

Chapter 7C

Accounting for Special Transactions

– 3. Sale on Approval or Return Basis

CHAPTER OVERVIEW

1. Concept of Sale on Approval or Return basis
2. **Accounting Methods**
 - (a) Casual Sale or Return
 - (b) Infrequent Sale or Return (use of S/R Journal)
 - (c) Routine and numerous S/R transactions (use of Memoranda Books)

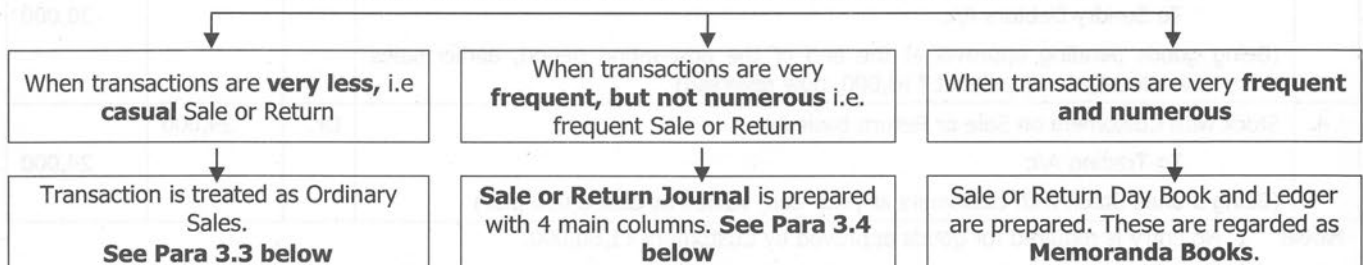
3. Sale of Goods on Approval or Return Basis

3.1 Concept of “Sale of Goods on Approval or Return basis”

1. **Need:** In order to increase the sales of a product or to introduce a new product, a Firm may sell goods on approval or return basis. Generally, these transactions take place between the Manufacturer (or Wholesaler) and a Retailer.
2. **Effect:** In a Sale of Goods on Approval or Return basis, the goods will be delivered to the customers, with the option of either retaining them or returning them within a specified period.
3. **Possession vs Ownership:** When goods are sold on Approval or Return basis, there is a change in possession of goods only, and not a transfer of ownership of goods.
4. **Transfer of Ownership:** As per the Sale of Goods Act, in respect of goods sent on approval or return basis, the transfer of ownership will take place only –
 - (a) When the Buyer / Customer gives his approval, (direct consent)
 - (b) When the Buyer / Customer does some act which denotes that he accepts the transaction, i.e. consumption or use of the goods involved, (implied consent)
 - (c) If the Buyer / Customer has not given his approval or acceptance to the Seller but retains the goods without giving the notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time (if no time has been fixed) (by lapse of time)

3.2 Methods of accounting of Goods sold on Approval or Return basis

Accounting Treatment for Sale of Goods on Approval or Return basis



3.3 Entries if the Firm sends goods casually on Sale or Return basis

Scheme of Journal Entries in case of INFREQUENT Sale or Return transactions

	Transaction	Journal Entry	Remarks
1.	Goods despatched on Approval or Return Basis	<div style="display: flex; justify-content: space-between;"> Sundry Debtors A/c Dr. </div> <div style="display: flex; justify-content: space-between;"> To Sales A/c </div>	At Selling Price.

	Transaction	Journal Entry	Remarks
2.	Goods returned by Customer within the specified period	Sales Returns or (Sales) A/c Dr. To Sundry Debtors A/c	At Selling Price.
3.	Goods accepted by Customer within specified period	No separate Journal Entry is required since it is already recorded as Normal Sales only.	Not Applicable
4.	Goods accepted at a price higher than the Invoice Price	Sundry Debtors A/c Dr. To Sales A/c	Difference in Price only.
5.	Goods accepted at a price lower than the Invoice Price	Sales A/c Dr. To Sundry Debtors A/c	Difference in Price only.
6.	Goods pending approval at the end of the accounting period	Sales A/c Dr. To Sundry Debtors A/c	At Selling Price.
7.	Recognition of Stock with customers at year-end	Stock with Customers A/c Dr. To Trading Account	Cost or NRV, whichever is less.

Illustration 1: Sale or Return – Casual and Infrequent transactions

Ram sends his goods to some of his customers on Approval or Return basis. The cost of the product is ₹8,000 per unit and a markup of 25% on cost is used. The following information is given –

- Goods sent to customers during the period = 25 units.
- Goods returned by customers before approval period = 6 units.
- Goods approved by customers before end of the financial period = 16 units.
- Goods with customers pending approval (period not expired) = 3 units.

Ram accounts for these transactions as Ordinary Sales. Give the Journal Entries for the above.

Solution:

Journal Entries

	Particulars		Dr.	Cr.
1.	Sundry Debtors A/c To Sales A/c (Being Goods despatched to Customers on Approval or Return Basis, at ₹8,000 + 25% Markup = ₹10,000 per unit for 25 units)	Dr.	2,50,000	2,50,000
2.	Sales A/c (or) Sales Returns A/c To Sundry Debtors A/c (Being Goods returned by S/R Customers = 6 units at ₹10,000 reversed)	Dr.	60,000	60,000
3.	Sales A/c To Sundry Debtors A/c (Being goods pending approval at the end of the accounting period, earlier sales entry now cancelled = 3 units at ₹10,000, now reversed)	Dr.	30,000	30,000
4.	Stock with Customers on Sale or Return basis A/c To Trading A/c (Being 3 units Stock with customers at year-end, valued at Cost 8,000 p.u.)	Dr.	24,000	24,000

- Note:**
1. No entry is required for goods approved by Customers ₹1,60,000.
 2. Alternatively, Cost of Goods lying with Customers = ₹30,000 × 100/125 = ₹24,000.

