

CHAPTER - 2

CONSIGNMENT

1. What is Consignment?

Consignment is arrangement made between two parties to sell the goods in different places for a consideration called Commission. The agreement includes two active parties i.e., Manufacturer/Wholesalers and his Agent.

2. Who is Consignor?

The person who consigns/sends the goods to the place of his agent at his own risk is called Consignor. He is also called as Manufacturer or Wholesaler or Principal.

3. Who is Consignee?

The person who acts on behalf of his principal to sale the goods is called Consignee. He is also called as Agent. He works for a commission on sale.

4. State any 4 features of Consignment.

The following are the important features of Consignment.

1. It is an agreement between a manufacturer (Consignor) and an agent (Consignee).
2. The relationship between Consignor and Consignee is similar to Principal and agent relationship.
3. Agreement is made to sell the goods by an agent on behalf of a manufacturer.
4. The manufacturer sends the goods to an agent at their own risk.

5. What is Pro-Forma Invoice?

A. It is a statement prepared by the Consignor, including the details of goods consigned i.e, type of goods, quality, quantity, price etc. This statement will be sent to the place of agent along with the goods and consignment. It is an evidence for the goods consigned.

6. What is an account sale?

A. It is a Periodical statement prepared by the consignee containing the details of goods sold, expenses paid, commission charged on sales and net amount due to the consignor.

This will be sent to the consignor periodically, to account the transactions happened in the place of Consignee.

7. State the types of consignment?

- Outward consignment
- Inward consignment

8. What are Consignment Expenses? Give any 2 examples

Consignment expenses are those expenses which are incurred on consignment by Consignor or Consignee. Freight, insurance are the 2 examples for Consignment expenses.

9. What are Non-Recurring/Direct Expenses? Give any 2 examples.

The expenses which are incurred once and not repetitive are called Non-Recurring Expenses. These are met by both Consignor and Consignee. In other words, all those expenses which are incurred on consignment till the sale of such consigned goods are called Non-Recurring Expenses. But the condition in all such expenses should not be incurred again and again. Octroi, Insurance are the two examples for Non-Recurring expenses.

10. What are Recurring/Indirect Expenses? Give any 2 examples.

The expense which are not incurred once and repetitive in nature are called Recurring Expenses. These are incurred by the Consignee, once; the goods are reached the place of Consignee. These are also called Indirect Expenses, as they are indirectly incurred. Godown rents, commission on sale are the two examples for Recurring expenses.

6 MARKS

1. State the features of Consignment.

The following are the important features of Consignment.

1. It is an agreement between a manufacturer (Consignor) and an agent (Consignee).
2. The relationship between Consignor and Consignee is similar to Principal and agent relationship.
3. Agreement is made to sell the goods by an agent on behalf of a manufacturer.
4. The manufacturer sends the goods to an agent at their own risk.
5. The goods are sent to an agent, but the ownership of goods is with the manufacturer.
6. The expenses incurred by the Consignor (i.e., agent) will be reimbursed by the manufacturer.
7. The closing stocks at agent are belonging to the Consignor.

8. The agent has no right to participate in the profit earned on consignment.
9. The agent will get an amount of commission on the sale.
10. The consignee will prepare a statement of sale (accounts sale) to show the sale of goods, expenses incurred, etc.
11. Consignor sends Pro-forma Invoice and not Sales
12. Consignee sends Account Sales (which contains information as to Sales, Expenses, Commission, Advance, and Balance due).
13. The agent is expected to take reasonable care of the goods consigned to him.
14. The agent is not liable to make the payment of the goods until these are sold.

2. Differentiate between sale and consignment

A. In understanding, Sale is broader and consignment is narrow, in case of sale, the goods and its ownership are transferred on the spot of sale. But in Consignment, the goods are sent to an agent to sell them on behalf of the sender, for a commission. The following are the important differences between sale and agreement.

S L. N O	BASIS	SALE	CONSIGNMENT
1.	Meaning	A transaction in which goods are exchanged for a price is known as a sale.	When the goods are delivered to the agent by the owner for selling purposes, is known as Consignment.
2.	Purpose	To sell the goods.	To consign the goods.
3.	Parties involved	The two parties i.e., Seller and Purchaser	The two parties i.e., Consignor and Consignee.
4.	Risk of loss	Borne by buyer	Borne by consignor
5.	Transfer of Ownership	Immediate transfer of ownership on sale of goods.	No transfer of ownership
6.	Probability of discount	Generally, the discounts are giving on sale.	No discount on consignment of goods.
7.	Legal agreement	There is no any legal agreement between seller and purchaser.	There is a legal agreement made between consignor and consignee
8.	Bearing of expenses	The seller may or may not bear after sales expenses to send the goods to the place of purchaser	The consignor will bear all the expenses on the consignment.
9.	Consideration	The main consideration under is Profit.	The consignment consideration is commission.
10.	Goods return	The customer may return the goods which are defects in nature.	The consignee may return the goods which are unsold.
11.	Periodic statement	The customer does not prepare any periodic statement	The consignee does prepare a periodic sales statement and

			send to Consignor
12 .	Relationship between parties	Creditor and Debtor	Principal and Agent
13 .	Expenses incurred	Met by buyer	Met by consignor