

## **F.Y.B.Com Sem-I**

### **Advanced Accounting –I**

#### **Unit: 2 Consignment**

Due to increasing size of market, it is quite obvious that manufacturers or whole sellers cannot approach directly to every customer around the state or nation. To overcome this limitation, manufacturers normally appoint reliable agents at every desired location to reach the customers directly. He makes an agreement with local traders who can sell goods on his behalf on commission basis.

#### **Meaning:**

Consignment implies a trading arrangement, wherein one party transfers goods to another party without immediate payment, who agrees for selling them on behalf and at the risk of the former, as per the instructions, to the customers, for a commission as a percentage of revenue from the sale proceeds.

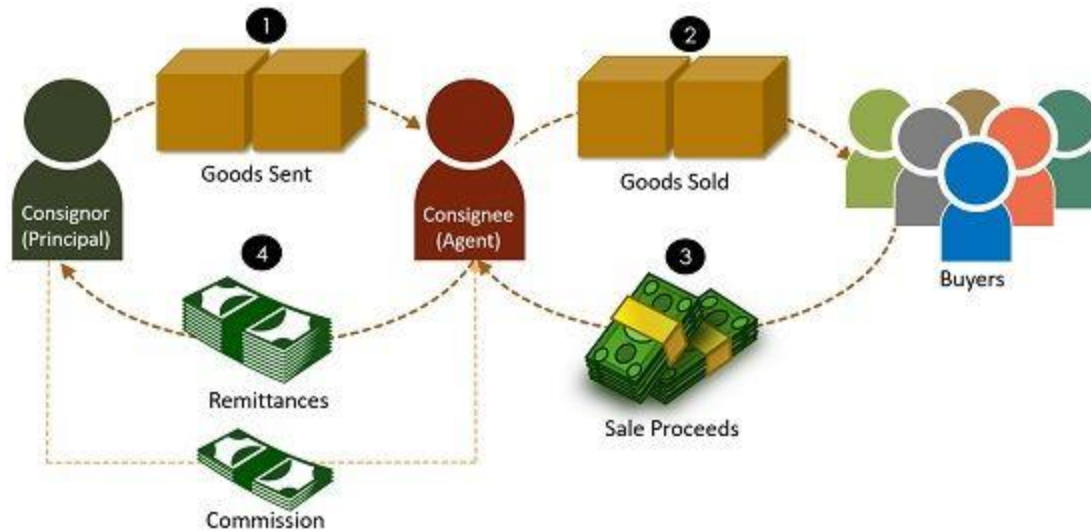
Consignment is opted when the owner of the goods does not have any branch in a specific area or place.

The person who transfers the goods is called **consignor**, whereas the person to whom the goods are transferred is the **consignee**. The relationship between the consignor and consignee is that of **principal and agent**, and not of a buyer and seller, whereby consignor acts as principal and consignee is the agent.

The consignee is entitled to pay to the consignor for the goods when the sales take place. If there is any unsold stock and the term of the agreement expires, then it will be returned to the owner of the goods, i.e. the consignor.

#### **Process of Consignment**

Let's understand the process of consignment with the help of figure:



## Characteristics of Consignment

In consignment, the consignor appoints another person as his agent (consignor) to sell the goods, against which he/she receives a commission.

- The ownership of the goods remains with the principal, i.e. consignor, and only the possession is transferred to the agent, i.e. consignee.
- The goods which are transferred, sent or dispatched is called consignment.
- All the expenses incurred in connection to the consignment are borne by the consignor only.
- The consignee will not be held liable for any damage to the goods during transit.
- All the risk and reward associated with the consignment belongs to the consignor only.

Any sale proceeds received thereon is remitted to the consignor, after deducting the expenses (such as advertisement expenses, selling expenses, godown rent, loading/unloading charges, etc) and commission.

## Why is Consignment not a Sale?

Following are the reasons that explain why consignment is not a sale –

- **Ownership** – Ownership of goods need to be transferred from seller to buyer in case of sale, but ownership of goods remains with the consignor, till the goods are sold by the consignee.
- **Risk** – In case of a consignment, normally, risk remains with the consignor in the event of goods being lost or destroyed.
- **Relationship** – The relation between a seller and a buyer will be of debtor and creditor in case where goods are sold on credit basis. On the other hand, the relationship between a consignor and a consignee is that of principal and agent.
- **Goods Return** – Usually, the sold goods cannot be returned back; however, if there is any manufacturing defect or any other technical fault, seller is obliged to take them back. On the other hand, consignee may return the unsold stock of goods to consignor anytime.

## Commission

Consignee is entitled to a commission for the sales made on behalf of the consignor which is calculated as per its nature. There are two types of Commission paid in case of consignment:

**Ordinary/General Commission:** The consideration payable to the consignee, by the consignor for the sales made, when the consignee is not responsible for bad debt which may arise. It is calculated as a percentage of gross sales and Total sales made by consignee.

