

CONSIGNMENT

- To consign means to SEND
- In Accounting, the term “Consignment Account” relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold ON BEHALF OF AND AT THE RISK OF THE FORMER.
- The following should be noted carefully :
There are 2 parties to Consignment
 - a) The party which sends the goods (consignor) is called PRINCIPAL
 - b) The party to whom goods are sent (consignee) is called AGENT
 - c) The ownership of the goods i.e. the property in the goods, remains with the consignor or the principal - the agent does not become its owner even though he is in possession of the same. On sale, of course, the BUYER WILL BECOME THE OWNER

- d) The principal does not send an invoice to the agent. He sends only a proforma invoice, a statement that looks like an invoice but IS REALLY NOT ONE. The object of the proforma invoice is only to convey information to the agent regarding particulars of the goods sent.
- e) Usually, the agent recovers from the principal all expenses incurred by him on the consignment. This however can be changed by agreement between the two parties
- f) It is also usual for the agent to give an advance to the principal in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods
- g) For his work, the agent receives a commission, calculated on the basis of GROSS SALE. For Ordinary Commission, the agent is not responsible for any BAD DEBT that may arise.

- If the agent is to be made responsible for bad debts, he is to be paid a commission called DEL CREDERE COMMISSION. It is calculated on TOTAL SALES, not merely on credit sales until and unless agreed.
- h) Periodically, the agent sends to the principal a statement called ACCOUNT SALES. It sets out the sales made by the agent, the expenses incurred on behalf of the principal, the commission earned by the agent and the balance due to the principal.
 - i) Firms usually like to ascertain the profit or loss on each CONSIGNMENT OR CONSIGNMENTS to each agent.
 - j) Consignment account relates to accounts dealing with such business where one person sends goods to another person on the basis that such goods will be sold on behalf of and at the risk of the former.

DIFFERENCE BETWEEN CONSIGNMENT AND SALE

| S. No. | CONSIGNMENT | SALE |
|--------|--|--|
| 1 | Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee | The ownership of the goods transfers with the transfer of goods from the seller to the buyer |
| 2 | The consignee can return the unsold goods to the consignor | Goods sold are the property of the buyer and can be returned only if the seller agrees |
| 3 | Consignor bears the loss of goods held with the consignee | It is the buyer who will bear the loss if any, after the delivery of the goods |
| 4 | The relationship between the consignor and the consignee is that of a PRINCIPAL and AGENT | The relationship between the seller and the buyer is that of a CREDITOR AND A DEBTOR |
| 5 | Expenses done by the consignee to receive the goods and to keep it safely is borne by the consignor | Expenses incurred by the buyer are to be borne by the buyer itself after the delivery of the goods |

ACCOUNT SALES :

An Account Sale is the periodical summary statement sent by the consignee to the consignor. It contains details regarding

- a) Sales made
- b) Expenses incurred on behalf of the consignor
- c) Commission earned
- d) Unsold inventories left out with consignee

e) Advance amount or security deposited with the consignor

f) Balance payment due or remitted

How to ascertain the Profit in the books of Consignor

Open the Consignment A/c and put down the cost of goods and other expenses incurred on the DEBIT SIDE

Enter Sale Proceeds as also the cost of goods remaining unsold on the CREDIT SIDE

Excess of Credit Side amount over the Debit Side is PROFIT

Question No. 1

Mr. X sent on 1.7.2018 to Mr. Y goods costing Rs.50000 and spent Rs.1000 on packing etc.. On 3rd July 2018, Mr. Y received the goods and sent his acceptance to Mr. X for Rs.30000 payable at 3 months.

Mr. Y spent Rs.2000 on freight and cartage, Rs.500 on godown rent and Rs.300 on insurance.

On 31st December 2018, he sent his Account Sales (alongwith the amount due to Mr. X) showing that 4/5 of the goods have been sold for Rs.55000.

Mr. Y is entitled to a commission of 10%

One of the customers turned insolvent and could not pay Rs.600 due from him.

Show the necessary journal entries, Ledger Accounts.

