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Consignment sales journal entries

In today's world of business, every manufacturer, exporter or wholesaler tries his best to sell his products in his own country and abroad to a larger extent. But it is not an easy task, because a businessman cannot have the exact information about the demand of his product in different parts of the country and abroad. There are two methods by which businessmen can increase the sale of their products. These methods are: Opening branches in different parts of the country and abroad. Appointing agents in their own country as well as abroad. The first method is very extensive because a large sum of money is needed to establish a branch and a number of persons are required as manager, clerks, accountant etc. to carry out different operations of the branch. In spite of spending such a heavy amount, the branch may prove unsuccessful or the profit earned by the branch may be very small as compare to the amount invested in the branch. So far as the second method is concerned, the manufacturer or wholesaler just appoints an agent who sells goods on behalf and on the risk of the manufacturer or wholesaler. The agent is paid commission which is generally a percentage of sales made by him. The agent tries to sell the goods in the best possible manner and remits the sale proceeds of the goods after deducting expenses and his own commission to the manufacturer or wholesaler. This is comparatively a low cost method of promoting sales in different parts of the country and abroad. This method is generally known as "sending goods on consignment basis". Read our high quality articles about "Accounting for Consignment Sales" topic: Learning objectives of this article: What is are consignment and consignee's accounts? What journal entries are made in the books of consignor? How consignment and consignee's account are prepared in the books of consignor? The goods sent by the consignor to consignee is sold on behalf of the consignor. therefore, the consignor would like to know the profit earned or loss suffered from each different consignment. Before we discuss the entries in the books of the consignor, it is helpful to understand the nature of the following two accounts: Consignment account Consignee account Consignment Account: Consignment account is by nature a profit and loss account. One separate account is devoted to each different consignment with the heading "Consignment to.....account". Actually the consignment account is a particular trading and profit and loss account. All expenses specially related to the consignment must be debited to the concerned consignment account whether incurred by the consignor or by the consignee and all revenues and closing stock should be credited to this account. The difference between the two sides of this account will show the result of the particular consignment. Consignee Account: This is a personal account. It should be noted that the consignee is not the buyer. His personal account, therefore, is not debited when goods are sent to him. In cases where it is customary for the consignee to send some money as an advance against the consignment the payment is merely and advance (by way of security) and not a part of payment. Hence the advance received from the consignee should be posted to the credit side of the consignee's personal account. In case part of the stock is still lying unsold the proportionate amount of advance should be carried down as credit balance in consignee's personal account. In case where consignor draws a bill on consignee the bill is known as a documentary bill. 1. When goods are sent to consignee: Consignment A/C Dr. Goods sent on consignment A/C (Being goods sent to agent for sale) Note: In case a consignor has more than one agent (consignee), separate consignment account is prepared for each agent. Each consignment account is identified with the name of place, for example 'consignment to Chicago' or 'Consignment to New York' 2. For adjustment of the difference between invoice price and cost price: Goods sent on consignment A/C Dr. Consignment A/C (Being excess of invoice price over cost price of goods sent adjusted) 3. For expenses paid by consignor: . Consignment A/C Dr Cash/Bank A/C (Being expenses paid) 4. On receiving advance from consignee: Cash/Bank Dr. Consignee A/C (Being advance received from agent) 5. If consignee has accepted a bill of exchange as an advance: Bills receivable A/C Dr. Consignee A/C (Being acceptance received from agent) 6. When goods are sold by consignee: Consignee A/C Dr. Consignment A/C (Being goods sold by agent) 7. For goods taken over by consignee for his personal use: Consignee A/C Dr. Consignment A/C (Being goods taken over by agent) 8. For expenses paid by agent: Consignment A/C Dr. Consignee A/C (Being expenses incurred by agent) Note: If any expense is born by the agent personally, such expenses will not be debited to consignment A/C. Consignor will not make any entry for such expenses. These expenses will be debited to profit and loss account in the books of consignee. 