Operational Level 1

Fundamentals of Financial Accounting

List Price: Price suggested by the dealer or manufacturer to retailer.

<u>Trade Discount:</u> Discount offered for promoting sales.(This is never recorded in the books of accounts)

The purpose and treatment of quantity discount is like trade discount.

<u>Credit Period:</u> Period after whose expiration, payment becomes due.

Discount Period: Period within which cash discount can be availed.

<u>Cash Discount:</u> Discount offered for prompt payment. (Example sales discount, purchase discount, discount)

<u>Credit Term:</u> Term containing % of cash discount, discount period and credit period.



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5/15, net 60.

Necessary Payments:

All the payments that are necessary and reasonable to acquire inventory and place it into saleable condition.

These payments are added to the cost of merchandise and are not expensed till the inventory is not sold.

Examples:

- 1. Transportation
- 2. Insurance in transit
- 3. Loading
- 4. Unloading
- 5. Sales tax etc.

Fundamentals of Financial Accounting

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