



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 personnel 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 and 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 after who consigns.	1. The property in goods passes to the buyer when 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 & Co.				
Telegram				
Phone: 324534		Fort, Bombay		
Buyer's Name: G.D. Chandark		Dt. 12.12.2008		
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	100.00
				330.00
<i>Less: 10% Trade Discount</i>				33.00
				297
E & 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 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		
Particulars	₹	₹
50 Books sold @ ₹ 10 each		500
<i>Less:</i> Charges		
Freight and Insurance	10	
Carriage	25	
Commission 10%	50	85
Net proceeds		415
<i>Less:</i> Advance given		200
		215
Balance due remitted as per Bank draft enclosed		215
		000
E & O.E.		For Haresh Book Depot

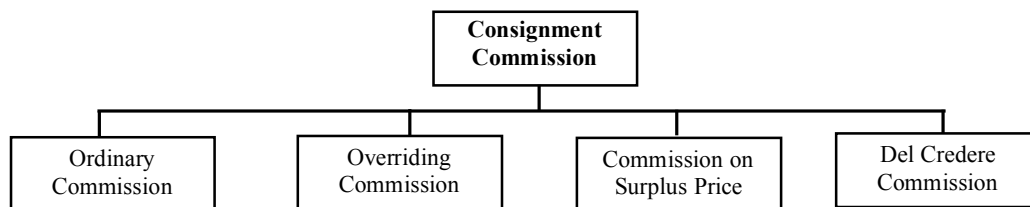
The main contents of an account sales are as enlisted below:

1. gross sales proceeds;
2. expenses incurred by the consignee on consignment;
3. commission payable to the consignee;
4. the amount already sent as an advance to the Consignor;
5. the balance either to be remitted or remitted along with 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 Books of the Consignee
1. Goods sent on consignment	Consignment A/c Dr. To Goods Sent on Consignment A/c	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.	Consignor's A/c	Dr.
	To Consignee's A/c		To Bank A/c	
(ii) by bill	Bill Receivable A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Bills Payable A/c	
4. Discounting of the bill	Bank A/c	Dr.	No Entry	
	Discount A/c	Dr.		
	To Bills Receivable A/c			
5. Goods returned by consignee	Goods Sent on Consignment A/c	Dr.	No Entry	
	To Consignment A/c			
6. Goods sold by consignee				
(i) for cash	Consignee's A/c	Dr.	Cash A/c	Dr.
	To Consignment A/c		To Consignor's A/c	
(ii) on credit	Consignee's A/c	Dr.	Consignment Debtors A/c	Dr.
	To Consignment A/c		To Consignor's A/c	
7. Expenses incurred by consignee	Consignment A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Cash A/c	
8. Collection of cash by consignee from consignment debtors	No Entry		Cash A/c	Dr.
			To Consignment Debtors A/c	
9. Bad debts incurred				
(i) When no del credere commission is allowed	Consignment A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Consignment Debtors A/c	
(ii) When del credere commission is allowed	No Entry		Bad Debts A/c	Dr.
			To Consignment Debtors A/c	
10. Goods taken by the consignee	Consignee's A/c	Dr.	Purchase A/c	Dr.
	To Consignment A/c		To Consignor's A/c	
11. Commission due to consignee	Consignment A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Commission A/c	
12. Amount sent by consignee against sale proceeds				
(i) in Cash	Cash A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Cash A/c	
(ii) by Bank Draft	Bank A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Bank A/c	
(iii) by Bills	Bills Receivable A/c	Dr.	Consignor's A/c	Dr.
	To Consignee's A/c		To Bills Payable A/c	
13. Accounting of closing stock with consignee	Consignment Stock A/c	Dr.	No Entry	
	To Consignment A/c			
14. Normal loss of goods	No Entry		No Entry	
15. Abnormal loss of goods	Abnormal Loss A/c	Dr.	No Entry	
	To Consignment A/c			

16. If the abnormal loss is recoverable	Insurer's A/c To Abnormal Loss A/c	Dr.	No Entry
17. If abnormal loss is irrecoverable	Profit and Loss A/c To Abnormal Loss A/c	Dr.	No Entry
18. Profit on consignment	Consignment A/c To Profit and Loss A/c	Dr.	No Entry
19. Loss on consignment	Profit and Loss A/c To Consignment A/c	Dr.	No Entry
20. Closing goods sent on Consignment Account	Goods Sent on Consignment A/c To Trading A/c	Dr.	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: 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
Add: Proportionate expenses incurred by the consignor $\left(\frac{20 \times 2,000}{50}\right)$	=	800
Add: Proportionate non-recurring expenses incurred by the consignee	=	1,200
Value of Stock		<u>22,000</u>

STEPS IN STOCK VALUATION

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

$$(\text{Volume of Closing Stock} \times \text{Cost per unit}) + \text{Proportionate Non-recurring Expenses}$$
 (ii) The proportionate non-recurring expenses are calculated as given below:

$$\frac{\text{Total Non - recurring Expenses}}{\text{Volume of Goods or Cost of Goods Sent on Consignment}} \times \frac{\text{Volume of Stock or Cost of Stock}}{1}$$
 Some of the non-recurring expenses are:
 - Incurred by the Consignor:** Freight, packing expenses, forwarding expenses, insurance.
 - Incurred by the Consignee:** Freight, carriage inward, octroi duty, custom duty, dock duty, excise duty, unloading charges.
- Calculate the net realisable value of goods lying unsold with the consignee.
- 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: 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.)

Supposing, 5 tonnes are unsold, the value of stock should be $5 \times 213 = ₹ 1,065$.

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 consignee's 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 Profit and Loss 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 A/c 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.		Cr.
Specimen Form of a Consignment A/c		
Particulars	₹	Particulars
To Goods Sent on Consignment	...	By Goods Sent on Consignment (Excess Value)

To Bank:		By Goods Sent on Consignment (Returned)	...
Carriage	...	By Insurance Company (Insurance Claims)	...
Insurance	...	By Profit and Loss A/c (Uncovered Loss)	...
Miscellaneous Expenses	...	By Consignee's A/c (Sale Proceeds)	...
To Consignee's A/c:		By Consignment Stock A/c	...
Import Duty	...	By Profit and Loss A/c (Loss)	...
Dock Dues	...		
Octroi	...		
Carriage	...		
Insurance	...		
Godown Rent	...		
Miscellaneous Expenses	...		
To Consignment Stock Reserve	...		
To Profit and Loss A/c (Profit)	...		

Dr. Specimen of a Consignee's A/c Cr.

