

Study Unit 6: Consignment Accounts

Learning objectives

After you have studied this chapter, you should:

- understand what is meant by the term 'consignment account', how such accounts are used, and by whom
- know how to record the entries for consignment accounts

Nature of a consignment

When a trader sells goods directly to customers, whether they are in his home country or overseas, these are ordinary sales. However, a trader may send goods to an agent to sell them for him. These goods are said to be sent on consignment. The main features are:

- a) The trader sends the goods to the agent. The goods do not belong to the agent; his job is to sell them for the trader. The goods are owned by the trader until they are sold. The trader sending the goods is called the consignor. The agent is called the consignee.
- b) The agent will store the goods until they are sold by him. He will have to pay some expenses, but these will later be refunded by the trader.
- c) The agent will receive a commission from the trader for his work.
- d) The agent will collect the money from the customers to whom he sells the goods. He will pay this over to the trader after deducting his expenses and commission. The statement from the agent to the trader showing this is known as the account sales.

Consignment accounts are to be found mainly in overseas trade.

Consignor's (the trader's) records

For each consignment to an agent a separate consignment account is opened. Think of it as a trading and profit and loss account for each consignment. The purpose is to calculate the net profit or loss on each consignment.

Goods consigned and expenses paid by the consignor

Double entry needed:

Goods consigned (a)	Debit consignment account
	Credit goods sent on consignment account
Expenses paid (b)	Debit consignment account
	Credit cash book

Expenses of the agent (consignee) and sales receipts

When the sales have been completed the consignee will send an account sales to the consignor. This will show:

	£	£
Sales		xxx
<i>Less</i> Expenses	xxx	
Commission	<u>xxx</u>	
		<u>xxx</u>
Balance now paid		<u>xxx</u>

The consignor enters these details in his books. The double entry needed is:

Sales (c):	Debit consignee's account
	Credit consignment account
Expenses of consignee (d):	Debit consignment account
	Credit consignee's account
Commission of consignee (e):	Debit consignment account

Credit consignee's account

Cash received from consignee (f): Debit cash

Credit consignee's account

Against each type of entry needed, (a) to (1) are shown. These will be used in Exhibit 41.1.

Exhibit 41,1

Wills of London, whose financial year ends on 31 December, consigned goods to Adams, his agent in Canada. All transactions were started and completed in 19X8.

- a) January 16: Wills consigned goods costing £500 to Adams.
- b) February 28: Wills paid carriage to Canada, £50.

Adams, the consignee, sends an account sales on 31 July when all the goods have been sold. It shows:

- c) Sales amounted to £750.
- d) Adams' expenses were: Import duty, £25.
 Distribution expenses, £30.

e) Commission had been agreed at 6 per cent of sales. This amounted to £41.

f) Adams paid balance owing, £650.

Wills' books:

Consignment to Adams, Ottawa, Canada

19x8	£	19x8	£
Jan 16 goods sent on		Jul 31 sales (c)	750
Consignment (a)	500		
Feb 28 Bank: carriage (b)	50		

Jul 31 Adams: Import duty		
distribution (d)	25	
" 31 Adams: commission (e)	45	
" 31 profit on consignment		
Transferred to profit and		
Loss account)	<u>100</u>	
	<u>750</u>	<u>750</u>
Goods sent on Consignment		

	19x8	£
	Jan 16 consignment to Adams (a)	500

Cash book

19x8	£	19x8	£
Jul 31 Adams (consignee) (f)	650	Feb 28	Consignment to Adams:
			Carriage (b)
			50

Adams (consignee)

19x8	£	19x8	£
Jul 31 Consignment: sales) (c)	750	Jul 31	Consignment:

	" 31 Import duty (d)	25
	" 31 distribution (d)	30
	" 31 commission (e)	45
	" 31 bank (f)	650
<u>750</u>		<u>750</u>

You can see that the main features are:

- a) The consignment account is. a trading and profit and loss account for one consignment.
- b) The consignee's (Adams) personal account is used to show double entry for items concerning him. All of these details have been shown on the account sales he sent after selling the goods.

Consignee's (the agent's) records

The only items needed in the consignee's records will be found from the account sales he sent to the consignor after the goods have been sold.

He does not enter, in his double entry, the goods received on consignment. They never belong to him. His job is to sell the goods. Of course he will keep a note of the goods, but not in his double entry account records.

The double entry needed is:

Cash from sales of consignment (c)	Debit cash book
	Credit consignor's account
Payment of consignment expenses (d)	Debit consignor's account
	Credit cash book
Commission earned (e):	Debit consignor's account

Credit profit and loss account

Cash to settle balance shown on account sales (f): Debit consignor's account

Credit cash book

Exhibit 41.2

Taking the details shown in Exhibit 41 1 the account sales sent by Adams (consignee) to Wills (consignor) would appear as follows:

Accounts sales (converted into £ sterling)		
	Adams, Ottawa, Canada 31 July 19x8	
To wills		
London		
	£	£
Sales of goods received on consignment (c)		750
Less Charges:		
Import duty (d)	25	
Distribution costs (d)	30	
Commission (e)	<u>45</u>	<u>100</u>
Bank draft enclosed (f)		<u>650</u>

The double entry accounts in the books of the consignee (Adams) follow:

Wills (consignor)

19x8	£	19x8	£
Jul 31 Bank:		Jul 31 Bank: Sales (c)	750
Import duty (d)	25		
Distribution (d)	30		
" 31 Commission transferred			
to profit and loss (e)	45		
" 31 Bank (f)	<u>650</u>		
	<u>750</u>		<u>750</u>

Cash Book

19x8	£	19x8	£
Jul 31 Wills: sales) (c)	750	Jul 31 Wills: import duty (d)	25
		" 31 Wills: distribution (d)	30
		" 31 wills: to settle account (f)	650

Profit and Loss Account (Adam)

	£
Commission on Consignment	
from Wills (e)	45

You will see that the account of Wills in Adams' books in exhibit 41.2 contains exactly the same details as that of Adams in wills' books in exhibit 41.1. Obviously, the debts and credits are on opposite sides on the two sets of accounts.

