**HOME TRADE**

TOPIC OBJECTIVES: By the end of the topic, the learners should be able to;

1. Explain the meaning and importance of trade.
2. Classify trade

**iii)** Explain the forms of home trade

Discuss the types and functions of retailers

Discuss the types and functions of wholesalers

1. Describe the documents used in home trade and the circumstances under which they all used
2. Explain the means of payment used in home trade and the circumstances under which they are used
3. Explain the terms of payment used in home trade and circumstances in which they are used.

**MEANING OF TRADE**

This is the buying and selling of goods and services with the aim of making a profit.

**Importance of trade:**

Trade plays a vital role in any economy. The various roles played by trade in the economy include;

1. Helps people to acquire what they cannot produce
2. Avails a variety of goods and services thereby improving the peoples living standards
3. Creates an outlet for goods thereby enabling the producers to dispose of their surplus produce
4. Creates employment opportunities
5. Encourages specialization and division of labour
6. Promotes peace, social relations and understanding the parties involved since they depend on one another.
7. Provides revenue to the business and the government in form of taxes and fees charged on the various trading activities
8. Ensures steady supply of goods and services
9. Exploitation of local resources as traders create goods and services using locally available resources
10. Encourages economic growth and development.

**Classification of Trade**

1. **On the basis of geographical location of the portion involved, These are;**
2. **Home trade-**Also called internal, local or domestic trade.

**-**It refers to the buying and selling of goods and services within the boundaries of a given country.

**-**It is further divided into ***retail trade*** and ***wholesale trade.***

1. **International trade (foreign trade)**

-This is trade that is carried out beyond the boundaries of a country

-This is trade carried out between individuals or government of different countries e.g. trade between a citizen of Kenya and a citizen of Tanzania, or trade between the government of Kenya and the government of Southern Sudan

-International trade carried out between two countries is referred to as ***bilateral trade*** and international trade carried out among many countries (more than two countries) is referred to as ***multilateral trade.***

International trade is classified into the following;

1. **Export Trade-**Which is the sale of goods and services by a country to another country or individuals in one country to another country or individuals in one country to individuals in another country.
2. **Import Trade-**Which is the buying of goods and services by one country from another country or by individuals in one country from individuals in another country.

**Forms of Home Trade**

1. **Retail Trade**

-Retail trade involves the buying of goods and selling them to the final consumer. ***A retailer*** is the trader who buys goods with a view of selling them to the final consumer.

**Classification of Retail Traders.**

Retailers are classified/categorized according to the amount of capital they need to start and operate their businesses and their sales volume.

Thus retailers can be classified as;

1. *Small scale retailers*
2. *Large scale retailers*
3. **Small-scale Retail businesses/small scale Retailers**

These are retailers whose capital requirement is low and their sales volume also low. They form the majority of retail traders and all found in all parts of the country.

Small scale businesses are easy to start and in most cases they are operated as one-man’s business.

A small scale trader serves the needs of people in the immediate neighbourhood and deal mainly in fast moving goods such as foodstuffs, detergents, kerosene e.t.c

**Categories and Types of small scale**

These are two main categories of small scale traders as shown below;

1. **Small scale Traders without shops**

**-**Itinerant Traders (Hawkers and peddlers)

**-**Roadside sellers

**-**Open air market Traders

1. **Small scale retailers with shops**

**-**Single shops

**-**Tied shops

**-**Kiosks

**-**Mobile shops

**-**Market stalls

**-**Canteens

**-**Mail order stores

1. **Small scale Retailers without shops**
2. **Itinerant Traders**

These are retailers who move from place to place selling their goods either on foot, by bicycles or motor cycles

-They move from town to town, door to door and from village to village selling their goods. Their goods may include clothes, utensils and foodstuffs. Customers can buy goods without having to travel to look for them

-Examples of itinerant traders are hawkers and peddlers (Hawkers move around on bicycles, handcarts or motorcycles while peddlers walk around)

-The itinerant traders require a licence from the local authorities in order to sell their goods.

**Characteristics of itinerant Traders**

1. Are found mainly in densely populated areas
2. Move from place to place in search of customers
3. They are very persuasive
4. Their prices are not controlled.

**Advantages of itinerant Traders**

1. They require little capital to start
2. They are convenient because they bring goods closer to the people
3. The business is flexible in that they can move from place to place. They can also change from line of business to another
4. Few legal formalities are required
5. They usually do not suffer bad debts because they sell in cash.

**Disadvantages of itinerant Traders**

1. The traders get tired because of moving from one place to another while carrying goods.
2. The business is affected by bad weather conditions
3. The traders sale a limited range of goods
4. It is difficult to transport goods from one place to another.
5. Do not offer guarantee, in case items are to be found defective
6. They are constantly in conflict with the local government.
7. **Roadside sellers**

These are traders who sell their goods at places where other people pass by and at busy places such as along busy roads, bus stages, road junctions and entrances to public buildings

They place their goods on trays, cardboards, empty sacks and mails

They sell items such as fruits, utensils, sweets, clothing and some hardware.

1. **Open-air market Traders.**

Open air markets are places set aside by the government through the local authorities where people meet to buy and sell goods. Traders selling similar commodities are allocated a special area.

Such markets are open on particular days of the week.

The variety of goods sold here is wide and include agricultural produce, clothing, household items, animals, foodstuffs and even furniture.

The traders move from one market to another depending on the various market days.

**Advantages of small-scale retailers without shops**

1. They require a small amount of capital to start and operate their businesses.
2. They are convenient since they take goods to the customers within their reach.
3. They incur low costs of doing business
4. Most of their goods are low-priced and hence more affordable to customers.
5. The business is flexible. It is easy to change from one business to another
6. They require few legal requirements
7. The financial risks involved in these businesses are minimal
8. They do not suffer bad debts since they sell on cash bases
9. They interact at personal level with the customers and can convince them to buy their goods

**Disadvantages of small-scale retailers without shops**

1. It is tiring for traders to move from place to place especially if the goods are heavy and the distance covered are long
2. The traders face stiff competition from other traders with more resources
3. They offer a limited variety of goods
4. They are affected by unfavorable weather condition
5. Lack of permanent operating premises denies them a chance to develop permanent customers
6. They face a lot of certainity,especially in terms of a steady flow of income
7. They sometimes sell defective or low quality goods because customers expect to pay little money for them.
8. **Small scale Retailers with shops**

These are small scale retailers with permanent locations to operate from. They include;

1. **Kiosks**

These are small shops or structures found mostly in residential areas, busy streets, highly populated areas or inside building where people pass by or work

They deal in fast-moving items and groceries such as; sodas, cakes, sweets, cigarattes, newspapers e.t.c.some kiosks also sell food

1. **Market stalls**

These are permanent stands found in market places, especially those operated by the various local authorities

They are of different designs depending on the goods they sell or services they offer.

They are rented or leased by individuals from local authorities

They deal in fast moving household goods though some may specialize in other products such as clothing and shoes.

Examples are stalls at Muthurwa markets, Kariokor, and most municipal markets.

