



Accounting of Consignment

■ INTRODUCTION

Producers and wholesalers adopt various methods to sell their goods. One of them is selling of goods through agent. In this case, the sender of goods remains the owner. When owner sends goods to his agent for sale, it is called goods sent on consignment.

■ MEANING OF CONSIGNMENT

'Consignment' means sending the goods by owner to his agent for sale and the person to whom goods is sent, sales the goods on behalf and at the risk of his principal. He is provided commission for his services. The person who sends the goods is called *consignor* and the person to whom goods sent is called *consignee*.

■ FEATURES OF CONSIGNMENT

- (1) Consignment of goods is a mere transfer of possession of goods from one person to another for the purpose of sale. It is not a sale.
- (2) The property in the goods remains with the consignor. It does not pass on to the consignee.
- (3) The relationship between the consignor and the consignee is that of principal and an agent.
- (4) The consignee sells the goods on behalf and at the risk of consignor. For this the consignee gets a fixed commission on the sale proceeds. The consignee is not responsible for any loss, damage or destruction of the goods.

■ NEED OF CONSIGNMENT

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

■ OBJECTIVES OR IMPORTANCE OF CONSIGNMENT

The objective and importance of consignment can be discussed in following points :

(1) **To get the advantage of difference in prices :** Due to imbalance in demand and supply, prices are differ from place to place. It is not possible for the producer to sale goods personally to go there where he can get the maximum price for his goods. Therefore, he can sell goods at different places through his agent.

(2) **To facilitate sale :** A producer or businessman has not possessed the knowledge of prevailing trading customs and other circumstances in the market of the country and outside the country. So he can not sell his goods conveniently at other places. Agents are well aware about their market and they can sell goods profitably.

(3) **To bridge the gap between purchaser and seller :** When seller and buyer living far away, seller can supply goods promptly through the agent. Hence, the process of consignment bridges the gap between seller and buyer.

■ DIFFERENCE BETWEEN CONSIGNMENT AND SALE

S.No.	Basis of Difference	Consignment	Sale
1.	Ownership	Ownership is not transferred to consignee.	Ownership is transferred to the buyer.
2.	Risk	Risk is not transferred to the consignee.	Risk is transferred to the buyer.
3.	Relationship	The relationship is a principal and an agent.	Relation is that of a buyer and a seller.
4.	Account Statement	Consignee has to submit account sales statement to the consignor.	A buyer has not to submit such type of statement.
5.	Expenses on Sale	Expenses relating to consignment paid by consignee are ultimately borne by the consignor.	After sale, all expenses are paid by the buyer.
6.	Commission	Consignor gives the commission to the consignee for the sale.	In case of sale, seller does not give any commission to the buyer.
7.	Return of Goods	Consignee can return unsold goods to the consignor.	Buyer can not return the goods without any genuine reason.
8.	Payment	Consignee is not liable to make the payment till the goods is sold.	After sale, purchaser is liable to make the payment.
9.	Settlement of Disputes	Disputes are settled under Indian Contract Act. 1872.	Disputes are settled under Sale of Goods Act, 1930

■ SOME IMPORTANT TERMS

(1) Proforma invoice : It is a statement (or forwarding letter) containing the details of goods consigned. It gives the particulars as regards quantity, quality and price of goods consigned, details of any expenses incurred. As the consignment is not sale and the consignee is not the buyer, therefore, the 'forwarding letter' sent along with the consignment is meant only for his information. This forwarding letter is substitute of invoice but it is drawn up in the form of an invoice and termed as '*Proforma Invoice*.'

(2) Expenses on consignment : These expenses may be incurred either by the consignor himself or by the consignee (on behalf of the consignor) Such expenses are of two types :

- Non-recurring expenses :** All those direct expenses which are made to bring the goods to the place of agent.
- Recurring expenses :** All those indirect expenses which are incurred after the goods have reached the place of the consignee.

Note : It should be remembered that proportionate non-recurring expenses are added for the valuation of closing stock and abnormal loss.

(3) Commission : Remuneration payable to the agent for his services is termed as commission which is generally a fixed percentage of gross sale proceeds unless otherwise stated. It may be ordinary commission. In addition to that, the consignee may get other types of commission to increase the sale, such as :

- Del-credere commission :** In case where consignor desires that any loss arising on account of credit sales, i.e., bad debts, should be suffered by the consignee, he arranges to pay extra commission called as del-credere commission. Thus, this commission is regarded as payment for an insurance against the risk of bad debts. Such commission is generally payable on the total sales unless otherwise stated specifically.
- Over-riding commission :** It is a special commission in addition to normal commission with a object to sale goods at a higher price. This commission is generally offered when new line of goods is introduced. Depending upon the terms of agreement, it may be calculated on the total sales or on the excess of total sales over the invoice price minimum specified price of the goods sold.

