

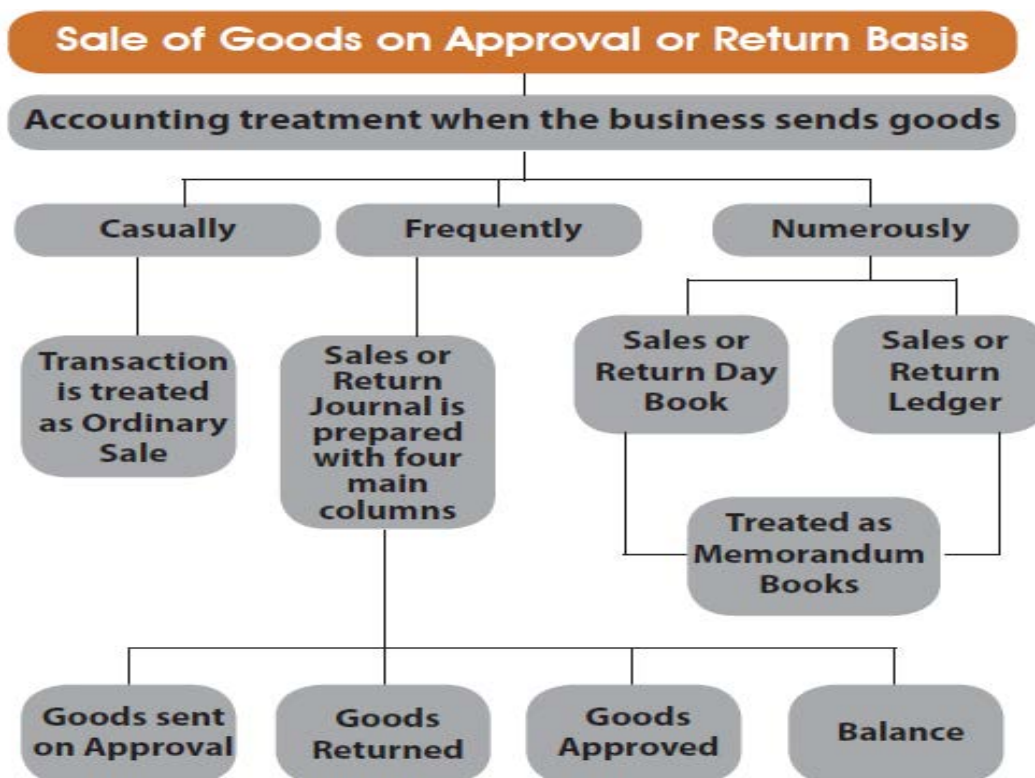
UNIT – 2 SALE OF GOODS ON APPROVAL OR RETURN BASIS

LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Understand the nature of goods sent on approval or return basis.
- ◆ Learn the accounting treatment of sales on approval or return basis under different situations.

UNIT OVERVIEW



2.1 INTRODUCTION

Under normal course of business, goods sold to customers is treated as sale immediately when the goods are sold, with corresponding revenue from such sale being recognized in the profit and loss account. However, when a businessman wants to increase his sales or introduce a new product in the market, he usually faces hardship due to competition prevailing in the market. To counter it, goods are sometimes sent to the customers on sale or return basis. Here, goods sent on 'approval' or 'on return' basis means goods are delivered to the customers with the option to retain or return them within a specified period. Generally, these transactions take place between a manufacturer (or a wholesaler) and a retailer. In current scenario, this practice is prevalent in case of online

sales, where the buyer is given time of few days to return the goods if the buyer believes that the specifications of goods are different from the same mentioned on website at the time of sale. There may be certain terms and conditions to administrate the return of goods. Following are essentially the features of sale of goods on approval or return basis:

- (a) There is a change in the possession of goods from one person to another.
- (b) It does not involve transfer of ownership of goods. The ownership is passed only when the buyer gives his approval or if the goods are not returned within that specified period.
- (c) The customer does not incur any liability when the goods are merely sent to him. In case of online transactions, sometimes customers are given choice to pay on receipt of goods and in some cases they are required to pay in advance and then seller ships the goods to buyer. Even in case the buyer has paid in advance, it retains the right of refund if the goods are returned as per the terms and conditions agreed between seller and buyer.

