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**VIRTUAL COACHING CLASSES  
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL  
PAPER 1: PRINCIPLES AND PRATICE OF  
ACCOUNTING**

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# CHAPTER 6- Accounting for Special Transactions

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- Under this chapter- we are going to study the different special business conditions for which the accounting treatment has to be studied.
- This chapter has 5 units-
  - Unit 1 Bills of Exchange
  - Unit 2-Sale on approval or return basis
  - Unit 3- Consignment
  - Unit 4- Average due date
  - Unit 5- Account current
- Out of the above consignment is little elaborate topic while the other concepts- are the most scoring topics. The marks weightage can be anywhere between 10-20 marks from the concepts.
- WE will be first dealing in the following order based on the complexity of the Unit 2,4,5,3,1.



# Unit 2- Sale on Approval or return basis

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- Understanding- Where in case of the business organizations want to introduce new products – then they might encourage their customers by giving discounts, rebates and another method is to sell them on approval or return basis.
- *Under this method time is given to the customer to retain and use the goods for a certain period at the end of which the is given the option to accept or return the goods*
- In the current scenario this system is prevalent in online sales where in the seller gives time to buyer- within which he can accept or reject the goods.
- *Now we are going to understand the accounting treatment in the books of online commercial seller- in this particular unit.*
- WE need to first understand the conditions under which sale will be treated as sale on approval or return basis-
  - The goods pass from one person to another person
  - The customer is given the option to either accept it (then he becomes owner), if he rejects (there is no liability) and get the right to get the refund of any advance paid.



# Unit 2- Sale on Approval or return basis

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- When does the sale take place- As per the Sale of goods Act, 1930-
  - When he gives his acceptance
  - He does not give his acceptance, neither rejects the goods but retains them beyond the expiry of the period given.
  - When he does some act- adopting the transaction- such as selling it to another person. He can sell only if he is the owner- so this is an implied condition
- Now for the accounting treatment perspective, the sale on approval or return basis can be classified as follows-
  - *When business sends goods casually*
  - *When the business sends goods frequently*
  - *When business sends goods numerously*



# Unit 2- Sale on Approval or return basis

- *When business sends goods casually-* The accounting treatment is in the form of passing journal entries-
- When the goods are sent on approval basis- the business treats it like a credit sale-

**Debtors/ Trade Receivables A/c**                      **Dr**                      **(amount at selling / invoice price)**  
**To Sales A/c**

When the goods are returned before the specific date- then reverse the sales entry since it is no more sales

**Sales A/c**    **Dr**                      **(amount at selling/invoice price)**  
**To Debtors/ Trade receivables**

When the goods are accepted- ***then need not pass an entry- since earlier we have treated it as sales***



# Unit 2- Sale on Approval or return basis

- *When business sends goods casually-* The accounting treatment is in the form of passing journal entries-
- At the time of closing the books when the time period for giving acceptance or rejection has not yet expired, then we need to reverse the sales and add with the closing stock at Cost

**Sales A/c** **Dr** **(amount at selling/invoice price)**  
**To Debtors/ Trade receivables**

Add to the closing stock separately in the trading account at the cost price

**Inventories on sale on approval or return basis A/c** **Dr** **(Invoice price- profit)**  
**To Trading account A/c**

If the goods are subsequently rejected after passing the above entries- you need not further pass any entries in the next accounting year.





# Unit 2- Sale on Approval or return basis

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- Steps to solve the questions from an exam point of view- ***incase of sent on casual basis***
  - Identify the quantity of goods sent on approval or return basis
  - Identify the cost, invoice price of the same- check if the % of profit is on cost or sale value
  - Identify the goods returned before the expiry of the period.
  - Identify the goods which are lying with the customer on sale or approval basis as on the closing of the books.
  - Pass the journal entries with narrations mentioning the workings with the amount.





# Unit 2- Sale on Approval or return basis

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- *When the goods are sent by the business frequently-*
  - Under this method- there is sales day book and Sales return journal maintained instead of passing the journal entries unlike the above method
  - The Sales/returns journal/ day book will be having 4 main columns-
    - Goods sent on approval- Date | Particulars| Folio | Amount
    - Goods returned- Date | Particulars| Folio | Amount
    - Goods approved- Date | Particulars| Folio | Amount
    - Balance- Amount
  - When goods are sent on approval basis- entries are made under the head- under which the invoice amount is recorded- which then is posted to the debit of the customers accounts and credit of the goods both in the *“Goods on approval ledger”*.
  - When goods are returned by the customer- entries are made under this head where in amount is credited to customer accounts and debited to the amount of goods in *“Goods on approval ledger”*



# Unit 2- Sale on Approval or return basis

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- *When the goods are sent by the business **frequently-***
  - When goods are approved by the customer- entries are made under this head where in amount from the goods on approval basis is transferred to the individual customers account in the Sales Ledger. The earlier entries are reversed.
  - The balance is calculated as follows= Total value of goods sent on approval- value of returns – Value of approved.
- Just learn the Practical Ques 1 will be asked in case they are testing this concept
- *When the goods are sent by the business **Numerous-***
  - Under this method the memorandum books are being opened- like the (i) sale/return day book and (ii) Sale or return ledger
  - They are called as **memorandum books**, as they don't form part of the regular books of accounts.



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**THANK YOU**