ | 4,356 |

2. Closing Stock:

| | |
|-------------------------------------|----------------|
| | ₹ |
| Stock 2,100 units @ ₹ 10 | = 21,000 |
| (9,600 - 7,500) | |
| Add: Anitas Proportionate Expenses | = 1,869 |
| $\frac{8,900}{10,000} \times 2,100$ | |
| Bali's proportionate Expenses | = <u>1,050</u> |
| $\frac{4,800}{9,600} \times 2,100$ | <u>23,919</u> |

Exercise: 15

Ram and Co. of Mumbai sent on consignment 12,000 sarees at ₹ 300 per saree to Laxmi Traders, Pune and paid freight of ₹ 6,000.

Laxmi Traders received 10,000 sarees out of which 8,000 sarees were sold for ₹ 400 each. 2,000 sarees were in transit. Laxmi Traders spent ₹ 3,000 on freight and ₹ 1,000 on storage. Commission @ 5% was allowed to Laxmi Traders.

Prepare Consignment Account and Laxmi Traders Account in the books of Ram and Co.

[Ans. Profit ₹ 6,32,600. Goods in Transit ₹ 6,01,000. Stock ₹ 6,01,600]

Illustration: 14

(Consignee to get Commission plus Bonus/Profit)

Haman of Mumbai consigned 400 bales of goods to Mr. Ram of Madras. The cost price as ₹ 600 per bale but the invoice was made out to show a gross profit of 25% on cost price. Ram sold $\frac{3}{4}$ of the consignment at a profit of 25% on sales and incurred ₹ 2,500 on account of freight and landing charges and also paid ₹ 1,500 of godown rent, exclusive of commission. Consignor spent ₹ 1,200 earlier as expenses. Ram is entitled to a commission of 5% on sales and 20% of sales less consignee's expenses as bonus after charging both commission and bonus. Ram sent a Bank draft for the balance due. Prepare Accounts in the books of consignor and consignee.

Solution:

| Dr. | | Consignment A/c | | Cr. | |
|--|-----------------|-------------------------------|--|-----------------|-----------------|
| | ₹ | | | | ₹ |
| To Goods sent on Consignment | 3,00,000 | By Manohar A/c | | 2,40,000 | |
| To Cash | 1,200 | By Goods sent on | | | |
| To Manohar A/c | 4,000 | Consignment | | 60,000 | |
| To Manohar A/c (Bonus + Commission) | 49,333 | By Closing Stock on | | | |
| To Stock Reserve | 15,000 | Consignment | | 75,925 | |
| To Profit | 6,392 | | | | |
| | <u>3,75,925</u> | | | | <u>-</u> |
| | | | | | <u>3,75,925</u> |
| Dr. | | Manohar's A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To Consignment | 2,40,000 | By Consignment A/c | | 4,000 | |
| | | By Consignment A/c | | 49,333 | |
| | - | By Bank A/c | | <u>1,86,667</u> | |
| | <u>2,40,000</u> | | | <u>2,40,000</u> | |
| Dr. | | Goods sent on Consignment A/c | | Cr. | |
| | ₹ | | | | ₹ |
| To Consignment A/c | 60,000 | By Consignment A/c | | 3,00,000 | |
| To Trading A/c | <u>2,40,000</u> | | | | - |
| | <u>3,00,000</u> | | | | <u>3,00,000</u> |

Working Note:

- | | | | | |
|--------------------|---------------------|---|---|----------|
| Cost of Goods sent | (600 × 400) | = | ₹ | 2,40,000 |
| Invoice Price | (2,40,000 + 60,000) | = | ₹ | 3,00,000 |
- | | | | | | |
|--------------------------|---|----------------------------------|---|---|----------|
| Cost of Consignment sold | = | $\frac{3}{4} \times 2,40,000$ | = | ₹ | 1,80,000 |
| Sale Value | = | $1,80,000 \times \frac{100}{75}$ | = | ₹ | 2,40,000 |

3. Closing Stock:

$$\begin{aligned} \frac{1}{4} \times 3,00,000 &= ₹ 75,000 \\ \frac{1}{4} \times 1,200 &= ₹ 300 \\ &₹ 75,300 \\ \text{Manohar} &= \frac{1}{4} \times 2,500 = ₹ 625 \\ &= ₹ 75,925 \end{aligned}$$