As per the definition given under the Sale of Goods Act, 1930, in respect of such goods, the sale will take place or the property in the goods pass to the buyer under any of the following conditions is satisfied:

- (i) When he signifies his approval or acceptance to the seller;
- (ii) When he does some act adopting the transaction;
- (iii) If he does not signify his approval or acceptance to the seller but retains the goods without giving 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).



2.2 ACCOUNTING RECORDS

Accounting entries depend on the fact whether the business sends goods on sale or return basis (i) casually; (ii) frequently; and (iii) numerously.

2.2.1 WHEN THE BUSINESS SENDS GOODS CASUALLY ON SALE OR RETURN BASIS

When the transactions are few, the seller on sending the goods, treats them as an ordinary sale. If the goods are accepted or not returned or the business receives no intimation within the specified time limit, no extra entry is required to be passed because the entry for sale (passed at the time of sending goods) becomes the usual entry after the expiry of the specified period. If the goods are returned within a specified time limit, a reverse entry is passed to cancel the previous transaction. If, at the year-end, goods are still lying with the customers and the specified time limit is yet to expire, the entry for sales made earlier is cancelled and the value of the goods lying with the customers must be reduced from the selling price to the cost price, and treated as part of closing inventories for Balance Sheet purposes.

Journal Entries:

1. When goods are sent on sale or return basis:

Trade receivables / Customers Account	Dr.	[Invoice price]
To Sales Account		

2. When goods are rejected or returned within the specified time:
- | | | |
|--|-----|-----------------|
| Sales/Return Inwards Account | Dr. | [Invoice price] |
| To Customers/Trade receivables Account | | |
3. When goods are accepted at invoice price:
[No entry]
4. When goods are accepted at a higher price than invoice price:
- | | | |
|---------------------------------------|-----|-----------------------|
| Trade receivables / Customers Account | Dr. | |
| To Sales Account | | [Difference in price] |
5. When goods are accepted at a lower price than the invoice price:
- | | | |
|--|-----|-----------------------|
| Sales Account | Dr. | |
| To Trade receivables / Customers Account | | [Difference in price] |
6. (i) At the year-end, when goods are lying with customers and the specified time limit is yet to expire:
- | | | |
|--|-----|-----------------|
| Sales Account | Dr. | [Invoice price] |
| To Trade receivables / Customers Account | | |
- (ii) These goods should be considered as Inventories with customers and in addition to the above, the following adjustment entry is to be passed:
- | | | |
|--|-----|--|
| Inventories with Customers on Sale or Return Account | Dr. | |
| To Trading Account | | [Cost price or market price whichever is less] |

No entry is to be passed for goods returned by the customers on a subsequent date.

ILLUSTRATION 1

CE sends goods to his customers on Sale or Return basis. The following transactions took place during 2019:

Sept. 15	Sent goods to customers on sale or return basis at cost plus 33 1/3 %	₹ 1,00,000
Oct. 20	Goods returned by customers	₹ 40,000
Nov. 25	Received letters of approval from customers	₹ 40,000
Dec. 31	Goods with customers awaiting approval	₹ 20,000

CE records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of CE assuming that accounting year closes on 31st December, 2019.

 SOLUTION

In the books of CE
Journal Entries

Date	Particulars	L.F.	Dr. (in ₹)	Cr. (in ₹)
2019				
Sept. 15	Trade receivables A/c Dr. To Sales A/c (Being the goods sent to customers on sale or return basis)		1,00,000	1,00,000
Oct. 20	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)		40,000	40,000
Dec. 31	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)		20,000	20,000
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)		15,000	15,000

- Note:** (1) Alternatively, Sales account 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 = $\frac{₹ 20,000 \times 100}{133.33} = ₹ 15,000$

 ILLUSTRATION 2

Amit runs an online store where in the goods are casually sold on sale on approval basis, the following is the information provided to you during 2020:

Date	Particulars	Amt (in ₹)
10th Feb	Sale on approval basis- 25% on cost	1,20,000 (cost)
20th Feb	Goods returned by customers	80,000
15th March	Goods for which approval given by customers	40,000
31st March	Goods with customers awaiting approval	30,000

All the above goods are sold ordinarily in the course of the online business. Considering that he closes his books on 31st March 2020, you are required to pass entries in the books of Amit, to record the above transactions.