Illustration: "OR" Option: Accounting for Sale on Approval basis

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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 accepting 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.

Solution:

1. Adjustment Entries

	Particulars	Dr.	Cr.
31.3.18	Adhitya (Sundry Debtors) A/c Dr. Bakkiram (Sundry Debtors) A/c Dr. To Sales A/c (Being Goods despatched to Customers on Approval or Return Basis, at ₹ 75,000) Note: This Entry has already been passed and given only for information.	3,900 2,600	6,500
31.3.18	Sales A/c Dr. To Adhitya (Sundry Debtors) A/c To Bakkiram (Sundry Debtors) A/c (Being goods pending approval at the end of the accounting period, earlier sales entry, now reversed)	6,500	3,900 2,600
31.3.18	Stock with Customers on Sale or Return basis A/c Dr. To Trading A/c (Being Stock with customers at year-end, valued at Cost $\frac{75,000}{130} \times 100$)	5,000	5,000
25.4.18	Adhitya (Sundry Debtors) A/c Dr. To Sales A/c (Being goods sent to Adhitya on Sale or Return basis, and accepted by him)	3,900	3,900

Note: No Entry is required to be passed on 15.04.2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Stock in Trade. (and reduced from Stock with Customers).

2. Balance Sheet (Extract)

Liabilities	₹	Assets	₹	₹
		Trade Receivables (75,000 – 6,500)		68,500
		Stock in Trade	50,000	
		Add: Stock with Customers on Sale or Return basis	5,000	55,000

3.4 Accounting Treatment when Sale of Goods on Approval or Return basis are frequently done

When Sale or Return transactions are **very frequent, but not numerous**, a separate Register called "Sale or Return Journal" is maintained. The format of this Register is as under –

Goods sent on approval				Goods Returned				Goods Approved				Balance
1	2	3	4	5	6	7	8	9	10	11	12	13
Date	Particulars	LF	Amt	Date	Particulars	LF	Amt	Date	Particulars	LF	Amt	Amt.
No entry in Financial Books				No entry in Financial Books				Recorded as Sales				Treated as Stock

Transaction	Treatment
1. Goods despatched to Customers	<ul style="list-style-type: none">No entry in Financial Books.Record the despatch in Columns 1 to 4 of the above Journal.
2. Goods returned by Customers	<ul style="list-style-type: none">No entry in Financial Books.Record the return in Columns 5 to 8 of the above Journal.

1. Sale or Return Day Book for the month of January

Goods sent on approval				Goods Returned				Goods Approved				Balance
1	2	3	4	5	6	7	8	9	10	11	12	13
Date	Particulars		Amt	Dt	Particulars		Amt	Dt	Particulars		Amt	Amt.
7	A- 4 units		24,000	27	A-4 units		24,000					
14	B- 4 units		24,000						B- 4 units		24,000	
18	C-6 units		36,000						C-6 units		36,000	
23	D-3 units		18,000									18,000
25	E-2 units		12,000	27	E-2 units		12,000					
	Total		1,14,000		Total		36,000		Total		60,000	

2. Journal Entries in Sale or Return Ledger (Memoranda Book)

	Particulars		Dr.	Cr.
1.	Sundry Customers (A, B, C, D, E) A/c To Sale or Return A/c (Being Goods despatched to Customers on Approval or Return Basis)	Dr.	1,14,000	1,14,000
2.	Sale or Return A/c To Sundry Customers (A, E) A/c (Being Goods returned by S/R Customers)	Dr.	36,000	36,000
3.	Sale or Return A/c To Sundry Customers (B, C) A/c (Being goods approved by parties, earlier memorandum entry now cancelled)	Dr.	60,000	60,000

3. Sale or Return A/c (in S/R Ledger)

Particulars	₹	Particulars	₹
To Sundry Customers (A,E) (returned)	36,000	By Sundry Customers (A,B,C,D,E)	1,14,000
To Sundry Customers (B,C) (approved)	60,000		
To balance c/d (pending approval)	18,000		
Total	1,14,000	Total	1,14,000

Note: In the Financial Books, entry will be passed for Sales made to B and C, to the tune of ₹60,000, and also for recording Closing Stock with Customers at Cost (3 units with D at ₹4,000 = ₹12,000).

Illustration 3: Sale or Return

A firm sends goods on "Sale or Return basis". Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (₹)	17,000	22,000	25,000	5,500	2,000	28,000

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer-Q for Sale or Return Account as on 15th June 2018.

Solution:**1. Sale or Return A/c**

Particulars	₹	Particulars	₹
To Sundry Customers (P,Q) (returned)	42,000	By Sundry Customers (P,Q,B,D,E,R)	99,500
To Sundry Customers (B,D,E) (approved)	29,500		
To balance c/d (R) (pending approval)	28,000		
Total	99,500	Total	99,500

2. Q A/c

Particulars	₹	Particulars	₹
To Sale or Return (Sale on Approval Made)	25,000	By Sale or Return (Goods Returned)	25,000
Total	25,000	Total	25,000