



Date: 3 March 2021

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

FOUNDATION LEVEL

**PAPER 1: PRINCIPLES AND PRACTICE OF
ACCOUNTING**

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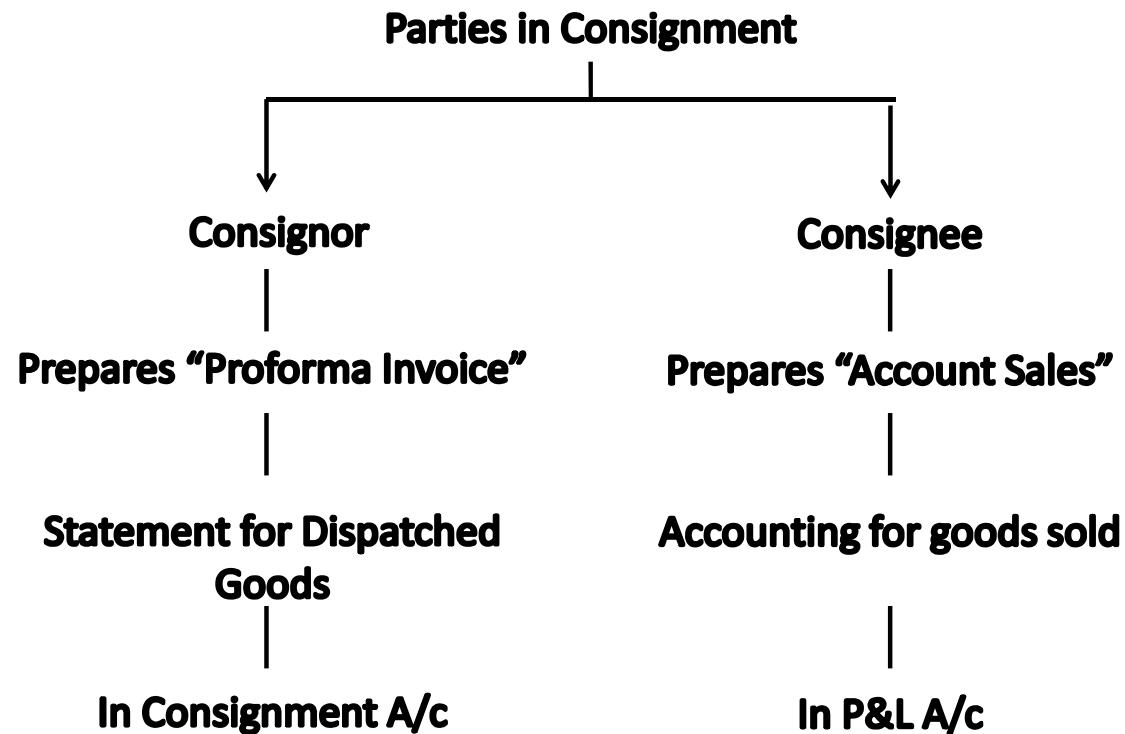
IMPORTANT TERMS

Consignment Business

=> Expansion of Business beyond local limits.



IMPORTANT TERMS





DIFFERENCE

Invoice		Proforma Invoice
	Parties	
Buyer & Seller		Consignor & Consignee
=> When goods are sold	Prepared	=> When goods are dispatched
	Prepared by	
Seller		Consignor



DIFFERENCE

Consignment	Sales
=> With Consignor although possession transferred to Consignee.	=> Transfer from Seller to Buyer with transfer of goods.
Ownership	
=> Consignee returns unsold goods to Consignor	=> Buyer can return goods only if Seller agrees.
Return of Goods	
=> Consignor bears the Loss	=> Buyer bears loss after delivery.
Loss	



