

UNIT 10 CONSIGNMENT ACCOUNTS-I

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10.0 OBJECTIVES

After studying this unit you should be able to:

- explain the meaning of consignment
- distinguish it from sale
- identify the parties involved in consignment and describe their relationship
- explain the basic framework of accounting for consignment transactions in the books of the consignor and the consignee.

10.1 INTRODUCTION

The producers often make ~ ~ \$ selling agents and distributors in their channel of distribution. This is particularly true of the agricultural goods. The selling agents/distributors act in various ways. One of the methods used is to receive the goods on consignment basis. Under this system the agent receives the goods and undertakes to sell it on behalf of the consignor. He often settles the account of the consignor after all the goods received from him have been sold. This involves certain peculiarities in accounting. In this unit you will learn about various concepts relating to consignment and the basic framework of accounting for consignment transactions in the books of the consignor and the consignee.

10.2 CONCEPTS OF CONSIGNMENT

You know that goods are often sent by the producer on consignment basis to the selling agents or distributors. Let us now understand what exactly we mean by consignment, how does it differ from sale and what kind of relationship exists between the consignor and the consignee.

10.2.1 What is Consignment ?

When goods are sent by a manufacturer or a trader to an agent to be sold by him on commission basis and at the risk and account of the former, they are said to be sent on consignment. In other words a producer/trader forwards his products to his selling agents,

appointed at different places, to sell them on his behalf for an agreed commission. The process of sending goods on this basis by one firm to another for sale is known as 'Consignment' and this transaction is called a 'Consignment Transaction'. The consignment is 'Outward Consignment' for the person who sends the goods and an 'Inward Consignment' for the person who receives the goods for sale.

10.2.2 Parties to Consignment

You know that in consignment the goods are sent by one person to another for sale by the latter on behalf of the former. Therefore, there are two parties involved: (i) the person who sends the goods and, (ii) the person to whom the goods are sent. The person who sends the goods to the agent is called the consignor and the person to whom the goods are sent for sale is called the consignee.

If 'X' sends goods to 'Y' for sale, 'X' is known as consignor and 'Y' consignee. The Consignor is the 'principal' and the consignee is the 'agent'. Their mutual relations are governed by the Law of Agency and, of course, by the terms of the contract between themselves. The consignee is a special kind of agent who is in possession of the goods. He passes the title of the goods to those who buy from him even if he sells the goods in contravention to the principal's instructions. Suppose, the consignor instructs the consignee not to sell the goods below a certain price. If the consignee sells the goods below the stipulated price, the buyer will have good title to the goods. The consignor may, of course, ask the consignee to pay damages for breaking the terms of the contract with him. Like all agents, the consignee must render true accounts to the consignor, be faithful to him, and act according to his instructions. He is entitled to remuneration and reimbursement of expenses incurred by him on behalf of the consignor.

10.2.3 Features of Consignment

- Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
- Under the consignment, goods are to be treated as the property of the consignor and to be sold at his risk entirely. The consignee does not buy the goods, he merely undertakes to sell them on behalf of the consignor. He is not responsible for any loss or even for any destructions or damages to the goods. But the consignee should not show any negligence.
- The consignor does not sell the goods to the consignee. Therefore, he can not ask the consignee to pay the price of the goods unless they are sold and the sale proceeds are actually realised.
- The consignee agrees to sell the goods for an agreed rate of commission and is allowed to deduct his commission due from the sale proceeds.
- The agent enters into the picture only when he sells the goods and realises the amount. He becomes indebted for amounts realised on behalf of the principal. The relationship between the consignor and the consignee is that of a principal and an agent.
- As it is not a sale, whatever the consignee does is on behalf of the consignor and, therefore, all legitimate expenses incurred by the consignee for receiving and selling the goods should be reimbursed.
- Any stock remaining unsold with the consignee belongs to the consignor.
- As the consignee acts on behalf of the consignor, the profit or loss on sale of goods sent on consignment belongs to the consignor.

10.2.4 Distinction between Sale and Consignment

Although the possession of goods is transferred from one person to the other both in case of sale and in case of consignment, they differ from each other in various ways. The difference between an outright sale and the goods sent on consignment has been explained as follows:

No. and Item	Sale	Consignment
1 Parties	Seller and Buyer	Consignor and Consignee
2 Ownership and title of goods	Ownership and title of goods is transferred to the buyer of the goods.	The legal ownarahip and title of goods is not transferred to the consignee. It remains with the consignor till they are sold.
3 Relationship	The relationship between the seller and the buyer of the goods is that of a creditor and debtor.	The relationship between the consignor and the consignee is that of a principal and an agent. The consignee is to sell goorls on behalf of the consignor.
4 Expenses	Expenses incurred after sale of goods are borne by the buyer.	Expenses incurred by the consignee in connection with the goods consigned to him are borne by the consignor.
5 Risk	Risk attached to the goods sold is transferred to the buyer of goods as soon as goods are sold. In case, the goods are destroyed after sale, the loss is suffered by the buyer	Risk attached to the goods consigned lies with the consignor till the goods consigned ore sold. In case the goods are destroyed the loss is borne by the consignor.
6 Return of Goods	Return of goods is not possible as goods once sold are not returnable	Goods can be returned if they are not sold by the consignee.
7 Account Sales	No Account sale is required to be submitted hy the buyer to the seller.	Account sale has to be submitted by the consignee to the consignor from time to time.
8 Unsold Goods	The seller has nothing to do with the goods which could not be resold.	Unsold goods with the consignee will be treated as stock of the consignor.

