

Meaning of Consignment

Now-a-days it is quite Common that manufacturers or wholesale dealers dispatch goods to their agents at home to increase their sales . The knowledge of the agent Of the local condition where he resides proves useful in increasing the sales. Moreover it is very expensive for the manufacturers to sell the goods directly either in home market or in foreign market. Therefore, different agents are appointed for different places.

To Consign means to send.In Accounting the term Consignment account relates to accounts dealing with a situation where one person sends goods to another person on the basis that the goods will be sold on behalf of and at the risk of the former. The party who sends the goods is called principal and the party to whom goods are sent is called agent.

Features of Consignment :

Following are the features of Consignment:

1. Only possession of the goods transfer from one party to another party.
2. Under Consignment ownership is not transfer from consignor to consignee.
3. Consignor is responsible for all risks, expenses and damage also profit/loss.
4. Consignor sends pro-forma Invoice while consignee sends Account sales.
5. Relation between consignor and consignee is such as principal and agent.
6. As per agreement consignee gets commission from consignor.
7. The profit or loss belongs to consignor.
8. The relationship between consignor and consignee is that of Principal and agent.

Difference between Consignment and Sales:

Basis of difference	Consignment	Sales
1. Meaning	When the goods are delivered to the agent by the owner for selling Purposes, is known as Consignment.	A transaction in which goods are exchanged for a price is called Sale.
2. Parties	Consignor and consignee	Buyer and Sellers
3. Relationship between Parties	Principal and agent	Creditors and Debtors
4. Possession and Ownership	Possession is transferred, but Ownership is not transferred, until they are sold to the final consumer.	Both are transferred with the transfer of goods.
5. Risk of loss	Borne by Consignor	Borne by buyer

6. Profit or loss	profit or loss belongs to consignee	Profit or loss belongs to buyer
7. Payment	Payment is made when goods are sold otherwise no Payment is due	Payment is made on sales
8. Return of Goods	Goods may be return at any time.	Buyers cannot return the goods unless otherwise agreed.

Account Sales:

The consignee renders to his consignor regularly a statement showing sales, expenses incurred, commission charged and remittance made with the resultant balance due by him. This statement is known as "Accounts Sales."

On receipts of Account Sales the consignor shall make entries in his books of account and complete the Consignment account and the Consignee account.

Accounts Sales

Account Sales of 65 cases of Fancy goods ex. S.S. Vikram sold by Messers A. Dutt & Co., Colombo, Ceylon on account and risk of Messers Thankers & Co., Delhi, India.

Particulars	Amount Total				
		Rs.	P.	Rs.	P.
2002	35 Cases of fancy goods @ Rs.150 per case	5,250.00		11,250.00	
March 5.	30 Cases of fancy goods @ Rs.200 per case	<u>6,000.00</u>			
Less Charges and Expenses :					
	Dock Dues	350.00			
	Custom Duty	250.00			
	Insurance	100.00			
	Storage	200.00			
	Commission at 10%	1,125.00			
				2,025.00	
				9,225.00	
	Less advance			5,000.00	
	Balance of Bank draft enclosed			<u>4,225.00</u>	

E. & O.E.
Colombo the 30th June; 2002

Signed
.....
for messers A. Dutta & Co.

Advance on Consignment :

It is common practice for the consignor to ask the consignee for some deposit as a security for goods sent on Consignment to the consignee. It may be paid by any mode of payment- Cheque, Cash or even bills of exchange.

