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Business Accounting – E-Learning Study Material

SALE OR RETURN

INTRODUCTION

- Generally in business, goods are sold by a trader to a customer on cash or credit. Here all the elements of goods are inspected by the customer in the place of seller.
- Under sale or return basis, traders send goods to customers' place, there itself the customer inspect the goods and decide whether the goods are retained or to be return back to the seller. But here a time is fixed, if no intimation is received from the customer on expiry of the time, it is assumed that the goods are taken over by the customer.
- So, under this method, the goods are approved (sold) or rejection (return) are decided after physical delivery of goods.
- Generally these types of transactions are made in order to increase sales volume of the trader for slow moving goods.
- These type of transactions are also made for valued customers or for bulk orders or on costly goods such as jewellery, silk sarees etc.

IMPORTANT POINTS TO BE NOTED

- Under this method of sales, sending goods to customers cannot be taken as actual sales, since the goods may be returned by the customers.
- Ownership of goods is vested with seller until the goods are approved by the customer.

- Seller is responsible for damages or loss of goods, if customer has taken reasonable precautions for safety of goods.
- If these transactions are taken as actual sales, profit of the seller will be inflated and there is risk for non-approval of goods by customer later, it will affect profit drastically.
- Hence these transactions are to be appropriately treated while recording.

POSSIBLE TRANSACTIONS UNDER THIS METHOD

- Under this method the following transactions may occur
- Sending goods to customers for approval.
- Goods are approved by customers. (accepted to buy)
- Customer may intimate to return the goods (Return)
- No intimation is received until the expiry date.
- No intimation is received until end of the accounting period.

METHODS OF RECORDING SALE OR RETURN TRANSACTIONS

(I) When the transactions are peculiar (Few / rare)

- In some businesses transactions under 'sale' or 'return' basis are very rare.
- In such case separate accounting method will waste time and effort of the accountant.
- In this situation these type of transactions are recorded as actual sales and appropriate adjustments are made later if necessary.
- The entries are made under this method are presented below.

(a) If goods are sent for approval

| | Debit | Credit |
|----------------|--------------|---------------|
| Customer's a/c | Dr. xxxx | |
| To Sales a/c | | xxxx |

Note: This entry is similar as the entry for sales in normal course of business.

(b) If goods are approved (accepted to buy)

No entry to be passed

Note: Already when the goods are sent for approval was entered as actual sales, hence when the goods are approved no entry should be passed.

(c) If goods are returned (non-approval)

| | Debit | Credit |
|-------------------|--------------|---------------|
| Sales a/c | Dr. xxxx | |
| To Customer's a/c | | xxxx |

Note: If goods are returned by the customer, reverse entry should be made for the entry passed when the goods were sent for approval. (to cancel the sales).

(d) At the end of the accounting period

- The value of rejected goods to be included in the stock at cost price even the goods are not received physically. (will be received in future)
- If time is expired, it is assumed that the sent goods are approved by customers. No entry should be made. (because already entry was passed as sales when goods were sent)
- If time is not expired at the end of the accounting period, the following adjustment entries are to be made.
- Cancelling the original entry

| | Debit | Credit |
|-------------------|--------------|---------------|
| Sales a/c | Dr. xxxx | |
| To Customer's a/c | | xxxx |

Note: For cancelling the original entry, because the transaction is not approved till date. If the above entry is not passed, the profit of the seller will be inflated. (latter the transaction may be rejected).

- **Adding goods with stock which are vested with customer**

| | Debit | Credit |
|--------------------------|--------------|---------------|
| Stock with customers a/c | Dr. xxxx | |
| To Trading a/c | | xxxx |

Note: The ownership of goods with customer without approval is vested with the seller. Hence eventhough these goods are with customers that

should be added with stock of the seller. Because in future it may be rejected.

- **Treatment in Final Accounts**

- **Trading account**

- ✓ Sales value of goods which are not approved by customers should be deducted from sales in the credit side.
- ✓ Values of goods vested with customers without approval are to be added with closing stock in the credit side under the heading of 'Stock with Customers'.

- **Balance Sheet**

- ✓ Sales value of goods which are not approved by customers should be deducted from Sundry debtors on the assets side.
- ✓ Cost of goods with customers without approval is to be added with closing stock under the heading of 'Stock with Customers'.

- **(II) When the transactions are frequent**

- Under the first method, sending goods were entered as actual sales and when it was returned reverse entries were passed. It is suitable when these types of transactions are limited.
- But when numbers of transactions are large in number, it is inconvenient to pass reverse entries frequently.
- When transactions are large in number '**Memorandum Record**' method is suitable for sale or return transactions.

PROCEDURE

- A '**Sale or Return Day Book**' should be opened on memorandum basis. This book contains the information of goods sent, approved, rejection of goods and balance of goods.