The distinction between sale and consignment given above also **amply** clarifies the difference between the rights and duties of **the** buyer and the consignee.

Check Your Progress A

- 1
- Read the following carefully and tick mark the correct answer.

a)

The relationship between the consignor and the consignee is that of

i)

Buyer and Seller

ii)

Principal and **Agent**

iii)

Debtor and Creditor

b)

The term used for consignee's remuneration is

i)

Comtnission

ii)

.Brokerage

iii)

Discount

c)

The party responsible for thk risk attached to the goods in consignment is

i)

Consignee

ii)

Consignor

iii)

Both

d)

The legal ownership of the goods is not transferred till the goods are sold in case of

i)

Sale

ii)

Consignment.

iii)

Both
- 2
- State whether the following statements are True or False.

i)

.Despatch of goods on consignment amounts to sale of goods by the consignor

.....

ii)

All the legitimate expenses **incurred** by the consignee relating to consignment are borne by the consignor.

.....

- iii) For the consignor the consignment is an outward consignment and the same becomes an inward consignment for the consignee.
- iv) Goods are treated as sales under consignment when they are consigned.
- v) The consignee does not become the debtor of the consignor on receipt of goods.

10.2.5 Important Terms in Consignment

There are a few terms relating to consignment which are commonly used. These are **proforma** invoice, account sales, non-recurring and **recurring** expenses, **commission**, **advance**, etc. These are **explained** as follows:

Proforma Invoice : Since the goods sent on consignment cannot be treated as **sales**, the consignor does not prepare proper invoice. He simply prepares a **Proforma Invoice** and sends it to the consignee, along with the goods despatched. This is prepared with a view to inform the consignee about price of goods, expenses incurred, mode of transportation and the minimum sale price at which the goods are to be sold. A **specimen** of **proforma** invoice is given in figure 10.1

Figure 10.1
Specimen of **Proforma** Invoice.

BABBAR TRADERS		
Proforma Invoice		222, Mount Road Madras
For Goods Sent on consignment basis to:		Oct. 10, 1986
M/s Hari Kishan Enterprises, Hauz Khas, New Delhi.		
Serial No.	Particulars	Amount
	Rs.	Rs.
	500 Bush Radio sets at Rs. 600 each	3,00,000
	Charges :	
	Packing and Cartage 4,000	
	Freight 3,000	
	Insurance 6,000	13,000
	Total	3,13,000
	Goods despatched vide R.R.NO. Smt. G.834866, Dated 10/10/86 Freight to pay,	
E. & O. E.		For Babbar Trnder (D. BABBAR) Partner

Note: 'E.&.O.E. stands for Errors and Omissions Excepted. Which mean **that** invoice is subject to the errors of omission and commission.

In the above invoice Babbar Traders are the consignors and Hari Kishan Enterprises the consignee. Goods worth Rs. 3,00,000 have been consigned on which a sum of Rs. 13,000 has been incurred on various expenses.

Account Sales : As the consignee is an agent and is selling the goods on **behalf** of the consignor, he has to furnish the details of sale proceeds, expenses, commission, etc. to the consignor. He furnishes all these details by means of a statement called 'Account Sales'. This shows the quantity and description of goods sold, sale proceeds **realised**, the exp. **n**ses incurred by the consignee, commission due to him, and the balance amount payable by him to the consignor. While preparing an Account Sales the consignee **will** deduct all expenses incurred by him in relation to the consignment and the commission due to him. The remittances made in advance, if any, are also to be deducted from the balance so obtained. The consignee **will** send a bank draft or his acceptance for the balance due to the **consignor**. Illustration 1 will give you a clear understanding as to how an Account Sales is prepared.

Illustration 1

On January 1, 1987 Babbar Traders of Bombay consigned 500 Bush Radio sets to Hari Kishan Enterprises, Madras. The cost of each set was Rs. 750. On receiving the consignment, Hari Kishan Enterprises sent a bank draft for Rs. 25,000 as an advance to

Babbar Traders. Hari Kishan Enterprises paid Rs. 1,500 for freight. Rs. 2,000 for octroi, Rs. 2,500 for godown rent and other selling expenses. Hari Kishan enterprises submitted an Account Sale on March, 1, 1987 showing that all the sets had been sold at Rs. 850 each. They were entitled to 10% commission on sales. Prepare the Account Sales.

Solution

ACCOUNT SALES		
of 500 Bush Radio Sets received from Babbar Traders, Madras		
S.No.	Particulars	Amount
		Rs.
	Sale Proceeds :	
	500 Bush Radio Sets sold at Rs. 850 each	4,25,000
	Less:	
	Freight 1,500	
	Octroi 2,000	
	Godown rent & selling expenses 2,500	6,000
		4,19,000
	Less :	
	Commission nt 10% on sale proceeds (i.e. Rs. 4,25,000 x 10%/100)	42,500
		3,76,500
	Less :	
	Advance (Bank Draft)	25,000
	Balance due to Babbar Traders ,remittedas per draft enclosed	3,51,500
E. & O. E.		For Hari Kishan Enterprises
		HARI KISHAN
Dated 01/03/87		Managing Partner

Commission : It is the remuneration paid to the consignee by the consignor in consideration of the services rendered by the former in selling the goods consigned. This commission can be divided into two types (a) Ordinary Commission, and (b) Special Commission.