DIFFERENCE

Consignment

Sales

Relationship

=> Principal & Agent

=> Creditor & Debtor

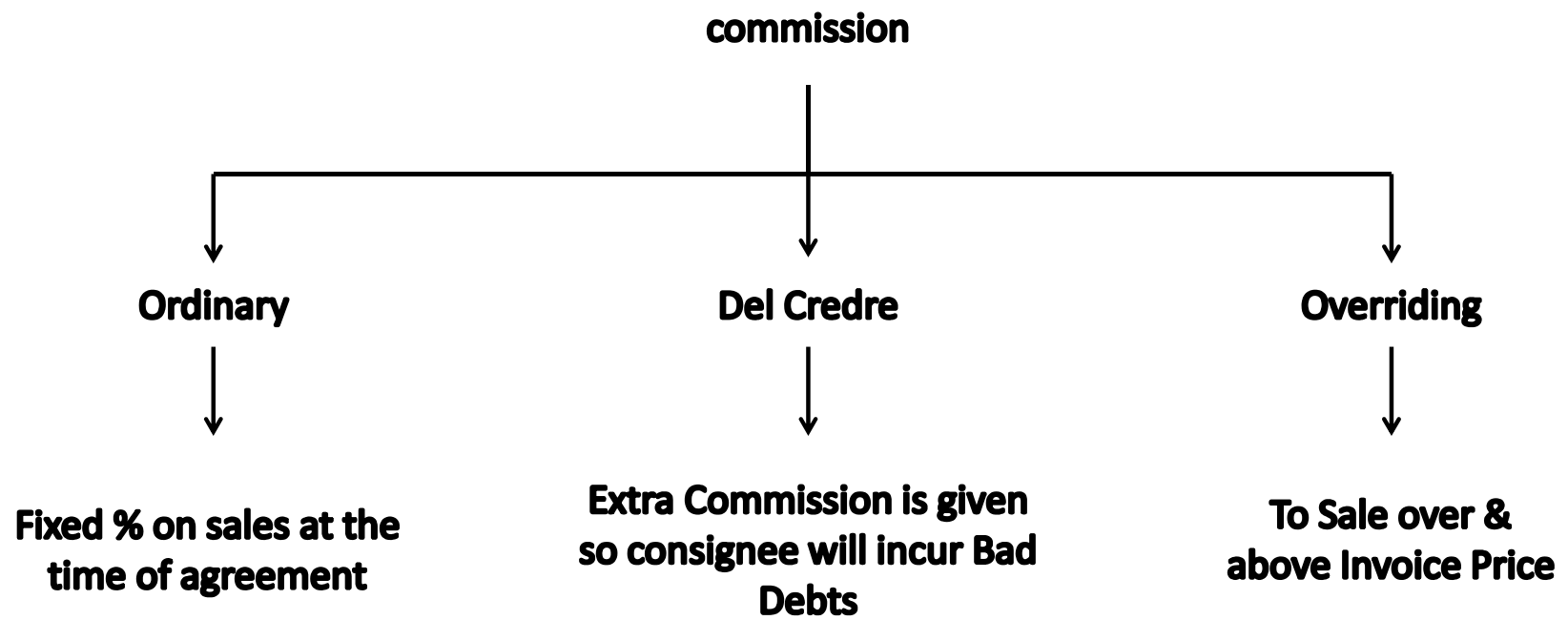
Expenses

=> Expenses of Consignee (to receive or keep goods safe) are borne by Consignor.

=> After delivery of goods expenses of buyer are borne by Buyer only.

