CONSIGNMENT ACCOUNTING

Introduction

This is the way of indirect selling is selling through consignment agents. The relationship between consignor and consignee is that of Principal-Agent relationship.

Proforma Invoice – When the consignor sends the goods to the consignee, he prepares only a proforma invoice and not an invoice. A proforma invoice looks like an invoice but is really not one. The objective of the proforma invoice is only to convey information to the consignee regarding quantity, varieties and prices of goods sent and expenses incurred and not to make him liable like a trade debtor.

Over-riding Commission – It is an extra commission allowed over and above the normal commission is generally offered for the following reasons :

(i) When the agent is required to put in hard work in introducing a new product in the market.

(ii) Where he is entrusted with the work of supervising the performance of other agents in a particular area.

(iii) For effecting sales at prices higher than the price fixed by the consignor.

Ordinary Commission – This is a fee payable by consignor to consignee for sale of goods when the consignee does not guarantee the collection of money from ultimate customer. The % of such commission is generally lower.

Del Credre Commission – This is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers.

Account Sales – This is a periodical statement prepared by consignee to be sent to the consignor giving details of all sales (cash and credit), expenses incurred and commission due for sales, destroyed-in-transit or in godown and deducting the amount of advance remitted by him.

Accounting for Consignment Business

Two accounts, viz. 'Consignment Account' and 'Consignee Account' are prepared by consignor. The former is a nominal account and latter is a personal account. A separate consignment account as well as consignee account is prepared in respect of every consignment.

Entries in the books of consignor as well as consignee :

Situations	Consignor's books		Consignee's books	
On sending goods	Consignment A/c To Goods Sent on Consignment	Dr.	No Entry	
On expenses for sending goods	Consignment A/c To Cash/Bank/Creditors for Expenses A/c	Dr.	No Entry	
For advance received from consignee	Cash/ Bank/ Bill Receivables A/c To Consignee's A/c	Dr.	Consignor's A/c To Cash/ Bank/ Bills Payable A/c	Dr.
On expenses incurred by consignee	Consignment A/c To Consignee's A/c	Dr.	Consignor's slA/c To Cash/ Bank/ Creditors for expenses A/c	Dr.
On consignee reporting sales	Consignee'sA/c To Consignment A/c	Dr.	Cash/ Bank/ Consignment Debtors A/c To Consignor's A/c	Dr.

For commission due	Consignment A/c To Consignee's A/c	Dr.	Consignor's A/c To Commission A/c	Dr.
For Bad Debts	Consignment A/c To Consignee's A/c	Dr.	Consignor's A/c To Consignment Debtors A/c	Dr.
For closing the consignment account	For profit: Consignment A/c To General Profit and Loss A/c For Loss: General Profit and Loss A/c To Consignment A/c	Dr. Dr.	No entry	
For the final settlement	Cash/ Bank/ B/R A/c To Consignee's A/c	Dr.	Consignor's A/c To Cash/ Bank/ B/P A/c	Dr.
For closing the Goods Sent on Consignment Account	Goods sent on Consignment A/c To Trading/ Purchases A/c	Dr.	No entry	
On closing stock	Stock on Consignment A/c To Consignment A/c	Dr.	No entry	

Del Credere Commission and Bad Debts

Sometimes the consignor allows an extra commission to the consignee in order to cover the risk of collection from customer on account of credit sales which is known as Del Credere Commission. Naturally, if debt is found to be irrecoverable the same must be borne by the consignee. There will be no effect in the books of consignor.

Entries in the Books of Consignor

Valuation of Stock

Total cost of goods plus total expenses incurred by the consignor plus total non recurring expenses of the consignee are to be added and stock should valued on the basis of proportionate unsold goods.

But it must be remember while valuing stock on consignment, the usual principle for valuation of stock should be considered, that stock should be valued at cost price or market price whichever is less.

The entry will be:

Stock on Consignment A/c	Dr.		
To Consignment A/c			

Needless to say that unsold stock on consignment will appear in the asset side of Balance Sheet.

Losses on Consignment

There are two types of losses which may arise in case of a consignment transaction, viz.

(a) Normal Loss, and

(b) Abnormal Loss

(a) Normal Loss – Normal Losses arise as a result of natural causes, e.g. evaporation, leakage, breakage etc., and they are inherent in nature. Since normal loss is a charge against gross profit no additional adjustment is required for this purpose. Moreover, as the same is a part of cost of goods, when valuation of unsold stock is made in case of consignment account the quantity of such loss (not the amount) should be deducted from the total quantity of the goods received by the consignee in good condition. Thus,

$$\text{Value of closing stock will be} = \text{Total Value of goods sent} \times \frac{\text{Unsold quantity}}{\text{Good quantity received by consignee}}$$

(b) Abnormal Losses - Abnormal Losses arises as a result of negligence/accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted. The method of calculation is similar to the method of calculating unsold stock. Sometimes insurance company admits the claim in part or in full. The same should also be adjusted against such abnormal loss.