Sale or Return Day Book Format

| Date | Customer Name (Goods sent on approval) | | Customer Name (Goods approved) | | Customer Name (Goods returned) | | Balance | |
|------|---|---|-----------------------------------|---|-----------------------------------|---|---------|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | | | | | | | | |

- **When goods are sent**

When goods are sent to customer for approval should be recorded in sales value in the goods sent column (column no.2&3)

- **When goods are approved**

- ✓ When goods are approved by the customer should be recorded in goods approved column. (Column no. 4&5)

- ✓ Immediately after entering in the book, customer's account should be debited in regular ledger. Periodical total of this column is to be credited to sales account in the regular ledger.

- **When goods are rejected**

- ✓ It should be recorded in goods return column (Column No.6&7) in sales value.

- ✓ No posting is to be made from this column, since the goods were sent was not recorded as sales.

- **Balance of goods**

- ✓ Amount in this column shows the sales value of goods vested with customers if specific time is not expired.

- ✓ If specific time is expired, it should be taken as 'approved' and should be recorded in goods approved column. (Column no. 4&5)

- **At the end of accounting period**

- ✓ The sales value of goods shown in balance column should be included in closing stock at its **cost or market value whichever is low.**

(III) When the transactions are large in number

- In some businesses goods sent on 'sale or return' basis will be most significant, i.e. may be transactions in regular course of business. In such case number of transactions will be very large in number.
- Under this situation a separate and elaborate accounting system is required. It will help to distinct these types of transactions from normal transactions.

Required Books under this method

✓ Sale or return day book

It is to be prepared with the columns of date, customers' name, sale or return and amount. Its format is given below.

| Date | Customers' Name | Sale or Return (L.F) | Amount |
|------|-----------------|-------------------------|--------|
| | | | |

✓ Sale and returns book

This book is maintained to record goods approved and also goods returned. Its format is given below.

| Goods Sold | | | | | Goods Returned | | | |
|------------|----------------|--------------|--------------------|--------|----------------|----------------|--------------------|--------|
| Date | Customers Name | Regular L.F. | Sale or Return L.F | Amount | Date | Customers Name | Sale or Return L.F | Amount |
| | | | | | | | | |

✓ Sale or return ledger

In addition to the above books, sale or return ledger is to be opened as Katcha ledger or Rough ledger.

This account contains personal accounts and sale or return account which are not to be confused with customers' accounts and sales account in the regular ledger.

Recording Transactions

- **When goods are sent for approval**

It is to be recorded in 'Sale or Return day book' at sales value. Afterwards customer's account in the 'Sale or Return ledger' is to be debited and the 'Sale or Return account' in the same ledger is to be credited.

- **When goods are returned**

The goods returned is to be entered in the goods returned column of the 'Sales and Return Book' at sales value. Afterwards, the personal accounts of customers are to be credited and 'Sale or Return a/c' is to be debited in the 'Sale or Return Ledger'.

- **When goods are approved**

- ✓ The sales value is to be recorded in the goods approved column of the 'Sales and Return book'.

- ✓ Afterwards, personal account in the 'regular' ledger is to be debited and personal account of the customer in the 'Sale or Return' ledger is to be credited.

- ✓ This entry shifts the debit for sale to the customer from **Rough ledger** to regular ledger.

- ✓ Similarly, 'Sale or Return account' in the 'Sale or Return ledger' is to be debited for the value of goods and sales account in the regular ledger is to be credited.

- ✓ It shifts the credit for the goods sold from **Rough ledger** to the regular ledger.

- Journal entries under this method are given below,

- a. **When goods are sent for approval**

| | Debit | Credit |
|------------------------|--------------|---------------|
| Customer's a/c | Dr. xxxx | |
| To Sales or Return a/c | | xxxx |

Note: Amount should be at sales value. Both the accounts are to be recorded in Sale or Return ledger.

b. When goods are returned

| | | Debit | Credit |
|---------------------|-----|--------------|---------------|
| Sales or Return a/c | Dr. | xxxx | |
| To Customer's a/c | | | xxxx |

Note: Amount should be at sales value. Both the accounts are to be recorded in Sale or Return ledger.

c. When goods are approved

| | | Debit | Credit |
|--|-----|--------------|---------------|
| Customer's a/c (Regular ledger) | Dr. | xxxx | |
| To Customer's a/c (Sales or Return Ledger) | | | xxxx |

Note: Here Customers account in regular ledger is to be debited and customers account in rough ledger is to be credited.

| | | Debit | Credit |
|---|-----|--------------|---------------|
| Sales or Return a/c (Sale or Return ledger) | Dr. | xxxx | |
| To Sales a/c (Regular ledger) | | | xxxx |

Note: Here Sales or return account in rough ledger is to be debited and Sales account in regular ledger is to be credited.

• **At the end of accounting year**

- ✓ The balance in 'Sales or Return account' in the 'Sales or Return ledger' represents goods with customers who have not yet decided whether the goods sent are approved or not.
- ✓ For these sales values, cost is to be ascertained and the following adjustment entry is to be passed.

| | | Debit | Credit |
|--------------------------|-----|--------------|---------------|
| Stock with customers a/c | Dr. | xxxx | |
| To Trading a/c | | | xxxx |

- ✓ The value of stock so ascertained as above, to be included in closing stock in the credit side of **Trading account**.
- ✓ The same is to be added with closing stock in the assets side of **Balance Sheet**.