Bad debts and Consignments

Normally, when an agent sells the goods of the consignor he will collect the sale money from the customer. If the customer does not pay his account, the money in respect of this does not have to be paid by the agent to the consignor.

To make certain he does not have such bad debts, the consignor may pay an extra omission to the agent. When this happens the money for the debt will have to be paid by the agent even though he has not collected it. This extra commission is called del credere commission.

Consignors' accounting period and incomplete consignments.

In this chapter we have looked at consignments which were all sold by the agent before the financial year end of the consignor. For instance, if a consignor's account year ends annually on 31 December, all goods consigned in 19X7 will have been sold by 31 December 19X7.

Sometimes this will not be true. We could have sent goods to the agent in September 19X7, and the final sales may be in March 19X8. When the consignor prepares his final accounts up to 31 December 19X7, there will be an incomplete consignment at the date of the balance sheet.

Accounting for incomplete consignments

The main difference between a completed consignment at the balance sheet date and an uncompleted one is that the unsold stock has to be valued and carried down to the

following period. This stock will appear in the balance sheet of the consignor as a current asset. Such a case is shown in Exhibit 41.3.

Exhibit 41.3

- a) Farr of Chester consigns 10 cases of goods costing £200 per case to Moore in Nairobi on 1 July 19X7.
- b) Farr pays £250 for carriage and insurance for the whole consignment on 1 July 19X7.

Farr receives an interim account sales with a bank draft from Moore on 28 December 19X7. It shows (converted into £ sterling):

- c) Moore has sold 8 cases of goods for £400 each £3,200.
- d) Moore has paid a total of £150 for landing charges and import duties on receipt of the whole consignment.
- e) Moore has paid selling costs, in respect of the 8 cases sold, of £60.
- f) Moore has deducted his commission of 10 per cent in respect of the 8 cases sold $10\% \times £3,200 = £320$.
- g) Moore encloses bank draft of £2,570. This is made up of (c) £3,200 — (d) £150 — (e) £160 — (f) £320 = £2,570.

Farr now wishes to balance off his consignment account at his financial year end, 31 December 19X7, and to transfer the profit to date to his profit and loss account. The consignment account will appear as follows:

Consignment to Moore			
19x7	£	19x7	£

Jul 1	Goods on consignment (a)	2,000	Dec 28	Moore: sale of part	
	1 Bank: Carriage and			Consignment (c)	3,200
	insurance (b)	250	" 31	Value of unsold	
Dec 28	Moore:			Stock (b) c/d	480
	Landing charges and				
	Import duties (d)	150			
	Selling costs (e)	160			
	Commission (f)	320			
" 31	Profit on consignment				
	To profit and loss	<u>800</u>			
		<u>3,680</u>			<u>3,680</u>

19x8

Jan 1 Value of unsold s(b) b/d 480

Note: (b) Value of unsold stock at 31 December 19X7: £ £

Goods: 2 cases x £200 each 400

Add Proportion of expenses belonging to 2

unsold cases out of 10 received

(b) Carriage 2/10 x £250 50

(d) Landing charges and duties 2/10 x £150 30 80

480

There is no proportion of (e) selling costs £160 or (f) commission £320 added valuation of the 2 unsold cases. This is because both of these expenses were only sale of the 8 cases, and nothing to do with the 2 unsold cases.

The profit and loss account for Farr for the year ended 31 December 19X7 will include the consignment profit of £800. The balance sheet as at 31 December 19X7 will include the consignment stock of £480 as a current asset.

The consignee's account, Moore's, can be shown in Farr's books as:

Moore

19x7	£	19x7	£
Dec 28 Consignment: (sales) (c)	3,200	Dec 28 consignment expenses: (d)	25
		Land charges etc (d)	150
		Selling costs (e)	160
		Commission (f)	320
		Bank (g)	<u>2,570</u>
	<u>3,200</u>		<u>3,200</u>

Final completion of consignment

When the remainder of the consignment is sold, the consignment account can be closed. This will be done by transferring the final portion of profit or loss to the

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- a) State the features and advantages of consignment account.
 - i. Farr of Chester consigns 10 cases of good costing £200 per case to Moore in Nairobi on 1 July 19x7.
 - ii. Farr pays £250 for carriage and insurance for the whole consignment on 1 July 19x7.

Farr receives an interim account sales with a bank draft from Moore on 28 December 19x7. It shows (converted into £ sterling);

- iii. Moore has sold 8 cases of goods for £400 each = £3,200.
- iv. Moore has paid a total of £150 for landing charges and import duties on receipt of the whole consignment.
- v. Moore has paid selling costs, in respect of the 8 cases sold, of £160.
- vi. Moore has deducted his commission of 10 percent in respect of the 8 cases sold.
- vii. Moore encloses bank draft of £2,570.

Farr now wishes to balance off his consignment account at his financial year end, 31 December 19x7, and to transfer the profit to date to his profit and loss account.

Required: Prepare a consignment account to Moore.