- a) Ordinary Commission : It is a commission usually paid as a fixed percentage on gross sale proceeds. The terms commission normally denotes ordinary commission, unless specified otherwise. The consignee is not responsible for any bad debts and he does not guarantee the payment from all those who buy on credit so long as he is getting ordinary commission only.
- b) Special Commission : This is the commission which the consignee gets over and above the ordinary commission. It can be sub-divided into two categories viz., (i) Over-riding Commission and (ii) Del Credre Commission.
- i) Over-riding Commission :This is an extra commission allowed over and above the normal commission and is generally offered when the agent is required to put in hard work either in introducing a new product in the market or where he is entrusted with the work of supervising the performance of other agents in a particular area. This commission is also given for sales at prices higher than the price fixed by the consignor.
- ii) Del Credre Commission : Usually, all the losses are borne by the consignor. Sometimes the consignor expects that the consignee should also be responsible for recovering the debts and bear the loss on account of bad debts, if any. In order to compensate him for this responsibility he is given some extra commission called 'Del Credre Commission'. Such commission is calculated on the total sales unless there is a special agreement to the effect that it is to be paid only on the amount of credit sales. Payment of this commission imposes extra liability on the consignee and induces him to deal in a prudent and cautious manner.

In Illustration 2 we have given you the details regarding the computation of commission. It would certainly give you an idea about the calculation of normal commission and special commission.

Illustration 2

Rajadhani Cycles Ltd, sent 2,000 dynamos costing Rs. 50 each for sale on consignment basis to Banerjee & Co. Calcutta. Normal selling price per dynamo is Rs. 60. Consignee is entitled to commission at i) 5% on normal selling price; ii) 10% additional commission on excess sales and iii) 1 1/2% Del credere commission on total sales for guaranteeing collection of credit sales. Banerjee & Co. reported sales of 500 dynamos at Rs. 60 each and dynamos at Rs. 75 each on cash basis and 400 dynamos at Rs. 75 each and another 400 at Rs. 80 each on credit basis, Compute consignee's commission.

Solution :

Total Sales :

500 units @ Rs 60 each	30,000
200 units @ Rs 75 each	15,000
400 units @ Rs 75 each	30,000
400 units @ Rs 80 each	32,000
	<hr/> 1,07,000 <hr/>

i) Normal Commission :

5% on normal price of goods sold.
 Number of units sold are: 1,500 (500 + 200 + 400 + 400)
 Normal selling price per unit : Rs. 60
 Normal Sale: 1500 x 60 = Rs. 90,000
 Normal Commission: $\frac{5}{100} \times 90,000 = \text{Rs. } 4,500$

ii) Additional Commission : 10% on amount realized in excess of the normal price

	Rs.
Total Sales Value:	1,07,000
Normal Sales Value:	<u>90,000</u>
Excess Sales Value:	17,000
Additional Commission: $\frac{10}{100} \times 17,000$	= Rs. 1,700

iii) Del Credere Commission

1 1/2% on Total Sales
 $\frac{3}{200} \times 1,07,000 = \text{Rs. } 1,605$
 Total Commission (i) + (ii) + (iii) = Rs. 4,500 + Rs. 1,700 + Rs. 1,605
 = Rs. 7,805

Expenses: Expenses relating to consignment of goods are divided into two categories viz., (i) Non-recurring Expenses. and (ii) Recurring Expenses.

i) 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 incurred on the consignment as a whole. The non-recurring expenses will be incurred partly by the consignor and partly by the consignee.

The consignor usually incurs expenses on sending the goods to the consignee such as packing, cartage, loading charges, insurance, freight, etc. The consignee usually incurs expenses on receiving the goods from the consignee such as dock dues, customs duty, clearing charges, octroi, etc.

ii) Recurring Expenses: These expenses are incurred after the goods have reached the consignee's place or godown. They are recurring in nature because they may be incurred repeatedly by the consignor and the consignee. The examples of recurring expenses incurred by the consignor are: advertising, discount on bills, commission on collection of cheques, travelling, expenses of salesmen, bad debts etc. The examples of recurring expenses incurred by the consignee are godown rent: godown insurance, sales promotion, etc.

Advance : It is a common trade practice for the consignor to demand some advance from the consignee as a security for the goods despatched to him. It may be in the form of cash or bank draft or in the form of a 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 consignee 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 not in a position to pay advance money. The consignor can discount the bill with his bankers. In such a case the value of the bill (as advance) so accepted will be deducted from the sale proceeds. The discount paid to the bank can be straight away charged to the Profit & Loss Account as it represents cost of raising finance.

Check Your Progress B

- 1 Distinguish between Account Sales and Sales Account?
-
-
-
-
- 2 Under what circumstances can the consignee get a special commission'?
-
-
-
-
- 3 Fill in the blanks :
- i) E. & O.E. stands for
- ii) Consignor allows Commission to the consignee to bear the bad debts.
- iii) expenses are those expenses which are incurred after the goods reach the consignee's godown.
- iv) The consignee gives advance to the consignor as a for goods despatched.
- v) Unloading charges paid by the consignee are expenses.

10.3 ACCOUNTING TREATMENT

The transactions relating to each consignment are recorded in such a way that the profit or loss of each consignment can be worked out separately. For this purpose the consignor prepares a Consignment Account relating to each consignment to which all concerned expenses including the cost of goods consigned are debited and the sales proceeds and the closing stock are credited. In addition, he also maintains a consignee's account in order to compute the amount due from him. The consignee, on the other hand, simply maintains consignor's account in his books to which he debits the amounts remitted to the consignor the expenses incurred by him in relation to the consignment and the commission due to him. Consignor's Account is credited mainly by the amount of sale proceeds. Now let us study how various transactions related to consignment are recorded in the books of the consignor and the consignee.