Journal Entries (in the books of Mr. X)

- | | | |
|--|-------|-------|
| 1. Consignment a/c Dr. | 50000 | |
| To Goods Sent on Consignment | | 50000 |
| (Being goods sent on consignment) | | |
| 2. Consignment a/c Dr. | 1000 | |
| To Bank a/c | | 1000 |
| (Being expenses incurred by the consignor) | | |
| 3. Bills Receivable a/c Dr. | 30000 | |
| To Mr. Y | | 30000 |
| (Being advance amount received from Mr. Y dated 3 rd July 2018) | | |
| 4. Bank a/c Dr. | 30000 | |
| To Bills Receivable | | 30000 |
| (Being amount credited on maturity) | | |
| 5. Mr. Y a/c Dr. | 55000 | |
| To Consignment | | 55000 |
| (Being sale amount received alongwith "Account Sales") | | |

| | | |
|--|-------|-------|
| 6. Consignment a/c Dr. | 3400 | |
| To Mr. Y | | 3400 |
| (Being expenses incurred by the consignee as well as bad debts suffered by him on behalf of Mr. X) | | |
| 7. Consignment a/c Dr. | 5500 | |
| To Mr. Y | | 5500 |
| (Being commission paid to Mr. Y) | | |
| 8. Bank a/c Dr. | 16100 | |
| To Mr.Y | | 16100 |
| (Being amount remitted) | | |
| 9. Inventory on consignment a/c Dr. | 10600 | |
| To Consignment | | 10600 |
| (Being unsold inventories) | | |
| 10. Consignment a/c Dr. | 5700 | |
| To Profit and Loss a/c | | 5700 |
| (Being profit made in the consignment) | | |

GOODS SENT ON CONSIGNMENT A/C

Dr.

Cr.

| | | | |
|----------------|--------------|----------------|--------------|
| To Trading a/c | 50000 | By Consignment | 50000 |
| | | | |
| | 50000 | | 50000 |

Y A/C

Dr.

Cr.

| | | | |
|----------------|--------------|---------------------|--------------|
| To Consignment | 55000 | By Bills Receivable | 30000 |
| | | By Consignment | |
| | | 3400 | |
| | | 5500 | |
| | | ----- | 8900 |
| | | By Bank | |
| | | (Balance Received) | 16100 |
| | | | |
| | 55000 | | 55000 |

Note :

Cost of Inventories

= $\frac{1}{5}$ of cost to Mr. X = $\frac{1}{5}$ of Rs.50000 = Rs.10000

Add : $\frac{1}{5}$ of expenses incurred = $\frac{1}{5}$ of Rs.1000 = Rs.200

Add : $\frac{1}{5}$ of freight = $\frac{1}{5}$ of Rs.2000 = Rs.400

Total = Rs. 10000 + Rs.200 + Rs.400 = Rs.10600

GODOWN RENT, INSURANCE SHALL NOT BE CONSIDERED.

INVENTORIES ON CONSIGNMENT ACCOUNT IS AN ASSET AND IT WILL BE SHOWN IN THE BALANCE SHEET OF Mr. X.

Next Year, it will be transferred to the Debit of Consignment A/c.

Valuation of Inventories :

- In the case of consignment, COST MEANS not only the cost of goods as such to the consignor but also all expenses incurred till the goods reach the premises of the CONSIGNEE
e.g. Packaging, Freight, Cartage, Insurance in Transit, Octroi etc.

The following are not included

e.g. Godown Rent, Insurance of godown, delivery charges etc.)

TERMINOLOGIES / TREATMENT OF LOSSES

- **Abnormal Loss :**

If any accidental or unnecessary loss occurs

e.g. Suppose, 1000 sewing machines costing Rs.250 each sent on consignment basis and Rs.10000 spent on freight. 20 machines are damaged beyond repair.

The amount of loss will be :

Cost = 20 @ Rs.250 = Rs.5000

Expenses = 20 / 1000 * 10000 = Rs.200

TOTAL = Rs.5000 + Rs.200 = Rs.5200

The amount should be credited to the consignment a/c and debited to P&L a/c.

Abnormal loss is valued just like INVENTORIES IN HAND.

- **Normal Loss :**

If some loss is essential and unavoidable, it would be spread over the entire consignment while valuing inventories.

e.g. Suppose 1000 kgs of apples are consigned to a wholesaler, the cost being Rs.3 per kg, plus Rs.400 for freight. It is concluded that a loss of Rs.15% is unavoidable.