Difference between Del-credere Commission and Overriding Commission

S.No.	Points of Difference	Del-credere Commission	Over-riding Commission
1.	Object	It is allowed to the consignee when he undertakes the risk of bad-debts arising out of credit sales.	It is allowed to the consignee as an incentive to push sales or to effect sales at a higher price.
2.	Guarantee	In return for this commission, the consignee guarantees the proceeds of the consignment sales.	In return of this commission, the consignee does not give any such guarantee.
3.	Computation	It is usually calculated on the total sales or credit sales only when specifically agreed upon.	Depending upon the terms of agreement, it may be calculated on the total sales or on the excess of total sales over the invoice price of minimum specified price of the goods sold.

Difference between Proforma Invoice and Account Sales

S. No.	Basis of Difference	Proforma Invoice	Account Sales
1.	By whom	It is prepared and sent by the consignor to the consignee.	It is prepared and sent by the consignee to the consignor.
2.	Subject matter	It shows full particular of the goods consigned, i.e., the quality, quantity and price of goods.	It shows full particulars of goods sold, expenses incurred, commission receivable, remittances made and the net amount payable to the consignor.
3.	Responsibility of payment	It does not show the consignee's liabilities to pay the amount shown in the invoice.	It shows the net balance for which the consignee is liable to make payment.
4.	To be sent	It is sent only once along with goods sent to the consignee.	It is sent at periodical intervals.

(4) Advance by the Consignee : Advance is a common trade practice for the consignor to demand some advance from the consignee as a security. It may be in the form of cash or bank draft or in the form of bill of exchange. The consignee will send some amount as an advance before or after he receives the goods from the consignor. The advance received from the consignor should not be credited to consignment account as it is not a part of the sale proceeds. The advance will be adjusted against the amount due from the consignee when the accounts are finally settled.

In some cases a bill may be drawn on the consignee if he is unable to pay advance money. The consignee can discount the bill with his banks. In such a case the value of the bill as advances so accepted will be deducted from the sale proceeds. The discount paid to the bank should be charged to the Profit & Loss A/c as it represents cost of raising loan.

It should be remembered that while calculating the amount due from the consignee, the proportionate advance pertaining to unsold goods should not be adjusted. Such proportionate advance should appear as a credit balance in consignee's account in the books of consignor till all the goods have been sold or received back, suppose a sum of ₹ 40,000 is received as advance against a consignment and 3/4th goods are sold by the consignee. Only ₹ 30,000 ($40,000 \times 3/4$) will be adjusted against the amount due from consignee for 3/4th sale and the balance ₹ 10,000 ($40,000 \times 1/4$) relating to unsold goods will be carried forward to be adjusted when these are disposed off.

It should be noted that it is given in the question that consignee is required to maintain proportionate securities with consignor for the unsold stock, proportionate security for unsold stock should be maintained.

ACCOUNTING PROCEDURE

Consignment transactions are recorded by two parties, viz., by the consignor and by the consignee.

■ ACCOUNTS OPENED IN THE BOOKS OF CONSIGNOR

When goods are despatched on consignment, no entry can be made in the Sales Account as this is not a sale and, until the goods are sold, they remain the legal property of the consignor. For the same reason the Consignee's Personal Account cannot be debited with the value of the goods consigned. Thus, he is not a debtor until the goods are sold.

The following special accounts are opened in the books of consignor :

(1) **Consignment account** : In order to ascertain the net profit or loss, the consignor keeps separate account for each consignment. Consignment Account is a nominal account which is prepared just like Trading and Profit and Loss Account. This account is to be debited with amount of goods sent and expenses incurred and credited with amount of sale and stock with consignee at the end. If debit side of consignment exceeds the credit side, the result is loss; when credit side is more, the result shall be profit which is to be transferred to Profit and Loss Account. Each consignment despatched is distinguished by the name of the consignee or the place to which the goods are sent e.g., Consignment to Sharma & Co. or Consignment to Delhi.

(2) **Goods sent on consignment** : This is a real account. When goods are sent on consignment, it is credited and when goods returned by the consignee, it is debited. This account is closed by transferring its balance to the credit side of Trading Account.

(3) **Consignee's account** : It is a personal account in nature. It represents the amount due by or due to the consignee. As such it is debited for gross sale proceeds and credited for consignee's expenses, commission payable to him, amount received in advance or in final settlement of the balance due.

(4) **Stock on consignment account** : It is a real account in nature. As such it is debited with the value of unsold goods lying with the consignee at the end of accounting year and carried forward to the next accounting period.

