BCOC-131
Financial Accounting

Indira Gandhi
National Open University
School of Management Studies

Block

5

CONSIGNMENTS AND JOINT VENTURES

COURSE PREPARATION TEAM

Accountancy-I: ECO-02

(Unit-10, 11, 12 and 13 Revised by Dr. Sunil Kumar)

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June, 2019

Indira Gandhi National Open University, 2019

ISBN-978-93-89200-

Further information on the Indira Gandhi National Open University courses may be obtained from the University's Office at Maidan Garhi, New Delhi-l10068 or website of INGOU www.ignou.ac.in

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi by Registrar, MPDD, IGNOU, New Delhi.

Laser Typeset by : Rajshree Computers, V-166A, Bhagwati Vihar, (Near Sec. 2, Dwarka), Uttam Nagar, New Delhi-110059

Printed by :

BLOCK 5 CONSIGNMENTS AND JOINT VENTURES

It is a common practice in business to send goods on consignment basis to some firms who undertake to sell it on behalf of the consignor. The consignor would like to ascertain the profit or loss of each consignment separately. This involves certain peculiarities in accounting. Sometimes two or more persons agree to carry out a specific project or a job jointly. This is termed as a joint venture. In that case, the parties to the joint venture called co-venturers want to ascertain their share of profit or loss from the joint venture business separately. For this purpose, they may prepare a separate set of books for the joint venture business or record the joint venture transactions in their own books only. This block consisting of three units covers the accounting procedure usually followed for recording various transactions related to the consignments and the joint ventures.

Unit 15 discusses various concepts related to consignment and describes the basic framework of accounting for recording the consignment transactions. It also deals with accounting treatment of normal and abnormal losses which may take place in transit or in the godown of the consignee.

Unit 16 explains how Consignment Account is prepared when goods are invoiced to the consignee at a price which is higher than its cost. It also describes the adjustments to be made at the time of working out the profit on consignment when goods are consigned at invoice price.

Unit 17 discusses various methods of accounting for the joint venture transactions.

UNIT 15 CONSIGNMENT ACCOUNTS-I

Structure

15.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of consignment;
- distinguish it from sale;
- identify the parties involved in consignment and describe their relationship;
- explain the basic framework of accounting for consignment transactions in the books of the consignor and the consignee;
- record consignment transactions directly in the ledger accounts of the consignor and the consignee;
- compute the value of unsold stock;

- explain the nature of normal and abnormal losses;
- compute the value of unsold goods in case of normal loss; and
- explain the treatment of normal and abnormal losses of goods and their impact on profit.

15.1 INTRODUCTION

The producers often make use of the services of selling agents and distributors in their channel of distribution. This is particularly true of the agricultural goods. The selling agents/distributors act in various ways. One of the methods used is to receive the goods on consignment basis. Under this system, the agent receives the goods and undertakes to sell it on behalf of the consignor. He often settles the account of the consignor after all the goods received from him have been sold. This involves certain peculiarities in accounting. In this unit, you will learn about various concepts relating to consignment and the basic framework of accounting for consignment transactions in the books of the consignor and the consignee.

You know the method of working out the profit on each consignment when all goods are sold out. In practice, you will find that at the time of submitting the Account Sales, some goods may remain unsold. Then, there is also a possibility of loss while the goods are in tranit or while they are lying in the godown of the consignee. Such loss may occur due to normal or abnormal causes. In this unit, you will learn how the value of unsold goods is worked out and recorded in books of account. You will also learn about the treatment of normal and abnormal losses which may take place in transit or in the godown of the consignee and their impact on valuation of stock and the profit on consignment.

15.2 CONCEPTS OF CONSIGNMENT

You know that goods are often sent by the producer on consignment basis to the selling agents or distributors. Let us now understand what exactly we mean by consignment, how does it differ from sale and what kind of relationship exists between the consignor and the consignee.

15.2.1 What is Consignment?

When goods are sent by a manufacturer or a trader to an agent to be sold by him on commission basis and at the risk and account of the former, they are said to be sent on consignment. In other words a producer/trader forwards his products to his selling agents, appointed at different places, to sell them on his behalf for an agreed commission. The process of sending goods on this basis by one firm to another for sale is known as 'Consignment' and this transaction is called a 'Consignment Transaction'. The consignment is 'Outward Consignment' for the person who sends the goods and an 'Inward Consignment' for the person who receives the goods for sale.

15.2.2 Parties to Consignment

You know that in consignment, the goods are sent by one person to another for sale by the latter on behalf of the former. Therefore, there are two parties involved: (i) the person who sends the goods and, (ii) the person to whom the goods are sent. The person who sends the goods to the agent is called the 'consignor' and the person to whom the goods are sent for sale is called the 'consignee'.

If 'X' sends goods to 'Y' for sale, 'X' is known as consignor and 'Y' consignee. The Consignor is the 'principal' and the consignee is the 'agent'. Their mutual relations are governed by the Law of Agency and, of course, by the terms of the contract between themselves. The consignee is a special kind of agent who is in possession of the goods. He passes the title of the goods to those who buy from him even if he sells the goods in contravention to the principal's instructions. Suppose, the consignor instructs the consignee not to sell the goods below a certain price. If the consignee sells the goods below the stipulated price, the buyer will have good title to goods. The consignor may, of course, ask the consignee to pay damages for breaking the terms of the contract with him. Like all agents, the consignee must render true accounts to the consignor, be faithful to him, and act according to his instructions. He is entitled to remuneration and reimbursement of expenses incurred by him on behalf of the consignor.

15.2.3 Features of Consignment

- Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
- Under the consignment, goods are to be treated as the property of the consignor and to be sold at his risk entirely. The consignee does not buy the goods, he merely undertakes to sell them on behalf of the consignor. He is not responsible for any loss or even for any destructions or damages to the goods. But the consignee should not show any negligence.
- The consignor does not sell the goods to the consignee. Therefore, he can not ask the consignee to pay the price of the goods unless they are sold and the sale proceeds are actually realised.
- The consignee agrees to sell the goods for an agreed rate of commission and is allowed to deduct his commission due from the sale proceeds.
- The agent enters into the picture only when he sells the goods and realises the amount. He becomes indebted for amounts realised on behalf of the principal. The relationship between the consignor and the consignee is that of a principal and an agent.
- As it is not a sale, whatever the consignee does is on behalf of the consignor and, therefore, all legitimate expenses incurred by the consignee for receiving and selling the goods should be reimbursed.
- Any stock remaining unsold with the consignee belongs to the consignor.
- As the consignee acts on behalf of the consignor, the profit or loss on sale of goods sent on consignment belongs to the consignor.

15.2.4 Distinction between Sale and Consignment

Although the possession of goods is transferred from one person to the other, both in case of sale and in case of consignment, they differ from each other in various ways. The difference between an outright sale and the goods sent on consignment has been explained as follows:

No. and Item	Sale	Consignment
1. Parties	Seller and Buyer	Consignor and Consignee
2. Ownership and title of goods	Ownership and title of goods is transferred from seller to the buyer of the goods.	The legal ownership and title of goods is not transferred to the consignee. It remains with the consignor till they are sold.
3. Relationship	The relationship between the seller and the buyer of the goods is that of a creditor and debtor.	The relationship between the consignor and the consignee is that of a principal and an agent. The consignee is to sell goods on behalf of the consignor.
4. Expenses	Expenses incurred after sale of goods are borne by the buyer.	Expenses incurred by the consignee in connection with the goods consigned to him are borne by the consignor.
5. Risk	Risk attached to the goods sold is transferred to the buyer of goods as soon as goods are sold. In case, the goods are destroyed after sale, the loss is suffered by the buyer.	Risk attached to the goods consigned lies with the consignor till the goods consigned are sold. In case, the goods are destroyed, the loss is borne by the consignor.
6. Return of Goods	Return of goods is not possible as goods once sold are not returnable.	Goods can be returned if they are not sold by the consignee.
7. Account Sales	No Account sale is required to be submitted by the buyer to the seller.	Account sale has to be submitted by the consignee to the consignor from time to time.
8. Unsold Goods	The seller has nothing to do with the goods which could not be resold.	Unsold goods with the consignee will be treated as stock of the consignor.

The distinction between sale and consignment given above also amply clarifies the difference between the rights and duties of the buyer and the consignee.

Check Your Progress A

1. Read the following carefully and tick mark the correct answer.

   a) The relationship between the consignor and the consignee is that of

      i) Buyer and Seller

ii) Principal and Agent

iii) Debtor and Creditor

b) The term used for consignee's remuneration is

i) Commission

ii) Brokerage

iii) Discount

c) The party responsible for the risk attached to the goods in consignment is

i) Consignee

ii) Consignor

iii) Both

d) The legal ownership of the goods is not transferred till the goods are sold in case of

i) Sale

ii) Consignment

iii) Both

2. State whether the following statements are **True** or **False.**

i) Despatch of goods on consignment amounts to sale of goods by the consignor. (T/F)

ii) All the legitimate expenses incurred by the consignee relating to consignment are borne by the consignor. (T/F)

iii) For the consignor the consignment is an outward consignment and the same becomes an inward consignment for the consignee. (T/F)

iv) Goods are treated as sales under consignment when they are consigned. (T/F)

v) The consignee does not become the debtor of the consignor on receipt of goods. (T/F)

15.2.5 Important Terms in Consignment

There are a few terms relating to consignment which are commonly used. These are proforma invoice, account sales, non-recurring and recurring expenses, commission, advance, etc. These are explained as follows:

ProformaInvoice : Since the goods sent on consignment cannot be treated as sales, the consignor does not prepare proper Invoice. He simply prepares a Proforma Invoice and sends it to the consignee along with the goods despatched. This is prepared with a view to inform the consignee about price of goods, expenses incurred, mode of transportation and the minimum sale price at which the goods are to be sold. A specimen of proforma invoice is given in figure 15.1

Fig. 15.1

Specimen of Proforma Invoice.

BABAR TRADERS

Proforma Invoice		222, Mount Road Chennai
For Goods Sent on consignment basis to: M/s Hari Kishan Enterprises, Hauz Khas, New Delhi.		Oct. 10, 2018

Serial No.	Particulars		Amount
		Rs.	Rs.
	Rs. 500 Bush Radio sets at Rs. 600 each		3,00,000
	Charges		
	Packing and Cartage	4,000	
	Freight	3,000	
	Insurance	6,000	13,000
	Total		3,13,000
	Goods despatched vide R.R.NO. Smt. G.834866, Dated 10/10/18 Freight to pay.		

E. & O. E.	For Babbar Traders (D. BABBAR) Partner

Note: E.&.O.E. stands for Errors and Omissions Excepted. Which mean that invoice is subject to the errors of omission and commission.

In the above invoice, Babbar Traders is the consignor and Hari Kishan Enterprises is the consignee. Goods worth Rs. 3,00,000 have been consigned on which a sum of Rs. 13,000 has been incurred on various expenses.

Account Sales : As the consignee is an agent and is selling the goods on behalf of the consignor, he has to furnish the details of sale proceeds, expenses, commission, etc. to the consignor. He furnishes all these details by means of a statement called 'Account Sales'. This shows the quantity and description of goods sold, sale proceeds realised, the expenses incurred by the consignee, commission due to him, and the balance amount payable by him to the consignor. While preparing an Account Sales, the consignee will deduct all expenses incurred by him in relation to the consignment and the commission due to him. The remittances made in advance, if any, are also to be deducted from the balance so obtained. The consignee will send a bank draft or his acceptance for the balance due to the consignor. Illustration I will give you a clear understanding as to how an Account Sales is prepared.

Illustration 1

On January 1, 2018 Babbar Traders of Mumbai consigned 500 Bush Radio sets to Hari Kishan Enterprises, Chennai. The cost of each set was Rs. 750. On receiving the consignment, Hari Kishan Enterprises sent a bank draft for Rs.

25,000 as an advance to Babbar Traders. Hari Kishan Enterprises paid Rs. 1,500 for freight, Rs. 2,000 for octroi, Rs. 2,500 for godown rent and other selling expenses. Hari Kishan enterprises submitted an Account Sale on March, 1, 2018 showing that all the sets had been sold at Rs. 850 each. They were entitled to 10% commission on sales. Prepare the Account Sales.

Solution

ACCOUNT SALES
of 500 Bush Radio Sets Received from Babbar Traders, Mumbai

S.No.	Particulars		Amount
	Sale Proceeds: 500 Bush Radio Sets sold at Rs. 850 each		4,25,000
	Less:		
	Freight	1,500	
	Octroi	2,000	
	Godown rent & selling expenses	2,500	6,000
			4,19,000
	Less: Commission Rs. 4,25,000 × 10%		42,500
			3,76,500
	Less: Advance (Bank Draft)		25,000
	Balance due to Babbar Traders remitted as per draft enclosed		3,51,500
E. & O. B.			For Hari Kishan Enterprises
			HARIKISHAN
Dated 01/03/18			Managing Partner

Commission : It is the remuneration paid to the consignee by the consignor in consideration of the services rendered by the former in selling the goods consigned. This commission can be divided into two types (a) Ordinary Commission, and (b) Special Commission.

a) **Ordinary Commission**: It is a commission usually paid as a fixed percentage on gross sale proceeds. The terms commission normally denotes ordinary commission, unless specified otherwise. The consignee is not responsible for any bad debts and he does not guarantee the payment from all those who buy on credit so long as he is getting ordinary commission only.

b) **Special Commission:** This is the commission which the consignee gets over and above the ordinary commission. It can be sub-divided into two categories viz., (i) Over-riding Commission and (ii) Del Credre Commission.

   i) **Over-riding Commission:**This is an extra commission allowed over and above the normal commission and is generally offered when the agent is required to put in hard work either in introducing a new product in the market or where he is entrusted with the work of supervising the performance of other agents in a particular area. This commission is also given for sales at prices higher than the price fixed by the consignor.

   ii) **Del Credre Commission:** Usually, all the losses are borne by the consignor. Sometimes the consignor expects that the consignee should also be responsible for recovering the debts and bear the loss on account of bad debts, if any. In order to compensate him for this additional responsibility, he is given some extra commission called 'Del Credre Commission'. Such commission is calculated on the total sales unless there is a special agreement to the effect that it is to be paid only on the amount of credit sales. Payment of this commission imposes extra liability on the consignee and induces him to deal in a prudent and cautious manner.

In illustration 2, we have given you the details regarding the computation of commission. It would certainly give you an idea about the calculation of normal commission and special commission.

Illustration 2

Rajadhani Cycles Ltd, sent 2,000 dynamos costing Rs. 50 each for sale on consignment basis to Banerjee & Co. Calcutta. Normal selling price per dynamos is Rs. 60. Consignee is entitled to commission at i) 5% on normal selling price; ii) 10% additional commission on excess sales and iii) 1 ½ % Del credre commission on total sales for guaranteeing collection of credit sales. Banerjee & Co. reported sales of 500 dynamos at Rs. 60 each and 200 dynamos at Rs. 75 each on cash basis, 400 dynamos at Rs. 75 each and another 400 at Rs. 80 each on credit basis. Compute consignee's commission.

Solution:

Total Sales:

500 units Rs 60 each	30,000
200 Units @ Rs 75 each	15,000
400 units @ Rs 75 each	30,000
400 Units @ Rs 80 each	32,000
	1,07,000

i) **Normal Commission**

5% on normal price of goods sold.
Number of Units sold are: 1,500 (500 + 200 + 400 + 400)
Normal selling price per unit Rs. 60

Normal Sale: 1500 × 60 = Rs. 90,000

Normal Commission: $\frac{5}{100} \times 90{,}000 = \text{Rs. } 4{,}500$

ii) **Additional Commission :** 10% on amount realized in excess of the normal price

	Rs.
Total Sales Value:	1,07,000
Normal Sales Value:	90,000
Excess Sales Value:	17,000

Additional Commission: $\frac{10}{100} \times 17{,}000 = \text{Rs. } 1{,}700$

iii) **Del Credre Commission**

$1\frac{1}{2}\%$ on Total Sales

$\frac{3}{100} \times 1{,}07{,}000 = \text{Rs. } 1{,}605$

Total Commission (i) + (ii) + (iii) Rs.4,500+ Rs. 1,700 + Rs. 1,605 =Rs.7,805

Expenses: Expenses relating to consignment of goods are divided into two categories viz., (i) Non-recurring Expenses, and (ii) Recurring Expenses.

i) **Non-recurring Expenses:** All the expenses which are incurred for bringing goods to the godown of the consignee are non-recurring in nature. Such expenses are generally incurred on the consignment as a whole. The non-recurring expenses will be incurred partly by the consignor and partly by the consignee.

The consignor usually incurs expenses on sending the goods to the consignee such as packing, cartage, loading charges, insurance, freight. etc. The consignee usually incurs expenses on receiving the goods from the consignor such as dock dues, customs duty, clearing charges, octroi, etc.

ii) **Recurring Expenses:** These expenses are incurred after the goods have reached the consignee's place or godown. They are recurring in nature because they may be incurred repeatedly by the consignor and the consignee. The examples of recuing expenses incurred by the consignor are: advertising, discount on bills, commission on collection of cheques, travelling, expenses of salesmen, bad debts etc. The examples of recurring expenses incurred by the consignee are godown rent, godown insurance, sales promotion, etc.

Advance: It is a common trade practice for the consignor to demand some advance from the consignee as a security for the goods despatched to him. It may be in the form of cash or bank draft or in the form of a bill of exchange. The consignee will send some amount as an advance before or after he receives the goods from the consignor. The advance received from the consignee should not be credited to consignment account as it is not a part of the sale proceeds. The advance will be adjusted against the amount due from the consignee when the accounts are finally settled. In some cases, a bill may be drawn on the consignee if he is not in a position to pay advance money. The consignor can discount the bill with his bankers. In such a case, the value of the bill (as advance) so accepted will be deducted from the sale proceeds. The discount paid to the bank can be straight away charged to the Profit &Loss Account as it represent cost of raising finance.

Check Your Progress B

1. Distinguish between Account Sales and Sales Account?

....

....

....

....

2. Under what circumstances can the consignee get a special commission?

....

....

....

3 Fill in the blanks:

i) E. & O.E. stands for ………..

ii) Consignor allows ……….Commission to the consignee to bear the bad debts.

iii) ……….expenses are those expenses which are incurred after the goods reach the consignee's godown.

iv) The consignee gives advance to the consignor as a……… for goods despatched.

v) Unloading charges paid by the consignee are ………….expenses.

15.3 ACCOUNTING TREATMENT

The transactions relating to each consignment are recorded in such a way that the profit or loss of each consignment can be worked out separately. For this purpose, the consignor prepares a Consignment Account relating to each consignment to which all concerned expenses including the cost of goods consigned are debited and the sales proceeds and the closing stock are credited. In addition, he also maintain a consignee's account in order to compute the amount due from him. The consignee, on the other hand, simply maintains consignor's account in his books to which he debits the amounts remitted to the consignor the expenses incurred by him in relation to the consignment and the commission due to him. Consignor's Account is credited mainly by the amount of sale proceeds. Now let us study how various transactions related to consignment are recorded in the books of the consignor and the consignee.

15.3.1 Books of the Consignor

You know each transaction is recorded first in a subsidiary book and then posted to the respective accounts in the ledger. All transactions related to consignment therefore, are first recorded in the Journal. The entries passed in respect of various transaction are as follows:

1. **Goods despatched to the consignee:** As you know the consignment of goods cannot be treated as a sale of goods. Therefore, Sales Account will not be credited. In its place, an account called 'Goods Sent on Consignment Account will be credited and the Consignment Account is debited with the cost of the goods consigned'. Thus the journa1entry will be as follows:

   Consignment A/c Dr.
   To Goods Sent on Consignment A/c
   (Being the value of the consignment)

   If consignments have been sent to more than one consignee, the consignment accounts may be distinguished by adding the names of the places to the

Consignment Account. (For example Consignment to Calcutta Account, Consignment to Gonda Account, etc.

2. **Expenses incurred by the consignor:** All expenses incurred by the consignor on consignment of goods are debited to the Consignment Account and are thus added to cost of goods consigned. The entry would be:

   Consignment A/c Dr.
   To Cash/Bank A/c
   (Being the expenses incurred on the consignment)

3. **Advance made by the consignee:** The amount of advance received from the consignee cannot be treated as sale proceeds, and so should not be credited to the Consignment Account. It is treated as follows.