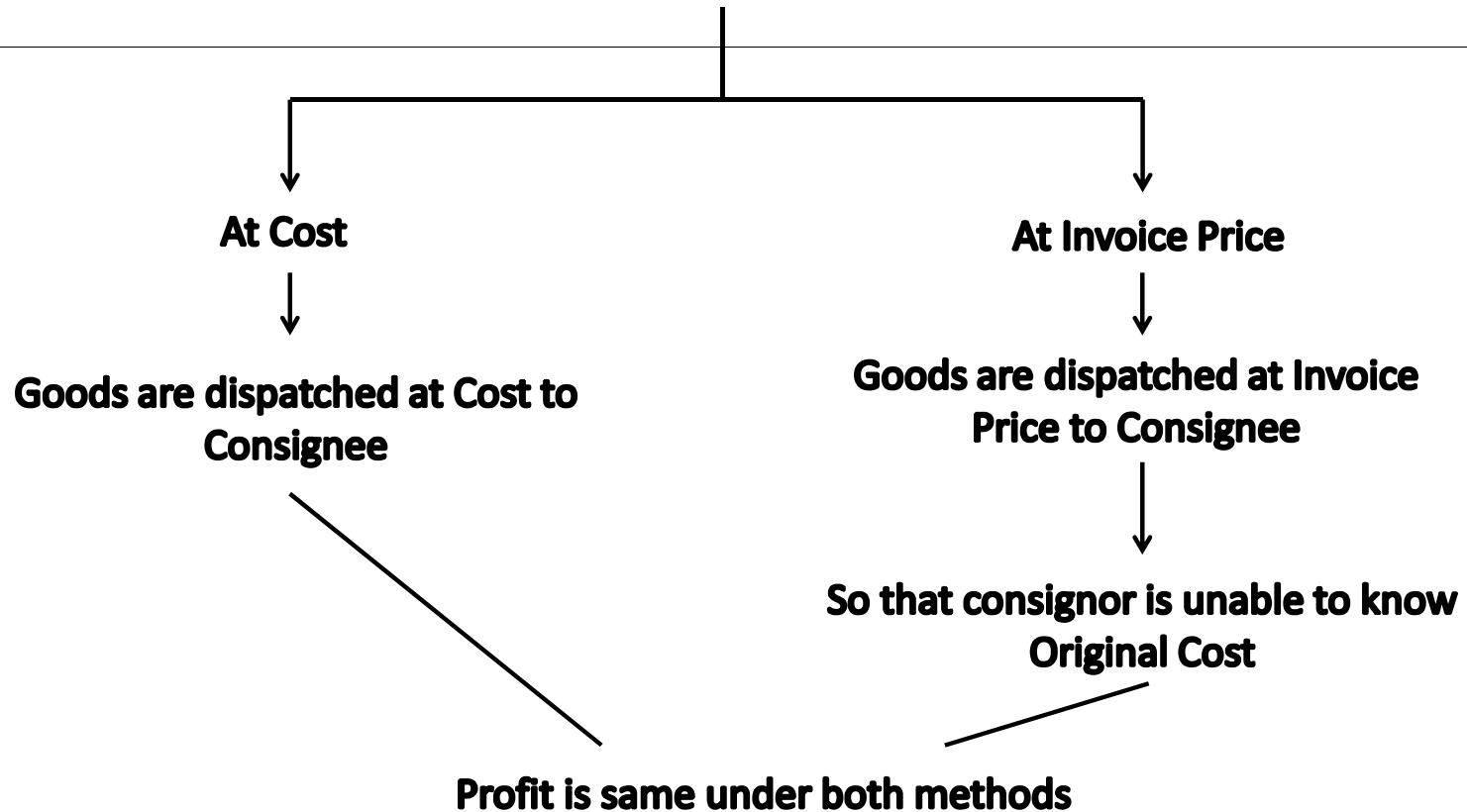


COMMISSION



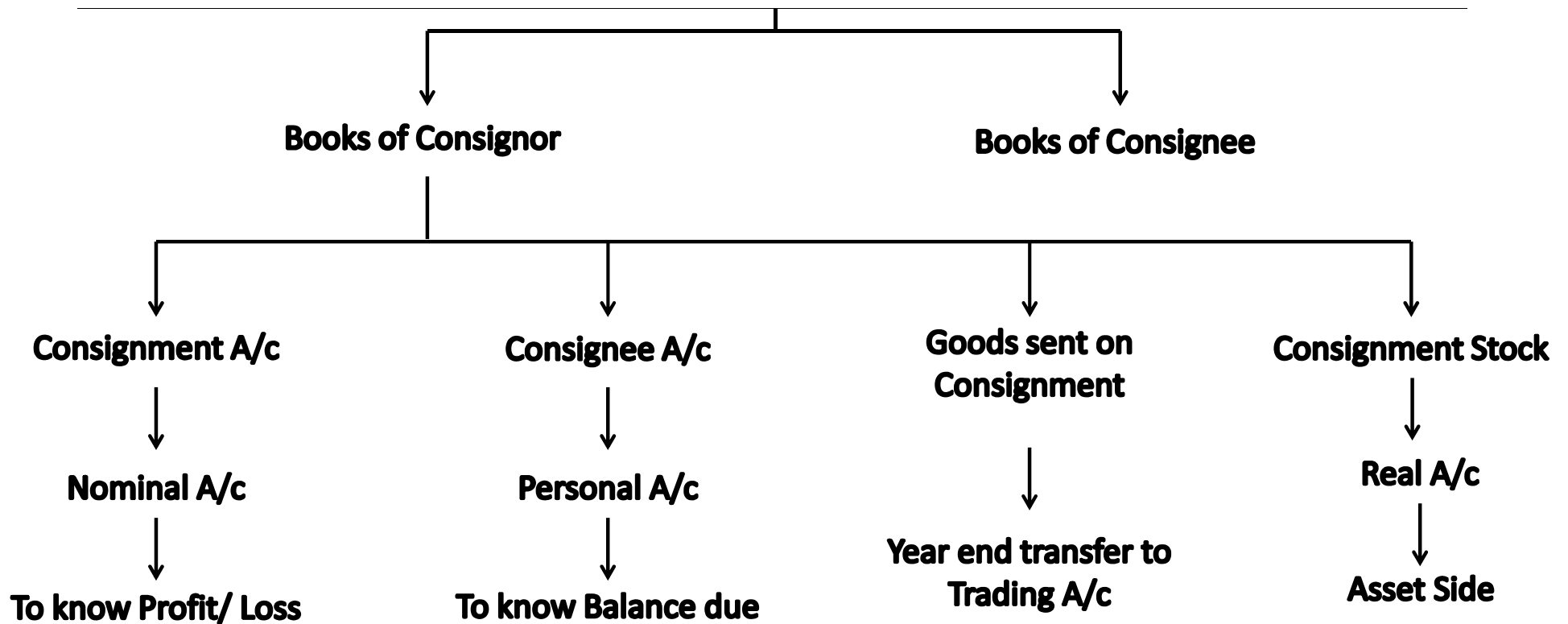


METHODS OF ACCOUNTING



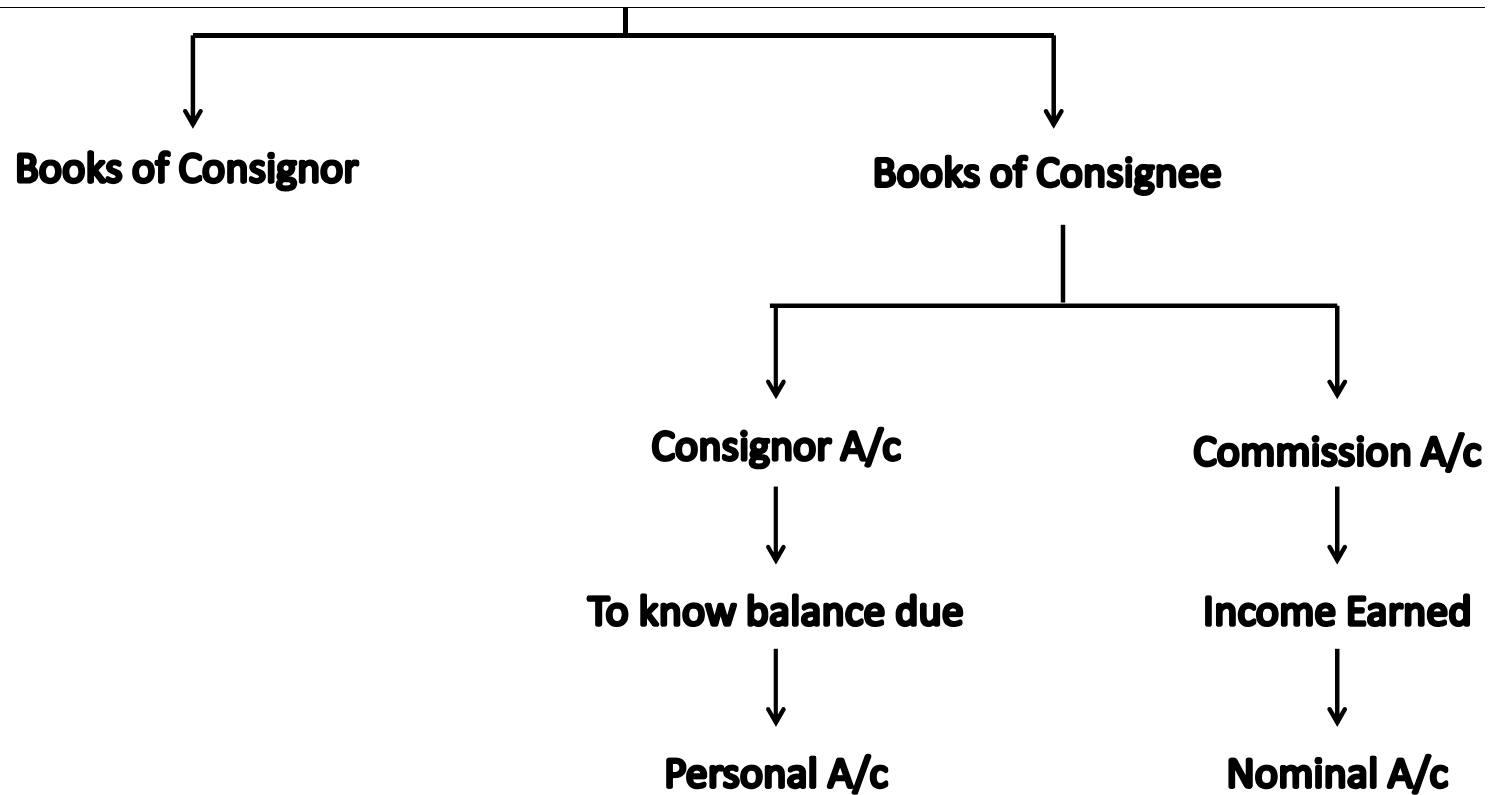


ACCOUNTING AT COST





ACCOUNTING AT COST





ACCOUNTING AT INVOICE PRICE

Opening Stock

Goods Sent on
Consignment

Closing Stock

Why goods are sent at Invoice Price ?

