

CONSIGNMENT ACCOUNT

1. Introduction: (Consignment, consignor and consignee)

Goods are sent by a dealer to an agent for sale for commission, on the basis that the goods will be sold on behalf of and at the risk of the dealer. The dispatch of goods is known as consignment. The person who sends the goods is known as the consignor and the agent who receives the goods is known as the consignee. If 'X' for sale, 'X' is known as consignor and 'Y' the consignee. The consignor is the 'principal' and the consignee is the 'agent'.

2. Features of consignment:

1. The consignee acts as an agent of the consignor, i.e. the relationship between the 'consignor' and the 'consignee' is that of 'principal and agent'. The transactions between them are governed by the agreement made between them as well as the provisions of 'the law of agency'.
2. All expenses incurred by the consignee for receiving and selling the goods are recovered by the consignee from the consignor.
3. The profit or loss on sale of goods sent on consignment belongs to the consignor.

DISTINCTION BETWEEN CONSIGNMENT AND SALE:

NO.	CONSIGNMENT	SALE
1	Consignment occurs between a consignor and a consignee.	Sale occurs between a seller and a buyer.
2	The consignee is an agent of the consignor who is principal.	The buyer deals with seller as principal to principal.
3	Consignor sends a pro-forma invoice to the consignee.	Seller sends a regular invoice to the buyer.
4	Ownership of goods remains with the consignor.	Ownership of goods is transferred to buyer
5	Consignee obtains goods for earning commission	Buyer obtains goods for own use or resale.
6	Consignee is liable to pay to consignor only price of goods sold; not of all goods received.	Buyer is liable to pay to seller price of all goods received.
7	Profit or loss on sale belongs to the consignor.	Profit or loss on further sale belongs to the buyer.
8	Risk of loss/damage is borne by consignor.	Risk of loss/damage is borne by buyer.
9	Consignee can return the unsold goods to the consignor.	Buyer cannot return unsold goods to the seller.
10	Consignor can recover goods from the	Buyer cannot recover goods from Buyer

	consignee for non-payment.	for non-payment.
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Pro-forma invoice v/s invoice

No.	PROFORMA INVOICE	INVOICE
1	Proforma invoice is a rough invoice which is sent to consignee for information purpose.	Invoice is the actual invoice for which a customer is billed.
2	A proforma invoice includes only information about goods, quantity, price, transport etc.	An invoice must disclose all information required by law (e.g. VAT Bill) including a description and quantity of each time being shipped, the value of the shipment, the names and address of both the seller and the purchaser and so on.
3	The consignor provides a pro forma invoice.	The seller provides the commercial invoice.
4	Proforma invoice creates no legal obligation.	The invoice creates an obligation on the part of the purchases to pay.

ORDINARY AND DEL-CREDERE COMMISSION:

Basis of distinction	Ordinary commission	Del-Credere commission
1. When allowed?	It is allowed to all the consignees for all the consignments for selling goods.	It is allowed to the consignee only when he undertakes the risk of bad debts arising out of credit sales.
2. guarantee	In return of this commission, consignee guarantees only the proceeds of cash sales.	In return of this commission, consignee guarantees only the proceeds of credit sales.
3. How to calculate?	It is calculated at an agreed rete on the total sales.	It is calculated at an agrees rate either on total sales (it no agreement) or credit sales (if agreement provides).

SURPLUS/OVERRIDING COMMISSION

Sometimes, an extra commission, known as overriding commission or surplus commission may be allowed by the consignor to the consignee to make sales at a price higher than expected or to promote a new produce in the market. Depending on the term agreed, it is calculated on the total sales; or on the difference between actual sales and sales at the specified price.

FORMULA:

The value of stock is calculated by using the formula:

$$\text{Stock} = \text{cost of goods sent} \times \frac{\text{Quantity in stock}}{\text{Quantity sent}}$$

ENTRY:

The stock in books of consignor.

Stock on consignment A/c	Dr.
To consignment A/c	

Illustration:

200 cases @ ₹ 150 per case were sent on consignment. 180 cases @ ₹250 per case were sold by consignee. Expenses incurred by consignor were: freight ₹1,500, insurance ₹850, loading charges ₹250. expenses incurred by consignee were: unloading ₹200, storage ₹200, selling expenses ₹100, insurance ₹150. Find the value of unsold stock.