Note- Additionally it has been provided that on 15th April 2020, the customers have rejected the goods for which approval has been pending on 31st March, deal with the same accordingly.

 SOLUTION

In the books of Amit
Journal Entries

Date	Particulars	L.F.	Dr. (in ₹)	Cr. (in ₹)
10/2/2020	Trade receivables A/c Dr. To Sales A/c (Being the goods sent to customers on sale or return basis) Note- $1,20,000 \times 25\% = 30,000$ Sales price = $1,20,000 + 30,000 = 1,50,000$		1,50,000	1,50,000
20/2/2020	Sales A/c Dr. To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis)		80,000	80,000
15/3/2020	There is no entry to be passed- since we have initially recorded it as sales, so when the customer approves it, no entry to be passed once again			
31/3/2020	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)		30,000	30,000
31/3/2020	Inventories with customers on Sale or Return A/c Dr. To Trading A/c (Being the adjustment for cost of goods lying with customers awaiting approval) Note- $30,000 \times 20\% = 6,000$ Cost price = $30,000 - 6,000 = 24,000$		24,000	24,000
15/4/2020	There is no need to pass the entry for the return of the goods as they have already been reversed as on 31st March 2020.			

 ILLUSTRATION 3

Mr. Kumar sells goods on approval or return basis casually. He has sold goods worth ₹1,50,000, (sold at a profit of $33 \frac{1}{3}\%$ on sale) which has been awaiting approval from the customers as on the date of closing the books. After the expiry of the period, the customers have accepted goods equivalent to 75% of the cost of the goods and the rest considered to be rejected.

You are required to show the necessary journal entries as on the date of closing the books and the entries after the expiry of the period and the treatment of the goods.

 SOLUTION

**In the books of Kumar
Journal Entries**

Date	Particulars	L.F.	Dr. (in ₹)	Cr. (in ₹)
Closing date	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)		1,50,000	1,50,000
	Inventories with customers on Sale or Return A/c Dr. To Trading A/c (Being the adjustment for cost of goods lying with customers awaiting approval) Note- $1,50,000 \times 1/3 = 50,000$ Cost price = $1,50,000 - 50,000 = 1,00,000$		1,00,000	1,00,000
On expiry of approval period	Trade receivables A/c Dr. To Sales A/c (Being the goods equal to 75% of the cost of goods sent on approval basis, with the remaining being rejected) Note: $1,50,000 \times 75\% = 1,12,500$ (accepted) $1,50,000 - 1,12,500 = 37,500$ (rejected)		1,12,500	1,12,500
	There is no need to pass the entry for the return of the goods as they have already been reversed as on the closing date.			

 ILLUSTRATION 4

S. Ltd. sends out its goods to dealers on Sale or Return basis. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the accounting year on 31.03.2020, 200 such goods have been sent to a dealer at ₹ 250 each (cost ₹ 200 each) on sale or return basis and debited to his account. Of these goods, on 31.03.2020, 50 were returned and 70 were sold while for the other goods, date of return has not yet expired.

Pass necessary adjustment entries on 31.03.2020.

