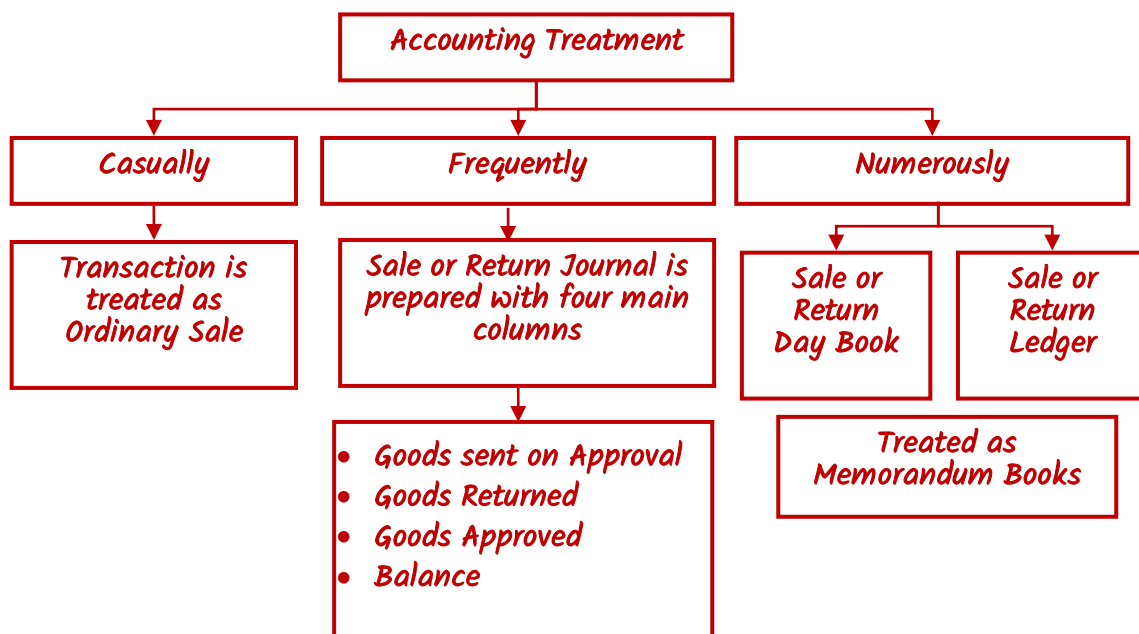


6. SALE OF GOODS ON APPROVAL

SALE OF GOODS ON APPROVAL OR RETURN BASIS

- **Meaning:** Goods are sent but Sale happens only if approval is given by the receiver.
- **Modes of Approval:** According to section 24, of the Sale of Goods Act, the customer is deemed to have accepted the goods when he:
 - Direct Approval (b) Doing something which implies (indicates) approval and (c) when approval is not given within specified time / reasonable time, the goods are deemed as approved.
- **Method of Accounting** – 3 Methods based on the volume of transactions.



- Final Stock lying with the customers belong to the sender and hence recorded at cost in the books of sender as “Stock on Approval basis”.
- In Stock Reconciliation Statement, cost of such goods shall be added to physical stock to arrive at book stock.

1. ACCOUNTING RECORDS**1) When The Business Sends Goods Casually On Sales Or Return**

When the transactions are few, the seller on sending the goods, treats them as an ordinary sale.

No	Particulars	LF	Dr.	Cr.
1	When goods are sent on approval or on sale or return basis			
2	When goods are rejected or returned within the specified time			
3	When goods are accepted at invoice price			
4	When goods are accepted at a higher price than invoice price			
5	When goods are accepted at a lower price than the invoice price			
6 i)	At the year-end, when goods are lying with customers and the specified time limit is yet to expire			
6 ii)	These goods should be considered as stock with customers and in addition to the above, the following adjustment entry is to be passed			
6 iii)	No entry is to be passed for goods returned by the customers on a subsequent date			

2. When The Business Sends Goods Frequently On Sale Or Return Basis

When goods are sent on approval basis normally, a Memorandum Day Book called as "Goods on Sale or Return Journal" or "Goods sent on Approval Journal" is maintained. A Memorandum ledger containing Customer's account may also be maintained

Goods sent on approval				Goods Returned				Goods approved				Bal
1	2	3	4	5	6	7	8	9	10	11	12	13
Date	Particulars	Fol	Amount	Date	Particulars	Fol	Amount	Date	Particulars	Fol .	Amt	Amount

The following procedure is adopted in this case -

- 1) When goods are sent out on approval, entries are made in column 1 to 3, by recording selling price of goods sent in amount column.
- 2) If the goods are returned, entries are made in columns 4 to 6, by recording selling price of goods returned in amount column.
- 3) If the goods are accepted by customers, entries are made in columns 7 to 9, by recording selling price of goods accepted in amount column. Entry is then passed in regular books to record a sale.
- 4) Value of goods sent out but not returned or accepted till the year end is extended in column 10. The total of this column will show value of goods with customers at selling price.
- 5) Goods with customers are then valued at cost price and included in the stock for the preparation of financial statements.

