

## 4. CONSIGNMENT

- **Meaning:**  
“Consignment” means “To Send”. Goods are sent from one person (Consignor – Principle) to another person (Consignee – Agent) on behalf of and at the risk of Consignor;
- **Nature:**  
Profits / Losses belong to Consignor; Commission is given to Consignee;
- **Proforma Invoice:**  
Invoice sent by Consignor to Consignee along with goods;
- **Account Sales:**  
Statement sent by Consignee to Consignor;
- **Ownership of consigned goods –**  
lies with the consignor.

### I. ACCOUNTS MAINTAINED

<i>Books of Consignor</i>		
<i>Consignment</i>	<i>Nominal A/c</i>	<i>To determine profits</i>
<i>Goods Sent on Consignment A/c</i>	<i>Real A/c</i>	<i>To record the goods sent</i>
<i>Consignee A/c</i>	<i>Personal A/c</i>	<i>Amt paid or recd. from him</i>
<i>Consignment Stock</i>	<i>Real A/c</i>	<i>Cl. Stock belongs to Consignor</i>
<i>Consignment Debtors</i>	<i>Personal</i>	<i>To record Cr. Sales, if Del Credere Commission not paid.</i>
<i>Stock Reserve</i>	<i>Personal</i>	<i>Reverse unrealized profits in Closing Stock (in case of loading)</i>
<i>Abnormal Losses</i>	<i>Nominal A/c</i>	<i>To record losses of goods due to accident etc.</i>

**2. ACCOUNTING FOR CONSIGNMENT IN THE BOOKS OF CONSIGNOR**

The journal entries in the books of consignor are as follows:

No.	Particulars	LF	Dr. Rs	Cr. Rs.
1.	For goods sent on consignment to consignee			
2.	For expenses incurred on sending goods on consignment			
3.	For advance received from the consignee			
4.	For Expenses incurred by consignee			
5.	For commission due to consignee			
6.	For goods sold by the consignee for cash credit			
7.	For stock left with the consignee			
8.	For bad debts on account of credit sales			
9.	For closing the consignment account			

10.	<i>For the final balance received</i>			
11.	<i>For closing the goods sent on consignment account</i>			
<p><i>When goods are consigned to consignee at loaded price, an adjustment needs to be made in their value so that correct profit/loss on consignment can be calculated. The adjustment is needed for 3 aspects as they happen to be recorded at invoice price, namely,</i></p> <ul style="list-style-type: none"> <li><i>a) Goods sent on consignment</i></li> <li><i>b) Goods returned by consignee to consignor</i></li> <li><i>c) Stocks on consignment</i></li> </ul> <p><i>The entries for rest of the aspects continue to be recorded in the same manner.</i></p>				
12.	<i>To eliminate the profit element included in goods sent</i>			

	<i>onconsignment.</i>			
13.	<i>To eliminate the profit element included in goods returned by consignee</i>			
14.	<i>To eliminate the profit element included in Opening Stock</i>			
15.	<i>To eliminate the profit element included in Closing Stock</i>			

*Preformat Consignment Account on cost basis will appear as follows:*

<i>Date</i>	<i>Particulars</i>	<i>Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs</i>
-	<i>To Goods sent on Consignment A/c (at cost)</i>	<i>XXX</i>	-	<i>By Consignee A/c (for sales made onconsignment)</i>	<i>XXX</i>
-	<i>To Cash A/c (Expenses of consignor)</i>	<i>XXX</i>	-	<i>By Stock on ConsignmentA/c (see discussion on unsoldstock on consignment)</i>	<i>XXX</i>
-	<i>To Consignee A/c (Commission of consignee)</i>	<i>XXX</i>	-	<i>By General Profit and Loss A/c (for loss on consignment)</i>	<i>XXX</i>
-	<i>To General Profit &amp; Loss A/c (for profit on consignment)</i>				
		<i>XXX</i>			<i>XXX</i>

