

**Credit purchases** - buying items such as trading stock, stationery and equipment from a supplier and the money is paid at a later date.

**Creditors** - outsiders that the business owes money. Classified as **current liabilities**.

Before buying on creditor a business has to negotiate **terms of the credit agreement**. This is the amount of time a business takes to pay its suppliers. e.g. a business may negotiate for 90 days. This then means it must pay its supplier debt within 90 days. The business will maintain a good relationship with the suppliers if it does this. A business will issue a cheque or do an EFT when it pays its suppliers.

Advantages of buying on credit

- Delayed payment terms
- Less borrowing and thus less interest on loans
- Can buy in bulk which will be cheaper

Disadvantages of buying on credit

- Could be charged interest
- Can have a negative effect on your cash flow
- Can negatively affect the reputation of the business if payments are not made
- More administrative work

Internal control

- Have Ledger accounts to keep records of each creditor
- Must make payment on time so that you don't get charged interest or develop a bad name
- Important to try to sell the stock and recover the money from debtors before making payments

**CAREFULLY STUDY THE EXAMPLE BELOW ON PAYMENT TO CREDITORS**

For example

*On 5 Sept 2018, a cheque was issued to Africa Hides for R32 832 in settlement of Wilson's Leather's debt of R34 200. A 4% discount was received for early payment*

Wilson's Leather

Cash Payments Journal - September 2018

CPJ4

Doc No.	D	Details	Fol	Bank	Creditors control	Discount received	Sundry accounts		
							Amount	Fol	Details
65	5	Africa Hides	CL1	32 832	34 000	1 368			

$$\text{Discount received} = 34\,200 \times \frac{4}{100} = R1\,368$$

**Posting payment to Creditors in the General Ledger**

General Ledger of Wilson's Ledger  
Balance Sheet accounts section

					Bank				
					Date		Details	Fol.	Amount
					2018	30	Creditors control	CPJ4	32 832

					Sept				
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Creditors control

Date		Details	Fol.	Amount				
2018 Sept	30	Bank & Discount received	CPJ4	34 200				

Nominal accounts section

Discount received

					Date	Details	Fol.	Amount	
					2018	30	Creditors control	CPJ 4	1 368
					Sept				

Posting payments to Creditors in the Creditors Ledger

Creditors Ledger of Wilson's Leather

Africa Hides (*this is the creditor we owe money - we have a creditor account on our books*)

Date		Details	Fol.	Debit	Credit	Balance
2018	1	Account rendered	b/d			34 200
Sept	5	Cheque no. 65	CPJ4	32 832		1 368
		Cheque no. 65 (discount received)	CPJ4	1 368		-

Do

Task 5.5 p.131

When doing the CJ remember to re-number the credit invoices received.  
Start with invoice no. 05 on Day 4 June 20.4