9. For unsold goods with the consignee: Consignment stock A/C Dr. Consignment A/C (Being value of closing stock with agent) Note: If invoice value of stock is more than cost, the excess of invoice price over cost will be adjusted. 10. For adjustment of closing stock: Consignment A/C Dr Consignment stock reserve A/C (Being profit included in stock adjusted) 11. For abnormal loss of goods: a. 1st Method: (i) Loss of stock A/C Dr Consignment A/C (Being total value of loss of stock) (ii) Bank/Insurance Co. A/C Loss of stock A/C Dr (Being insurance claim for sale) (iii) Consignee A/C Dr Loss of stock (Being damaged goods sold by agent) (iv) Profit and loss A/C Dr Loss of stock A/C (Being net loss of stock transferred to profit and loss account) b. 2nd Method: (i) Bank/Insurance Co. A/C Dr Consignment A/C (Being amount of insurance claim) (ii) Consignee A/C Dr Consignment A/C (Being damaged goods sold by agent) (iii) Profit and loss A/C Dr Consignment A/C Note: If damaged goods have not been sold, net realizable value of such goods will be included in closing consignment stock. Terms: Consignor: The owner of the item (e.g., painting) to be sold. Consignee: The selling agent (e.g., gallery) who accepts from the consignor the item to be sold. According to accepted accounting and tax practice “in consignment sales, the consignor [e.g., artist] uses a modified version of the sales basis of revenue recognition. That is, the consignor [artist] recognizes revenue only after receiving notification of sale and the cash remittance from the consignee. The consignor [artist] carries the merchandise as inventory throughout the consignment, separately classified as Merchandise on Consignment. The consignee [e.g., gallery] does not record the merchandise as an asset on its books. Upon sale of the merchandise, the consignee has a liability for the net amount due the consignor [artist]. The consignor [artist] periodically receives from the consignee a report called account sales that shows the merchandise received, merchandise sold, expenses chargeable to the consignment, and the cash remitted. Revenue is then recognized by the consignor [artist].” This deferred revenue recognition is in accord with the latest U.S. GAAP and international accepted accounting principles which state that revenue should not be recognized on consignment sales until performance has taken place. If a company receives goods on consignment, revenue should not be recognized until the goods are sold to a third party. Example: An artist delivers a painting to a gallery on consignment. The painting cost the artist $3,600 to make. The artist incurs shipping costs of $3,750. The artist agrees to pay the gallery a 40% sales commission, plus half the advertising. The total advertising is $75,000. Shipment of consigned merchandise Consignor (artist) Consignee (gallery) Inventory on consignment 3,600 No entry Inventory on hand 3,600 No entry Payment of shipping by consignor Consignor (artist) Consignee (gallery) Inventory on consignment 3,750 No entry Cash 3,750 No entry Payment of advertising by consignee – half charged to consignor Consignor (artist) Consignee (gallery) Advertising expense[1] xxxx xxxx 37,500 Cash xxxx xxxx 75,000 Payable to consignor (artist) xxxx xxxx 37,500[2] Sale of consigned merchandise – $500,000 Consignor (artist) Consignee (gallery) Cash No entry 500,000 Payable to consignor (artist) No entry 500,000 Notification of sales and expenses Consignor (artist) Consignee (gallery) Advertising expense 37,500 xxxx xxxx Commission expense 200,000 xxxx xxxx Commission revenue xxxx xxxx 200,000 Consignment sales 500,000 xxxx xxxx Receivable from consignee (gallery) 262,500 Payable to consignor (artist) xxxxx xxxxx 200,000 Payment of amount due Consignor (artist) Consignee (gallery) Cash 262,500 262,500 Payable to consignor (artist) 262,500 Receivable from consignee (gallery) 262,500 From this example we see that the consignee (gallery) does not record sales. It records commission revenue, and then for the net amount, not the gross amount of the proceeds. An account for purchases and related cost of goods sold are not used. [1] Or prepaid advertising, as appropriate. [2] The consignor (artist) is charged for his half of the advertising costs. Areas of Service: Manhattan CPA Firms, CPA Manhattan, CPA Firm