**Advantages of kiosks and market stalls**

* They are small, hence easy to start and operate
* They are conveniently located close to their customers
* They require little capital to start
* They tend to have a loyal group of customers since they have permanent premises
* They incur relatively low running costs
* They give personal attention to their customers
* They are flexible since the owner can change from one business to another easily.

**Disadvantages of kiosks and market stalls**

* They provide a limited range of products
* They usually do not have adequate higher capital for expansion
* They charge relatively higher prices than the retailers without shops
* They face stiff competition from more established retail businesses
* They sometimes suffer from bad debts
* Due to their size, they do not enjoy economies of scale
* For market stalls the hours for operation are controlled by the local authority concerned

1. **Single shops (unit shops)**

**-**Single shops are mostly located in the trading or market centres in rural areas or in the residential areas of high towns

-They are operated from fixed premises

-They are usually run by one person who may get assistance from him/her family or employ attendance

-Some deal in one line of commodity such as houses, clothing, groceries or electronics

**Advantages of single shops**

* Minimal capital is required
* Running costs are usually low as the owner may use the services of family members
* They may offer credit facilities to some customers
* They are easy to start because only a licence is required
* They usually have a loyal group of customers
* Flexibility. The owner can change his or her line of business at will
* They are easy to start since the owner does not have to meet any manufactures requirements
* Products prices are fixed by the shop owners
* The owner has the freedom of creativity and independence
* They are convenient since they ensure goods are within easy reach of their customers.

**Disadvantages of single shops**

* Expansion is difficult due to limited funds
* They face stiff competition from large businesses
* The absence of the owner may result in closure and loss of business
* May suffer bad debts
* Provide limited variety of goods
* The operations of the business are affected by the owner’s commitment.

1. **Tied shops**

These are shops that mainly sell the products of one particular manufacture or are owned by a specific supplier of certain goods

The shops are owned or controlled by the manufacturer, and are thus tied to the manufacture.

The manufacture/supplier designs the organization of the shop and its appearance e.gpainting hence they look alike. The supply closely supervises the shops.

Examples of tide shops include; Bata shops which sell shoes made by Bata Company, petrol station like National, Kobil, and total e.t.c

**Advantages of Tied shops**

* Availability of goods is assured at all times
* The supplier carries out promotion for the goods
* The manufacturer/supplier can easily give credit to the shops
* Customers can return or change faulty goods at any of the shops
* The shops are easily identifiable due to their similarity
* Traders are financed by the manufacture
* They get loyal customers who keep buying their branded products
* Advertisement expenses are met by the manufacture
* They get technical advice from the manufacture
* Some operate from permanent premises owned by the manufacture.

**Disadvantages of Tied shops**

* Decision making is slow because the manufacturer must be consulted
* The variety of goods is limited
* The shops cannot sell goods from any other manufactures even if customers require them
* Prices are fixed by the manufacture and sometimes profit margins may be low
* They inhibit the retailers creativity and innovations
* There is a likelihood of disagreements between the manufacture and the tied shop owners.

**Differences/Distinction between a tied shop and single shop**

**Single shop Tied shop**

|  |  |
| --- | --- |
| -Owner is free to stock whatever he/she wishes | **-**Dealership can be withdrawn if operators stock competing products |
| **-**Owned by individual or a group of people | **-**The owner is normally the manufacturer |
| **-**Sells products from different manufacturers | **-**Sells products from a single manufacturer |
| -Design of shop according to owners wish | **-**Shops usually have the same design |
| **-**Prices of goods determined by shop owner or different manufactures | **-**Prices of goods set by the manufacturer |
| **-**Operators not trained by manufacturers | **-**Operators are usually trained by manufacturer |

1. **Canteens**

-These are retail shops found in institutions such as schools, colleges, hospitals and army barraks.

-They stock a variety of consumable goods such as sodas,bread,tea,groceries and other things used by the people in that institution.

-They are run by the institutions management or by individuals on retail business

-Most of them operate without a licence as they are considered to be part of the institution

-Their hours of operation are sometimes regulated by the institution

**Advantages of canteens**

-Some do not pay any rent, thus they incur low overhead costs

-They often require low capital to start

-Some offer credit facilities to their customers

-They are situated at ideal location which is convenient for their customers

-They are assured of a market as they cater for people in particular institution.

**Disadvantages of canteens**

-The market is limited to people in a particular institution

-They do not open throughout/they open for limited hours e.g. after classes in schools

-They close down when the targeted customers are not available e.g. during school holidays.

-They may suffer from bad debts

-They are difficult to expand due to insufficient funds

1. **Automatic vending machines**

These are coin or card operated machines used to sell commodities like drinks, stamps, and snacks e.t.c

Examples are coffee shops, ATM’s e.t.c

**Features**

-They dispense goods or services once a coin or a card is inserted and instructions keyed in.

-They operate without an attendant

-They are usually placed at strategic places such as busy streets, office buildings, shopping centres and hospitals.

**Advantages of vending machines**

* Commodities can be bought anytime because no attendant is required
* They save the owner the cost of employing a shop attendant
* They can be put strategically to boost sales e.g at institutions
* They are fast and accurate
* They are not affected by weather changes
* They provide goods and services on cash basis protecting the owner from the burden of bad debts.

**Disadvantages of vending machines**

* They provide a limited range of products
* Break-downs or stock-outs may discourage customers
* Maintenance costs are high due to regular servicing, repairs and sometimes vandalism
* The owner may incur losses through fraud and use of inappropriate coins and cards by consumers.
* Customers are forced to carry coins and cards in order to obtain goods or services
* Their use is limited to customers who are familiar with how the machine works
* They are mainly found in urban areas, thereby locking out the people in rural areas.

1. **Mobile shops**

Mobile shops, like itinerant traders move from town to town or village to village selling their goods.

-They have vehicles that they have converted into a shop from which customers can buy their goods

-They visit different towns at regular intervals

**Advantages of small scale Retailers**

1. Easy to raise capital to start
2. Retailers are in close contact with the consumers and may give credit to credit worthy customers.
3. Are able to use free or cheap labour from family members
4. The risks involved in their businesses are small
5. The business is simple to start and manage
6. Few legal formalities required to start and run the business
7. The trader can easily change from one form of business to another i.e. the business is flexible

**Disadvantages of small scale retailers**

1. Traders have limited access to loan facilities
2. They may not afford to hire specialists or technical staff
3. May suffer bad debts if they give credit to customers without proper assessment
4. Do not enjoy economies of scale
5. Have a low turnover because of the little capital invested

**LARGE SCALE RETAILERS**

Large scale retailers have the following features/characteristics;

1. Require large amounts of capital to start and maintain
2. They operate from larger fixed premises
3. They operate mainly in urban areas
4. They have a large labour force
5. Buy goods in large quantities from wholesalers or directly from producers and are therefore allowed large trade and quantity discounts and other favourable credit facilities
6. Require the services of specialists such as salespersons and accountants
7. May occupy one large premise or several premises in the same town or in different towns
8. They have large stocks and large sales volumes

**TYPES OF LARGE SCALE RETAILERS**

1. **Supermarkets**

A supermarket is a large scale self-selection/self-service store that deals mainly with house hold goods such as utensils, foodstuffs and clothes. It has the following features;

**Features of supermarkets**

1. Requires large capital to start
2. They stock a wide variety of goods
3. Offers self service facilities
4. Goods have price tags or bar codes
5. Prices of goods are fixed
6. No credit facilities are offered
7. Sell at comparatively low prices
8. Goods are systematically arranged for easy selection
9. Shoppers are provided with baskets or trolleys for convenience
10. There is minimal interaction between buyer and seller
11. There are employees who pack goods for customers at the pay points.