10.3.1 Books of the Consignor

You know each transaction is recorded first in a subsidiary book and then posted to the respective accounts in the ledger. All transactions related to consignment therefore, are first recorded in the Journal. The entries passed in respect of various transaction are as follows:

Goods despatched to the consignee: As you know the consignment of goods cannot be treated as a sale of goods. Therefore, Sales Account will not be credited. In its place, an account called 'Goods sent Consignment Account' will be credited and the Consignment Account is debited with the cost of the goods consigned'. Thus the journal entry will be as follows:

To Goods Sent on Consignment A/c
(Being the value of the consignment)

If consignments have been sent to more than one consignee, the consignment accounts may be distinguished by adding the names of the places to the Consignment Account. (For example Consignment to Calcutta Account, Consignment to Gonda Account, etc.)

- 2 Expenses incurred by the consignor : All expenses incurred by the consignor on consignment of goods are debited to the Consignment Account and are thus added to cost of goods consigned. The entry would be:

Consignment A/c Dr.
To Cash / Bank A/c
(Being the expenses incurred on the consignment)

- 3 Advance made by the consignee : The amount of advance received from the consignee cannot be treated as sale proceeds, and so should not be credited to the Consignment Account. It is treated as follows.

Cash/Bank/Bills Receivable A/c Dr.
To Consignee's A/c
(Being an advance from the consignee)

4. Bill received from the consignee discounted with the bank : If the consignor gets the bills receivable discounted from his bankers, the entry will be :

Bank A/c Dr.
Discount A/c Dr.
To Bills Receivable A/c
(Being bill discounted with the bank)

- 5 **Receipt** of account sales from the consignee : When the goods are sold out, the **consignee** will send an Account Sales to the consignor intimating him the total sales and the amount of his expenses and commission. The following three entries will be recorded in this connection

- a) For sales made by the **consignee** :

Consignee's A/c Dr.
To Consignment A/c
(Being gross proceeds of sales)

- b) For consignee's **expenses** :

Consignment A/c Dr.
To Consignee's A/c
(Being expenses incurred by the consignee in dealing with consignment)

- c) For consignee's **commission**:

Consignment A/c Dr.
To Consignee's A/c
(Being **commission payable** on sale **proceeds**)

- 6 Goods **returned** by the consignee: Sometimes defective or obsolete goods are **returned** by the consignee to the consignor. When such goods are received, the journal entry will be :

Goods Sent an Consignment A/c Dr.
To Consignment A/c
(Being **goods** returned by the consignee)

- 7 **Bad debts incurred**: When the consignee is entitled to del **credre** commission no entry for bad debts is to be passed as such loss is to be borne by the consignee himself. But when del **credre** commission is not paid, the loss on account of bad debts is to be borne by the consignor, the entry will be:

8 **Remittance by the consignee in full settlement:** The balance amount will have to be remitted by the consignee to the consignor on settlement of the account. The following entry will be recorded, when the consignee remits to the consignor:

Cash/Bank/Bills Receivable A/c
To Consignee's A/c
(Being balance due from the consignee received).

Dr.

9 **Profit or loss on consignment:** When you balance the Consignment Account, it reveals profit or loss. If the total of credit side is more than the total of debit side it is a profit and if the total of debit side is more than that of the credit side, it is a loss. The profit or loss is transferred to the Profit & Loss Account and thus the Consignment Account is closed.

The following entries will be recorded:

a) **If there is a profit:**

Consignment A/c
To Profit & Loss A/c
(Being profit on consignment)

Dr.

b) **If there is loss:**

Profit & Loss A/c
To Consignment A/c
(Being loss on consignment)

Dr.

10 **Closing entry for goods sent on consignment :** Goods sent on Consignment Account is closed by transfer to the Trading Account. The entry passed is as follows:

Goods Sent on Consignment A/c
To Trading A/c
(Being goods sent on consignment account closed)

Dr.

11 **Unsold stock with the consignee:** It is quite possible that all the goods sent on consignment are not sold by the consignee up to the date on which final accounts are prepared.' Some goods may remain unsold known as the consignment stock. This should be properly valued and credited to the Consignment Account. Ybu will learn about the valuation of unsold stock in unit 11. However, the entry for consignment stock will be

Consignment Stock A/c
To Consignment A/c
(Being unsold goods with the consignee)

Dr.

You have learnt how to record consignment transactions in the Journal of the consignor. Now let us see how various accounts effected are shown in the ledger and how profit or loss on consignment is worked out. The consignor usually maintains the following three accounts:

1 **Consignment Account:** It is prepared by the consignor showing all transactions relating to a particular consignment. The objective of this account is to ascertain net profit/loss arising from each consignment. Once goods are consigned by the consignor, its cost is debited to the Consignment Account alongwith various expenses incurred by the consignor and the consignee in dealing with that particular consignment. The commission due to the consignee is also debited to the Consignment Account. When Del Credre commission is not paid, the bad debts, if any, are also to be debited to this account. Once the goods reach the consignee some of these will be unsold and the rest sold either on cash or on credit, Irrespective of the type of sale, the entire sale proceeds will be shown on the credit side of

the Consignment Account. The unsold goods are treated as consignment stock and credited to this Account. If same goods are found unsuitable for sale, the consignee will send them back to the consignor and the same will appear on the its credit side. After all these items are recorded, the Consignment Account is balanced. The difference between the debit and credit totals of Consignment Account is regarded as profit or loss which is transferred to the Profit and Loss Account and the Consignment Account stands closed. It is infact a nominal account and is just like Trading and Profit and Loss Account about which you have studied earlier in final accounts. Therefore, the principles applied to Trading and Profit & Loss Account hold good for this account also. Like Trading and Profit & Loss Account all expenses and purchases are debited to this account and all sales and incomes are credited. The proforma of the consignment account is given in Figure 10.2.