 SOLUTION

**In the books of S. Ltd.
Journal Entries**

Date	Particulars		L.F.	₹	₹
2020					
March 31	Return Inwards A/c (₹ 250 X 50) To Trade receivables A/c (Being the adjustment for 50 units of goods returned by customers to whom goods were sent on sale or return basis)	Dr.		12,500	12,500
March 31	Sales A/c (₹ 250 X 80) (Note 1) To Trade receivables A/c (Being the cancellation of original entry for sale in respect of 80 units of goods not yet returned or approved by customers)	Dr.		20,000	20,000
March 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)	Dr.		16,000	16,000

Note: (1) Quantity of goods lying with dealer as on 31.3.2020 = 200 – 50 – 70 = 80

 ILLUSTRATION 5

Caly Company sends out its gas containers to dealers on Sale or Return basis. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the financial year, 100 gas containers, which cost them ₹ 900 each have been sent to the dealer on 'sale or return basis' and have been debited to his account at ₹1,200 each. Out of this only 20 gas containers are sold at ₹1,500 each.

You are required to pass necessary adjustment entries for the purpose of Profit and Loss Account and Balance Sheet.

 SOLUTION

**In the books of Caly Company
Journal Entries**

Date	Particulars		L.F.	₹	₹
	Trade receivables A/c To Sales A/c (Being the adjustment for excess price of 20 gas containers @ 300 each)	Dr.		6,000	6,000

Sales A/c	Dr.	96,000	
To Trade receivables A/c			96,000
(Being the cancellation of original entry for sale in respect of 80 gas containers @ ₹ 1,200 each)			
Inventories with Customers on Sale or Return A/c	Dr.	72,000	
To Trading A/c			72,000
(Being the adjustment for cost of 80 gas container lying with customers awaiting approval)			

ILLUSTRATION 6

E Ltd. sends out its accounting machines costing ₹ 200 each to their customers on Sales or Return basis. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, i.e., on March 24, 2020, 300 such accounting machines were sent out at an invoice price of ₹ 280 each, out of which only 90 accounting machines are accepted by the customers ₹ 250 each and as to the rest no report is forthcoming. Show the Journal Entries in the books of the company for the purpose of preparing Final Accounts for the year ended March 31, 2020.

SOLUTION

In the books of E Ltd. Journal Entries

Date	Particulars		L.F.	₹	₹
2020 Mar, 31	Sales A/cs (₹ 30x90) To Trade receivables A/c (Being the adjustment. for reduction in the selling price of 90 accounting machines @ ₹ 30 each)	Dr.		2,700	2,700
Mar, 31	Sales A/c (₹ 280 x 210) To Trade Receivables A/c (Being the cancellation of original entry for sale in respect of 210 accounting machines sent to customers not yet returned or approved)	Dr.		58,800	58,800
	Inventories with customers on Sale or Return A/c To Trading A/c (Being the cost of 210 accounting machines @ ₹200 each adjusted against Trading Account)	Dr.		42,000	42,000

ILLUSTRATION 7

A sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2020, the Trade receivables balance stood at ₹1,00,000 which included ₹7,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to - Mr. X - ₹ 4,000 and Mr. Y - ₹ 3,000.

Mr. X sent intimation of acceptance on 30th April and Mr. Y returned the goods on 10th April, 2020.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March, 2020. Show also the entries to be made during April, 2020. Value of closing Inventories as on 31st March, 2020 was ₹60,000.

SOLUTION

In the Books of A Journal Entries

Date	Particulars	L.F.	₹	₹
2020 Mar, 31	Sales A/c Dr. To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)		7,000	7,000
Mar,31	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)		5,600	5,600
April,30	Trade receivables A/c Dr. To Sales A/c (Being goods costing ₹ 3,200 sent to Mr. X on sale or return basis has been accepted by him)		4,000	4,000

Balance Sheet of A & Co. as on 31st March, 2020 (Extracts)

Liabilities	₹	Assets	₹	₹
		Trade receivables (₹1,00,000 - ₹ 7,000)		93,000
		Inventories-in-trade	60,000	
		Add: Inventories with customers on Sale or Return	5,600	65,600
				1,58,600

Notes:

- Cost of goods lying with customers = $100/125 \times ₹ 7,000 = ₹ 5,600$
- No entry is required on 10th April, 2020 for goods returned by Mr. Y. Goods should be included physically in the Inventories-in-trade.

