Consignments

1. Introduction

A. Meaning

- Consignment is a kind of business expansion without actually opening a branch a new potential area. under this business owner (Consigner) sends goods to the agent (Consignee) to be sold by consignee on Commission basis.

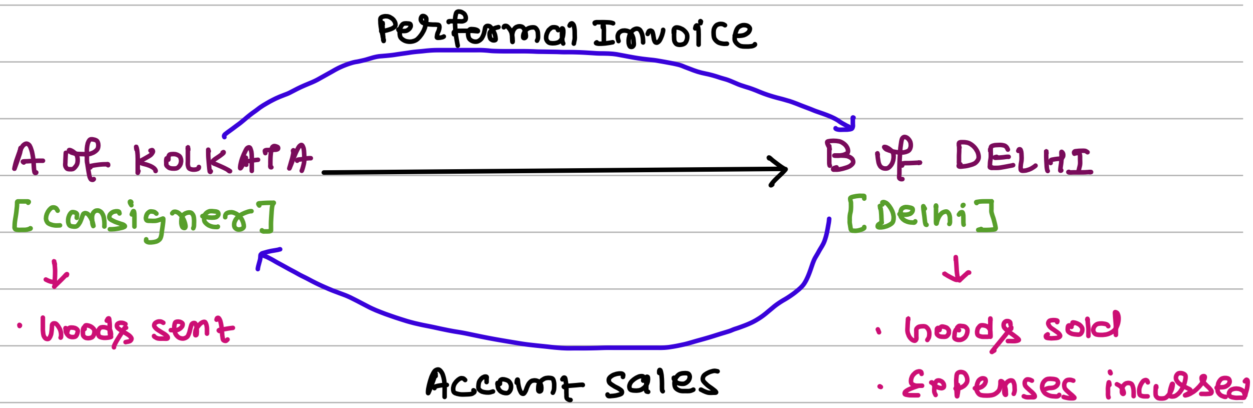
- Ownership of the goods remains with the Consiger only until and unless goods sold by consignee and ownership transfers to buyers directly on selling of goods by Consignee. Hence, the relationship of Consigner and Consignee is that of a Principal and agent.

B. Procedure

- Consigner sends goods to Consignee along with along with a document called Performa Invoice containing details of goods sent, Price at which it can be sold, by incurring expenses (Freight, insurance, etc.)

- Consignee receives goods by Paying unloading charges and take the goods to the godown.

- Now Consignee sales goods and sends all details of various expenses incurred (Unloading charges, transport charges, godown rent, Electricity, selling expenses, etc.) and goods sold, in a document called Account Sales.



2. Basic Terms used in consignment

i) Performa Invoice

- A document sends by Consigner to the Consignee Containg the details of goods sent, minimum selling Price, etc.

ii) Account sales

- A document sends by consignee to the consigner Containing the details of goods sold, expenses incurred, unsold goods with consigner, remmitance made, etc.

iii) Expenses in Consignment

Expenses

Non-recurring Expenses	Recurring Expenses
Incurred only once on a Particular goods	That being incurred Periodically on same goods again and again till goods sold by the consignee.
e.g. All Expenses of Consigner. Consignee's Expenses till the goods reaches to the godown.	All Expenses of Consignee after goods reaches the godown. e.g. Godown rent, Lighting, Selling Expenses, etc.
Used in calculation of Abnormal loss and unsold Stock.	Not to be used in calculation of Abnormal loss and unsold Stock.

iv) Losses in Consignment

Loss

Normal loss	Abnormal Loss
• loss which is inherited and cannot be avoided. e.g. loss during loading and unloading of Tomatoes. It cannot be insured	• Any accidental loss to the consigned goods or loss due to carelessness which can be avoided. e.g. loss by fire, theft, etc. It can be insured.
• only units to be deducted and not amount as it can be charged to customers, hence no separate accounting treatment required.	• units and amount both to deducted as cannot be recovered from customers, hence separate accounting treatment required.

v) Commission Charged by Consignee

Commission

Normal Commission	Del-Credere Commission	Overriding / Special Commission
• General commission to be provided on sale of goods by consignee	• Extra Commission to be provided to transfer the risk of bad debt, i.e. if del-credere commission is being given, the loss of bad debt shall be borne by consignee.	• Special Commission to be provided, if goods at a higher price [if agreed].
	• Calculated on credit sales if details available, otherwise on total sales assuming there is only credit sales	

vi) Calculation of Abnormal loss and closing stock

	Units	Amount
Goods sent	✓	✓
Add:- Consignor's Expenses	—	✓
	✓	✓
Less:- Normal loss (if any)	(✓)	
:- Abnormal loss (only if happened before goods received by consignee)	(✓)	(✓)
	✓	✓
Add:- Non-recurring Expenses of consignee	✓	✓
	✓	✓
Less:- Abnormal loss [loss after goods received by consignee]	(✓)	(✓)
	✓	✓