Figure 10.2

Consignment to Patnn Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Goads Sent on Consignment A/c	xxx		By Consignee's A/c (Cash and Credit sales).	xxx
	To Cash A/c (Consignor's Expenses)	xxx		By Goods Sent on Consignment A/c (Goods returned by the Consignee)	xxx
	To Consignee's A/c (Consignee's Expenses)	xxx		By Consignment Stock A/c (Unsold Stock)	xxx
	To Consignee's A/c (Commission)	xxx		By Profit and Loss A/c (Loss transferred)	xxx
	To Consignee's A/c (Bad Debts if any)	xxx			
	To Profit and Loss A/c (Profit transferred)	xxx			
		xxxx			xxxx

2 Goods Sent on Consignment Account: This is a real account. It deals with the goods transferred from the consignor to the consignee and goods returned by the consignee to the consignor. All the goods consigned by the consignor will be credited lo this account and the goods returned by the consignee are debited to this account. The balance represents the cost of goods with consignee for sale, and is transferred to the Trading Account. The proforma of the Goods Sent on Consignment Account is depicted in Figure 10.3

Figure 10.3

Goods Sent on Consignment Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Consignment A/c (Goods returned)	xxx		By Consignment A/c (Goods consigned)	
	To Trading A/c (Balance transferred)	xxx			
		xxx			xxx

3 Consignee's Account: It is a personal account of the consignee. It is prepared for ascertaining the amount due from the consignee. The consignee's account is debited with all cash and credit sales effected by the consignee. The various expenses incurred hy the consignee, the commriission charged by him as well as the-advance remitted by him are credited to this account. This account usually shows a debit balance indicating the amount due from the consignee. At times it may show credit balance, if the advance given by the consignee is more than the sale affected by him. The balance revealed by this account is shown in the balance sheet of the consignor, debit balance on the assets side, and credit

balance on the liabilities side, unless the account is settled by the required remittance. Figure 10.4 shows the proforma of Consignee's Account.

Figure 10.4
Consignee's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	
	To Consignment A/c (Cash and Credit Sales)	Rs. xxx		By Cash/Bank/Bills Receivable A/c (Advance)	xxx
				By Consignment A/c (Consignee's Expenses)	xxx
				By Consignment A/c (Consignee's Commission)	xxx
				By Banks A/c or Balance c/d	
		xxx			xxxx

Look at Illustration 3 and see how various transactions relating to consignment are recorded in the books of the consignor

Illustration 3

Bush Radio 4 Co., Delhi sent on consignment to Chadda & Co., Calcutta 100 radio sets, invoiced at Rs. 100 each on January 6, 1986. Bush Radio & Co. paid Rs. 1,000 on the same day for despatching goods to the consignee. Consignee remitted Rs. 5,000 as an advance by bank draft on January 14. The consignee is entitled to a commission of 10% on the sale proceeds. On receipt of goods the consignee paid Rs. 1,000 for freight and Rs. 500 for godown charges. On January 28, Chadda & Co. sent an Account Sales showing that the radio sets have realised Rs. 200 each. He remits the amount due to Bush Radio & Co. Pass Journal entries and prepare ledger accounts in the books of the consignor.

Books of Bush Radio & Co., Delhi
JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1986 Jan. 6	Consignment to Calcutta A/c Dr. To Goods Sent on Consignment A/c (Being cost of consignment sent to Chadda & Co.)		Rs. 10,000	Rs. 10,000
" 6	Consignment to Calcutta A/c Dr. To Bank A/c (Being expenditure incurred on despatching of goods)		1,000	1,000
" 14	Bank A/c Dr. To Chadda & Co. (Being receipt of an advance payment from the consignee)		5,000	5,000
" 28	Consignment to Calcutta A/c Dr. To Chadda & Co. (Being expenses paid by the consignee)		1,500	1,500
" 28	Chadda & Co. Dr. To Consignment to Calcutta A/c (Being the gross proceeds of sales made by the consignee)		20,000	20,000
" 28	Consignment to Calcutta A/c Dr. To Chadda & Co. (Being commission payable on sale proceeds)		2,000	2,000

Jan. 31	Bank A/c To Chadha & Co. (Being balance payment received from the consignee)	Dr.	11,500	11,500
" 31	Consignment to Calcutta A/c To Profit & Loss A/c (Being Profit on consignment transferred to Profit & Loss Account)	Dr.	5,500	5,500
" 31	Goods Sent on Consignment A/c To Trading A/c (Being goods sent on consignment transferred to Trading Account)		10,000	10,000