**Advantages of supermarkets**

1. Prices may be relatively low because they buy their goods in bulk and are given discounts
2. Saves time as customers are able to get most goods they require under one roof
3. Self-service saves the customers time
4. Few attendants are employed thereby reducing the monthly wage bill
5. Impulse buying leads to more sales, hence high profits
6. Bad debts are avoided because there are no credit sales.
7. The price tags on goods help customers to monitor their spending.

**Disadvantages of supermarkets**

1. Do not offer credit facilities to customers
2. Do not deliver goods to the customer’s premises
3. Are found mainly in urban areas
4. May incur losses due to pilferage of goods
5. Impulse buying may lead the customers to buying goods they may not need.
6. They are expensive to start and operate due to the large amount of capital required
7. Prices are fixed and bargaining is not accepted, which discourages some customers
8. Minimal personal interaction limits chances for making more sales
9. **Hypermarkets**

A hypermarket is a large shopping complex/centre comprising a variety of businesses managed by different people all housed in one building

Examples; ***village market, sarit centre, Tuskeys-Kisumu, Nakumatt mega city-Kisumu e.t.c***

**Features/Characteristics of Hypermarkets**

1. Are served with good access roads
2. They have ample parking space
3. Many businesses in one building
4. Located in the outskirts of town
5. Offer a variety of goods and services
6. Occupy a large space.

**Advantages of Hypermarkets**

1. Offer ample and secure parking space to customers
2. Customers can do all their shopping in one building
3. They are usually open for long hours
4. They may provide credit facilities by accepting credit cards
5. There is less traffic congestion as hypermarkets are located away from urban centres
6. Provide a wide variety of goods and services to customers under one roof.
7. They have fair prices that are customer friendly.

**Disadvantages of Hypermarkets**

1. Are only convenient to customers who have cars because they are situated away from city centres
2. They serve limited number of people due to their location
3. They require large amount of capital to establish
4. They can easily exploit their customers since their prices are not controlled
5. Require large amount of space which are not available in central business district (CBD)
6. They spend a lot of security to safeguard properties
7. **CHAIN STORES (Multiple shops)**

Are large scale businesses with separate branches which are managed and organized centrally. The branch managers are accountable to the head office.

Examples; *African Retail Traders (ART), White Rose dry cleaners, Nakumatt, Tuskys, Uchumi e.t.c*

**Characteristics/features of chain stores**

1. Are managed centrally from a head office
2. Prices are standard for all their products in all their branches
3. All branches deal in the same type of products
4. Sales are decentralized i.e. the various shops situated in different places act as selling points or branches
5. Purchases of stock are centralized i.e. buy stock buy stock in bulk centrally and distributed to the different branches
6. Goods can be transferred from one shop to another where the need for them is higher
7. The shops operate under one name and are similar in appearance and interior layout

**Advantages of chain stores/multiple shops**

1. They enjoy large trade discounts since they buy their goods in bulk centrally and is passed to consumers in form of low prices
2. Common costs such as those of advertising are shared
3. Goods that do not have a high demand in one branch can be transferred to another where their demand is high
4. They are easily identified by their colour and design
5. They have low operational costs because of the centralized buying, storage, advertising and accounting
6. They serve a large number of customers because they are spread in many towns and cities
7. The similarity of the shops in appearance and services serves as an advertising tool
8. Risks such as losses are spread among many shops
9. It is possible to pay for goods in one branch and pick them up in another.

**Disadvantages of chain stores/multiple shops**

1. Large amount of capital is required to start and maintain the business
2. They cater mainly for the urban areas as they are situated in those places
3. Organizational problems may occur due to their large size
4. No credit facilities are offered except those operating exclusively on hire purchase schemes
5. Response to market changes is slow due to the slow decision making
6. Decision making is slow as the head office must be consulted
7. Lack of personal touch with customers
8. Absence of personal touch between employer and employee may reduce incentives for hard work among staff
9. People tend to shy away from buying similar products such as clothes and this may reduce sales.
10. **Departmental stores**

This is a group of single shops operating under one roof with a centralized management

Each shop/department specializes in a particular line of products and is headed by its own department manager.

**Characteristics of departmental stores**

1. Each department has its own manager
2. Each department sells only one line of products
3. All departmental managers are answerable to a general manger
4. They offer a wide variety of goods at relatively low prices
5. They sell goods strictly on cash basis
6. They are usually in town centres
7. Goods are not transferable from one department to another as each has its own variety of goods.

**Advantages of departmental stores**

1. Customers can buy/access a wide variety of goods at fair prices under one roof.
2. They can afford to hire trained qualified experienced staff who provide quality services
3. They buy goods in large trade discounts. This enables them to sell at low prices.
4. Each department is able to make independent and quick decisions that affect its operations.
5. The independence of departments ensures that the weakness of one department does not affect each other.
6. Savings can be made on some activities such as product promotion by centralizing them.

**Disadvantages of Departmental stores**

1. A large amount of capital is required to start and maintain the stores
2. They require a large number of customers to operate profitably
3. It is difficult to give personal attention to customers
4. They cater mainly for the urban communities in which they are located
5. They strictly sell their goods on cash basis
6. Operational costs are high due to the wide variety of services offered
7. Their large size could encourage theft and pilferage of goods
8. The independence of **departments** can make central control difficult.
9. **Mail order stores**

This is a type of retail business where business is carried out through the post office, telephone or email

-Ordering of the goods is done through the post office telephone or email and delivering of goods is done by post or courier

-There is no personal contact between the seller and the buyer and buyers get information from advertisements.

-Goods are dispatched on the basis of cash with order (CWD) or cash on delivery (COD)

**Characteristics/features of Mail order stores**

**-**They sell the goods through the post office

-They operate on cash with order (CWO) or cash on delivery (COD) terms

-Heavy advertisement are involved

-Customers do not visit the selling premises.

-There is no personal contact between the buyer or the seller

-All transactions are done through the post office

-They deal with goods that are less bulky, have high value, and are durable and not too fragile

-May have large warehouses

**Advantages of Mail order stores**

* They reach customers who are far for away from the shopping centres
* Do not require the services of sales personnel or shop attendants for skilled labour since selling is routine
* Total control of distribution is possible
* Payments is made with order or delivery so there is little chance of bad debts
* Eliminates the loss associated with shop space, thus saving on rent
* Supply of goods is based on order thus a trader requires little working capital
* The method eliminates trips to congested stores and lengthy waits queues
* Do not require large storage space for goods.

