

4

CONSIGNMENT ACCOUNT

Objectives

At the end of this chapter, students should be able to:

- Explain terminologies of Consignment Account;
- Prepare the various books of accounts connected to consignments.

4.1 Introduction

Business people also try to sell their goods in different markets or places. In Nigeria, we find that goods produced by one person in one part of the country is being sold in another part of the country. For instance, goods produced in Calabar can be found in Sokoto.

For one reason or the other, the trader in Calabar may not have a branch in Sokoto. But, he can simply enter into an agreement with a local person in Sokoto to sell the products on commission basis. This local person becomes an agent known as a Consignee while the trader (owner of goods) becomes the

principal known as Consignor. Most of the trade between different countries are carried out by agents, who sell goods on behalf of their principals. When goods are handled through agents on sales or return, it is said to be on consignment. The commission of the agent is generally calculated on a percentage of gross proceeds of sales. The principal sends goods to the agent, with a pro-forma invoice, showing the quantity, price and value of goods.

4.2 Terminologies

1. **Consignments:** Essential goods sent to an agent for sale on behalf of the principal are called .Consignments.
2. **Consignee:** The agent here is known as consignee (i.e. receiver of a consignment).
3. **Consignor:** The principal is the Consignor (i.e. the owner of the goods.)
4. **Del credere agent:** Occasionally, an agent may sell part of the goods on credit. The credit sales may result in bad debts that will affect the principal. If however, the agent guarantees against bad debt, he (Agent) receives extra commission in consideration of such understanding. Thus, he is called del credere agent and the commission he receives is del credere commission. In most cases, the del credere commission is shown separately from the ordinary commission although there is nothing wrong in combining both.
5. **Account sales:** This is a statement showing the gross proceeds, expenses incurred, agent commission, and the net proceeds due to the consignor. This is the document that helps the

consignor to make further entries in his books of account. The account sales is prepared solely for consignment transaction.

6. Consignment Outwards: When goods are sent by the consignor to the consignee, it is known as consignment outwards.

7. Consignment Inwards: When goods are received by the consignee, it is known as consignment inwards.

8. E & O.E (Error and Omissions Excepted): This means that the consignor will accept any error caused in the transaction.

4.3 Preparation of Sales Account

When the consignee sells or disposes of the goods, he sends an account sales to the consignor. As already explained, the account sales statement shows the gross proceeds and expenses incurred, including commission due to the agent.

This statement then enables the consignor to make further entries in his books.

Example 4.1

In January 2009, Alhaji Sambo of Sokoto consigned 100 bags of cement costing N1000 each to Okon Orji of Calabar. Alhaji Sambo paid freight duty and insurance amounting to N5000. By January 31st , 2009 Okon Orji had sold all the cement at N1300 each and remitted the balance by cheque to Alhaji Sambo after deducting N2000 sundry expenses and 5% commission. From the given data prepare a sales account.

Solution:

Sales Account of 100 Bags of cement sold by Okon Orji of

Dates	Description	Rate N K	Amount N K
2009	Cash Sales		13,000.00
	100 bags of cement at N13000.00	13,000.00	
31 Jan	Less Expenses		
	Sundry expenses 2000		
	Commission, 5%	6500	8,500.00
	E & O,E		
	Calabar Signed		
	Orji Okon		4,500.00

Calabar for the account of Alhaji Sambo, Sokoto.

Example 4.2

Taking the data in Example 4.1 above, assuming that the cement was shipped via Salami and Okon Orji incurred landing expenses of 3000 and also entitled to a del credere commission of 2%. Show necessary workings.

Solution

Sales account of 100 bags of cement by Salami sold to Okon Orji of Calabar for the account of Alhaji Aminu Lawal Sokoto.