Manhattan Consignment sales are a trade agreement in which one party (the consignor) provides goodsCost of Goods Manufactured (COGM)Cost of Goods Manufactured (COGM) is a term used in managerial accounting that refers to a schedule or statement that shows the total to another party (the consignee) to sell. However, the consignee has the right to return unsold goods back to the consigner. In other words, a consignment sale is an agreement in which a third party is entrusted with selling goods on behalf of the owner. Consignment sales are also called goods on consignment.Understanding Consignment SalesWhen the consignor sends goods to the consignee, a journal entryFinancial Accounting TheoryFinancial Accounting Theory explains the why behind accounting - the reasons why transactions are reported in certain ways. This guide will is not needed. However, when the consignee sells the goods received, they pay the consignor a predetermined sale amount. The consignor would then record a debit to cash and a credit to sales. They would also purge the related amount of inventoryInventoryInventory is a current asset account found on the balance sheet, consisting of all raw materials, work-in-progress, and finished goods that a as a debit to cost of goods soldCost of Goods Sold (COGS)Cost of Goods Sold (COGS) measures the “direct cost” incurred in the production of any goods or services. It includes material cost, direct and a credit to inventory.If the consignee is unable to sell all goods, they are able to return the goods to the consignor (before a specified date). Therefore, the consignor bears the risks and rewards of ownership, while the consignee is not required to pay for the goods until they are sold.Example of Consignment SalesOn January 1st, Company A sends 100,000 copies of its magazines to retailers to sell on consignment. The company specifies that the deadline to return unsold goods is January 31st. In this scenario, Company A is the consignor, while the retailers are the consignee.The retail price per magazine is $10 and the price charged by Company A selling to the retailers is $5. Throughout the month of January, the retailers manage to sell 50,000 copies (the retailers notify Company A on January 30th). Therefore, there were 50,000 unsold magazines, which the retailers returned to Company A on January 31st. Additionally, each magazine costs Company A $1 to make.The journal entries for Company A would be as follows:Advantages of Consignment SalesAdvantages to the consignor are:Saves on inventory holding costs by sending goods to the consigneeDoes not need to spend time creating listings to sell itemsDoes not need to set up a retail storefrontMakes it easier to convince consignee to stock their goodsAdvantages to the consignee are:Does not need to pay upfront for the goodsUnsold goods can be returned at no cost, thus reducing riskDoes not need to pay for goods until the goods are sold to end-usersDisadvantages of Consignment SalesDisadvantages to the consignor are:Receives less revenue than selling directly to end-users (the use of a consignee reduces the amount of revenue earned)Risk and ownership are retained and any unsold goods are returned at no cost to the consigneeGoods on consignment may not be given enough promotion or visibility by consigneesDisadvantages to the consignee are:Inventory holding costs if a large number of goods are unsoldPotential difficulty in managing inventory related to consignmentOther ResourcesCFI is the official provider of the global Financial Modeling & Valuation Analyst (FMVA)™Become a Certified Financial Modeling & Valuation Analyst (FMVA)®CFI's Financial Modeling and Valuation Analyst (FMVA)® certification will help you gain the confidence you need in your finance career. Enroll today! certification program, designed to help anyone become a world-class financial analyst. To keep learning and advancing your career, the additional CFI resources below will be useful:Credit SalesCredit SalesCredit sales refer to a sale in which the amount owed will be paid at a later date. In other words, credit sales are purchases made byDay Sales in InventoryDays Sales in Inventory (DSI)Days Sales in Inventory (DSI), sometimes known as inventory days or days in inventory, is a measurement of the average number of days or timeInventory ShrinkageInventory ShrinkageInventory shrinkage occurs when the number of products in stock are fewer than those recorded on the inventory list. The discrepancy maySales and Collection CycleSales and Collection CycleThe Sales and Collection Cycle, also known as the revenue, receivables, and receipts (RRR) cycle, is comprised of various classes of

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