

ACCOUNTING FOR CONSIGNMENT

A shipment of goods by a manufacturer or wholesale dealer to an agent in home country or abroad on commission basis and on the risk and accounts of the former is known as consignment. However, while sending goods the manufacturer or whole seller will get a sum as advance from the agent.

The person who sends the goods are called consignor and the person to whom the goods sent are known as consignee.

Here the goods sent to the consignee cannot be treated as sales at the time of shipment, it will be treated as sales only when it is sold by the agent i.e. consignee. Therefore, it requires accounting treatment.

When goods are consigned, the consignor will prepare a statement called **proforma invoice**, giving details about the goods consigned, the weight, price, quantity, etc.

After receiving the goods and selling it, the consignee will sent a statement to the consignor which is called **Account sales** giving details about the goods sold, the amount collected, expenses incurred, commission due etc. and the net amount due to the consignor.

The benefit the consignee gets from the consignment is the commission, it may be ordinary commission or Del credere commission. **Ordinary commission** is the amount paid to the consignee for the sales made by him. However, in case of credit sale, the risk of bad debts is there. As the goods are belongs to the consignor, the consignee is not responsible for the loss of bad debts, if, however the consignee agrees to take responsibility for the credit sales, he will be paid extra commission, which is called **del credere commission**.

SALES	CONSIGNEMENT
Legal ownership transferred to buyer at the time of sales	Legal ownership will not be transferred to consignee as he is only agent
Here the relationship is buyer and seller	Here it is principal and agent
Expenses after transfer met by the buyer	Expenses incurred after transfer is also met by the principal.
Risk after sale lies with the buyer	Risk after transfer also lies with the consignor.
Unsold goods with the buyer is the stock of buyer	Unsold goods with the consignee is the stock of consignor.

Journal entries to be posted in the books of consignor and consignee

In the books of consignor	In the books of consignee
For goods consigned Consignment A/c. To Goods sent to consignment A/c.	For goods received from consignor No entry

For expenses paid by consignor Consignment A/c. To bank A/c.	For expenses paid by consignor No entry
For advance received from consignee Bank A/c. or Bills Receivable A/c. To Consignee A/c.	For Advance paid to the consignor Consignor A/c. To Bank A/c. or Bills payable A/c.
For goods sold by the consignee Consignee A/c To Consignment A/c.	For goods sold Bank A/c. To Consignor A/c.
For expenses paid by consignee Consignment A/c. To Consignee A/c.	For expenses paid by the consignee Consignor A/c. To Bank A/c.
For commission payable to consignee Consignment A/c. To Consignee A/c.	For commission receivable Consignor A/c. To Commission A/c.
For final settlement from consignee Bank A/c. To Consignee A/c.	For final settlement to consignor Consignor A/c. To bank A/c.
For consignment stock Consignment Stock A/c. To Consignment A/c.	No entry
For profit on consignment Consignment A/c. To profit and loss A/c.	No entry
For loss on consignment Profit and loss A/c. To consignment A/c.	No entry
For closing goods sent to consignment Goods Sent to consignment A/c. To Trading A/c.	No entry
In case goods sent at invoice price, then at the end the difference (Invoice – cost should be account for by passing this entry Goods sent to consignment A/c. To Consignment A/c.	

Valuation of unsold stock in consignment

At the end of the accounting period, some of the goods with the consignee may be unsold which is called stock and it should be valued and included in the consignment account to find out the correct profit.

Stock should normally be valued at cost or market price whichever is less. While computing the value of stock all expenses incurred to bring the goods to the godown of the consignee such as freight, Octroi duty, insurance, packing charge, etc should be included. However expenses incurred after it reaches godown should not be considered.

Normal loss: While sending goods on consignment, it is normal that some goods may be lost because of evaporation, leakage, etc. Such loss is called normal loss.

Whatever efforts taken by both side will not stop such loss. Hence, the normal loss should be absorbed by the goods unit and there is no accounting treatment for this loss.

Cost of goods consigned \times unsold stock/actual quantity for sale

Abnormal loss: There are certain other losses which are accidental or negligence such as fire, riot, flood, theft, etc,. These losses are not occurring often and it is called abnormal. The loss should be valued carefully and if any money is recovered from insurance company which should be adjusted and the remaining loss should be transferred to profit and loss account.

Problem No.1 M/s. Jaipuria and co of Delhi consigned on 15th March 2008 40 cases of glassware each cost Rs.1500/- to singh & co of Amristar for sale on commission @5% gross sale proceeds. The Consignor paid freight and carriage amounting to Rs.10500.

The goods arrived at Amristar on 20th March 2008, and singh and co paid clearing charges Rs.2500, Sundry charges Rs.500, carriage Rs.1000 and Godown charges Rs.9000

The goods sold by singh and co as under 15 case @ Rs.2000/- per case, 20 cases @Rs.2500/- per case and the remainder for Rs.15000/-.

On June 21 , 2008 singh and co sent a draft for Rs.20000/-to M/s. Jaipuria and co on account. On 1st July 2008 singh and co forwarded an account sale together with a bill of exchange for the balance.

Prepare necessary accounts in the books of both the parties.