Particulars	₹	Particulars	₹
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.

Particulars	₹	Particulars	₹
To Bank (Expenses)	...	By Bank (Sales Proceeds)	...
To Commission	...		
To Bills Payable (Advance)	...		
To Bank (Payment of Balance)		

Illustration 3 (Simple Problem): Jay & Co. consigned 50 boxes of tea costing ₹ 100 per box to Akash. Jay & Co. paid freight ₹ 500, insurance ₹ 200 and sundry expenses ₹ 80. He drew a bill of exchange on Akash and received it from Akash & Co. duly accepted for ₹ 3,000. The bill was discounted with the Bank by giving a discount of ₹ 100.

Mr. Akash 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 Akash's Account in the books of the consignor.

Solution:**In the Books of Jay & Co.**

Dr.		Consignment to Akash A/c		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment	5,000	By Akash's A/c (Sales)	4,500		
To Bank:		By Consignment Stock	2,384		
Freight	500				
Insurance	200				
Sundry Expenses	80				
	780				
To Discount	100				
To Akash's A/c:					
Carriage	180				
Commission	225				
	405				
To Profit and Loss A/c	599				
	6,884				

Dr.		Consignment to Akash's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	4,500	By Consignment A/c:			
		Carriage	180		
		Commission	225		
			405		
		By Bills Receivable	3,000		
		By Bank A/c	1,095		
	4,500				

Note:

Valuation of Stock:		₹	
20 boxes @ ₹ 100	=		2,000
+ Proportionate Expenses $\left(\frac{20 \times 960}{50}\right)$	=		384
			2,384

CONSIGNING GOODS AT A HIGHER PRICE

When the consignor thinks that the consignee should have no knowledge of the cost of 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, and (2) Consignment stock.

Specimen Accounting Entries

- When the goods are sent on consignment:

Consignment A/c Dr. (Invoice Price)
 To Goods Sent on Consignment A/c
 (Being the goods sent on consignment at invoice price)
- 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)
- 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)
- 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 A/c is shown in the Balance Sheet by deducting consignment stock reserve from it.

Illustration 4 (Goods Consigned at Higher Price): On 1st March, 2014, Surendra Kumar of Calcutta, consigned goods of ₹ 1,100 to Gosalia of Nagpur at a proforma invoice value of ₹ 1,500. Surendra Kumar paid ₹ 40 for freight and insurance, Gosalia paid ₹ 100 for carriage and other expenses. Gosalia sent a bank draft of ₹ 200 to Surendra Kumar as an advance. Gosalia sold all the goods for ₹ 1,600. Gosalia was entitled to a commission of 5% on sale proceeds. Gosalia remitted the balance to Shri Surendra Kumar after deducting his commission and expenses.

Give Consignment Account and Gosalia's Account in the books of Surendra Kumar.

Solution:

In the Books of Surendra Kumar

Dr.	Consignment to Nagpur A/c		Cr.
Particulars	₹	Particulars	₹
To Goods Sent on Consignment A/c	1,500	By Goods Sent on Consignment	400
To Bank (Freight and Insurance)	40	By Gosalia's (Sale Proceeds)	1,600
To Gosalia's A/c (Carriage and Other Expenses)	100		
To Gosalia's A/c (Commission)	80		
To Profit and Loss A/c	280		
	2,000		2,000

Dr.		Gosalia's A/c		Cr.	
Particulars	₹	Particulars		₹	
To Consignment A/c (Sale Proceeds)	1,600	By Bank A/c (Advance)		200	
		By Consignment A/c:			
		Carriage	100		
		Commission	<u>80</u>	180	
		By Bank A/c		1,220	
	1,600			1,600	

Illustration 5 (Del Credere Commission Allowed): M/s ABC & 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 & Co. drew a bill for three months 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 & Co. and settled the account.

Open Consignment Account and Shamlal's Account in the books of M/s ABC & Co. and ABC & Co.'s Account in the books of Shamlal.

Solution:

In the Books of M/s ABC & Co.

Dr.		Consignment to Solapur A/c		Cr.	
Particulars	₹	Particulars		₹	
To Goods Sent on Consignment A/c	1,000	By Goods Sent on Consignment A/c		300	
To Bank:		By Shamlal's A/c (Sale Proceeds)		1,050	
Carriage	70				
Miscellaneous Expenses	<u>30</u>				
To Shamlal's A/c:					
Carriage	50				
Sundry Expenses	<u>20</u>				
To Shamlal's A/c (Commission)				74	
To Profit and Loss A/c				106	
	1,350			1,350	

Dr.		Shamlal's A/c		Cr.	
Particulars	₹	Particulars		₹	
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		306	
	1,050			1,050	

In the Books of Shamlal

Dr.	M/s ABC & Co.		Cr.
Particulars	₹	Particulars	₹
To Bills Payable A/c	600	By Bank A/c (Sale Proceeds)	1,050
To Bank A/c (Expenses)	70		
To Commission	74		
To Bank A/c	306		
	1,050		1,050

(Simple Questions)

SAQ 1: On 1st June, 2014, Kapur of Bombay consigned 100 cases costing ₹ 700 each to Shirodkar of Sholapur. Kapur paid ₹ 500 for carriage. Shirodkar paid ₹ 100 for octroi and ₹ 350 for carriage and other expenses. Shirodkar sent ₹ 4,000 as an advance against the consignment. Shirodkar sold 90 cases for ₹ 72,000. Shirodkar is entitled to a commission of 5% on total sales. Pass journal entries in the books of both the parties.

(Ans.: Profit – ₹ 4,545)

(Consignment at Invoice Price)

SAQ 2: 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)

(Goods Invoiced at Higher Price)

SAQ 3: On 1st January, 2014, 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)

SAQ 4: A & 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 godown 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, Consignee's Account, Consignment Stock Account and Consignment Stock Reserve Account in the books of A & Co.

(Ans.: Profit on Consignment – ₹ 3,470, Loss – ₹ 572.50, Stock Account – ₹ 1,485, Commission – ₹ 1417.50)

(Discount on Bill Discounted)

SAQ 5: Usha Fans, Calcutta, consigned to Vijay & 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 & 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:

- (a) Credit Sales 60 fans @ ₹ 350 each.
- (b) Cash sales 30 fans at ₹ 400 each.
- (c) Expenses incurred by Vijay & Sons: Godown Rent ₹ 300; Carriage ₹ 500; Commissions ₹ 1,730.
- (d) Vijay & Sons took 5 fans for their own use at an agreed value of ₹ 320 each.
- (e) Vijay & 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.
- (f) The discount on the bill is to be treated as a consignment expenses.

