

CH - 4

GOODS SENT ON APPROVAL BASIS



DANGAL QUESTIONS

ICAI RTP QUESTIONS

ICAI PAST QUESTIONS

TOTAL QUESTIONS

3

5

8

Lets DANGAL with ICAI RTP QUESTIONS

MAY 2018

Q1> X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount Rs.	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 Rs. 2,000 returned on 20.12.2017
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

ANS.

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		<u>13,000</u>	-		
			<u>77,000</u>		<u>47,000</u>	<u>17,000</u>

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	<u>13,000</u>			
		<u>77,000</u>			<u>77,000</u>

MAY 2019

Q2> On 31st December, 2018 goods sold at a sale price of Rs. 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.

ANS.

Journal Entries

Date 2018	Particulars		Dr. ₹	Cr. ₹
31 st Dec.	Sales A/c To Ritu's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	3,000	3,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	2,250	2,250

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval *Rs.3,000*

Less: Profit (3,000 x 20/120) *Rs. 500*

Cost of goods *Rs.2,500*

Market price = 2,500 - (2,500 x 10%) =Rs. 2,250

MAY 2020

Q3> 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 Rs. 75,000 which included Rs. 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 Rs. 3,900 and Mr. Bakkiram Rs. 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 Rs. 50,000.

(ICAI Exams Nov 2018)

ANS

In the Books of Mr. Ganesh

Journal Entries

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

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

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

Notes:

(1) Cost of goods lying with customers = $100/130 \times \text{Rs. } 6,500 = \text{Rs. } 5,000$

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> M/s Metha Bros, sends out goods on approval as follows:

January 10. A – Rs. 300 January 13. A returned Rs. 100 rest retained.

January 12. B – Rs. 200 January 22. B retained all the goods.

January 30. C- Rs. 1,500 January 31. No intimation.

Show how these transactions will appear when books are kept on double entry system. Give Journal entries and ledger accounts.

Sol :

JOURNAL OF M/S MEHTA BROS.

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
Jan. 10	As A/c	Dr.	300	
	To Sale or Return A/c			300
	[Being goods sent on approval to 'A' entered in sale or return ledger]			
Jan. 12	B's A/c	Dr.	200	
	To Sale or Return A/c			200
	[Being goods sent to B on approval entered in Sale or Return ledger]			
Jan. 13	Sale or Return A/c	Dr.	100	
	To A's A/c			100
	[Being goods returned by A entered in Sale or Return Ledger]			
Jan. 13	A's A/c (in main ledger)	Dr.	200	
	To A (in Sale or Return Leger)			200
	[Being goods approved transferred to Personal A/c in the main ledger]			
Jan. 13	Sale or Return A/c	Dr.	200	
	To Sales A/c (in main ledger)			200
	[Being goods approved transferred from Sale or Return ledger to main ledger]			
Jan. 22	B's A/c (in main ledger)	Dr.	200	200
	To B (in Sale or Return ledger)			
	[Being goods approved transferred to Personal A/c in the main ledger]			
Jan. 22	Sale or Return A/c (in Sale or Return ledger)	Dr.	200	

	To Sales A/c (in main ledger) [Being goods approved transferred from Sale or Return ledger to main ledger]				200
Jan. 30	C's A/c	Dr.		1,500	
	To Sale or Return A/c				1,500
	[Being goods sent on approval to C entered in Sale or Return ledger]				

Step 1: Recording in the books

SALE OR RETURN DAY BOOK

Date	Customer's Name	Sale or Return (L.F)	Amount (Rs.)
Jan. 10	A		300
Jan. 12	B		200
Jan. 30	C		1,500
			2,000

SALES AND RETURNS BOOK

Goods Sold				Goods Returned			
Date	Customer's Name	Regular L.F	Sale or Return L.F	Date	Customer's Name	Sale or Return L.F.	Rs.
Jan. 13	A		200	Jan. 13	A		100
Jan. 22	B		200				

Step 2: Posting to Sales or Returns Ledger.

A'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 10	To Sale or Return A/c	300	Jan. 13	By A's A/c (in main ledger)	200
				By Sale or Return A/c	100
		300			300

B'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 12	To Sale or Return A/c	200	Jan. 22	By B's A/c (in main ledger)	200
		200			200

C'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 30	To Sale or Return A/c	1,500	Jan. 31	By Balance c/d	1,500
		1,500			1,500

SALE OR RETURN ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 13	To A's A/c (returns)	100	Jan. 10	By A's A/c	300
Jan. 13	To Sales A/c (in main ledger)	200	Jan. 12	By B's A/c	200
Jan. 22	To Sales A/c (in main ledger)	200			
Jan. 31	To Balance c/d	1,500	Jan. 30	By C's A/c	1,500
		2,000			2,000

Step 3: Posting to Main Ledger.

A'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 13	To A (in Sale or Return ledger)	200	Jan. 31	By Balance c/d	200
		200			200

B'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 22	To B (in Sale or Return ledger)	200	Jan. 31	Balance c/d	200
		200			200

SALES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan 31	To Balance c/d	400	Jan 13	By Sale or Return A/c	200
				(in Sale or Return ledger)	
			Jan 22	By Sale or Return A/c	200
				(in Sale or Return ledger)	
		400			400

Q2> On 31 -12-2018 goods sold at sales price of Rs. 3,000 were lying with customer Anu to whom they were

sold on 'Sale or Return' basis and recorded as actual sales. Since no consent has been received from the customer, 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.

Sol:

JOURNAL OF ANU

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
Dec. 31	Sales A/c Dr.	3,000	
	To Anu's A/c [Being cancellation of sale entry for goods not yet approved]		3,000
	Stock with customers A/c Dr.	2,250	
	To Trading A/c [Being stock with customers recorded at Market price]		2,250

Working Note: Calculation of Cost and Market Price of Stock with customer

A. Sale price of goods sent on approval	Rs. 3,000
B. Less: Profit [3,000 x 20/120]	500
C. Cost of goods	2,500
D. Market price = 2,500 - (2,500 x 10%) = 2,250	

Note: Since the market price is less than the cost price, stock with customer is valued at market price

Q3> Ramu sells goods to his approved customers on 'Sale or Return' basis at a profit of 20% on sales, treating as actual sales. On 15th December, goods costing Rs. 1,000 were sent to Usha Traders. No confirmation has been received from Usha Traders until 31st December.

Give the necessary journal entries in the books of Ramu.

Sol:

JOURNAL

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
15 th	Usha Traders A/c	Dr. 1,250	
Dec.	To Sales A/c (Being the sales made with sale value of Rs. 1,250 (cost = 1,000 + Profit 20% on sales (25% on cost - 1000 x 25/100))]		1,250
31 st	Sales A/c	Dr. 1,250	
Dec.	To Usha traders (Being the cancellation of sale recorded earlier)		1,250

31 st	Stock with customers A/c	Dr.	1,000	
Dec.	To Trading A/c			1,000
	(Being stock at the end recorded with the customers at cost price)			

Q4> Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017. (May 2018)

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

December 10th– Goods returned by customers Rs. 35,000

December 17th– Received letters from customers for approval Rs. 35,000

December 23rd– Goods with customers awaiting approval Rs. 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.

Sol: **In the books of Mr. Badhri**

Journal Entries

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

Note:(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards a/c.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

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

Q5> A firm sends good 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: (Nov 2019)

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs)	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 2019

SOL.:

Sale or Return Account

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
May 31	To Sundries: Sales	29,500	May 31	By Sundries	
June 15	To Sundries: Returned	42,000		(Goods sent on sale or return basis)	99,500
June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000