<i>Books of Consignee</i>		
<i>Consignor</i>	<i>Personal A/c</i>	<i>Amt paid or recd. from him</i>
<i>Commission A/c</i>	<i>Nominal A/c</i>	<i>To record the commission income from consignor</i>
<i>Bad Debts A/c</i>	<i>Nominal A/c</i>	<i>To record Bad Debts, if del Credere Commission is given.</i>

*The journal entries in the books of consignee are as follows:*

<i>No</i>	<i>Particulars</i>	<i>LF</i>	<i>Dr. Rs.</i>	<i>Cr. Rs.</i>
<i>1</i>	<i>For goods received on consignment from consignor</i>			
<i>2</i>	<i>For expenses incurred by Consignor on sending goods on consignment</i>			
<i>3</i>	<i>For advance given to consignor</i>			
<i>4</i>	<i>For Expenses incurred on consignment</i>			
<i>5</i>	<i>For goods sold on consignment</i>			

6	<i>For commission entitlement on consignment</i>		
7.	<i>For money received from consignment debtors</i>		
8.	<i>For bad debts on account of credit sales</i>		
9	<i>For making the final settlement</i>		
10	<i>For closing the commission earned a/c into general Profit &amp; Loss A/c</i>		

- ❖ *Consignment account will come in the books of the Consignor only and not in Consignee Books.*
- ❖ *Profits or losses on Consignment A/c shall be transferred to Profit and Loss Account.*

### 3. TYPES OF COMMISSION

**Normal Commission** – Calculated as a % on Total Sales Value.

**Over Riding Commission** – Calculated as a % on Excess Sales Value over and above the sale value calculated at a prescribed rate. It is given to promote additional sales by the consignee.

**Del-Credere Commission** – Risk of bad debts borne by consignee. It is calculated on **TOTAL SALES**.

Notes:

(a) If del-credere commission is not given, then for credit sales, in the books of consignor –

Debit Consignment Debtors A/c and Credit Consignment A/c

(b) If del-Credere Commission is given, then for credit Sales, in the books of consignor –  
Debit Consignee A/c and Credit Consignment A/c

	Books of consignor	Books of Consignee
1.	For credit sales	
2	For payment received from debtors	
3	For bad debts	
4	For Del-Credere commission	
5	For transferring bad debts A/c	

### 4. VALUATION OF CLOSING STOCK

Step 1 – Compute the Cost of Unsold Stock as under

No.	Particulars	Units	Rs.
A	Cost of Goods sent by Consignor	X	xxx
B	Add: All Expenses incurred by Consignor	-	xxx

C	Total Cost of Goods sent (A+B)	X	xxx
D	Less Cost of Goods not reached the city of Consignee		
	a) Goods Lost in transit	X	xxx
	b) Goods Still in Transit	X	xxx
E	Cost of Goods reached the city of Consignee (C - D)	X	xxx
F	Add Non recurring Expenses incurred by Consignee	-	xxx
G	Cost of Goods received by Consignee (E+F)	X	xxx
H	Less Expected Normal Loss (Units Only)	X	
I	Cost of Goods available for Sale (G-H)	X	xxx
J	Cost of Unsold Stock	X	xxx

**Step 2 - Compute Net Realisable Value**

A. Unsold Units

B. Realisable Value per unit

C. Total Realisable Value (A X B)

D. Less: Realisation Expenses (e.g. Commission on Sales)

E. Net Realisable Value (C-D)

**Step 3 - Value of Unsold Stock ( Amount as per step 1 or 2 whichever is lower)**

Notes:

- Normal Loss - Loss which cannot be insured / avoided;
- Abnormal loss - Avoidable losses, accidents etc.

