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**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF
ACCOUNTING**

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CHAPTER 6- Accounting for Special Transactions

- Under this chapter- we are going to study the different special business conditions for which the accounting treatment has to be studied.
- This chapter has 5 units-
 - Unit 1 Bills of Exchange
 - Unit 2-Sale on approval or return basis
 - Unit 3- Consignment
 - Unit 4- Average due date
 - Unit 5- Account current
- Out of the above consignment is little elaborate topic while the other concepts- are the most scoring topics. The marks weightage can be anywhere between 10-20 marks from the concepts.
- WE will be first dealing in the following order based on the complexity of the Unit 2,4,5,3,1.



Unit 3- Consignment

- Consignment arrangement is a special transaction which is different from the usual sale transaction.
- This is adopted generally in case of where the customers are present under different geographical areas and it is difficult for the manufacturer/ seller to reach all of them personally under his establishment.
- So to save on the expenses to open a new office at such locations- he goes in for the consignment arrangement where in he sends goods to his agent, who on his behalf sells it to the customers and remits the sale proceeds to the owner.
- The person who sends the goods is called as the CONSIGNOR (principal)
- The person who receives and sells the goods is termed as CONSIGNEE (agent)
- The ownership and the risk remains with the consignor till the goods are sold by the consignee



Unit 3- Consignment

- The consignee sends a **pro-forma invoice** to the consignor upon the receipt of the goods from him stating the details of the goods sent by consignor to him.
- The consignee receives a commission for his services rendered which is usually considered as a % on the gross sales.
- The commission can be of two types- Ordinary Commission and Del credere commission. Del credere commission is given to the consignee to bear the loss of the bad debts. Which means in case the debtor fails to pay the money due then such loss will be borne by consignee if he receives del credere. But if he is given ordinary commission then the bad debts to be accounted by the consignor.
- The consignee periodically sends an Accounts sales statement which puts forth- the sales made, the expenses borne by the consignee, any advances/bills of exchange accepted by the consignee and the remaining amount after such transactions which will be remitted to the consignor.



Unit 3- Consignment

- The consignor prepares the Consignment Account in his books to determine the profit or loss he has made on account of the consignment arrangement. If there is more than 1 consignment, then different accounts for different parties to be prepared so that the profit/loss can be ascertained separately.
- Consignment account records the following-
 - Debit side- Goods sent on consignment – (at the cost or invoice price)- this is transferred to the Trading account credit side
 - The expenses incurred by the consignor to be debited- under the head- cash/bank A/c directly without taking it to the profit and loss account.
 - The expenses incurred by the consignee to be debited- under his personal account with details of what type of expenses they are.



Unit 3- Consignment

- Consignment account records the following-
 - The sales made by the consignee based on the account sales statement to be credited – under the consignee’s personal account
 - The closing stock of inventory on the credit side (at the cost or invoice price)- this is an asset which is taken to the balance sheet of the consignor.
- When the invoice price is given in the question – then the invoice price is included in the following areas-
 - In the goods sent on consignment account- then show is on the debit side at the invoice value and remove the amount of loading (invoice price-cost) in the credit side immediately under the same head- Consignment of goods account.
 - In the Inventories on consignment account (closing stock)- then show is on the credit side at the invoice value and remove the amount of loading (invoice price-cost) in the debit side immediately under the head- Inventory- stock reserve



Unit 3- Consignment

- Computation of the closing stock-
 - This is one of the important areas of computation under the consignment account. The closing stock remaining with the consignee has to be shown in the consignment account of the consignor at the cost (if invoice price is given remove the amount of loading)
 - The following has to be included in the closing stock computation-
 - **Cost of the goods sent**
 - **Proportionate Expenses incurred by the consignor**
 - **Proportionate non –recurring Expenses incurred by the consignee- only in nature of freight, carriage, clearing/unloading charges. Do not consider- godown rent, insurance and other recurring expenses incurred by the consignee even if given in the question**



Unit 3- Consignment

- Whenever there is goods- there can be loss on account of destruction of such goods
- **The loss can be classified into – NORMAL and ABNORMAL**
- Normal loss is that loss which is dependent on the nature of the product and unavoidable. Such as Petrol is bound to have evaporation loss- which is considered as normal loss.
- Treatment- it is to be included in the cost- that is the total cost has to be apportioned over the marketable goods (total goods-normal loss).
- Abnormal loss is one which is not anticipated but it can be controlled to an extent like theft. This is one which is not spread over the cost but has to be considered separately
- Treatment- The total cost of the abnormal loss has to be credited to the consignment account. If there is insurance claim received then the net amount to be debited to profit and loss A/c.
- In the consignment account- if there is abnormal loss and insurance claim received- then both of them to be credited



Unit 3- Consignment

- **Computation of ABNORMAL loss**
- Under the consignment agreement- generally there will be loss in transit and the cost of abnormal loss can be computed as follows-
- Cost of the goods sent
- Proportionate expenses of the consignor
- ***Proportionate expenses of the consignee should not be included- since the goods have been destroyed before reaching the consignee. SO this point should be noted and it is the difference between the computation of closing stock and the abnormal loss.***
- From exam point of view- there can be question at invoice price, abnormal loss, del credere commission, bad debts and the closing stock valuation which will be dealt in the class fully.
- The entries given in the book can be understood once if the accounts are prepared and understood correctly.



THANK YOU