**Disadvantages of Mail order stores**

* Advertising and postage costs may increases the price of goods
* There is lack of personal contact between the seller and the buyer
* There is limited variety of goods on offer
* Customers do not have the opportunity of inspecting goods before buying
* There are no credit facilities
* The method is only suitable for those who can read and write
* Should there be a problem with the post office.e.g industrial action like strikes, the business may be affected
* Difficult to operate in places where post office services are poor or unavailable
* Chances of being defrauded are high.

**FUNCTIONS OF RETAILERS**

These can be discussed as services rendered to consumers, wholesalers and producers

**Services Rendered to consumers**

1. ***Offers credit facilities;*** Retailers are in close contact with the consumers and some may give them credit facilities
2. ***After-*sales services;** Retailers who sell technical goods e.g. cars, electronics e.t.c may offer after sale services to consumers e.g. transport, installation repair e.t.c
3. ***Provision of variety of goods;*** Retailers stock a wide variety of goods from different wholesalers and manufactures enabling the consumers to have a wide choice.
4. ***Advising consumers;*** Retailers may offer advice to consumers on choice and use of products
5. ***Availing needed goods;*** Retailers make goods available to consumers at the right time and place
6. ***Breaking bulk;*** Retailers sell goods to consumers in convenient quantities
7. ***Accumulating bulk***
8. ***Stabilizing prices,*** By ensuring that goods are continuously available to consumers.

**Services Rendered to wholesalers**

1. Retailers store goods and relieve the wholesalers the burden of storing goods and the storage costs
2. They relieve the wholesalers the burden of transportation
3. Retailers advice wholesalers on market trends(on consumers demand)and give valuable information
4. They help in distribution of goods to the consumers
5. They help in breaking bulk on behalf of the wholesaler
6. They finance wholesalers to continue with their operations through paying for the goods
7. They relieve the wholesaler of some risks that arise from the storage of goods such as theft, fire and accidents.

**Services Rendered to producers**

1. Through wholesalers retailers provide very vital information to manufactures about market demand
2. They advertise goods on behalf of producers
3. They sell and market goods to consumers. This relieves the manufactures the task and risk of retailing
4. They store goods on behalf of the producers
5. They break bulk on behalf of producers to consumers
6. They finance producers by buying and paying cash

**WHOLESALE TRADE**

Wholesaling involves selling goods in large quantities to traders for resale. A wholesaler is a trader who buys goods in bulk from producers/manufactures for resale to retailers at a profit.

-There are wholesalers who carry out retailing but that does not make them retailers.

**Classification of wholesalers/Types of wholesalers**

Wholesalers may be classified depending on a number of factors. These factors include;

1. According to the range of goods they handle
2. According to the geographical area in which they operate
3. According to their method of operation.
4. **According to the range of goods hey handle**

Under this classification, wholesalers may be any of the following;

1. General merchandise wholesalers
2. General line wholesalers
3. Specialized wholesalers
4. **General merchandise wholesalers**

The word merchandise means ***goods***.

-The general merchandise wholesalers stock and sell a wide variety of goods e.g. hardware, clothes, cosmetics and foodstuffs. The retailers who buy from these wholesalers are thus able to get a wide variety of goods for resale.

-They are also called ***general wholesalers or full-line wholesalers***

**b) General line wholesalers**

-These are wholesalers who deal in a wide variety of goods within the same line e.g. textbooks, duplicating papers and other types of stationary.

**c) Specialized wholesalers**

-These are wholesalers who deal in a particular good from a given line e.g. in the line of grains, they may specialize in maize only.

**ii) According to the geographical area in which they operate.**

Under this category wholesalers may be;

1. Nationwide wholesalers
2. Regional wholesalers.
3. **Nationwide wholesalers;**

These are wholesalers who supply goods to traders in all parts of the country.

-They establish warehouses or depots in different areas from Kenya National Trading Corporation (KNTC)

**b) Regional Wholesalers**

These are wholesalers who supply goods to certain parts of the country only. They may cover a county, District, division e.t.c

**iii) According to their method of operation;**

Under this classification, wholesalers can be;

1. Cash and carry wholesalers
2. Mobile wholesalers
3. Rack jobbers
4. **Cash and carry wholesalers;**

These wholesalers sell goods on cash and self-service basis like supermarkets

-They neither offer transport nor credit facilities to their customers.

1. **Mobile wholesalers/Track distributors;**

These are wholesalers who use vehicles to move from place to place supplying goods to retailers e.g. soda distributors, bread distributors, beer distributors e.t.c.

1. **Rack jobbers**

These wholesalers specialize in selling certain/particular products to other specialized wholesalers. They buy goods from producers or from other countries for reselling.

E.g. some wholesalers buy horticultural products from producers and sell to other wholesalers in urban areas

-Rack jobbers usually stock their goods in shelves or racks from which customers select the goods to buy. Customers may be allowed to pay for the goods after they have sold them.

**d) Drop shippers**

These are wholesalers who make orders for goods from manufactures/producers but do not take them from the producers premises. They then look for the buyers for the goods and supply the goods directly from the producers

**Alternate classification of wholesalers**

An alternative classification of wholesalers is given below;

1. Those who buy goods store them in warehouses and sell them to traders without having added anything to them.
2. Wholesalers who act as wholesaler’s agents or brokers. These are middlemen who are paid a commission for their work e.g. commission agents
3. Those who after buying the goods and storing them prepare them for sale. They break bulk, pack, brand,sort,grade and blend the goods

**These terms are explained as below;**

1. **Breaking bulk-**Reducing a commodity into smaller quantities for the convenience of the buyer e.g. buying sugar from the producer in sacks and selling it in packets.
2. **Packing-**Putting goods in packets and boxes ready for sale.
3. **Branding-**Giving a product a name by which it will be sold
4. **Sorting-**Selecting goods to desired sizes, weight, colour and qualities
5. **Grading-**Putting goods in groups of similar qualities to make it easier to price them
6. **Blending-**It involves mixing different grades of a product to achieve qualities like taste and colour.

**Functions of a wholesaler**

These can be discussed as services rendered to producers, retailers and to consumers.

**Services of wholesalers to the producers**

1. They relieve the producers the problem of distribution by buying goods from them and selling to retailers
2. They relieve the producers of some risks they would experience e.g. damage,theft,fall in demand e.t.c
3. Save the producers from the problem of storage by buying goods and keeping in their warehouses
4. They prepare goods for sale on behalf of the producers
5. They get feedback from consumers on behalf of producers
6. They promote products through advertising, displays,trade fairs and exhibitions
7. They finance producers by buying goods from them and paying in cash.

**Services of wholesalers to the Retailers**

1. They stock a wide variety of goods in large quantities relieving the retailer from buying from different producers
2. They avail goods at places convenient to retailers
3. They break bulk for the benefit of retailers
4. They offer transport facilities to retailers
5. They offer advisory services to retailers regarding market trends
6. They offer credit facilities to retailers
7. They engage in product promotion on behalf of retailers
8. They sort, blend, pack and brand goods saving retailers from having to do it.

**Services of wholesalers to consumers**

1. They ensure a steady supply of goods to retailers hence consumers are not faced with shortages
2. They ensure a stable supply of goods hence there will be stability in market prices
3. They enable consumers to enjoy a wide variety of goods
4. They break the bulk of goods thus enabling the consumer through the retailer to get the goods in convenient quantities
5. They prepare goods for sale e.g. branding, blending and packaging
6. Pass information to consumers through retailers about the goods e.g. new products, new prices and their use.