   Cash/Bank/Bills Receivable A/c Dr.
   To Consignee's A/c
   (Being an advance from the consignee)

4. **Bill received from the consignee discounted with the bank:** If the consignor gets the bills receivable discounted from his bankers, the entry will be

   Bank A/c Dr.
   Discount A/c Dr.
   To Bills Receivable A/c
   (Being bill discounted with the bank)

5. **Receipt of account sales from the consignee:** When the goods are sold out, the consignee will send an Account Sales to the consignor intimating him the total sales and the amount of his expenses and commission. The following three entries will be recorded in this connection.

   a) **For sales made by the consignee:**
      Consignee's A/c Dr.
      To Consignment A/c
      (Being gross proceeds of sales)

   b) **For consignee's expenses:**
      Consignment A/c Dr.
      To Consignee's A/c
      (Being expenses incurred by the consignee in dealing with consignment)

   c) **For consignee's commission:**
      Consignment A/c Dr.
      To Consignee's A/c
      (Being commission payable on sale proceeds)

6. **Goods returned by the consignee:** Sometimes defective or obsolete goods are returned by the consignee to the consignor. When such goods are received, the journal entry will be :

   Goods Sent on Consignment A/c Dr.
   To Consignment A/c
   (Being goods returned by the consignee)

7 **Bad debts incurred:** When the consignee is entitled to delcredre commission, no entry for bad debts is to be passed as such loss is to be borne by the consignee himself. But when delcredre commission is not paid, the loss on account of bad debts is to be borne by the consignor, the entry will be:

Consignment A/c Dr.
To Consignee's A/c
(Being value of bad debts)

8. **Remittance by the consignee in full settlement:** The balance amount will have to be remitted by the consignee to the consignor on settlement of the account. The following entry will be recorded, when the consignee remits to the consignor:

Cash/Bank/Bills Receivable A/c Dr.
To Consignee's A/c
(Being balance due from the consignee received).

9. **Profit or loss on consignment:** When you balance the Consignment Account, it reveals profit or loss. If the total of credit side is more than the total of debit side, it is a profit and if the total of debit side is more than that of the credit side, it is a loss. The profit or loss is transferred to the Profit & Loss Account and thus the Consignment Account is closed.

The following entries will be recorded:

a) **If there is a profit:**
Consignment A/c Dr.
To Profit & Loss A/c
(Being profit on consignment)

b) **If there is loss:**
Profit & Loss A/c Dr.
To Consignment A/c
(Being loss on consignment)

10. **Closing entry for goods sent on consignment :** Goods Sent on Consignment Account is closed by transfer to the Trading Account. The entry passed is as follows:

Goods Sent on Consignment A/c Dr.
To Trading A/c
(Being goods sent on consignment account closed)

11. **Unsold stock with the consignee:** It is quite possible that all the goods sent on consignment are not sold by the consignee up to the date on which final accounts are prepared. Some goods may remain unsold known as the 'Consignment Stock'. This should be properly valued and credited to the Consignment Account. You will learn about the valuation of unsold stock in section 15.5 in this unit. However, the entry for consignment stock will be:

Consignment Stock A/c Dr.
To Consignment A/c
(Being unsold goods with the consignee)

You have learnt how to record consignment transactions in the Journal of the consignor.

Now let us see how these accounts are shown in the ledger and how profit or loss on consignment is worked out. The consignor usually maintains the following three accounts:

1. **Consignment Account:** It is prepared by the consignor showing all transactions relating to a particular consignment. The objective of this account is to ascertain net profit/loss aising from each consignment. Once goods are consigned by the consignor, its cost is debited to the Consignment Account alongwith various expenses incurred by the consignor and the consignee in dealing with that particular consignment. The commission due to the consignee is also debited to the Consignment Account. When Del Credre Commission is not paid, the bad debts, if any, are also to be debited to this account. Once the goods reach the consignee, some of these will be unsold and the rest sold either on cash or on credit. irrespective of the type of sale, the entire sale proceeds will he shown on the credit side of the Consignment Account. The unsold goods are treated as consignment stock and credited to this Account. If some goods are found unsuitable for sale, the consignee will send them back to the consignor and the same will appear on its credit side. After all these items are recorded, the Consignment Account is balanced. The difference between the debit and credit totals of Consignment Account is regarded as profit or loss which is transferred to the Profit and Loss Account and the Consignment Account stands closed. It is infact a nominal account and is just like a Trading and Profit and Loss Account about which you have studied earlier in final accounts. Therefore, the principles applied to Trading and Profit & Loss Account hold good for this account also. Like Trading and Profit & Loss Account, all expenses and purchases are debited to this account and all sales and incomes are credited. The proforma of the consignment account is given in Figure 15.2.

Fig. 15.2

Consignment to Patna Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
	To Goods Sent on Consignment A/c	xxx		By Consignee's A/c (Cash and Credit sales)	xxx
	To Cash A/c (Consignor's Expenses)	xxx		By Goods Sent on Consignment A/c (Goods returned by the Consignee)	xxx
	To Consignee's A/c (Consignee's Expenses)	xxx		By Consignment Stock A/c (Unsold Stock)	xxx
	To Consignee's A/c (Commission)	xxx		By Profit and Loss A/c (Loss transferred)	xxx
	To Consignee's A/c (Bad Debts if any)	xxx			
	To Profit and Loss A/c (Profit transferred)	xxx			
		xxx			xxx

2. **Goods Sent on Consignment Account:** This is a real account. It deals with the goods transferred from the consignor to the consignee and goods returned by the consignee to the consignor. All the goods consigned by the consignor will be credited to this account and the goods returned by the consignee are debited to this account. The balance represents the cost of goods with consignee for sale, and is transferred to the Trading Account. The proforma of the Goods Sent on Consignment Account is depicted in Figure 15.3

Fig. 15.3

Goods Sent to Consignment Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Consignment A/c (Goods returted)	xxx		By Consignment A/c (Goods consigned)	xxx
	To Trading A/c (Balance transferred)	xxx			
		xxx			xxx

3. **Consignee's Account:** It is a personal account of the consignee. It is prepared for ascertaining the amount due from the consignee. The consignee's account is debited with all cash and credit sales effected by the consignee. The various expenses incurred by the consignee, the commission charged by him as well as the advance remitted by him are credited to this account. This account usually shows a debit balance indicating the amount due from the consignee. At time it may show credit balance, if the advance given by the consignee is more than the sale affected by him. The balance revealed by this account is shown in the balance sheet of the consignor, debit balance on the assets side, and credit balance on the liabilities side, unless the account is settled by the required remittance. Figure 15.4 shows the proforma of Consignee's Account.

Fig. 15.4

Consignee's Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Consignment A/c (Cash and Credit Sales)	xxx		By Cash/Bank/Bills Receivable A/c (Advance)	xxx
				By Consignment A/c (Consignee's Expenses)	xxx
				By Consignment A/c (Consignee's Commission)	xxx
				By Banks A/c or Balance c/d	xxx
		xxx			xxx

Look at illustration 3 and see how various transactions relating to consignment are recorded in the books of the consignor.

Illustration 3

Bush Radio & Co., Delhi sent on consignment to Chadda& Co., Calcutta 100 radio sets, invoiced at Rs. 100 each on January 6, 2018. Bush Radio & Co. paid Rs. 1,000 on the same day for despatching goods to the consignee. Consignee remitted Rs. 5,000 as an advance by bank draft on January 14. The Consignee is entitled to a commission of 10% on the sale proceeds. On receipt of goods, the consignee paid Rs. 1,000 for freight and Rs. 500 for godown charges.

On January 28, Chadda & Co. sent an Account Sales showing that the radio sets have realisedRs. 200 each. He remits the amount due to Bush Radio & Co. Pass Journal entries and prepare ledger accounts in the books of the consignor.

Books of Bush Radio & Co., Delhi
JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018			**Rs**	**Rs.**
Jan. 6	Consignment to Calcutta A/c Dr. To Goods Sent on Consignment A/c (Being cost of consignment sent to Chadda & Co.)		10,000	 10,000
“ 6	Consignment to Calcutta A/c Dr. To Bank A/c (Being expenditure incurred on despatching of goods)		1,000	 1,000
“ 14	Bank A/c Dr. To Chadda & Co. (Being receipt of an advance payment from the consignee)		5,000	 5,000
“ 28	Consignment to Calcutta A/c Dr. To Chadda & Co. (Being expenses paid by the consignee)		1500	 1500
“ 28	Chadda & Co. Dr. To Consignment to Calcutta A/c (Being the gross proceeds of sales made by the consignee)		20,000	 20,000
“ 28	Consignment to Calcutta A/c Dr. To Chadda & Co. (Being commission payable on sale proceeds)		2,000	 2,000
Jan. 31	Bank A/c Dr. To Chadda & Co. (Being balance payment received from the consignee)		11,500	 11,500
“ 31	Consignment to Calcutta A/c Dr. To Profit & Loss A/c (Being Profit on consignment transferred to Profit & Loss Account)		5,500	 5,500
“ 31	Goods Sent on Consignment A/c Dr. To Trading A/c (Being goods sent on consignment transferred to Trading Account)		10,000	 10,000

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Consignment to Calcutta Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		Rs.	Jan		Rs.
	To Goods sent on Consignment A/c	10,000		To Chadha & Co	20,000
	To Bank A/c (Consignor's Expenses)	1,000			
	To Chadha & Co. (Consignee's Expenses)	1,500			
	To Chadha & Co. (Consignee's Commission)	2,000			
	To Profit & Loss A/c (Profit transferred)	5,500			
		20,000			20,000

Goods Sent on Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			**2018**		
Jan 30	To Trading A/c	10,000	Jan 6	By Consignment to Calcutta A/c	10,000

Chadha& Co. Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		**Rs.**	**2018**		**Rs.**
Jan 28	To Consignment to Calcutta A/c (Sale Proceeds)	20,000	Jan 14	By Bank A/c (Advance)	5,000
				By Consignment to Calcutta A/c (Expenses)	1,500
				By Consignment to Calcutta A/c (Commission)	2,000
				By Bank A/c (Balance received)	11,500
		20,000			20,000

15.3.2 Books of the Consignee

The Consignee mainly prepares a consignor's account in his books to find out what is finally due to the consignor. He records all transactions relating to the consignment first in the Journal and then posts them to the relevant accounts (including Consignor's Account) in the ledger. The journal entries passed by the consignee are:

1. **Receipt of goods from the consignor:** No entry is passed by the consignee when he receives goods from the consignor because receipt of goods on consignment does not amount to purchases of goods by him. He keeps them in his godown on behalf of the consignor for which he usually maintains an Inwards Consignment Book.

2. **Expenses incurred by the consignor:** No entry is passed by the consignee.

3. **Advance made by the consignee**

   Consignor's A/c Dr.

   To Bank/Bills Payable A/c

   (Being advance made by the consignee)

4. **Bill discounted by the consignor with the bank:** No entry is passed by consignee.

5. **Sale of goods by the consignee**

   Cash A/c (cash sales) Dr.

   Consignment Debtors A/c (Credit sales) Dr.

   To Consignor's A/c

   (Being goods sold)

6. **Expenses incurred by the Consignee:** Being an agent of the consignor, all legitimate expenses incurred by the consignee related to the consignment are to be reimbursed by the consignor, the entry will be:

   Consignor's A/c Dr.

   To Cash/Bank A/c

   (Being expenses incurred on consignment)

7. **Commission due to the consignee**: This should include all types of commissions due to the consignee: The entry will be

   Consignor's A/c Dr.

   To Commission A/c

   (Being commission due on sales)

8. **Return of goods to the consignor:** No entry will be passed in the books of the consignee as no entry was passed at the time of receipt of the goods.

9. **Payment received from debtors**

   Cash/Bank A/c Dr.

   To Consignment Debtors A/c

   (Being amount collected from debtors)

10. **Bad debts incurred**

    a) If consignee does not get delcredre commission, all bad debts have to be borne by the consignor himself. The entry will be.

Consignor's A/c Dr.

To Consignment Debtors A/c

(Being bad debts on consignment)

b) If delcredre commission is paid to the consignee, the bad debts are to be borne by him. The entry will be:

Bad Debts A/c Dr.

To Consignment Debtors A/c

(Being bad debts incurred on consignment)

11. When the bills payable accepted in favour of consignor is met on the due date:

Bills Payable A/c Dr.

To Bank A/c

(Being bills payable honoured)

12. **Remittance in final settlement**

Consignor's A/c Dr.

To Cash/Bank Account

To Bills Receivable Account

(Being payment of the balance due to the consignor)

13. **Unsold stock in possession of the consignee :** No entry will be passed for unsold goods in the books of consignee as no entry was passed when he received goods from the consignor.

14. Profit or Loss on consignment: No entry is passed for profit or loss on consignment as the consignee is not concerned with it.

The Consignee also prepares ledger accounts after passing all the journal entries. The Consignor's Account and Commission Account are the two important accounts prepared by the Consignee in his books. Of course, he will also do the postings to the other accounts such as Consignment Debtor's Account, Consignment Expenses Account and Bills Payable Account. etc. But these are of less importance, hence not discussed here.

1. **Consignor's Personal Account:** This is the main account in Consignee's ledger which is prepared for working out the amount due to the consignor. Whatever amount he receives from sales of goods is credited to this account. All expenses incurred by the consignee in relation to consignment, the commission due to him, and the advance given by him to the consignor will be debited to this account. Further, if the consignee does not get delcredre commission, the bad debts on account of credit sales are also debited to the Consignor's Account. The balance of this account indicates the amount payable to the consignor. This account is just the opposite of the Consignee's Account in the books of the consignor. The proforma of the Consignor's Account is given in Figure 15.5

Fig. 15.5
Consignor's Personal Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank/Cash A/c (Consignee's Expenses)	xxx		By Bank A/c (Cash Sales)	xxx
	To Bank/Bills Payable A/c (Advance)	xxx		By Consignment A/c (Credit Sales)	xxx
	To Commission A/c (Consignee's Commission)	xxx		By Bank A/c (Balance remitted)	xxx
		xxx			xxx

2 **Commission Account:** This is nominal account. It shows the income earned by the consignee for the services rendered by him, All types of commission whether, ordinary or special, due to the consignee is credited to this account. The Commission Account will be debited with bad debts if the consignee is to bear such loss because of delcredre commission. The proforma of the Commission Account is given in Figure 15.6

Fig. 15.6
Commission Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bad debts A/c	xxx		By Consignor's A/c (Consignee's Commission)	xxx
	To Profit & Loss A/c (balance)	xxx			
		xxx			xxx

Taking the data of illustration 3 let us see how transactions related to consignment will be recorded in the books of the consignee.

Books of Chadha & Co.
JOURNAL

Date	Particulars		L.F.	Dr. Amount	Cr. Amount
2018				Rs	Rs.
Jan. 14	Bush & Co.	Dr.		5,000	
	To Bank A/c				5,000
	(Being advance paid by the consignee)				
" 15	Bush & Co.	Dr.		1,500	
	To Cash/Bank A/c				1,500
	(Being expenses incurred on consignment)				

"	28	Bank A/c Dr. To Bush & Co. (Being cash sales on consignment)		20,000	20,000
"	28	Bush & Co. Dr. To Commission A/c (Being commission due on goods sold)		2,000	2,000
"	31	Bush & Co. Dr. To Bank A/c (Being balance payment made)		11,500	11,500

LEDGERS

Bush & Co's Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		**Rs.**	2018		**Rs.**
Jan. 14	To Bank A/c	1,500	Jan. 31	By Bank A/c (Sales)	20,000
Jan. 14	To Bank A/c (Advance)	5,000			
Jan. 14	To Commission A/c	2,000			
Jan. 14	To Bank A/c (Balance)	11,500			
		20,000			20,000

Commission Account

2018		**Rs.**	2018		**Rs.**
Jan. 31	To Profit & Loss A/c	2,000	Jan. 28	By Bush & Co.	2,000

Check Your Progress C

1. Fill in the blanks.

   i) All expenses incurred by the consignee are………… to Consignment Account.

   ii) When the defective goods are returned by the consignee, the consignor debits it to ………….Account.

   iii) When there is no del-credre commission, bad debts are borne by the …...............…….

   iv) Consignment Account is similar to……………Account.

   v) Consignee passes …………..entry for closing stock.

   vi) Commission Account is a …………Account.

2. Explain why the consignee does not pass any entry for

   a) Goods sent on consignment

b) Profit or loss on consignment, and

c) Closing stock.

....

....

....

....

15.4 DIRECT RECORDING IN THE LEDGER

You know for each consignment, the Consignor prepares the Consignment Account, the Goods Sent on Consignment Account and the Consignee's Account in his books, whereas the consignee prepares the Consignor's Account and the Commission Account in his books. Sometimes, you may be asked to prepare the ledger accounts directly i.e., without passing any journal entries, You should therefore learn how to prepare these accounts directly.

You should debit the Consignment Account with the cost of goods consigned, expenses incurred by the consignor, expenses incurred by the consignee and the Consignee's commission; and credit it with sales (both cash and credit) and the goods returned by the Consignee. The Consignee's Account will be debited with the sales made by him and credited with his expenses, commission and the remittances made to the Consignor.

The Consignor's Account in the books of Consignee is just the reverse of Consignee's Account in Consignor's books. It is debited with the expenses incurred by the Consignee, the commission due to him and the remittances made to the Consignor on account; and credited with the total amount of sales.

Look at illustration 4 and see how the consignment transactions are recorded directly in the ledger accounts.

Illustration 4

On January 1, 2018, Gursharan & Co. of Delhi consigned 50 cases of glassware costing Rs. 40,000 to Singh & Co. of Calcutta for sale on commission @ 5% on gross sale proceeds. Gursharan & Co. paid Rs. 500 for freight and carriage and Rs. 600 for packing. Singh & Co. took the delivery of goods on January 5, 2018 and paid Rs. 300 for clearing charges, Rs. 200 for carriage, Rs. 50 for miscellaneous expenses, and Rs. 100 for godown rent.

They sold 15 cases @ Rs. 1,000 each, 25 cases @ Rs. 1,200 each and 10 cases @ Rs. 1,100 each.

On April 5, 2018 Singh & Co. sent a bank draft for Rs. 15,000 to Gursharan & Co. on account. On April 10, 2018 Singh & Co. forwarded an Account Sales together with a bill of exchange for the balance due.

Prepare the necessary ledger accounts in the books of both the parties.

Solution :

Books of Gursharan & Co.
Consignment to Singh &Co's Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amoun
2018		**Rs.**	2018		**Rs.**
Jan. 1	To Goods Sent on Consignment A/c	40,000	Apr. 10	By Singh & Co. (Sales)	56,000
" 1	To Bank A/c Freight and Carriage 500 Packing 600	1,100			
Apr.10	To Singh & Co. (Expenses) Clearing charges 300 Carriage 200 Misc. Expenses 50 Godown Rent 100	650			
" 10	To Singh & Co. (Commission)	2,800			
" 10	To Profit & Loss A/c (Profit transferred)	11,450			
		56,000			56,000

Goods Sent on Consignment Account

2018		**Rs.**	2018		**Rs.**
Apr.10	To Trading A/c	40,000	Jan. 1	By Consignment to Singh & Co. A/c	40,000

Singh & Co's Account

2018		**Rs.**	2018		**Rs.**
Apr. 10	To Consignment to	56,000	Apr. 5"	By Bank A/c	15,000
			Apr. 10"	By Consignment to Singh & Co. A/c (Expenses)	650
			Apr. 10"	By Consignment to Singh & Co. A/c to (Commission)	2,800
			Apr. 10	By Bills Receivable A/c (Balance)	37,550
		56,000			56,000

Books of Singh & Co.
Gursharan& Co. Account

2018		**Rs.**	2018		**Rs.**
Apr. 5"	To Bank A/c	15,000	Apr. 10	By Bank A/c (Sales)	56,000
10"	To Cash A/c (Expenses)	650			
10"	To Commission A/c	2,800			
10	To Bills Payable A/c	37,550			
		56,000			56,000

Commission Account

2018		**Rs.**	2018		**Rs.**
Apr. 10	To Profit & Loss A/c	2,800	Apr. 10	By Gursharan & Co. A/c	2,800
		2,800			2,800

15.5 UNSOLD STOCK

In illustration 4, you saw that Singh & Co. sold all the goods consigned to them. But, in practice, you will find that at the time of submitting the Account Sale, a part of goods consigned will still be unsold and will be lying with the consignee. In order to calculate the true profit or loss on consignment, the unsold stock should be valued and accounted for. Let us therefore, learn first how the unsold stock is valued.

15.5.1 Valuation of Unsold Stock

You know that valuation of unsold stock is usually done at cost. In case of consignment, cost of stock would include the cost at which the goods are consigned plus the proportionate non-recurring expenses i.e., all those expenses incurred till the goods reach the godown of the consignee. You should note that all non-recurring expenses, whether incurred by the consignor or by the consignees, are to be taken into account. In the absence of details of expenditure incurred by the consignee, all expenses incurred by him are to be taken as recurring expenses and thus are not to be considered in the calculation of closing stock. In other words, while valuing the closing stock we add such proportionate expenses to the cost price that have been incurred upto the time the goods are brought to the place of the consignee. Any other expenses paid by the consignor or the consignee after this point will not be considered, as these expenses do not add to the value of the goods. Such expenses are godown rent, selling expenses, carriage outwards, godown insurance, discount etc.

Following expenses are usually added for calculation of closing stock:

Carriage and Freight

Loading Charges

Customs Duty

Clearing Charges

Dock Dues

Carriage paid upto the Godown

Unloading Charges

Following are the expenses which are not considered for calculation of closing stock:

Godown Rent
Discount
Bad Debts
Insurance of the Goods in the Godown
Selling and Distribution Expenses.