LEDGER

Consignment to Calcutta Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
1986 Jan. 6	To Goods Sent on Consignment A/c	Rs. 10,000	1986 Jan. 28	By Chadha & Co.	Rs. 20,000
" 6	To Bank A/c (Consignor's Expenses)	1,000			
" 14	To Chadha & Co (Consignee's Expenses)	1,500			
" 28	To Chadha & Co (Consignee's Commission)	2,000			
" 31	To Profit & Loss A/c (Profit transferred)	5,500			
		20,000			20,000

Goods Sent on Consignment Account

1986 Jan. 30	To Trading A/c	Rs. 10,000	1986 Jan. 6	By Consignment to Calcutta A/c	Rs. 10,000
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Chadha & Co's Account

1986 Jan. 28	To Consignment to Calcutta A/c (Sale Proceeds)	Rs. 20,000	1986 Jan. 14	By Bank A/c (Advance)	Rs. 5,000
			" 28	By Consignment to Calcutta A/c (Expenses)	1,500
			" 28	By Consignment to Calcutta A/c (Commission)	2,000
			" 28	By Bank A/c (Balance received)	1,500
		20,000			20,000

10.3.2 Books of the Consignee

The Consignee mainly prepares a consignor's account in his books to find out what is finally due to the consignor. He records all transactions relating to the consignment first in the Journal and then posts them to the relevant accounts (including Consignor's Account) in the ledger. The journal entries passed by the consignee are:

- 1 Receipt of goods from the consignor:** No entry is passed by the consignee when he receives goods from the consignor because receipt of goods on consignment does not amount to purchases of goods by him. He keeps them in his godown on behalf of the consignor for which he usually maintains an Inwards Consignment Book.
- 2 Expenses incurred by the consignor:** No entry is passed by the consignee.

3 Advance made by the consignee

Consignor's A/c Dr.
 To Bank/Bills Payable A/c
 (Being advance made by the consignee)

4 Bill discounted by the consignor with the bank: No entry is passed by consignee.

5 Sale of goods by the consignee

Cash A/c (cash sales) Dr.
 Consignment Debtors A/c Dr.
 (Credit sales)
 To Consignor's A/c
 (Being goods sold)

6 Expenses incurred by the Consignee: Being an agent of the consignor, all legitimate expenses incurred by the consignee related to the consignment are to be reimbursed by the consignor, the entry will be:

Consignor's A/c Dr.
 To Cash/Bank A/c
 (Being expenses incurred on consignment)

7 Commission due to the consignee: This should include all types of commissions due to the consignee: The entry will be

Consignor's A/c Dr.
 To Commission A/c
 (Being commission due on sales)

8 Return of goods to the consignor: No entry will be passed in the books of the consignee as no entry was passed at the time of receipt of the goods.

9 Payment received from debtors

Cash/Bank A/c Dr.
 To Consignment Debtors A/c
 (Being amount collected from debtors)

10 Bad debts incurred

- a) If consignee does not get del credere commission all bad debts have to be borne by the consignor himself. The entry will be.

Consignor's A/c Dr.
 To Consignment Debtors A/c
 (Being bad debts on consignment)

- b) If del credere commission is paid to the consignee, the bad debts are to be borne by him. The entry will be:

Bad Debts A/c Dr.
 To Consignment Debtors A/c
 (Being bad debts incurred on consignment)

11 When the bills payable accepted in favour of consignor is met on the due date:

Bills Payable A/c Dr.
 To Bank A/c
 (Being bills payable honoured)

12 Remittance in final settlement

Consignor's A/c Dr.
 To Cash/Bank Account
 To Bills Receivable Account
 (Being payment of the balance due to the consignor)

- 13 Unsold stock in possession of the consignee: No entry will be passed for unsold goods in the books of the consignee as no entry is passed when he received goods from the consignor.
- 14 Profit or Loss on consignment: No entry is passed for profit or loss on consignment as the consignee is not concerned with it.

The Consignee also prepares ledger accounts after passing all the journal entries. The Consignor's Account and Commission Account are the two important accounts prepared by the consignee in his books. Of course, he will also do the postings to the other accounts such as Consignment Debtor's Account, Consignment Expenses Account and Bills payable Account, etc. But these are of less importance, hence not discussed here.

- 1 Consignor's Personal Account: This is the main account in Consignee's ledger which is prepared for working out the amount due to the consignor. Whatever amount he receives from sales of goods is credited to this account. All expenses incurred by the consignee in relation to consignment, the commission due to him, and the advance given by him to the consignor will be debited to this account. Further, if the consignee does not get del credere commission, the bad debts on account of credit sales are also debited to the Consignor's Account. The balance of this account indicates the amount payable to the consignor. This account is just the opposite of the Consignee's Account in the books of the consignor. The proforma of the Consignor's Account is given in Figure 10.5

Figure 10.5

Consignor's Personal Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
	To Bank/Cash A/c (Consignee's Expenses)	Rs. xxx		By Bank A/c (Cash Sales)	Rs. xxx
	To Bank/Bills Payable A/c (Advance)	xxx		By Consignment A/c (Credit Sales)	xxx
	To Commission A/c (Consignee's Commission)	xxx		By Bank A/c (Balance remitted)	xxx
		xxx			xxx

- 2 Commission Account: This is nominal account. It shows the income earned by the consignee for the services rendered by him. All types of commission whether, ordinary or special, due to the consignee is credited to this account. The Commission Account will be debited with had debts if the consignee is to bear such loss because of del credere commission. The proforma of the commission Account is given in Figure 10.6

Figure 10.6

Commission Account				
Dr.			Cr.	
	To Bad Debts A/c	Rs. xxx		By Consignor's A/c (Consignee's Commission)
	To Profit & Loss A/c	xxx		
		xxx		

