

Sales Discount

- Reduction of the selling price allowed if payment is received by a certain date
- AKA cash discount
- Examples
 - 2/10 net 30
 - Buyer will receive 2% discount if payment made within 10 days of the purchase, but that the full amount must be paid within 30 days of purchase
 - 2/10 EOM
 - Buyer will receive 2% discount if payment made within 10 days of purchase, otherwise payment is due by the end of the month



Sales Discount

Credit sales of \$200 were made 2/10 net 30. The customer paid the balance within the 10 day discount period. Prepare a journal entry to reflect this sale

Original Entry

Accounts Receivable	200	
		Sales Revenue 200

Entry to record sales discount

Cash	196	
Sales Discount	4	
		Accounts Receivable 200



Sales Discount

- Sales Discount is a **CONTRA** account
- Contra Accounts – an account that is offset or deducted from another account



Problem - Sales Entries

Maxey company is a wholesale clothing distributor that sells women's coats to clothing stores. During January the firm had the following transactions

Jan 3 Sold 8 coats that cost \$120 each on account to Paris Clothing Store at \$200 each (terms 2/10, n/30)

Jan 5 Sold 5 coats that cost \$100 each on account to Extravaganza Clothing Store at \$200 each (terms 2/10, n/30)





Problem - Sales Entries

Jan 11 Received payment in full from Paris
Clothing Store

Jan 19 Received payment in full from
Extravaganza Clothing Store



Sales Entries - Solutions

1/11 Cash	\$1,568	
Sales Discounts	\$ 32	
	Accounts Receivable	\$1,600

Note: received Paris payment in time for 2% discount

1/19 Cash	\$1,000	
	Accounts Receivable	\$1,000

Note: received payment for Extravaganza



Sales Returns and Allowances

Sales returns and allowances

- contra-revenue account in which the return of, or allowance for reduction in the price of , merchandise previously sold recorded



Sales Returns and Allowances

Customers return goods costing \$150; \$100 in returns were made by cash customers, and \$50 in returns were made by credit customers

Sales Returns and Allowance	\$150	
Cash		\$100
Accounts Receivable		\$ 50

