**Illustration**

**Invoice**

A VAT-registered business offers a 2% prompt payment discount to all customers that pay invoices within 14 days. A customer buys £1,400 (excluding VAT) of goods.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Full invoice amount** | |  |  |
| **Product code** | **Description** | **Quantity** | **Net** |  | **Approach** |
| W0025 | Bolts | 1,000 | £1,400.00 |  | Details of the full invoice amount are given on the sales invoice. |
| TOTAL VAT | | | £280.00 |  | VAT is calculated on the net amount. |
| TOTAL GROSS | | | £1,680.00 |  | Total = Net + VAT |

The full invoice amount is recorded in the sales day book (SDB):

Debit Receivables ledger control account (RLCA) £1,680.00

Credit VAT control account £280.00

Credit Sales £1,400.00

If the customer takes the PPD, the organisation receives £1,646.40.

Debit Bank £1,646.40

Credit Receivables ledger control account £1,646.40

The credit note for the discount is entered into the discounts allowed day book:

|  |  |  |
| --- | --- | --- |
| **Total £** | **VAT £** | **Net £** |
| £33.60  £28.00 + £5.60 | 5.60  £28.00 / 5 | 28.00  £1,400 x 2% |