

Unit-4 Consignment

An agency agreement under which a manufacturer (or) a wholesaler sends his goods at his own risk to his agent in a different place for the purpose of sale.

Valuation of Unsold Stock:

Stock on Consignment:

Some goods might remain unsold with the consignee. In order to ascertain the correct profit or loss the value of the unsold stock should be accounted for.

The Stock on Consignment account will be shown as an asset in the balance sheet at the end of the year.

Cost Price

(+) Direct expenses (consignor)

(+) Direct exp (consignee)

Total cost .

$$\text{Cost of Unsold stock} = \frac{\text{Total Cost}}{\text{Total quantity}} \times \text{unsold quantity}$$

Goods in Transit:

Goods consigned by Consignor do not reach the consignee on the date of closing of accounts as they are in transit.

Losses in Consignment:

Goods sent on consignment may be lost, damaged (or) destroyed either in transit (or) after they reach the consignee's godown.

Normal Loss / Abnormal Loss:

⊛ Normal Loss:

When goods are lost (or) damaged due to normally expected, but unavoidable causes, like, evaporation, leakage, breakage, dusting (or) weightment etc... it is called normal loss.

Value of goods received
by Consignee.

Net quantity received \times Unsold Stock.
(in units)

Abnormal Loss:

Accidental loss / loss due to negligence is termed as 'Abnormal Loss'. It is unexpected and beyond the control of the consignor. Loss of goods due to flood, fire, earthquakes, war, riot, insects, fire, or by theft etc. is of abnormal nature.

Books of Consignor:

Consignment Account:

Goods sent
Bank (Exp)
Commission
P & Sale

xxx

Sales
Abnormal Loss
Stock on Consignment

xxx

Consignee A/c

		Cash / B/R / Bank:	xxx
A/c	xxx	Consignment (2ap)	
		" (Commission)	xax
		Balance c/d	xxx
	<u>xxx</u>		<u>xxx</u>

Goods Sent on Consignment

Trading / purchase & A/c	Consignment A/c xxx
<u>xxx</u>	<u>xxx</u>

Books of Consignee

Consignor A/c

Bank / B/p. a/c	xxx	Debtors	
Cash (Exp)	xxx	(Cash & credit sales)	xxx
Commission	xxx		
Balance c/d)	xxx		
	<u>xxx</u>		<u>xxx</u>

Commission A/c

Debtors	xxx	Consignor a/c	xxx
P/L a/c	xxx		
	<u>xxx</u>		<u>xxx</u>

Debtors A/c

Credit Sales	xxx	Bank a/c	xx
		Commission	xx
			<u>xxx</u>
	<u>xxx</u>		

Joint Venture Accounts:

When two or more persons undertake to get involved in a particular venture other than normal business activities for a temporary period to which they contribute capital and share profits & losses on some agreed ratio it is called a joint venture.

Accounting treatment:

① When a separate set of books is kept:

Joint Venture A/c:

Joint Bank (purchased)

Bank (Exp)

Venturer A/c (exp met personally)

Venturer A/c (C/d)

Sales

Unsold stock

xxx

xxx

Venturer's C/P H/acc

Unsold stock &
Sales proceeds.

Joint Bank

Capital

Exp / material

Share of Pft.

xxx

xxx

Bank A/c.

Capital Contribution

Sales proceeds.

Goods purchased,

Expenses,

final Settlement

xxx

xxx

When separate set of Book is not kept.

In the Book of X

Joint Venture:

Material supplied.

Exp

Commission

Material / Exp by Y.

Commission paid by Y.

Balance

Sales proceeds.

purchase

Goods Sold by Y.

Unsold goods.

Y a/c

Sales proceeds
Unsold goods
~~Bank a/c~~

Material Supplied
Exp a/c
Commission
Share of profit
Bank a/c

In the Books of Y.

Joint Venture

Material Supplied
Exp paid by X
Comm of X
purchases a/c

Sales
Unsold goods
Bank a/c
Purchases a/c
(Unsold goods)

xxx

xxx

X's A/c

Sales
Unsold goods
Bank a/c

Material Supplied
Exp
Commission
Share of profit

xxx

xxx