The cost per kg will be $\text{Rs.}3400 / 850 = \text{Rs.}4$

If the inventories is 100 kg, its value will be Rs.400/-

- **Commission:**

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods.

3 types of commission can be provided by the consignor to the consignee, as per the agreement, either simultaneously or in isolation.

a) Ordinary Commission

The term commission simply denotes ordinary commission. It is based on fixed percentage of the gross sale proceeds made by the consignee.

It is given by the consignor regardless of whether the consignee is making credit sales or not.

This type of commission does not give any protection to the consignor from bad debts and is provided on total sales.

b) DEL CREDERE COMMISSION

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as DEL CREDERE COMMISSION which is generally calculated on credit sales.

This additional commission when provided to the consignee gives a protection to the consignor against BAD DEBTS.

c) OVERRIDING COMMISSION

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price than the specified price in order to encourage the consignee to put hard work in introducing new product in the market.

Questions

1. Mr. P of Delhi sends out 100 boxes of toothpaste costing Rs.200 each. Each box consists of 12 packets. 60 boxes were sold by consignee and at Rs.20 per packet.

Amount of sale will be :

a) **Rs.14400 (12 * 60 * 20)**

b) Rs.12000

c) Rs.13200

d) Rs.14200

2. Goods costing Rs.2 lakh sent out to consignee at cost + 25%. Invoice value of the goods will be

a)250000

b)240000

c) 300000

d)None of the above

3. Commission will be shared by

a) Consignor & consignee

b)Only consignee

c) Only Consignor

d)Third

4. Consignment A/c is

a) Real a/c

b)Personal a/c

c) Nominal a/c

d)None of the above

5. In consignment accounting, to consign means
- a) To receive
 - b) To purchase
 - b) To send**
 - c) To transfer
6. Which of the following term is true about consignment
- a) Sale of goods
 - b) Hypothecation of goods
 - c) Shipment of goods**
 - d) Mortgage of goods
7. The owner of the consignment stock is
- a) Consignor**
 - b) Consignee
 - c) Debtors
 - d) None
8. A proforma invoice is sent by
- a) Consignee to consignor
 - b) Consignor to consignee**
 - c) Debtors to consignee
 - d) Debtors to consignor

9. A periodic statement furnished by the consignee to consignor is
- a) Proforma invoice
 - b) Debit note
 - c) Account sales**
 - d) None of the above
10. Overriding commission is generally calculated on
- a) Cash sale only
 - b) Total sales exceeding invoice value / cost**
 - c) Credit sales
 - d) None of the above
11. The unsold stock on consignment is valued at
- a) Original cost of goods
 - b) Original cost Plus non-recurring (direct) expenses incurred by both consignor and consignee**
 - c) Original cost plus non-recurring (direct) expenses incurred only by the consignor
 - d) Original cost plus all expenses

12. Goods valued at invoice price refers to
- a) **Valued at higher price than its original cost**
 - b) Valued at lower price than its original cost
 - c) Selling price quoted by the consignor
 - d) Selling price
13. Main objective of sending goods at invoice price is to
- a) Reduce profit
 - b) Reduce Income Tax
 - c) **Keep the real profit a secret**
 - d) None of these
14. In case of consignment, abnormal loss is valued at
- a) **Cost price**
 - b) Invoice price
 - c) Market price
 - d) None of the above

15. Normal loss in case of consignment means

- a) **Loss which cannot be ignored**
- b) Loss which is uncertain
- c) Loss which is certain and can be avoided
- d) None of these

16. Loss of stock is said to be normal when

- a) It is because of bad packing
- b) **It is unavoidable and natural**
- c) The stock is destroyed in fire
- d) It is a loss by way of theft

17. Commission provided by the consignor to the consignee to promote credit sale is known as

- a) Ordinary commission
- b) **Del-credere commission**
- c) Over-riding commission
- d) Special commission

18. Which commission is given by the consignor to protect itself from the bad debts
- a) Ordinary commission
 - b) Del-credere commission**
 - c) Overriding commission
 - d) None of the above