2.2.2 WHEN THE BUSINESS SENDS GOODS FREQUENTLY ON SALE OR RETURN BASIS

When a business sends goods on sale or return on a frequent basis, an immediate sale does not take place. Only when the customer signifies his intention to purchase the goods or takes some action whereby it is indicated that he has decided to purchase the goods, the property in the goods passes to the buyer. So long as the property does not pass to the buyer, the seller does not record it as a sale and, therefore, does not debit the customer with the sales price.

Under this method, record of goods sent is maintained in a specially ruled Sale or Return Journal / Day Book instead of passing entry for sale of goods. This Day Book is divided into 4 main columns - (1) Goods sent on Approval; (2) Goods Returned; (3) Goods Approved; and (4) Balance.

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

When such a Journal is kept the following procedure is adopted for recording transactions entered into on this basis:

- ◆ When goods are sent out for sale on approval, entries are made only in column 1 to 4, the sale price of goods being entered in column 4. The sale price is also posted to the debit of the customers' account in 'Goods on Approval Ledger', and periodically total of column 4 is posted to the credit of Goods on Approval Total Account in the same ledger.
- ◆ If goods are returned, entries are made in columns 5 to 8, the price of goods returned being entered to column 8. The individual amounts are credited to the Customers' Accounts, in the 'Goods on Approval' Ledger and the total of this column in periodically posted to the Total Goods on Approval Account.
- ◆ If the goods are retained by the customer, entries are made in columns 9 to 12. The individual amounts are then posted to the debit of customer's accounts in the Sales Ledger and their total is credited to Sales Account in the General Ledger. Further the customer's accounts in the Goods on Approval Ledger are credited with the individual amounts of goods sold and periodically, the total of the amount is posted to the debit of Goods on Approval Total Account.
- ◆ The value of goods sent out but not sold or returned till the close of the year is extended to column 13. The total of this column, afterwards, will show the value of goods with customers at the sale price.

The balance amount is calculated as follows:

Balance Value of Goods Sent on Sale or Return – Value of Goods Returned – Value of Goods Approved.

Information relating to goods delivered and goods returned is kept on Memorandum basis.

However, information relating to goods approved and balance is duly accounted for by passing journal entries relating to sales and Inventories on approval basis.

The amount, after eliminating the element of profit, is included in the Trading Account representing the value of Inventories with customers at cost price. Like an ordinary closing Inventories, such goods are considered as Inventories lying with customers on behalf of seller and are valued at cost or net realisable value whichever is less.

(i) **At the time of approval**

Customer's A/c	Dr.
To Sales A/c	

(ii) **At the time of preparing of Final Accounts**

An adjustment entry is required for balance goods which is as follow:

Goods with Customers on Sale or Return Account	Dr.	[Cost or net realisable value whichever is less]
To Trading Account		

2.2.3 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; and (b) Sale or Return Ledger. 'Ledger' contains the accounts of the customers and the 'Sale or Return' Total account. 'Day Book' is the primary book which records all transactions, and from there these are entered in the 'Sale or Return' Total account. It is important to remember that both are **Memorandum Books**, i.e., these records are not a part of regular books of accounts.

Following procedure is adopted for recording transactions under this method:

- ◆ When goods are sent to the customers on a sale or return basis, they are first 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 Account is credited with the periodical 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, in 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. The above mentioned records are all memorandum and hence cannot find a place in the regular books.
- ◆ When the business receives information about the acceptance of the goods or no intimation is received within the specified time, they are recognised as sales and are recorded in the Sales Day Book. Periodically, the total of the Sales Day Book is credited 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:

In the Memorandum Sale or Return Ledger

In the regular General ledger

Sale or Return Account	Dr.	Individual Customer's Account	Dr.
To Individual Customer's Account		To Sales Account	

- At the year end, in the Sale or return Ledger, the sum of the debit balances of the Individual Customers' Account must be equal to the credit balance of the Sale or return Account. It represents Inventories with customers waiting for approval at invoice price. To adjust the cost of such goods with customers in the Final Accounts, the following entry is passed:

Inventories with Customers on Sale or Return Account	Dr. [Cost or net realisable
To Trading Account	value whichever is less]

In short, under this method, entries are passed in the regular books of account only at the time of sale or a year end, if inventory is still lying with customers (pending approval).