Date	Description	Rate N K	Amount N K
2009	Cash Sale		
31st January	100 bags of cement at N1300.00	1300.00	130,000.00
Less expense	Sundry expenses N2000.00		
	Landing expenses N3000.00		
	Commission, 5% of		
	N13000 N6500.00		
	Del credere		
	2% Commission N2600.00	14,100.00	
	Cheque for N115,900 herewith		115,900.00
	E & O. E		
	Calabar Signed		
	Orji Okon		

4.4 Preparation of a Consignment Outwards Account

When a consignor sends goods to the consignee, he debits the particular consignment account and credits the consignment outwards or goods on consignment account with the cost of the goods consigned. This account is a revenue account that shows profit or loss on each consignment. To this end, all expenses to the particular consignment (by both consignor and consignee, including consignee's commission) are debited to the consignment account. The profit or loss is transferred to the general profit and loss account of the trader or firm. The consignment to Okon Orji Account is credited with gross proceeds and debited with the expenses and commission shown in the account sales.

Example 4.3

Using the information in the preceding example, prepare a consignment outwards account in the books of Alhaji Sambo Showing:

- (a) The journal entry.
- (b) The ledger

Date	Details	Journal entries	Dr ₦.K	Cr ₦.K
31 st Jan.	Consignment to Okon Orji of Calabar, consignment outward (Good and consignment)		1000.00	
	Cost of 100 bags cement. consigned this date.			1000.00.00
	Okon Orji is debtor to Lawal		13000.00	
	Consignment to Okon Orji, Gross proceeds of sales as per account sales.			13000.00
	Consignment to Okon Orji Sundry expenses& 5% commission		8,500.00	8,500.00
	Consignment to Okon Orji Profit & Loss			16,500.00
	Profit on commission transferred			16500.00
	Consignment outwards (Goods on consignment)		100,000.00	
	Trading Account			
	Balance transferred			100,000.00

Ledger

Consignment Outward Alhaji Sambo (2)

Date	Details	₦ . K	Date	Details	
2009			2009		
Jan. 31	Trading Account	100,000.00	Jan. 1	Consignment to Okon Orji	100,000.00

Alhaji Aminu lawal (3)

Date	Details	N . K	Date	Details	N . K
2009	Consignment outward	100,000.00	2009	Okon Orji	130,000.00
Jan 1	Cash freight duty and Insurance	5,000.00	Jan 31		
	Okon Orji Account (Sundry Exp)	2,000.00			
	Commission 5%	6,500.00			
Jan 31	Profit transferred				
	General Profit and Loss Account	16,500.00			
		130,000.00			130,000.00

Trading Account

For the month ending 31st Jan, 2009 Extract only (4)

Date	Details	N . K	Date	Details	N . K
2009			2009	Consignment Outwards	100,000.00
			Jan 31		

Profit and Loss Account

For the month ending January 31, 2009

Date	Details	N . K	Date	Details	N . K
			2009	Consignment to Okon Orji	100,000.00
			Jan 31		

(c) Consignment Account.

(d) Trading, profit and loss Account.

The consignment to Okon Orji account is credited with the gross proceeds and debited with the expenses and commission shown in the account sales. The balance on the consignment outwards account is transferred to the trading account at the end of the period, preferably as a deduction from the total purchase of the period.

4.5 Preparation of a Consignment Inwards Account

As already discussed, the consignee does not take ownership of the goods sent to him unless he buys them. He is simply an agent for his principal. When he receives any consignment of goods-with the proforma invoice, he records the transaction in a memorandum book, since the goods are in his possession.

He does not make entries in his books of account. All cash expenses incurred are credited to the cash and debited to the consignor's account. Any addition to the consignment should be credited to the personal account of the consignee account and debited to the consignor's. If a bill of exchange has been accepted by the consignor, he debits the consignor and credit bill payable

account. He also debits the consignor with commission, including del credere commission due to him (consignee) and credits the commission account. Any cash paid to the consignor in settlement is credited to cashbook and debited to consignor's account.

