

Chapter 3 Consignment Accounts

A consignment is the transfer of goods from the owner (consignor) to an agent (consignee), generally in another country. The agent is paid by means of a percentage based on the sales value of the goods involved. The title to the goods remains with the consignor until they are sold
The agent collects the money generated from sales of the consignor's goods and deducts his expenses and commission payable. The balance is then paid to the consignor

Valuation of unsold inventory

At the end of a financial year it is quite possible that the whole consignment will not have been sold
Inventory valuation will include the cost price of the goods sent to an agent plus any expenses incurred to get the goods into a saleable condition. These expenses can include import duties, freight charges, landing charges etc

Example

800 units of a product costing \$2.5 each have been dispatched to an agent. Duties and landing charges amounting to \$600 have been paid. At the financial year end 100 units remain unsold.
What will be value of closing inventory?

Consignment Accounting

Accounting entries in the books of consignor

In the books of the consignor are:

- Consignment a/c – (It is prepared to ascertain profit or loss on each consignment)
- Consignee a/c – (It is prepared to show the balance due to or from consignee at a particular date. It is a personal account)
- Goods Sent on Consignment a/c – (It is prepared to show the amount of goods sent to the consignee. This is real account. The balance is credited to Purchase or Trading Account)

Journal entries

(1) On dispatch of goods:-

Consignment account (With the cost of goods)	Dr
Goods sent on consignment account	Cr

(2) On payment of expenses on dispatch:-

Consignment account (With the amount spent as expenses)	Dr
Bank account	Cr

Goods sent on consignment Account

<table border="0"> <tr> <td style="width: 80%;">Income Statement</td> <td style="text-align: right; width: 10%;"><u>xx</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>xx</u></td> </tr> </table>	Income Statement	<u>xx</u>		<u>xx</u>		<table border="0"> <tr> <td style="width: 80%;">Consignment account</td> <td style="text-align: right; width: 10%;">xx</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>xx</u></td> </tr> </table>	Consignment account	xx		<u>xx</u>						
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Accounting entries in the books of consignee

In the books of the Consignee are:

1. Consignor a/c – Personal Account

Same items will be entered in consignor account as consignee account but on opposite side

Journal entries

(1) When consignment goods are received:-No entry is made in the books of account. The consignee is not the owner of the goods and therefore he makes no entry when he receives the goods.

(2) For expenses incurred by the consignee:-

Consignor's personal account	Dr
Cash account	Cr

(3) When advance is given:-

Consignor's personal account	Dr
Cash or Bank account	Cr

(4) When goods are sold:-

Cash or bank account	Dr
Consignor's personal account	Cr

Consignor account

Consignee expenses	xx	Consignee sales	xx
Commission	xx		
Bank (advance)	xx		
Balance c/d	xx		
	<u>xx</u>		<u>xx</u>

Past paper questions

Q # 1 Lee started a business in Indonesia on 1 January 2013 selling lawn mowers. During the first year of trading Lee bought 1000 lawn mowers at \$50 each. He shipped 400 of these to Albert, his agent in Jamaica. Lee also sold 550 lawn mowers in Indonesia. The following additional information is available.

Freight charges paid by Lee	\$3 600
Landing duties paid by Albert	\$400
Rate of commission paid to Albert	10%
Cash remitted by Albert to Lee	\$19 000

Lee's income statement for the year ended 31 December 2013 included the following.

	\$
Gross profit	22 000
Consignment profit	6 720

Selling, distribution and administration costs (arising in Indonesia) 17 600

Lee's statement of financial position at 31 December 2013 included the following inventory.

	\$
Jamaica	4 800
Indonesia	2 500
Total inventory	7 300

REQUIRED

- Prepare the consignment account in the books of Lee for the year ended 31 December 2013. [8]
- Prepare Albert's account in the books of Lee for the year ended 31 December 2013. [6]
- Calculate the number of unsold lawn mowers Albert was holding on 31 December 2013. [5]

Additional information

Lee is considering whether to concentrate his efforts on sales in Indonesia or in Jamaica.

REQUIRED

(d) Advise Lee where to concentrate his sales effort. Support your answer with calculations. [6]

SP 2016

Q # 2 Chin started business in Hong Kong on 1 January 2015 selling specialist radios.

In his first year of trading he bought 2000 radios, of which 1000 were shipped to his agent Sumit in India.

The following information is available for the year ended 31 December 2015.

Freight charges paid by Chin	\$4000
Import duties paid by Sumit	?
Selling price per radio	\$60
Commission paid to Sumit	20% of sales
Cash remitted by Sumit	\$26 800

At 31 December 2015 Chin had the following inventory.

	\$
In Hong Kong (50 radios)	1250
In India (100 radios)	<u>3050</u>
Total	<u>4300</u>

REQUIRED

(a) Calculate:

(i) the original price per radio paid by Chin [1]

(ii) the import duties paid by Sumit. [4]

(b) Prepare the following in the books of Chin:

(i) the consignment account [8]

(ii) Sumit's account. [6]

Additional information

In 2015 the 1000 radios shipped to Sumit were in monthly batches of varying quantities. Each batch had incurred an administration charge of \$160 which was included in the freight charges paid by Chin.

