CONCEPT: PERIODIC INVENTORY – PURCHASE DISCOUNTS

● There is a special system used to denote ***discounts*** whether for purchases or for sales.

Typical discount notation:
"2/10 n/30" or "2/10 net 30"

2 = percentage amount of discount (2%)	10 = days allowed to receive discount	30 = total days allowed to defer payment

● In a periodic system, the account ***Purchase Discounts*** holds the value of all discounts received from quick payment.

EXAMPLE: ABC Company purchased 300 units of Product X for $1,800 on January 14. The supplier offered terms of 3/10 net 45. ABC Company paid the supplier on January 19. Record the purchase and payment in ABC Company's books.

Purchase Journal Entry:

Payment Journal Entry:

Assets	=	Liabilities	+	Equity

PRACTICE: On April 12, a company purchased goods worth $14,000 on account with terms of 2/15 net 30. The company paid its supplier on April 25. In a periodic system, the journal entry to record the payment on April 25 would include:

a) A credit to Cash for $14,000
b) A credit to Purchase Discounts for $280
c) A credit to Accounts Payable for $14,000
d) A debit to Cash for $13,720