Example 4.5

In April 2010, Sunny of Lagos consigned 500 bags of rice to Adams of Imo at a cost of N20, 000.00. Sunny paid carriages N300, insurance N200, and freight N100. The shipment was accompanied by a bill of exchange for N15,000 drawn by Sunny and dated 20 April, 2010. On the other hand, incurred the following expenses: wastage N20; duty N70; carriage

Solution

Journal Entries

Date		Dr N.K	CR N.K
2010 April 20	Sunny Bill Payable	Dr 15,000	
	Bill dated April 20, 1985 accepted this day		15,000
	Ajeyet Consignment A/c	Dr 550.00	
	Commission on Sales of N22,000.00 at 2% N22,000.00 at 2% N22,000.00 at 2%		550.00

Cashbook (Extract Bank Column Only)

Date	Detail	N. K	Date	Detail	N. K
2010			2010	Sunny	
April 30	Account proceed	22,000.00	April 30	Account	
				Wastage	20.00
				Duty	30.00
				Carriage	
				Outward	80.00
				Bank	6,280
2010	Bill payable	15,000.00	Date	Proceeds of Sales	22,000.00
April 20	Wastage	20.00	2010		
	Duty	70.00	April 20		
	Carriage				
	Outwards	80.00			
	Commission 2½%	550.00			
	Bank Draft	6,280			
		22,000.00			22,000.00

Bill payable Account

Date	Details	N.K	Date	Detail	N.K
			2010 April 20	Ajeyet	15,000.00

Method 2

Consignment Inwards Account

Date	Details	N.K	Date	Detail	N.K
2010					
April 1	Sunny good	20.00	April 30	2010 Sales	20,000.00
	Wastage	20.00			
	Duty	70.00			
	Carriage Outwards	80.00			
	Commission 2½%	550.00			
	Bal (Profit) c/d	1,280.00			
		22,000.00			22,000.00

Sunny's Account

Date	Details	N.K	Date	Detail	N.K
2010					
April 20	Bills payable	15,000.00	2010 April 20	Consignment inward	20,000.00
				Profit on consignment	
April 30	Bank draft	6,280		Inward	1,280.00
		21,280.00			21,280.00

Cash account (Extracts), bill payable and consignment Accounts remain as already shown in method 1 above. It should be noted that unless there is a specific agreement about granting discounts and allowances to debtors, the consignee cannot grant them. If there is a specific agreement on them, then, such discounts and allowances will be debited to the consignor's account and be shown in the account sales as charges against the consignor.

4.6 Unsold Stock

At times, it is not possible for the consignee (agent) to complete all the sales before the financial year of the consignor. This means that there will be a balance of unsold stock. This must be considered when preparing the consignment account and balance sheet, just like the closing stock in the ordinary trading account.

4.7 Valuation - How to Value Stock

Obviously, by the time the stock is unsold, some expenses would have been incurred by the consignor and consignee. Therefore, the unsold stock is valued at cost, plus a fraction of the

expenses incurred on the total consignment.

4.8 Summary

In this chapter, students have learnt that:

- There are two parties to a consignment business-the principal (consignor) and the agent (consignee);
- The consignors send goods to the consignee to be sold. The ownership of the goods rest with the consignor.
- The consignee sells goods on behalf of the consignor. He has no independent action over the goods sent.

4.9 Revision Questions

(1) List and explain five (5) terminologies used in Consignment Account.

(2) Explain the following terms

- (a) Consignor
- (b) Consignee
- (c) Del-credere agent
- (d) E & O.E.

(3) Mamalade consigned 100 bags of pepper to Sanya each costing N600. Mamalade paid transportation N500 and insurance N400. Sanya took delivery of the goods paying N1,200 as duty and also incurred carriages N300 for taking the goods to the warehouse. Sanya sold 30 bags at N900 each, and deducted selling expenses N600 and his commission at 5% on sales. He sent a draft to Mamalade for the amount due. From the given data, prepare the following:

- (a) Consignment Account
- (b) Consignee's (Sanya) Account and also
- (c) Calculate the value of closing stock in the book of Mamalade