

CONSIGNMENT ACCOUNTING

By prof. (commerce Dptt) sonam bais

Durga College , Raipur (C.G.)

CONSIGNMENT ACCOUNTING

Consignment accounting meaning refers to accounting for the transfer of goods from an owner (consignor) to their agent (consignee) for sale on the owner's behalf. It is a sophisticated process that necessitates an accounting procedure. A manufacturer or supplier leaves items with a third-party agent during the consignment process.

The person selling the goods is known as the consignee, whereas the one who provides the goods is the consignor. These two parties enter into a consignment agreement in which the consignee agrees to sell the items on behalf of the producer. The consignor pays the consignee for this service, but the consignor maintains ownership of the items while they remain unsold. In most cases, a specific consignment period is defined.

Meaning & Characteristics of Consignment

Consignment is a type of business model in which a legal owner of goods consigns his or her items to their representative for transportation, transfer, purchase, and so on.

- In this case, the manufacturer or wholesaler retains absolute ownership of the items and transfers them to his representative for commission sales. Consignment is just a transfer of possession, not of right.
- Since the consignor retains ownership of the items, the agent is not liable for any damage or loss of the commodities.
- The items are sold at the host's risk; thus, any profit or loss belongs to the owner.
- As the revenues of the sale belong to the owner, the consignee only receives compensation for their expenses and a commission on sales made by him.

Debit and Credit Entries in Consignment Accounting

Consignment account entries are made based on the consignor's records and account sales records given by the consignee. The following debit and credit [transactions](#) are made:

CONSIGNMENT ACCOUNTING

Consignment to Rangoon Account					
Dr.					Cr.
	₹	₹			₹
?	To Goods Sent on Consignment Account	1,50,000	?	By T. Nu (Sales)	1,76,000
	To Cash Account:			By Abnormal Loss A/c/ Profit & Loss A/c (loss by fire) (1)	16,150
	Freight	10,000		By Stock on Consignment Account (2)	17,750
	Insurance	1,500			
		11,500			
	To T. Nu: Customs Duty	14,400			
	Sundry Expenses	2,000			
	Commission	8,800			
	Bad Debt (5 × ₹ 220)	1,100			
	To Profit & Loss A/c (profit)	22,100			
		2,09,900			2,09,900

Debit Transactions

The following are examples of frequent debit entries on a consignment account:

- Stocking up on goods (if any)
- The total cost of products delivered on consignment
- All expenditures by the consignor, like loading, shipping, [insurance](#), and so on.
- The consignee paid for unloading, godown rent, freight, warehousing and storage, advertising, wrapping and selling costs, and so forth.
- [Bad debts](#) from consignment trades
- Normal and del credere commissions on sale profits are paid to the consignee at the agreed-upon rate.

Entries for Credit

The following are typical entries that show on the credit column of a consignment profile:

- [Gross](#) sales revenue
- Goods inventory being depleted (if any)
- Abnormal loss of goods
- In-transit inventory (if any)

Consignment accounting balance signifies profit or loss upon consignment and is moved to the "Profit & Loss section in Consignment Account." As a result, the consignment profile is closed. Profits or losses on consignment is another

CONSIGNMENT ACCOUNTING

type of nominal accounting. When there are several consignments, the total amount of all consignment assets is sent to this account. After the calendar year, the profit or loss on consignment accounts is ended by moving its amount to the General Profit & Loss Account.

Important Terms in Consignment Accounting

Pro-forma Invoice

Generally, an invoice implies the sale has taken place, but a Pro-forma invoice is not just an invoice; it is a statement prepared by the consignor of goods showing the quantity, quality, and price of goods. The consignor issues a proforma invoice to the consignee regarding the goods before the sale occurs.

Account Sale

Account Sale is a statement showing the details of goods received, [goods sold](#), expenses incurred, the commission charged, remittances made, and due balance. It is remitted by the consignee to the consignor of goods periodically.

Commission

The consignee is entitled to three types of commissions on the sales of the goods.

1. **Simple commission:** It is generally a set percentage of the sale, calculated according to mutually agreed-upon conditions.
2. **Overriding Commission:** In the event of an out-of-the-ordinary trade of products, a particular sum owed to the consignee in the form of an incentive is known as an overriding commission. On top of that, an overriding commission is calculated based on overall sales.
3. **Del-credere:** It is a type of payment that a consignee receives from the consignor in exchange for guaranteeing the collection of funds from credit clients. It differs from the consignee's standard commission and functions as credit insurance for the consignor in the event that a client goes bankrupt or is unable to make a payment for some reason.

