FN1140 – Introduction to Finance

Chapter 5 (9thed) / Chapter 6 (10thed)

Discounts, Markup and Markdown

Weeks 1&2 - Paul Tilley

|  |  |  |
| --- | --- | --- |
| **Introduction** |  | In this chapter we will be learning about how businesses use pricing in order to generate profits. Most times Businesses sell their offerings for more than they paid for them. This difference between the cost of the product and the selling price of the product is called Markup. Sometimes markup amounts are reduced through Discounts. Discounts/Markup may als be affected by the payment terms for a product. |
| **Formulas** |  | Selling Price = Cost + Markup  List Price – Discounts = Selling Price |
| **Trade Discounts** |  | A Trade discount is a reduction in the price offered to “trade” partners in the supply chain |
| Rationale |  | Trade discounts allow for price adjustiments for certain customers |
| Determine Costs With Trade Discounts | Compute Discount Amounts | **A**mount of discount = **L**ist price x **D**iscount rate  Net price = List Price – Amount of Discount |
|  | Single equivilent rate of discount | Net price factor discount series = Original list Price(1-d1)(1-d2)… |
| Payment terms and Cash Discounts | Concepts | Rate of discount  Discount Period  Credit Period  Ordinary (invoice) Dating  EOM dating  ROG dating |
|  | Ordinary dating | Format 2/10 net 30    (Rate of Discount) / (Discount Period) Net Due Date |
|  | Partial Payments | Purchaser gets cash discount on the partial payment |
| **Markup** | Concept |  |
|  |  | Rate of Markup (ROM)  ROM on Cost = Markup/cost \* 100  ROM on Price = Markup/Selling Price \* 100 |
|  |  | Find Cost or find selling price  Selling Price = Cost + Markup |
| **Markdown** | Pricing stratagies | Selling Price = Cost + Expenses + Profit  Cost of buying + Expenses = Total Cost |
|  | Concepts | Sale Price = Regular Selling Price – Markdown  Markdown Rate = Markdown / Regular Selling Price |