You will notice that all expenses incurred by the Consignor are considered for valuation of the closing stock. The problem arises only in case of Consignee's expenses. The Consignee's expenses which are to be included in the value of closing stock are those expenses which are incurred till the goods reach the godown of the Consignee. Any other expenses incurred thereafter are ignored for purposes of closing stock valuation.

Look at illustration 5 and see how the unsold stock is valued.

Illustration 5

A sent goods worth Rs. 10,000 to B and paid Rs. 1,200 for packing and Rs. 800 for insurance. B took the delivery of the goods and paid Rs. 2,000 for freight, Rs. 400 for cartage and unloading, Rs. 600 for godown rent, Rs. 400 as selling expenses and Rs. 800 for insurance. B sold three fourth of the goods for Rs. 1,800. Calculate the value of closing stock.

Solution

1	Cost of Unsold Stock:	Rs. 2,500 (1/4 of 10,000)
2	Non-recurring Expenses:	
	Incurred by Consignor	Rs. 2,000 (1,200 + 800)
	Incurred by Consignee	Rs. 2,400 (2,000 + 400)
		Rs. 4,400
3	Value of Closing Stock	

$$\text{Cost of Unsold Stock} + (\text{Non} - \text{recurnng Expenses} \times \frac{\text{Cost of Unsold Stock}}{\text{Cost of Goods Consigned}})$$

= Rs. 2,500 +(4,400 $\times$ 2,500/10,000)

= Rs.2,500+ 1,100

= Rs. 3,600

Note : The godown rent, selling expenses and insurance being recurring expenses have not been included in the value of closing stock

15.5.2 Accounting Treatment of Unsold Stock

Since the value of unsold stock affects the profit or loss on any consignment, its valuation and recording in the books of Consignor is very important. It is shown on the credit side of Consignment Account for which the following journal entry will be passed.

Consignment Stock A/c Dr.
To Consignment A/c
(Being the value of closing stock)

The Consignee, however, will not pass any entry for the closing stock. It is because he is not the owner of the goods and does not pass any entry even when he receives or returns the goods.

Look at ilustration 6 and see how the closing stock is valued and treated in the books of account.

Illustration 6

On January 1, 2018 Universal Sports, Delhi consigned 180 cases of sports goods costing Rs. 360 each to Gemini Sports, Mumbai. They paid Rs 360 for insurance and Rs. 1,800 for freight. Gemini Sports are entitled to a commission of 10% on gross sales. Gemini Sports received the consignment on January 15 and sent a 60 days bill for Rs 10,000 to Universal Sport. The Bill was discounted for Rs. 9,000 .

On opening the cases, the Consignee found 10 cases of wrong description and returned them, paying return freight of Rs. 400. Gemini Sports sold 120 cases @ Rs 600 each for cash and 20 cases @ Rs. 700 each on credit. Gemini Sports spent Rs. 720 on clearing charges and Rs. 600 on carriage outwards. They incurred bad debts amounting to Rs 400. The accounts were settled on June 30, and the balance remitted by cheque. Show necessary ledger accounts in the books of both the parties.

Solution :

Books of Universal Sports
Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		Rs.	2018		Rs.
Jan. 1	To Goods Sent on Consignment A/c	64,800	Jan. 15	By Goods Sent on Consignment A/c (Returns)	3,600
" 1	To Bank A/c (Expenses) Insurance 360 Freight 1,800	2,160	Jan. 30	By Gemini Sports Cash Sales 72,000 Credit Sale 14,000	86,000
" 15	To Gemini Sports (Freight on goods returned)	400	" 30	By Consignment Stock A/c	11,280
Jun 30	To Gemini Sports (Expenses) Clearing Charge 720 Carriage Outward 600	1,320			
" 30	To Gemini Sports (Bad Debts)	400			
" 30	To Gemini Sports (Commission)	8,600			
" 30	To Profit & Loss A/c (Profit transferred)	23,200			
		1,00,880			1,00,880

Gemini Sport Account

2018		Rs.	2018		Rs.
June 30	To Consignment A/c (Sales)	86,000	Jan.15	By Bills Receivable A/c (Advance)	10,000
			15	By Consignment A/c (Freight on returns)	400
			30 June	By Consignment A/c (Expenses)	1,320
			30"	By Consignment A/c (Bad Debts)	400
			30"	By Consignment A/c (Commission)	8,600
			30"	By Bank A/c	65,280
		86,000			86,000

Goods Sent on Consignment Account

2018		Rs.	2018		Rs.
Jan. 15	To Consignment A/c	3,600	Jan. 1	By Consignment A/c	.64,800
June 30	To Trading A/c	61,200			
		64,800			64,800

Books of Gemini Sports
Universal Sports Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		Rs.	2018		Rs.
Jan. 15	To Bills Payable A/c	10,000	June 30	By Cash A/c (Cash Sales)	72,000
" 15	To Cash A/c (Freight on returns)	400	June 30	By Debtors A/c (Credit Sales)	14,000
June 30	To Cash A/c (expenses)	1,320			
" 30	To Debtors A/c (Bad Debts)	400			
" 30	To Commission A/c	8,600			
" 30	To Bank A/c	65,280			
		86,000			86,000

Commission Account

2018		Rs.	2018		Rs.
June 30	To Profit & Loss A/c	8,600	June 30	By Universal Sports	8,600

Working Notes:

1. Closing Stock Valuation:

$$\text{No. of Closing Units} \times \text{Cost price per Unit} + \left(\text{Non-recurring Expenses} \times \frac{\text{Closing Stock Units}}{\text{No. of Units Consigned}}\right)$$

$= 30 \times 360 + (2,880 \times 30/180)$

$= 10,800 + 480$

= Rs. 11,280.

(Non-recurring Expenses include all the expenses of Consignor and clearing charges paid by the Consignee)

2. **Goods Returned to the Consignor :** The goods returned are to be valued at Cost Price only. They should not include any other expenses. However, all the expenses incurred by the Consignee to return the goods should be considered as the expenses on that consignment. So the Consignment Account is debited and the Consignee's Account is credited with the amount of expenses incurred on returns.

Check Your Progress D

1. Tick the correct alternative

   a) The cost of consignment stock is the cost at which the goods are consigned plus

      i) the non-recurring expenses

      ii) proportionate non-recurring expenses

      iii) all the recurring expenses

   b) Non-recurring expenses are the expenses incurred

      i) after the goods reach the godown of the consignee

      ii) in transportation

      iii) till the goods reach the godown of the consignee

   c) Consignment stock is shown on'

      i) credit side of Consignee's Account

      ii) credit side of Consignment Account

      iii) debit side of Consignor's Account

   d) Goods returned by the Consignee should be charged to the Consignment Account at

      i) cost price

      ii) market price

      iii) cost or market price whichever is lower

   e) Expenses incurred in forwarding the defective goods should be debited to

      i) Profit and Loss Account

      ii) Consignment Account

      iii) Goods Sent on Consignment Account

15.6 LOSS OF GOODS

Under Consignment arrangement, when goods are transferred from one place to another, there is a possibility of loss in transit. The loss can also take place in the godown of the Consignee. The loss may occur due to factors like evaporation, leakage, mishandling etc., or due to some accident or theft. Such losses can be broadly divided into two types :

a) Normal Loss

b) Abnormal Loss.

Let us discuss the exact nature of these losses and their accounting treatment.

15.6.1 Normal Loss

It is a loss which is due to the inherent nature of the goods consigned. It may arise in the process of loading and unloading of goods, breaking of bulk pieces into smaller ones, weighing, due to evaporation, processing, etc. For example, while loading or unloading or weighing coal, some part is bound to fall down in powdered form. Similarly, the petroleum products are bound to loose weight due to evaporation or leakage. This type of loss is unavoidable. It can be reduced to some extent but cannot be eliminated altogether. Since this loss occurs in the ordinary course of business and is on account of inherent characteristics of the goods, it is called a normal loss. Normal loss is not shown separately in the books of accounts. The cost of normal loss is spread over the remaining units, thereby increasing the cost per unit of the goods. For example 10,000 tons of coal is sent on consignment costing Rs. 100 each. The normal wastage is i.e., 200 tons. Let us see how normal loss leads to an inflated cost price per unit.

Total Cost of 10,000 = Rs. 10,00,000 (10,000 $\times$ 100)

Total units = 10,000 tons

Normal Loss = 200 tons

Remaining units = 9,800 tons

Rs. 10,00,000 will now be the cost of 9,800 tons as the cost of normal loss is borne by the remaining units. The cost per unit will therefore be 10,00,000/9,800 = Rs. 102.04 approximately.

As stated earlier, no separate entry is passed for the normal loss. The effect of this is reflected in the valuation of closing stock only.

If the consignee is able to sell all the goods so that there is no stock left unsold, the question of normal loss becomes irrelevant. The problem arises only when some goods are left unsold with the consignee. In that case, we shall first calculate the inflated cost per unit as explained above, and then the closing stock shall be valued by multiplying the number of units in stock with the inflated cost per unit. The value of closing stock can also be computed directly (without calculating the inflated cost per unit) with the help of the following formula.

$$\text{Total Cost of Goods Consigned} \times \frac{\text{Unsold Units}}{\text{Remaining Units}}$$

Look at illustration 7 and see how the closing stock is valued when there is normal loss.

Illustration 7

Ram consigned 2,000 tons of coal at Rs. 50 per ton to Shyam of Delhi. He paid Rs. 20,000 as freight. Due to normal wastage 1,950 tons only were received by Shyam. He paid Rs. 5,000 as unloading charges. Goods sold were 1,300 tons. You are required to calculate the value of closing stock.

Solution :

	Rs.
Cost of 2,000 tons of coal at Rs. 50 per ton	1,00,000
Add:	
Freight paid by the Consignor	20,000
Unloading charges paid by the consignee	5,000
Total Cost of Goods	1,25,000

Unsold units:	**Tons.**
Total Units	2,000
Units Lost	50
Remaining Units	1,950
Units Sold	1,300
Units Unsold	**650**

Value of Closing Stock: Rs.

Cost of 2,000 tons = = 1,25,000

Cost of 1,950 (2,000 —50) tons = 1,25,000

Inflated Cost per ton $= \dfrac{1,25,000}{1950 \text{ tons}}$ Rs.64.10

Value of Closing Stock = Number of unsold units×Inflated cost per unit

= 650 tons × 64.10

Rs. 41,665

Alternatively

Value of clossing Stock =

$$\text{Total Cost of Goods Consigned} \times \frac{\text{Unsold Units}}{\text{Remaining Units}}$$

$$= \text{Rs.}1,25,000 \times \frac{650}{1,950}$$

= Rs. 41,667

15.6.2 Abnormal Loss

The loss which occurs due to negligence, inefficiency or some accident is treated as abnormal loss. For example, loss of goods due to fire, floods, earth quakes, riots, war, theft etc. Such a loss does not occur on account of inherent nature of the product, but on account of the operation of certain external forces.

Abnormal loss is calculated in the same manner as the value of closing stock. Inother words, in order to calculate the 33 abnormal loss, all the proportionate non-recurring expenses incurred upto the point of loss are also added to the cost of abnormal loss units. The formula for calculation of abnormal loss is as follows:

Cost of Abnormal Loss Units =

No. of Abnormal Loss Units × Cost Per Unit +

$$\text{Non-recurring Expenses upto the Point of Loss} \times \frac{\text{No. of Abnormal Loss Units}}{\text{No. of Units Consigned}}$$

Since the abnormal loss is not incidental to the consignment, it should be shown separately in the books of accounts. The total abnormal loss is credited to the Consignment Account. The following entry is passed in the books of the Consignor:

Abnormal Loss A/c Dr.
To Consignment A/c
(Being loss on account of ...)

Such an abnormal loss may be

i) Uninsured

ii) Partially Insured

iii) Fully Insured

i) **When the abnormal loss is Uninsured:** In case the abnormal loss is not insured with an insurance company, the total amount of the loss is transferred to Profit & Loss Account by passing the following entry.
Profit & Loss A/c Dr.
To Abnormal Loss A/c
(Being Abnormal Loss transferred to P & LA/c)

ii) When the abnormal loss is partially insurred : In case the abnormal loss is insured and the claim is admitted for a part of the loss, then the following entry is passed
Insurance Company's A/c Dr.
Profit & Loss A/c Dr.
To Abnormal Loss A/c
(Being partial claim admitted)

Insurance Company will be debited with the amount of claim admitted and only the balance amount (total loss minus the claim) is transferred to Profit & Loss Account.

iii) When the abnormal loss is fully insured: In case the loss is fully insured and the total 'claim' is admitted by the insurance company, the following entry will be passed.
Insurance Company's A/c Dr.
To Abnormal Loss A/c
(Being claim fully admitted)

Nothing is transferred to the Profit & Loss Account as the claim for the whole amount of loss had been admitted by the insurance company. No loss is to be borne by the Consignor. Look at illustration 8 and see how abnormal loss is calculated and treated in the books of accounts.

Illustration 8

Philips Radio Company consigned 100 transistors to their agent Paul Radios, Delhi. The cost price of each transistor is Rs. 75. The Consignor paid Rs. 200 for freight, Rs. 50 for cartage and Rs. 400 for insurance. Five transistors were totally destroyed in transit. The insurance claim of Rs. 300 was admitted by the insurance company. The Consignee took the delivery of 95 radios and spent Rs. 190 for clearing charges, Rs. 95 for cartage, Rs. 250 on godown rent and Rs. 150 as selling expenses. They sold all the units at Rs 100 each. Paul Radios are entitled to 5% commission on total sales. The balance due was remitted by way of a bank draft. Calculate the abnormal loss and prepare necessary ledger accounts in the books of both the parties.

Solution

Abnormal Loss = Number of Abnormal Loss Units × Cost Price Per Unit +

$$\left(\text{Non-recurring expenses before loss} \times \frac{\text{Abnormal Loss Units}}{\text{Total Units}}\right)$$

= 5 × 75 + (650 × 5/100)

= 375 + 32.50

= Rs. 407.50 say Rs. 408

Books of Philips Radio Company
Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs
	To Goods Sent on Consignment A/c	7,500		By Abnormal Loss A/c	408
	To Bank A/c (Expenses)	650		By Paul Radios (Sales)	9,500
	To Paul Radios (Expenses)	685			
	To Paul Radios (Commission)	475			
	To Profit & Loss A/c (Profit transferred)	598			
		9,908			9,908

Paul Radio's Account

		Rs.			Rs
	To Commission A/c (Sales)	9,500		By Consignment A/c (Expenses)	685
				By Consignment A/c (Commission)	475
				By Bank A/c	8,340
		9,500			9,500

Goods Sent on Consignment A/c

	Rs.		Rs.
To Trading A/c	7,500	By Consignment A/c	7,500
	7,500		7,500

Abnormal Loss Account

	Rs.		Rs.
To Consignment A/c	408	By Insurance Company A/c	300
		By Profit & Loss A/c	108
	408		408

Books of Paul Radio

Philips Radio's Account

Dr. Cr.

	Rs.		Rs
To Bank A/c (Expenses)	685	By Bank A/c (Sales)	9,500
To Commission A/c	475		
To Bank A/c	8,340		
	9,500		9,500

Commission Account

	Rs.		Rs.
To Profit & Loss A/c	475	By Philips Radio A/c	475
	475		475

Effect of abnormal loss on valuation of closing stock: The value of closing stock is also effected in case of abnormal loss. Abnormal loss may occur either in the godown of the Consignee or in transit. Let us see the effect of abnormal loss on the closing stock under both situations. When the abnormal loss occurs in the godown of the Consignee, the valuation of closing stock is not effected because the expenses incurred after reaching the godown of the Consignee are not to be taken into account for the purpose. Hence, the normal formula will be followed for the valuation of closing stock. Look at illustration 9 and see how the abnormal loss and the value of closing stock is calculated when the abnormal loss occurs in the godown of the Consignee.

Illustration 9

Vanaspati Ltd. consigned 5,000 kg. of vanaspati ghee to Ashoka Dealers, Chandigarh. Each kg.of ghee costs Rs. 8. Vanaspati Ltd. paid Rs 50 for carriage, Rs. 250 for packing and Rs. 200 for insurance in transit.

After three months from the date of the consignment of goods, Ashoka Dealers reported that 3,500 kg. of ghee was sold @ Rs. 9.50 per kg. and expenses were Rs. 500 on godown rent and Rs. 750 on salesmen salary. Ashoka Dealers are entitled to a commission of 5% on sales. 500 kg. of ghee was accidentally destroyed in the godown. Insurance claim of Rs. 3,500 was admitted. Prepare the necessary ledger accounts in the books of both the parties.

Solution:

Books of Vanaspati Ltd.
Consignment Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Goods Sent on Consignment A/c	40,000		By Abnormal Loss A/c	4,050
				By Ashoka Dealers (Sales)	33,250
	To Bank A/c (Expenses)	500		By Consignment Stock A/c	8,100
	To Ashoka Dealers (Expenses)	1,250			
	To Ashoka Dealers (Commission)	1,662			
	To Profit & Loss A/c	1,988			
		45,400			45,400

Ashoka Dealer's Account

		Rs.			Rs.
	To Consignment A/c	33,250		By Consignment Stock A/c (Expense)	1,250
				By Consignment Stock A/c (Commission)	1,662
				By Balance c/d	30,338
		33,250			33,250

Good Sent on Consignment Account

		Rs.			Rs.
	To Trading A/c	40,000		By Consignment A/c	40,000

Abnormal Loss Account

		Rs.			Rs.
	To Consignment A/c	4,050		By Insurance Company's A/c	3,500
				By Profit & Loss A/c	550
		4,050			4,050

Note: Abnormal loss has been worked out as follows:

Cost of 500 units = Rs. 4,000 (500 × 8)

Add : proportionate non-recurring expenses Rs. 50 (500/5,000 × 500)

Abnormal Loss = Rs. 4050

Books of Ashoka Dealers
Vanaspati Ltd'/s Account

Dr.					Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
		Rs.			**Rs**
	To Bank A/c (expenses)	1,250		By Bank A/c (Sales)	33,250
	To Commission A/c	1,662			
	To Balance c/d	30,338			
		33,250			33,250

Commission Account

		Rs.			**Rs**
	To Profit & Loss A/c	Rs.1,662		By Vanaspati Ltd	Rs.1,662

You have learnt that when abnormal loss occurs in the godown of the Consignee, the closing stock valuation is not affected. But it is not so when the abnormal loss occurs in transit. The closing stock valuation is also affected due to abnormal loss in transit because some non recurring expenses may be incurred after the loss has taken place. Hence, when such loss occurs in transit, you will have to distinguish between the non-recurring expenses incurred before the loss and the non-recurring expenses incurred after the loss. The non-recurring expenses incurred before the loss relate to the total units consigned whereas the non-recurring expenses incurred after the loss relate to the remaining units (total units minus abnormal loss units) only. So the expenses before the loss will be proportionately divided amongst the total units, whereas the expenses incurred after the loss will be proportionately divided amongst the remaining units. Look at illustration 10 and see how closing stock and abnormal loss are calculated and treated when such a loss occurs in transit.

Illustration 10

On June 10, 2018, Modi & Co., Patiala consigned 500 cases of goods costing Rs. 150 each to Sethi & Co., Calcutta. On the same date, the Consignor paid Rs. 2,500 for freight and carriage, Rs. 1,000 as loading charges, and Rs. 1,200 for insurance. On July 1, 2018 the Consignee paid Rs. 1,800 for clearing charges, Rs. 1,750 for warehousing and storage charges, and Rs. 900 for packing and selling expenses. He also remitted a bank draft for Rs. 15,000 as an advance against the consignment. On July 5, 2018 they sold 275 cases at Rs. 200 each. Sethi & Co. are entitled to 5% commission on the gross proceeds of sales. It is found that 50 cases have been lost in transit. Sethi & Co submitted an Account Sale on July 10, 2018. Prepare the necessary ledger accounts in the books of the Consignor.

