

DISBURSEMENTS: DISCOUNT TERMINOLOGY

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DISBURSEMENTS: DISCOUNT TERMINOLOGY

I. INTRODUCTION

This chapter describes the types of discount and payment terms commonly offered by vendors to the University.

II. DEFINITIONS

The following terms applicable to vendor discounts are defined below:

Cash Discount - An allowance extended by a vendor to encourage payment of an invoice on or before a stated date that is earlier than the NET (due) date and which is agreed to by the vendor and the payor.

Quantity Discount - An allowance extended by a vendor on the basis of the quantity or value of a purchase, irrespective of when payment is made.

Trade or Purchase Discount - A reduction in the established prices of items or services allowed by the vendor, irrespective of when payment is made. The percent may vary according to the volume of the transaction.

Rebates or Incentives - An incentive offered by a supplier to provide additional consideration or compensation to encourage the purchase of goods and/or services from that supplier. See Part 1 and Part 3, Section V of Business and Finance Bulletin BUS-43, Materiel Management, for information on University policy and procedures in connection with purchase orders or contracts that contain incentive or rebate components.

Reference Date - The date used to determine the *start* of the discount or due-date period. The date can be determined in one of the following ways:

- 1) The reference date is the date the invoice is received or the date the goods are received, *whichever is later*; or

II. DEFINITIONS (Cont.)

- 2) A specific reference date can be agreed to by the vendor and the materiel manager or his or her designee.

III. TERMS--DEFINITIONS AND APPLICATIONS

A. CASH DISCOUNT TERMS

Listed below are the most commonly used cash discount terms:

<u>Terms</u>	<u>Definition and Application</u>
1/2% 10 Days	1/2% discount allowed if paid on or before the 10th day after the reference date.
1% E.O.M.	1% discount allowed if paid on or before the end of the month.
2% E.O.M. 10; or 2% 10th Prox.	2% discount allowed if paid on or before the 10th of the following month.
2% 10th & 25th; or 2% 25th & 10th	2% discount allowed on payments made on or before the 25th of the month for invoices issued the first half of the month; 2% discount allowed for payments made on or before the 10th of the succeeding month for invoices issued the last half of the month.

NOTE: When the "Net" date is **not** stated in conjunction with a discount date, as in the above four examples, the presumption is that the invoice is due 30 days after the reference date.

B. NET TERMS

Net terms require that vendor invoices be paid without any discount on or before the due date. The following are frequently used net terms:

<u>Terms</u>	<u>Definition and Application</u>
Net	Payment due immediately, i.e., upon

receipt of an invoice, after confirmation by the receiving department that the items listed have been delivered and received in good condition or that services have been rendered satisfactorily.)

Net 10 Days Due on the 10th day after the reference date.

Net E.O.M. Due at the end of the month.

Net 10 Prox; Due on the 10th of the month after the
or Net E.O.M. reference date.
10; or Net
E.O.M.

Net 30 Days Due on the 30th day after the reference date.

Net 10th & Due on the 25th of the month for
25th; or Net invoices issued the first half of the
25th & 10th month; due on the 10th of the following
month for invoices issued the last half
of the month.

C. COMPOUND CASH DISCOUNT AND NET TERMS

Cash discount terms are generally stated in conjunction with a net term. Typical cash discount payment terms with net terms are:

<u>Terms</u>	<u>Definition and Application</u>
1% 10 Days, Net 30; or 1% 10/Net 30	The amount of an invoice may be discounted 1% if payment is made on or before the 10th day following the reference date; it becomes due on the 30th day following the reference date.
2% 10 Days, Net 60; or 2% 10/Net 60	The amount of an invoice may be discounted 2% if payment is made on or before the 10th day following the reference date; it becomes due on the 60th day following the reference date.

IV. ACCOUNTING AND TAX CONSIDERATIONS

A. ACCOUNTING ENTRIES

The accounting entry to reflect a discount taken is net of the discount; no credit entry is made for the discount taken. In cases where no discount is taken, the gross amount of the invoice should be charged to the appropriate (expense or capital) account. If a discount taken is subsequently lost, the charge for the amount of the discount should be made to the account originally charged.

For quantity and trade or purchase discounts, the discount amount is normally not reflected on the coding skirt. Generally, the payment shown is the net of discount.

B. INVOICE AMOUNT SUBJECT TO SALES OR USE TAX

California Sales and Use Tax regulations provide that the sales price on which tax is applied does not include cash discounts taken on a transaction.

If a vendor does not list the amount of the sales or use tax on an invoice and tax must be accrued and paid directly to the State, the amount of the sales or use tax to be accrued is computed by applying the appropriate tax rate to the sales price listed on the invoice, less the amount of the cash discount taken.

V. RESPONSIBILITIES

The accounting officers and/or disbursements managers are responsible for the correct interpretation of a vendor's discount terms.

Accounting officers are responsible for establishing procedures to ensure that invoices are processed for payment within the discount period.

VI. REFERENCES

Accounting Manual Chapter:

D-371-36 Disbursements: Invoice Processing

Business and Finance Bulletin:

BUS 43, Materiel Management

Accounting Manual chapter first published 9/1/78. Revised
1/1/80, 3/31/97; analyst--Pat Edwards.

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