Taking the data of Illustration 3 let us see how transaction related to consignment will be recorded in the books of the consignee,

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Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1986 Jan. 14	Bush & Co. Dr. To Bank A/c (Being advance paid by the consignee)		Rs. 5,000	Rs. 5,000
" 15	Bush & Co. Dr. To Cash/Bank/A/c (Being expenses incurred on consignment)		1,500	1,500
" 28	Bank A/c Dr. To Bush & Co. (Being cash sales on consignment)		20,000	20,000
" 28	Bush & Co. Dr. To Commission A/c (Being commission due on goods sold)		2,000	2,000
" 31	Bush & Co. Dr. To Bank A/c (Being balance payment made)		11,500	11,500

LEDGERS

Bush & Co's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
Jan. 14	To Bank A/c	Rs. 1,500	1986 Jan. 31	By Bank A/c (Sales)	Rs. 20,000
" 14	To Bank A/c (Advance)	5,000			
" 14	To Commission A/c	2,000			
" 14	To Bank A/c (Balance)	11,500			
		20,000			20,000

Commission Account

1986 Jan. 31	To Profit & Loss A/c	Rs. 2,000	1986 Jan. 28	By Bush & Co.	Rs. 2,000

Check Your Progress C

- 1 Fill in the blanks.
- i) All expenses incurred by the consignee are to Consignment Account.

ii) When the defective goods are **returned** by the consignee, the consignor debits it to, Account.

iii) When there is no del credre commission, bad debts ate borne by the

iv) Consignment Account is similar to Account.

v) Consignee passes entry for closing stock.

vi) Commission Account is a Account.
- 2 Explain why the consignee does not pass any entry for
- a) Goods sent on Consignment

b) Profit or loss on consignment, and

c) Closing stock.

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10.4 LET US SUM UP

Consignment is a kind of arrangement where the manufacturer or a trader sends goods to his agents for sale to small traders or consumers. The agents sell goods on behalf of the manufacturer or the trader. The person who sends the goods is called the consignor and the person to whom the goods are sent is called the consignee. The relationship between the consignor and the consignee is that of a principal and an agent.

While sending goods to the consignee, the consignor sends a **proforma** invoice which gives full details about the goods consigned. After the goods have been sold, **the** consignee prepares an Account Sales, giving full details about the **number** of units sold, the price at which they have been sold, and the expenses and commission due to him.

The consignee is entitled to commission for the services rendered to the consignor. The commission can be ordinary or special commission.

In order to work out the profit or loss on each consignment and the amount due from each consignee, the **consignor** prepares Consignment Account, Goods **Sent** on Consignment Account **and** Consignee's Personal Account in his ledger for each consignment. The consignee, on the other hand, mainly prepares two accounts in his books *viz.*, Commission Account and Consignor's **Personal** Account.

This helps him to know the amount due to the consignor and his income from commissions.

10.5 KEY WORDS

Account Sales: A statement submitted by the consignee to the consignor giving account of the sale proceeds, details of various expenses incurred, and the **commission due** to him.

Consignee: A person to whom the goods are **sent** on consignment basis.

Consignment: Goods sent by a producer or a trader to his agents for sale **on** their behalf and at their risk.

Consignor: A person who sends the goods to his agents on **consignment** basis.

Del Credre Commission: Commission paid by the consignor to the **consignee** for bearing the risk of bad debts arising out of credit sales made by him on behalf of the consignor.

Over-riding Commission: It is the commission over and above the normal **commission** paid to the consignee for extra services provided by him or excess price **realized** by him.

Proforma Invoice: A **statement** prepared by the consignor and sent to the consignee **giving** details of goods consigned.

10.6 SOME USEFUL BOOKS

Maheshwari, S.N. 1986. *introduction to Accounting*. Vikas Publishing House: New Delhi. (Chapter 1 Section II).

Patil, V.A. and J.S. Korlahalli. 1986. *Principles and Practice of Accounting*, R. Chand & Co. : New Delhi. (Chapter 2).

William Pickles. 1982. *Accountancy*, R.L.B.S. and Pitman: London. (Chapter 17).

Gupta, R.L. and M. Radhaswamy. 1986. *Advanced Accountancy*, Sultan Chand & Sons; New Delhi (Chapter 15).

10.7 ANSWERS TO CHECK YOUR PROGRESS

- A 1 a) ii b) i c) ii d) ii
2 i) False ii) True iii) True iv) **False** v) True
- B 3 i) Errors and Omissions Excepted.
ii) **Del Credre** Commission iii) **Recurring** iv) security
v) Non-recurring

- C
- 1
- i) debited

ii) Goods Sent on Consignment

iii) Consignor

iv) Trading and Profit & Loss Account.

v) no

vi) nominal

10.8 TERMINAL QUESTIONS/EXERCISES

Questions

- 1
- "Consignment is the same thing as sale". Discuss.
- 2
- What is an 'account sales'? How do you prepare it? State how it is useful to the consignor?
- 3
- Distinguish between

a) Non-recurring and Recurring Expenses

b) Ordinary Commission and Del Credre Commission

c) Account Sales and invoice

Exercises:

- 1
- 'X' & Co. Bombay consigned 250 Weston T.V. sets to 'Y' & Co. Banglore. Each T.V. set costs Rs. 7,500. Y & Co. received the consignment and sold the sets as follows:

160 T.V. sets at Rs. 9,000 each on cash basis and

90 T.V. sets at Rs. 10,500 each on credit basis

The consignor allowed 5% normal commission and 2-1/2% del credre commission to the consignee on the sales effected by him. Compute total commission due to Y & Co.

