

CONCEPT: PERPETUAL 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
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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:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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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 perpetual 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 Inventory for \$280
- c) A credit to Accounts Payable for \$14,000
- d) A debit to Cash for \$13,720