Reasons

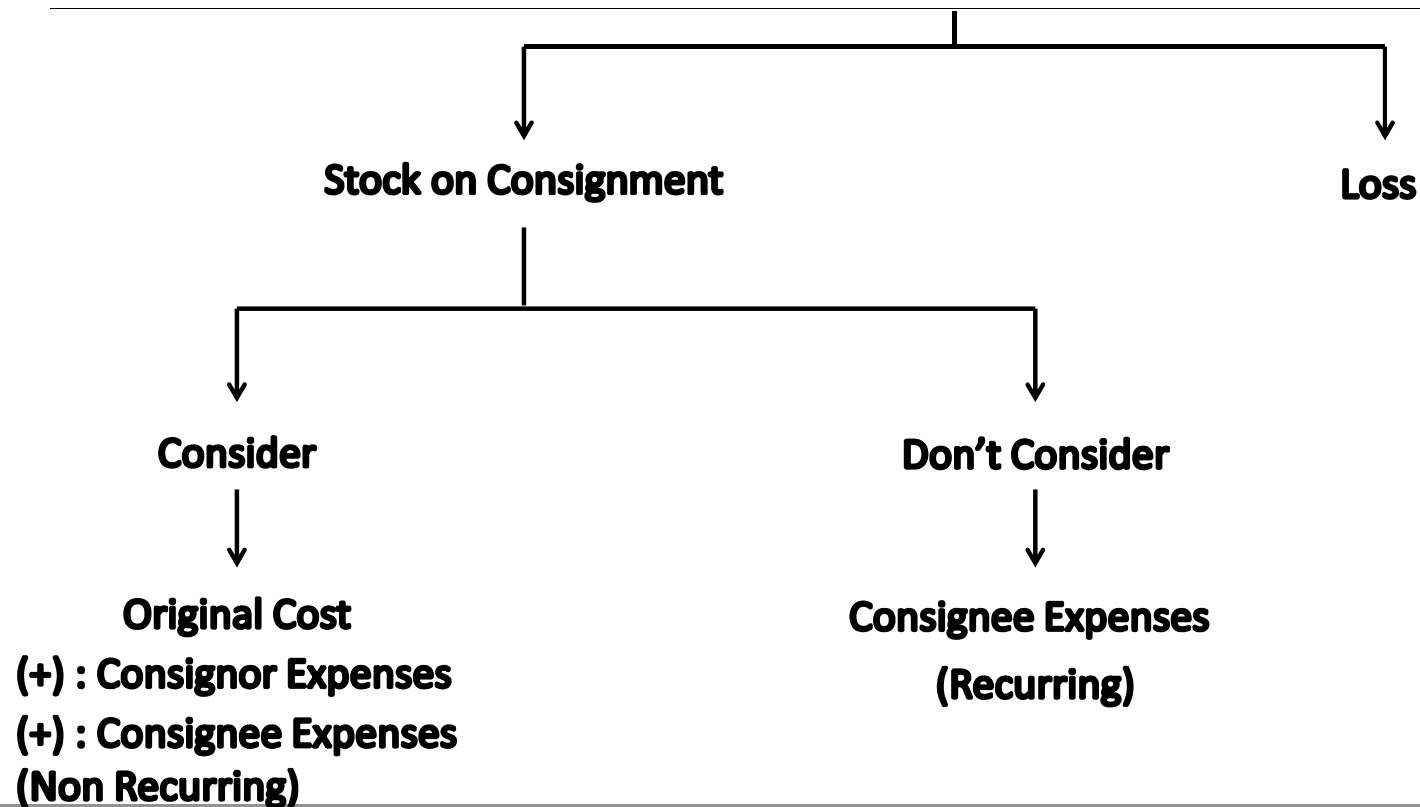
[i] To hide cost from
consignee

[ii] Not to Sale below
Invoice Price

[iii] By selling above I.P.
Consignee will get overriding
Commission

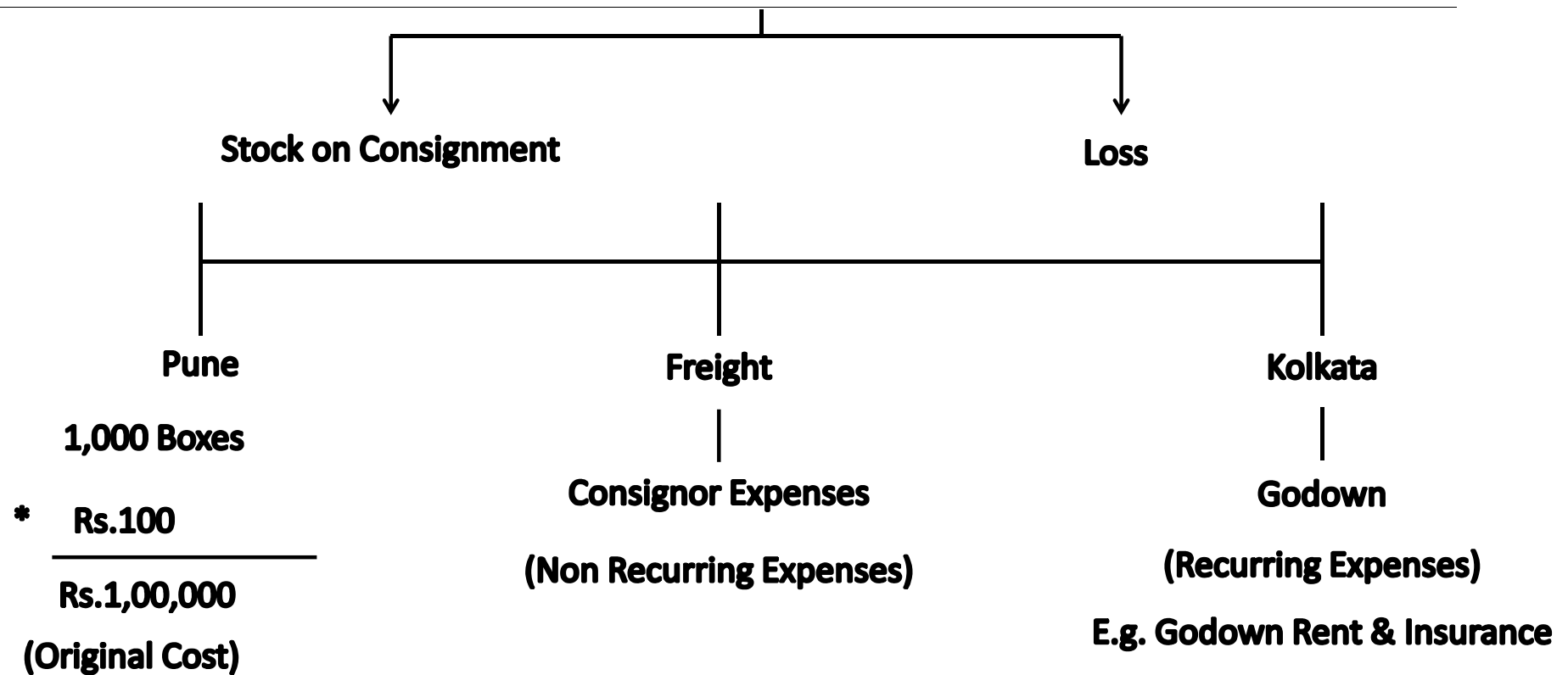


STOCK & LOSS



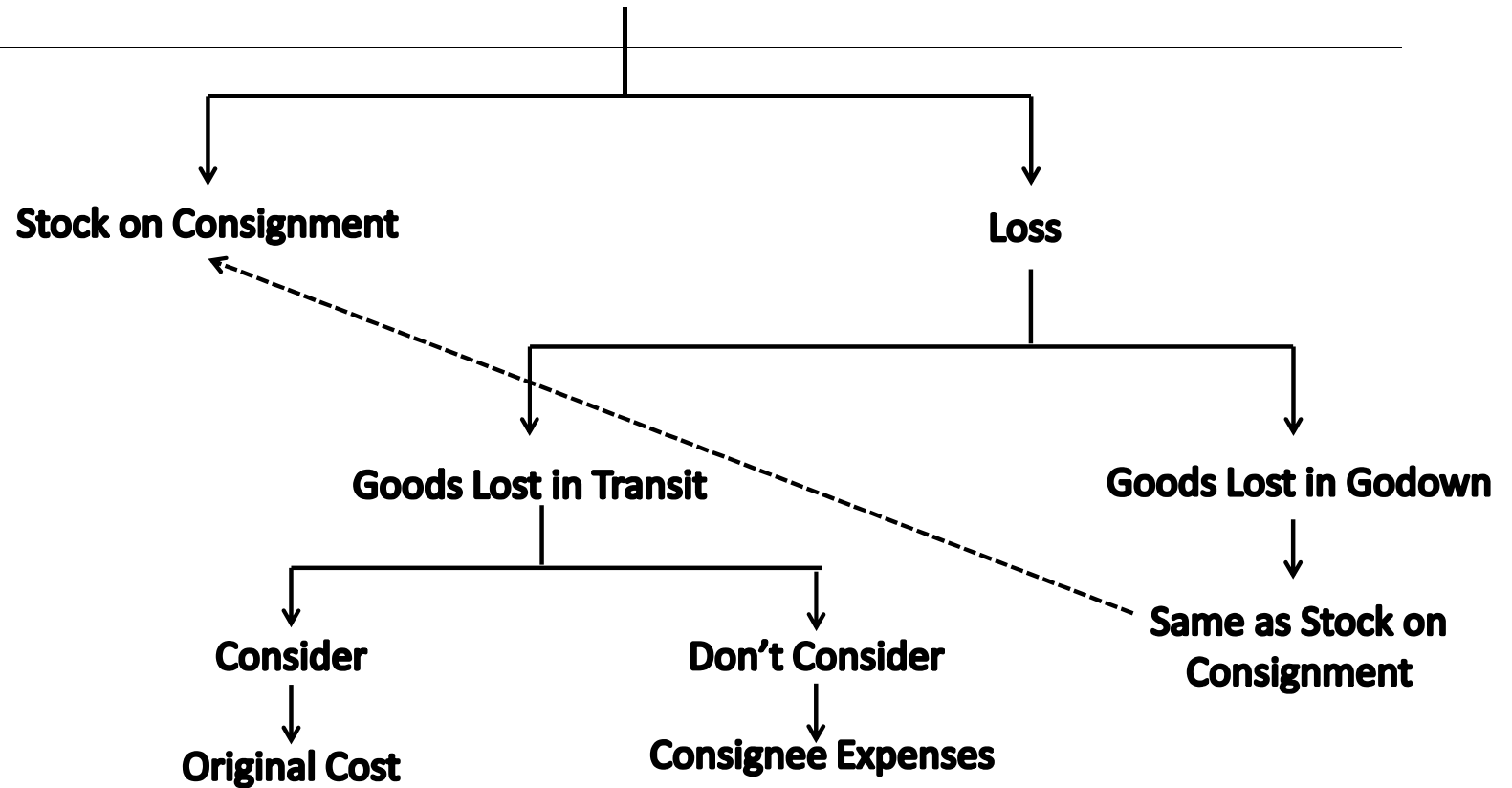


STOCK & LOSS



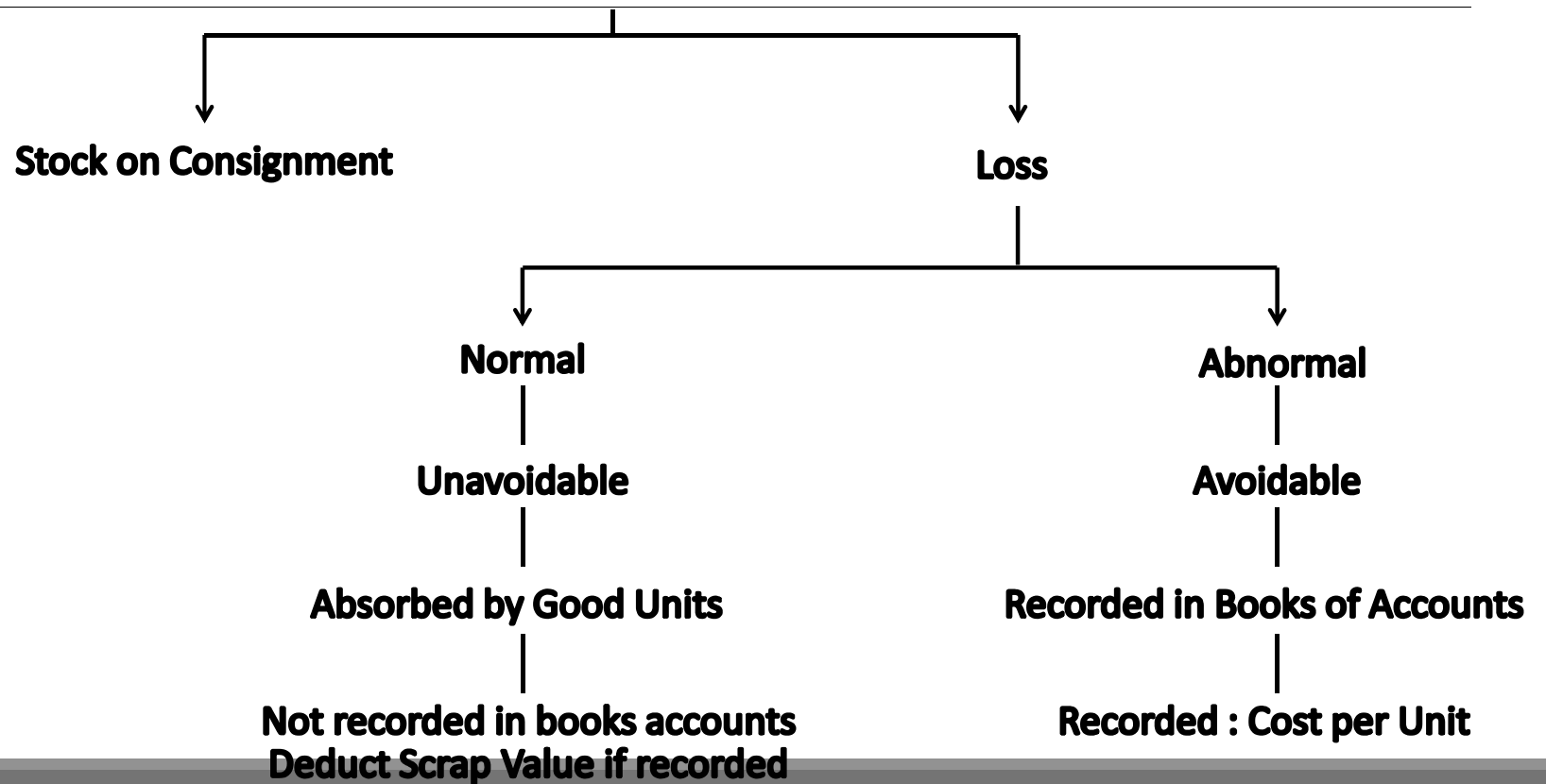


STOCK & LOSS





STOCK & LOSS





Treatment of Normal Loss

Purchases = 100 Pens * Rs.10 = Rs.1,000

Normal Loss = 10%*100 Pens = 10 Pens

$$\text{Cost/ Pen} = \frac{\text{Rs.1,000}}{90 \text{ Pens}} = \text{Rs.11.11 per Pen}$$



Trading A/c

Particulars	Qty.	Rate/ Unit	Rs.	Particulars	Qty.	Rate/ Unit	Rs.
To Purchases	100	10	1,000	By Closing Stock	90	11.11	1,000
Total			1,000	Total			1,000

Formula :