Expenses:

Expenses relating to Consignment of goods are divided in to two categories:

1. Non-recurring expenses: All the expenses which are incurred for bringing goods to the godown of the consignee are Non-recurring in nature. Such expenses are generally goods have reached the consignee place or godown. Like- Octroi, customs Duty, freight, clearing charges, carriage Inward, unloading charges, Transport charges upto godown etc.
2. Recurring expenses : They are recurring in nature because they may be incurred repeatedly by the consignor and consignee. The examples of recurring expenses incurred by the consignor are advertisement, discount of bills, commission on collection of cheqe, travelling expenses of salesmen, bad debts etc. The expenses incurred by the consignee are like-godown rent, Insurance, Selling & Distribution expenses, agents salary & com., warehouse charges office and administration expenses

Commission:

The consignee usually gets a commission for selling the goods on behalf of the consignor as a fixed percentage on sales. So more the sales more will be the commission earned by the consignor. But there are some other kinds of commission which are sometimes given to the consignee for extra burden and activities i.e. Del credere commission and over-riding commission.

Types of Commission:

There are two types of Commission:

1. General/Ordinary Commission
2. Special Commission

1. Genral/Ordinary Commission

General commission is payable to consignee on the value of goods sold (cash sales+credit sales) by the consignee.

$$\text{Formula: General commission} = \frac{\text{Total sales} \times \text{Rate of commission}}{100}$$

2. Special Commission

The commission which is paid to agent in addition to the general commission as per terms of agreement is called special commission.

It is classified in to two categories:

(a) Del-credere Commission

It is an added commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Consignee will bear the risk of bad debts if consignee gets Del-credere commission. Formula :

$$\text{Del-credere com.} = \frac{\text{Total/Credit Sales} \times \text{Rate of Del-credere com.}}{100}$$

NOTE: In the absence of any agreement, the consignor allows such commission On gross sale (Cash sales + Credit sales) not on credit sales.

(b) Over-riding Commission:

It is an extra commission allowed over and over the normal commission. It is allowed in the following cases:

- If consignee sell consigned goods at Prices higher than the specified price.
- when agent is required to introducing a new product in the market.
- When agent is entrusted with the work of supervision.

Formula:

Over-riding Com. = $\frac{\text{Surplus realised} \times \text{Rate of over-riding com.}}{100}$

100

Surplus realised = Actual Total Sales – Sales at Invoice price

4. When the consignee remits the cash or bills:

Bank A/c/ Cash A/c/Bills receivable A/c Dr.
To Consignee A/c

(Being Cash/B/R received)

5. When bills is discounted with Bank:

Cash A/c/ Bank A/c Dr.

Discount A/c Dr.

To Bills receivable A/c

(Being B/R discounted with the Bank)

6. For Stock remaining unsold:

Consignment stock A/c Dr.

To Consignment A/c

(Being the value of stock plus proportionate expenses)

7. For Abnormal Loss of stock:

General Profit & Loss Account A/c Dr.

(with unrecoverable loss)

Insurance company A/c Dr.

(with total recoverable loss)

To Consignment A/c (with total loss)

(For the abnormal loss of stock, amount recoverable and amount not recoverable)

8. For Profit or loss on Consignment:

(i) If there is profit on Consignment

Consignment A/c Dr.

 To general Profit and Loss A/c

(Being the Profit on consignment transferred to Profit and Loss A/c)

(ii) If there is loss on Consignment

General Profit and loss Account Dr.

 To Consignment A/c

(Being the loss on Consignment transferred to Profit & Loss Account)

9. For settlement of account with consignee:

Bank/Bills recoverable Dr.

 To Consignee A/c

(Being amount sent for final settlement)

The Goods sent on Consignment Account' which shows credit balance will now be transferred to the Trading Account. Then the entry is:

Goods sent on consignment Account Dr.

 To Trading A/c

(Being the goods sent on consignment account transferred to trading account).

Necessary ledger Accounts in the Books of Consignor:

1. Consignment Account
2. Consignee's Account
3. Goods Sent on Consignment Account
4. Consignment Stock Account

CONSIGNMENT ACCOUNT

Dr.

Cr.