Examples of Consignor's Expenses	Examples of Consignee's Expenses	
	Non Recurring Nature	Recurring Nature
Carriage Outward	Clearing Charges	Warehouse Charges
Freight	Custom Duty, Octroi etc.	Insurance Charges
Insurance	Carriage Inward/ Transport Charges upto Godown	Office and Administration Expenses
Packing		Selling and Distribution Expenses
		Godown Rent

**5. VALUATION OF ABNORMAL LOSS**

- **Inclusions:** All the costs incurred till the point of abnormal loss. i.e. If Loss happened during transport from Consignor to Consignee's place, Consider all the expenses of consignor till the accident - i.e. Purchase price, Loading Charges, Freight and Transit Insurance.
- **Exclusions:** Storage Costs and Other Expenses after storage.



- Value Recorded (to be recorded in Consignment) = Gross Abnormal losses – Insurance Compensation.

### Statement Showing the Calculation of Abnormal Loss During transit

A. Cost Price of Goods lost during transit	XXX
B. Add: Consignor's Proportionate Expenses [i.e. Consignor's Total Expenses X Units Lost/ Total Unit sent]	XXX
C. Cost of Abnormal Loss during transit (A + B)	XXX

### Statement showing the Calculation of Abnormal Loss in Consignee's Godown

A. Cost Price of Goods lost in Consignee's Godown	XXX
B. Add: Consignor's proportionate Expense [i.e. Consignor's Total Expenses X Units Lost/ Total Unit sent]	XXX
C. Consignee's Proportionate Non-Recurring Expenses [i.e. Consignor's Total Non-Recurring Expenses X Units Lost/ Total Unit received by Consignee]	XXX
D. Cost of Abnormal Loss in Consignee's Godown [ A + B +C]	XXX

### Accounting entries for the abnormal loss:

	Books of consignor	Books of Consignee
1	For the cost of abnormal loss.	
2	For the insurance claim received by consignor	
3	For the insurance claim received by consignee	
4	For transferring the net loss	

**6. SUMMARY FOR VALUATION**

<i>Particulars</i>	<i>Valuation of Closing Stock</i>	<i>Valuation of Abnormal Loss</i>
<i>1) Expenses of Consignor</i>	<i>Always include</i>	<i>Always include</i>
<i>2) Selling Expenses of Consignee</i>	<i>Always exclude</i>	<i>Always exclude</i>
<i>3) Non-Selling Expenses of Consignee</i>	<i>Always include</i>	<ul style="list-style-type: none"> <li>• <i>If such expenses are paid before occurrence of abnormal loss - Include</i></li> <li>• <i>If such expenses are paid after occurrence of abnormal loss - Excluded</i></li> </ul>

## CLASS WORK

1. On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5<sup>th</sup> of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill (RTP Nov18)

## Solution

In the books of Mr. Jill

## Consignment Account

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
Jan. 1	To Goods sent on Consignment A/c (Invoice price)	1,50,000	Jan. 1	By Goods sent on Consignment A/c (Loading) ₹ (1,50,000 - 1,00,000)	50,000
	To Bank A/c - Consignor's Expenses	10,000	Mar.31	By Jack - Sales	1,20,000
				By Stock on Consignment A/c $1/5 \times ₹(1,50,000+10,000+3,000)$	32,600
Mar.31	To Jack - Expenses - Commission*	3,000			
	( $0.05 \times ₹ 1,20,000$ )	6,000			
Mar.31	To Stock Reserve A/c (₹ 50,000 $\times 1/5$ )	10,000			
	To Profit on				

	Consignment A/c (transferred to Profit and Loss A/c)	23,600			
		2,02,600			2,02,600

\*Invoice price of goods sold: =  $\frac{4}{5}$  of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

#### Jack's Account

Particulars	₹	Particulars	₹	₹
To Consignment A/c- Sales	1,20,000	By Consignment A/c: Expenses	3,000	
		Commission	<u>6,000</u>	9,000
		By Bills Receivable A/c		1,00,000
		By Bank A/c (Balancing figure)		<u>11,000</u>
	<u>1,20,000</u>			<u>1,20,000</u>

2. Mr. Green of New Delhi purchased, 10,000 pieces of sarees at ₹ 100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of ₹ 120 per saree. The consignor paid ₹ 3,000 for packing and freight. Mr. White sold 5,000 sarees at ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted ₹ 5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White. (RTP May19)

