FINANCIAL ACCOUNTING
(UNIT-II)
CONSIGNMENT
(PART-III)

1. INTRODUCTION

Hello viewers welcome to the lecture series on financial accounting. Today we shall take up *Unit-II* and we will discuss in our part-III of the consignment account, the important transactions and various other related topics of consignment. It shall be a concluding lecture on the consignment accounting. Under today's lecture we shall take up the important adjustments which we have discussed in our previous lecture in relation to closing stock. So here we will continue those adjustments which are being left out in relation to the accounting of abnormal loss, normal loss as well certain other valuations. Then we will take up books of consignee that how consignees going to record the transaction in his books of accounts and we will also take up practical question to understand the consignment accounting in detail.

2. LOSS OF STOCK

So first of all we will take up a practical example to understand the valuation of the loss of stock. We have already discussed in our previous lecture about two types of losses normal loss and abnormal loss. So this is the formula which is being used where normal loss has occurred and we have taken up the quantities into consideration to find out the value of the closing stock. So what happens that we have reduced the quantity to the extent of the normal loss so the inflated value would be reflected in the valuation of the closing stock where normal loss has taken place, this concept can be analyse more clearly with the help of the example so we are taking up a practical example to understand how normal loss is going to inflate the value of the closing stock.

A consigns 2000 tons of coal @ 50/- Rupees per ton to B of Delhi. A is the consigner over here so 2000 tons of coal are been consigned @ 50/- Rupees per ton. He paid Rupees 20,000 as freight due to normal wastage only 1950 tons were received by B, at A's end it is started with 2000 tons however B received in its hand 1950 tons so there is the normal loss of 50 tons. He also paid 5000/- as unloading and cartage charges they are also in nature of direct expenses. The goods unsold amount to 650, now what happens that out of 1950, 650 units are being left with consignee were required to calculate the value of closing stock. So while ascertaining the value of closing stock we have to take care of the normal loss. So let us check the solution how we will proceed ahead.

So cost of 2000 tons of coal at Rupees 50 comes out to be Rupees 100000. Freight paid by consigner given in the question is Rupees 20,000, unloading and cartage charges paid by the consignee is 5000/-, so the cost of 1950 tons is 125000/- so now rather than 2000 tons we have use the actual quantity being received by the consignee as the denominator. So what happens that 125000/- is being divided by the actual quantity received so obviously the per unit rate will be inflated and then we will multiply it with the amount of the units of the closing stock left out i.e. 650 units so our value of the closing stock shall be 41667/- this is the way a normal loss is accounted for.

3. ABNORMAL LOSS

Next is abnormal loss, how to deal with abnormal loss, abnormal loss we had already discuss that it is loss occurred due to accidental nature i.e. loss by theft or loss by fire. This loss should be debited to the abnormal loss account and credited to the consignment account. Abnormal loss account is closed by transferring to P&L account. Value of the abnormal loss shall be proportionate cost price plus proportionate direct expenses incurred up to the date of loss. The valuation of the stock destroyed on account of abnormal reasons will be done on the same basis as valuation of stock on consignment. So again we will take up a practical example to understand its calculation.

Example:-

A consigned to B 100 cases of tea costing Rupees 100/- per case. So the goods consigned are 100 cases and its rate per unit is also 100, he paid Rupees 1000 as freight and cartage. B could take delivery of only 90 cases so here we can assess 10 is being a normal loss, since 10 cases were lost in transit. Now it is a case where there is loss in transit so it’s not a normal loss it’s an abnormal loss. He paid Rupees 2000 as unloading and carriage charges.

At the end of the year he reported that he has sold away 80 cases at Rupees 150 per case. You are required to calculate value of abnormal loss and value of closing stock. So out of 90 only 80 are been sold so 10 are closing stock so here we need to value two things, first the value of abnormal loss and secondly value of closing stock.

So our solution is cost of 100 cases at Rupees 100 per case 10000, direct expenses incurred by consigner is 1000 so total cost of 100 cases is 11000, so valuation of abnormal loss will be total cost into units of abnormal loss divided by total units to be received by consignee so here the total units so received by 100 only because it is not account of normal loss here the loss has taken in transit so we will use the total units received as 100 so 11000 divided by 100 into 10 will give us the value of abnormal as 1100 Rupees.

Now when valuation of closing stock is to be done we will use the following method cost of 100 cases as calculated 11000 so the cost of 10 cases will be proportionate i.e. 1100 we have divided 11000 by 10 and proportionate expenses incurred by consignee which is being computed as 2000 is the amount of the expenditure, it is to be divided by 90 and the units of the value which is being left out to be sold is 10 so it comes out to be 222 and it will be added to the proportionate cost of the cases so we are left with the value of the closing stock as 1322. This is the way to valuation is to be done when there is the abnormal loss.

