

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:

Difference Between Consignment and Sale:			
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.

Case 1: Solved Example: Practical Questions on Goods Sent on Consignment

Ques: On 1st April 2024, XYZ Ltd. consigned 500 units of product G to ABC Traders. The cost per unit was Rs. 350. ABC Traders paid an advance of Rs. 30,000 to XYZ Ltd. Prepare the necessary journal entries in the books of XYZ Ltd. for sending goods on consignment and receiving the advance.

Solution:

Recording the consignment of goods and the advance received:

Particulars	Debit (Rs.)	Credit (Rs.)
Consignment Account		
To Goods Sent on Consignment	1,75,000	
(Being 500 units of product G consigned to ABC Traders at Rs. 350 per unit)		
Bank Account		
To ABC Traders Account		30,000
(Being advance received from ABC Traders)		

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Assignment on Goods Sent on Consignment and Advance Received

1. **Question 1:** On 1st March 2024, KLM Ltd. consigned 400 units of product F to OPQ Traders. The cost per unit was Rs. 300. OPQ Traders paid an advance of Rs. 25,000 to KLM Ltd. Prepare the necessary journal entries in the books of KLM Ltd. for sending goods on consignment and receiving the advance.

2. **Question 2:** On 5th April 2024, STU Ltd. sent 250 units of product G on consignment to VWX Traders at a cost of Rs. 200 per unit. VWX Traders paid an advance of Rs. 15,000 to STU Ltd. Record the necessary journal entries for sending goods on consignment and receiving the advance.

3. **Question 3:** On 10th May 2024, YZA Ltd. consigned 350 units of product H to BCD Traders at a cost of Rs. 275 per unit. BCD Traders paid an advance of Rs. 30,000 to YZA Ltd. Prepare the necessary journal entries in the books of YZA Ltd. for sending goods on consignment and receiving the advance.

Case 2: Solved Example on Expenses Incurred by Consignor

Ques: On 1st July 2024, PQR Ltd. consigned 800 units of product X to LMN Traders at a cost of Rs. 180 per unit. PQR Ltd. incurred Rs. 6,000 on transportation and Rs. 5,000 on insurance. Record the necessary journal entries for sending goods on consignment and for the expenses incurred by the consignor.

Solution:

Particulars	Debit (Rs.)	Credit (Rs.)
Consignment Account	1,44,000	
To Goods Sent on Consignment		1,44,000
(Being 800 units of product X consigned to LMN Traders at Rs. 180 per unit)		
Consignment Account	6,000	
To Bank Account		6,000
(Being transportation expenses incurred for consignment)		
Consignment Account	5,000	
To Bank Account		5,000
(Being insurance expenses incurred for consignment)		

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Assignment on Expenses Incurred by Consignor

Question 1: On 15th June 2024, EFG Ltd. sent 600 units of product I on consignment to HIJ Traders at a cost of Rs. 220 per unit. EFG Ltd. incurred Rs. 4,000 on transportation and Rs. 3,000 on insurance. Record the necessary journal entries for sending goods on consignment and for the expenses incurred by the consignor.

Question 2: On 20th July 2024, KLM Ltd. consigned 500 units of product J to NOP Traders at a cost of Rs. 180 per unit. KLM Ltd. incurred Rs. 2,500 on transportation and Rs. 1,500 on insurance. Record the necessary journal entries for sending goods on consignment and for the expenses incurred by the consignor.

Question 3: On 25th August 2024, QRS Ltd. sent 400 units of product K on consignment to TUV Traders at a cost of Rs. 250 per unit. QRS Ltd. incurred Rs. 3,500 on transportation and Rs. 2,000 on insurance. Record the necessary journal entries for sending goods on consignment and for the expenses incurred by the consignor.

Case 3: Solved Example: Goods Sold by Consignee and Commission Payable

Ques: On 15th October 2024, DEF Ltd. consigned 600 units of product M to PQR Traders at a cost of Rs. 250 per unit. PQR Traders sold 500 units at Rs. 320 per unit. The consignee is entitled to a commission of 6% on sales. Prepare the necessary journal entries in the books of DEF Ltd. for recording the sales and commission payable to the consignee.

Solution:

Calculation

- Cost of goods consigned:
 $600 \text{ units} \times 250 \text{ Rs/unit} = \text{Rs } 150,000$
- Sales value:
 $500 \text{ units} \times 320 \text{ Rs/unit} = \text{Rs } 160,000$
- Commission payable to the consignee:
 $160,000 \text{ Rs} \times 6\% = \text{Rs } 9,600$

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Particulars	Debit (Rs.)	Credit (Rs.)
Consignment Account	1,50,000	
To Goods Sent on Consignment		1,50,000
(Being 600 units of product M consigned to PQR Traders at Rs. 250 per unit)		
PQR Traders Account	1,60,000	
To Consignment Account		1,60,000
(Being 500 units sold by PQR Traders at Rs. 320 per unit)		
Consignment Account	9,600	
To PQR Traders Account		9,600
(Being 6% commission on sales of Rs. 1,60,000)		
Bank Account	1,50,400	
To PQR Traders Account		1,50,400
(Being remittance received from consignee after deducting commission)		

Assignment on Goods Sold by Consignee and Commission Payable

Question 1: On 30th September 2024, WXY Ltd. consigned 450 units of product L to ZAB Traders at a cost of Rs. 200 per unit. ZAB Traders sold 350 units at Rs. 280 per unit. The consignee is entitled to a commission of 5% on sales. Prepare the necessary journal entries in the books of WXY Ltd. for recording the sales and commission payable to the consignee.

