

## **CHAPTER 4: SOURCE DOCUMENTS AND DISCOUNTS**

### **Documents:**

**Invoice:** It is an evidence of sales or purchases. It contains quantity, amounts, discounts and terms of trade related to goods bought. It is issued by seller to buyer.

**Credit Note:** It is issued by seller to buyer due to goods returned by customer (buyer) or seller over charged invoice to customer.

**Debit Note:** It is issued by buyer to seller when goods returned by the buyer to supplier.

**Statement Of Accounts:** The Statement of account is a document, issued by a supplier to its customer, listing transactions over a given period, normally monthly. It will include details of invoices, payments received and any credits approved with a resultant balance payable by the customer.

**Receipt:** Written acknowledgment of having received, or taken into one's possession, a specified amount of money, goods.

**Cheque:** a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued.

**Counterfoil:** The part of a cheque, receipt, ticket, or other document that is torn off and kept as a record by the person issuing it.

### **Discounts:**

BASIS FOR COMPARISON	TRADE DISCOUNT	CASH DISCOUNT
Meaning	A discount given by the seller to the buyer as a deduction in the list price of the commodity is trade discount.	A deduction in the amount of invoice allowed by the seller to the buyer in goods or services is cash discount.
Purpose	To facilitate bulk sales.	To facilitate a prompt payment.
Allowed to all customers	Yes	No
Entry in books	No	Yes
When allowed?	At the time of purchase.	At the time of payment.

### **QUESTIONS:**

**Q1:** 10 vehicles were purchased by Unreal Pvt Ltd with a 5% trade discount on the list price of \$10,000 each on 15 June 2017. As per company policy, if customer pays within 20 days then he'll get 2% further discount. Unreal Pvt Ltd decided to pay on 30 June 2017.

- i. Calculate purchase price of vehicles.

ii. Calculate total amount was paid by Unreal Pvt Ltd.

**Q2:** Ali bought a book list price \$150 with trade discount 10%. What'll be the value of book recorded in Ali's purchases account?

**Q3: i)** Mahnoor bought on credit Inventory at list price \$300 after 5% discount. Calculate amount payable by Mahnoor.

**ii)** Mahnoor decided to pay to avail further discount 4%. Calculate total amount paid by Mahnoor.

**Q4:** 10 machines are sold at list price \$200 each and trade discount granted is 10%. Calculate the amount of trade discount and amount payable to supplier.

**Q5:** An item listed at \$80.00 is subject to a trade discount of 25%. Compute

(i) The amount of discount;

(ii) The net price.

**Q6:** An invoice was received for \$6200 dated June 21 with terms 2% cash discount if invoice paid in 10 days.

**(i)** What is the last day for taking the cash discount?

**(ii)** What is the amount due if the invoice is paid on the last day for taking the discount?

**Q7:** An invoice of \$500, dated March 6, has terms of 5% discount for payment within 30 days. If payment is made on March 16 then calculate net amount paid.