4. BOOKS OF CONSIGNEE

Now coming to another section of our discussion i.e. there we need to understand the Books of consignee. The consignee does not purchase the goods. He obtains delivery of goods only for the purpose of selling them on behalf of and at the risk of the consignor for an agreed commission. Thus, only such entries will be made which directly affects them. Since the consignee is in the capacity of agent of the consigner and he is receiving commission for his remuneration so we will pass only those entries which directly affect him. That means consignee going to pass only a few set of entries. Let us understand what these journal entries are? So we will be moving to understanding the journal entries in the books of consignee.

First one is when he gives security; the entry will be consigners account debit to bank or bills payable where he is giving the security that means money is going out of him and the receiver is consignor, so consigner account debit to bank with the amount of security so given.

The second entry will be, when goods are received by him no entry will be pass except a record of this fact will be made in its stock register. He can use the memorandum register or stock register to write down the entry but the amount will not be reflected in the books of accounts.

Thirdly, incurs expenses for goods received on consignment the entry shall be consigners account debit to bank or creditor with the amount of expenses. Next entry will be for the sales made then the entry shall be bank account debit to consigner or if it is on credit then debtors account debit to consigner with the amount of sales.

For commission earned by him he will pass the entry as consigner account debit to commission. Commission will be his income over here so it will be credited.

Now this is the format of consignment account which is to be made so that profit and loss can be ascertained. We can have an insight of this consignment account so that proper accounting can be made. On the debit side the first entry will to good sent on consignment at cost of invoice price as the case may be then on the credit by goods on consignment if there is any cancellation on the profit that means invoice price minus cost difference would be loaded, to cash for any expenditure which is being made, to consignee for expenses and again to consignee for commission.

On the credit side by consignee would be reflected for the purpose of sale and the sale value will be the amount, by stock on consignment at cost or invoice price, it is on invoice price there will be a stock reserve on the debit side with the difference of invoice price on cost and the profit or loss can be ascertain. If it is profit it will be reflected on debit side as to journal P&L, profit on consignment and if it is loss it will be reflected on credit side by journal profit and loss i.e. loss on consignment. So this is the consignment account which will be prepared to ascertain profit and loss.

So we have already discussed the journal entries to be pass in the books of consigner, journal entries to be passed in the books of consignee and we have again taken up a insight of consignment account so that the flow of entries can be understood by us.

5. PRACTICAL EXAMPLE CONSIGNMENT ACCOUNTING

Now we will take up a practical example to analyze the entire accounting of consignment in the books of consigner. The following information is given in the question.

12000 units of goods at Rupees 100 each were consignee to consignee. The consigner incurred expenses in relation to freight 2000, forwarding agents commission 3000 that means 5000 is the amount of expenditure which consigner has paid. The consignee received the goods and accepts the bill receivable drawn by X for Rupees 20000. So its entry of bills receivable we need to pass.

Consignee incurred the expenditure on loading 1000, carriage 2000 and godawn rent as 3333. So in all 6333 is the expenditure which is being done by consignee. The commission is payable to him at the rate of 5% on sales turnover. This commission will be computed on sales turnover and not on the goods sent. Now how much sales he has actually executed would be the figure on which this 5% is to be computed. So in the given set of information further it is set that 10000 units are sold by the consignee at an average price of 17 Rupees. So here we can ascertain that 170000 is the sales value so on the 170000 the commission will be ascertain. 2000 units are left and which are being valued at 21333 here we are not going to value the closing stock at. It is already being given that 2000 unit value is 21333 they are only required to pass the necessary journal entries.

So the question says pass necessary journal entries in the books of consigner. We will start up our solution. The first one is when the goods are sent on the cost the entry is consignment account debit to goods sent on consignment i.e. 12000 unit at Rupees 10 consignee and it comes out to be 120000. This information is given in the question we have simply multiplied with the cost.

Second is for expenses incurred by consigner, there were two expenses, one on freight of 2000 and another for forwarding agent commission i.e. being added Rupees 3000, so total 2000 + 3000 = 5000 is the expenditure of consigner. The journal entry is consigners account debit to cash 5000.

Then when account sale is receive from consignee for sales made the entry of sales been recorded as consignee account debit to consignment, 10000 units were sold out of 12000 at an average price of 17 Rupees each so 170000 is the amount of sales which is being made by the consignee so his account i.e. consignees account is debited to consignment.

Then bill receivable account debit to Y 20000 so as bill of exchange received from consignee it is form of advance which is being received.