(Answer: Normal Commission Rs. 1,19,250; Del Credre Commission Rs. 59,625)
- 2
- Harish & Co. Lucknow, consigned goods valued at Rs. 1,25,000 to Dinesh Enterprises, Ahmedabad. Harish paid Rs. 1,800 towards freight, insurance and carriage, Dinesh received the consignment and accepted a bill for Rs. 50,000. He paid Rs. 1,500 for freight, Rs. 2,200 for carriage and godown rent, and Rs. 2,500 as salesman's salaries. The consignee is allowed to take 7% commission on the total sales. Consignee sold all goods for Rs. 1,68,000. Balance owed by Dinesh was remitted by a bank draft. Prepare an Account Sales.

(Answer: Balance due from the consignee: Rs. 1,00,040)
- 3
- On January 1, 1987 Gopal Enterprises, Hyderabad, sent 50 radio sets to Rakesh & Co., Bombay invoiced at Rs. 1,200 per set and incurred the following expenses in relation to the consignment: dock dues Rs.2,000; customs duty Rs.1,000 and frieght Rs.2,300. Rakesh & Co. remitted Rs.20,000 by bank draft on January 5, 1987. It sold all the sets at Rs 1,500 each by January 31, 1987 and incurred Rs. 2,500 as godown rent. Commission is allowed at 5% on sales, The consignee sent the Account sale and enclosed a bank draft for the balance.

Journalise the above transaction in the books of the Consignor and the Consignee. Also prepare necessary ledger accounts and calculate the profit on consignment.

(Answer: Profit on consignment Rs. 3,450; Balance due from the consignee Rs. 48,750)
- 4
- Krishna of Bombay consigned goods costing Rs. 2,50,000 to Kajriwal of Jodhpur. Krishna paid Rs. 1,500 for carriage and Rs. 5,250 for freight and insurance. Kajriwal is entitled to a commission of 5% on all sales in addition to 2% del credre commission. Krishna draws on Kajriwal a bill for Rs. 80,000, payable two months after date, which the latter accepts. The bill is discounted with the bank for Rs. 79,000. An Account sale is received from Kajriwal stating that the goods had been sold for Rs. 3,10,000 (Rs. 1,60,000 on credit and Rs. 1,50,000 for cash), while expenses incurred by him were: unloading Rs. 1,250; godown rent Rs. 2,500 insurance Rs. 500. A bank draft was enclosed for the balance due. Kajriwal could not recover Rs. 2,500 from a customer to whom goods were sold on credit.

Pass Journal entries in the books of the consignor and the consignee and prepare necessary ledger accounts.

**Consignment and
Joint Venture**

Hints:

- i) Discount will not be debited to consignment Account
- ii) Bad Debts will be ~~borne~~ by the Consignee and debited to his commission account.
- iii) Del Credre commission is computed on total sales.

(Answer: Profit on consignment Rs. 27,300; Amount due from consignee Rs. 2,04,050.)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 11 CONSIGNMENT ACCOUNTS-II

Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Direct Recording in the Ledger
- 11.3 Unsold Stock
 - 11.3.1 Valuation of Unsold Stock
 - 11.3.2 Accounting Treatment of Unsold Stock
- 11.4 Loss of Goods
 - 11.4.1 Normal Loss
 - 11.4.2 Abnormal Loss
 - 11.4.3 Where Normal and Abnormal Losses Occur Simultaneously
- 11.5 Let Us Sum Up
- 11.6 Key Words
- 11.7 Some Useful Books
- 11.8 Answers to Check Your Progress
- 11.9 Terminal Questions / Exercises

11.0 OBJECTIVES

After studying this unit you should be able to:

- record consignment transactions **directly** in the ledger accounts of the consignor and the consignee
- compute the **value** of unsold stock
- explain the nature of normal and abnormal losses
- compute the value of unsold goods in case of normal loss
- explain the treatment of normal and abnormal losses of goods and their impact on profit.

11.1 INTRODUCTION

In Unit 10 you learnt about the basic accounting framework relating to the goods sent on consignment **basis i.e.**, the entries to be passed in the books of consignor and the consignee. You know the method of working out the profit on each consignment when all goods are sold out. In practice you will find that at the time of submitting the Account Sales, some goods may remain unsold. Then, there is also a possibility of loss while the goods are in transit or while they are lying in the **godown** of the consignee. Such loss may occur due to normal or abnormal causes. In this unit you will learn how the value of unsold goods is worked out and recorded in books of account. You will also learn about the **treatment** of **normal** and abnormal losses which may take place in transit or in the **godown** of the consignee and their impact on valuation of stock and the profit on consignment.

11.2 DIRECT RECORDING IN THE LEDGER

You know for each consignment the consignor prepares the consignment Account, the **Goods Sent on Consignment** Account and the Consignee's Account in his books, whereas the consignee prepares the Consignor's Account and the Commission Account in his books. In **Unit** 10 you learnt that all transactions relating to consignment are first recorded in the Journal and then posted into the above mentioned ledger accounts. Sometimes, you may be asked to prepare the ledger accounts directly **i.e.**, without passing **any** journal entries. You should therefore learn how to prepare these accounts directly.

You should debit the Consignment **Account with** the cost of **goods** consigned, expenses