#### Solution

*In the Books of Mr. Green*  
*Consignment A/c*

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c (6,000 x ₹ 120)	7,20,000	By White's A/c - Sales (5000 x ₹ 125)	6,25,000
To Bank A/c - Packing, Freight charges	3,000	By Goods sent on Consignment A/c (6000 x ₹ 20)	1,20,000
To White's A/c - Selling expenses	1,000	By Consignment stock account (Refer working note)	1,20,500
To White's Account - Commission			
5% on ₹ 6,25,000 = 31,250			
20% on ₹ 25,000 = 5,000	36,250		
To Stock reserve A/c (1000 x 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		8,65,500

*In the Book of Mr. White*  
*Mr. Green's Account*

Particulars	₹	Particulars	₹
To Bank - Selling expense	1,000	By Sales - debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

**Working Note:**

**Closing Stock valuation:**

	₹
Cost price of 1000 sarees	1,20,000
1000 x 120 = 1,20,000	
Add: Proportionate expenses (3,000 x 1,000/6,000)	500
	1,20,500

3. Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations. (RTP Nov 19)

### Solution

#### Consignment to Jaipur Account in the Books of Manoj

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran (Expenses)	12,000	By Kiran (Sales)	1,50,000
To Kiran (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

### Working Notes:

<b>1. Calculation of value of goods sent on consignment:</b>	
Abnormal Loss at Invoice price	₹ 18,750
Abnormal Loss as a percentage of total consignment	10%.
Hence the value of goods sent on consignment	₹ 18,750 × 100/10 = ₹ 1,87,500
Loading of goods sent on consignment	₹ 1,87,500 × 25/125 = ₹ 37,500
<b>2. Calculation of abnormal loss (10%):</b>	
Abnormal Loss at Invoice price	₹ 18,750.
Abnormal Loss at cost	₹ 18,750 × 100/125 = ₹ 15,000
Add: Proportionate expenses of Manoj	₹ 1,500

(10 % of ₹ 15,000)	
	<u>₹ 16,500</u>
<b>3. Calculation of closing Inventories (15%):</b>	
Manoj's Basic Invoice price of consignment	1,87,500
Manoj's expenses on consignment	₹ 15,000
Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375 Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625 Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.	
<b>4. Calculation of commission:</b>	
Invoice price of the goods sold = 75% of ₹ 1,87,500	₹ 1,40,625
Excess of selling price over invoice price	9,375 (₹ 1,50,000 - ₹ 1,40,625)
Total commission	10% of ₹ 1,40,625 + 25% of ₹ 9,375
	14,062.5 + ₹ 2,343.75 = ₹ 16,406

4. Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim. Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses. You are required to calculate:
- The amount of abnormal loss
  - Value of stock at the end and
  - Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales. (QP Nov 18)

**Solution****Consignment Account**

Particulars	₹	Particulars	₹
To Goods sent on consignment	4,50,000	By Consignee's A/c-Sales	4,50,000

A/c (15,000 kg x ₹ 30)		(7,500 kg x ₹ 60)		
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN) (Profit and Loss Account)	<u>5,000</u>	14,000
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			-----
	<u>7,10,690</u>			<u>7,10,690</u>

**Working Notes:**

1. Abnormal Loss:	
Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹5 per kg	<u>2,000</u>
Gross Amount of abnormal loss	14,000
Less: Insurance claim	<u>(9,000)</u>
Net abnormal loss	<u>5,000</u>

2. Valuation of Inventories		
	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss - 400 kgs (WN 1)	<u>(400)</u>	<u>(14,000)</u>
	14,600	5,11,000
Less: Normal Loss	<u>(100)</u>	
	14,500	5,11,000
Less: Quantity of ghee sold	<u>(7,500)</u>	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs - (5,11,000/14,500) x 7,000		<u>2,46,690</u>