

*Shri J. H. Bhalodia Women's College- Rajkot*  
*Financial accounting - 2*

**B.Com. Sem. II**  
*Consignment Accounts*

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**Meaning**



"Consignment is specific commercial agreement in which the manufacturer or wholesaler at own risks goods for selling to outstation trader or Consignee for which consignee is given commission at a fixed rate."

The relation between consignor and consignee is same as the relation of a principal and an agent. The consignor is principal, whereas consignee is an agent.

- + The manufacturer or trader who send goods for the sale is known as "CONSIGNOR"
- + The person who gets goods for sale is known as "CONSIGNEE"
- + The transactions between consignor and consignee the "CONSIGNMENT TRANSACTIONS"
- + The reward to consignee is known as "CONSIGNMENT COMMISSION"

**Process of Consignment**



1. Consignor sends good for sale alongwith Pro Forma Invoice.
2. At the time of dispatching goods consignor pays various expenses e.g. labour, freight, carriage outward, transportation expenses, packaging and insurance are debited to consignment account.
3. After receiving delivery of goods, consignee pays octroi and all such expenses which requires for maintaining goods (**on behalf of consignor**) are also debited to consignment account and credited to consignee's account.

[a] **Non-Recurring Expenses** : The consignee arranges for storing the goods in godown. The expenses incurred till the goods are sent to godown of consignee are termed as Non-Recurring Expenses. Loading-unloading expenses, carriage inward, labour are the example of Non-Recurring expenses.

[b] **Recurring Expenses** : The expenses incurred after the goods are sent to the godown of consignee are termed as Recurring expense. Rent of godown, salary of salesmen, commission, advertisement expenses etc.



At the time of valuation of closing stock the proportionate expenses of these recurring expenses are not included, because these expenses are incurred for the goods which are sold.

4. If consignee is in need of money, as per the agreement of consignment, he writes bills and consignee accepts the same. Then consignor discounts the bill and the discount amount is being debited to consignment account considering consignment expense.
5. Consignee sends the particulars relating to sale and various expenses incurred for consignment, which is known as Account sale.

### Difference between Normal Commission and Del Credere Commission

Sr. No.	Points of Discussion	Normal Commission	Del Credere Commission
1	Calculation	Normal commission is Calculated on total sales	Del Credere commission is Calculated on credit sale
2	Responsibility of Bad debts	Consignor is responsible For bad debts	Consignee is responsible For bad debts
3	Purchase by Consignee	It is paid if goods Purchased by consignee	It is not paid on purchases Made by consignee
4	Possibility of Bad debts	More possibility of bad debts as compared when Del Credere commission is paid	Less possibility of bad debts Compared when only Simple commission is paid

There are three types of commissions:

1. **Normal Commission** : It is calculated on total sales made by a consignee

$$\text{Total Sales} = \text{Cash sale} + \text{Credit Sale} + \text{Goods purchase by consignee}$$

**Del Credere Commission**: It is calculated on credit sales only. When Del Credere commission is paid, *if there is a bad debt, the consignee has to pay the full amount of credit sale and has to suffer the full amount of bad debts.*

2. **Additional Commission**: It is calculated on additional realisation value of sales. ( Actual Selling price - Fixed/suggested selling price)

## Pro-Forma Invoice [SHORT NOTE]

- ✚ When consignor sends goods for consignment sale to consignee, it is not termed as sale, hence when goods are dispatched to consignee, invoice cannot be prepared. In spite of this, when goods are sent, a proper document must be sent stating the description of goods along with the goods. In consignment transaction consignor sends a document stating various descriptions of goods which is termed as Pro-Forma Invoice.
- ✚ In Pro-Forma Invoice, the description of goods, weight or units, cost price, expenses of goods dispatching, the name and address of consignor, the date of dispatching goods, railway or lorry receipt number and date, the name and address of consignee are shown. At the bottom part, the signature of the person who has prepared and verified are also shown.
- ✚ *The value of goods shown in Pro-Forma Invoice is termed as Invoice Price, which is cost price for the consignee as he gets the goods at that price. The consignee comes to know that at which price goods are to be sold.*

### PRO-FORMA INVOICE

Gram : Bhalodia

Ph. No. 0281-2459379

#### **The Bhalodia International Company**

#### **Kalawad Road, Rajkot**

Invoice for the goods sent for consignment to you M/s. Kansagara Bros.,  
Kalawad Road, Rajkot at our own risk.