$$\text{Cost/ Unit} = \frac{\text{Total Cost} - \text{Scrap Value}}{\text{Total Units} - \text{Normal Loss in Units}}$$



Treatment of Abnormal Loss

Abnormal Loss = $10\% \times 100$ Pens = 10 Pens

Cost/ Pen = Rs.10 per Pen (Given)

Trading A/c

Particulars	Qty.	Rate/ Unit	Rs.	Particulars	Qty.	Rate/ Unit	Rs.
To Purchases	100	10	1,000	By Abnormal Loss	10	10	100
				By Closing Stock	90	10	900
Total			1,000	Total			1,000

**In the Books of Consignor
Journal Entries**



Sr. No.	Particulars	Dr.	Cr.
1]	Goods sent on Consignment Consignment A/c Dr To Goods sent on Consignment A/c (Being goods sent on Consignment)	xx	xx
2]	Consignor incurred expenses Consignment A/c Dr To Cash A/c (Being expenses incurred by consignor)	xx	xx
3]	Consignee incurred expenses Consignment A/c Dr To Consignee A/c (Being expenses incurred by consignee)	xx	xx



In the Books of Consignor
Journal Entries

Sr. No.	Particulars	Dr.	Cr.
4]	Sales made by Consignee Consignee A/c Dr To Consignment A/c (Being goods sold on Consignment)	xx	xx
5]	Commission payable to Consignee Consignment A/c Dr To Consignee A/c (Being commission payable on consignment)	xx	xx
6]	Bills receivable accepted by Consignee Bills Receivable A/c Dr To Consignee A/c (Being bill drawn accepted)	xx	xx



In the Books of Consignor
Journal Entries

Sr. No.	Particulars	Dr.	Cr.
7]	Cash sent by Consignee Cash A/c Dr To Consignee A/c (Being Cash sent by consignee)	xx	xx
8]	Stock with Consignee Stock on Consignment A/c Dr To Consignment A/c (Being stock with consignee)	xx	xx
9] a]	Profit transferred to P&L A/c Consignment A/c Dr To P&L A/c (Being Profit on consignment transferred)	xx	xx



In the Books of Consignor
Journal Entries

Sr. No.	Particulars	Dr.	Cr.
9] b]	Loss transferred to P&L A/c P&L A/c Dr To Consignment A/c (Being Loss on consignment transferred)	xx	xx
10]	Transfer to Trading A/c Goods Sent on Consignment A/c Dr To Trading A/c (Being goods sent on consignment transferred to Trading A/c)	xx	xx



In the Books of Consignee
Journal Entries

Sr. No.	Particulars	Dr.	Cr.
1]	Expenses paid by Consignee Consignor's A/c Dr To Cash A/c (Being expenses paid by consignee received)	xx	xx
2]	Sales made Cash A/c Dr To Consignor A/c (Being sales made)	xx	xx
3]	Commission Consignor A/c Dr To Commission A/c (Being commission received by consignor)	xx	xx



In the Books of Consignee
Journal Entries

Sr. No.	Particulars	Dr.	Cr.
4]	Bad Debts Commission A/c Dr To Consignor A/c (Being Bad Debts borne)	xx	xx



THANK YOU