SUMMARY

- As per the definition given under the Sale of Goods Act, 1930, in respect of such goods, the sale will take place or the property in the goods pass to the buyer:
 - When he signifies his approval or acceptance to the seller;
 - When he does some act adopting the transaction;
 - If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time
- Accounting entries depend on the fact whether the business sends goods on sale or approval basis (i) casually; (ii) frequently; and (iii) numerously.

TEST YOUR KNOWLEDGE

True and False

- Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out in case the business entity sell goods casually on sale on return basis.
- The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no express consent given.
- At the end of the year- those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller.
- No entry needs to be passed in the books of the seller, when the customer rejects the goods (awaiting approval) after the closing of the books of the seller.
- The period within which the customer has to reject or accept is fixed by the buyer.

Multiple Choice Questions

- When a large number of articles are sent frequently on a sale or return basis, it is necessary to maintain
 - Sale journal
 - Goods returned journal
 - Sale or return journal
- Sale or Return Day Book and Sale or Return Ledger are known as
 - principal books
 - subsidiary books
 - memorandum books

3. A sent some goods costing ₹ 3,500 at a profit of 25% on sale to B on sale or return basis. B returned goods costing ₹ 800. At the end of the accounting period i.e. on 31st December, 2020, the remaining goods were neither returned nor were approved by him. The Inventories on approval will be shown in the balance sheet at ₹

(a) 2,000. (b) 2,700 (c) 2,700 less 25% of 2,700.

4. A merchant sends out his goods casually to his dealers on approval basis. All such transactions are, however, recorded as actual sales and are passed through the sales book. On 31-12-2020, it was found that 100 articles at a sale price of 200 each sent on approval basis were recorded as actual sales at that price. The sale price was made at cost plus 25%. The amount of Inventories on approval will be amounting

(a) ₹ 16,000. (b) ₹ 20,000. (c) ₹ 15,000.

5. Umesh sends goods on approval basis as follows:

Date January, 2020	Customer's Name	Sale price of Goods Sent ₹	Goods Accepted ₹	Goods Returned ₹
8	Anna	3,500	3,000	500
10	Babu	2,800	2,800	—
15	Chandra	3,680	—	3,680
22	Desai	1,260	1,000	260

The Inventories of goods sent on approval basis on 31st January will be

(a) ₹ 500. (b) Nil. (c) ₹ 260.

6. A company sends its cars to dealers on 'sale or return' basis. All such transactions are however treated like actual sales and are passed through the sales day book. Just before the end of the financial year, two cars which had cost ₹ 55,000 each have been sent on 'sale or return' and have been debited to customers at ₹ 75,000 each, cost of goods lying with the customers will be

(a) ₹ 1,10,000. (b) ₹ 55,000. (c) ₹ 75,000.

7. A trader has credited certain items of sales on approval aggregating ₹ 60,000 to Sales Account. Of these, goods of the value of ₹16,000 have been returned and taken into Inventories at cost ₹ 8,000 though the record of return was omitted in the accounts. In respect of another parcel of ₹12,000 (cost being ₹ 6,000) the period of approval did not expire on the closing date. Cost of goods lying with customers should be

(a) ₹ 12,000. (b) ₹ 54,000. (c) ₹ 6,000.

8. Under sales on return or approval basis, the ownership of goods is passed only

(a) when the retailer gives his approval
 (b) if the goods are not returned within specified period.
 (c) Both (a) and (b)

9. Under sales on return or approval basis, when transactions are few, the seller, while sending the goods, treats them as
- an ordinary sale but no entry is passed in the books
 - an ordinary sale and entry for normal sale is passed in the books
 - Approval sale and no entry is passed
10. Under sales on return or approval basis, when transactions are few and the seller at the end of the accounting year reverse the sale entry, then what will be the accounting treatment for the goods returned by the customers on a subsequent date?
- No entry will be passed for such return of goods
 - Entry for return of goods is passed by the seller
 - Only the Inventories account will be adjusted

Theory Questions

- What are the features of sale of goods on approval or return basis? Explain in brief.
- When 'sale or return basis' transactions are numerous, what books are maintained by the business entity.