Units	Particulars of Goods	Rs. Rate per unit	Rs. Total
100	Mobile Phone MB. No. 5544	6000	6,00,000
200	Mobile Phone MB. No. 4455	3000	6,00,000
			12,00,000
Add :		Expenses paid	
		Labour Rs. 10,000	
		Insurance Rs. 20,000	
		Misc.Exp. <u>Rs. 05,000</u>	<u>35,000</u>
			<u>12,35,000</u>
E. & O.E. Rajkot Dt. 11/2/2011			Navin Barcha Sales Manager Gujarat Zone

## Necessary Account in the Books of Consignor

### [1] Consignment Account

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
<b>TO:</b>		<b>BY:</b>	
-Opening stock	XXX	<b>-Consignee a/c :</b>	
-Goods sent for consignment	XXX	Cash sale : xxx	
-Cash (expenses of consignor)	XXX	Credit sale : xxx	
-Consignee a/c ( expenses of consignee)	XXX	Own purchase : <u>xxx</u>	XXX
-Consignee a/c (commission)	XXX	-Closing stock	XXX
-Consignee a/c (bad debts)	XXX	-P & L a/c ( if loss)	?
-P&L a/c ( if profit)	?		
	XXXX		XXXX

### [2] Goods Sent for Consignment Sale Account

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
To Trading a/c	XXX	By Consignment a/c	XXX
	XXX		XXX

### [3] Consignee's Account

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
<b>TO:</b>		<b>BY:</b>	
-Consignment a/c :		-Consignment a/c	
Cash Sale : xxx		(Expenses of Consignee)	XXX
Credit Sale : xxx		-Bills receivable a/c	
Own Purchase : <u>xxx</u>	XXX	( full amount of bills)	XXX
-Balance c/f	?	-Bank/Cash a/c	
		(advance paid to consignor)	XXX
		-Consignment a/c	
		(Commissiin of consignee)	XXX
		-Consignment a/c	
		( if any bet debts)	XXX
		-Bank/Cash a/c	
		(for final payment)	?
	XXXX		XXXX

# Accounting Entries

1. When Goods sent for consignment sale :

Consignment a/c	Dr.	xxx	
To Goods sent for consignment sale a/c			xxx

2. Expenses paid by Consignor while dispatching goods:

Consignment a/c	Dr.	xxx	
To Cash a/c			xxx

3. When Consignor draws bills on consignee and he accepts the bill:

Bills Receivable a/c	Dr.	xxx	
To Consignee's a/c			xxx

4. When Bill Receivable is discounted by Consignor:

Bank a/c	Dr.	xxx	(Bills amount - Discount)
Consignment a/c	Dr.	xxx	(discount)
To Bills Receivable a/c		xxx	(Total amount of bills)

5. Expenses paid by Consignee:

Consignment a/c	Dr.	xxx	
To Consignee's a/c			xxx

6. When Account Sale is received by Consignee:(cash/credit/own purchase)

Consignee's a/c	Dr.	xxx	
To Consignment a/c			xxx

7. For Normal , Del Credere and Additional Commission:

Consignment a/c	Dr.	xxx	
To Consignee's a/c			xxx

8. When there is Bad Debts for Credit sale and Del Credere commission is not paid:

Consignment a/c	Dr.	xxx	
To Consignment a/c			xxx

9. For Closing Stock of Consignment:

Consignment Closing Stock a/c	Dr.	xxx	
To Consignment a/c			xxx

10. For Outstanding amount is due and paid by consignee:

Bank/Cash a/c	Dr.	xxx	
To Consignee's a/c			xxx

**11. If any outstanding amount is to be paid to consignee:**

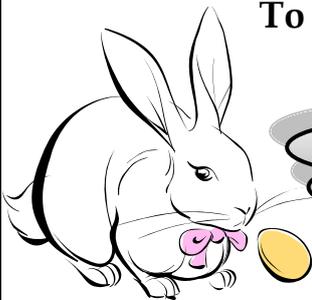
Consignee's a/c	Dr.	xxx	
To Consignment a/c			xxx