Question 2: On 5th October 2024, CDE Ltd. consigned 550 units of product M to FGH Traders at a cost of Rs. 210 per unit. FGH Traders sold 400 units at Rs. 290

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per unit. The consignee is entitled to a commission of 4% on sales. Record the necessary journal entries in the books of CDE Ltd. for recording the sales and commission payable to the consignee.

Question 3: On 10th November 2024, IJK Ltd. consigned 350 units of product N to PQR Traders at a cost of Rs. 240 per unit. PQR Traders sold 250 units at Rs. 320 per unit. The consignee is entitled to a commission of 6% on sales. Prepare the necessary journal entries in the books of IJK Ltd. for recording the sales and commission payable to the consignee.

Case 4 : Solved Example: Consignment Account with Unsold Stock

Ques: On 20th January 2025, ABC Ltd. consigned 700 units of product P to XYZ Traders at a cost of Rs. 230 per unit. By 31st January 2025, XYZ Traders sold 500 units at Rs. 300 per unit. The unsold stock remained with the consignee. Prepare the necessary journal entries in the books of ABC Ltd. for recording the consignment transactions and valuing the unsold stock.

Solution:

Calculation

Cost of goods consigned = 700 units × 230 Rs/unit = Rs 161,000
 Sales value = 500 units × 300 Rs/unit = Rs 150,000
 Value of unsold stock = 200 units × 230 Rs/unit = Rs 46,000

Particulars	Debit (Rs.)	Credit (Rs.)
Consignment Account	1,61,000	
To Goods Sent on Consignment		1,61,000
(Being 700 units of product P consigned to XYZ Traders at Rs. 230 per unit)		
XYZ Traders Account	1,50,000	
To Consignment Account		1,50,000
(Being 500 units sold by XYZ Traders at Rs. 300 per unit)		
Consignment Stock Account	46,000	
To Consignment Account		46,000
(Being 200 units of product P unsold at Rs. 230 per unit)		

Assignment on Consignment Account with Unsold Stock

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Question 1: On 15th December 2024, LMN Ltd. consigned 600 units of product O to STU Traders at a cost of Rs. 210 per unit. By 31st December 2024, STU Traders sold 400 units at Rs. 280 per unit. The unsold stock remained with the consignee. Prepare the necessary journal entries in the books of LMN Ltd. for recording the consignment transactions and valuing the unsold stock.

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Question 2: On 20th January 2025, VWX Ltd. sent 700 units of product P on consignment to YZA Traders at a cost of Rs. 230 per unit. By 31st December 2025, YZA Traders sold 500 units at Rs. 310 per unit. The unsold stock remained with the consignee. Record the necessary journal entries in the books of VWX Ltd. for recording the consignment transactions and valuing the unsold stock.

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Question 3: On 25th February 2025, BCD Ltd. consigned 800 units of product Q to EFG Traders at a cost of Rs. 250 per unit. By 31st December 2025, EFG Traders sold 600 units at Rs. 340 per unit. The unsold stock remained with the consignee. Prepare the necessary journal entries in the books of BCD Ltd. for recording the consignment transactions and valuing the unsold stock.

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Case 5 : Solved Example: Loss of Goods on Consignment

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Ques: On 10th April 2025, PQR Ltd. consigned 500 units of product S to XYZ Traders at a cost of Rs. 300 per unit. During transit, 20 units were lost. The remaining units were sold by XYZ Traders at Rs. 380 per unit. Prepare the necessary journal entries in the books of PQR Ltd. for recording the loss of goods and the sales made by the consignee.

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Solution:

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Calculation

Goods sent on consignment: 500 units × Rs. 300 = Rs. 1,50,000

Goods lost in transit: 20 units × Rs. 300 = Rs. 6,000

Remaining units available for sale: 500 - 20 = 480 units

Sales proceeds: 480 units × Rs. 380 = Rs. 1,82,400

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Journal Entries

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
10-Apr-2025	Consignment to XYZ Traders A/c Dr.		1,50,000	
	To Goods Sent on Consignment A/c			1,50,000
	<i>(Being 500 units of product S consigned at Rs. 300/unit)</i>			
10-Apr-2025	Loss in Transit A/c Dr.		6,000	
	To Consignment to XYZ Traders A/c			6,000
	<i>(Being loss of 20 units during transit at Rs. 300/unit)</i>			
10-Apr-2025	Bank A/c Dr.		1,82,400	
	To Consignment to XYZ Traders A/c			1,82,400
	<i>(Being sales proceeds for 480 units at Rs. 380/unit)</i>			

Assignment on Loss of Goods on Consignment

Question 1: On 1st March 2025, GHI Ltd. consigned 400 units of product R to JKL Traders at a cost of Rs. 270 per unit. During transit, 30 units were lost. The remaining units were sold by JKL Traders at Rs. 350 per unit. Prepare the necessary journal entries in the books of GHI Ltd. for recording the loss of goods and the sales made by the consignee.

Question 2: On 5th April 2025, MNO Ltd. consigned 500 units of product S to PQR Traders at a cost of Rs. 280 per unit. During transit, 20 units were lost. The remaining units were sold by PQR Traders at Rs. 360 per unit. Record the necessary journal entries in the books of MNO Ltd. for recording the loss of goods and the sales made by the consignee.

Question 3: On 10th May 2025, STU Ltd. sent 600 units of product T on consignment to VWX Traders at a cost of Rs. 290 per unit. During transit, 40 units were lost. The remaining units were sold by VWX Traders at Rs. 370 per unit. Prepare the necessary journal entries in the books of STU Ltd. for recording the loss of goods and the sales made by the consignee.

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