Write up Consignment Account and Consignee's Account in the books of Usha Fans.

(Ans.: Profit – ₹ 6,095)

(Discount on Bill Discounted)

SAQ 6: Vikrant & 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 & 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 & 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:

- (a) Cash sales of 600 radio sets at ₹ 350 each.
- (b) 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 & Co.

Illustration 6 (Calculation of Surplus Commission): On 1st June, 2014 Chandrasekhar of Chandrapur consigned goods to Badrinath of Mumbai for sale at invoice price. Badrinath is entitled to commission of 75% 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, 2014, 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 Badrinath's Account in the books of Chandrasekhar.

Solution:

In the Books of Chandrasekhar

Dr.	Consignment to Mumbai A/c		Cr.
Particulars	₹	Particulars	₹
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 Badrinath's A/c (Sale Proceeds)	15,000
To Badrinath's A/c:		By Consignment Stock A/c	4,513
Expenses	700		
Commission	713		
	1,413		
To Consignment Stock Reserve A/c	600		
To Profit and Loss A/c	2,550		
	21,913		21,913

Dr.	Badrinath's A/c		Cr.
Particulars	₹	Particulars	₹
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

Notes:

1. Commission at 75% on Invoice Price

₹

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

$\therefore \frac{3}{4}$ of 16,400 = 12,300

$\therefore \frac{3}{4}$ = 12,300

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Surplus Commission:

Selling Price	15,000	
Less: Invoice Price of goods	12,300	
	2,700	
∴ 15% of 2,700		= 405
		713
		₹

2. Valuation of Closing Stock:

At Invoice Price:

$\frac{1}{4}$ of Total Invoice Price		
∴ $\frac{1}{4}$ of 16,400		= 4,100
+ Proportionate Expenses		
∴ $\frac{1}{4}$ of 700		= 175
+ $\frac{1}{4}$ of 950		= 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		= 238
		3,913

3. Calculation of Stock Reserve = 4,513 – 3,913 = 600

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 Priya 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 Suryakumar's Account in the books of Modern Sewing Machines.

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

Dr.		Consignment to Suryakumar A/c		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	37,500	By Goods Sent on Consignment	7,500		
To Bank: Freight and Insurance A/c	800	By Goods Sent on Consignment (Returns)	1,500		
To Suryakumar's A/c (Carriage)	500	By Suryakumar's A/c (Sale Proceeds)	35,000		
To Suryakumar's A/c:		By Profit and Loss A/c (Loss in Transit)	3,080		
Commission	2,188	By Consignment Stock A/c	5,828		
Del Credere	350				
	2,538				
To Suryakumar's A/c (Cost of Returning Goods)	60				
To Consignment Stock Reserve A/c	1,125				
To Profit and Loss A/c	10,385				
	52,908				52,908

Dr.		Mr. Suryakumar's A/c		Cr.	
Particulars	₹	Particulars	₹		
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		
		By Balance c/d	31,902		
	35,000				35,000

Notes:

1. Valuation of Stock:		₹
At Invoice Price:		
15 machine @ ₹ 375	=	5,625
+ Proportionate Expenses $\left(\frac{15 \times 800}{100}\right)$	=	120
$\left(\frac{15 \times 500}{90}\right)$	=	83
		<u>5,828</u>
At Cost Price:		
15 Machines @ ₹ 300	=	4,500
+ Proportionate Expenses $\left(\frac{15 \times 800}{100}\right)$	=	120

	$\left(\frac{15 \times 500}{90}\right)$	=	83
			4,703
2. Valuation of Loss:			₹
10 Machines @ ₹ 300		=	3,000
+ Proportionate Expenses of Consignor $\left(\frac{800 \times 10}{100}\right)$		=	80
			3,080
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	26,250		
	8,750		
10% of ₹ 8,750		=	875
			2,188

4. Calculation of Stock Reserve:

$$= 5,828 - 4,703$$

$$= 1,125$$

5. Goods returned should be valued at cost.

Illustration 8 (Del Credere Commission Discount on Bill Discounted): M/s Dilip & 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 & 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 & 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 & Co. and Dilip & Co.'s Account in the books of Mr. Balkrishna.

Solution:**In the Books of Dilip & Co.**

Dr.		Consignment to Nagpur A/c		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	3,00,000	By Goods Sent on Consignment A/c	50,000		
To Cash A/c:		By Balkrishna's A/c:			
Insurance	1,500	Cash Sales	2,10,000		
Carriage	3,500	Own Use	16,000	3,46,000	
Miscellaneous Expenditure	5,000	By Consignment Stock A/c		15,500	
To Discount A/c	2,500				
To Balkrishna's A/c:					
Godown Rent	3,000				
Selling Expenses	5,000				
To Commission A/c	37,000				
To Consignment Stock Reserve A/c	2,500				
To Profit and Loss A/c	51,500				
	4,11,500			4,11,500	

In the Books of Balkrishna

Dr.		Dilip & Co.'s A/c		Cr.	
Particulars	₹	Particulars	₹		
To Bills Payable A/c	1,50,000	By Cash A/c	2,10,000		
To Cash A/c (Expenses)	8,000	By Consignment Debtors A/c	1,20,000		
To Commission A/c	37,000	By Goods A/c	16,000		
To Bank A/c	1,51,000				
	3,46,000			3,46,000	

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.

- $\frac{4}{5}$ of the goods were sold for ₹ 18,000 out of which cash sales amounted to ₹ 6,000.
- Expenses incurred by Swati: discount ₹ 300; godown rent ₹ 150 and other selling expenses ₹ 50.
- 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.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	18,750	By Goods Sent on Consignment A/c	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	213				
	1,500				
To Discount A/c	200				
To Swati's A/c:					
Discount	300				
Godown Rent	150				
Selling Expenses	50				
General Commission	1800				
Del Credere Commission	360				
	2,660				
To Consignment Stock Reserve A/c	750				
To Profit and Loss A/c	2,080				
	25,800				
				25,800	

Dr.		Swati's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	18,000	By Bills Receivable A/c	10,000		
		By Consignment A/c	2,160		
		By Bank A/c	5,840		
	18,000				
				18,000	

Illustration 10 (Surplus Commission): New Hind Cycles Ltd. appointed Rameshwari of Madras as their Selling Agent on the following terms:

1. Goods to be sold at invoice price or over.
2. Rameshwari to be entitled to a commission of 10% on the invoice price and 25% on any Surplus price realised.
3. The principal to draw on the agent a 1 month's 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 customers.