Solution

Books of Modi & Co.
Consignment Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2018		Rs.	2018		Rs
June10	To Goods Sent on Consignment A/c (500 cases)	75,000	July,10	By Sethi & **Co.** (Sales of 275 cases)	55,000
“ 10	To Bank A/c (Consignor’s Expenses)	4,700	“ 10	By Abnormal loss A/c (Loss in transit 50 cases)	7,970
July,10	To Sethi & Co. (Consignee’s Expenses)	4,450	“ 10	By Consignment Stock A/c	28,595
“ 10	To Sethi & Co. (Commission)	2,750			
“ 10	To Profit & Loss A/c (transfer of profit)	4,665			
		91,565			91,565

Sethi & Co. Account (Consignee)

2018		Rs.	2018		Rs
July,10	To Consignment A/c (Sale proceeds)	55,000	July, 1"	By Bank A/c (Advance)	15,000
			10"	By Consignment A/c (Consignment expenses)	4,450
			10"	By Consignment A/c (Commission)	2,750
			10	By Balance c/d	32,800
		55,000			55,000

Good Sent on Consignment Account

2018		Rs.	2018		Rs
July 10	To Trading A/c	75,000	July 10	By Consignment A/c	75,000

Notes:

1. All expenses incurred by the Consignor and the clearing charges incurred by the Consignee are non-recurring expenses.

2. **Abnormal Loss:**

Number of Abnormal Loss Units × Cost Price Per Unit

$$+\left(\text{Non-recurnng Expenses up to the point of loss} \times \frac{\text{Abnormal Loss Units}}{\text{Total Units Consigned}}\right)$$

$= (50 \times 150) + (4{,}700 \times \frac{50}{500})$

$= 7{,}500 + 470 = \text{Rs. } 7{,}970$

3 **Valuation of Closing Stock:**

Number of Closing Units = 175

Cost Price Per Unit = Rs. 150

Cost of Unsold stock = 175 × 150 = Rs. 26,250

Non-recurring expenses before loss = Rs. 4,700 (2,500 + 1,000 + 1,200)

Since these expenses are incurred on total consignment i.e., 500 units, the proportionate amount of expenses for consignment stock will be

$4{,}700 \times \frac{175}{500} = \text{Rs. } 1{,}645$

Non-recurring expenses after loss of Rs. 1,800 i.e., clearing charges of the consignee, as they are incurred after the consignment reaches the consignee. They would relate to 450 units (500—50). Hence, the proportionate amount of these expenses for consignment stock will be 1,800 × 175/450 = Rs. 700

Now the value of closing stock will be as follows:

Cost of unsold stock (175×1150)	=	Rs. 26,250
Add proportionate Expenses		
i) Before loss	=	Rs. 1,645
ii) After loss	=	Rs. 700
Value of Unsold stock	=	Rs. 28,595

The above method of valuation of closing stock can be put in the form of a formula which is as follows:

Number of Unsold Units × Cost price per unit

$+ \text{Non-recurring expenses before loss} \times \frac{\text{Unsold Units}}{\text{Total Units}}$

$+ \text{Non-recurring expenses before loss} \times \frac{\text{Unsold Units}}{\text{Total Units} - \text{Abnormal Loss Units}}$

15.6.3 Where Normal and Abnormal Losses Occur Simultaneously

In the illustration done earlier you had either the normal loss or the abnormal loss on the consignment. But it is quite possible that both normal and abnormal losses occur simultaneously in connection with the same consignment. In such a situation, the abnormal loss will be calculated in the same manner as discussed in sub-section 15.6.2. But, the valuation of closing stock needs special attention as the normal loss is also involved. In order to calculate the value of closing stock, the following procedure will be followed:

i) Take the total cost of goods consigned and add all the non-recurring expenses incurred by the Consignor as well as the Consignee.

ii) Deduct the quantity and cost of abnormal loss from the total number of goods consigned and the cost as obtained in (i) above respectively.

iii) Deduct the quantity of normal loss from the quantity worked out in (ii) above without making any adjustment in cost.

iv) How you will be left with the cost of goods of the good units with the Consignee. Calculate cost per unit of these units by dividing the cost (remaining after deducting the cost of abnormal loss) by the number of good units.

v) Multiply the number of unsold units with the cost per unit obtained in (iv) above to arrive at the value of unsold stock.

Look at iIllustration 11 and see how cost of abnormal loss and the value of unsold stock are calculated when the normal and abnormal losses occur simultaneously.

Illustration 11

Deepak Oil Mills, Cochin consigned 2,500 kg. of castor oil to Madhu & Co. Varanasi on April 1, 2018. The cost of oil was Rs. 18 per kg. The consignor paid Rs. 900 towards carriage, freight and insurance in transit. During transit 250 kg. oil was accidentally destroyed for which the insurance company paid Rs. 2,200 in full settlement of the claim directly to the Consignor.

Madhu & Co. took delivery of the consignment on April 10 and accepted a bill drawn on them by Deepak oil Mills of Rs. 5,000 for 2 months, On June 30, 2018, Madhu & Co. reported that 1,750 kg. were sold at Rs. 25 per kg. The expenses of the consignee were Rs. 1,850 towards godown rent, advertisement and salaries of salesmen. Madhu & Co. charged a commission of 3% plus 2% delcredre commission. Madhu & Co. further reported a loss of 20 kg. due to leakage. Prepare the necessary ledger accounts in the books of the Consignor.

Books of Deepak Oil Mills
Consignment Account

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
	Rs.		**Rs.**
To Goods Sent on Consignment A/c (2,500 kg)	45,000	By Madhu & Co. (Sale proceeds of 1,750 kg)	43,750
To Bank A/c (Consignor's expenses)	900	By Abnormal Loss A/c (250 kg)	4,590
To Madhu & Co. (Consignee's expenses)	1,850	By Consignment Stock A/c	8,892
To Madhu & Co.			
Commission 3% = 1,313			
Del credre 2% = 875	2,188		
To Profit & Loss A/c (Balance)	7,294		
	57,232		57,232

Abnormal Loss Account

	Rs.		Rs.
To Consignment A/c (Sales)	4,590	By Bank A/c (amount from Insurance Co.)	2,200
		By Profit and Loss A/c (Balance)	2,390
	4,590		4,590

Madhu& Co. Account

	Rs.		Rs.
To Consignment A/c	43,750	By Consignment A/c (Expenses)	1,850
		By Consignment A/c (Commission)	2,188
		By Bank A/c (Advance)	5,000
		By Balance	34,712
	43,750		43,750

Goods Sent on Consignment Account

	Rs.		Rs.
To Trading A/c	45,000	By Consignee A/c	45,000

Working Notes:

i) **Abnormal Loss**

Number of Abnormal Loss Units × Cost Price Per Unit

$$+(\text{Non recurring expenses before loss} \times \frac{\text{Abnormal Loss Units}}{\text{Total Units}}$$

$$= (250 \times 18) + (900 \times \frac{250}{2,500}) = 4,500 + 90 = \text{Rs.}4,590$$

ii) **Value of Closing Stock**

	Number of units	Cost
Total Quantity and Cost of Oil	2,500	45,000
Add : Non-recurring Expenses	—	900
Total	2,500	45,900
Less : Abnormal Loss	250	4,590
	2,250	41,310
Less Normal Loss	20	—
Good Units	2,230	41,310
No. of Units sold	1,750	

Number of unsold units (2,230-1750) = 480 units

Now value of closing stock (480 units) will be

$= 41{,}310 \times 480/2{,}230$

$=$ Rs. 8,892

Check Your Progress E

1 Fill in the blanks

i) Losses occur either due to inherent nature of the product or due to operation of ………….

ii) Loss of weight due to evaporation is a …………….loss.

iii) Normal loss affects the valuation of …………………..

iv) Abnormal loss is ………………to Consignment Account.

v) Insurance claim is ………………to Abnormal Loss Account.

vi) The amount of loss not accepted by the insurance company is transferred to ………………Account

2. How will you treat abnormal loss if

a) loss is fully insured: ……………………..

b) loss is uninsured: ……………………..

c) loss is partly insured:……………………..

15.7 LET US SUM UP

Consignment is a kind of arrangement where the manufacturer or a trader sends goods to his agents for sale. The agents sell goods on behalf of the manufacturer or the trader. The person who sends the goods is called the Consignor and the person to whom the goods are sent is called the Consignee. The relationship between the Consignor and the Consignee is that of a Principal and an Agent.

While sending goods to the Consignee, the Consignor sends a proforma invoice which gives full details about the goods Consigned. After the goods have been sold, the Consignee prepares an Account Sales, giving full details about the number of units sold, the price at which they have been sold, and the expenses and commission due to him. The Consignee is entitled to commission for the services rendered to the Consignor. The commission can be ordinary or special commission.

In order to work out the profit or loss on each consignment and the amount due from each Consignee, the Consignor prepares Consignment Account, Goods Sent on Consignment Account and Consignee's Personal Account in his ledger for each consignment. The Consignee on the other hand, mainly prepares two accounts in his books viz., Commission Account and Consignor's Personal Account. This helps him to know the amount due to the Consignor and his income from commissions.

Sometimes the Consignee is not able to sell all goods consigned to him. He is left with some unsold stock, the cost of which must be shown on the credit side of the Consignment Account before calculating the profit on consignment. The cost of the unsold stock shall include the proportionate amount of non-recurring expenses.

When goods are consigned, it is possible that some goods are lost in transit or destroyed while it is lying in the Consignee's godown. Such losses may occur either due to the inherent nature of goods or due to some accident. The first is called normal loss and the second is called abnormal loss.

The normal loss is not shown anywhere in the books of account. It simply inflates the cost per unit of the goods consigned and, therefore, affects the revaluation of closing stock and the profit. But the abnormal loss requires special treatment in the books of account of the Consignor. The cost of such loss is worked out in the same manner as the cost of unsold stock and credited to the Consignment Account. Any amount received from the insurance company must be subtracted from the abnormal loss before it is transferred to the Profit and Loss Account.

15.8 KEY WORDS

Account Sales: A statement submitted by the Consignee to the Consignor giving account of the sale proceeds, details of various expenses incurred, and the commission due to him.

Consignee: A person to whom the goods are sent on consignment basis.

Consignment: Goods sent by a producer or a trader to his agents for sale on their behalf and at their risk.

Consignor: A person who sends the goods to his agents on consignment basis.

Del Credre Commission: Commission paid by the Consignor to the Consignee for bearing the risk of bad debts arising out of credit sales made by him on behalf of the Consignor.

Over-riding Commission: The commission over and above the normal commission paid to the Consignee for extra services provided by him or excess price realized by him.

Proforma Invoice: A statement prepared by the Consignor and sent to the Consignee giving details of goods consigned.

Normal Loss: Loss caused in the ordinary course of things due to evaporation, leakage, brakeing the bulk into pieces etc.

Abnormal Loss: Loss caused on account of storm, fire, accident theft etc.

15.9 SOME USEFUL BOOKS

Maheshwari, S.N. 2018. Introduction to Accounting.Vikas Publishing House: New Delhi.

Patil, V.A. and J.S. Korlahalli. 2012. Principles and Practice of Accounting, R. Chand & Co. : New Delhi.

William Pickles. 1992. Accountancy, R.L.B.S. and Pitman: London.

Gupta, R.L. and M. Radhaswamy. 2018. Advanced Accountancy, Sultan Chand & Sons; New Delhi

15.10 ANSWERS TO CHECK YOUR PROGRESS

A 1. a) ii b) i c) ii d) ii

2. i) False ii) True iii) True iv) False v) True

B 3. i) Errors and Omissions Excepted.

ii) Del Credre Commission iii) Recurring iv) security v) Non-recurring

C 1. i) debited ii) Goods Sent on Consignment iii) Consignor

iv) Trading and Profit & Loss Account. v) no vi) nominal

D 1. a) ii b) iii c) ii d) i e) ii

E 1. i) external forces ii) normal iii) closing stock
iv) credited v) credited vi) Profit & Loss

15.11 TERMINAL QUESTIONS/EXERCISES

Questions

1. "Consignment is the same thing as sale". Discuss.

2 What is an 'Account Sales'? How do you prepare it? State how it is useful to the Consignor?

3 Distinguish between

a) Non-recurring and Recurring Expenses

b) Ordinary Commission and Del Credre Commission

c) Account Sales and Invoice

4. List the expenses taken into account while valuing the unsold stock.

5. What is the difference between normal loss and abnormal loss? Give examples.

6. What procedure is followed for valuation of closing stock when the abnormal and normal losses occur simultaneously.

Exercises:

1. 'X' & Co. Bombay consigned 250 Weston T.V. sets to 'Y' & Co. Banglore. Each T.V. set costs Rs. 7,500. Y & Co. received the consignment and sold the sets as follows:

160 T.V. sets at Rs. 9,000 each on cash basis and 90 T.V. sets at Rs. 10,500 each on credit basis.

The Consignor is allowed 5% normal commission and 2.5% del credre commission to the Consignee on the sales effected by him.

Compute total commission due to Y & Co.

(**Answer:** Normal Commission Rs. 1,19,250; Del Credre Commission Rs. 59,625)

2. Harish & Co. Lucknow, consigned goods valued at Rs. 1,25,000 to Dinesh Enterprises, Ahmedabad. Harish paid Rs. 1,800 towards freight, insurance and crriage. Dinesh received the consignment and accepted a bill for Rs. 50,000. He paid Rs. 1,500 for freight, Rs. 2,200 for carriage and godown rent, and Rs. 2,500 as salesmans salaries. The Consignee is allowed to take 7% commission on the total sales. Consignee sold all goods for Rs. 1,68,000. Balance owed by Dinesh was remitted by a bank draft. Prepare an Account Sales.

   (Answer: Balance due from the consignee: Rs. 1,00,040)

3. On January 1, 2018Gopal Enterprises, Hyderabad sent 50 radio sets to Rakesh & Co., Bombay invoiced at Rs. 1,200 per set and incurred the following expenses in relation to the consignment: dock dues Rs.2,000; customs duty Rs. 1,000 and frieght Rs. 2,300. Rakesh & Co. remitted Rs. 20,000 by bank draft on January 5, 2018. It sold all the sets at Rs 1,500 each by January 31, 2018 and incurred Rs. 2,500 as godown rent. Commission is allowed at 5% on sales. The Consignee sent the Account Sale and enclosed a bank draft for the balance.

   Journalise the above transactions in the books of the Consignor and the Consignee. Also prepare necessary ledger accounts and calculate the profit on consignment.

   (**Answer:** Profit on consignment Rs. 3,450; Balance due from the Consignee Rs 48,750)

4. Krishna of Bombay consigned goods costing Rs. 2,50,000 to Kajriwal of Jodhpur.

   Krishna paid Rs. 1,500 for carriage and Rs. 5,250 for freight and insurance. Kajriwalis entitled to a commission of 5% on all sales in addition to 2% del credre commission. Krishna draws on Kajriwal a bill for Rs. 80,000, payable two months after date, which later accepts. The bill is discounted with the bank for Rs. 79,000. An Account sale received from Kajriwal stating that the goods had been sold for Rs. 3,10,000 (Rs.1,60,000 on credit and Rs. 1,50,000 for cash), while expenses incurred by him were: unloading Rs. 1,250; godown rent Rs. 2,500 and insurance Rs. 500. A bank draft was enclosed for the balance due. Kajriwal could not recover Rs. 2,500 from a customer to whom goods were sold on credit.

   Pass Journal entries in the books of the Consignor and the Consignee and prepare ledger accounts.

Hints : i) Discount will not be debited to Consignment Account

ii) Bad Debts will be borne by the Consignee and debited to his commission account.

iii) Del Credre commission is computed on total sales.

(**Answer:** Profit on consignment Rs. 27,300; Amount due from Consignee Rs. 2,04,050.)

5 Kabir of Jhansi consigned to Moses of Cochin 400 chairs on April 10, 2018. The Cost of each chair was Rs. 250. The Consignor paid Rs. 2,000 for cartage, freight etc., on April 12, 2018, and drew a bill on the Consignee as an advance against the consignment at 3 months for Rs. 60,000. Later, it was discounted at their bank at 5%. The Consignee sold all the goods on July 1, 2018 and submitted an Account Sales showing that the goods realisedRs. 1,20,000. He incurred Rs. 1,000 on carriage inwards and Rs. 550 on selling and other expenses. He was allowed to take 5% commission on the total sales. You are required to show ledger accounts for the above transactions in the books of the Consignor and the Consignee.

(**Answer :** Profit Rs. 10,450)

6. 'X' of Bangalore consigned 100 bags of cement for sale to his agent 'Y'. Cost price of each bag is Rs. 120. 'X' immediately drew a 4 months bill for Rs. 5,000 on the latter and discounted it with bank at 6% per annum. 'X' paid Rs. 800 on packing and Rs. 250 for carriage. 'Y' spent Rs. 300 as selling expenses. The Consignee returned 5 bags. He realised 20 bags at Rs. 130 per bag and 50 bags on credit at Rs. 140 per bag and took the balance in his own stock at Rs. 135 per bag.

Consignee is entitled to get commission of 3% and 2% delcredre commission on credit sales. 'Y' recovered all money from debtors except Rs. 500. Prepare the necessary ledger accounts in the books of both parties.

(**Answer :** Loss Rs. 204)

7. Grover Enterprises, Delhi sent 100 bicycles to Khan Enterprises, Patna. Cost of each cycle was Rs. 640. Grover incurred Rs. 1,500 for freight and Rs. 1,100 for insurance in transit. Khan paid Rs. 650 for cartage and 2,000 towards godown rent and selling expenses. 20 bicycles remained unsold at the end. The remaining bicycles realisedRs. 800 per cycle. Calculate the value of unsold stock.

(**Answer:** Cost of unsold stock Rs. 13,450)

8. Kiran Bros. on January 1, 2018 consigned sports materials costing Rs. 10,000 to their agent Kabir Agency. Kiran Bros. paid Rs. 200 for freight and Rs. 100 for insurance and other charges. Consignee received the delivery by paying Rs. 150 for non-recurring expenses on January 15, 2018. He sent an account sale on February 20, 2018 showing that 20% of the stock realised Rs. 3,200 and 30% of the stock was sold on credit for Rs. 3,600.

One customer from whom Rs. 500 was due became insolvent and only 25% of the debt could be recovered. Consignee is entitled to a commission of 5% on sales. Pass journal entries and prepare the necessary ledger accounts.

(**Answer:** Profit Rs. 860: Stock Rs. 5,225)

9. Srikanth consigned 2.500 kg. of coconut oil costing Rs. 50,000. Expenses incurred were Rs. 1,400. Consignee spent Rs. 2,000 on unloading and cartage. 100 kg. of oil was lost due to natural deterioration and 1,500 kg. were sold. Calculate the cost of stock at the end?

   (**Answer :** Cost of Stock Rs. 20,025)

10. Kapur of Lucknow consigned 200 bags of rice, each costing Rs. 300 to Jam Traders of Bombay on April 1, 2018. The Consignor paid Rs. 2,000 towards freight and insurance. 30 bags were damaged in transit. The Consignee received on May 31, 2018 Rs. 2,000 on account of the damaged bags from the Insurance Company. On May 31, 2018 the Consignee reported that 140 bags were sold at Rs. 375 per bag. The Consignee incurred Rs. 2,000 for godown rent and selling expenses. The Consignee is allowed 10% commission on the sale proceeds. You are required to prepare the ledger accounts in the books of Mr. Kapur assuming that Jam Traders remit the balance by bank draft on May 31, 2018.

    (**Answer :** Profit Rs. 1,850 : Accidental Loss Rs. 9,300)

11. Dinesh of Delhi consigned 200 sewing machines costing Rs. 150 each to Chander of Calcutta. He paid Rs. 2,800 on insurance and received an advance of Rs 20,000 from Chander. 30 machines were damaged in transit. Chander took the delivery of the remaining goods and paid Rs. 1,700 for unloading the consignment. He sold 50 machines @ Rs. 270 each for cash and 100 machines @ Rs, 300 each on credit. Chander could not realise Rs. 2,000 from his debtors. Chander recovered Rs. 1, 500 from the insurance company. He sold damaged machines for Rs. 2,300. Chander is entitled to an ordinary commission @ 5% and 3% delcredre commission. The accounts were settled and balance remitted by bank draft. Show the necessary ledger accounts in the books of Dinesh.

    Hint: i) Sale of damaged stock as well as the amount recovered from insurance company will he credited to Abnormal Loss Account and debited to Chander's Account.

    ii) Commission on sale proceeds of damaged goods @ 5% will be debited to Abnormal Loss Account and credited to Chander's Account.

    (Answer :Abnormal Loss Rs. 4,920; Value of Unsold Stock Rs, 3,480; Profit Rs. 13,920; Balance due from ChanderRs. 22,005)

12. SohnaVanaspati, Faridabad consigned 10,000 kg. of ghee to Krishna Dealers of Delhi at Rs. 16 per kg. The Consignor paid Rs. 950 as carriage, Rs. 250 as freight and Rs. 400 as insurance. In transit, 1,000 kg. of ghee was accidentally destroyed for which an amount of Rs. 8,000 was recovered from the insurance company in full settlement.

Krishna Dealers reported that 8,000 kg. of ghee was sold @ Rs. 20 pe kg. They spent Rs. 500 on salesmen salary and Rs. 200 on godown rent, The Consignee is entitled to a commission of 5% on sales. Krishna dealers reported a shortage of 40 kg. due to leakage. Prepare necessary ledger accounts in the books of both the parties.

(**Answer:** Profit Rs. 22,443; Abnormal Loss Rs. 16,160; Closing stock Rs. 15,583)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.

UNIT 16 CONSIGNMENT ACCOUNTS-II

Structure

16.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of invoice price and the reasons for consigning goods at invoice price,;
- compute cost price and invoice price in different situations,
- explain the meaning of loading and pass necessary entries for its adjustment in consignment account; and
- prepare books of the consignor and the consignee based on invoice price.