- **Del-Credere Commission:** It is the extra commission which is payable to the consignee when he takes the responsibility for collecting money from the customers to whom goods are sold on credit. Further, if the customers refuse to pay the amount, the consignee bears the loss of bad debts. Del-credere commission calculated on credit sales.

## **Proforma Invoice**

The consignor sends the proforma invoice of the goods consigned. A proforma invoice is a statement which is used to provide information as to the particulars of the goods sent to the consignee.

## **Account Sales**

Account sales are sent by the consignee, which carries all the details related to the sales made by the consignee, expenses incurred, goods destroyed in transit, a commission earned by the consignee, and balance due to the consignor. If any advance is made by the consignee in the form of cash or [bills of exchange](#), then the same will also be adjusted against the proceeds received from the goods sold.

### **IN THE BOOKS OF CONSIGNOR:**

In order to keep the full record of the various transactions regarding the consignment, the consignor opens the following accounts in his books:

#### **CONSIGNMENT ACCOUNT**

- This is a Nominal Account.
- This is prepared to find out the profit or loss of the concern.
- It is named with the consignee or the place.
- All the expenses on the consignment are debited to this account.

#### **CONSIGNEE'S ACCOUNT**

- This is the personal account.
- The gross sale proceeds are debited in this account.
- The advance given by consignee is credited in this account.
- An expense incurred by the consignee, commission due to him is credited in this account.
- Balance of this account shows the amount due from the consignor.

#### **GOODS SENT ON CONSIGNMENT ACCOUNT**

- It is a real account.
- The goods sent on consignment are credited in this account.
- The goods returned by the consignee are debited in this account.
- This account is closed by transferring the balance amount to either Trading Account or Purchases Account.

The following entries are made in the books of the consignor for goods sent at proforma invoice price or cost price:

***(1) For the goods sent on consignment***

- Consignment to .....A/C.....Dr.
- To Goods sent on consignment A/c

***(2) For the expenses incurred by the consignor***

- Consignment to.....A/C.....Dr.
- To Bank A/C

***(3) For the advance received from consignee***

- Bank/Cash/Bills receivable A/C.....Dr.
- To Consignee's A/C

***(4) For the bills discounted***

- Bank A/C.....Dr.
- To Bills receivable

***(5) For a discount on bills transferred to profit and loss account***

- Profit and loss A/C.....Dr.
- To Discount A/c

***(6) For expenses paid by the consignee***

- Consignment to.....A/c.....Dr.
- To Consignee's A/c

***(7) For the goods sold by the consignee***

- Consignee's A/c.....Dr.
- To consignment to.....A/c

***(8.) For the commission due to the consignee***

- Consignment to .....A/C
- To consignee's A/C

***(9) For a closing stock with the consignee***

- Consignment stock A/C.....Dr.
- To consignment to.....A/c

***(10) For-profit or loss on consignment***

For-profit earned on consignment

- Consignment to.....A/C.....Dr.
- To Profit and loss A/C

For loss on consignment

- Profit and loss A/C.....Dr.
- To consignment to.....A/C

***(11) For the final settlement of account with the consignee***

- Bank A/c.....Dr.
- To Consignee's A/c

***(12) For goods sent on consignment transferred to a trading account(by a manufacturing company) or purchase account(by a trader)***

- Goods sent to consignment A/C.....Dr.
- To trading/ purchase A/C.

### **IN THE BOOKS OF CONSIGNEE:**

The consignee makes the accounts relating to consignment to effect the settlement with the consignor and to recognize his commission entitlement as consignee. To achieve these objectives, he prepares the following two accounts:

#### **CONSIGNOR' PERSONAL ACCOUNT**

- This is personal account.
- A separate consignor account is prepared in respect of every consignment.
- It is debited with the expenses incurred, commission earned by consignee, advance given to the consignor.
- It is credited with the value of goods sold.
- The balance of this account will show the amount due to or due from the consignor.

### **Journal entries in the books of Consignee:**

#### **1. Entry at the time of receiving goods:**

No entry

The consignee holds goods on behalf of and on account of consignor. He does not make an accounting entry when he receives the goods consigned to him. He may however, keep the record of goods received in a separate book known as consignment inward book.

#### **2. Entry at the time of making advance to the consignor:**

(i). if payment is made in cash or via check or bank draft:

Consignor	A/C	[Dr]
Cash/Bank A/C [Cr]		

(ii). If a bill is accepted as a mode of advance payment:

Consignor	A/C	[Dr]
Bill payable A/C [Cr]		

**3. Entry at the time of making payment for consignment related expenses:**

Consignor	A/C	[Dr]
Cash/Bank A/C [Cr]		

**4. Entry at the time of sale of goods:**

(i). If goods are sold for cash:

Cash/Bank	A/C	[Dr]
Consignor A/C [Cr]		

**5. Entry for recording commission income:**

Consignor	A/C	[Dr]
Commission received A/C [Cr]		

**6. Entry at the time of sending remittances:**

Consignor	A/C	[Dr]
Cash/Bank A/C [Cr]		