



Special class on

Normal and Abnormal Loss in Consignment Accounting

June 10, 2020 • Ayush Gupta

Normal and Abnormal Loss in Consignment

3.6 NORMAL LOSS

If some loss is unavoidable, it would be spread over the entire consignment while valuing inventories. The total cost plus expenses incurred should be divided by the quantity available after the normal loss to ascertain the cost per unit. Suppose 10,000 kg of apples are consigned to a wholesaler, the cost being ₹30 per kg, plus ₹ 40,000 of freight. It is concluded that a loss of 15% is unavoidable. The cost per kg will be ₹3,40,000/8,500 or ₹ 40. If the unsold inventory is 1,000 kg its value will be ₹ 40,000.

Accordingly, no entry is recorded for normal loss and same is considered as expense which is considered for valuation of remaining inventory.

3.7 ABNORMAL LOSS

If any accidental or unnecessary loss occurs, the proper thing to do is to find out the cost of the goods thus lost and then to credit the Consignment Account and debit the Profit and Loss Account – this will enable the consignor to know what profit would have been earned had the loss not taken place.

Suppose 1,000 sewing machines costing ₹ 2,500 each are sent on consignment basis and ₹ 10,000 are spent on freight etc. 20 machines are damaged beyond repair. The amount of loss will be:

Cost = 20 × 2500	₹ 50,000
Expenses = (20×10,000)/1000	₹ 200
	<hr/>
	₹ 50,200

This amount should be credited to the Consignment Account and debited to the P&L A/c. If any amount, say, ₹ 40,000 is received from the insurers, then debit to the P&L A/c will be only ₹ 10,200. But the credit to the Consignment Account will still be ₹ 50,200. ₹ 40,000 will have been debited to the Bank Account.

Students shall note that abnormal loss is valued just like inventories in hand.



ILLUSTRATION 3

Miss Rakhi consigned 1,000 radio sets costing ₹900 each to Miss Geeta, her agent on 1st July, 2016. Miss Rakhi incurred the following expenditure on sending the consignment.

Freight	₹ 7,650
Insurance	₹ 3,250

Miss Geeta received the delivery of 950 radio sets. An account sale dated 30th November, 2016 showed that 750 sets were sold for ₹9,00,000 and Miss Geeta incurred ₹10,500 for carriage.

Miss Geeta was entitled to commission 6% on the sales effected by her. She incurred expenses amounting to ₹2,500 for repairing the damaged radio sets remaining in the inventories.

Miss Rakhi lodged a claim with the insurance company which was admitted at ₹35,000. Show the Consignment Account and Miss Geeta's Account in the books of Miss Rakhi.

**In the books of Miss Rakhi
Consignment Account**

Particulars		₹	Particulars	₹
To Goods sent on Consignment A/c		9,00,000	By Miss Geeta	9,00,000
To Cash			By Insurance Co.	35,000
Freight	7,650		By Profit & Loss A/c abnormal loss(net)	10,545
Insurance	3,250	10,900	By Consignment Inventories	1,84,391
To Miss Geeta				
Carriage	10,500			
Repairs	2,500			
Commission	54,000	67,000		
To Profit & Loss A/c		1,52,036		
		11,29,936		11,29,936

Miss Geeta's Account

Particulars	₹		Particulars	₹	₹
To Consignment A/c (Sales)	9,00,000	By	Consignment A/c		
			Expenses:		
			Carriage	10,500	
			Repairs	2,500	
			Commission	54,000	67,000
		By	Bank(bal. fig.)		8,33,000
	9,00,000				9,00,000

Note: It is assumed that the agent has remitted the amount due from her.

Working Notes:

1. Abnormal loss :

Cost to the consignor: 50 sets @ ₹ 900	45,000
Add: Proportionate expenses incurred by the consignor $\frac{50 \times 10,900}{1,000}$	<u>545</u>
Gross abnormal loss	45,545
Less: Insurance claim	<u>(35,000)</u>
Net abnormal loss	<u>10,545</u>

2. Valuation of Inventories

200 sets @ ₹ 900	1,80,000
Add: Proportionate expenses of the consignor $\frac{200 \times 10,900}{1,000}$	2,180
Add: Carriage and customs duty paid by the consignee $\frac{200 \times 10,500}{950}$	2,211
	<u>1,84,391</u>

ILLUSTRATION 4

Vikram Milk Foods Co. Ltd. of Vikrampur sent to Sunder Stores, Sonepuri 5,000 kgs of baby food packed in 2,000 tins of net weight 1 kg and 6,000 packets of net weight 1/2 kg for sale on consignment basis. The consignee's commission was fixed at 5% of sale proceeds. The cost price and selling price of the product were as under:

	1 kg. tin	1/2 kg. packet
	₹	₹
Cost Price	10	6
Selling Price	15	7

The consignment was booked on freight "To Pay" basis, and freight charges came to 2% of selling value. One case containing 50 (1kg. tins) was lost in transit and the transport carrier admitted a claim of ₹450.

At the end of the first half-year, the following information is gathered from the "Account Sales" sent by the consignee:

- (i) Sale proceeds:
- | | |
|-------|-----------------|
| 1,500 | 1 kg. tins |
| 4,000 | 1/2 kg. packets |

(ii) Store rent and insurance charges ₹ 600.

Find out the value of closing inventory on consignment.

Show the Consignment A/c and the Consignee's A/c in the books of Vikram Milk Food Co. Ltd. assuming that the consignee had paid the amount due from him.

