

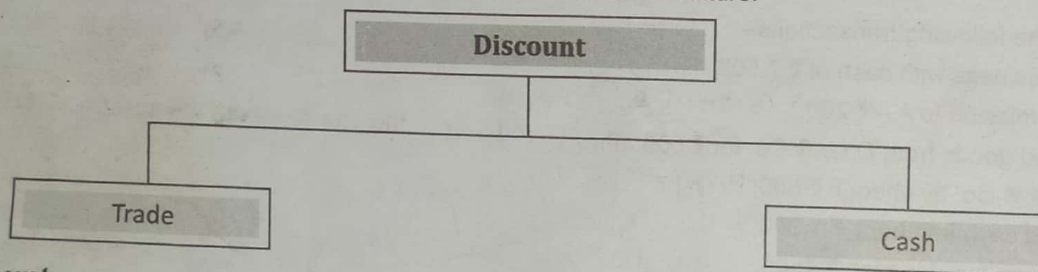
#### 14. Journalise the following transactions -

- Sold goods to Tamal for cash ₹ 1,000; *cash to sales*
- Purchased goods worth ₹ 700 on credit; *Purch to creditors*
- Withdrew cash from business for personal use ₹ 500; *Drawing to cash*
- Paid carriage on goods purchased ₹ 300; *carriage to cash*
- Paid carriage on goods sold ₹ 100; *" " " "*
- Received bank interest ₹ 300; *Bank to int*
- Withdrew from bank ₹ 1,000; *cash to bank*
- Loan given to Parimal by cheque ₹ 2,000; *Loan to Parimal to bank*
- Purchased goods for ₹ 1,000 paid by cash and cheque equally; *Purch - 1000 to bank 500 to cash 500*
- Received cash from Parimal for repayment of loan with interest ₹ 2,100. *cash A/c - Dr 2100 To loan to parim 2000 To int on loan 100*

#### Billing Terms

#### Types of Discount

While purchasing or selling any commodity or services, we come across the term Discount. It means reduction in the price of a commodity on which it has been offered. In accounts, it is revenue in nature.



#### Trade Discount

Trade discount is a type of discount, which is provided to every customer whether he purchases the goods in cash or in credit. This type of discount is not recorded in the books of account and the sales and purchases are booked net of discount. Trade discount is calculated as a percentage of list or catalogue prices of goods supplied. The trade discount is not separately recorded in the books of accounts when entering the invoices in the purchases day book or sales day book. Only the net total of the invoices are shown in the amount column. Credit sales are also recorded in the sales day book after deducting trade discount from the list price.

Example of Trade Discount:-

- Goods purchased from M/s A & Co. 20 bales of cotton @ ₹1000 per bale less 10% trade discount.

The entry will be

Purchases A/c	18,000
To M/s A & Co.	18,000

(Being goods purchased from M/s A at a trade discount of 10%)

#### Cash Discount

Cash discount is a discount, which is allowed to encourage a debtor to pay off his debt within a specific period. If the debtor settles his account within a given period, then the seller may give certain percentage as a discount to the customer.

Hence, it will be treated as expense to the seller and an income to the buyer. It will be accounted for in the similar way as other incomes / expenses are accounted for. There may be various types of cash discount schemes as follows:

- Cash discount at the point of the sales** - It will be accounted for at that time of sale e.g. Mr. Kirti Purchased goods worth ₹ 5,500 from M/s. S.K. Impex at a discount of 5% on down payment.

Journal entries will be (In the books of S.K. Impex)

Cash A/c	Dr.	5,225
Discount Allowed A/c	Dr.	275
To Sales A/c		5,500

(Being goods sold in cash to Mr. Kirti after allowing cash discount @ 5%)



At the point of sale, discount will be accounted for in the books of both the seller and purchaser.  
Journal entries will be (In the books of Mr. Kirti)

Purchases A/c .....	Dr.	5,500	
To Cash / Bank A/c.			5,225
To Discount Received A/c.			275
(Being goods purchased in Cash, and received Cash Discount @ 5%)			

## 2. Cash Discount given at a Later date -

Mr. Kirti purchased goods worth ₹ 5,500 from M/s. S.K. Impex on credit with a clause that if the payment is received within 7 days of the invoice - 5% discount will be provided, if payment is received within 15 days - 2% discount will be provided and if paid after 15 days, no discount will be provided and for payment after 30 days, 2% per month interest will be charged.

Suppose, in the above case, Mr. Kirti has made the payment on the 10th day from the Bill date.

Journal entries (In the books of S.K. Impex)

Cash A/c	Dr.	5,390	
Discount Allowed A/c	Dr.	110	
To, Mr. Kirti A/c			5,500

(Being cash received from Mr. Kirti after allowing him a discount @ 2%)

At the point of realization of payment, discount will be accounted for in the books of both the seller and the purchaser.

