

TASK 4.9

B. Bongi: Credit terms, Discounts

4.9.1 What do the words mean?

If a debtor pays his/her account within 30 days, he/she will receive a discount of 10%. This means he/she will pay less.

4.9.2 Why would a business offer these terms?

To encourage the debtors to pay their accounts quickly, so they do not have to wait for payment.

4.9.3 What is the difference between these terms and trade discount?

Discount allowed is given when the debtor pays his account.

Trade discount is a reduction in price given at the point of purchase. Either because they are having a special or the debtor is a good customer or it could be a bulk discount.

Trade discount could also be defined as a discount allowed by one trader to another trader.

4.9.4 What effect would these terms have on the following?

- **Accounting Equation**

Discount allowed will be an expense.

- **Debtors ledger**

Reduce the debtor's account with the discount.

- **General ledger**

Open a discount allowed account – expense account.