Vikram Milk Foods Co. Ltd.
Consignment to Sonepuri Account

Particulars		₹	Particulars		₹
To Goods sent on Consignment A/c 2,000 1 kg. tins @ ₹ 10 6,000 1/2 kg. pkts. @ ₹ 6	20,000 36,000	56,000	By Sunder Stores 1,500 1 kg. tins @ ₹ 15 4,000 1/2 kg. pkts. @ ₹ 7	22,500 28,000	50,500
To Sunder Stores: Freight Rent and insurance Commission	1,440 600 2,525	4,565	By Insurance - Claim By Profit & Loss A/c - abnormal loss(Net) By Inventory on consignment A/c	450 65 16,915	
To Profit & Loss A/c – Profit		7,365			
		67,930			67,930

Sunder Stores, Sonepuri

Particulars		₹	Particulars		₹
To Consignment to Sonepuri Account - Sales Proceeds		50,500	By Consignment to Sonepuri Account - Freight Rent & Insurance Commission By Bank(Bal. fig)	1,440 600 2,525 45,935	
		50,500			50,500

Working Notes:

(i) **Sale value of total consignment:**

2,000 1 kg. tins @ ₹ 15

30,000

6,000 1/2 kg. pkts. @ ₹ 7

42,000

72,000

(ii) **Freight @ 2% of above**

1,440

(iii) **Inventories at the end:**

450 1 kg. tins @ ₹ 10 (Selling Price ₹ 6,750)

4,500

2,000 1/2 kg. pkts. @ ₹ 6 (Selling Price ₹ 14,000)

12,000

16,500

Add: Freight 2% of (Selling Price ₹ 20,750)

415

16,915

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(iv) **Loss in transit:**

Cost of 50 1 kg. tins @ ₹ 10

500

Freight @ 2% of Selling Price ₹ 750

15

Gross abnormal Loss

515

Less: Claim

(450)

Net abnormal Loss

65

Question 4

(a) Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

- (i) The amount of abnormal loss
- (ii) Value of stock at the end and
- (iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

Answer**(a)****Consignment Account**

	₹			₹
To Goods sent on consignment A/c (15,000 kg x ₹ 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ₹ 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN) (Profit and Loss Account)	<u>5,000</u>	14,000
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	<u>7,10,690</u>			<u>7,10,690</u>

Working Notes:

- Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹5 per kg	<u>2,000</u>
Gross Amount of abnormal loss	14,000
Less: Insurance claim	<u>(9,000)</u>
Net abnormal loss	<u>5,000</u>

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	<u>(400)</u>	<u>(14,000)</u>
	14,600	5,11,000
Less: Normal Loss	<u>(100)</u>	
	14,500	5,11,000
Less: Quantity of ghee sold	<u>(7,500)</u>	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – $(5,11,000/14,500) \times 7,000$		<u>2,46,690</u>

ILLUSTRATION 6

Ajay of Mumbai consigned to Vijay of Delhi, goods to be sold at invoice price which represents 125% of cost. Vijay is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Ajay were ₹10,000. The account sales received by Ajay shows that Vijay has effected sales amounting to ₹1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹8,000. 10% of consignment goods of the value of ₹12,500 were destroyed in fire at the Delhi godown and the insurance company paid ₹12,000 net of salvage. Vijay remitted the balance in favour of Ajay. Prepare consignment account and the account of Vijay in the books of Ajay along with the necessary calculations.

SOLUTION

Books of Ajay Consignment to Vijay Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,25,000	By Goods sent on Consignment A/c (Loading)	25,000
To Cash A/c	10,000	By Abnormal Loss	11,000
To Vijay(Expenses)	8,000	By Vijay (Sales)	1,00,000
To Vijay(Commission)	10,938	By Inventories on Consignment A/c	20,250
To Inventories Reserve A/c	3,750	By General Profit & Loss A/c	1,438
	1,57,688		1,57,688

Vijay's Account

Particulars	₹	Particulars	₹
To Consignment A/c	1,00,000	By Consignment A/c	8,000
		By Consignment A/c	10,938
		By Bank A/c	81,062
	1,00,000		1,00,000

Working Notes:

1. Calculation of value of goods sent on consignment:

Abnormal Loss at Invoice price	= ₹ 12,500.
Abnormal Loss as a percentage of total consignment	= 10%.
Hence the value of goods sent on consignment	= ₹ 12,500 X 100/ 10 = ₹ 1,25,000.
Loading of goods sent on consignment	= ₹ 1,25,000 X 25/125 = ₹ 25,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price = ₹ 12,500.	=	₹ 10,000
Abnormal Loss at cost = ₹ 12,500 X 100/125	=	₹ 1,000
Proportionate expenses of Ajay (10 % of ₹10,000)	=	₹ 11,000

3. Calculation of closing Inventories (15%):

Ajay's Basic Invoice price of consignment	=	₹ 1,25,000
Ajay's expenses on consignment	=	₹ 10,000
		₹ 1,35,000
Value of closing Inventories = 15% of ₹ 1,35,000	=	₹ 20,250
Loading in closing Inventories = ₹25,000 X 15/100	=	₹ 3,750

Where ₹18,750 (15% of ₹1,25,000) is the basic invoice price of the goods sent on consignment remaining unsold.

4. Calculation of commission:

Invoice price of the goods sold	= 75% of ₹ 1,25,000 = ₹ 93,750
Excess of selling price over invoice price	= ₹ 6,250 (₹ 1,00,000- ₹ 93,750)
Total commission	= 10% of ₹ 93,750 + 25% of ₹ 6,250
	= ₹ 9,375 + ₹ 1,562.50
	= ₹ 10,937.50 OR 10,938

Note:

1. It has been assumed that final payment received from Vijay.
2. Abnormal loss is always calculated at cost even if invoice price of goods is given.
3. Value of inventories always valued at invoice price if invoice price is given.