■ ACCOUNTS OPENED IN THE BOOKS OF CONSIGNEE

The following accounts are opened in the books of consignee :

(1) **Consignor's Account** : It shows the sale, expenses of consignor and due to consignor.

(2) **Commission Account** : It is nominal account in nature. Thus, commission received being income by the consignee is credited.

Entries in the Books of Consignor and Consignee

S.No.	In the Books of Consignor	In the Books of Consignee
1.	For goods sent on consignment : Consignment A/c Dr. To Goods Sent on Consignment A/c	For receiving the goods : No Entry
2. (a)	Advance remittance by Consignee : Bank A/c or Bills Receivable A/c Dr. To Consignee A/c	For advance sent to consignor : Consignor A/c Dr. To Bank A/c or Bills Payable A/c
(b)	Discounting of the bill : Cash/Bank A/c Dr. Discount A/c/Consignment A/c Dr. To Bills Receivable A/c	No Entry
3. (a)	Expenses incurred by consignor : Consignment A/c Dr. To Cash A/c	No Entry
(b)	Expenses incurred by consignee : Consignment A/c Dr. To Consignee A/c	Expenses incurred by the consignee (on behalf of consignor) : Consignor A/c Dr. To Cash A/c

4.	For consignee's commission : Consignment A/c To Consignee A/c	Dr.	For commission receivable : Consignor A/c To Commission A/c	Dr.
	Goods sold by consignee : Consignee A/c To Consignment A/c	Dr.	Goods sold by consignee on behalf of consignor : Cash A/c (for cash sales) Consignment Debtor's A/c (for credit sales) To Consignor A/c	Dr. Dr. Dr.
5.	Goods returned by consignee : Goods Sent on Consignment A/c To Consignment A/c	Dr.	No Entry	
6. (a)	For Stock on Consignment at the beginning : Consignment A/c To Stock on Consignment A/c	Dr.	No Entry	
(b)	For Stock on consignment at the end : Stock on Consignment A/c To Consignment A/c	Dr.	No Entry	
7. (a)	For Profit on consignment : Consignment A/c To Profit and Loss A/c	Dr.	No Entry	
(b)	For Loss on consignment : Profit and Loss A/c To Consignment A/c	Dr.	No Entry	
8.	For transfer of goods sent on consignment : Goods Sent on Consignment A/c To Trading A/c	Dr.	No Entry	
9.	For transfer of discount A/c : Profit & Loss A/c Dr. To Discount A/c		No Entry	
10.	No Entry		For transfer of commission A/c : Commission A/c To Profit & Loss A/c	Dr.
11.	For receipt against final settlement from consignee : Bank A/c or Bills Receivable A/c To Consignee A/c	Dr.	For settlement of Consignor's A/c : Consignor A/c To Bank A/c or Bills Payable A/c	Dr.
12.	No Entry		For payment of bills payable : Bills Payable A/c To Cash A/c	Dr.

Notes : (1)

The discount may be dealt with in two different ways. It may be looked upon as ordinary financial expenses of the business as a whole and charged to the Profit & Loss A/c. Alternatively, it may be regarded as part of the expenses concerned with the consignment and debited to the particular consignment account.

(2) As, the consignee does not become the owner of the goods when he receives the consignment because there is neither a purchase nor a liability. Therefore, he makes no entry in his books on such receipts. His only concern is to record the expenses he has incurred, the sales, his commission and other financial relationship with the consignor. A personal account for the consignor is only additional account.

Illustration 1.1. (Entries and ledger in books of consignor and consignee)

On 1st January 2009, Dinesh of Indore sent goods costing ₹ 40,000 on consignment to Suresh of Gwalior. Dinesh paid freight ₹ 2,000 and insurance ₹ 400 for sending the goods, and drew on Suresh a three month's bill for ₹ 25,000 as an advance. The bill was discounted for ₹ 24,000. 4/5th of the goods were sold by Suresh for ₹ 45,000 and he incurred the following expenses :

Octroi ₹ 470, Godown Rent ₹ 520 and Selling Expenses ₹ 1,200. Suresh was entitled to receive 6% ordinary commission and 2% del-credere commission. Assuming that Suresh paid the amount due by means of a bank draft.

Give Journal entries and prepare Ledger accounts in the books of both the parties.