4. Commission and Bonus:

$$\begin{aligned} \text{General Commission} &= 5\% \text{ of Gross Sales} \\ 5\% \text{ of } 2,40,000 &= 12,000 \\ \text{Bonus} &= Y \\ 20\% \text{ of } (2,40,000 - 4,000 - 12,000 - Y) &= Y \\ \therefore 20\% \text{ of } 2,24,000 - Y &= Y \\ 4 + \frac{1}{5}Y &= 44,800 \\ \frac{6}{5}Y &= 44,800 \\ Y &= 44,800 \times \frac{5}{6} \\ &= 37,333 \\ \text{Total Commission} &= 12,000 + 37,333 \\ &= 49,333 \end{aligned}$$

In the Books of Manohar

| Dr. | Trendy Dress Makers A/c | | Cr. |
|---------------|-------------------------|---------|-----------------|
| | ₹ | | ₹ |
| To Cash | 4,000 | By Cash | 2,40,000 |
| To Commission | 49,333 | | |
| To Bank | <u>1,86,667</u> | | - |
| | <u>2,40,000</u> | | <u>2,40,000</u> |

Exercise: 16

Zeenat consigns 2,000 cassettes to Sujata costing ₹ 15 each. The invoice was prepared to show gross profit of 20% on sales below which the consignee is not allowed to sell. The consignee sells half the consignment at a profit of 25% on sales.

The expenses are:

Freight and Insurance ₹ 1,500 (by consignor)

Landing charges ₹ 1,000 (by consignee)

The consignee is entitled to a commission of 5% on sales and to $\frac{1}{6}$ profits after charging up both commission and share of profits.

Sujata remits the balance to settle the account.

Show the necessary accounts in the books of the consignor.

[Ans. Profit on consignment ₹ 2,357. Closing Stock ₹ 20,000. Commission ₹ 1,393. Amount paid by Sujata ₹ 17,607]

Exercises**A. Short Answer Questions**

1. What is consignment?
2. Give two advantages of consignment.
3. What are the formalities in consignment?
4. Who is a consignor?
5. Who is a consignee?
6. What is del credere commission?
7. What is a proforma invoice?
8. What is an account sale?
9. What is a surplus commission?
10. What is over-riding commission?
11. What is normal loss in consignment?
12. How is abnormal loss valued?
13. How is the stock on consignment valued?
14. Who bears the expenses on consignment?
15. Who bears the loss on consignment?

16. Who bears bad debts loss when del credere commission is allowed?
17. Why goods are sent on consignment?
18. What is consignment inward?

B. Long Answer Questions

1. What is consignment sale?
2. Distinguish between consignment and sale.
3. Distinguish between consignment and goods on sale or return.
4. What is a proforma invoice? State the main purposes of sending a proforma invoice.
5. Distinguish between a proforma invoice and an invoice.
6. What is an account sale? What does it contain?
7. How is the unsold stock with the consignee valued?
8. Why are the goods sent at a higher invoice price?

C. Additional Practical Problems

(Del credere commission given)

1. Nasik Cycle Co. Ltd., Nasik, despatched 100 cycles costing ₹ 960 each to Rajendra Cycle Mart, Igatpuri. Consignor drew a bill on consignee for ₹ 50,000. Consignee was allowed a commission at 4% and a del-credere commission at 1% on sale proceeds. Rajendra Cycle Mart sent an account sales, stating that 80% of the cycles were sold for ₹ 1,26,000 on credit.

Nasik Cycle Company incurred the following expenses on consignment:

Cartage ₹ 1,200; Freight ₹ 1,600 and Insurance ₹ 1,000.

Rajendra Cycle Mart incurred the following expenses:

Warehouse Expenses ₹ 500; Sales Expenses ₹ 500 and Advertisement ₹ 4,000. Consignee remitted the balance due by bank draft.

Prepare Consignment Account in the books of consignor and Consignors Account in the books of consignee.

(Surplus Commission)

2. Eknath of Kolhapur sends goods on consignment to Tukaram of Solapur. The consignee was to receive 10% commission on the invoice price (which was cost plus 25%) and $\frac{1}{5}$ th of any price realised above the invoice price. Tukaram had agreed to bear expenses paid by himself.

Eknath sent goods costing ₹ 32,000 and spent ₹ 2,800 for freight. Tukaram had accepted a bill for ₹ 30,000 for 3 months immediately on receiving consignment. His expenses were ₹ 400 as rent ₹ 200 as insurance. Consignee sold 75% of the goods for ₹ 39,000. Account sales statement was duly received by consignor along with draft for the balance due from consignee.