16.1 INTRODUCTION

In Unit 15, you have learnt about the recording of tranactions relating to consignments in books of both the Consignor and the Consignee. You know that the goods sent on consignment are recorded in Consignment Account at cost price. Sometimes, the Consignor does not want to reveal the cost of goods to the Consignee and, therefore, invoices the goods at a price which is higher than the cost price. Such price is known as 'invoice price' and the difference between the invoice price and the cost price is called 'loading'. In such a situation, the entry for goods sent on consignment is also recorded at the invoice price which would need an adjustment for loading at the time of computing the profit on consignment. In this unit, you will learn how Consignment Account is prepared when the goods are consigned at invoice price and how the necessary adjustments are made at the time of working out the profit on consignment.

You will also learn how the invoice price is calculated when the loading is given in the form of a percentage at the cost price or the invoice price.

16.2 CONCEPTS OF INVOICE PRICE

In Unit 15, you learnt that when the Consignor sends goods on consignment to the Consignee, he records it in his books at cost and the same is reflected in the proforma invoice.

Sometimes, the consignor does not want the Consignee to know the actual cost of goods sent to him. Therefore, consigne the goods at a price other than the cost price. Such price would generally be higher than the cost. It is called the invoice price. In other words, the invoice price is equal to the cost price plus a certain amount of profit.

Apart from the intention of not revealing the cost of goods to the Consignee there are a number of other reasons why the Consignor Consignees the goods at invoice price. These are:

i) The Consignee will not able to assess the profit earned on consignment and therefore may not demand a higher commission.

ii) If the Consignee know about the actual cost of goods, he may resort to some dishonest practices such as buying goods for himself at a lower price and then selling them at a higher price in the market.

iii) It would give a fair idea to the Consignee of the minimum price at which he is to sell the goods.

You should note that invoice price is not the same thing as selling price. The invoice price is the price at which the Consignor sends the goods to the Consignee, whereas the selling price is the price at which the Consignee sells the goods to the customers. Let us take an example in order to clearly understand the difference between the three prices i.e., the cost price, the invoice price and the selling price. Suppose, Gopal consigns goods worth Rs. 15,000 to his agent Ashok at an invoice price of Rs. 18,000. Ashok sells the goods at Rs. 20,000. In this example, the cost price (CP) of the goods is Rs. 15,000, the invoice price (IP) of the goods is Rs. 18,000, and the selling price (SP) of the goods Rs, 20,000.

You will observe that the IP is higher than CP whereas SP is higher than the CP as well as the IP, and that the SP and the IP are not the same. If, however, the Consignor directs the Consignee to sell the goods at invoice price itself, then the SP and the IP will be the same.

16.3 CALCULATION OF COST PRICE AND INVOICE PRICE

You know the relationship between the invoice price (IP), the cost price (CP) and the profit. This can be expressed in the form of an equation as follows.

$$IP = CP + Profit$$

With the help of the above equation, you can find out the missing figure i.e., if any two figures are given, the third one can be worked out. For example, if the CP is given as Rs. 150 and the profit as Rs. 50, the invoice price will be

IP = CP + Profit

= 150 + 50

= Rs. 200

Similarly, if invoice price and profit are given as Rs. 200 and Rs. 50 respectively, the cost price will be

IP = CP + Profit

200 = CP + 50

CP = 200 - 50

= Rs. 150

In the above examples, the profit is given as an absolute Figure. But, in many cases the profit may be given in the form of a percentage either on cost price or on invoice price. In that case, the calculation of missing price may become difficult. Of course, if the percentage of profit is based on the price, the figure of which is given, you may not face much problem. But if the percentage of profit is based on the price, the figure of which is not given, you may find it difficult to work out the profit and so also the missing price. Let us take different situations where the profit is given in the form of a percentage and we have to work out the missing price. These situations are:

1. CP is given and Profit is given as a percentage of CP, you have to work out IP
2. CP is given and Profit is given as a percentage of IP, you have to work out IP
3. IP is given and Profit is given as a percentage of IP, you have to work out CP
4. IP is given and Profit is given as a percentage of CP, you have to work out CP

Let us take them one by one and find out the missing figure with the help of examples.

1. **CP is given and the profit is given as a percentage on CP**

   Suppose the CP of a product is Rs. 200 which is invoiced at 20% profit on cost. The IP will be calculated as follows:

   IP = CP + Profit

   $$IP = 200 + (\frac{20}{100} \times 200)$$

   IP = 200 + 40

   IP = Rs. 240

2. **CP** is **given and the profit** is **given as percentage on IP**

   Suppose CP of a product is Rs. 200 which is invoiced at 20% profit on IP. Now IP will be calculated as follows:

   Let us assume that the IP is X

   IP = CP + Profit

$$X = 200 + (\frac{20}{100} \times X)$$

$$X = 200 + \frac{20}{100} X$$

$$X - \frac{20}{100} X = 200$$

$$\frac{100X - 20X}{100} = 200$$

$$\frac{80}{100} X = 200$$

$$X = \frac{200 - 100}{80} = Rs.250$$

   So the IP is Rs. 250 and the Profit is Rs. 50. Now you can verify that the profit is 20% on invoice Price.

$$\text{Profit} = \frac{20}{100} \times IP$$

$$\text{Profit} = \frac{20}{100} \times 250$$

   Profit = Rs. 50

3. **IP is given and the profit is given as percentage of IP:** Suppose the IP of a product is Rs. 500 and Profit is 25% on IP. The missing figure i.e., the CP is worked out as follows :

   IP = CP + Profit

$$500 = CP + \frac{25}{100} \times 500$$

   500 = CP + 125

   CP = 500—125

   CP = Rs. 375

4. **IP is given and the profit is given as a percentage of CP:** Suppose the IP is Rs. 600 and Profit is 20% on CP then CP will be calculated as follows:

Let us assume CP to be X

IP = CP + Profit

$$600 = X + \frac{20}{100}X$$

$$600 = \frac{100X + 20X}{100}$$

$$600 = \frac{120}{100}X$$

$$X = \frac{600 \times 100}{120}$$

X = Rs.500

So the CP is Rs. 500 and Profit is Rs. 100. Now you can verify that the profit is 20% on cost.

$$\text{Profit} = \frac{20}{100} \times CP$$

$$= \frac{20}{100} \times 500$$

= Rs. 100

16.4 LOADING

16.4.1 What is Loading?

You know that the invoice price is obtained by adding a certain amount of profit to the cost price. The amount of profit which is added to the cost in order to arrive at the invoice price is called loading. In other words, loading is the difference between the invoice price and the cosi price.

Loading = IP – CP

For example, if the invoice price is Rs. 10,000 and the cost price is Rs. 7,500, the amount of loading will be :

Loading = IP - CP or Number of units × (IP per unit – CP per unit)

= 10,000 – 7,500

= Rs. 2,500.

If the invoice price or the cost price is given and the proft (loading) is given in the form of a percentage, either on IP or CP, the loading can be worked out directly in the same manner as we worked out the IP or CP in the examples under Ssection 16.3 earlier.

16.4.2 Items which Involve Loading

Loading is usually involved in all such items which are recorded at the invoice price in the Consignment Account. These items are:

1 Opening Stock

2 Goods Sent on Consignment

3 Goods Returned by the Consignee

4 Closing Stock.

You have to compute the loading in respect of all the above items and make necessary adjustments in books of the Consignor.

16.4.3 Adjustment of Loading

You know the profit is the difference between selling price and cost price. In Consignment Account prepared earlier, the goods sent on consignment and the other related items, were shown at cost. Hence you had no problem in computing the profit. But, when the goods sent on consignment and other related items are shown in the Consignment Account at invoice price, it becomes necessary to adjust the loading in the Consignment Account so as to bring down the invoice price to the level of cost. If such adjustment is not done, the profit figure will be incorrect. There is also a possibility that the Consignment Account shows loss because the difference between the selling price and the invoice price is generally small which cannot cover all expenses. Look at figure 16.1 and see the difference between the actual profit and the profit without adjustment. The profit thus calculated will be the difference between sales and invoice price.

Fig. 16.1

	Rs.		
Cost price	15,000		
Invoice Price	18,000	Rs. 3,000 Loading	
Sale Price	20,000	Rs. 2,000 Profit without adjustment	Rs. 5,000 Actual Profit

From Figure 16.1 it is clear that if no adjustment is made, the profit will be Rs. 2,000 whereas the actual profit is Rs. 5,000. Therefore, in order to calculate the actual profit earned on any consignment, all the items shown at invoice price are to be brought down to the level of cost by adjusting the amount of loading on each of them. Let us now take the items involving loading one by one and see how the necessary adjustments are made.

1. **Opening Stock :** Opening stock is always shown on the debit side of Consignment Account. In case the stock is shown at invoice price, the difference between the invoice price and the cost price of the stock will be shown on the credit side of the Consignnt Account by passing the following journal entry.

   Stock Reserve A/c Dr.

   To Consignment A/c

   (Being unloading on opening stock)

2. **Goods Sent on Consignment :** Goods sent on Consignment are shown on the debit side of Consignment Account. In order to nullify the effect of invoice price, the difference between the invoice price and the cost price

in respect of goods sent on consignment will be shown on the credit side of the Consignment Account by passing the following journal entry.

Goods Sent on Consignment A/c Dr.
To Consignment A/c
(Being unloading on goods sent on consignment)

3. **Goods Returned by the Consignee :** As the return of goods is shown on the credit side of Consignment Account, the adjustment for the loading will be made on the debit side of Consignment Account with the help of the following journal entry:

Consignment A/c Dr.
To Goods Sent on Consignment A/c
(Being loading on goods returned)

4. **Closing Stock:** Since closing stock is shown on the credit side of Consignment Account, the adjustment for the loading will be made on the debit side with the help of the following journal entry.

Consignment A/c Dr.
To Stock Reserve A/c
(Being unloading on closing stock)

Thus you will observe that the adjustment entry for loading in the Consignment Account is made on the opposite side of the original entry. For example, the closing stock is shown on the credit side of the Consignment Account, whereas its adjustment is shown on the debit side of the Consignment Account. This is how the effect of loading in Consignment Account is neutralised and the invoice price is brought down to the cost level. You should remember that the adjustment for loading is to be made in the books of the Consignor only. The Consignee does not record any entries for the items involving loading. Therefore no adjustment is needed in consignee's books.

Check Your Progress A

1. State whether the following statements are **True** or **False.**

   i) Consignor always consigns goods at invoice price.

   ii) Sending goods at invoice price shall result in less profit in the Consignment Account, if no adjustment is made for the loading.

   iii) Invoice price is always equal to selling price.

   iv) Consignor consigns the goods at invoice price to conceal the actual profit earned on consignment.

   v) Loading on closing stock will be nullified by debiting Stock Reserve Account and crediting Closing Stock Account

   vi) All the entries of adjustment for loading are recorded in the books of Consignee.

2. What is Loading?

....

....

....

3. Name the items that involve loading.

....

....

....

4. Work out the following problems:

   i) Cost price of a fan is Rs. 500 and loading is Rs. 100. What is the invoice price.

   ii) Cost price of a watch is Rs. 150. It is consigned at 33.33% above cost. Find out the invoice price.

   iii) Cost price of a bicycle is Rs. 500. It is invoiced at a profit of 20% on invoice price. What is the invoice price?

   iv) A ceiling fan is consigned at an invoice price of Rs. 250. Invoice price is cost plus a profit of 10% on the invoice price. What is the cost price.

   v) Invoice price of a chair is Rs. 300, which is 20% above cost. Find out its cost price.

5. Find out the loading in the following cases:

   i) Goods costing Rs. 1,800 are invoiced at Rs. 2,200.

   ii) Cost price Rs. 600 invoiced at a profit of 20% above cost.

   iii) Cost price is Rs. 600 invoiced at a profit of 20% on invoice price.

   iv) Invoice price is Rs. 600 involving profit of 20% on invoice price.

   v) Invoice price is Rs. 600 involving profit of 20% above cost.

16.5 ACCOUNTING FOR GOODS SENT AT INVOICE PRICE

You have learnt about the concept of invoice price, the calculation of loading involved and the adjustment entries to be passed in respect of all items involving loading. As for the recording of transactions for goods consigned at invoice price, the treatment in books of the Consignee is not affected at all. Even in the books of the Consignor all entries remain the same. But, the amounts with which the four items involving loading (opening stock, goods sent on consignment, goods returned by the Consignee, and closing stock) will reflect the invoice price. Then, at the time of working out the profit on consignment, you will have to pass the necessary adjustment entries for the loading involved in respect of all the four item as stated earlier. Look at Illustrations 1 to 4 and see how various consignment transactions have been recorded when goods are invoiced at the invoice price.

Illustration 1

Ages Cycle Co., Delhi sent 100 bicycles on January 1, 2018 to Murugan Enterprises, Madras. The cost of each bicycle was Rs. 500 and it was invoiced at Rs. 600. Ages Cycle Co. incurred Rs. 2,000 on freight and insurance and received Rs. 30,000 as advance from Murugan Enterprises. Murugan Enterprises paid Rs. 1,000 as octroi and carriage, Rs. 800 as rent and Rs. 600 as insurance. By June 30, 2018 they had sold 100 bicycles for Rs. 62,500. Murugan Enterprises are entitled to a commission @ 10% on the proforma invoice price and 20% of any surplus realised over and above the invoice price. Murugan Enterprises remitted the amount due from them by a bank draft.

You are required to prepare ledger accounts in the books of both parties

Solution:

Books of Ages Cycle Co.
Consignment to Madras Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			**Rs.**
2018			2018		
Jan. 1	To Goods Sent on Consignment A/c (IP)	60,000	Jan.30	By Murugan Enterprises (Sales)	62,500
“ 1	To Bank A/c (Expenses)	2,000	“ 30	By Goods Send on Consignment A/c (Loading)	10,000
“ 30	To Murugan Enterprises (Consignee’s expenses)	2,400			
“ 30	To Murugan Enterprises (Commission)	6,500			
“ 30	To Profit & Loss A/c (Profit transferred)	1,600			
		72,500			72,500

Murugan Enterprise's Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2018		**Rs.**	**2018**		**Rs.**
Jan 30	To Consignment to Madras A/c (sales)	62,500	Jan. 1	By Bank A/c (advance)	30,000
			Jan. 30	By Consignment to Madras (expenses)	2,400
			Jan. 30	By Consignment to Madras (expenses)	6,500
			Jan. 30	By Bank A/c (Balance)	23,600
		62,500			62,500

Goods Sent on Consignment Account

2018		Rs.	2018		Rs.
Jun 30	To Consignment to Madras A/c (loading)	10,000	Jan. 1	By Consignment to Madras A/c (IP)	60,000
Jun 30	To Trading A/c	50,000			
		60,000			60,000

Books of Murugan Enterprise
Ages Cycle Co. Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2018		**Rs.**	**2018**		**Rs.**
Jan 1	To Bank A/c (advance)	30,000	Jan. 30	By Bank A/c (sales)	62,500
" 1	To Bank A/c (expenses)	2,400			
Jun 30	To Commission A/c	6,500			
Jun 30	To Bank A/c (Balance)	23,600			
		62,500			62,500

Commission Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2018		**Rs.**	**2018**		**Rs.**
Jun 30	To Profit and Loss A/c	6,500	Jun 30	By Ages Cycle Co.	6,500

Working Notes

1. **Loading on Goods Sent on Consignment**

	Rs.
Total cost of 100 bicycles (500 × 100)	50,000
Total Invoice price of 100 bicycles (600 × 100)	60,000
Loading involved (IP-CP)	10,000

2. **Commission**

	Rs.
10% on Proforma Invoice Price of Rs. 60,000	6,000
20% on Surplus realised (Rs. 62,500-60,000=2,500)	500
	6,500

3. Since there are no opening and closing stocks and the goods returned by the Consignee, the adjustment for loading has been made only in respect of the goods sent on consignment.

Illustration 2

Raj Traders of Ludhiana consigned 100 computers costing Rs. 20,000 each to Bahadur of Gauhati at 10% above cost. Raj Traders incurred Rs. 500 for packing and other charges on each computer. The Consignee received the consignment by paying Rs. 1,500 for railway charges, Rs. 1,300 for insurance and Rs. 200 for carriage. He submitted an Account Sales as follows:

20 Computers sold at Rs. 25,000 each for cash
50 Computers sold on credit at Rs. 30,000 each
10 taken for his own stock at Rs. 25,000 each

Consignee remitted the balance after deducting his commission at 10% on sales. Assuming that original entries are made at invoice price and consignment stock is valued at invoice price, write necessary accounts in the books of RajTraders.

Solution:

Books of Raj Traders
Consignment to Gauhati Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goods Sent on Consignment A/c (IP)	22,00,000	By Bahadur (Sales)	22,50,000
To Bank A/c (Consignor's expenses)	50,000	By Consignment Stock A/c	4,50,600
To Bahadur (Consignee's expenses)	3,000	By Goods Sent on Consignment A/c (Loading on goods sent)	2,00,000
To Bahadur (Commission)	2,25,000		
To Stock Reserve A/c (Loading on closing stock)	40,000		
To Profit & Loss A/c (Profit transferred)	3,82,600		
	29,00,600		29,00,600

Goods Sent on Consignment Account

	Rs.		Rs.
To Consignment A/c (loading)	2,00,000	By Consignment A/c (IP)	22,00,000
To Trading A/c	20,00,000		
	22,00,000		22,00,000

Bahadur of Gauhati Account

	Rs.		Rs.
To Consignment A/c (Sale proceeds)	22,50,000	By Consignment A/c (Expenses)	3,000
		By Consignment A/c(Commission)	2,25,000
		By Balance c/d	20,22,000
	22,50,000		22,50,000

Stock Reserve Account

	Rs.		Rs.
To Balance c/d	40,000	By Consignment A/c (Loading)	40,000

Working Notes

1. **Calculation of Invoice Price per computer**

Cost price of each computer Rs. 20,000

Invoice price 10% above the cost price

Invoice price = Cost price + 10% of cost price

$$= 20,000 + \frac{10}{100} \times 20,000$$

= 20,000 + 2000

= Rs. 22,000

2. **Calculation of closing stock:** While calculating closing stock, proportionate non-recurring expenses are added, as you learnt in the previous unit.

		Rs.
Total invoice price of 20 computers (Rs. 22,000 × 20)		4,40,000
Add: proportionate non-recurring expenses by the		
Consignor	50,000	
Consignee	3,000	
Total	53,000	
Proportionate Expenses (Rs. 53,000 × 20/100)		10,600
Closing Stock		4,50,600

3. **Calculation of loading:**

Invoice price per computer	22,000
Cost price per computer	20,000
Loading (IP- CP) per computer	2,000
Total loading on goods sent on consignment	2,00,000
Total loading on closing stock of 20 computers (200 $\times$ 20)	40,000

Illustration 3

Ram Das of Hyderabad consigned goods costing Rs. 72,000 to Prakash of Cochin at a pro-. forma invoice price which is cost plus a profit of 1/6th on invoice price. The Consignor paid Rs. 1,800 as insurance and other charges. Prakash received the goods and paid Rs. 3,000 for freight and other charges. He was allowed 3% commission on gross sales. Three fourths of the goods were sold at $33\frac{1}{3}\%$ profit on cost, half of which were credit sales. Half of the balance was stolen, but the stock being insured, a claim was lodged for Rs. 8,000 and was settled for Rs. 7,000. Balance of stock was valued at proforma invoice price. Write up the Consignment and the Abnormal Loss Accounts.

Solution:

Consignment to Cochin Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		**Rs.**
To Goods Sent on Consignment A/c	86,400	Prakash (Sales)	72,000
To Bank A/c (Consignor's expenses)	1,800	By Abnormal Loss A/c	9,600
To Prakash (Freight and other charges)	3,000	By Consignment Stock A/c (Unsold stock)	11,400
To Prakash (Commission on Sales)	2,160	Goods Sent on Consignment A/c (Loading)	14,100
To Stock Reserve A/c (Loading on closing stock)	1,800		
To Profit & Loss A/c (Profit transferred)	12,240		
	1,07,400		1,07,400

Abnormal Loss Account

	Rs.		Rs.
To Consignment to Cochin A/c	9,600	By Bank A/c (Insurance)	7,000
		By Profit & Loss A/c (Balance transferred)	2,600
	9,600		9,600

Working Note:

1. **Invoice Price of the Goods Sent:**

   Cost price (CP) of the Goods = Rs 72,000

   Let IP be X

   IP = CP + Profit

   $$X = 72,000 + \frac{1}{6}X$$

   $$X - \frac{1}{6}X = 72,000$$

   $$\frac{6X - X}{6} = 72,000$$

   $$\frac{5X}{6} = 72,000$$

   $$X = 72,000 \times \frac{6}{5} = \text{Rs. } 86,4000$$

   Therefore IP = Rs. 86,400

2. **Sale of price of 3/4 of the goods:** (3/4th of the goods sold at a profit of 33.3% on cost) CP of 3/4th goods (72,000 × 3/4) = Rs. 54,000

   Add $33\frac{1}{3}\%$ of cost as profit = $(54,000 \times \frac{100}{300})$ = Rs. 18000

   Sales = Cost Price + Price + Profit

   = Rs. 54,000 + 18,000 = Rs. 72,000

3. **Value of closing stock:**

Invoice Prince of Goods Consigned	Rs. 86,400
IP of stock left unsold (86,400 × 1/4)	Rs.21,600
Less: 1/2 of the unsold stock lost in transit (21,600 × 1/2)	Rs, 10,800
IP of stock with the consignee after the loss (21,600-10,800)	Rs. 10,800

	Add proportionate expenses (1/8 × 4,800)	600
	Value of closing stock	11,400
4.	**Cost of Goods Lost (Abnormal Loss)**	
	Goods lost is half of the goods unsold i.e.,	
	1/2 × 1/4 = 1/8th of goods consigned	
	CP of abnormal loss (1/8 × 72,000)	9,000
	Add proportionate non-recurring expenses (1/8 × 4,800)	600
	Cost of Abnormal Loss	9,600
5.	**Loading on Closing Stock:**	Rs.
	IP (1/8 of 86,400)	10,800
	CP (1/8 of 72,000)	9,000
	Loading	1,800

Illustration 4

Verma Bros. of Bombay consigned goods at the invoice price of Rs. 1,00,000 which is 25% above cost price, to their agent Kabir Agency, Ahmedabad. The consignor incurred Rs. 5,000 for carriage and freight and Rs. 3,500 for insurance. Verma Bros. received Rs. 25,000 as advance against the consignment.