**DOCUMENTS USED IN HOME TRADE**

A business document is **a *written record*** which gives evidence to a stage in the transfer of goods or provision of services from one party or it is written record which gives evidence that trader or a ***business transaction*** has taken place.

***A business transaction*** is a deal between two or more people involving exchange of goods and services in terms of money.

Business transaction may take place on ***cash basis***; in which case goods are paid for before or on delivery or a short while after delivery

Business transaction may also take place on ***credit basis;*** which means payment is made after a specified period from the date of delivery of the goods or the provision of the services

There are various business documents that are used in various stages of business transactions as discussed below;

1. **Documents used at the inquiry stage**

This is the first stage in transaction. An ***inquiry*** is a request by a prospective buyer for information on available goods and services. It is aimed at establishing the following;

* Whether the goods or services required are available for sale
* The quality or nature of the products available
* The prices at which the goods or services are being sold
* The terms of sale in respect to payment and delivery of goods or services

**Some of the documents used at this stage include;**

1. **Letter of inquiry;**

This is a letter written by a potential buyer to the seller to find out the goods and services offered by the seller.

A letter of inquiry can be general or specific. A specific letter of inquiry seeks for information about a particular product.

**Reply to an inquiry**

The seller may reply to the letter of inquiry by sending any of the following documents;

***-Price list***

***-A catalogue***

***-Quotation***

***-A tender***

**i) A price list**

This is a list of items sold by the trader together with their prices. The information contained in a price list is usually brief and not illustrated and may include;

-***Name and address of the seller***

***-List of the goods and services***

***-The recommended unit prices of the products***

***-Any discounts offered***

Price list show the prices of the commodities at that time.

1. **A catalogue**

A catalogue is a basket which briefly describes the goods a seller stocks.

It is normally sent by the seller to the buyer when the buyer sends a general letter of inquiry. It usually carries illustrations on the goods stocked, and could be in the form of attractive and colorful pictures

**The content of a catalogue includes the following;**

* Name and address of the seller
* Details of the products to be sold; inform of pictures and illustrations
* The prices of the products
* After-sales services offered by the seller
* Packaging and posting expenses to be incurred
* Delivery services to be used
* Terms of sale

-Catalogues carry more information than the price list and they are more expensive to print.

1. **Quotation**

This is a document sent by a seller to a buyer in response to a specific letter of inquiry. It specifies the conditions and terms under which the seller is willing to supply the specified goods and services to the buyer.

**The content of a quotation includes the following;**

*-Name and address of seller*

*-Name and address of the buyer*

*-Description of goods to be supplied*

*-Prices of the commodities*

*-Terms of sale i.e. discounts, time of supply, delivery*

*-Total of the goods to be supplied*

Quotations are normally in form of letters, but many large scale businesses have pre-printed quotations forms which they readily send to the potential customers.

1. **A Tender**

This is a document of offer to sell sent by a seller to a buyer in response to an advertised request

**Tenders contain the following;**

* Date when the tender advertisement was made
* Date of making document
* Name and address of prospective seller called the ***tenderer***
* The prices at which the goods can be provided
* Period of delivery
* Mode of delivery
* Discounts given
* Mode of payment

-Tenders are delivered in sealed envelopes which are opened by the buyer on a specified date

The winning tender is usually awarded on the of the lowest quoted price although the buyer is not obliged to accept this especially if quality is likely to be low

Tenders are not binding unless accepted by the buyer.

1. **Documents used at the order stage**

After receiving replies to inquiry in form of price list, catalogue or Quotation, a prospective buyer will study the terms and conditions stated in them, and then may decide to buy products or not.

1. **An Order**

If a prospective buyer decides to purchase an item(s),he or she then places an **order**

**An order** is a document sent by a potential buyer to a seller requesting to be provided with specified products under specified terms and conditions

-An order issued for goods is called a ***local purchase order (LPO)***

An order issued for services is called a ***local service order (*LSO)**

**Ways of making an order**

1. Filling an order form. This is a pre-printed document that is used for making orders
2. Writing an order letter
3. Sending an e-mail, faxing or sending a short text message
4. Giving a verbal order. Verbal orders have the disadvantage in that they can be misunderstood and there would be no record of items ordered

-Where written orders are made, the potential buyer keeps a copy of the order for use in verifying the goods ordered when they are delivered.

-**A written order may contain the following;**

* Name and address of the buyer
* Name and address of the seller
* The number of the order
* Quantities ordered and total amount to be paid
* Description of the goods ordered
* Price per item
* Special instructions on such matters as packaging and delivery

1. **Acknowledgement note**

On receiving the order, the seller sends the buyer an acknowledgement note

An acknowledgement note is a document sent by the seller to the prospective buyer to inform him/her that the order has been received and it is being acted upon.

After sending the acknowledgement note, the seller has to decide whether to extend credit to the buyer or not. At this stage, the seller has the following options;

1. If the seller is convinced that the buyer is credit worthy, arrangements are made to deliver the ordered goods or services to the buyer.
2. If the seller is not sure of credit worthiness of the buyer, **a credit status inquiry** can be issued to the buyer’s bankers or to other suppliers who deal with the buyer to ascertain the credit worthiness.
3. If the buyer is not credit worthy then a polite note or a **pro forma invoice** can be sent to him/her

**A proforma invoice**

This is a document sent by the seller to the buyer requesting the buyer to make payment for goods or services before they are delivered. It indicates that the seller is not willing to grant the buyer credit

**Functions of a proforma invoice**

1. A polite way of asking for payment before the goods are delivered
2. Sent when the seller does not want to give credit
3. Used by importers to get customers clearance before goods are delivered
4. Issued to an agent who sells goods on behalf of the seller
5. Show what the buyer would have to pay if the order is approved
6. Can be used to serve as a quotation

**Circumstances under which a pro-forma invoice may be used**

* If the seller does not want to give credit
* If the seller wants to sell goods through an agent
* If the seller wants to get clearance for imported goods
* If the seller wants it to function as a quotation
* If the seller wants to inform the buyer what he/she pay if the order is approved e.t.c

**Documents used at the Delivery stage**

After the seller has accepted the order sent an acknowledgement note and where necessary the pro-forma invoice, the seller then prepares the goods for delivery to the buyer. This can be done in the following ways;

* The seller can ask the buyer to collect the goods
* The seller can deliver the goods to the buyer using his/her own means of transport
* The goods can be delivered to the buyer through public transport
* The services(s) can be rendered to the buyer at the sellers or the buyers premises or at any convenient place.

The main documents that are used at this stage are;

1. **Packing note**

Before delivery goods are packed for dispatch. This is a document prepared by the seller showing the goods contained/packed in every container, box or carton being delivered to the buyer

-A copy of the packing note is packed with the goods to make/help the buyer have a spot check.

**The contents of a packing note include;**

**-**Description of goods packed

-Quantities of goods packed

-The means of delivery

**NOTE:** A packing not does not contain prices of goods. This ensures that those people involved in checking and transporting goods do not know the value of goods. This is done as a precaution against theft.