While valuing the abnormal loss the proportionate expenses are taken only upto the stage of the loss.

For example, if goods are lost in the transit on way to the consignee's place, the value of abnormal loss will include the basic cost of the goods plus proportionate expenses of the consignor only and not the proportionate expenses of consignee because consignee has spent nothing on account of these goods.

Treatment of Abnormal Loss

(i)	**For abnormal Loss –**			
	Abnormal Loss A/c	Dr.		
	To Consignment A/c			
(ii)	**For the insurance claim due / received by the consignor -**			
	Insurance Co./Bank A/c	Dr.		
	To Abnormal Loss A/c			
(iii)	**If goods are not insured -**			
	Profit & Loss A/c	Dr.		
	To Abnormal Loss A/c			
(iv)	**For transferring the net loss -**			
	Profit & Loss A/c	Dr.		
	To Abnormal Loss A/c			

Invoice Price Method

Sometimes, the Consignor does not want to reveal the cost of goods to the Consignee and therefore, invoices goods at a price which is higher than the Cost Price. Such price is known as 'Invoice Price' and the difference between the Invoice Price and the Cost Price is called 'loading'. It may also be noted that invoice price need not necessarily be same as selling price unless the Consignor directs the Consignee to sell the goods at the invoice price itself.

When goods are sent at invoice price, to ascertain correct profit/loss on consignment, the items recorded at invoice price should be brought down to Cost Price level. For this purpose, the loading included in various items (like Opening Stock, Goods Sent on Consignment, Goods Returned by Consignee, Closing Stock) should be eliminated by passing the necessary adjusting entries in the books of Consignor only.

Deficiency of Stock

The consignee may discover some deficiency in stock on his actual physical stock taking. The value of loss arising out of such deficiency will be calculated in the same way as the value of unsold stock. This will be brought into account by debiting Stock Deficiency Account and crediting Consignment Account. Stock Deficiency Account will be closed by transfer to the debit of Consignment Account or preferably of Profit & Loss Account. If, however, there is an arrangement that any deficiency of stock will be made good by the consignee, the Deficiency Account will be closed by transfer to the debit of the Consignee's Personal Account.

ASSIGNMENTS FOR CLASS

1).

5 000 shirts were consigned by Raizada& Co. of Delhi to Zing of Tokyo at cost of ₹375 each. Raizada& Co. paid freight ₹50,000 and Insurance ₹7,500.

During the transit 500 shirts were totally damaged by fire. Zing took delivery of the remaining shirts and paid ₹72,000 on custom duty.

Zing had sent a bank draft to Raizada& Co. for ₹2,50,000 as advance payment. 4,000 shirts were sold by him at

₹500 each. Expenses incurred by Zing on godown rent and advertisement etc. amounted to ₹10,000. He is entitled to a commission of 5%

One of the customer to whom the goods were sold on credit could not pay the cost of 25 shirts.

Prepare the Consignment Account and the Account of Zing in the books of Raizada& Co. Zing settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

Simultaneous Normal Loss and Abnormal Loss

2).

Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing ₹800 per barrel to Central Oil Co. of Kolkata on 1.1.2013. Lubrizols Ltd. paid ₹50,000 as freight and insurance. 25 barrels were destroyed on 7.1.2013 in transit. The insurance claim was settled at ₹15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.1.2013 and accepted a bill drawn upon them by Lubrizols Ltd., for ₹5,00,000 for 3 months. On 31.3.2013 Central Oil reported as follows:

(i) 750 barrels were sold as ₹1,200 per barrel.

(ii) The other expenses were:

	(₹)
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing, Stationery, Advertisement	20,000

25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales affected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the Account of Central Oil Co., and the Lost –in-Transit Account as they willappear in the books of Lubrizols Ltd.

3).

Mr. X, the consignor, consigned goods to Mr. Y 100 Radio sets valued ₹50,000. This was made by adding 25% on cost. Mr. X paid ₹5,000 for freight and insurance. 20 sets are lost – in- transit for which Mr. X recorded ₹5,000 from the Insurance company.

Mr. Y received remaining goods in good condition. He incurred ₹4,000 for freight and miscellaneous expenses and ₹3,000 for godown rent. He sold 60 sets for ₹50,000. Show the necessary ledger account in the books of Mr. X assuming that Mr. Y was entitled to an ordinary Commission of 10% on sales and 5% Del Credere Commission on sales. He also reported that ₹1,000 were provide bad .