Prepare Consignment Account, Rameshwari's Account in the books of New Hind Cycles Ltd.

Solution:**In the Books of New Hind Cycles**

Dr.		Consignment to Madras A/c		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	2,00,000	By Goods Sent on Consignment A/c	60,000		
To Cash A/c(Expenses)	2,000	By Rameshwari's A/c (Sales)	1,84,000		
To Rameshwari's A/c (Sales Expenses)	2,500	By Consignment Stock A/c	40,400		
To Rameshwari's A/c (Commission)	22,000				
To Rameshwari's A/c(Bad Debts)	1,150				
To Stock Reserve A/c	12,000				
To Profit and Loss A/c	44,750				
	2,84,400			2,84,400	

Dr.		Rameshwari's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	1,84,000	By Bills Receivable A/c	1,20,000		
		By Consignment A/c:			
		Expenses	2,500		
		Commission	22,000		
		Bad Debt	1,150		
		By Bank A/c	38,350		
	1,84,000			1,84,000	

(Del Credere Commission Given)

SAQ 7: 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 Co. 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 Consignor's Account in the books of Consignee.

SAQ 8: 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)

SAQ 9: 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 transactions 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)

(Surplus Commission)

SAQ 10: 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 $\frac{1}{5}$ % 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 Consignee's Account in the books of Consignor.

SAQ 11: 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, 2014, 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, 2014, 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 Bhatti Cycle towards the balance.

Prepare Consignment Account and Bhatti Cycles Account in the books of Zero Cycles Ltd., Mumbai assuming that the entries are made on the invoice price.

(Ans.: Profit – ₹ 18,250)

(Stock Valued at Cost)

SAQ 12: M & Co., Ceylon, consigned goods to R & 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 & 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 & Co.'s expenses amounted to ₹ 175 and their commission to ₹ 300. The unsold stock was valued at cost and two month's draft was received from R & Co. in settlement of account to date.

Show the transactions in the books of both the parties.

(Commission on Profit)

SAQ 13: 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)

(Bad Debts Incurred)

SAQ 14: Green & Co. of Calcutta consigned 80 radios to Patel & Co. of Mumbai at an invoice price of ₹ 24,000, charging 25% on cost. Green & Co. paid insurance ₹ 750, dock charges ₹ 800 and carriage ₹ 200. As an advance, Patel & Co. accepted a bill for ₹ 5,000 drawn by Green & Co. and it was discounted by Green & Co. for ₹ 4,900. Patel & 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 & Co. could realise only ₹ 18,000 and ₹ 1,200 was considered bad. Patel & 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 & Co.

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 Mumbai Account, M.K. Menon's 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.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c (500 × 150)	75,000	By M.K. Menon's A/c (Sale Proceeds) (300 × ₹ 230 = ₹ 69,000)			
To Bank Expenses	5,500	(100 × ₹ 220 = ₹ 22,000)		91,000	
To M.K. Menon's A/c:		By Stock on Consignment A/c ¹		16,250	
Unloading Expenses	750				
Selling Expenses	1,000				
	1,750				
To M.K. Menon's A/c:					
Ordinary Commission	6,825				
Del Credere Commission	2,275				
	9,100				
To Disputed Amount A/c ²	500				
To Profit on Consignment transferred to Profit and Loss A/c	15,400				
	1,07,250				1,07,250

Notes:

1. 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	<u>₹ 81,250</u>

$$\begin{aligned} \text{Value of Unsold Stock} &= \frac{\text{₹ } 81,250 \times 100}{500} \\ &= \text{₹ } 16,250 \end{aligned}$$

- 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's A/c

Dr.		(Consignee's A/c)		Cr.	
Particulars	₹	Particulars	₹		
To Consignment to Madras A/c (Sale Proceeds)	91,000	By Bank A/c (Advance)		20,000	
		By Consignment to Madras A/c:			
		Expenses		1,750	
		Commission		9,100	
		Dispute Amount		500	
		By Balance c/d		59,650	
	91,000				91,000

Dr.		Goods Sent on Consignment A/c		Cr.	
Particulars	₹	Particulars	₹		
To Trading A/c (Transfer)	75,000	By Consignment to Madras A/c	75,000		
	75,000		75,000		

Dr.		Stock on Consignment A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment to Madras A/c	16,250	By Balance c/d	16,250		
	16,250		16,250		

Balance Sheet (Extract) as at

Liabilities	₹	Assets	₹
		M.K. Menon's A/c	59,650
		Stock on Consignment A/c	16,250
	—		—

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:

- Consignee to get commission of 5% on cash sales and 4% on credit sales.
- Any goods taken by consignee himself or goods lost through consignee's 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 M

Dr.		Consignment to Mumbai A/c		Cr.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	1,60,000	By R's A/c (Cash Sales)	1,40,000		
To Bank Expenses A/c:		By R's A/c:			
Carriage and Freight	6,720	Goods taken			
Insurance	3,440	(₹ 8,000 + $12\frac{1}{2}\%$ on ₹ 8,000)	9,000		
	10,160				
To R's A/c:		By R's A/c:			
Advertisement	1,720	Goods lost for his negligence	4,500		
Selling Expenses	1,080	(₹ 4,000 + $12\frac{1}{2}\%$ on ₹ 4,000)			
	2,800				

To R's A/c:			By Consignment Debtors (Credit Sales)	1,08,000
Commission on Cash Sales	7,000		By Stock on Consignment	21,270
Commission on Credit Sales	4,320	11,320		
To Profit on Consignment				
Transferred to Profit and Loss A/c		98,490		
		2,82,700		2,82,700

Dr.		R's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment to Mumbai A/c:		By Bank Advance A/c	50,000		
Cash Sales	1,40,000	By Consignment to Mumbai A/c:			
Goods taken	9,000	Expenses	2,800		
Goods lost	4,500	Commission	11,320		
		By Bank A/c(Amount due)	89,380		
	1,52,500		1,52,500		

Dr.		Goods Sent on Consignment A/c		Cr.	
Particulars	₹	Particulars	₹		
To Trading A/c: Transfer	1,60,000	By Consignment to Mumbai	1,60,000		
	1,60,000		1,60,000		

Dr.		Consignment Debtors A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment to Mumbai A/c	1,08,000	By Balance c/d	1,08,000		
	1,08,000		1,08,000		

Workings:

Valuation of Unsold Stock:

Total Cost of Goods	₹ 1,60,000
Add: Consignor's Expenses	₹ 10,160
	<u>₹ 1,70,160</u>

$$\therefore \text{Value of Unsold Stock} = \frac{1,70,160 \times 20,000}{1,60,000} = ₹ 21,270$$

Goods lost and partial return by the consignee.