Value of unsold stock

$$= \frac{\text{Total cost}}{\text{Total units}} \times \text{unsold units}$$

3. Recording of Transactions [Journal Entries]

A. In the books of consignor

i) Goods sent on Consignment

Goods sent on consignment A/c ...Dr. — Cost Price
  To Trading A/c / Purchase A/c

Consignment to.... A/C ...Dr — Cost Price OR Invoice Price
  To Goods sent on consignment A/c

ii) Expenses incurred on sending Goods [Freight and Insurance]

Consignment to.... A/c -- Dr. ✓
  To Cash/ Bank ✓

iii) Advance received from Consignee

Cash / Bank / Bill Receivable ✓
To Consignee A/c ✓

iv) Account Sales received from Consignee

a. Goods sold by Consignee

- with del-credere commission

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

[Cash + Credit Sales]

- without del-credere commission

Consignee A/c ---Dr. — Cash sales
Consignment Debtors A/c --Dr. — Credit sales
To Consignment to... A/c — Total sales

Note:- No Entry for bad debt shall be passed in the books of Consignor if del-credere commission is Provided.

b. Expenses incurred by Consignee (including commission)

Consignment to.... A/c ..Dr ✓
To consignee A/c ✓

c. Receiving remittance from Consignee

Cash / Bank A/c --Dr.
To Consignee A/c

d. Unsold Stock with Consignee

Stock on Consignment A/c --Dr. ✓
To Consignment to... A/c ✓

v) Normal loss

- No Entry -

vi) Abnormal Loss

Abnormal loss (Insurance Claim) A/c Dr — Claim Admitted
Abnormal loss (Profit and Loss) A/c -- Dr — Claim not Admitted
To Consignment A/c — Total Loss

Note:- If goods are not insured then whole amount shall be transferred to P/L A/c.

vii) Removing load item in goods

If goods are sent to consignee at Invoice Price then load should be remove from following items -

a. Good sent on consignment
Goods sent on consignment A/c -- Dr — Load
To Consignment to... A/c — Part

b. Unsold stock with consignee
Consignment to A/c... Dr. — Load
To Closing Stock Reserve A/c — Part

viii) Profit or loss on Consignment

Profit on Consignment
Consignment to... A/c -- Dr
To Profit on consignment

Loss on Consignment
Loss on Consignment A/c Dr
To Consignment to... A/c

B. In the books of Consignee

i) Goods received on consignment

— No Entry —

Note:- As consignee hold these goods on behalf of consigner, he is not required to pass entry for receiving goods. He, may however record the details in a separate book.

ii) Advance made to consigner

Consigner A/c ---Dr.
To Cash/ Bank / Bills Payable A/C

iii) Expenses incurred on Consignment and Commission earned

Consigner A/c ---Dr. ✓
To Cash/ Bank A/C ✓
To Commission Received A/C ✓

iv) Good sold

Cash / Bank	Cash sales
Consignment Debtors	Credit sales

To Consigner A/c ✓

Note:- · Credit Sales shall be recorded by Consignee only if del credere Commission is given to consignee, otherwise Consignee will not record Credit Sales.

· If del-credere Commission received then loss of bad debt shall be borne by consignee and he should adjust the same with Commission income.

v) Sending Remittance

Consigner A/c ---Dr.
To Bank / cash

vi) Unsold stock

– No Entry –

4. Ledger Accounts

In the books of Consigner

Consignment To .... Account

Dr. Date	Particulars	Amount ₹	Date	Particulars	Cr. Amount ₹
	To Goods sent on consignment	✓		By Consignee - Sales	✓
	To Bank				
	- Freight	✓		By Abnormal loss - Claim	✓
	- Carriage	✓			
	- Insurance	✓		By Abnormal loss - P/L	✓
	To Consignee A/C				
	- Clearing charges	✓		By Stock on Consignment	✓
	- Carriage	✓			
	- Godown Rent	✓			
	- Lighting	✓			
	- Selling Exp	✓		By Good sent on consignment - Load	✓
	- Commission	✓			
	To Stock Reserve - Load	✓			
	To P/L on Consignment	✓		By P/L on Consignment	✓
		✓			✓

Consignee Account

Dr. Date	Particulars	Amount ₹	Date	Particulars	Cr. Amount ₹
	To Consignment to ... A/C - Sales	✓		By Consignment to. A/C	✓
				By Bank	✓
				By B/R	✓
				By Bal c/d	✓
		✓			✓

In the books of Consignee

Dr. **Consigner Account** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To cash/Bank/BP - Advance	✓		By Cash/Bank - Sales	✓
	To cash/Bank - Expenses	✓			
	To Commission	✓			
	To cash/Bank Remittances -	✓			
	To bal c/d	✓			