1. **Advice note**

This is a document sent by the seller to the buyer to inform the buyer that the ordered goods have been dispatched. It is usually sent through the fastest means possible.

-It contains the following;

* The means of delivery
* A description of the goods
* The quantity dispatched
* Date
* Name and address of buyer and seller.

**Functions of an advice note**

1. Informing the buyer that the goods are on the way so that in case of any delay in delivery, the buyer can make inquiries.
2. Alerting the buyer so that necessary arrangements can be made for payments when the goods arrive
3. Can serve as an acknowledgement note, where one is not sent/
4. **Delivery note**

This is a document sent by the seller to the buyer to accompany the goods being delivered.

-A delivery note is always made in triplicate (3), one copy remains with the seller and two sent to the buyer.

-When the goods reach the buyer, he/she confirms that the goods are the ones ordered for and that they are in the right condition by comparing the delivery note, the order and the goods. If the buyer is satisfied with the goods, he/she signs the two copies, retains the original and send the copy back to the seller. This serves as evidence that the goods have been received in the right condition and in the right quantities.

-Some businesses keep delivery books in which the buyer signs to indicate that goods have been received in good condition. A delivery book is used by the seller if he/she delivers goods by himself/herself as an alternative to a delivery note

**The content of a delivery note includes the following;**

1. Name and address of the seller
2. Name and address of the buyer
3. Date of delivery
4. Delivery note number
5. Description of the goods delivered
6. Quantities of the goods delivered
7. Space for the buyer to sign and comment on the condition of the goods received.
8. **Consignment note**

This is a document prepared by a transporter to show that he/she has been hired to deliver specified goods to a particular buyer. This document is used when goods are delivered to the buyer by public means of transport e.g. by trains.

-The seller is the **consignor**, the buyer is the **consignee** and the goods the **consignment**

**-**The transporting company prepares the consignment note and gives the seller to complete and sign. The seller then returns the note to the transporter (carrier) who takes it together with the goods to the buyer.

-On receiving the goods, the buyer signs the consignment note as evidence that the goods were actually transported.

**The content of a consignment note includes the following;**

* Details of the goods to the transported
* Name address of seller (consignor)
* Name and address of buyer (consignee)
* Terms of carriage and conditions of transporting the goods
* The transportation cost
* Handling information
* Destination of goods

1. **Goods Received note**

This is a document sent by the buyer to the seller to inform him/her that goods sent have been received. It usually prepared in duplicate, the original is sent to the seller and the copy retained by the buyer.

**The contents of the goods received note include;**

* Date of the document
* Name and address of the buyer
* Name and address of the seller
* Corresponding purchase order
* Details of goods received
* Date the goods were received.

1. **Returned goods note/Damaged goods note**

If goods are damaged on the way, the buyer may return them to the seller. The buyer may also return goods for other reasons e.g.

* Wrong type of goods
* Excess goods
* Wrong quality goods

-When the goods are returned, the buyer informs the seller of the return by sending a goods returned note.

-**A goods returned note** is a document sent by a buyer to a seller to inform him/her that certain goods are being returned to the seller.

-Where the goods are returned because of damage, the note may be referred to as **the damaged goods note.**

**The contents of the goods returned note include;**

* Details of goods that have been returned to the seller
* Date goods are returned
* The number of (GRN)
* Order number
* Delivery number
* Name and address of both buyer and seller

**-**When the seller receives the note together with the goods, he issues a credit note

1. **Documents used at the invoicing stage**

This stage involves the seller requesting or demanding for payment from the buyer for the goods or services delivered.

**Some of the documents used at this stage include;**

1. **Invoice**

This is a document sent to the buyer by the seller to demand for payment for goods delivered or services rendered.

**There are two types of invoices namely;**

1. **Cash invoice-**This is sent when payment is expected immediately after delivery thus acting as a **cash sale receipt**
2. **A credit invoice-**This is sent when a buyer is allowed to pay at a later date.

**Functions of an invoice**

1. It shows the details of goods sold i.e. quantity delivered, unit price, total value of the goods and terms and conditions of sale.
2. It is a request to the buyer to make payment
3. It serves as an evidence that the buyer owes the seller a certain amount of money
4. It is used as a source document in recording the transaction in the book of accounts.

**-The contents of an invoice include the following;**

* Invoice number
* Name and address of the seller
* Name and address of the buyer
* Date document is prepared
* Details of goods repaired
* Unit prices of goods delivered
* Total value of goods
* Discounts offered
* E and O.E printed at the bottom

The letters **E** and **O.E (**Errors and Omissions Excepted) means the seller reserves the right to correct any errors and omissions made in the invoice.

-On receiving the invoice, the buyer verify the contents using the local purchase order and the delivery note. If the invoice is in order, the buyer makes arrangements to pay the amount stated.

Businesses which offer services issue a document called **a bill**, which serves the purpose of an invoice.

**Differences Between the invoice and pro-forma invoice**

|  |  |
| --- | --- |
| **The invoice** | **The pro-forma invoice** |
| 1. It is issued after goods and services have been delivered | 1. It is issued before goods and services have been delivered |
| 1. It shows the total value of the goods or services on credit | 2)Shows the total value of goods and services to be bought |
| 1. It is used to demand payment for products sold on credit | 3)It is used to demand for payment in advance for products to be bought |
| 1. Used as a basis for making payment for products already bought | 4)Used as a basis for preparing payment for products not yet bought |
| 1. Serves as a notice of payment for products bought on credit | 5) Serves as a Quotation for products to be bought. |

1. **Credit note**

This is a document sent by the seller to the buyer (credit buyer) to correct an overcharge. It is used to inform the buyer that the amount payable by him/her has been reduced

**An overcharge** is an excess amount charged beyond the right price.

**Causes of overcharge may include;**

* Arithmetical errors like wrong addition
* Price overcharges
* Inclusion of wrong or unordered items in the invoice
* Failure to deduct the allowable discounts
* Return of goods (damaged goods)
* Failure to note the return by the buyer of packing cases or containers used to deliver goods to him/her
* Use of wrong price list.

-The purpose of the credit note is to reduce the total invoice amount by the amount of the overcharge.

-A credit note is usually **printed in red** to distinguish it from other documents.

-**Contents of a credit note include;**

* Name and address of the seller and the buyer
* Credit note number
* Date document is prepared
* Description and value of goods returned by buyer (in case that was done)
* Total overcharge

**Reasons why a seller would send a credit note to a buyer/circumstances under which a credit note is sent to a buyer.**

-When there is an overcharge in an invoice

-When the original invoice had indicated items that were not supplied

-When the buyer returns empty cases/crates that had been charged in the invoice.

-When the buyer returns some goods to the seller

-If the buyer was entitled to a discount which was not given or taken care of in the invoice

1. **Debit note**

This is a document sent by the seller to the buyer to correct an undercharge on the original invoice. It is used to inform the buyer that the amount payable by him has been increased.

