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DECISION

THE COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

[Request for Clarification of]

FILE: B-200023 **DATE:** February 13, 1981

MATTER OF: Method for computation of prompt payment discounts]

DIGEST: Absent contract provisions to the contrary, prompt payment discounts offered by vendors to the Government where trade-ins are involved should be computed on the basis of the net contract price, that is, the actual cash balance due, since such method is consistent with generally accepted accounting principles and current trade practice. 17 Comp. Gen. 580 (1938) and 18 Comp. Gen. 60 (1938) overruled to the extent inconsistent with this decision.

An authorized certifying officer of the Department of Agriculture asks, pursuant to 31 U.S.C. § 82d, whether, in instances where trade-ins are involved, prompt payment discounts offered to the United States on its contracts with vendors should be computed on the gross contract price or on the net price, that is, the balance due after the trade-in value is deducted. For the reasons given below, we conclude that such discounts should be based on the net balance due, absent specific contract provisions to the contrary.

The certifying officer explains that the Department of Agriculture National Finance Center, which is responsible for payment of purchase orders issued by all agencies within Agriculture, has recently been questioned by vendors about its method of computing prompt payment discounts when a trade-in is included on a purchase order. The current formula used by the Finance Center for computing prompt payment discounts is based on the total invoice amount less freight (gross contract price). Thus, even when trade-ins are involved, the prompt payment discount is computed on the basis of the gross contract price.

Vendors have complained, however, that the discount should be based on the net contract price, that is, the actual cash balance due (gross amount minus the value given on the trade-in). This method necessarily would result in a smaller discount. For example, assuming a 2 percent prompt payment discount and a $500 trade-in, if the gross contract price were $1000, and the discount were computed on the basis of the gross price, the discount would be $20;

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however, if the discount were computed on the basis of the net price, gross price minus trade-in, the discount would be $10. Thus, it is to the Government's advantage as vendee to compute the discount on the gross price, and to the vendor's advantage to use the net price.

Although this Office has not considered the question in many years, in 1938 we held that such computations should be based on the gross amount of the contract. 17 Comp. Gen. 580 (1938); 18 Comp. Gen. 60 (1938). Thus, in 17 Comp. Gen. 580, 581, we concluded:

> "It has been held by this office that where the contract provides that a certain discount will be allowed for payment within a specified time, the amount to be deducted as discount should be based on the price fixed in the contract * * *; and that the gross bid price must be considered as the contract price and the circumstance that the price of new vehicles may be paid partly in cash and partly by the delivery of old vehicles at an agreed price does not change the amount of the total contract consideration for which the Government is obligated and on which a discount is to be computed."

Whether prompt payment discounts should continue to be based on the gross contract price is at bottom a question of contract interpretation. The contract terms and conditions furnished with the Department's submission by way of example are silent concerning whether discounts should be computed on a net or gross basis, but the nature of a prompt payment discount allows the inference that the vendor intends that it apply only to cash. Vendors offer prompt payment discounts to induce customers to pay cash balances due. Since vendors place premium on the "time value" of money, it is in their interest to offer these discounts on the basis of the net price--the actual cash amount due. Thus, when a trade-in is involved, before computing the discount, the vendor will presumably seek to deduct the value of the trade-in from the gross contract price because the amount of the trade-in does not represent cash due. Moreover, this method of computing prompt payment discounts is consistent both with generally accepted accounting principles and trade practice.

Currently, the Government practice in computing prompt payment discounts varies. Although most Government agencies use the gross price, some use the net price, and still others have no particular policy and may employ either method.

Henceforth, we advise all Government agencies to use the method for computing prompt payment discounts which is consistent with generally accepted accounting principles and contemporary trade practice if the contract does not provide otherwise. Accordingly, where trade-ins are involved, these discounts should be computed on the basis of the net contract price, that is, the actual cash balance due. To the extent that 17 Comp. Gen. 580 (1938) and 18 Comp. Gen. 60 (1938) are inconsistent with this decision, they are overruled.

At the same time, we limit our holding to instances in which contracts between the Government and vendors do not specifically provide for the manner of computing the discounts. If the Government and a vendor agree to compute prompt payment discounts on the basis of the gross contract price, that is the basis on which the discounts should be computed.

Milton J. Socolar

For the Comptroller General
of the United States