Problem No. 2 R Consigned 10000 kg. of Ghee at Rs.20 per kg. He spent Rs.5 per kg as freight and insurance for sending the ghee to his agent D at Delhi. On the way 100 Kg of ghee was lost due to the leakage and 400 kg of ghee was destroyed in transit. Rs. 8500 was paid to the consignor directly by the insurance company as insurance claim. D sold 7500 kg at Rs.40 per kg. He spent Rs. 5000 as Octroi, 3000 as unloading charges, and advertisement, other miscellaneous expenses amounts to Rs.24000/-. He paid the remaining amount by DD. D is entitled to a commission @ 5%.

Prepare necessary accounts in the books of both the parties.

OBJECTIVE QUESTIONS ON CONSIGNMENT

- Jagan of Mumbai sends out 2000 bags to Kunal of Delhi costing Rs.1,000/- each. 1600 bags were sold at 10% above cost price. Sales Value will be

a) Rs.17,60,000/-	b) Rs.16,00,000/-	c) Rs.14,40,000/-	d) Rs.15,00,000/-
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- Goods of the Invoice value of Rs.3,60,000/- sent out to Consignee at 20% profit on cost. What is the loading amount

a) Rs.72,000/-	b) Rs.60,000/-	c) Rs.18,000/-	d) Rs.90,000/-
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- Krishnan of Kodaikanal sends out 2000 boxes to Omar of Ooty costing Rs.200/- each. Consignor's expenses Rs.15,000/-. 1/10th of the boxes were lost in Consignee's godown and treated as normal loss. 1200 boxes were sold by Omar. The value of Consignment stock will be

a) Rs.1,38,333/-	b) Rs.1,23,000/-	c) Rs.1,20,000/-	d) Rs.1,30,000/-
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- A Proforma Invoice is a statement sent by

a) Consignee to Consignor	b) Consignor to Consignee	c) Debtor to Consignor	d) Creditor to Consignee
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- An Account Sales is a statement by

a) Consignee to Consignor	b) Consignor to Consignee	c) Debtor to Consignor	d) Creditor to Consignee
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- Goods sent on consignment - Invoice Value Rs.2,00,000/- at cost +33 1/3%. 1/5th of the goods lost in transit. Insurance claim received – Rs.10,000/-. The amount of abnormal loss to be transferred to General Profit and Loss A/c is

a) Rs.30,000/-	b) Rs.20,000/-	c) Rs.35,000/-	d) Rs.40,000/-
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- The owner of the consignment stock is

a) Consignee	b) Consignor	c) Debtor	d) Creditor
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- In the books of Consignee, the profit on consignment will be transferred to

a) General P & L A/c	b) Capital A/c	c) Trading A/c	d) None of the above
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- Goods sent on consignment Rs.5,00,000/-; Consignor's expenses Rs.1,000/-; Consignee's expenses Rs.5,000/-; Cash Sales Rs.2,00,000/-; Credit Sales Rs.3,50,000/-; Consignment Stock Rs.50,000/-; Commission payable to Consignee Rs.5,000/-. The amount irrecoverable from customer Rs.5,000/-. What will be profit on consignment?

a) Rs.75,000/-	b) Rs.80,000/-	c) Rs.70,000/-	d) Rs.85,000/-
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- Goods sent on consignment Rs.10,00,000/-. Consignor's expenses Rs.15,000/-; Cash Sales made by Consignee Rs.6,00,000/-; Credit Sales Rs.7,00,000/-; Consignee expenses Rs.5,000/- and entitled for 3% ordinary commission and 5% delcredere commission. What is the amount of commission?

a) Rs.69,000/-	b) Rs.51,000/-	c) Rs.74,000/-	d) Rs.53,000/-
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- Arun of Mumbai consigned goods to Das of Delhi. The goods are to be sold at 125% of cost which is the Invoice price. Commission 10% on sales at Invoice price and 25% of any surplus realized above Invoice price. 10% of the goods sent out on consignment, Invoice value of which is Rs.12,500/- were destroyed. 75% of the total consignment is sold by Das at Rs.1,00,000/-. What will be the commission?

a) Rs.11,562.50	b) Rs.10,000/-	c) Rs.9,000/-	d) Rs.12,000/-
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- Goods sent on consignment Rs.10,00,000/-. The Consignor expended Rs.20,000/- and also received Rs.3,00,000/- as advance money from Consignor. Consignee sold the entire batch of goods except Rs.1,00,000/- which is held as stock. He spent Rs.10,000/- and eligible for a commission of Rs.20,000/-. What is the amount payable by Consignee during the year to Consignor?

a) Rs.6,70,000/-	b) Rs.5,70,000/-	c) Rs.5,50,000/-	d) Rs.7,00,000/-
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- If delcredere commission is allowed, the bad debts treatment in the Books of Consignor will be

a) Bad debts treated as loss and transferred to P & L A/c	b) To be recovered as credit sales	c) Adjusted in the Consignor's debtors	d) Will not be recorded in the books of Consignor
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- Tamil of Chennai sends out 1000 boxes to Aadi of Andhra Pradesh costing Rs.200/- each. Consignor expenses Rs.20,000/-. $\frac{4}{5}$ th of the boxes were sold at Rs.250/- each. The profit on Consignment will be

a) Rs.24,000/-	b) Rs.20,000/-	c) Rs.30,000/-	d) Rs.35,000/-
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- Consignment Account is a

a) Real Account	b) Personal Account	c) Nominal Account	d) None of these
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