**12. Profit on consignment :**

Consignment a/c	Dr.	xxx	
To Profit & Loss a/c			xxx

**13. For closing goods sent for consignment sale account:**

Goods sent for consignment sale a/c	Dr.	xxx	
To Trading a/c			xxx



**Remember Important Transaction  
of Consignment Accounts**

1. Goods sent to consignment
2. Expenses paid by Consignor
3. Expenses paid by Consignee
4. Sales amount ( cash , credit and consignee's own purchase)
5. Commission ( normal and Del Credere )
6. Amount of Bills Receivable and Discount
7. Consignee pays advance for consignment
8. Valuation of Closing Stock

## PRACTICAL EXERCISE

### When Goods are sent at Cost Price

1. Ruby Mills Ltd. Bombay sent 200 shirts costing Rs. 14,000 on its Consignee of Kolcutta at his own risk and accounts and paid Rs. 650 for freight and insurance. Ruby Mills Ltd. Drew a bill worth Rs. 10,000 on his consignee, which was accepted by the consignee. Ruby Mills Ltd. discounted the bill for Rs. 9900. After 15 days the Consignee of Kolcutta informed as follows:
    1. 100 shirts sold @ Rs. 100 per shirt.
    2. Rs. 500 paid for carriage inward and labour.
    3. Rs. 70 for godown rent and Rs. 80 paid for insurance.
    4. Rs. 10 paid for Misc.Expenses.
- ✚ Consignment Commission is to be calculated @ 5% on selling price.

- ✚ Pass journal entries in the books of Ruby Mills Ltd. Bombay and prepare [1] Consignment Account [2] Goods sent for Consignment Account [3] Consignee's Account.
2. Chetana sent 10 Refrigerators costing Rs. 10,000 each to Meena for consignment sale. Packaging expenses incurred Rs. 1,000. Chetana sent railway receipt, starting Rs. 1000 to be paid by Meena. One Refrigerator became useless of fire in transit. Insurance company sanctioned claim of Rs. 9600 for this. Meena has to pay Rs. 1000 for freight. Meena sold remaining Refrigerators @ Rs. 12,000 each. Consignment Commission is to be paid @ 5% of sales.
- ✚ Prepare Consignment Account and Consignee's Account.
3. Shri Gandhi of Pardi sent 100 stove @ cost price Rs. 280 each to Modi of Dampur on 1-1-2010, for consignment sale. Gandhi paid Rs. 500 for insurance premium and Rs. 2000 for freight. 5 % commission in sales is to be given to Modi.
- ✚ Modi accepted a bill worth Rs. 10,000 having maturity period of one month, which was discounted @ 12 % by Gandhi on the same day.
- ✚ Up to 15-3-2010 following transactions took place:
1. Cash-sale of 40 stove @ Rs. 500 each.
  2. Credit sale of 20 stove @ Rs. 520 each. Rs. 9000 received cash from the customer and discount allowed Rs. 5000. Remaining amount treated as bad-debts.
  3. He purchased 20 stove @ Rs. 510 each.
  4. He paid Rs. 1040 for rent and Rs. 800 for carriage outward and sent back-draft for balancing amount to Gandhi.
- ✚ Prepare necessary accounts in the books of consignor.
4. Shri Anand sent 800 Soap Boxes for consignment sale. Each Box contains 100 units of soap. The cost per soap Box is Rs. 900. Anand paid Rs. 100 per soap box for freight, rent, insurance etc. In transit one packet lost and Shri Anand presented for this, insurance company sanctioned Rs. 570 as claim.
- ✚ The consignee received the remaining Boxes and for that he paid Rs. 39,950. Moreover, he paid Rs. 22,500 for selling expense. He sold 740 Boxes @ Rs. 12 per soap.

✚ The Consignee is entitled to get 2 % simple commission and 1 % del-credere commission.

✚ Prepare consignment Account. Show the calculation of closing stock of consignment.

## When Goods are sent at Invoice Price

These are the ways to find out various prices

[A] When Profit is given On Cost Price and Cost price is given :

Profit 10 % on Cost & Cost Is Rs. 500

Cost	=	500	↷
+Profit	=	<u>50</u>	↷
Invoice Price	=	550	

➡ Ans. Invoice price is Rs. 550

[C] When Profit is given on Invoice Price and Cost price is given:

Profit 10 % on Invoice Price & Cost is Rs. 450

	%	Rs.
Cost	90	450
+Profit	<u>10</u>	<u>50</u>
Invoice Price(assumed)	100	500

$$\begin{array}{l} \% \quad \left( \begin{array}{l} 90 - 100 \\ 450 - ? \end{array} \right) \end{array}$$