Fifth is when expenses incurred by consignee we have ascertain in our question the total amount i.e. 6333 and risk come as being expenses on loading 1000, carriage 2000 and godown rent as 3333 being incurred by consignee. The journal entry will be consignment account debit to consignee account 6333. Now we are left with the entry of commission. So this entry will be when commission given to consignee consignment account debit to consignees account. Being Commission @ 5% of 170000 i.e. is Rupees 8500 were given to the consignee, so the entry shall be consignment account debit to consignees account 8500.

Now we are left with the stock in hand i.e. 2000 Rs. are being left as our closing stock. We are fortunate that the question has given us the value of the closing stock as 21333 so the adjustment entry we need to passes stock on consignment account debit to consignment 21333. The consignment account will be close by transferring profit and loss to its P&L account. Here the profit and loss will be ascertained when a consignment account is been prepared and this is the balancing figure that is difference between the credit and debit. The credit is exceeding the debit we are getting the profit and the entry is consignment account debit to journal P&L account 51500 and if we have to analyze that how it has come we can prepare our consignment account.

This is the consignment account which is being prepared so on the credit side we have shown sales 170000 stock on consignment 21333 is total is coming as 191333, goods send on consignment debited 120000 to cash that is expenditure of the consigner to consignee, expenditure of consignee then to consignee again as commission 8500 so the balancing figure is 51500 for which we have pass the journal entry as consignment account debit to journal P&L, again going back to the journal entries we will evaluate that next adjustment entries are to be pass. This is good s send on consignment will be transfer to trading account and its entry will be goods sent on consignment debit to trading account 120000 and finally the last entry i.e. bank account debit to consignee 135167, this is the final payment which we are required to make to the consignee. This payments amount will again be ascertain when we prepare the consignees account.

So this is the consignees account, here to consignment account is the entry of the sales that is 170000, bill receivable amount that we have received in advance then the expenditure which consignee has made is being added up in the credit side its commission 8500 and the balancing figure shall be paid as his amount to be paid i.e.135167, so the entry is bank account debit to consignees account and this figure is ascertain with the help of consignees account. With this we have learn in detail that how accounting is to be done under consignment. This is goods send on consignment account a simple transfer entry to the trading account is been done in this account.

6. VALUATION OF CLOSING STOCK

Now as the information was given in the question regarding the valuation of closing stock we can cross verified it whether it is been evaluated properly or not. We are giving with the information that the value of closing stock is 21333, now we will do our calculations in the form of working note here the basic cost of the consigner i.e. Rupees 10 x 2000 which are been left out will be multiplied so the proportionate cost of the consignment will be ascertain as 20000 then proportionate expenses of consigner. Consigner expenses were 5000 and we will proportionate i.e. 2000 divide by 12000 so the figure is 833 as the proportionate expenses of consigner, since the expenses were in the form of direct expenses so we have directly proportionated. Then proportionate expenses of consignee are been taken again 1/6 of the expenditure is being done and this amount comes to be 500 so adding the p proportionate direct expenses of both consigner and consignee plus the proportionate cost we have got the value of closing stock lying with the consignee as 21333. This figure is matching with the information which is being furnished in the question. For the academic purpose we had verified it and if the information is missing in relation to closing stock in the same mechanism the students are required to ascertain the value of closing stock.

So with this we had learned the entire mechanism of passing the journal entries, preparation of the accounts in the books of consigner as well as the consignee. We have also dealt with important adjustment in relation to normal and abnormal loss.

7. SUMMARY

Now students we will summarize our discussion on the consignment accounting, under today's lectured we have taken the full insight of the consignment accounting both in the books of cosigner as well as consignee. So this is the concluding lecture and here we had taken up the example from the initiation point that how the goods are being recorded when the consigner sends goods to the consignee. Then loading and unloading aspect of goods send on consignment as well as the closing stock is being understood by us. We have also learn how to pass the entries in relation to the expenditure which is being owned by consigner as well as consignee and how the computation of the commission is being done.

There are three types of commission we have already discussed simple commission, over heading commission and del-credit commission. So simple commission being computed as invoice price into the rate of commission then over heading commission is additional commission which is being paid on the amount of the sales which is been done over the invoice price and del-credit is being given on the total sales. If the consignee has taken up the responsibility of bad debts then we have taken up the practical problems in relation to valuation of the stock in case of normal loss valuation of the stock in the case of abnormal loss and we have also narrated that how the transfer entries in relation to goods sent on consignment and the profit or loss which is generated on account of consignment being transferred to the P&L account. With this we are ending up our discussion on consignment accounting. Hopefully all the conceptual clarity would be there in the lecture so delivered. With this we are ending up our session of today.

Thank you….!