Expenses Incurred Directly

Direct expenditures are expenses that increase the cost of products, are non-recurring, and are incurred until the goods arrive at the consignee's warehouse.

CONSIGNMENT ACCOUNTING

Indirect Costs

Indirect costs include warehouse rental, warehousing charges, advertising expenses, wages, etc. The contrast between direct and indirect spending is critical, particularly when calculating the [closing balance](#).

Advance

The amount that a consignee sends a consignor in advance as security for goods received or as an aid in the consignor's investment. The [payment](#) is made in cash, cheque, or bank drafts made payable to the consignor.

Consignment Accounting - Initial Goods Transfer

There is no requirement to generate an accounting record relating to the actual transportation of goods if the consignor sends goods to the consignee. It usually is sufficient to document the changes in the location inside the consignor's accounting record maintaining system. Furthermore, the consignor may think about the following management activities:

- Send a regular report to the consignee detailing the inventory at the consignee's premises. The consignee can use this report to conduct periodic reconciliation of the actual amount on hand to the consignor's records.
- Whenever the consignor conducts a physical stocking count, request a statement of on-hand inventory from the receiver after each [accounting cycle](#). The consignor combines this data into accounting entries to achieve an adequately valued concluding inventory balance.
- It could also be beneficial to periodically audit the inventory reported by the consignee.

Benefits of Consignment Accounting

- **More Company Exposure:** Consignment sales grow, resulting in increased business exposure. It is a low-cost technique for expanding the business.
- **Reduced Inventory Charges:** The consignor incurs fewer inventory holding costs.
- **Consignee Rewards:** Whenever the consignee sells on account of the sender, the earlier obtains a commission and other benefits.

CONSIGNMENT ACCOUNTING

Consignment helps both the consignor and the consignee. Each consignor benefits from cheaper inventory carrying costs, while the consignee receives a fee for delivering on account of the consignor with no investment.

Drawbacks of Consignment Accounting

- **Lesser Profit Gap:**

As an outcome of consignment, the consignor must pay a charge to the consignee, leading to a lower revenue ratio in the consignor's control.

- **Consignee Carelessness:**

The consignee's carelessness can cause serious losses to the consignor. Such types of abnormal losses are never good for the business.

- **Damaged Items:**

There is a big chance of goods being damaged at the consignee's location or during shipment, particularly perishable products.

- **High Charges:**

There are often hefty maintenance charges for goods that must be incurred by the consignee and increased shipping or transportation charges that the consignor must pay. For example, when the consignee's and consignor's locations are far apart.

Conclusion

A consignment is a type of commercial agreement in which a consignor provides goods for trade to the consignee in exchange for a commission. When providing items to the consignor, a consignee submits the proforma invoice for details of products sold, plus the consignee sends record sale data. A separate account for consignment accounting is kept for the settlement and balancing of records.

Consignments may benefit both the consignor and consignee. The consignor gains from business growth, while the consignee gains commissions and bonuses without making any investment. As a result, Consignment may therefore be a feasible business development strategy. Follow [Khatabook](#) for the latest updates, news blogs, and articles related to

CONSIGNMENT ACCOUNTING

micro, small and medium businesses (MSMEs), business tips, income tax, GST, salary, and accounting.

FAQs

Q: What is consignment accounting?

Ans: Consignment accounting is a type of business and profit & loss account. All costs associated explicitly with the consignment, either paid by the consignor or the consignee, should be debited to the pertinent consignment entity, and all earnings and closure stock must be refunded to the same account.

Q: Give a consignment accounting example.

Ans: Assume Tony sells his antique typewriter to Robert, who is willing to sell it in his store for 15% of the asking price. There has been no money transaction between Tony (the consignor) and Robert (the consignee), and Tony still owns the typewriter because there was no exchange.

Q: What is the purpose of a consignment?

Ans: Consignment indicates that one individual/business sends items to another individual/business to sell on account of the latter. The owner of the goods retains ownership; they maintain the right to the things. A consignment arrangement is used to assist the delivery or transportation of items.

Q: What exactly is a consignee?

Ans: The party designated on shipment details as the receiver of goods to be delivered is known as the consignee. This entity is liable for settling customs charges as the declared owner of the things.

Q: What exactly is the consignment form of payment?

Ans: Under this arrangement, the exporter obtains money only when the importer has sold the items to the ultimate client. This global payment system depends on a contract in which a foreign supplier owns the product until it is delivered.

CONSIGNMENT ACCOUNTING

Thank you!