➡ Ans. Invoice price is Rs. 500

[B] When Profit is given on Cost price and Invoice price is given

Profit 10 % on Cost & Invoice price is Rs. 550

	%	Rs.
Cost (assumed)=	100	500
+ Profit	= <u>10</u>	<u>50</u>
Invoice Price	= 110	550

$$\begin{array}{l} \% \quad \left( \begin{array}{l} 110 - 100 \\ 550 - ? \end{array} \right) \end{array}$$

➡ Ans. Cost price is Rs. 500

[D] When Profit is given on Invoice Price and Invoice price is given:

Profit 10 % on Inv. Price & Inv. Price is Rs. 500

Cost	=	450
+ Profit	=	<u>50</u>
Invoice Price	=	500

➡ Ans. Cost price is Rs. 450

Now calculate.....

5. Roshani sent 1000 calculators Prakash for consignment sale at invoice price by adding 20 % profit on cost. The cost of each calculator is Rs. 200.

- ✚ Rs. 5 paid per calculator for freight and rent by Roshani.
- ✚ Prakash is entitled to get 10 % commission on sales. The total expense of Prakash is Rs. 10,000, which includes selling expense of Rs. 2000.
- ✚ The account sale sent by Prakash shows that, he has sold 800 calculators @ a selling price Rs. 250 each. Out of this sale  $\frac{1}{4}$  sale is on credit. Prakash has also enclosed a cheque for necessary amount.
- ✚ Prepare Consignment Account and Account of Prakash in the books of Roshani.

**6.** On 1-1-2010, Ram of Rajkot sent 2500 Radio sets to Manav, for consignment sale. The cost price per Radio set is Rs. 600. But the pro-forma invoice prepared so as to get 20 % profit on Invoice Price. Ram paid following expenses on that day:

Carriage	Rs. 5000	Freight	Rs. 8000
Rent	Rs. 2000	Insurance Premium	Rs. 5000

- ✚ In transit 100 Radio sets destroyed completely and insurance company sanctioned claim for Rs. 56,000
  - ✚ On 31-12-2010, Manav informed that, 1600 Radio set sold @ Rs. 900 each and he paid Rs. 1,500 for carriage rent and Rs.4,500 godown rent. He also paid Rs. 2,000 for selling expense. The consignee is entitled to get 5 % commission on sales.
  - ✚ The Consignee sent bank-draft for outstanding amount on 31-12-2010. From the particulars given above prepare [1] Consignment Account [2] Consignee's Account in the books of consignor and Consignor's Account in the book of Consignee.
- 7.** On 1-3-2009 Vikas sent 2000 Cassettes each of Rs. 15 to Aakash for consignment sale. He prepared pro-forma invoice so as to get profit of 20 % on sale and put a condition that the sale must not be made below this price. On 25<sup>th</sup> march, 2009 the consignee sold 50 % goods so that get 25 % on sales. The expenses were as under:
- Consignor paid Rs. 1500 for freight and insurance.
  - Consignee paid Rs. 1000 for unloading goods and import duty.
  - ✚ The consignee is entitled to get 5 % commission on sale and 10 % of the net profit (including the share of consignee) as profit share in the profit.
  - ✚ The Consignee sent bank-draft for outstanding amount on 31-3-2009.
  - ✚ Prepare Consignment Account and Consignee's Account in the books of Consignor and Consignor Account in the books of Consignee.
- 8.** On 1-1-2002, Sodhi of Surat sent 300 T.V. sets at invoice price of Rs. 15,000 (cost price per unit Rs. 12,000) for consignment sale to Bharat of Bhopal. He paid the expenses as under:

- I. Insurance premium Rs. 3000
- II. Freight Rs. 24000 and
- III. Carriage Rs. 6000

✚ On 1-1-2002 Sodhi has drawn a bill on Bharat for Rs. 6,00,000 having a maturity period of three months, which was accepted by Bharat and returned. On 4-2-2002, Sodhi discounted this bill @ 12 %. Bharat is entitled to get 5 % commission and 2 % Del Credere commission.

✚ On 30-6-2002, Bharat sent Account sale and a draft for the outstanding amount.