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.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	1,00,000	By Bali's A/c (7,500 × 15)	1,12,500		
To Cash A/c (Expenses)	8,900	By Goods in Transit A/c	4,356		
To Bali's A/c (Expenses)	9,800	By Closing Stock A/c	23,919		
To Bali's A/c (Commission)	7,875				
To P & L A/c	14,200				
	1,40,775				1,40,775

Dr.		Bali's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	1,12,500	By Consignment A/c	9,800		
		By Consignment A/c	7,875		
		By Bank A/c	94,825		
	1,12,500				1,12,500

Working Notes:

1. Goods in transit:	₹
400 units @ ₹ 10	4,000
Add: Anita's Proportionate Expenses $\left(\frac{8,900}{10,000} \times 400\right)$	356
	<u>4,356</u>
2. Closing Stock:	₹
Stock 2,100 units @ ₹ 10 (9,600 – 7,500)	21,000
Add: Anita's Proportionate Expenses $\left(\frac{8,900}{10,000} \times 2,100\right)$	1,869
Bali's Proportionate Expenses $\left(\frac{4,800}{9,600} \times 2,100\right)$	1,050
	<u>23,919</u>

Illustration 14 (Consignee to Get Commission Plus Bonus/Profit): Hamam 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.	
Particulars	₹	Particulars	₹		
To Goods Sent on Consignment A/c	3,00,000	By Ram A/c	2,40,000		
To Cash A/c	1,200	By Goods Sent on Consignment A/c	60,000		
To Ram A/c	4,000	By Closing Stock on Consignment A/c	75,925		
To Ram A/c (Bonus + Commission)	49,333				
To Stock Reserve A/c	15,000				
To Profit A/c	6,392				
	3,75,925			3,75,925	

Dr.		Hamam's A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	2,40,000	By Consignment A/c	4,000		
		By Consignment A/c	49,333		
		By Bank A/c	1,86,667		
	2,40,000		2,40,000		

Dr.		Goods Sent on Consignment A/c		Cr.	
Particulars	₹	Particulars	₹		
To Consignment A/c	60,000	By Consignment A/c	3,00,000		
To Trading A/c	2,40,000				
	3,00,000		3,00,000		

Notes:

1. Cost of goods sent	=	(600 × 400)	=	₹ 2,40,000
Invoice price	=	(2,40,000 + 60,000)	=	₹ 3,00,000
2. 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	=	$\frac{1}{4} \times 3,00,000$	=	₹ 75,000
	=	$\frac{1}{4} \times 1,200$	=	₹ 300
				₹ 75,300
Ram	=	$\frac{1}{4} \times 2,500$	=	₹ 625
				<u>₹ 75,925</u>

4. Commission and bonus:

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

In the Books of Ram

Dr.	Hamam's A/c		Cr.
Particulars	₹	Particulars	₹
To Cash A/c	4,000	By Cash A/c	2,40,000
To Commission A/c	49,333		
To Bank A/c	1,86,667		
	2,40,000		2,40,000

(Special Commission)

SAQ 15: Rahim of Calcutta consigned 100 cases of medicine. Costing ₹ 1,000 per case to Karim of Kanpur on 1st January, 2014. 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, 2014. The account sales received from Karim on 30th June, 2014 revealed the following:

40 cases sold on 21st March, 2014 @ ₹ 1,500 per case, 30 cases sold on 24th May 2014 @ ₹ 1,200 per cases, 10 cases sold on 30th June, 2014 @ ₹ 1,300. 5 cases were stolen by dishonest employees. 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.

(Customer Became Bankrupt)

SAQ 16: Mukesh Cycles Ltd., Madras appointed Buvesh Kumar of Ballampur as their selling agent on the following terms:

1. Goods to be sold at invoice price or over.
2. Buvesh Kumar to be entitled to a commission of 10% on the invoice price and 25% of any surplus price realised.
3. The principal to draw on the agent a one month's 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 and Buvesh Kumar's Account in the books of Mukesh Cycle Ltd.

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

(Good Taken by the Consignee for Own Use)

SAQ 17: Mr. Salkhe of Nagpur consigned to Mr. Honda of Mumbai 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 Mumbai 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 Mumbai sent an account sales which showed as:

- (a) Cash sales of 600 bags of tobacco at ₹ 350 each.
- (b) Credit sales of 300 bags of tobacco at ₹ 400 each.
- (c) Mr. Honda of Bombay took 50 bags of tobacco for his own use at ₹ 320 per bag.
- (d) Expenses paid by Mr. Honda of Mumbai were: for Godown Rent ₹ 3,000 and selling expenses of ₹ 5,000.
- (e) Mr. Honda of Mumbai 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 & Co. and Mr. Salkhe Ltd. of Nagpur's Account.

(Ans.: Stock – ₹ 15,500; Profit – ₹ 53,100)

SAQ 18: Ram & 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 & Co.

(Ans.: Profit – ₹ 6,32,600; Goods in Transit – ₹ 6,01,000; Stock – ₹ 6,01,600)

EXERCISE

Theory Questions

1. Define the following terms: (i) Consignor (ii) Consignor (iii) Consignee.
2. Enumerate the features of consignment.
3. Distinguish between consignment and sale.
4. Write a short note on Proforma Invoice.
5. Write a short note on Account Sales.
6. Write a short note on Del Credere Commission.
7. Enumerate the expenses not included in cost for valuation of stock on consignment.
8. Write a short note on Consignment Account.

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 overriding 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?

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?