Journal entries (In the books of Mr. Kirti)

M/s S. K. Impex A/c	Dr.	5,500	
To Cash / Bank A/c.			5,390
To Discount Received A/c.			110

(Being amount paid in cash after discount of 5%) 2

## Difference between Trade Discount & Cash Discount

Cash Discount	Trade Discount
➤ It is allowed by a creditor to his debtor	➤ It is allowed by the manufacturer or wholesaler or retailer to the customer
➤ It is a reduction in the amount due from a debtor	➤ It is a reduction in the catalogue price
➤ It is calculated after deduction of trade discount	➤ It is calculated on the catalogue price
➤ It encourages the debtor to make prompt payment	➤ It encourages the prospective customers to buy goods
➤ It is allowed at the time of payment	➤ It is allowed at the time of sale
➤ It appears in the books of accounts	➤ It does not appear in the books of accounts

Being an accountant, we should know how to interpret the bill that we are receiving and the bills we are creating and giving to the purchaser. There are many words used in bills, some of the most important words are as follows:

**FOB** - Free on Board - It means that the cost up to sending the goods to the transport will be borne by the seller.

**CIF** - Cost, Insurance and freight are to be borne by the seller.

**Excise Duty** - It is a duty on the manufacture of the commodity. It is charged when goods are sold by the manufacturers.

**Sales Tax/ VAT** - It can be Central Sales Tax or the State Sales Tax / VAT. This tax is levied on the event of sales made within the state (Local Sales Tax/ VAT) or outside the state (Central Sales Tax/ CST). Both of the taxes cannot be levied in a single sale bill.

Applicability of the above in the bill:-The above terms will be applied in the following sequence.

Sl. In Bill/ Invoice	Add/ Less	Particulars	Amount
1st		FOB	1,000.00
2nd	Less	Trade Discount	100.00
3rd	1st - 2nd		900.00
4th	Add	Packing Charges	200.00
5th	3rd + 4th		1,100.00
6th	Add	Excise Duty (Including E. Cess) - chargeable on 5th (8.24%)	90.64
7th	5th + 6th		1,190.64
8th	Add	VAT/ Local Sales Tax/ CST @ 2%	23.81
9th	Adjusted FOB		1,214.45
10th	Add	Freight & Insurance (if borne by the seller)	300.00
11th	CIF		1,514.45

#### Example

On the basis of the above stated billing terms, calculate the CIF value and make the purchase entry in the books of M/S.P.K & Co from the following example:

M/S. P.K & Co. purchased 500 units trading materials @ ₹ 250 on FOB price from Binay Ltd on 1st April'10.

Other information regarding the purchase

- i) 10% trade discount to be given.    ii) 8.24% Excise duty to be charged.    iii) ₹ 2 p/u charged as Freight.

Calculation of net amount payable:

	₹
FOB Price	125,000
Less: Trade Discount	12,500
	112,500
Add: Excise duty	9,270
	121,770
Add: Freight	1,000
CIF	122,770

#### Example

Record the following transactions in the books of Bharat Timber Co.

- Purchased goods in cash of the list price of ₹ 5,000 at a trade discount of 5% and cash discount of 10%.
- Purchased timber from Suresh of the list price of ₹12,000. He allowed 10% trade discount.
- Sold timber to Mukesh of the list price of ₹ 3,000 and allowed him discount @ 5%.
- Received a cheque from Mukesh for ₹ 2,650 in full settlement.
- Sent to Suresh a cheque of ₹ 10,000 in full settlement.



T. D - X  
C. D - ✓

Purchase → Dis ~~allowed~~ <sup>Received</sup> → EXP - D2.  
Sales → Dis ~~received~~ <sup>EXP Allowed</sup> → Income - C2.

## BOOK KEEPING

### Solution

Date	Particulars	L.F	Dr. Amount	Cr. Amount
a)	Purchases A/c Dr. To Discount Allowed A/c To Cash A/c <sup>Received</sup> (Being goods purchased at a trade discount of 5% and cash discount of 10%)		4,750	10% 475 4,275
b)	Purchases A/c Dr. To Suresh A/c (Being timber purchased at a trade discount of 10%)		10,800	10,800
c)	Mukesh A/c Dr. To Sales A/c (Being timber sold at a trade discount of 5%)		2,850	2,850
d)	Bank A/c Dr. Discount Allowed A/c Dr. To Mukesh A/c (Being cheque received in full settlement of account and discount allowed)		2,650 200	2,850
e)	Suresh A/c Dr. To Bank A/c To Discount Received A/c (Being cheque issued in discharge of debt and discount received)		10,800	10,000 800

### Class Exercise

1. Pass necessary journal entries from the following transactions:

- Bought goods valuing ₹ 7,600 less 10% trade discount from Patil Bros. Carriage charged on these goods amounted to ₹ 100.
- Issued cheque to Patil Bros. for the balance owing less 5% cash discount.
- Sold goods to Rabin goods valued ₹ 8,800 less 10% trade discount.
- Rabin returned goods list price of which was ₹ 800.
- Rabin sent a cheque for the balance of his account less 5% cash discount.
- The cheque was returned by the bank as dishonoured.

2. Show journal entries to record the following transactions in the books of Barun Banerjee:

- Purchased goods from Mrinal Adhikari of the list price of ₹ 8,000 and paid him by cheque immediately. He allowed 10% trade discount and 2% trade discount.
- Sold goods to Chandrachur of the list price of ₹ 4,000 less 10% trade discount. Paid him ₹ 2,500 on account.
- ₹ 1,800 received from Ahmed in settlement of his account of ₹ 2,000;
- ₹ 700 paid towards freight on purchase of machinery;
- ₹ 500 received as commission for selling goods on behalf of another;
- Naran repaid his loan of ₹ 5,000 together with interest of ₹ 300.
- Paid commission ₹ 560 to Subal Nandi, a travelling agent.
- Paid ₹ 200 to Gautam Nag as interest on loan borrowed from him.
- Manoj Mishra who owed ₹ 4,800 paid ₹ 4,600 in full settlement.

7920  
8800  
7040