The Consignee is allowed 3% commission on all sales. Any goods taken by the Consignee himself or lost through Consignee's negligence shall be valued at cost plus 25% and no commission would be allowed on them. The Consignee sold 4/5th of the goods consigned for Rs. 1,40,000. Goods of the invoice price of Rs. 10,000 were taken by the Consignee and the remaining goods were lost through his negligence. The Consignee paid Rs. 2,500 for advertisement and selling expenses. Prepare necessary accounts in the books of the Consignor.

Solution:

Consignment to Ahmedabad Account
Consignment to Cochin Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Goods Sent on Consignment A/c	1,00,000	By Kabir Agency (Sales)	1,40,000
To Bank A/c (expenses)	8,500	By Kabir Agency (CP of goods taken)	9,000
To Kabir Agency (Consignee's expenses)	2,500	By Kabir Agency (Stock lost)	9,000
To Kabir Agency (Commission)	4,200	By Goods Sent on Consignment A/c(Loading)	20,000
To Profit & Loss A/c (Profit transferred)	62,800		
	1,78,000		1,78,000

Kabir's Account

	Rs.		Rs.
To Consignment to Ahmedabad A/c (sales)	1,40,000	By Bank A/c (Advance)	2,5000
To Consignment to Ahmedabad A/c	9,000	By Consignment to Ahmedabad A/c (Expenses)	2,500
To Consignment to Ahmadabad A/c (Balance)	9,000	By Consignment to Ahmedabad A/c (Commission)	4,200
		By Balance c/d	1,26,300
	1,58,000		1,58,000

Working Notes

1. **Calculation of CP of Goods Consigned**

IP of the Goods Sent is Rs. 1,00,000 which is 25% above cost.

The CP shall be calculated as follows.

IP = CP + P (25% on CP)

Let CP be X

$$1{,}00{,}000 = X + \frac{25}{100}X$$

$$1{,}00{,}000 = X + \frac{1}{4}X$$

$$1{,}00{,}000 = \frac{4X + X}{4}$$

$$1{,}00{,}000 = \frac{5X}{4}$$

$$X = \frac{1{,}00{,}000 \times 4}{5}$$

X = 80,000

CP= Rs. 80,000

2. **Value of goods taken by the Consignee**

IP of goods taken = Rs. 10,000

CP of goods taken

$$(10000 \times \frac{4}{5}) = \text{Rs. } 8{,}000$$

$$= 8.000 + \frac{12.5}{8000}$$

These are to be valued at the cost plus 12.5% on cost. Hence, its value will be = 8,000 + 1000 = Rs. 9,000

3. **Value of goods lost due to Consignee's negligence** It will be worked in the same manner as the value of goods taken by the consignee.

16.6 LET US SUM UP

In order to conceal the actual profit earned on consignment, sometimes the Consignor invoices the goods to the Consignee at a price which is higher than the cost, This is called invoice price (IP). The difference between the invoice price (IP) and the cost price (CP) is called loading. This affects four items shown in the Consignment Account viz (i) goods sent on Consignment; (ii) goods returned by the Consignee; (iii) opening consignment stock, and (iv) closing consignment stock. In order to work out the actual profit, the effect of loading on all these has to be nullified, otherwise the Consignment Account will show profit which is less than the profit actually earned.

Loading can be found out by subtracting CP from IP. The calculation of loading is simple when both CP and IP are given. But it needs special attention when the loading is given as a percentage of CP or IP and only the figure of IP or CP is given. In such a situation, the formula will be IP = CP+P is used for the calculation of loading or the cost price, or the invoice price, whichever is not given. For the adjustment of loading involved in different items, we have to pass the necessary journal entries in the books of the Consignor. However, the books of the Consignee are not affected by this because his books do not include an entry in respect of the four items involved.

16.7 KEY WORDS

Invoice Price : The price at which the Consignor invoices the goods to the Consignee. It is usually higher than cost price.

Loading : Difference between the Invoice Price and the Cost Price.

16.8 SOME USEFUL BOOKS

Maheswari, S .N. 2018. Introduction to Accounting, Vikas publishing House, New Delhi.

Patil, V.A. and J.S. Korlahalli, 2018, Principles and Practice of Accouiiring, R. Chand & Co. New Delhi.

William Pickles. 2018 Accountancy, E.L. B.S. and Pitman: London.

Gupta R.L. and M. Radhaswamy. 2018. Advanced Accountancy. Sultan Chand & Sons: New Delhi.

16.9 ANSWERS TO CHECK YOUR PROGRESS

1. i) False ii) True iii) False iv) True v) False vi) False

2. Difference between IP and CP

3. i) goods sent on consignment ii) goods returned by the Consignee

   iii) opening consignment stock iv) closing consignment stock

4. i) Rs. 600 ii) Rs. 200 iii) Rs. 625

   iv) Rs. 225 v) Rs. 250

5. i) Rs.400 ii) Rs. 120 iii) Rs. 150

   iv) Rs. 120 v) Rs. 100

16.10 TERMINAL QUESTIONS/EXERCISES

Questions

1. What do you understand by invoice price? Give reasons for consigning the goods at the invoice price.
2. What is loading? How do you compute it? Give examples.
3. Name items which are recorded at the invoice price in the Consignment Account. Give journal entries passed for the adjustment of loading in respect of each item.

Exercises

1. Vijay & Co. of Kolhapur consigned 2,000 bicycles on July 18, 2018 to Chaudhari of Madras for sale on the following conditions.

   a) Cycles may be sold at invoice price or above

   b) Chaudhari is entitled to a commission of $7\frac{1}{2}\%$ on invoice price of goods sold and 20% on an excess over the invoice price.

   The cost of each cycle was Rs. 300 and it was invoiced at cost plus $33\frac{1}{3}$ % at cost. Vijay & Co. incurred Rs. 20,000 on freight and insurance. Chaudhari received the consignment on July 14, and accepted a 3 months bill drawn on him by Vijay & Co. for Rs. 2,00,000. Chaudhari paid Rs. 8,000 as custom duty and Rs. 5,000 as insurance and rent for the godown. They sold 1,600 cycles at Rs. 500 each. Give ledger accounts as they would appear in the books of Vijay & Co. and Chaudhari.

   (**Answer:** Profit Rs. 2,12,600; Stock at invoice price Rs. 1,65,600; Amount due from Shri Chaudhary Rs. 5,07,000)

2. On June 10, 2018, Raj & Co. of Bombay consigned 100 cases of Red Wine to Singham Bros. of Ceylon. The cost of the consignment amounted to Rs. 7,500 but the goods were charged at invoice price so as to show a profit of 25% on invoice price. On the same date, the Consignor paid Rs. 600 for freight and insuranèe. On July 1, the Consignee paid Rs. 1,000 for import duty, Rs. 200 for dock dues, and remitted a bank draft for Rs. 4,000 as an advance against the consignment. On July 15, they sold

80 cases for Rs. 10,500. Singham Bros. are entitled to a commission of 5% on gross proceeds of sales as their remuneration. Show the entries in the books of the Consignor and the Consignee, assuming that the Consignee has remitted the balance due from them by draft.

(**Answer** : Profit Rs. 2,535; Value of stock Rs. 2,360)

3. Modi Textiles, Delhi consigned to Vinod Enterprises, Calcutta 100 cotton bales. The invoice price of each bale was Rs. 1,500 which includes 20% profit on invoice price. The Consignor paid Rs. 2,500 for insurance and Rs. 4,000 for carriage and freight. The Consignee received cotton bales and sold 75 bales for cash and realised Rs. 1,12,500. He incurred Rs. 1,800 on godown rent and was allowed 10% conmission on sales. 5 cotton bales were spoiled in godôwn and they are to be valued at 50% depreciation. Show Consignment Account in the books of Modi Textiles.

   Hint: The damaged goods are also to be included in stock and they will be valued at 50% of the invoice price and the proportionate expenses.

   (**Answers:** Profit Rs. 1,412; Value of stock Rs. 35,212 (including Rs. 3,912 for damaged goods); Amount due from the Consignee Rs. 99,450)

4. On January 1, 2018 the Consignment to Ceylon A/c in the books of Unique Clock Makers showed a debit balance of Rs. 3,750. This is represented by the invoice value of 50 clocks which is 25% above cost.

   On January 7, they sent another consignment of 2,500 clocks at the invoice price of Rs. 75 each which was 25% above cost. They paid Rs. 1,000 for packing, Rs. 500 for insurance and Rs. 3,000 for carriage and freight. Rama watch Co. the Consignee, received the clocks on January 21 and paid Rs. 3,000 for custom duty, clearing, etc. They also sent a bank draft for 50% of the invoice price of the goods received. On June 15, they returned 50 clocks which were found defective.

   By December 31, 2018 they sold the opening stock of 50 clocks at Rs. 85 each on credit and 2,400 clocks of the new Consignment at Rs. 90 each. Their expenses were: advertising Rs. 2,000, salaries Rs. 2,000, and service charges Rs. 250.

   The Consignee is entitled to a commission of 8% on sales. The Consignee could not recover Rs. 250 on account of credit sales. Show the necessary ledger accounts in the books of both the parties.

   (**Answer:** Profit Rs. 43,780; Value of closing stock Rs. 3,900; Amount due from Consignees Rs. 1,01,630)

5. ‘A’ of Agra consigned 100 units of a commodity to ‘D’ of Delhi. The goods were invoiced at Rs. 150 per unit so as to yield a profit of 50% on cost. A incurred Rs. 1.000 on freight and insurance, while D incurred Rs. 500 on freight and Rs. 800 on rent. Before December 31. 2018 he sold 50 units for cash at Rs. 160 per unit and 20 units on credit for Rs. 175 per unit. He retained his commissions at 5% and 1% del credre on all sales and remitted the balance on December 31, 2018. D noticed that 10 units were damaged on account of bad packing and could sell them

only for Rs. 80 per unit. A debtor for Rs. 1,000 to whom goods were sold on credit became insolvent and only 50 paise in a rupee could be recovered. Prepare necessary ledger accounts in the books of 'A' and 'D'.

(**Answer:** Profit Rs. 1,960; Abnormal Loss Rs. 398; Value of stock Rs. 3,300)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.

UNIT 17 JOINT VENTURE ACCOUNTS

Structure

17.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and importance of a joint venture;
- distinguish joint venture from partnership and consignment;
- record joint venture transactions in the books of one venture;
- record joint venture transactions in the books of all venturers;
- prepare Memorandum Joint Venture Account; and
- prepare separate set of books for the joint venture business.

17.1 INTRODUCTION

In Units 15 and 16 you have studied how various transactions related to the consignments are recorded in the books of the concerned parties. The basic objective of preparing the Consignment Account is to ascertain the profit or loss on each consignment. Similarly, when some persons join hands to carry out a specific job or a project (called joint venture), each person (called co-venturer) would like to ascertain his share of profit or loss from the joint venture business. For this purpose, they record the transactions related to the joint venture business in their own books or prepare a separate set of books altogether. In this unit, you will learn how various transactions related to the joint venture business are recorded whenseparate set of books are prepared and when the co-venturers decide to record them in their own books without preparing a separate set.

17.2 WHAT ISA JOINT VENTURE ?

When two or more persons join together to carry out a specific business venture and share the profits on an agreed basis, it is called a 'joint venture'. Each one of them who join as a party to the joint venture is called 'Co-venturer'. No firm name is normally used for the joint venture business because its duration is limited to a short period. During this period, the - co-venturers are free to carry on their own business as usual, unless agreed otherwise. The

Business relationship amongst the co-venturers comes to an end as soon as the venture is completed. Thus a joint venture is some kind of a temporary partnership between two or more persons who have agreed to jointly carry out a specific venture. The joint ventures are quite common in construction business, consignment, sale and purchase of property, underwriting of shares and debentures, etc. For example, A and B agreed to construct a college building for which they pooled their resources and skill. A provided Rs. 6 lakh and B Rs. 4 lakh as capital. They completed the building and shared the profits in the ratio of their contributions to capital. In this example, joining hands by A and B to construct a building is a joint venture. A and B are co-venturers. They will share the profits in the ratio of 6 and 4 (same as the ratio of their capitals). This venture will be closed once the construction of the college bulding is completed.

From the above discussion, the essential features of a joint venture can be listed as follows:

1. It is formed by two or more persons.
2. The purpose is to execute a particular venture or project.
3. No specific firm name is used for the joint venture business.
4. It is of a temporary nature. Hence, the agreement regarding the venture automatically stands terminated as soon as the venture is completed.
5. The co-venturers share profit and loss in the agreed ratio. However, in the absence of any other agreement between the co-venturers, the profits and losses are to be shared equally.
6. During the tenure of joint venture, the co-venturers are free to continue with their own business unless agreed otherwise.

The main advantages of a joint venture are:

1. **Sufficient Resources:** Since two or more persons pool their resources, there is sufficient capital available.
2. **Ability and Experience:**In joint venture the different venturers may be having different skills and experience. The benefit of their common wisdom will be available to the venture.
3. **Spreading of Risk:** The co-venturers agree to share the profits and losses in a particular ratio. This implies that the risk is also borne by them in that ratio.

17.3 JOINT VENTURE AND CONSIGNMENT

Even though both consignment and joint venture are in the nature of an agreement between different parties, there are many points of difference between the two. The main points of difference are as follows:

	Consignment	Joint Venture
1	Normally two persons are involved, the Consignor and the Consignee.	Number of co-venturers is usually two, but it may also be more than two.
2	The relationship between the Consignor and the Consignee is of Principal and Agent.	The relationship between co-venturers is that that of partnership.
3	The arrangement may continue for a long time,	The relationship comes to an end as soon as the venture is completed.
4	The funds are provided by the Consignor.	All the co-venturers contribute to a common pool.
5	The consignee acts merely as an agent and he has to follow instructions of the Consignor.	The co-venturers have equal authority to take decisions.
6	Consignment is generally concerned with the sale of movable goods.	Joint Venture may be for sale of goods or for carrying on any other activity like construction of building, investment in shares, etc.
7	The profit belongs to the Consignor only. The Consignee is entitled only to his commission.	The profit is shares by all the co ventures.
8	The Consignor owns the goods.	There is joint ownership.
9	There is only one method of maintaining the accounts for consignment transactions.	There are four methods of maintaining accounts for the joint venture.

17.4 JOINT VENTURE AND PARTNERSHIP

Though joint venture is in the nature of a temporary partnership but in the strict legal sense it is not a partnership. Both in joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But, there are some basic differences between the two. They are as follows:

	Partnership	Joint Venture
1	A partnership firm always has a name.	There is no need for firm name.
2	It is of a continuous nature.	It comes to an end as soon as the work is completed.

3	Separate set of books have to be maintained.	There is no need for a separate set of books, the accounts can be maintained even in one of the co-venturer's books only.
4	No partner can carry on a similar business.	The co-venturers are free to carry on the business of a similar nature.
5	Though the registration of partnership is not compulsory but it is considered desirable.	There is no need for registration at all.
6	A minor can also be admitted to thebenefits of the firm.	A minor cannot be a co-venturer as he is incompetent to enter into a contract.

Check Your Progress A

1. A & B enter into a joint venture for the construction of a building. They contributed Rs. 2,00,000 and Rs. 3,00,000 respectively. They agreed to share the profits or losses in the ratio of their contribution to capital. The profit for the joint venture is Rs. 45,000. State (i) the names of the co-venturers, and (ii) each co-venturer's share of profit.

   i) ....

   ii) ....

2. State whether each of the following statements is **True** or **False.**

   i) A joint venture is a partnership formed under the Indian Partnership Act

   ii) A joint venture has a definite life.

   iii) Joint venture is the same thing as consignment.

   iv) Joint venture agreement must be registered .

   v) Co-venturers share the profits in the agreed ratio.

17.5 ACCOUNTING TREATMENT

Broadly speaking, accounts of a joint venture business can be kept in any one of the following four ways:

1. **In the Books of One Co-venturer:** In case the business is not very large, only one of the venturers may be entrusted with the task of recording the transactions in his books. In that case, all other co-ventures will send their contribution to such venturer and he will open a Joint Venture Account and the personal accounts ofother co-venturers in his books.

2. **In the Books of All the Co-venturers:** When all Co-venturers are working actively, each one of them shall open a Joint Venture Account and the personal accounts of other Co-venturers in his books. In such a situation, each Co-venturer informs others about the transactions undertaken by him so that they can incorporate them in their books.

3. **Memorandum Joint Venture Account:** Sometimes each Co-venturer records only such transactions as are directly concerned with him. In that case, he cannot work out the profit or loss because his books do not include all transactions of the joint venture. Hence, for calculating the profit or loss of the joint venture, a Memorandum Joint Venture Account has to be prepared by incorporating all transactions related to the joint venture. Thereafter the Joint Venture Account is completed and closed.

4. **Separate Set of Books:** Sometimes, for the sake of convenience, a separate set of books are maintained for the joint venture. Under this system, a Joint Bank Account, a Joint Venture Account and the personal accounts of all the co-venturers are to be opened in the independent set of books of account.

Let us now study these methods one by one in detail.

17.5.1 Recording in the Books of One Co-venturer

If the joint venture business is not very large, the task of recording transactions can very well be entrusted to one of the Co-venturers. He will prepare a Joint Venture Account and the personal accounts of other Co-venturers. The Joint Venture Account is prepared for ascertaining the profit or loss of the joint venture. The personal account of other co— venturers are prepared to find out the amount due from them. As stated earliest, each co-venturer is also entitled to carry on his own business and these transactions will be in addition to what he records in respect of his own business. The following journal entries are passed in his books before preparing the necessary accounts of the joint venture.

1. **When the co-venturers send their contribution:**
   Cash/Bank A/c Dr.
   To Co-venturer's Personal A/c

2. **When the goods are purchased for the joint venture:**
   Joint Venture A/c Dr.
   To Cash/Bank A/c

3. **When the goods are supplied from his own stock by the Co-venturer who is recording the transactions:**
   Joint Venture A/c Dr.
   To Purchases A/c

   Here we are crediting Purchases Account because he is supplying the goods from his own stock at cost. But if the goods are supplied by him at a price other than the cost price, we shall credit the Sales Account instead of the Purchases Account.

4. **When the goods are supplied by other Co-venturers:**
   Joint Venture A/c Dr.
   To Co-venturer's Personal A/c

5. **When some expenditure is incurred on account of the joint venture:**
   Joint Venture A/c Dr.
   To Cash/Bank A/c

   But, if expenses are paid by a Co-venturer other than the one who is recording the transactions, then the entry will be:

Joint Venture A/c Dr.
To Co-venturer's Personal A/c

Here we have debited the Joint Venture Account because it is an expenditure on account of the joint venture business.

6. **When the Co-venturer recording the transactions sells the goods:**

   a) **For cash sales:**
   Cash/Bank A/c Dr.
   To Joint Venture A/c

   b) **For credit sales:**
   Debtor's Personal A/c Dr.
   To Joint Venture A/c

7. **When cash is received from debtors:**

   Cash/Bank A/c Dr.
   To Debtor's Personal A/c

8. **When some cash discount is allowed to the debtor making payment, or some bad debts are incurred:**
   Joint Venture A/c Dr.
   To Debtor's Personal A/c

9. **When sales are made by other Co-venturers:**
   Co-venturer's Personal A/c Dr.
   To Joint Venture A/c

10. **When some cash or bills receivable are received from other co-venturers on account of sales made by them:**
   Cash/Bank/Bills Receivable A/c Dr.
   To Co-venturer's Personal A/c

11. **When the Co-venturers recording the transactions is entitled to some commission or salary:**
   Joint Venture A/c Dr.
   To Commission/Salary A/c

   Joint Venture Account is debited as it is an expenditure related to the joint venture business.