Objective Type Questions

1. Fill in the Blanks:

- (i) At times, goods are sent by a dealer to an agent for sale for commission, on the basis that the goods will be sold on behalf of and at the risk of the dealer. The despatch of goods is known as _____.
- (ii) At times, goods are sent by a dealer to an agent for sale for commission, on the basis that the goods will be sold on behalf of and at the risk of the dealer. The person who sends the goods is known as the _____.
- (iii) At times, goods are sent by a dealer to an agent for sale for commission, on the basis that the goods will be sold on behalf of and at the risk of the dealer. The agent who receives the goods is known as the _____.
- (iv) The relationship between the "Consignor" and the "Consignee" is that of Principal and _____.
- (v) The relationship between the "Consignor" and the "Consignee" is that of _____ and Agent.
- (vi) Goods sent on consignment are the property of the _____.
- (vii) Proforma invoice is prepared by the _____.
- (viii) Account Sales is prepared by the _____.
- (ix) If the consignee gets _____ commission, the consignee will bear the bad debts.
- (x) Goods Sent on Consignment A/c is closed by transfer to _____ account.
- (xi) Closing stock with consignee is shown in the balance sheet _____ (consignor, consignee).
- (xii) In consignment accounting, to consign means _____. (to send, to purchase)
- (xiii) Consignee's A/c is a _____ A/c (personal, real) and Consignment A/c is a _____ A/c. (real, nominal)
- (xiv) A consignee statement showing details of goods sold and expenses incurred is known as _____ (account sales, proforma invoice).
- (xv) _____ (Account sales, Proforma invoice) is prepared by the consignor while dispatching goods to the consignee.
- (xvi) In absence of information, it is assumed that Del credere commission is given on _____ (total, credit) sales.
- (xvii). Goods Sent on Consignment A/c is closed by transferring the balance to _____ (Trading, Profit and Loss) A/c.
- (xviii) A consignee is allowed to sell goods on _____ (cash only, cash or credit) basis.
- (xix) The person dispatching the goods on consignment is known as _____ (consignor, consignee).

(Ans.: (i) consignment, (ii) consignor, (iii) consignee, (iv) agent, (v) principal, (vi) consignor, (vii) consignor, (viii) consignee, (ix) del credere, (x) trading, (xi) consignor, (xii) to send, (xiii) personal, nominal, (xiv) account sales, (xv) Proforma invoice, (xvi) total, (xvii) trading, (xviii) cash or credit, (xix) consignor.)

2. State Whether True or False:

- (i) Consignment is a sale between the consignor and the consignee.
- (ii) The consignor acts as the agent of the consignee for supply of goods.
- (iii) Consignee sends a proforma invoice to the consignor.
- (iv) Consignee is liable to pay to consignor price of all the goods received, whether they are finally sold or not.
- (v) Consignee cannot return the unsold goods to the consignor.
- (vi) An Account Sales is a ledger account in the books of the consignee.
- (vii) If the consignor gets del credere commission, the consignor will bear the bad debts.
- (viii) Consignor's Carriage Expenses are included in cost for valuation of closing stock of goods on consignment.
- (ix) Consignor's Insurance Expenses are excluded from cost for valuation of closing stock of goods on consignment.
- (x) Consignor's Packing Expenses are not included from cost for valuation of closing stock of goods on consignment.
- (xi) Consignee's Freight Expenses upto his godown are included in cost for valuation of closing stock of goods on consignment.
- (xii) Consignee's Unloading Charges at his godown are excluded from cost for valuation of closing stock of goods on consignment.
- (xiii) Godown Rent is excluded from cost for valuation of closing stock of goods on consignment.
- (xiv) Bad debts is included in cost for valuation of closing stock of goods on consignment, if the consignee gets del credere commission.
- (xv) The following entry is passed to record the closing stock in Books of Consignee.

Stock on Consignment A/c	Dr.
To Consignor's A/c	
- (xvi) When goods are consigned at the invoice price, loading on closing stock is credited to Stock Reserve A/c in the books of the consignee.
- (xvii) Discount on Bill is not included in valuation of closing stock on consignment.
- (xviii) The relationship between the consignor and the consignee is that of a Principal and Agent.
- (xix) In consignment, the goods are despatched on the basis that the goods will be sold on behalf of, at the expense and at the risk of the consignee.
- (xx) Del Credere Commission is always allowed on credit sales.
- (xxi) Non-recurring expenses are those expenses which are incurred after the goods reach the Consignee's godown.

- (xxii) Discount charges on discounting a Bill Receivable accepted by Consignee are debited to Consignment Account.
 - (xxiii) The Consignee gives advance to the consignor as a part payment of goods received.
 - (xxiv) Loading charges paid by the Consignee are non-recurring expenses.
 - (xxv) All expenses incurred by the Consignee are debited to his account.
 - (xxvi) When defective goods are returned by the Consignee, the Consignor debits it to Consignee's Account.
 - (xxvii) Consignee does not pass any entry for goods sent on consignment, profit/loss on Consignment and Consignment Stock.
 - (xxviii) The cost of Consignment stock is the cost at which the goods are consigned plus all the non-recurring expenses.
 - (xxix) Goods returned by the Consignee should be charged to Consignment Account at cost or market price whichever is lower.
 - (xxx) Expenses incurred in forwarding the defective goods should be debited to profit and loss account.
 - (xxxi) In Consignment Accounting, Loading is the difference between Selling Price and Cost price.
 - (xxxii) Consignor always consigns goods at invoice price.
 - (xxxiii) Sending goods at invoice price shall result in less profit in the Consignment Account, if no adjustment is made for the loading.
 - (xxxiv) Invoice price is always equal to selling price.
 - (xxxv) In Consignment Accounting, Consignor consigns the goods at invoice price to conceal the actual profit earned on consignment.
 - (xxxvi) In Consignment Accounting, Loading on closing stock will be nullified by debiting Stock Reserve Account and crediting Closing Stock Account.
 - (xxxvii) All the entries of adjustment of loading are recorded in the books of consignee.
 - (xxxviii) In Consignment Accounting, sales Account and Account Sales are synonymous terms.
- (Ans.:** (i) False, (ii) False, (iii) False, (iv) False, (v) False, (vi) False, (vii) False, (viii) True, (ix) False, (x) False, (xi) True, (xii) False, (xiii) True, (xiv) False, (xv) False, (xvi) False, (xvii) True, (xviii) True, (xix) False, (xx) False, (xxi) False, (xxii) True, (xxiii) False, (xxiv) False, (xxv) False, (xxvi) False, (xxvii) False, (xxviii) False, (xxix) False, (xxx) False, (xxxi) False, (xxxii) False, (xxxiii) True, (xxxiv) False, (xxxv) False, (xxxvi) False, (xxxvii) False, (xxxviii) False.)

3. Match the Columns:

(A) Group A	Group B
(i) Bad debts when del credere commission is paid	(a) Entry is passed in the books of either the consignor or the consignee
(ii) Bad debts when del credere commission is not paid	(b) No entry is passed in the books of the consignor
(iii) Bills receivable given by the consignee is discounted by the consignor	(c) Entry is passed in the books of only the consignor

- (d) No entry is passed
- (e) Entry is passed in the books of both the consignor and the consignee

(Ans.: (i) – (b), (ii) – (e), (iii) – (c).)

