

41

Consignment accounts

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

41.1 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.

41.2 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
Less 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 (f) 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 consignment (a)	500	Jul 31 Sales (c)	750
Feb 28 Bank: carriage (b)	50		
Jul 31 Adams: Import duty (d)	25		
Distribution (d)	30		
„ 31 Adams: Commission (e)	45		
„ 31 Profit on consignment (transferred to profit and loss account)	100		
	<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:

- The consignment account is a trading and profit and loss account for one consignment.
- 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.

41.3 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:

Account Sales (converted into £ sterling)		
		Adams, Ottawa, Canada. 31 July 19X8
To	Wills London.	
		£
	Sale of goods received on consignment (c)	750
Less	Charges:	
	Import duty (d)	25
	Distribution costs (d)	30
	Commission (e)	45
	Bank draft enclosed (f)	<u>100</u>
		<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)
	Import duty (d)		750
	Distribution (d)		
„ 31	Commission transferred to profit and loss (e)		
„ 31	Bank (f)		
	650		
	<u>750</u>		<u>750</u>

Cash Book

19X8	£	19X8	£
Jul 31	Wills: Sales (c)	Jul 31	Wills: Import duty (d)
	750	„ 31	Wills: Distribution (d)
		„ 31	Wills: To settle account (f)
			650

Profit and Loss Account (Adams)

		£
	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 debits and credits are on opposite sides in the two sets of accounts.

41.4 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 commission 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**.

41.5 Consignor's 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.

41.6 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 £160.
- (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:

Farr's books:

Consignment to Moore

		£			£
19X7			19X7		
Jul 1	Goods on consignment (a)	2,000	Dec 28	Moore: Sale of part consignment (c)	3,200
„ 1	Bank: Carriage and insurance (b)	250	„ 31	Value of unsold stock (b) c/d	480
Dec 28	Moore:				
	Landing charges and import duties (d)	150			
	Selling costs (e)	160			
	Commission (f)	320			
„ 31	Profit on consignment to profit and loss	800			
		<u>3,680</u>			<u>3,680</u>
19X8					
Jan 1	Value of unsold stock (b) b/d	480			
Note:	(b) Value of unsold stock at 31 December 19X7:				
	Goods: 2 cases × £200 each		£		£
	Add Proportion of expenses belonging to 2 unsold cases out of 10 received				400
	(b) Carriage 2/10 × £250		50		
	(d) Landing charges and duties 2/10 × £150		30		80
					<u>480</u>

There is no proportion of (e) selling costs £160 or (f) commission £320 added to the valuation of the 2 unsold cases. This is because both of these expenses were only for the 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:	
				Landing charges etc. (d)	150
				Selling costs (e)	160
				Commission (f)	320
				Bank (g)	2,570
		<u>3,200</u>			<u>3,200</u>

41.7 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 consignor's profit and loss account. The details will be found in the final account sales which the consignee will have sent to the consignor.

Taking the completion of the consignment in Exhibit 41.3 as an example, the following details were obtained from the final account sales dated 31 March 19X8.

41.2A

- (a) Explain the differences between a consignment and a sale.
- (b) 100 cases of goods costing £3,500 were sent on consignment by X Limited to Y Limited on 1 February 19X7. At the same time, X Limited paid delivery expenses of £100 and insurance of £20. On 1 March 19X7 an interim account sales was received from Y Limited showing that 80 cases had been sold for £63 each and that storage charges of £180 and selling expenses of £100 had been deducted from the account. After also deducting the commission on sales which was agreed at 5 per cent of the gross sales, Y Limited settled the balance due to X Limited for goods sold by a bank draft.

Required:

- (i) Prepare the interim account sales, and
- (ii) Prepare the consignment account in the books of X Limited.

41.3 On 15 November 19X8, Hughes consigned 300 cases of wooden items to Galvez of Madrid. On 31 December 19X8, Galvez forwarded an account sales, with a draft for the balance, showing the following transactions:

- 1 250 cases sold at £20 each and 50 at £18 each.
- 2 Port and duty charges £720.
- 3 Storage and carriage charges £410.
- 4 Commission on sales 5% + 1% del credere.

Required:

- (a) Prepare the account sales, and
- (b) Show the consignment inward account in the books of Galvez. Ignore interest.

41.4 Stone consigned goods to Rock on 1 January 19X8, their value being £12,000, and it was agreed that Rock should receive a commission of 5 per cent on gross sales. Expenses incurred by Stone for freight and insurance amount to £720. Stone's financial year ended on 31 March 19X8, and an account sales made up to that date was received from Rock. This showed that 70 per cent of the goods had been sold for £10,600 but that up to 31 March 19X8, only £8,600 had been received by Rock in respect of these sales. Expenses in connection with the goods consigned were shown as being £350, and it was also shown that £245 had been incurred in connection with the goods sold. With the account sales, Rock sent a sight draft for the balance shown to be due, and Stone incurred bank charges of £12 on 10 April 19X8, in cashing same.

Stone received a further account sales from Rock made up to 30 June 19X8, and this showed that the remainder of the goods had been sold for £4,800 and that £200 had been incurred by way of selling expenses. It also showed that all cash due had been received with the exception of a debt for £120 which had proved to be bad. A sight draft for the balance due was sent with the account sales and the bank charged Stone £9 on 1 July 19X8, for cashing same. You are required to write up the necessary accounts in Stone's books to record these transactions.

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41.5A Fleet is a London merchant. During the financial year to 31 March 19X8, he sent a consignment of goods to Sing, his agent in Bali. The details of the transaction were as follows:

- (a) On 1 April 19X7, 1,000 boxes were sent to Sing. These boxes had originally cost Fleet £20 each.
- (b) Fleet's carriage, freight and insurance costs of the consignment paid on 30 April 19X7 amounted to £2,000.
- (c) During the voyage to Bali, ten boxes were lost. On 30 September 19X7, Fleet received a cheque for £220 as compensation from his insurance company for the loss of the boxes.
- (d) On 1 March 19X8, Fleet received £20,000 from Sing.
- (e) Both Fleet and Sing's accounting year end is 31 March.
- (f) On 15 April 19X8, Fleet received the following interim account sales from Sing:

<i>Interim Account Sales</i>		The Water Front Gama Bali	
31 March 19X8			
Consignment of goods sold on behalf of Fleet, London: 950 boxes of merchandise.			
	£	£	£
Sales:			
950 boxes at £30 each			28,500
Charges:			
Distribution expenses (at £2 per box)		1,900	
Landing charges and import duty (at £1 per box)		990	
Commission (5% × £28,500)		<u>1,425</u>	<u>4,315</u>
			24,185
Less amount previously sent			<u>20,000</u>
Net proceeds per draft enclosed			<u>£4,185</u>
			31 March 19X8 Sing (signed) Bali

Required:

Prepare the following ledger accounts for the year to 31 March 19X8:

- (a) in Fleet's books of account:
 - (i) goods sent on consignment account;
 - (ii) consignment to Sing's account;
 - (iii) Sing (consignee) account;
 and,
- (b) in Sing's books of account:
 - (i) Fleet (London) account;
 - (ii) commission account.

(Association of Accounting Technicians)