12. **When the unsold stock ofjoint venture is taken over by the co-venturer recording the transactions:**
   Purchases A/c Dr.
   To Joint Venture A/c

   If the unsold stock is taken over by some other Co-venturer, the journal entry will be:
   Co-venturer's Personal A/c Dr.
   To Joint Venture A/c

After passing the above entries, the Joint Venture Account is prepared. The balance of this account will show either profit or loss which is to be shared by all the Co-venturers in their profit sharing ratio. This will require the following further entries:

a) **If it shows profit:**
Joint Venture A/c Dr.
To Profit & Loss A/c
(his own share)
To Co-venturers' Personal A/cs
(individually for their shares)

b) **If it results in loss:**
Profit & Loss A/c Dr.
(his own share of loss)
Co-venturers' Personal A/c Dr.
(individually for their shares)
To Joint Venture A/c

After closing the Joint Venture Account, we have to find out the amount due to other Co-venturers. When this amount is sent to them, we record the following entry.

Co-venturers' Personal A/c Dr.
To Cash/Bank A/c

Look at illustration 1, it shows the journal entries as well as the different accounts in the ledger of the Co-venturer who is recording the transactions relating to the joint venture business in his books.

Illustration 1

Rajesh and Suresh entered into a contract to construct a building for Rs. 4,00,000. Rajesh and Suresh contributed Rs. 2,00,000 and Rs. 1,50.000 respectively. They agreed to share profits and losses in the ratio of 4:3. It was decided that the work will be looked after by Rajesh who will be paid 5% commission on contract price in addition to his share of profits. Rajesh purchases the necessary materials for Rs. 3,20,000 and paid Rs. 9,000 for expenses. Rajesh also contributed building materials worth Rs. 20,000 from his own stock. Rs. 5,000 remained to be paid for wages.

Suresh took over the stock of materials for an agreed valuation of Rs. 16,000. The building was completed and the contract money was duly received.

Record the above transactions in the books of Rajesh and show the Joint Venture Account and Suresh's Account assuming that the outstanding wages were paid by Rajesh.

In the Books of Rajesh
Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Cash A/c Dr. To Suresh (Being cash received from Suresh)		1,50,000	 1,50,000
	Joint Venture A/c Dr. To Cash A/c (Being materials purchased)		3,20,000	 3,20,000

Joint Venture A/c To Cash A/c (Being expenses paid)	Dr.	9,000	9,000
Joint Venture A/c To Purchases A/c Being material supplied from personal stock)	Dr.	20,000	20,000
Joint Venture A/c To Outstanding Wages A/c (Being outstanding wages)	Dr.	5,000	5,000
Joint Venture A/c To Commission A/c (Being Commission @ 5%)	Dr.	20,000	20,000
Cash Account To Joint Venture (Being the contract price received)	Dr.	4,00,000	4,00,000
Suresh To Joint Venture A/c (Being goods taken over by Suresh)	Dr.	16,000	16,000
Joint Venture A/c To Profit & Loss A/c To Suresh (Being the profit shared)	Dr.	42,000	24,000 18,000
Outstanding Wages A/c To Cash A/c (Being wages paid by Rajesh)	Dr.	5,000	5,000
Suresh To Cash A/c (Being the amount due paid)	Dr.	1,52,000	1,52,000

Joint Venture Account

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
	Rs.		Rs.
To Cash A/c (Purchases)	3,20,000	By Cash A/c	4,00,000
To Cash A/c (Expenses)	9,000	By Suresh	16,000
To Purchase A/c (Material supplied)	20,000		
To Outstanding Wages A/c	5,000		
To Commission A/c	20,000		
To Profit transferred to :			
Profit & Loss A/c 24,000			
Suresh 18,000	42,000		
	4,16,000		4,16,000

Suresh's Account

	Rs.		Rs.
To Joint Venture A/c	16,000	By Cash A/c	1,50,000
To Cash A/c	1,52,000	By Joint Venture A/c	18,000
	1,68,000		1,68,000

Illustration 2

Anand and Prakash entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. Anand supplied goods worth Rs. 60,000 to Prakash and incurred expenses amounting to Rs. 2,000 for freight and insurance. During transit, the goods costing Rs. 5,000 were damaged and a sum of Rs. 3,000 was received from the insurance company. Prakash reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire damaged the balance stock lying unsold with Prakash. The goods were not insured and Prakash agreed to compensate Anand by paying in cash 80% of the aggregate of the original cost of such goods, plus proportionate expenses incurred by Anand. Apart from the joint venture share of profit, Prakash was also entitled to a commission @ 5% on net profits of the joint venture after charging such commission. Selling expenses incurred by Prakash amounting Rs. 1,000. Prakash had earlier remitted an advance of Rs. 10,000. Prakash paid the balance due to Anand by a bank draft. You are required to prepare the Joint Venture Account, and Prakash's Account in Anand's books.

Solution:

In the Ledger of Anand
Joint Venture Account

Dr. **Cr.**

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To Purchase A/c (Goods Supplied)		60,000	By Bank A/c (Insurance)	3,000
To Bank A/c (expenses)		2,000	By Prakash (Sales)	64,350
To Prakash (expenses)		1,000	By Prakash (agreed value of damaged goods)	4,546
To Prakash (Commission- 5/105 of Rs. 8,896)		424		
To Profit transferred to Profit & Loss A/c	5,648			
Prakash	2,824	8,472		
		71,896		71,896

Prakash'/s Account

	Rs.		Rs.
To Joint Venture A/c (Sales)	64,350	By Bank A/c (Advance)	10,000
To Joint Venture A/c (Claim for damaged goods)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Profit)	2,824
		By Bank A/c (Balance received by draft)	54,648
	68,896		68,896

Working Notes: Rs.

1. **Calculation of Sales:**

Cost of goods sent	60,000
Less Damage in transit	5,000
Cost of remaining goods	55,000
Cost of goods sold (90% of Rs. 55,000)	49,500
Add Profit 30% of Rs. 49,500	14,850
Sales	64,350

2. **Loss by fire borne by Prakash:**

	Rs.
Cost of goods in stock (10% of 55,000)	5,500
Add Proportionate Expenses $= \frac{2,000 \times 5,500}{60,000}$	183
Total Loss	5,683
80% of this loss (5683 × 80/100)	4,546

3. Abnormal loss on account of damage in transit relates to the joint venture. Hence no calculation is needed.

17.5.2 Recording in the Books of all Co-venturers

Under the second method, all transactions relating to the joint venture are recorded in the books of all the Co-venturers. In order to complete the Joint Venture Account in the books of all Co-venturers, each Co-venturer sends the necessary information about his dealings to the other Co-venturers. There is not much of a difference in the recording of transactions between the first and the second method. We will be having similar entries in the joint venture accounts in each Co-venturer's books, who shall all open the personal accounts of other Co-venturers. Look at illustration 3 to clearly understand the recording of transactions under the second method.

Illustration 3

Arvind and Babloo entered into a joint venture agreeing to share profits and losses equally.

The following transactions took place during the course of venture:

	Rs.
Arvind bought goods for cash	2,550
Babloo bought goods for cash	7,000
Arvind paid storage charges	500
Babloo paid freight and insurance	800
Babloo sold goods for cash	7,000
Babloo received 3% commission on sales	210
Sales made by Arvind	5,000
Commission payable to Arvind	150
Babloo took over the unsold stock	560

Prepare the necessary ledger accounts in the books of Arvind and Babloo assuming that the accounts are finally settled between them.

Solution:

Ledger of Arivind
Joint Venture Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Cash A/c (goods purchased)	2,500	By Babloo (sales)	7000
To Babloo (goods purchased)	7,000	By Cash (sales)	5,000
To Cash A/c (expenses)	500	By Babloo (stock taken over)	560
To Babloo (expenses)	800		
To Babloo (commission)	210		
To Commission A/c	150		
To Profit transferred to:			
Babloo 700			
Profit & Loss A/c 700	1,400		
	12,560		12,560

Babloo's Account

	Rs.		Rs.
To Joint Venture A/c (sales)	7,000	By Joint Venture A/c (goods purchased)	7,000
To Joint Venture A/c (stock taken over)	560	By Joint Venture A/c (expenses)	800
To Cash A/c (balance due paid)	1,150	By Joint Venture A/c (commission)	210
		By Joint Venture A/c (share of profit)	700
	8,710		8,710

Ledger of Babloo
Joint Venture Account

Dr. Cr.

	Rs.		Rs.
To Arvind (Goods purchased)	2,500	By Cash A/c (Sales)	7,000
To Cash A/c (Good)	7,000	By Arvind (Sales)	5,000
To Arvind (Expenses)	500	By Purchases A/c (Stock taken over)	560
To Cash A/c (Expenses)	800		
To Commission A/c	210		
To Arvind (Commission)	150		
To Profit transferred to:			
Arvind 700			
Profit & Loss A/c 700	1,400		
	12,560		12,560

Arvind's Account

	Rs.		Rs.
To Joint Venture A/c (sales)	5,000	By Joint Venture A/c (goods purchased)	2,500
		By Joint Venture A/c (expenses)	500
		By Joint Venture A/c (commission)	150
		By Joint Venture A/c (share of profit)	700
		By Cash A/c (Balance due received)	1,150
	5,000		5,000

17.5.3 Memorandum Joint Venture Account Method

In the method discussed above, each Co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books. But, under the Memorandum Joint Venture Account Method, each Co-venturer will record only those transactions relating to the joint venture which are directly concerned with him, and not those of others. Under this method, each Co-venturer opens a Joint Venture Account including the name of the other Co-venturer. For example, if 'A' and 'B' are partners in a joint venture, then in the books of 'A' it will be termed as 'Joint Venture with 'B' Account' and in the books of 'B' it will be termed as 'Joint Venture with 'A', Account'. Each Co-venturer will record only such transactions which are actually effected by him. For example, if goods are purchased by 'A' for the joint venture, it will be recorded only by A and not by other Co-venturers. Similarly, if goods are sold by 'B', it will be recorded in the books of 'B' only. This account is in the nature of a personal account and, therefore, will not disclose the profit or loss of the venture. For that purpose we prepare an additional account called, 'Memorandum Joint Venture Account'. This is like Profit and Loss A/c.

Let us say 'A' and 'B' enter into a joint venture and certain transactions have taken place for which the following entries will be passed in each Co-venturer's books.

1. **A purchases goods for cash:**

   This transaction shall be recorded in the books of A only. The entry will be:

   Joint Venture with B A/c Dr.
   To Cash A/c

2. **A incurs some expenditure on account of the joint venture:**
   It shall be recorded in A's books only. The entry will be:

   Joint Venture with B A/c Dr.
   To Cash A/c

3. **B sells goods for cash:**

   No entry will be made in A's books. But the following entry will be made in B's books:

   Cash Account Dr.
   To Joint Venture with A A/c

4. **B sends money to A:**

   a) **It shall be recorded in B's books as follows:**

      Joint Venture with A A/c Dr.
      To Cash/Bank A/c

   b) **It shall be recorded in A's books as follows:**

      Cash/Bank A/c Dr.
      To Joint Venture with B A/c

As stated earlier, for ascertaining the profit or loss on the joint venture, we prepare a Memorandum Joint Venture Account. This account is prepared exactly on the pattern of Profit & Loss Account. Since this account does not form part ofthe double entry system, the word 'Memorandum' is prefixed.

The method of preparing this account is very simple. It is prepared on the basis of information supplied by all the Co-venturers. The debit entries appearing in the personal accounts of all Co-venturers are written on the debit side of the Memorandum Account and the entries appearing on the credit side of those accounts are shown on the credit side of the Memorandum Joint Venture Account. However, you should remember that the transactions which do not relate to an item of expense or income are to be excluded from this Memorandum Account. The difference in the totals of the debit side and the credit side represents profit or loss. The profit or loss thus calculated is then shared by the Co-venturers in the agreed profit sharing ratio.

Each Co-venturer will record only his share of profit or loss. In the event of **profit, the** entries shall be:

In the books of A

Joint Venture with B A/c Dr.
To Profit & Loss A/c

In the books of B

Joint Venture with A A/c Dr.
To Profit & Loss A/c

In the event of Loss the entries shall be reversed as follows :

In the books of A

Profit and Loss A/c Dr.
To Joint Venture with B A/c

In the books of B

Profit and Loss A/c Dr.
To Joint Venture with A A/c

In the end, each venturer balances the 'Joint Venture with .....Account' in his books and settles the account by paying or receiving cash. Look at illustration 4 carefully to understand the preparation of Memorandum Joint Venture Account.

Illustration 4

Prem of Delhi and Satish of Calcutta entered into a joint venture for the purchase and sale of goods. The profits and losses are to be shared in the ratio of 2:1.

Prem purchased goods for Rs. 40,000 and sent them to Satish paying Rs. 3,000 for freight and insurance. Prem also incurred sundry expenses amounting to Rs. 400. Satish sold goods for Rs. 55,000 and incurred Rs. 6,000 as expenses. Unsold stock valued at Rs. 7,000 was taken over by Satish. Satish remitted the balance due to Prem by a bank draft.

Each party's ledger contains a record of his own transactions in the Joint Venture Account. Prepare (a) Memorandum Joint Venture Account, (b) Joint Venture with Satish's Account in Prem's ledger, and (c) Joint Venture with Prem's Account in Satish's ledger.

Solution:

Ledger of Prem
Joint Venture with Satish Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Bank A/c (purchases)	40,000	By Bank A/c (In final settlement)	51,800
To Bank A/c (freight & ins.)	3,000		
To Bank A/c (Sundry Exp.)	400		
To Profit & Loss A/c (share of profit)	8,400		
	51,800		51,800

Ledger of Satish
Joint Venture with Prem Account

Dr. **Cr.**

	Rs.		Rs.
To Bank A/c (expenses)	6,000	By Bank A/c (sales)	55,000
To Profit & Loss A/c	4,200	By Purchases A/c (stock taken over)	7,000
To Bank A/c (final settlement)	51,800		
	62,000		62,000

Memorandum Joint Venture Account

		Rs.			Rs.
To Prem:			By Satish		
Goods	40,000		Sale Proceeds	55,000	
Freight insurance	3,000		Stock taken over	7,000	62,000
Sundry Expenses	400	43,400			
To Satish (expenses)		6,000			
To Profit transferred to					
Prem	8,400				
Satish	4,200	12,600			
		62,000			62,000

Interest in Joint Venture Transactions : When the Co-ventures invest money in joint venture business and received back the amounts on different dates, it is quite usual for them to agree to calculate interest at a certain rate. Each Co-venturer is entitled to received interest on the amounts invested by him and pay interest on the amounts received by him. You should remember that only the net interest receivable from or payable to the Co-venturer is recorded in the Joint Venture Account. Thus, the net amount of interest is also taken into account before ascertaining the profit or loss on joint venture. For clarification look at illustration 5.

Illustration 5

Anand and Bimal enter into a joint venture sharing profits and losses equally. Anand purchased goods for Rs. 5,000 for cash and Bimal spent Rs. 1,000 on freight, etc., on January 1, 2018. On the same day, Bimal bought goods for Rs. 10,000 on credit. Further expenses were incurred as follows:

On 1-2-2018	
On 1-3-2018	Rs 500 by Anand

Sales were made by each one of them as follows:

15-1-2018	Rs. 3,000 by Anand
31-1-2018	Rs. 6,000 by Bimal
15-2-2018	Rs. 3,000 by Anand
1-3- 2018	Rs. 4,000 by Bimal

Creditors for goods were paid as follows:

1-2-2018	Rs. 5,000 by Anand
1-3-2018	Rs. 5,000 by Bimal

On March 31, 2018 the balance of stock was taken over by Bimal at Rs. 9,000. The accounts between the Co-venturers were settled by cash payment on this date. The Co-venturers are entitled to interest at 12% per annum. Prepare necessary ledger accounts in the books of venturers as per Memorandum Joint Venture Account Method.

Solution:

Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Anand (Cost of goods)	5,000	By Anand (Sales)	6,000
To Bimal (Cost of goods)	10,000	By Bimal (Sales)	10,000
To Bimal (Freight etc.)	1,000	By Bimal (Interest)	50
To Anand (expenses)	500	By Bimal (Stock taken)	9,000
To Bimal (expenses)	1,500		
To Anand (interest)	135		
Anand 3,457			
Bimal 3,458	6,915		
	25,050		25,050

Anand's Ledger

Jont Venture with Bimal Account

Dr.					Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2018		Rs.	2018		Rs.
Jan. 1	To Bank A/c (Purchases)	5,000	Jan. 15	By Bank A/c (sales)	3,000
Feb. 1	To Bank A/c (creditors)	5,000	Feb. 15	By Bank A/c (sales)	3,000
Mar. 1	To Bank A/c (expenses)	5,00	Mar. 15	By Bank (Final settlement)	8,092
Mar. 31	To Interest A/c	135			
Mar. 31	To Profit & Loss A/c	3,457			
		14,092			14,092

Bimal's Ledger

Jont Venture with Anand Account

Dr.					Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2018		Rs.	2018		Rs.
Jan. 1	To Bank A/c (freight)	1,000	Jan. 31	By Bank (sales)	6,000
Feb. 1	To Bank A/c (expenses)	1,500	Mar. 31	By Bank (sales)	4,000
Mar. 1	To Bank A/c (creditors)	5,000	Mar. 31	By Goods (stock taken over)	9,000
Mar. 31	To Profit & Loss A/c	3,458	Mar. 31	By Interest	50
Mar. 31	To Bank A/c (Amount in final settlement)	8,092			
		19,050			19,050

Calculation of Interest

Payments by Anand

Date	Amount	Months	Product	
1-1-18	Rs.5,000	3	15,000	(5,000 × 3)
1-3-18	Rs. 500	1	500	(500 × 1)
1-2-18	Rs. 5,000	2	10,000	(5,000 × 2)
			25,500	

$$\text{Interest} = 25{,}500 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 255$$

Receipts by Anand

15-1-18	Rs. 3,000	$2\frac{1}{2}$	7,500 $(3,000 \times 2\frac{1}{2})$
15-2-18	Rs. 3,000	$1\frac{1}{2}$	4,500 $(3,000 \times 1\frac{1}{2})$
			12,000

$$\text{Interest} = 12,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs.}120$$

Net Interest due to Anand = 255 — 120 = Rs. 135

Payments by Bimal

1-1-18	Rs. 1,000	3	3,000 (1000×3)
1-2-18	Rs. 1,500	2	3,000 $(1,500 \times 2)$
1-3-18	Rs. 5,000	1	5,000 $(5,000 \times 1)$
			11,000

$$\text{Interest} = 11,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs.}110$$

Receipts by Bimal

31-1-18	Rs. 6,000	2	12,000 $(6,000 \times 2)$
1-3-18	Rs. 4,000	1	4,000 $(4,000 \times 1)$
			16,000

$$\text{Interest} = 16,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs.}160$$

Net Interest Due from Bimal

= 160—110 = Rs.50

Check Your Progress-B

1. Put a tick ✓) against the right answer.

   a) The goods supplied from his stock at cost by the Co-venturer maintaining the accounts, are debited to

      i) Sales Account

      ii) Purchases Account

      iii) Stock Account

   b) In Memorandum Joint Venture Account Method, the co-venturer records

i) His transactions only

ii) Other Co-venturers' transactions only

iii) All the transactions of the Joint Venture

c) Memorandum Joint Venture Account is prepared to find out

i) Amount due from the Co-venturers

ii) Profit or 1oss on the joint venture

iii) None of the above

d) The share of profit of the Co-venturer maintaining the records is credited to

i) Profit and Loss Account

ii) His personal account

iii) None of the above

e) Any bad debts incurred on account of joint venture are debited to

i) Bad Debts Account

ii) Debtor's Personal Account

iii) Joint Venture Account

17.5.4 Separate Set of Books

So far, you have studied the methods of recording joint venture transactions where no separate set of books were maintained. Now we shall study another method where Co-venturers agree to keep separate set of books for recording the joint venture transactions. When separate set of books are maintained, the joint venture transactions are recorded as a separate accounting entity on the basis of double entry principles. Under this method, the following accounts are opened:

1. Joint Bank Account
2. Joint Venture Account
3. Personal accounts of each Co-venturer

Joint Bank Account is a real account like the ordinary Bank Account. All the Co-venturers pay or deposit their contribution in this account. **The Joint Venture Account is like a profit and loss account which shows all the expenses and incomes of the joint venture.** The personal accounts of the Co-venturers simply show their contributions in the form of goods, cash or expenses and the amounts received by them.

Let us now see the various journal entries which are normally recorded under this method.

1. **When co-venturers contribute their share of capital:**
   Joint Bank A/c Dr.
   To Co-venturers Personal A/c

2. **When a Co-venturer contributed in the form of goods:**
   Joint Venture A/c Dr.
   To Co-venturers Personal A/c

3. **When purchases are made for joint venture:** .
   a) **If on cash:**
   Joint Venture A/c Dr.
   To Joint Bank A/c

   b) **If on credit:**
   Joint Venture A/c Dr.
   To Creditor's Personal A/c

   Note that when goods are purchased for the joint venture business, you will debit the joint venture account not the Purchases Account.