Solution.**In the Books of Dinesh (Consignor)****Journal**

Date	Particulars	L.F.	Cr. (₹)	Dr. (₹)
	Consignment A/c To Goods Sent on Consignment A/c (For the value of goods sent on consignment)	Dr.	40,000	40,000
	Consignment A/c To Cash A/c (For freight and insurance paid in cash)	Dr.	2,400	2,400
	Bills Receivable A/c To Suresh (For Suresh's acceptance received)	Dr.	25,000	25,000
	Bank A/c Discount A/c To Bills Receivable A/c (For bill discounted from bank)	Dr. Dr.	24,000 1,000 ¹	25,000
	Suresh To Consignment A/c (For goods sold by consignee)	Dr.	45,000	45,000
	Consignment A/c To Suresh (For expenses paid by the consignee)	Dr.	2,190	2,190
	Consignment A/c To Suresh (For commission due on sales)	Dr.	3,600	3,600
	Stock on Consignment A/c To Consignment A/c (For the value of unsold stock with consignee)	Dr.	8,574 ²	8,574

Bank A/c	Dr.	14,210	
To Suresh			14,210
(For balance amount received by bank draft.)			
Consignment A/c	Dr.	5,384	
To Profit and Loss A/c			5,384
(For profit on consignment transferred to profit and loss a/c)			
Goods Sent on Consignment A/c	Dr.	40,000	
To Trading A/c			40,000
(For goods sent on consignment transferred to trading a/c)			
Profit and Loss A/c	Dr.	1,000	
To Discount A/c			1,000
(For balance of discount A/c transferred to profit and loss a/c)			

Notes : (1) Discount on bill, being a financial expense, is not taken to Consignment Account and it will be transferred to Profit and Loss Account.

(2) Valuation of Stock at the end :

Cost of $\frac{1}{5}$ th goods unsold i.e. ₹ 40,000 × 1/5

8,000

(+) : Proportionate non-recurring expenses of consignor i.e., ₹ 2,400 × 1/5

480

(+) : Proportionate non-recurring expenses of consignee i.e., ₹ 470 × 1/5

94

8,574

(3) Because market price is not given in the questions on the date of stock, therefore, cost price be taken into account.

Ledger Accounts

Consignment Account				Cr.
Dr.	Particulars	₹	Particulars	₹
	To Goods Sent on Consignment A/c	40,000	By Suresh (Sales)	45,000
	To Cash A/c :		By Stock on Consignment A/c	8,574 ²
	Freight	2,000		
	Insurance	400		
	To Suresh :			
	Octroi	470		
	Godown Rent	520		
	Selling Expenses	1,200		
	To Suresh :			
	Commission (8% on ₹ 45,000)	3,600		
	To Profit and Loss A/c (Profit being Bal. fig.)	5,384		
	Total	53,574	Total	53,574

Goods sent on Consignment Account				Cr.
Dr.	Particulars	₹	Particulars	₹
	To Trading A/c (Transfer)	40,000	By Consignment A/c	40,000

Bills Receivable Account				Cr.
Dr.	Particulars	₹	Particulars	₹
	To Suresh	25,000	By Bank A/c	24,000
			By Discount A/c	1,000
	Total	25,000	Total	25,000

Dr.

Suresh				Cr.
To Consignment A/c (Sales)	₹		₹	
	45,000	By Bills Receivable A/c	25,000	
		By Consignment A/c (Expenses)	2,190	
		By Consignment A/c (Commission)	3,600	
		By Bank A/c (Balancing figure)	14,210	
Total	45,000	Total	45,000	

Dr.

Discount Account				Cr.
To Bills Receivable A/c	₹		₹	
	1,000	By Profit and Loss A/c	1,000	

Dr.

Stock on Consignment Account				Cr.
To Consignment A/c	₹		₹	
	8,574	By Balance c/d	8,574	

**In the Books of Suresh (Consignee)
Journal**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Dinesh To Bills Payable A/c (For Dinesh's bill accepted.)	Dr.		25,000	25,000
	Cash A/c To Dinesh (For goods sold on behalf of Dinesh.)	Dr.		45,000	45,000
	Dinesh To Cash A/c (For expenses paid on Dinesh's consignment)	Dr.		2,190	2,190
	Dinesh To Commission A/c (For commission earned on sales.)	Dr.		3,600	3,600
	Dinesh To Bank A/c (For amount due sent by bank draft)	Dr.		14,210	14,210
	Commission A/c To Profit and Loss A/c (For commission transferred to Profit and Loss A/c.)	Dr.		3,600	3,600
On maturity	Bills Payable A/c To Cash A/c (For the amount of the bill paid.)	Dr.		25,000	25,000

Ledger Accounts

Dr.

Dinesh				Cr.
Particulars	₹	Particulars	₹	
To Bills Payable A/c	25,000	By Cash A/c	45,000	
To Cash A/c (Expenses)	2,190			
To Commission A/c	3,600			
To Bank A/c	14,210			
Total	45,000	Total	45,000	