Practical Questions

- A firm sends goods on sale or return basis. Customers having the choice of returning the goods within a month. During May 2020, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (₹)	15,000	20,000	28,000	3,000	1,000	26,000

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- P for Sale or Return Account on 15th June, 2020.

- On 31st December, 2020 goods sold at a sale price of ₹ 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.
- 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
10.12.2019	M/s. ABC	10,000	No information till 31.12.2019
12.12.2019	M/s. DEF	15,000	Returned on 16.12.2019

15.12.2019	M/s. GHI	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s. DEF	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s. ABC	11,000	Good Retained on 28.12.2019
30.12.2019	M/s. GHI	13,000	No information till 31.12.2019

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, 2020.

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

- (a) Goods on "sales or return, sold and returned day books".
- (b) Goods on sales or return total account.

ANSWERS/HINTS

True and False

1. False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval in the given case.
2. False: As per the Sale of goods Act, when the goods are retained by the customer after the given time and no express intimation is given with regard to rejection- they are deemed sales.
3. False: At the end of the accounting period- if there are goods sold on approval or return basis, without any information, then the accounting treatment is to reverse the same from the sales and to add it with the existing closing stock at cost price.
4. True: At the end, already the entries pertaining to the reversal of the sale and the addition to the closing stock would have already been passed. If subsequently the customer rejects the goods, no further entry needs to be passed
5. False: It is the seller who fixes the terms of the period within which the customer has to get back with the answer of rejection or accepting the goods. In some cases, mutual consent is there.

Multiple Choice Questions

1. (c) 2. (c) 3. (b) 4. (a) 5. (b) 6. (a)
7. (c) 8. (c) 9. (b) 10. (a)

Theoretical Questions

1. Features of sale of goods on approval or return basis: (i) There is a change in the possession of goods from one person to another. (ii) It does not involve transfer of ownership of goods. The ownership is passed only when the retailer gives his approval or if the goods are not returned within that specified period. (iii) The retailer (customer) does not incur any liability when the goods are merely sent to him.
2. When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. 'Ledger' contains the accounts of the customers and the 'Sale or Return' Total account. 'Day Book' is the primary book which records all transactions, and from there these are entered in the

'Sale or Return' Total account. It is important to remember that both are **Memorandum Books**, i.e., these records are not a part of regular books of accounts.

Practical Questions

Answer 1

Sale or Return Account

Date	Particulars	₹	Date	Particulars	₹
2020			2020		
31-May	To Sundries: Sales	24,000	31-May	By Sundries	
15-Jun	To Sundries: Returned	43,000		(Goods sent on sale or return basis)	93,000
15-Jun	To Balance c/d	26,000			
		93,000		By Balance b/d	26,000
					93,000

P's Account

Date	Particulars	₹	Date	Particulars	₹
2020			2020		
May 31	To Sale or Return A/c	15,000	May 31	By Sale or Return A/c	15,000

Answer 2

Journal Entries

Date	Particulars	₹	₹
2020			
31 st Dec.	Sales A/c Dr. To Ritu's A/c (Being cancellation of entry for sale of goods, not yet approved)	3,000	3,000
	Inventories with customers A/c (Refer W.N.) Dr. To Trading A/c (Being Inventories with customers recorded at market price)	2,250	2,250

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹ 3,000
Less: Profit (3,000 x 20/120)	₹ 500

Cost of goods	₹ 2,500
Market price = 2,500 - (2,500 x 10%) = ₹ 2,250.	

Answer 3

In the books of 'X'
Goods on sales or return, sold and returned day book.

Date 2019	Party to whom goods sent	L.F	Amount ₹	Date 2019	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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2019			2019		
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent on sales or return	77,000
	To Sales	47,000			
	To Balance c/d	13,000			
		77,000			77,000