4. **When expenses are incurred on account of joint venture:**

   a) **If paid out of Joint Bank Account**
   Joint Venture A/c Dr.
   To Joint Bank A/c

   b) **If paid by a co-venturer**
   Joint Venture A/c Dr.
   To Co-venturer's Personal A/c

5. **When goods are sold:**

   a) **For cash sales:**
   Joint Bank A/c Dr.
   To Joint Venture A/c

   b) **For or credit sales:**
   Debtor's Personal A/c Dr.
   To Joint Venture A/c

6. **When creditors are paid:**
   Creditors' Personal A/c Dr.
   To Joint Bank Account

7. **When amounts are received from debtors:**
   Joint Bank A/c Dr.
   To Debtor's Personal A/c

8. **Any commission, interest, etc. payable to a Co-venturer:**
   Joint Venture A/c Dr.
   To Co-venturer's Personal A/c

9. **Unsold stock taken over by a Co-venturer:**
   Co-venturer's Personal A/c Dr.
   To Joint Venture A/c

10. Now if we balance the Joint Venture Account, it will disclose the amount of profit or loss made on the joint venture which is to be shared by the Co-venturers in their profit sharing ratio. The entries for the distribution of profit and loss will be as follows:

a) **In case of profit:**
Joint Venture A/c Dr.
To Co-venturers' Personal A/cs

b) **In case of loss:**
Co-venturers' Personal A/c Dr.
To Joint Venture A/c

11. This closes the Joint Venture Account. After transferring the amount of profit or loss to the Co-venturer's personal accounts, you can find out the amount payable to each one of them. When the payment is made, the journal entry will be as follows:

Co-venturers' Personal A/cs Dr.
To Joint Bank A/c

You will notice that the balance in the Joint Bank Account will be sufficient to pay-off all the Co-venturers, and when the above entries are passed all the accounts will be closed.

12. **Treatment of cash discount :** When some cash discount is llowed by the creditors, it will be an item of gain for the joint venture. Hence it is credited to the Joint Venture Account. The journal entry will be:

Creditor's Personal A/c Dr.
To Joint Venture A/c

Similarly, when some cash discount is allowed to the debtors, it will be an item of loss for the joint venture and, therefore, is debited to the Joint Venture Account. The journal entry will be:

Joint Venture A/c Dr.
To Debtor's Personal A/c

The same entry is passed in case of bad debts. Look at illustration 6 and see how the concerned accounts are prepared when separate set of books are maintained for the joint venture business.

Illustration 6

Vikas and Salil entered into a joint venture to construct a building for a joint stock company. The contract price was settled at Rs. 25 lakh, payable Rs. 20 lakh in cash and the balance in the form of fully paid equity shares of the company. They opened a Joint Bank Account wherein Vikas deposited Rs. 6 lakh and Salil paid in Rs. 3 lakh. They agreed to share the profits and losses in the ratio of 2:1

They purchased materials for Rs. 3 lakh for cash and Rs. 10 lakh worth on credit from Anil. They paid Rs. 4,50,000 for wages. etc., and Rs. 70,000 for other expenses.Vikas and Salil supplied materials worth Rs. 2,00,000 and Rs. 80,000 respectively. Architect's fees of Rs. 10,000 was paid by Vikas. The contract was duly completed and the price received as stipulated. Anil was paid Rs. 9,80,000 in full settlement. Vikas agreed to take up the shares of the company at a valuation of Rs. 4,40,000. Salil took over the remaining material at an agreed value of Rs. 70,000.

Separate books are maintained for joint venture business. Prepare the necessary ledger accounts.

Solution :

Joint Venture Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Joint Bank A/c (Material)	3,00,000	By Joint Bank A/c	20,00,000
To Anil (Credit purchases)	10,00,000	By Equity Shares A/c	5,00,000
To Joint Bank A/c (Wages)	4,50,000	By Anil (Discount)	20,000
To Joint Bank A/c (Expenses)	70,000	By Salil (Material taken over)	70,000
To Vikas (Material)	2,00,000		
To Salil (Material)	80,000		
To Vikas (Architects fee)	10,000		
To Equity Shares A/c (Loss)	60,000		
To Profit transferred to:			
Vikas 2,80,000			
Salil 1,40,000	4,20,000		
	25,90,000		25,90,000

Joint Bank Account

	Rs.		Rs.
To Vikas	6,00,000	By Joint Venture A/c (Material)	3,00,000
To Salil	3,00,000	By Joint Venture A/c (Wages)	4,50,000
To Joint Venture A/c	20,00,000	By Joint Venture A/c (Expenses)	70,000
		By Anil (creditor paid)	9,80,000
		By Vikas	6,50,000
		By Salil	4,50,000
	29,00,000		29,00,000

Vikas's Account

	Rs.		Rs.
To Equity Shares A/c	4,40,000	By Joint Bank A/c	6,00,000
To Joint Bank A/c	6,50,000	By Joint Venture (Material)	2,00,000
		By Joint Venture(Architect fees)	10,000
		By Joint Venture (Profit)	2,80,000
	10,90,000		10,90,000

Salil's Account

	Rs.		Rs.
To Joint Venture (Material)	70,000	By Joint Bank A/c	3,00,000
To Joint Bank A/c	4,50,000	By Joint Venture A/c (Material)	80,000
		By Joint Venture A/c (Profit)	1,40,000
	5,20,000		5,20,000

Equity Shares Account

	Rs.		Rs.
To Joint Venture	5,00,000	By Vikas	4,40,000
		By Joint Venture A/c (Loss transferred)	60,000
	5,00,000		5,00,000

Anil's Account

	Rs.		Rs.
To Joint Bank A/c	9,80,000	By Joint Venture A/c (Materials)	10,00,000
To Joint Venture A/c (Discount)	20,000		
	10,00,000		10,00,000

Underwriting of Shares: Let us now take an illustration where the Co-venturers agreed to underwrite the shares or debentures of a limited company.Underwriting means agreeing to buy shares that are not subscribed by the public. For this service, they receive some commission which may be paid partly in the form of shares of the company and partly in cash. The shares thus received are sold to the public or taken over by the Co-venturers at an agreed price. Look at illustration 7 and see how accounts are prepared for the jointventure of underwriting the shares when separate set of books are maintained.

Illustration 7

A and B enter into a joint venture to guarantee the subscription at par of 1,00,000 shares of Rs. 10 each of a limited company, and sharing profits and losses in the ratio of 4.5. The terms with the company are : 4.5% commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement Rs. 5,000; printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by A. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken up by A and B who provided the necessary cash equally. The commission is received in cash and is shared by the Co-venturers in the ratio 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share; 50% ata price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share, and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account, and the accounts of A and B showing the final settlement.

Solution

Joint Venture Account

Dr. Cr.

Particulars		Amount	Particulars	Amount
		Rs.		Rs.
To A			By Joint Bank A/c (commission)	45,000
Advertisement	5,000		By Shares A/c (commission)	
Printing	2,000			
Postage	600	7,600		
To Shares A/c (loss on sale)		23,400		
To Profit transferred to :				
A	29,600			
B	44,400	74,000		
		1,05,000		1,05,000

Joint Bank Account

		Rs.		Rs.
To A (contribution)		60,000	By Shares A/c	1,20,000
To B (contribution)		60,000	By A (commission)	20,000
To Joint Venture A/c (commission)		45,000	By B (commission)	25,000
To Shares A/c (sale for cash)			By A (final settlement)	70,000
25%	40,500		By B (final settlement)	72,200
50%	78,750			
10%	22,950	1,42,200		
		3,07,200		3,07,200

Shares Account

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Joint Bank A/c	1,20,000	By Joint Bank A/c (Sale of shares)	40,500
To Joint Venture (Commission)	60,000	By Joint Bank A/c (Sale of shares)	78,750
		By Joint Bank A/c (Sale of shares)	22,950
		By A (shares taken over)	7,200
		By A (shares taken over)	7,200
		By Joint venture A/c (Loss)	23,400
	1,80,000		1,80,000

A's Account

Particulars	Amount	Particulars	Amount
	Rs.		**Rs.**
To Joint Bank A/c (Commission)	20,000	By Joint Venture A/c (Expenses)	7,600
To Shares A/c	7,200	By Joint Venture A/c (Contribution)	60,000
To Joint Bank A/c (Final settlement)	70,000	By Joint Venture A/c (Profit)	29,600
	97.200		97.200

B's Account

Particulars	Amount	Particulars	Amount
	Rs.		**Rs.**
To Joint Bank A/c (Commission)	25,000	By Joint Bank A/c (Contribution)	60,000
To Shares A/c	7,200		
To Joint Bank A/c (Final settlement)	72,200	By Joint Venture A/c (Profit)	44,400
	1,04,400		1,04,400

Working Notes

1.. **Distribution of commission received in cash**

4 ½ % of 10,00,000	=	Rs. 45,000
A's share 4/9 × 45,000	=	Rs. 20,000
B's share 5/9 × 45,000	=	Rs. 25,000

2. **Treatment of shares received:**

Shares received by way of commission	6,000
Shares not subscribed by public	12,000
Total no. of shares received	18,000

a) Sold for Cash

	Rs.
25% of 18,000 i.e... 4,500 shares sold @ Rs. 9 per share	40,500
50% of 18,0o0 i.e.. 9,000 shares sold @ Rs. 8.75 per share	78,750
15% of 18,000 i.e.. 2,700 shares sold @ Rs. 8.50 per share	22,950

b) Divided amongst A and B

10% of the remaining shares i.e. 1,800 shares are taken over equally by A & B at an agreed price of Rs. 8 per share.

A: 900 shares @ Rs. 8 per share Rs. 7,200

B: 900 shares @ Rs. 8 per share Rs. 7,200

Check Your Progress C

1. What is the need for maintaining separate set of books for the joint venture?

   ....

   ....

   ....

2. Fill in the blanks

   i) Joint Bank Account is like a …………………… Account.

   ii) When Co-venturers'contribution is in the form of goods ………….. Account is debited.

   iii) All the amounts paid out of joint bank are credited to ……………..Account.

   iv) Co-Venturers' contribution in cash is debited to Joint Bank Account and credited to …………………………Account.

   v) In underwriting of shares, the ....shares are taken over by the underwriters.

17.6 LET US SUM UP

Joint Venture is a temporary partnership between two or more persons who have agreed to undertake jointly a specific project or a job. On the completion of the project or the job, the joint venture will automatically come to an end. The joint venture differs from consignment and partnership in many ways.

The accounts for the joint venture business can be kept in four ways: (i) all recording be done in the books of one co-venturer only, (ii) the accounting records be maintained by each one of them in their own books, (iii) each Co-venturer records his own transactions relating to the joint yenture and on the completion of the project a Memorandum Joint Venture Account is prepared to find out the profit or loss, and (iv) separate set of books of accounts may be maintained for the joint business and a joint account be opened in the bank.

Under the first method, only one Co-venturer records the joint venture transactions who opens a Joint Venture Account and the personal accounts of other co-venturers. Under the second method, each Co-venturer opens a Joint Venture Account and the personal accounts of other Co-venturers. The Joint Venture Account serves the purpose of Profit and Loss Account. Under the third method, no Joint Venture Account is maintained. Each Co-venturer simply opens the personal accounts of other Co-venturers and for ascertaining the profit or loss of the venture, a Memorandum Joint Venture Account is prepared.

When any of the above three methods is followed, no separate books are maintained for the Joint Venture business. All transactions are recorded in the books of the Co-venturers themselves. Under the fourth method, a separate set of books are prepared for the joint venture business treating it as a separate accounting entity, and all transactions are recorded strictly according to the double entry system. The main accounts prepared under this method are (i) Joint Venture Account, (ii) Joint Bank Account, and (iii) the personal accounts of the Co-venturers. In this case also, the Joint Venture Account serves the purpose of a Profit and Loss Account.

17.7 KEY WORDS

Co-venturer: Persons who are parties to the agreement for carrying out the joint venture business.

Joint Venture: A temporary partnership between two or more persons who agree to carry out a specific job or a project.

Memorandum Joint Venture Account: An account prepared for ascertaining the profit or loss of a joint venture where no Joint Venture Account is prepared by Co-venturers.

Underwriting: An undertaking to take up the shares which are not subscribed by the public.

17.8 SOME USEFUL BOOKS

Maheshwari.S.N. 2018. Introduction to Accounting,Vikas Publishing House: New Delhi. 72.

Patil V. A. and J. S.Korlahalli, 2018 Principles and Practice of Accounting R. Chand & Co., New Delhi.

William Pickles. 1992. Accountancy, E.L.B.S. and Pitman, London.

Gupta, R.L. and M. Radhaswamy. 2018. Advanced Accountancy Sultan Chand & Sons. New Delhi

17.9 ANSWERS TO CHECK YOUR PROGRESS

A 1. i) A and B ii) A's share Rs. 18,000 and B's share Rs. 27,000

2. i) False ii) True iii) False v) False v) True

B 1. a) ii b) i c) ii d) i e) iii

C 2. i) Bank ii) Joint Venture iii) Joint Bank iv) Co-venturers' Personal Accounts v) unsubscribed

17.10 TERMINAL QUESTIONS/EXERCISES

Questions

1. State the salient features of joint venture. Distinguish it from consignment.
2. "Joint Venture is a temporary partnership". Comment and explain how does it differs from the partnership?
3. Explain briefly various methods of recording the joint venture transactions without maintaining separate set of books.
4. Explain the separate set of books method for maintaining joint venture accounts.

Exercises

1. Mohan and Sohan were partners in a joint venture sharing profits and losses in the ratio of 3:2. Mohan supplied goods of the value of Rs. 6,000 and incurred an expenditure of Rs. 200. Sohan supplied goods of the value of Rs. 5,000 and his expenses were Rs. 300. Sohan sold all the goods for a sum of Rs. 18,000. Sohan is entitled to a commission of 4% on sales and he settled his account by sending a bank draft to Mohan. Pass necessary journal entries in the books of both the parties.

   (**Answer :**Profit on Joint VentureRs. 5,780 Commission Rs. 720)

2. 'A' of Banglore enters into a joint venture with 'B' of Bombay to ship cotton bales to 'C' in Japan. A sends cotton of the value Rs. 30,000, pays railway freight etc. Rs. 1,500 and sundry expenses R. 1,575. B sends goods valued at Rs. 20,750 and pays freight and insurance Rs. 1200, dock dues Rs. 200, customer charges Rs. 500, and other sundry expenses Rs. 500. A advances to B Rs. 6,000 on account of the venture. B receives Account sale and remittance of net proceeds from C for the whole of the goods amounting to Rs. 80,000.

   Show the Joint Venture Account and the personal accounts of the Co-ventures in the books of A and B

   (**Answer**: Profit on joint venture Rs. 23,775; Balance due to A Rs. 50,962. 50)

3. Sundar, Bindia and Gora entered into a contract with Mohindra Ltd. for the construction of a building at a cost of Rs. 5,00,000 payable Rs. 4,00,000 in cash and Rs. 1,00,000 in debentures. They share profits and losses equally.

   Sunder, Bindia and Gora contributed Rs. 60,000. Rs. 75,000 and Rs. 40,000 respectively. All these amounts were deposited in a Joint Bank Account. Sundar paid Rs. 7,000 to the architect. Bindia purchased concrete mixture for Rs. 25,000 and Gora brought a motor truck for Rs. 20,000 for joint venture work. They purchased plant for Rs. 24,000, materials for Rs. 2,40,000 in cash and paid Rs. 1,95,000 as wages. After construction of the building, Sundar took over the remaining material for Rs. 14,000 and Bindia took over mixture for Rs. 12,000. Gora took over the motor truck for Rs. 8,000. The plant was sold for Rs. 6,000. When full price was received form the contractee, Sundar took over the debentures for Rs. 80,000. Prepare Joint Venture Account, Joint Bank Account and the Co-venturer's personal accounts.

   (**Answer:** Profit Rs. 9,000. Sundar will bring in Rs. 24,000 and Bindia will get Rs. 91,000 and Gora Rs. 55,000. Joint bank total Rs. 605,000)

4. Ajay and Banwari doing business separately as building contractors undertake jointly to construct a building for a newly setup company with Rs. 1,00,000 payable, Rs,80,000 in cash and Rs. 20,000 in fully paid shares of the company. A Joint Bank Account is opened in their names, Ajay paying in Rs. 25,000 and Banwari Rs. 15,000. They are to share profits and losses in the proportion of 2:1. Their transactions were as follows :

	Rs.
Paid wages	30,000
Bought material	70,000
Materials supplied by Ajay	5,000
Materials supplied by Banwari	4,000
Architect's fee paid by Ajay	2,000

The contract was completed and the price (cash and shares) duly received. The joint venture was closed by Ajay taking up all the shares of the company at an agreed value of Rs. 16,000 and Banwari taking up the stock of materials at an agreed value of Rs. 3,000. Show the necessary ledger accounts.

(**Answer:** Loss Rs. 12,000; Payments to Ajay Rs. 8,000 and Banwari Rs. 12,000)

5. A, B and C enter into a Joint Venture for the construction of a building for a joint stock company. The contract price is Rs. 2,00,000. Incidental expenses paid by the co-venturers will be reimbursed to the extent of actual expenditure or Rs. 10,000 whichever is less. A spends Rs. 8,000, B Rs. 10,000 and C Rs. 12,000. The profits and losses are to be shared equally, but C, being a technical person, is entitled to a commission of 10% on the profit of the venture after charging such commission. Joint Bank Account is opened wherein A deposits Rs. 40,000, B Rs. 30,000 and C Rs. 30,000. B gives his own plant to the venture for Rs. 16,000. Materials worth Rs. 40,000 and wages of Rs. 60,000 are paid out of the Joint Bank Account.

   On completion of the contract, the company paid the agreed contract price (keeping Rs. 20,000 as retention money). The contract price was paid Rs. 60,000 in cash and the balance in equity shares of the company of Rs. 10 each at an agreed value of Rs. 12 per share. The shares were subsequently sold in the market @ Rs. 13 per share. A took over the unused materials at Rs. 2,000. B took over the plant at an agreed value of Rs. 4,000 and the retention money was taken over by C at Rs. 14,000. Show necessary ledger accounts in the books of the joint venture.

   Hint: Contract price received is Rs. 1,80,000, out of which Rs. 60,000 in Cash and Rs. 1,20,000 worth of shares @ Rs. 12 per share. So, the number of shares received is Rs. 1,20,0000 12 = 10,000 shares.

   (**Answer:** Profit Rs. 60,000; Final settlement A Rs. 66,000, B Rs. 72,000; and C Rs. 52,000)

6. Devendra and Ravindra entered into a joint venture involving the buying and selling of old railway materials, the profit or loss to be shared equally. The cost of the goods purchased was Rs. 42,500 which was paid by Devendra who drew a bill on Ravindra at two months for Rs. 30,000. The bill was discounted by Devendra at a cost of Rs. 240.

   The transactions relating to the joint venture were (a) Devendra paid Rs. 300 for carriage, Rs. 500 for commission on sales and Rs. 200 travelling expenses, (b) Ravindra paid Rs. 100 for travelling expenses and Rs. 150 for sundry expenses, (c) sales made by Devendra amounted to Rs. 20,000, and (d) sales made by Ravindra were Rs. 30,000.

Goods costing Rs 1,000 and Rs. 1,500 (being unsold stock) were retained by Devendra and Ravindra respectively, and these were charged to them at prices so as to show the same gross profits as made on the total sales. Devendra was credited with a sum of Rs. 400 to cover the cost of warehousing and insurance. The expenses in connection with the bills were to be treated as a charge against the joint venture.

Show the necessary accounts in the books of each party and prepare the Memorandum Joint Venture Account

(**Answer:** Profit on Joint Venture Rs. 8,735; Payment by Devendra to RavindraRs. 2,742.50; Rate of Gross profit 25%; Stock taken over by Devendra valued at Rs. 1,250 and Ravindra at Rs. 1,875)

7. Akash and Vijay enter into a joint venture on January 1, 2018. Akash bought goods costing Rs. 4,000 and on the same day he received a cheque from Vijay for Rs. 1,500. Akash and Vijay incurred expenses as follows:

	Akash	**Vijay**
February 1	300	
April 1	300	
March 1		400
May 31		1400

Vijay sold the goods, in two months, namely, on April 1 Rs. 4,800 and on June 30 Rs. 2400. They share profits and losses equally and interest was to beallowed at5% per annum. On June 1, Vijay gives Akash a three months bill for Rs. 2,500 and on June 30, the venture was completed and the accounts settled by cheque between the parties. Calculate interest in months and show the necessary accounts.

(**Answer:** Profit: Akash Rs. 368.70 and Vijay Rs. 368.70; Akash will charge Rs. 100 as interest and Vijay will pay Rs. 47.50 as interest)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.