(B) Group A

- (i) Relationship between the “Consignor” and the “Consignee”
- (ii) Proforma invoice
- (iii) Account Sales
- (iv) Ownership of goods remains with the sender
- (v) Ownership of goods is passed on to the buyer

Group B

- (a) Prepared by Consignor
- (b) Consignment
- (c) Joint venturers
- (d) Principal and Agent
- (e) Ledger account in books of consignee
- (f) Prepared by Consignee
- (g) Sale

(Ans.: (i) – (d), (ii) – (a), (iii) – (f), (iv) – (b), (v) – (g).)

**(C) Group A
Transaction**

- (i) Expenses incurred by consignor
- (ii) Stock on consignment
- (iii) Advance received from consignee
- (iv) Balance in goods sent on Consignment Account
- (v) Collection from debtors by consignee

**Group B
Books of Consignor**

- (a) No entry
- (b) Debit to Consignee’s Account
- (c) Debit to Consignment Account
- (d) Credit to Consignee’s Account
- (e) Credit to Consignment Debtors Account
- (f) Credit to Goods Sent on Consignment Account
- (g) Debit to Trading Account
- (h) Credit to Consignment Account
- (i) Credit to Trading Account

(Ans.: (i) – (c), (ii) – (h), (iii) – (d), (iv) – (i), (v) – (a).)

**(D) Group A
Transaction**

- (i) Credit sales
- (ii) Goods consigned
- (iii) Collection from debtors by consignee
- (iv) Bad debt when no del credere commission is paid

**Group B
Books of Consignee**

- (a) Credit to Consignment Account
- (b) Debit to Consignor’s Account
- (c) Debit to Bad Debts Account
- (d) No entry
- (e) Credit to Consignment Debtors Account

- (f) Debit to General Commission Account
- (g) Credit to Consignor's Account
- (h) Debit to goods received on Consignment Account

(Ans.: (i) – (g), (ii) – (d), (iii) – (e), (iv) – (b).)

4. Multiple Choice Questions:

- (i) The relationship between the “Consignor” and the “Consignee” is that of _____.
 - (a) “Principal and Principal” (b) “Agent and Principal”
 - (c) “Principal and Agent” (d) “Agent and Sub-agent”
- (ii) Goods sent on consignment are the property of _____.
 - (a) The consignee
 - (b) Both the consignor and the consignee equally
 - (c) Either the consignor or the consignee
 - (d) The consignor
- (iii) When the consignee receives the goods on consignment, _____.
 - (a) The consignee buys the goods
 - (b) The consignee merely agrees to sell them on behalf of the consignor
 - (c) The consignee and the consignor become equal partners
 - (d) The consignee and the consignor become co-venturers
- (iv) All expenses incurred by the consignee for receiving and selling the goods _____.
 - (a) Are borne by the consignee
 - (b) Are recovered by the consignee from the consignor
 - (c) Are shared by the consignee and the consignor equally
 - (d) None of the above
- (v) Any stock remaining unsold with the consignee _____.
 - (a) Belongs to the consignee
 - (b) Belongs to the consignor or the consignee
 - (c) Belongs to the consignor or the consignee equally
 - (d) Belongs to the consignor
- (vi) Proforma invoice is prepared by the _____.
 - (a) Seller (b) Consignor
 - (c) Buyer (d) Consignee
- (vii) An Account Sales is _____.
 - (a) A ledger account in the books of the consignee
 - (b) A ledger account in the books of the consignor
 - (c) A statement showing particulars of goods sent etc.
 - (d) None of the above

- (viii) If the consignee gets del credere commission, _____.
- The consignor will bear the bad debts
 - the consignee will bear the bad debts
 - The consignee will pay the price immediately on receipt of consignment
 - The consignee will bear all the expenses
- (ix) The unsold stock lying with the consignee as at year end is _____.
- Valued and recorded by the consignee in his books at the rate shown in the proforma invoice
 - Valued and recorded by the consignee in his books at cost or market value whichever is less
 - Valued and recorded by the consignor in his books at the rate shown in the proforma invoice
 - Valued and recorded by the consignor in his books at cost or market value whichever is less
- (x) The following entry is passed in the books of the consignee, when goods are sent for consignment.
- | | |
|-----------------------------------|-----|
| Goods Received on Consignment A/c | Dr. |
| To Consignor's A/c | |
 - | | |
|----------------------------------|-----|
| Consignor's A/c | Dr. |
| To Goods Sent on Consignment A/c | |
 - | | |
|-------------------------------|-----|
| Goods Sent on Consignment A/c | Dr. |
| To Consignment A/c | |
 - No entry is passed
- (xi) The following entry is passed in the books of the consignee, when the consignor incurs expenses.
- | | |
|-----------------------------|-----|
| Expenses on Consignment A/c | Dr. |
| To Consignor's A/c | |
 - | | |
|------------------|-----|
| Consignor's A/c | Dr. |
| To Cash/Bank A/c | |
 - | | |
|-----------------------------|-----|
| Expenses on Consignment A/c | Dr. |
| To Cash/Bank A/c | |
 - No entry is passed
- (xii) The following entry is passed in the books of the consignor, when the consignee makes cash sales.
- | | |
|--------------------|-----|
| Cash A/c | Dr. |
| To Consignee's A/c | |
 - | | |
|-------------------|-----|
| Consignee's A/c | Dr. |
| To Cash Sales A/c | |

- (c) Consignee's A/c Dr.
 To Consignment A/c
- (d) No entry is passed
- (xiii) The following entry is passed in the books of the consignee, when the consignee makes credit sales.
- (a) Consignment Debtors A/c Dr.
 To Consignor's A/c
- (b) Consignor's A/c Dr.
 To Credit Sales A/c
- (c) Consignment A/c Dr.
 To Consignor's A/c
- (d) No entry is passed
- (xiv) The following entry is passed in the books of the consignor, when the consignee makes collections from debtors.
- (a) Cash/Bank A/c Dr.
 To Consignment Debtors A/c
- (b) Consignment Debtors A/c Dr.
 To Consignor's A/c
- (c) Cash/Bank A/c Dr.
 To Consignor's A/c
- (d) No entry is passed
- (xv) When consignee incurs expenses, _____.
- (a) No entry is passed in the books of the consignor
- (b) Entry is passed in the books of both the consignor and the consignee
- (c) Entry is passed in the books of only the consignor
- (d) Entry is passed in the books of either the consignor or the consignee
- (xvi) Bad debts are _____.
- (a) Debited to General Commission A/c and credited to Consignment Debtors A/c, when there is no del credere commission
- (b) Debited to Consignment Debtors A/c and credited to Consignor's A/c, when there is no del credere commission
- (c) Debited to Consignor's A/c and credited to Consignment Debtors A/c, when there is no del credere commission
- (d) None of the above
- (xvii) Closing balance of Del Credere Commission Account is transferred to _____.
- (a) Consignor's Account (b) Consignment Account
- (c) Consignment Debtors Account (d) Profit and Loss Account