Chin is now considering sending future annual supplies of radios in one batch each January.

REQUIRED

(c) Advise Chin, with reasons, whether or not he should make this change. [6]

March 2016

Q # 3 Hamid and Patel trade regularly with each other. Patel is based in India and Hamid is based in Scotland

On 15 November 2014 Hamid sent 100 cases of goods to Patel costing \$12 000. The commission on sales was agreed at 5% of the gross sales.

On the same day Hamid paid delivery charges of \$610 and insurance of \$110.

Hamid's financial year ended on 31 March 2015.

At that date Patel provided the following information:

1 70% of the goods had been sold for \$10 600.

2 \$7475 had been sent to Hamid.

3 There was an irrecoverable debt of \$120.

4 Storage charges of \$350 and selling expenses of \$245 had been paid by Patel.

Patel paid the balance due on 31 March 2015.

Hamid incurred bank charges of \$12 for processing this payment.

REQUIRED

(a) Prepare in the books of Hamid the following accounts at 31 March 2015:

(i) the goods sent on consignment account [1]

(ii) the consignment to Patel account [11]

(iii) Patel account [7]

(b) Analyse the effect on profit of the irrecoverable debt incurred during the year. [2]

Additional information

Hamid and Patel are now considering forming a partnership rather than continuing to trade on a consignment basis.

REQUIRED

(c) Advise whether or not Hamid and Patel should enter into a partnership with each other.

Justify your answer. [4]

Nov 2016

Q # 4 Sachin is a trader buying and selling electrical appliances which cost \$150 per unit. His brother, Tajid, is located overseas and it was planned that he would sell some of the appliances. During the year ended 31 December 2016 Sachin sent 1000 appliances to Tajid.

The following information is also available.

1 The rate of commission charged by Tajid is 10% on sales.

2 Tajid planned to sell the appliances at a mark-up of 40%.

3 All appliances were sold. However, the final 250 units of the consignment could only be sold for \$180 per unit.

4 Sachin paid transportation costs of \$3000.

5 Tajid paid selling expenses of \$4000 and \$1500 import duty.

6 On 31 December 2016 Tajid made a full remittance to Sachin to settle the account.

REQUIRED

(a) Prepare the consignment account in Sachin's books for the year ended 31 December 2016. [9]

(b) Prepare Tajid's account in the books of Sachin for the year ended 31 December 2016. [3]

(c) Prepare the goods sent on consignment account in the books of Sachin for the year ended 31 December 2016. [2]

(d) Prepare Sachin's account in the books of Tajid for the year ended 31 December 2016. [5]

(e) Identify two possible reasons for the fall in the selling price of the appliances. [2]

Additional information

Sachin has an additional \$150000 to invest. He is considering whether to send an identical consignment to Tajid or to invest in a new project in his home country which would guarantee a return of 12% on the investment.

REQUIRED

(f) Discuss whether Sachin should send a further consignment to Tajid or invest in the new project. Justify your answer by giving three reasons for your decision. [4]

March 2017

Q # 5 Aleksander is a trader with a financial year end of 30 June. He buys containers of sunflower seeds for \$100 each. Some of these he ships to his agent Benji in northern Europe. He pays Benji a commission of 10% of sales value.

The following information is available:

1 On 2 April 2017 Aleksander sent 200 containers to Benji. Aleksander paid packing costs of \$120 and freight costs of \$6080.

2 Benji paid additional freight costs of \$1600 for transport from the port to his warehouse.

Resource Pack/Accounting/A Level (Paper 3)

3 In the period to 30 June 2017 Benji sold 160 containers for \$170 each. He remitted \$21 000 to Aleksander on 14 June.

REQUIRED

(a) Prepare the following ledger accounts in the books of Aleksander for the 3 months ended 30 June 2017.

(i) Goods on consignment account [2]

(ii) Consignment account [12]

(iii) Benji account [5]

Additional information

The government in Benji's country decided to introduce import duties from 1 July 2017 which amount to \$20 per container.

REQUIRED

(b) Explain how Aleksander might have dealt with this increase in cost. Support your answer by considering the effect on the profit per container. [4]

(c) State why an advertising campaign paid for by an agent would not be included in the valuation of inventory. [2]

Nov 2017

Q # 6 Y Limited is based in Mauritius and has recently sent a consignment of goods to Mahood who lives in Egypt. They agreed the following terms:

1 Mahood has to make an advance payment before the goods are delivered to him.

2 Mahood is entitled to a commission of 5% on all sales made by him. The commission is calculated on the sales value after the deductions of the commission.

The following transactions took place during the year ended 31 December 2017

Y Limited:

sent 1000 units to Mahood and invoiced him at \$175 each
paid freight of \$15 400 and insurance of \$3200.

