



## Chapter 5: Trade & Cash Discount

### TRADE DISCOUNT

A **trade discount** is an amount deducted from the list price. It is the product of the discount rate and the list price. The **list price** is the suggested retail price determined by the manufacturer or distributor and listed in their product list or catalogue.

$$\text{Amount of discount} = \text{Rate of discount} \times \text{List price}$$

For example, if a textbook lists for \$40 and is discounted 20%, the discount is:

$$\text{Discount} = 20\% \times \$40 = 0.2 \times 40 = \$8$$

[Hint: Remember to change the percent to a decimal number before multiplying]

The actual or the **net price** is the difference between the list price and the amount of discount. It is also sometimes called the **sale price**.

$$\text{Net price} = \text{List price} - \text{Amount of discount}$$

In the case of the textbook: Net price = \$40 – \$8 = \$32

**Example 1:** A pair of jeans that originally cost \$90 is now on sale for 20% off. What is the (a) the amount of discount, and (b) the net price.

**Solution:** (a) Amount of trade discount =  $0.20 \times \$90 = \$27$

(b) Net price =  $\$90 - \$27 = \$63$

Instead of computing the amount of discount and then deducting this amount from the list price, the net price can be found using the **net factor** approach. The **Net Price Factor (NPF)** or net factor can be found using the following formula:

$$\text{Net Price Factor (NPF)} = 100\% - \% \text{ discount}$$

$$\text{NPF} = 1 - d$$

The relationship between net price and list price may be stated generally as:

$$\text{Net Price (N)} = \text{Net Price Factor (NPF)} \times \text{List Price (L)}$$

$$N = (1 - d) \times L \quad \text{or} \quad N = L \times (1 - d)$$