- (xviii) In Consignment Accounting, to consign means _____.
(a) To receive (b) To purchase
(c) To send (d) To transfer
- (xix) In Consignment Accounting, consignor is _____.
(a) Principal (b) Agent
(c) Debtor of the consignee (d) None of them
- (xx) In Consignment Accounting, consignment is _____.
(a) Real A/c (b) Personal A/c
(c) Nominal A/c (d) None of them
- (xxi) In Consignment Accounting, Consignee Account is _____.
(a) Real A/c (b) Personal A/c
(c) Nominal A/c (d) None of them
- (xxii) In Consignment Accounting, if discount is treated as “Consignment expenses”, it is debited to _____.
(a) Consignment A/c (b) Profit and Loss A/c
(c) Consignee’s A/c (d) Consignor’s A/c
- (xxiii) Balance of Consignment A/c indicates _____.
(a) Profit and Loss (b) Goods Sent to Consignor
(c) Balance of Goods with Consignee (d) None of the above
- (xxiv) The relationship between consignor and consignee is of _____.
(a) Debtor and Creditor (b) Purchases and Seller
(c) Principal and Agent (d) Owner and Servant
- (xxv) If the consignor carries on business of manufacturing, then the balance of Goods Sent on Consignment A/c is transferred to _____.
(a) Profit and Loss A/c (b) Trading A/c
(c) Manufacturing Statement (d) Consignment A/c
- (xxvi) If the consignor carries on trading business, then the balance of Goods Sent on Consignment A/c is transferred to _____.
(a) Profit and Loss A/c (b) Trading A/c
(c) Purchase A/c (d) Consignment A/c
- (xxvii) Closing Stock with consignee is shown in the Balance Sheet of _____.
(a) Consignee (b) Consignor
(c) Agency (d) None of the above
- (xxviii) When the Consignor sends goods to consignee, he prepares a _____.
(a) Account Sales (b) Cash Memo
(c) Proforma Invoice (d) Credit Memo

- (xxix) A periodic statement furnished by the consignee to consignor is _____.
- (a) Proforma Invoice (b) Debit Note
(c) Account Sales (d) None of the above
- (xxx) Where goods are sent on consignment, credit is given to _____ in the books of consignor.
- (a) Purchase A/c (b) Goods Sent on Consignment A/c
(c) Consignment A/c (d) Consignee's A/c
- (xxxii) Extra commission is given to the consignee for making him responsible for Bad Debt. This extra commission is known as _____.
- (a) Commission (b) Del. credere commission
(c) Profit to consignee (d) Overriding commission
- (xxxiii) Del credere commission is calculated on _____.
- (a) Total sales (b) Cash sales
(c) Credit sales (d) Net sales
- (xxxiv) If no del credere commission is paid to the consignee, _____ should be debited for credit sale.
- (a) Consignee's A/c (b) Consignment A/c
(c) Consignment Debtors A/c (d) Consignor's A/c
- (xxxv) If del credere commission is paid, then _____ account should be debited for credit sales
- (a) Consignee's A/c (b) Consignment A/c
(c) Consignment Debtors A/c (d) Consignor's A/c
- (xxxvi) While valuing closing stock consignment, the _____ expenses incurred by consignor are added to the cost of stock.
- (a) Full (b) Half
(c) Proportionate (d) Nil
- (xxxvii) Account sales _____
- (a) Have a very particular format (b) Does not have a specific format
(c) Must be prepared by law (d) Given by consignor to consignee
- (xxxviii) Out of the given option, which cannot be treated as part of cost of purchase for valuing stock on hand.
- (a) Packaging (b) Octroi
(c) Delivery charges (d) Freight
- (xxxix) On receipt of advance from consignee in books of consignor, which account should be credited?
- (a) Consignee (b) Cash/Bank
(c) Bills Receivable (d) Consignment

- (xxxix) Find out of the given statement which of the given statement is wrong?
- Sale and consignment is different
 - The relationship between consignor and consignee is that of principal and agent
 - Consignee has no right to the profit on goods sent on consignment
 - In consignment, the goods are dispatched on the basis that the goods will be sold on behalf of and at the expenses of and at the risk of the consignee
- (xl) 'Account Sales' indicate _____.
- The net amount due by consignee to consignor
 - The net amount due by consignor to consignee by way of commission
 - The net sales effected by consignee
 - None of the above
- (xli) 200 cases @ ₹ 150 per case were sent on consignment. 180 cases @ ₹ 250 per case were sold by consignee. Expenses incurred by consignor were: Freight ₹ 1,500, Insurance ₹ 850, Loading charges ₹ 250. Expenses incurred by consignee were: Unloading ₹ 200, Storage ₹ 200, Selling expenses ₹ 100, Insurance ₹ 150. Find the value of unsold stock.
- ₹ 3,315
 - ₹ 3,325
 - ₹ 3,280
 - ₹ 3,295
- (xlii) A of Ahmedabad consigned goods of ₹ 10,000 to M of Madras and paid ₹ 500 for expenses. The consignee paid ₹ 100 for freight and ₹ 50 godown rent. 80% of goods were sold and commission of ₹ 500 was paid. Find the value of closing stock.
- ₹ 2,000
 - ₹ 2,120
 - ₹ 2,100
 - ₹ 2,030
- (Ans.:** (i) – (c), (ii) – (d), (iii)– (b), (iv) – (b), (v) – (d), (vi) – (b), (vii) – (c), (viii) – (b), (ix) – (d), (x) – (d), (xi) – (d), (xii) – (c), (xiii) – (a), (xiv) – (d), (xv) – (b), (xvi) – (c), (xvii) – (d), (xviii) – (c), (xviii) – (a), (xix) – (c), (xx) – (b), (xxii) – (a), (xxiii) – (a), (xxiv) – (c), (xxv) – (b), (xxvi) – (c), (xxvii) – (b), (xxviii) – (c), (xxix) – (c), (xxx) – (b), (xxxi) – (b), (xxxii) – (a), (xxxiii) – (c), (xxxiv) – (a), (xxxv) – (c), (xxxvi) – (b), (xxxvii) – (c), (xxxviii) – (a), (xxxix) – (d), (xl) – (a), (xli) – (c), (xlii) – (b).)
- (Hint:** (xlii) – $20\% \times (10,000 + 500 + 100) = ₹ 2,120$