You are required to prepare Consignment Account and Consignees Account in the Books of Consignor.

(Stock valued at cost)

3. M and Co. Ceylon, consigned goods to R and Co. Chennai, of the value of ₹ 5,000 and invoiced the same proforma at 20% above cost. They paid thereon ₹ 120 for Freight Cartage and ₹ 80 for Insurance. They drew on R and Co. for ₹ 2,000 as advance against the consignment and sold the bill for ₹ 1,950. They received Account Sales showing that $\frac{3}{4}$ th of the goods were sold for ₹ 5,200 and R and Co.s expenses amounted to ₹ 175 and their commission to ₹ 300. The unsold stock was valued at cost and two months draft was received from R and Co. in settlement of account to date.

Show the transactions in the books of both the parties.

(Commission typical)

4. The Export Promotion Company of New Delhi, consigned 300 bales of clothing to M/s. John Adams in England, on 1st October, 2013. The cost price was ₹ 600 per bale, but the pro-forma invoice price was made out at a figure so as to show a gross profit of 20% on sales. The consignee reported on 31st December, 2013; that they had sold $\frac{2}{3}$ rd of the consignment at a profit of 25% on sales and that they had incurred ₹ 2,000 by way of freight, duty and landing charges and ₹ 1,000 by way of godown rent, salaries exclusive of their commission. The consignor had earlier incurred ₹ 900 by way of expense in dispatching the goods. The consignee is entitled to a commission of 5% on sales and to $\frac{1}{4}$ th share of profit after charging up both their commission and share of profit. On 1st January, 2008; John Adams sent a bill for the amount so far due from them.

Show the necessary ledger account so far due from them.

5. Dinesh of Mumbai consigned medicines to Rao of Chennai costing ₹ 1,00,000. The invoice was made proforma so as to show a profit of 25% on cost. Dinesh paid Freight, Insurance ₹ 2,000. Rao sold part of consignment for ₹ 88,000 at uniform price of 10% over invoice price and spent ₹ 3,000 as warehousing charge, ₹ 1,000 as selling expenses. Sri Rao is entitled to a commission of 5% on sales and 20% of the net profit after charging such commission on sales. Sri Rao paid the amount due by bank draft.

Draw up the Consignment Account and Rao s Account in the books of Dinesh.

(Deficit in s.p. To be borne by the consignee)

6. Bhola consigned 40 machines to Ram on 1st January, 2012 on the following terms:
- All machines were to be sold 20% above cost of ₹ 10,000. Any deficit in selling price is to be borne by Ram while Ram, is to retain 50% of any surplus price realised.
 - Ram is to be paid 3% commission and 2% Del Credere commission on all sales. Bhola incurred freight charge of ₹ 40,000 in consigning the machines. Ram set an account sales which showed that: 10 machines were sold for ₹ 12000 each, 5 Machines were sold for ₹ 10,000 each ,15 machines were sold for ₹ 14,000 each.

Ram had incurred unloading charges of ₹ 4,000 and selling expenses of ₹ 6,000. He had collected the entire sale proceeds except ₹ 2,000 which had becomes a bad debt. Ram sent a bank draft for the net amount due to Bhola.

On 30th June, 2013 Ram sent a further account sales disclosing: 10 machines were sold at ₹ 12,000 each selling expenses were ₹ 1,5000.

He also sent a draft for the net amount due Bhola close his books on 31st December every year.

Show the necessary ledger accounts in the books of Bhola.

(Commission on Profit)

7. On 5th August; 2013 Zeben consigns 2,000 cassettes to Suizie costing ₹ 15 each. The proforma invoice is made out to him at a figure to show a gross profit of 20% on sales, below which the consignee is not allowed to sell. On 25th August, 2007 the consignee sells half the consignment at a profit of 25% on sales.

The expenses are:

On 5th August, 2013; freight and insurance ₹ 1,500 (paid by consignor).

On 20th August, 2013; landing charges, import duty etc. ₹ 1,000 (paid by consignee).

The consignee is entitled to a commission of 5% on sales and to 1/6 of the profits after charging up both commission and share of profits.

On 31st August, 2013; Suizie remits a sight draft for balance to settle his account. Show the necessary account in the books of consignor.

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