Date	Particular	Amount	Date	Particular	Amount
		₹			₹
	To Goods Sent on Consignment A/c	(Cost)		By Consignee's A/c :	
	To Cash/Bank A/c :	₹		Cash Sales	.....
	(a) Carriage	.....		Credit Sales	<u>.....</u>
	(b) Freight	.....		By Consignment Stock (if any)	.....
	(c) Insurance etc	<u>.....</u>		By Profit & Loss A/c (if loss)	.....
	To Consignee's A/c :				
	(a) Expenses	.....		
	(b) Commission	.....		
	To Profit & Loss A/c (if profit)	.....		
	
	

CONSIGNEE'S ACCOUNT

Date	Particular	Amount	Date	Particular	Amount
		₹			₹
	To Consignment A/c :			By Cash/Bank A/c	Advance
	Cash Sales	₹		By B/R A/c	.....
	Credit Sales	<u>.....</u>		By Consignment A/c (Expenses)	.....
				By Consignment A/c (Commission)	.....
				By Bank A/c	.....
				Or	
				By Balance c/d	.....
	
				

GOODS SENT ON CONSIGNMENT ACCOUNT

Date	Particular	Amount	Date	Particular	Amount
	To Trading A/c	₹		By Consignment A/c	₹

CONSIGNMENT STOCK ACCOUNT

Date	Particular	Amount	Date	Particular	Amount
	To Consignment A/c	₹		By Balance c/d	...............

ILLUSTRATION No. 1.

Surat Mills Ltd. sent 100 pieces of suiting to Kanpur Garments House of Delhi on consignment basis. The consignees are entitled to receive 5% commission plus expenses. The cost of Surat Mills Ltd. is ₹200 per suiting. Kanpur Garments House pays following expenses :

Railway Freight	₹ 500
Godown Rent & Insurance	₹ 1,000

Surat Mills Ltd. Draw on the consignees a bill for ₹10,000 which is duly accepted. Subsequently it is discounted for ₹9,500. the consignees informed the consignor of the sale of the entire consignment for ₹28,500. Show journal entries and ledger account in the book of the consignor.

Journal entries in the Book of Surat Mills Ltd. (Consignor)

Date	Particulars	L.F.	Dr.	Cr.
	Consignment A/c Dr. To goods sent on consignment A/c (100 pieces of suiting consigned to Kanpur Garments House at cost Rs. 200 per suiting)		20,000	20,000
	Bill receivable A/c Dr. To Kanpur Garment House (Being of the bills of exchange received from consignee)		10,000	10,000
	Cash Account Dr. Discount Account Dr. To bill receivable A/c (being bill discounted with the bank)		9,500 500	10,000
	Kanpur Garment House Dr. To Consignment A/c (Being gross proceeds of the goods sold)		28,500	28,500
	Consignment A/c Dr. To Kanpur Garment House (being the expenses incurred by Kanpur Garment house)		1,500	1,500
	Consignment A/c Dr. To Kanpur Garment House (Being Commission @ 5% on sales)		1,425	1,425
	Consignment A/c Dr. To Profit & Loss A/c (Being profit on consignment transferred)		5,575	5,575
	Goods sent on Consignment A/c Dr. To Trading A/c (Being goods sent on consignment A/c transferred to trading A/c)		30,000	30,000

Consignment Account

To goods sent on consignment A/c	20,000		By Kanpur Garment House (Sales)	28,500
To Kanpur Garments	1,500			
To Kanpur Garment House(Commission)	1,425			
To Profit & Loss A/c (Profit on consignment)	5,575			
	<u>28,500</u>			<u>28,500</u>

Consignment Account

To Consignment A/c	28,500		By Bills Receivable A/c	10,000
			By Consignment A/c (Expenditure)	1,500
			By Consignment A/c (Commission)	1,425
			By Balance c/d	15,575
	<u>28,500</u>			<u>28,500</u>

Goods Sent on Consignment Account

To Trading A/c (Transferred)	20,000		By Consignment A/c	20,000
	<u>20,000</u>			<u>20,000</u>

**THANK
YOU**