-A debit note acts as an **additional invoice.**

**-An undercharge** arises when amount charged on products is less than their right price.

**Causes of undercharge include;**

* Price undercharges on items
* Arithmetic errors/mistaken in calculation
* Omission of items in the invoice
* Retention of crates and containers that were not involved by the buyer
* Deductions of more discount than what was give/intended

**Circumstances under which a debit note will be sent to the buyer.**

1. When there is an undercharge in the invoice
2. If the buyer had been given a discount that was not due to him
3. If some items had been omitted in the original invoice
4. If the buyer decides to retain some empty containers or crates

**Differences Between a debit note and a credit note.**

|  |  |
| --- | --- |
| **DEBIT NOTE** | **CREDIT NOTE** |
| 1. Issued to correct an undercharge on the invoice. | 1. Issued to correct an overcharge on the invoive. |
| 1. Written on blue or black. | 2)Usually written in red |
| 1. Issued when containers have not been returned | 3) Issued when containers have been returned. |

**Documents used at the payment stage**

This is the final stage of a credit business transaction. It takes place after the invoice has been received and ascertained to be correct or where necessary, corrections made.

The documents used at the payment stage include;

1. **Receipt**

This is a document issued to the buyer by the seller as proof that payment has been made.

-Payment can be done in cash, cheque, other forms of money or in kind

-The receipt also serves as a source document for making entries in books of accounts.

**Contents of the receipt include;**

* Date of payment
* Name of the person making payment
* Name of person/institution receiving payment
* Amount paid in words and figures
* Means of payment
* Receipt number
* Signature of person issuing the receipt.

-The issuance of a receipt by the seller to the buyer after receiving payment marks the end of the credit transaction between the seller and the buyer (where payment has been done in full)

-A receipt serves the same purpose as the **cash sale slip**

**ii) Statement of Account**

This is a document prepared by the seller and sent to the buyer, giving a summary of all the dealings/transactions between them during a particular period of time, usually a month. It has the following details;

* Date when it was prepared
* Name and address of the seller
* Name and address of the buyer
* Account number
* Date column-where the date of each transaction is recorded
* Particulars (Details)column-where the explanation of each transaction is shown
* Money column

-Debit column-increases in the amounts payable due to credit sales or under charge correction.

-Credit column-Decrease in the amounts payable due to overcharges corrected or payments recorded.

-Balance column-Amount owing after each transaction (Balance outstanding)

* Any discounts allowed to the buyer
* Date when the buyer is expected to clear the balance
* Terms of credit e.t.c

-The statement of account enables the buyer to ascertain the correctness of the transactions which have taken place with the seller over the stated period

**iii)IOU**

An IOU (I owe you) is a document written by the buyer and sent to the seller to acknowledge a debt.

-It does not specify date when settlement will be made.

-It acts as evidence that a debt exists.

**Summery**

|  |  |
| --- | --- |
| **Document sent by buyer** | **Document sent by seller** |
| -Letter of inquiry | **-**Price list |
| **-**Order | **-**Catalogue |
| **-**Goods received note | **-**Quotation |
| **-**Goods returned note | -Tender |
| **-**IOU | -Acknowledgement |
|  | -Advice note |
|  | **-**Packaging note |
|  | **-**Delivery note |
|  | **-**Consignment note |
|  | **-**Invoice |
|  | **-**Pro forma invoice |
|  | **-**Credit note |
|  | **-**Debit note |
|  | **-**Receipt |
|  | **-**Statement of account |

**MEANS OF PAYMENTS**

These are the methods or ways the buyer may use to settle debts arising from a business transaction. These are various means of payments that can be used. These means of payments can be put into the following groups;

1. ***Cash***
2. ***Means of payment provided by the post office***
3. ***Means of payments provided by the commercial banks***
4. ***Means of payments which arise from private arrangements between sellers and buyers***
5. ***Other means of payment.***
6. **Cash**

This refers to the use of notes and coins to make payments. Currency notes and coins are issued by the central Bank of Kenya and are therefore **legal tender**

**-**Legal tender means everyone is obliged by law to accept them as a means of payment i.e. no one can refuse to accept them as they are backed by the law.

-Notes and coins are available in different denominations as follows;

**Coins;** 5cents, 50cents, sh.1, sh.5, sh.10 and sh.40.

**Notes;**sh.10.sh.20,sh.50,sh.100, sh.200,sh.500 and sh.1000.

-Coins are suitable for settling small debts and are acceptable as legal tender up to a certain maximum e.g. 50cents coins the maximum is sh20 and sh.1 the maximum is ksh.100.

**Advantages of cash as a means of payment:**

1. It is the only means of payment which is a legal tender
2. Convenient for settlement of small debts
3. Convenient to people with or without bank accounts
4. Cash is readily usable

**Disadvantages of cash as a means of payment**

1. Not convenient to carry around
2. Cash can be lost or stolen easily as it is readily usable
3. Payment is difficult to prove unless a receipt is issued

**Circumstances under which cash payment is appropriate**

1. Where the amounts involved are small
2. Where the payee (receiver) does not accept other means of payment
3. Where cash is the only means available
4. Where the payee requires cash(money) urgently
5. Where there is need to avoid expenses associated with other means of payments
6. **Means of payments provided by the banks**

Commercial banks are financial institutions that accept deposits to and withdrawals from them.

They also lend money to customers. Examples of commercial banks include: ***Commercial bank of Kenya, National bank of Kenya, Banklays bank, and Co-operative bank e.t.c***

-There are various means of payments provided by the commercial banks. They are;

1. Cheques
2. Bank drafts/bankers cheques
3. Credit transfers
4. Standing orders
5. Travellers cheques
6. Telegraphic transfers
7. Debit cards
8. Electronic fund Transfer(E.F.T)
9. **Cheques**

This is a written order by an account holder with the bank (drawer) to the bank (drawee) to pay on demand a specified amount of money to the named person (payee) or the bearer

**Parties to a cheque**

1. **Drawer-**This is the person or institution who writes and issues the cheque.He is usually a current account holder with the bank
2. **Payee-**The person or institution to be paid
3. **Drawee-**The bank(where the drawer has an account)

**Details on a cheque; they include:**

* Date when it is issued
* Name of the drawer
* The name of the payee, except in bearer cheques
* The name of the drawee(bank)and branch from where it is issued
* Amount to be paid in figures and in words
* The account number of the drawer
* The signature of the drawer
* The cheque number and bank code
* The appropriate revenue stamps

**Types of cheques**

1. **Open cheques**
2. Crossed cheques
3. Bearer cheques
4. Order cheques
5. **Open cheques**

This is acheque that can be presented for payment over the counter. You present it and cash is paid to you.

1. **Crossed cheques**

This is acheque that bears two parallel lines on the face. This means the cheque cannot be cashed over the counter. The cheque is deposited in an account (payee’s account)

The payee then withdraws the money from his/her account

A crossed cheque can be opened by the drawer signing twice on its face.

-A crossing can be general or special

-**General crossing-**general crossings only contains the two parallel lines. This implies that the cheque will be paid through any bank in which it is deposited.