4).

On 1.7.2012, Mantu of Chennai consigned goods of the value of ₹50,000 to Pandey of Patna. This was made by adding 25% on cost. Mantu paid ₹2,500 for freight and ₹1,500 for insurance.

During transit 1/10thof the goods was totally destroyed by fire and a sum of ₹2,400 was realised from theinsurance company. On arrival of the goods, Pandey paid ₹1,800 as carriage to godown. During the year ended 30thJune 2013, Pandey paid ₹3,600 forgodown rent and ₹1,900 for selling expenses.

1/9th of the remaining goods was again destroyed by fire in godown and nothing was recorded fromthe insurance company. On 1.6.2013, Pandey sold half (1/2) the original goods for ₹30,000 and chargeda commission of 5% on sales as on 30.6.2013, Pandey sent a bank draft to Mantu for the amount so far due from him.

You are required to prepare the following ledger accounts in the books of Mantu of Chennai for the year ended 30.6.2013.

(a) Consignment to Patna Account;

(b) Goods Destroyed by Fire Account; and

(c) Personal Account of Pandey.

5).

Shri Babubhai oil mills of Baroda sent 10000 kg of oil to M/s Gupta & Sons in Delhi. The cost of oil is ₹40 per kg. Babubhai paid ₹5,000 as freight and ₹2,500 as insurance. In transit 250 kg of oil was accidently destroyed for which insurance company paid ₹450 in full settlement to Babubhai.

M/s Gupta & Sons took delivery of the balance. Later they reported that 7500 kg was sold @ ₹60 per kg. Expenses incurred by them were rent ₹2,000, advertisement ₹5,000 and salaries ₹5000. M/s Gupta & Sons are entitled to commission of 3% and Del Credre commission of 1.5%. One customer who purchased 1000 kg paid only 80% of the amount due. M/s Gupta & Sons also reported loss of 100 kg due to leakage. The final amount due was settled. Prepare necessary ledger accounts in the books of Babubhai.

6).

Sangita Machine Corporation sent 200 sewing machines to Rita agencies. It spent ₹7500 on packing. The cost of each machine was ₹2,000, but it was invoiced at 20% above cost. 20 machines were lost in transit & insurance company accepted claim of ₹20,000 only.

Rita agencies paid freight of ₹9,000, carriage ₹3,600, Octroi₹1,800 and rent ₹1800. They sold 150 machines at ₹3,500 per machine. They were entitled to commission of 5% on invoice price and additional 20% of any excess realized on invoice price and 2% Del Credre commission. They accepted a bill drawn by Sangita Machine Corporation for₹3,00,000 and remitted the balance by demand draft along with account sale. Draw up necessary ledger accounts in the books of Sangita Machine Corporation and Rita Agencies.

7).

Ram of Patna consigns to Shyam of Delhi for sale at invoice price or over. Shyam is entitled to a commission @ 5% on invoice price and 25% of any surplus price realized. Ram draws on Shyam at 90 days sight for 80% of the invoice price as security money. Shyam remits the balance of proceeds after sales, deducting his commission by sight draft.

Goods consigned by Ram to Shyam costing ₹20,900 including freight and were invoiced at ₹28,400. Sales made by Shyam were ₹26,760 and goods in his hand unsold at 31st Dec, represented an invoice price of ₹6,920. (Original cost including freight ₹5,220). Sight draft received by Ram from Shyam upto 31st Dec was ₹6,280. Others were in- transit.

Prepare necessary Ledger Accounts in the books of Ram.

8).

R of Ranchi consigned goods costing ₹1,60,000 to B of Bombay. The terms of the consignment were:

(a) Consignee to get a commission of 5 per cent on cash sales and 4 per cent on credit sales.

(b) Any goods taken by the consignee himself or goods lost through consignee's negligence, shall be valued at cost plus 12½ per cent and no commission will be allowed on them.

The expenses incurred by the consignor were: Carriage and freight ₹6,720 and Insurance ₹3,440. The consignor received ₹50,000 as advance against the consignment. Account Sales together with a draft for the balance due was received by the consignor showing the following position:

Goods costing ₹1,28,000 were sold for cash at ₹1,40,000 and on credit at ₹1,08,000. Goods costing ₹8,000 were taken by B and goods costing ₹4,000 were lost through B's negligence. The expenses incurred by B were: Advertisement ₹1,720; other selling expenses ₹1,080.

Show the ledger accounts in the books of R.