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Subject:- Financial Accounting

Topic

Consignment



**"Nothing is more
important than
Education"**

Problem 11

On 1st April, 2017 Mr. Charles of Kolkata consigned to Mr. Mathews of Chennai goods for sale at invoice price. Mr. Mathews is entitled to a commission of 5% on sales at invoice price and 20% on any surplus price realised. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000.

The direct expenses of the consignment amounted to ₹ 10,000. On 30th June, 2017 an account sales was received by Mr. Charles from Mr. Mathews showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Mathews accepted a bill drawn by Mr. Charles for ₹ 1,00,000 and remitted the balance due in cash. You are required to prepare consignment account and account of Mr. Mathews in the books of Mr. Charles.

Solution

In the Books of Charles

Dr.			Cr.		
Goods sent on Consignment Account					
Date	Particulars	Amount	Date	Particulars	Amount
2017 April 1	To Goods sent on Consignment A/c	₹ 1,50,000	2017 April 1	By Goods sent on Consignment A/c	₹ 50,000 ¹
	To Cash A/c (Direct expenses)	10,000	June 30	By Mathews A/c (Sales of 4/5th)	1,20,000
June 30	To Mathews (Exps.)	3,000		By Consignment Stock A/c	32,600 ²
	To Mathews (Com.)	6,000 ³			
	To Consignment Stock Reserve A/c	10,000 ⁴			
	To Profit transferred to Profit & Loss A/c	23,600			
		<u>2,02,600</u>			<u>2,02,600</u>

Working Notes :

Consignment Accounts

1 ₹ 1,50,000 - ₹ 1,00,000 = ₹ 50,000.

2 Valuation of Unsold Stock :

(i) Cost of 1/5th of Goods $(1,50,000 \times \frac{1}{5})$ (at Invoice Price) ₹ 30,000

(ii) Add : Proportionate Expenses of Consignor $(₹ 10,000 \times \frac{1}{5})$ 2,000

(iii) Add : Proportionate Expenses of Consignee $(₹ 3,000 \times \frac{1}{5})$ 600

₹ 32,600

3 Commission :

$₹ 1,20,000 \times \frac{5}{100} = ₹ 6,000.$

Mathews will not get any commission because additional price is not received. Causes $\frac{4}{5}$ of ₹ 1,50,000 = ₹ 1,20,000; Sales Price ₹ 1,20,000.

∴ Additional Amount 1,20,000 - 1,20,000 = 0 (Zero)

4 $\frac{30,000 \times 50,000}{1,50,000} = ₹ 10,000.$

Mathews Account

<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
2017 April 1	To Goods sent on Consignment	₹ 1,20,000	2017 June 30	By Consignment A/c (Exps.)	₹ 3,000
				By Consignment A/c (Comm.)	6,000
				By Bills Receivable A/c	1,00,000
				By Cash	11,000
		<u>1,20,000</u>			<u>1,20,000</u>