

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 |
|----------------------------------------|---------------------------------------|------------------------------------------|

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> |
|---------------|---|--------------------|---|---------------|

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