

## Sale of goods on approval or on Sale or Return Basis

### Methods to accounting for goods sent on approval:-

There are 3 methods

- (i) Ordinary sale method (Transactions are few)
- (ii) Multicolumn journal method
- (iii) separate day books method.

#### 1. Ordinary sale method:-

- ↪ Applicable to few transactions and are treated as ordinary sales.
- ↪ At year end goods are lying with customer & specified time not expired then original entry is cancelled.
- ↪ Like an ordinary closing stock, goods are considered as lying with customers on behalf of seller & are valued at cost or NRV whichever ever is lower.

#### Entries:-

1. When goods are sent on approval
 

	Debtors a/c Dr.      with invoice price
	To sales
  
2. When goods are returned within specified time
 

	sales returns a/c Dr.      with invoice price
	To Debtors.
  
3. When the customer take delivery of such goods at a price lower than the invoice price
 

	Sales a/c Dr.      with difference
	To sundry debtors
  
4. At the year end
  - (i) goods still lying with customer & specified time is not expired.
 

	sales a/c Dr.      with invoice price
	To sundry Debtors
  
  - (ii) When such goods are brought into final accounts as closing stock.
 

	stock with customer a/c Dr.
	To Trading a/c [with cost or NRV whichever ever is lower]



2. Multi column Journal Method:-

Multicolumn sale or Return Journal.

Sale on Approval		Goods return		Good <sup>Approved</sup> Returned		Balance
Date	Particulars	Amount	Date	Particulars	Amount	Amount

3. Separate Day Books Method:-

Here the following accounts are maintained

(i) Sale on Approval Day book.

(ii) Sale on Approval inward day book.

(iii) Sales on Approval ledger.

\* Format of Sale on Approval ledger, Day Book.

Sale on Approval ledger, Day Book

Date	Invoice no.	Name of the customer	L.F	R.S.
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\* Format of sale on Approval inward day book.

Sale on Approval Day book.

Date	Particulars	Name of customer	L.F	Returned	Retained
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\* Format of Sale on Approval Total account.

Sale on Approval Total account.

Dr.				Cr.			
Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Amount
	To sundries as per sale on Approval Inward book.				By Sundries as per approval Day book.		xxx
	- Returned		xxx				
	- Retained		xxx				
	To bal c/d		xxx*				xxx
			xxx				xxx

\* Bal c/d → stock lying with customer → valued at cost or NRV whichever is low.





Date	particulars	J-F Amount	Date	particulars	J-F Amount
	To sale on Approval a/c.			By Sale on Approval a/c.	
	- (Sale on Approval day book)				

ACCOUNT CURRENT

Account current means party account, in which interest is inbuilt.

Such party can have debit or credit balance & it is prepared for calculation of int. along with party can be debtor or creditor. This a/c is prepared upto a particular date called "Date of Account current".

Following steps are applied.

Step-1:- Prepare party a/c with all transactions given

Step-2:- calculate No. of days from due date to date of account

Step-3:- Days should be counted

opening balance:- include 1<sup>st</sup> day in counting.

Transaction :- Exclude Transaction date

Step-4 :- If due date is missing assume transaction date as due date

Step-5:- If days are negative then calculations should be negative. It is called red ink interest.

Format

Account current with v

Dr. Interest to 31<sup>st</sup> March at 8% P.A.

Date	particulars	Amount	Due date	Days product	Date	particulars	Amount	Due date	Days product
xxx	TO sales	xxx	xxx	xxx	xxx	By cash	xxx	xxx	xxx
xxx	To Interest	xxx	xxx	xxx	xxx	By bal b/d	xxx	xxx	xxx

Note:- In case of Red ink interest if it appears on credit side then make a contra a/c t/f on debit side

Step-5 If days are negative then calculations should be in negative. It is red ink interest

\* Red ink interest the product (Negative amount) should be transferred to the opposite side of product balance

To sales 30 (15) —  
↳ Due neg

red ink product