Mahood:

made an advance payment of \$55 000 to Y Limited
made cash sales of 480 units at \$257.50 each
made credit sales of 320 units at \$270 each
paid the following:

	\$
import duty	1600
advertising	9700
carriage inwards	2800
carriage outwards	3300

All customers who bought on credit from Mahood settled their accounts in full at 31 December 2017 except a customer who bought 16 units. It was confirmed that nothing will be recovered from this customer.

At the year-end 60 units with minor faults were discovered by Mahood. Their net realisable value was \$150 each. Mahood paid the balance owing to Y Limited by cheque.

Required

- (a) Calculate the cost per unit to be used when valuing inventory. [2]
- (b) Prepare the consignment account in the books of Y Limited for the year ended 31 December 2017. [13]
- (c) Prepare Mahood's account in the books of Y Limited for the year ended 31 December 2017. [5]

Additional information

The directors of Y Limited are thinking of opening a branch overseas to sell its goods rather than having a consignment agreement with Mahood.

- (d) Suggest whether Y Limited should continue consigning goods to Mahood or open a branch overseas. Justify your answer. [5]

June 2018

Q # 7 SH Limited sent goods on consignment to Maureen on 1 November 2018.

The consignment consisted of 30 containers, invoiced to Maureen at \$7200 each.

On 5 November SH Limited paid shipping expenses on the containers of \$11 600.

On 6 November Maureen paid customs charges of \$7800 on the consignment.

By 31 December 2018 Maureen had sold 24 containers for a total of \$244 800 and she had remitted 90% of this to SH Limited.

Maureen is entitled to a 5% commission from SH Limited on all containers sold.

Required

- (a) Calculate the value of the closing inventory. [4]
- (b) Prepare the following accounts in the books of account of SH Limited.
 - (i) Consignment account [7]
 - (ii) Maureen account [5]
- (c) Calculate the profit per container. [2]
- (d) Explain what the closing balance on Maureen account represents. [3]
- (e) Explain two differences between a consignment and a joint venture. [4]

March 2019

Q # 8 Ahmed runs a manufacturing business in Singapore producing computer screens.

For the year ended 31 December 2017 his cost of production per screen was \$80 and he operates on a margin of 20%.

For the year ended 31 December 2018 he sent 500 screens to his friend, Rohan, who is a retailer in India. The transfer value agreed between the friends was 10% less than the standard selling price

- (a) Calculate the unit value at which the screens are transferred from Singapore to India. [2]

Additional information

The following relates to the year ended 31 December 2018.

1 Ahmed's opening bank balance was \$55 000 and the closing balance was \$94 000. This bank account was only used for the consignment.

2 Ahmed paid transportation costs of \$1000.

3 Rohan sold all of the screens at a mark-up of 60%.

4 Customs duty of 5% was paid by Rohan.

5 Rohan earned a commission of 5% on all sales. Rohan made a remittance to Ahmed.

(b) Prepare in the books of Ahmed:

(i) a summarised bank account showing the entries relating to the consignment [3]

(ii) Consignment account [7]

(iii) Rohan account. [5]

Additional information

Demand for Ahmed's screens is increasing. However, he is unable to increase production. Rohan wishes to continue selling Ahmed's computer screens in India for the year ending 31 December 2019.

(c) Advise Ahmed whether or not he should continue with the consignment arrangement with Rohan. Justify your answer using relevant calculations and reference to non-financial factors. [8]

May 2019

Q # 9 Liam is a trader based in Ireland. His draft income statement for the year ended 31 December 2018 was as follows

	\$	\$	\$
Revenue			750 000
Inventory at 1 January 2018		28 000	
Purchases	420 000		
Less: goods on consignment	<u>50 000</u>	<u>370 000</u>	
		398 000	
Inventory at 31 December 2018		<u>32 500</u>	
Cost of sales			<u>365 500</u>
Gross profit			384 500
Profit on consignment			15 000
Distribution costs		103 200	
Administrative expenses		<u>136 300</u>	
			<u>239 500</u>
Profit for the year			<u>160 000</u>

During the year Liam had sent 1000 machines with a cost of \$50 each to his agent Clarissa in Puerto Rico, where they had a selling price of \$80 each. By the end of the year only 750 machines had been sold. Liam had paid \$4000 to ship the machines to Puerto Rico. He had in error entered this in his carriage outwards account and included it in distribution costs, instead of entering it in the consignment account.

(a) (i) Explain the effect of this error on the profit on consignment. Support your answer with figures. [3]

(ii) Explain the effect of this error on the profit for the year. Support your answer with figures. [3]

Additional information

Clarissa was entitled to a commission equal to 10% of sales. She paid import duties of \$2000 when the goods arrived in Puerto Rico.

- (b) Prepare the consignment account for the year ended 31 December 2018 with the error corrected. [10]
- (c) Calculate the correct total value of inventory to be included in Liam's statement of financial position at 31 December 2018. [3]

Additional information

Liam has the opportunity to enter into another consignment in a country which is much closer. The machines could only be sold there for \$74 each.

- (d) Discuss the benefits to Liam if he enters into this new consignment. Justify your answer. [4]
- (e) Explain one difference between an agent in a consignment and a party in a joint venture. [2]

Nov 2019