✚ The following details are available from account sale:

- I. Bharat has paid Rs. 15,000 for carriage, Rs. 45,000 for Insurance premium and Rs. 50,400 for advertisement.
- II. 6 T.V. sets were destroyed because of the fire in the godown of Bharat. Insurance company sanctioned and paid claim for Rs. 60,000.
- III. 60 T.V. sets were sold @ Rs. 15,000 each on cash basis 180 T.V. sets were sold @ 18,000 each to Rajesh on credit and 30 T.V. sets were sold @ Rs. 17,000 each to Kishan on the recommendation and at the Risk of Sodhi.
- IV. Rajesh failed to pay Rs. 60,000, Kishan was declared insolvent; and 50 paise for every one rupee were received as dividend from him.

Prepare : [1] Consignment Account  
          [2] Consignee's Account  
          [3] Sodhi's account

9. On 1-7-2003, Bharat Vision Ltd. Sent 30 portable T.V. sets for consignment sale to Madhav of Morvi. The cost price of each T.V. set is Rs. 7500. The invoice price of each T.V. set is Rs. 10,000 while dispatching goods, the company paid Rs. 1,000 for insurance, Rs. 1,500 freight and Rs. 500 for Misc-expense.

✚ On 1-7-2003, the company draw a bill worth Rs. 1,50,000 having a maturity period of 3 months, which was accepted by Madhav and returned to consignor. The company has discounted this bill on 4-8-2003 @ 12%.

✚ As per contract Madhav is entitled to get 5 % simple commission on sales and 3 % Del Credere commission on credit sale. Moreover, he is entitled to get 10 % profit share of net profit (after deducting profit share.)

✚ On 31-12-2003, Madhav sent account sale and bank-draft for balancing amount. As per account sale :

1. He paid Rs. 300 for octroi and carriage inward Rs. 1500.
2. Cash sale of 15 T.V. set @ Rs. 11,500 each.
3. Credit sale to Nikhil 5 T.V. set @ Rs. 12,500 each set.
4. Credit sale to Mihir 3 T.V. set @ Rs. 10,500 each set, on the recommendation of the company.
5. Mihir and Nikhil declared insolvent and 85 paisa and 50 paisa for every one rupee was received as final dividend from them respectively.
6. On 30-9-2003 because of fire in the godown of Madhav 2 T.V. sets were destroyed completely. Insurance company accepted the claim for Rs. 12,000.
7. The market value of each unsold T.V. set is Rs. 8000.

✚ Prepare necessary accounts in the books of consignor.

- 10.** Shri Garbaddas has prepared the following Consignment Account. There are certain mistakes. After rectifying mistakes, prepare correct Consignment Account.

Particulars	Amt Rs.	Partiulars	Amt. Rs.
To opening stock 4000		By Consignee's A/c (Cash Sale)	12,000
Add: Expense <u>100</u>	4,100	By Consignee's A/c (Credit Sale)	6,000
To Goods sent for Consignment sale	16,000	By Closing Stock (25%) (from total goods 75 % goods sold)	5,000
To Cash A/c (Exp.)	400		
To Consignee's A/c (Selling exp.)	145		
To Consignee's A/c (commission)	1,260		
To General P&L A/c (profit)	1,095		
	<u>23,000</u>		<u>23,000</u>

1. 7 % simple commission on total sales and 3 % Del Credere commission is to be paid to consignee.
2. Consignee has paid Rs. 40 for repairing expense because of defective closing stock.

- 11.** Sorath Milk Food Ltd. Of Junagadh sent 800 Tins Butter having weight of 1 kg 200 Tins and having weight of  $\frac{1}{2}$  kg 600 Tins to Murlidhar Traders, Amreli for consignment sale. It was fixed the consignee will be given 5 % commission on sales. The cost price and selling price fixed as per bellow:

Particulars	Per Tin of 1 kg	Per Tin of $\frac{1}{2}$ kg
Cost Price	Rs. 100	Rs. 60
Printed Selling Price	Rs. 150	Rs. 70

✚ The freight charges are to be paid by consignor. Freight charges were 2 % of printed selling price. In transit one Box containing 5 Tins of 1 kg lost and the transport company sanctioned claim of Rs. 450.

✚ For the initial three months, following information were received:

1. Sold Goods : [a] 150 Tins of 1 kg.

[b] 400 Tins of  $\frac{1}{2}$  kg.

2. Expenses paid : Rent of shop and insurance Rs. 600. Necessary outstanding amount received from the consignee.

3. *For the valuation of closing stock, Consignee's expenses will not be considered.*

✚ Prepare consignment Account and consignee's Account in the books of Sorath Milk Food Ltd.

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