ACCOUNTING IN BOOKS OF CONSIGNOR AND CONSIGNEE:

JOURNAL ENTRIES

N O.	Journal of consignor	Dr.	Cr.	Journal of consignee	Dr.	Cr.
	particular	₹	₹	particular	₹	₹
1	Goods consigned Consignment A/c Dr. To goods sent on consignment A/c.			No entry		
2	Consignor's expenses Consignment A/c Dr. To cash/bank A/c			No entry		
3	Consignee's advance (cash) Cash/bank A/c - Dr. To consignee's A/c			Consignors A/c To cash/bank A/c		
4	Consignee's advance (BR) Bills receivable A/c-Dr. To consignee's A/c			Consignors A/c To bills payable A/c		
5	cash sales by Consignee			Cash A/c		

	consignee's A/c To consignment A/c			To Consignors A/c		
6	Credit sales by Consignee consignee's A/c To consignment A/c			Consignment debtors A/c To Consignors A/c		
7	Goods returned by Consignee Goods sent on consignment A/c To consignment A/c			No entry		
8	Expenses by consignee for returning goods consignment A/c To consignee A/c			Consignors A/c To cash A/c		
9	Goods taken by Consignee consignee's A/c To consignment A/c			Purchase A/c To Consignors A/c		
10	Collection from debtors by Consignee No entry			Cash/bank A/c To consignment debtors A/c		
11	Consignee expenses Consignment A/c To consignee's A/c			Consignors A/c To cash/bank A/c		
12	Consignee commission Consignment A/c To consignee's A/c			Consignors A/c To commission A/c		
13	Consignee del credere commission Consignment A/c To consignee's A/c			Consignors A/c To del credere commission A/c		
14	Bad debts (no del credere) Consignment A/c To consignee's A/c			Consignors A/c To consignment debtors A/c		
15	Bad debts (del credere) No entry			Del credere commission a/c To consignment debtors A/c		
16	Consignee remittance (cash) Cash/bank A/c To consignee's A/c			Consignors A/c To cash/bank A/c		
17	Consignee remittance (BR) Bills receivable A/c-Dr. To consignee's A/c			Consignors A/c To bills payable A/c		
18	BR discounted Bank A/c consignment A/c (discount) To Bills receivable A/c			No entry		

19	Closing stock Stock on consignment A/c To consignment A/c			No entry		
20	Profit on consignment Consignment A/c To profit and loss A/c			No entry		
21	Loss on consignment Profit and loss A/c To consignment A/c			No entry		
22	Transfer goods sent to trading A/c Goods sent on Consignment A/c To trading A/c			No entry		
23	Loading on goods sent Goods on consignment A/c To consignment A/c			No entry		
24	Loading on closing stock Consignment A/c To stock reserve			No entry		

Illustration: (calculation of cost price and loading)

Calculate the cost price and loading in each of the following alternative cases:

(a) Goods sent on consignment ₹1, 50,000 (invoice price), goods are invoiced to give a gross margin of 20% on invoice price.

(b) Goods sent on consignment ₹3, 00,000 (invoice price), goods are invoiced at cost plus 25%.

Format of consignment account (goods invoiced above cost)

Dr. Consignment account cr.

Particular	₹	Particular	₹
To goods sent on consignment A/c		By goods sent to consignment A/c	
To goods sent on consignment A/c (loan on returns)		(load on goods sent)	
To cash/bank A/c (consignor expenses)		By consignee A/c (sales)	
To consignee A/c (expenses)		By consignee A/c (cr. sales)	
To consignee A/c (commission)		By goods sent to consignment A/c (returned)	
To consignee A/c (del Cr. comm)		By consignee (goods taken)	
To consignee A/c (bad debts)		By stock on consignment A/c	
To bills receivable A/c (discount)			

To stock reserve A/c (loan on stock)			
To profit & loss A/c (profit)		By profit & loss A/c (loss)	
Total			

Illustration: (settlement in cash)

The Mumbai Indian consign to their Calcutta agent Kolkata riders ₹10,000 worth of goods, drawing a bill of exchange on Calcutta for the amount. They pay freight and insurance on the consignment amounting to ₹650. The goods were received in Calcutta and in due course the account sales were received as follows.

Account sales of 200 bales of goods from Mumbai Indian.

200 bales of goods sold at		14,000
Less: consignee's expenses		
Delivery charges etc.	₹ 500	
Go down rent	₹ 70	
Insurance	₹ 80	
Sundry charges	₹ 18	
Commission	₹ 700	<u>1,368</u>
		12,632
Bills of exchange		<u>10,000</u>
balance cash herewith		<u>2,632</u>

Illustration: (advance/settlement by cheque)

Ramdas & company of Mumbai consigned 50 bundies of cutpiece cloth @₹ 700 each to mukherjee & co. of Kolkata to be sold on commission basis. An advance of ₹ 16,000 was received from Mukherjee & co. Mukherjee & co. sent an account sale which states that total goods were sold for ₹ 56,000 and ₹ 1,800 were paid for carriage, godown rent and port expenses. Their commission was ₹ 2,000. They sent a bank draft for the balance amount to ramdas & co. from the above particulars pass necessary journal entries in the books of ramdas & co. and also show ledger accounts in the books of the consignor and consignee.

Illustration: (journals)

Ram & Co. of Calcutta consigned 50 cases of goods at ₹ 200 each to Nathan of Mumbai. The consignor pays ₹ 200 for insurance and for freight ₹ 300. Nathan sent an account sales showing the gross proceeds at ₹ 24,000. The expenses paid by Nathan were dock dues ₹ 20, carriage ₹ 50, and warehousing expenses ₹ 130. He sent the amount due to the consignor after deducting 4% commission. Give journal entries in the books of both the parties.

