

Consignment

Meaning of Consignment

- Consignment refers to the arrangement where one merchant (the consignor) sends goods to another merchant (the consignee) for the purpose of sale.
- The consignor retains ownership and bears the risk of the goods until they are sold.
- The consignee acts as an agent, selling the goods on behalf of the consignor in exchange for a commission or other form of remuneration.
- The relationship between the consignor and consignee is akin to that of a principal and an agent.
- When goods are sent by the consignor to the consignee, it is referred to as outward consignment from the consignor's perspective and inward consignment from the consignee's perspective.

Characteristics of Consignment:

Principal-Agent Relationship:

The consignor (principal) sends the goods, and the consignee (agent) sells the goods on behalf of the consignor.

Difference from Sale:

Consignment involves only the transfer of possession, not ownership, of goods. The consignee does not own the goods.

Commission-Based:

The consignee sells the goods and earns a commission or other form of remuneration for their service.

Ownership Retention:

The consignor retains ownership of the goods until they are sold by the consignee.

Objectives of Consignment

Expand Sales: Consignment helps to reach new markets and increase sales by tapping into the consignee's customer base and expertise.

Utilize Local Knowledge: It leverages the consignee's understanding of local market dynamics and consumer preferences to sell goods more effectively.

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Benefit from Price Differences: Consignment allows the consignor to take advantage of varying price levels in different markets, potentially increasing overall profitability.

Difference Between Consignment and Sale:

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Sno	Basis of Difference	Consignment	Sale
1	Ownership	Ownership remains with the consignor.	Ownership transfers to the buyer.
2	Payment	Consignee pays after selling the goods.	Buyer pays at the time of sale.
3	Risk	Risk remains with the consignor.	Risk transfers to the buyer.

Explanation

Ownership:

- In consignment, the goods' ownership remains with the consignor until they are sold. This means the consignee does not own the goods; they only hold them for sale.
- In a sale, ownership of the goods transfers to the buyer immediately upon purchase, making the buyer the new owner.

Payment:

- In consignment, the consignee is not required to pay for the goods until they are sold. The consignee only acts as an intermediary and pays the consignor from the proceeds of the sale.
- In a sale, the purchaser must make payment at the time of the transaction, completing the transfer of ownership and responsibility for the goods.

Risk:

- In consignment, the consignor bears the risk of the goods until they are sold. If the goods are damaged, lost, or unsold, the consignor bears the loss.
- In a sale, the risk associated with the goods transfers to the buyer once the transaction is complete. The buyer assumes responsibility for any potential loss or damage.

Conclusion:

Consignment is a system that allows a merchant to leverage another merchant's market presence and expertise to sell goods without immediately transferring ownership or risk. This system benefits the consignor by increasing market reach



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and potentially higher sales through local agents, while the consignee earns a commission for their efforts. The key distinctions between consignment and sales lie in ownership, payment obligations, and risk management.

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