Accounting entries:

No.	Particulars	LF	Dr. Rs	Cr. Rs.
1.	At the time of approval			
2.	At the time of preparing of Final Accounts			

1) WHEN THE BUSINESS SENDS GOODS NUMEROUSLY ON SALE OR RETURN:

When transactions are numerous, a business maintains the following books:

- a) Sale or Return Day Book
- b) Sale or Return Ledger.

Sale or Return Day Book and Sale or Return Ledger are Memorandum Books.

When goods are sent to the customers on sale or return basis, they are recorded in the Sale or Return day Book. Thereafter, in the Sale or Return Ledger, all the customers are individually debited and the Sale or Return A/c is credited with the periodically total of the sale or return day book.

When the goods are returned by the customers within the specified time, they are recorded initially in the sale or return day book. Thereafter, the sale or return ledger, the sale or return account is debited with the periodical total of the sale or return day book and the individual customers are credited.

When the business receives information about the acceptance of the goods or no intimation is received within the specified time, they are recognized as sales and are recorded in the sales day book. Periodically, the total of the sales day book is credit to sales account and debited to the individual customers account. To cancel the earlier entries, individual customers are credited and the sale or return account is debited. The entries for the approved goods are shown below:

No.	Particulars	LF	Dr. Rs	Cr. Rs.
1.	<i>In the Memorandum Sale or Return Ledger</i>			
2.	<i>In the regular General Ledger</i>			
3.	<i>Stock with customers at the year end</i>			

Class Work

1. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.17
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2017.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books". Goods on sales or return total account. (RTP May 2018)

Answer

In the books of 'X'

Goods on sales or return, sold and returned day book

Date 2017	Party to whom goods sent	L.F	Amount ₹	Date 2017	Sold ₹	Returned ₹
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		Amount	2017		Amount
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			

		77,000			77,000
--	--	--------	--	--	--------

2. Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - 80,000

December 10th - Goods returned by customers ₹ 35,000

December 17th - Received letters from customers for approval ` 35,000

December 23rd - Goods with customers awaiting approval ` 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017. (QP May 18)

Answer

In the books of Mr. Badhri Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
2017 Dec. 2	Trade receivables A/c Dr. To Sales A/c (Being the goods sent to customers on sale or return basis)		80,000	80,000
Dec. 10	Return Inward A/c (Note 1) Dr. To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis)		35,000	35,000
Dec. 23	Sales A/c Dr. To Trade receivables A/c (Being the cancellation of original entry of sale in respect of goods on sale or return basis)		15,000	15,000
Dec. 31	Inventories with customers on Sale or Return A/c Dr. To Trading A/c (Note 3) (Being the adjustment for cost of goods lying with customers awaiting approval)		12,000	12,000

Note:

- (1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.
- (2) No entry is required for receiving letter of approval from customer.
- (3) Cost of goods with customers = ₹ 15,000 × 100/125 = ₹ 12,000

(4) It has been considered that the transaction values are at involve price (including profit margin).

3. Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to -

Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000. (QP Nov 18)

Solution

In the Books of Mr. Ganesh Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
			₹	₹
2018	Sales A/c	Dr.	6,500	
March 31	To Trade receivables A/c			6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)			
March 31	Inventories with Customers on Sale or Return A/c	Dr.	5,000	
	To Trading A/c (Note 1)			5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			
April 25	Trade receivables A/c	Dr.	3,900	
	To Sales A/c			3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been			

accepted by him)

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

<i>Liabilities</i>	<i>₹</i>	<i>Assets</i>	<i>₹</i>	<i>₹</i>
		<i>Trade receivables (₹ 75,000 - ₹ 6,500)</i>		<i>68,500</i>
		<i>Inventories-in-trade</i>	<i>50,000</i>	
		<i>Add: Inventories with customers on Sale or Return</i>	<i>5,000</i>	<i><u>55,000</u></i>
				<i><u>1,23,500</u></i>

Notes:

- (1) *Cost of goods lying with customers = $100/130 \times ₹ 6,500 = ₹ 5,000$*
- (2) *No entry is required on 15th April, 2018 for goods returned by Mr. Bakkriram. Goods should be included physically in the Inventories.*