-**Special crossings-**Has other instructions included in the crossing i.e;

* ***Not negotiable****-*Means the cheque can be transferred by the payee to a third party, but he third cannot transfer the cheque (only the original payee can transfer the cheque)
* ***Account payee only-***Means the cheque should be deposited in the account of the payee.
* ***Not transferable-***Means there is no negotiation or transfer of the cheque

1. **Bearer cheques-**This cheque does not have the name of the payee written on it. The person presenting it to the bank is the one who is paid.
2. **Order cheque-**The cheque bears the name of the payee. The bank pays this particular payee the amount stated in the cheque after proper identification

**Dishonouring a cheque**

A cheque is dishonored if the bank refuses to pay and returns the cheque to the drawer.

-A cheque can be dishonored due to the following reasons:

1. Insufficient funds in the account
2. If the signature on the cheque differs from the drawers specimen signature in the bank.
3. If the cheque is stalc i.e. presented for payment after six months from the date of issue.
4. If the cheque is **post dated-**meaning the cheque is presented for payment earlier than the date on the cheque
5. If the amount in figures is different from the amount in words
6. If there are alterations on the cheque which are not countersigned by the drawer
7. If the cheque is torn, dirty or defauld making it illegible
8. If the account holder(drawer) is dead and the bank is aware of the fact
9. If the drawer instructs the bank not to pay the particular cheque
10. If the cheque contains errors which need to be corrected
11. If the drawer becomes bankrupt or insane
12. If the drawer has closed his/her account.

**Advantages of using cheques**

1. They are more secure than notes and coins because if they are lost or stolen, they can be traced to the person who cashed them.
2. They are convenient to carry and can be used to pay large sum of money which would be otherwise inconvenient to pay using cash
3. They can be transferred to a third party to make payment/cheques are negotiable
4. Payment can be made by cheque without the need to travel to make payment
5. They provide a record of payment because of the counterfaits.The counterfaits acts as proof that payment has been made.
6. Under special circumstances, they can be cashed or discounted before maturity.

**Disadvantages of using cheques**

1. Cheques can be dishonored
2. Requires the payee to go to the bank and in some cases to have an account
3. The drawer pays some charges e.g. charges for the cheque book
4. Can only be issued by an account holder/the drawer must have an account
5. They are not readily acceptable by everybody
6. They do not provide immediate cash

**Circumstances under which a cheque is appropriate as a means of payment**

* Where the amount of money involved is large
* Where the policy of the business demands so
* Where a cheque is the only means available
* Where there is need to avoid other risks associated with other means of payments

1. **Bank drafts/Banker’s cheques**

-This is acheque drawn on a bank i.e. a cheque drawn by one bank to another requesting the latter bank to pay a named person or institution a specified sum of money and charge it to the drawing bank

-It can also be drawn by a bank on the request of a customer. The customer fills in an application form obtained from a bank and hands it over to the bank together with the money she wants to transfer and a commission for the service.

-The bank then prepares the cheque and gives it to the applicant who can then send it to the payee

-A bank draft has the drawing bank’s guarantee for payment. It is therefore more readily acceptable than personal cheques.

-It is suitable when urgency is desired in the payment as it is more readily acceptable

1. **Credit transfer**

This is a means of payment provided by commercial banks to their current accounts holders who want to pay many people using one cheque/at the same time

-One cheque is drawn and is usually accompanied by a list of the people to be paid, the amount to be paid to each person and the addresses of the bank branches where the payment is to be made.

-The bank then ensures that a credit transfer is affected to the various bank branches and each payee is paid

-A credit transfer is usually used by employers to pay salaries to their staff members.

**d) Standing order**

This is an instruction to a bank by an account holder to pay a named person or an organization a fixed amount of money at regular intervals over a specified period of time or until stopped

-It is a very useful means of payment for business people as it enables them to regularly pay their recurrent bills e.g. water, insurance, electricity, loan payment, hire purchase payment e.t.c

**e)Traveler’s cheques**

This is a cheque drawn by one bank to another requsting the latter to pay a specified sum of money to a named bearer, who usually would have bought that cheque from issuing bank. The cheque holder pays the value of the cheque plus the charges for the services to the issuing bank.

-Travellers cheques are usually issued in fixed denominations and are very convenient for travel purposes, hence their name. They enable a person to travel without having to carry a lot of cash. The cheques are also readily acceptable as a means of payment.

**f) Telegraphic Transfers**

This is a method /means of transferring money offered by commercial banks to anybody who wants to send money to another

The sender is required to fill an application form and provide the following information among others:

* His/her name
* Name of the payee
* The amount of money to be remitted
* The bank where the money would be paid

The applicant is charged a commission and telegraph fee. The paying bank sends a telegram to the payee who has to identify himself/herself before the payment is made

The method is fast and safe.

1. **Debit cards**

These are plastic cards issued by financial institutions e.g. banks that enables a person to purchase goods and services from any business that accepts them.

Debit cards are used to make payments from money held in ones accounts and are therefore an alternative to cash payments. Examples are ATM cards.

1. **Electronic Fund Transfer (E.F.T)**

EFT is a method of transferring money from one account to another where computers are used. The sender is required to fill an electronic fund transfer form provided by the bank which instructs the bank to transfer money from his/her account to a named account.

Information is then sent to the payee’s bank electronically and the amount in the account is increased accordingly.

The method is very fast.

1. **Means of payments provided by the post office**

The post office provides means of payments that can be used to transfer money from one person to another

The means of payments provided by the post office to facilitate payments includes,

1. Money orders
2. Posta pay
3. Postal orders
4. Postage stamps
5. Premium bonds
6. **Money orders**

A money order facilitates the transfer of money from one person to another through the post office(and/or bank)

A money order is usually for a specified sum of money usually purchased with cash from the post office

A person wishing to send money using this method visits a post office and completes an application form. Some of the details contained/given in the form include;

* The amount of money to be remitted
* Name of the payee
* The name of the post office where the money order will be cashed
* Name and address of the sender
* Whether the money order is to be ordinary or sent by telegraph
* Whether the sender wishes to be informed if the money has been paid
* Whether the money is to be paid through a bank account or at the post office counter.

The application form, money to be remitted and commission for the service is handed to the post office cleark who prepares the money order and gives it to the sender who may post it or send it to the payee.

-Telegraphic money orders, the post office sends a telegram to the payee informing him/her to go to the post office and claim the money.

-Before payment is made, the payee must;

* Identify himself/herself by producing an ID card
* Identify the person who sent the money.

-The sender of the money is left with a counterfoil which serves as evidence that money was sent and it can be used to reclaim the money if it did not reach the payee

-Money order may be open or crossed. A crossed money order bears two parallel lines drawn diagonally on its face and must be deposited in the bank account of the payee. It cannot be cashed over the counter at the post office.

-An open money order can be presented for payment at the post office counter.

**Circumstances under which money order is appropriate**

1. Where it is the only means available
2. Where other means are not acceptable
3. Where there is need to avoid inconveniences or risks associated with other means
4. **Posta pay**

This is an Electronic Fund Transfer (EFT) service offered by the postal corporation of Kenya, for sending and receiving money instantly from various destinations both locally and internationally.

-The person sending money fills in a form called ‘*send form’* giving the following details;

* Name, address and telephone number of sender
* Name, address and telephone number of receiver
* Pay city, town and location of the receiver
* Signature of the sender
* Amount to be sent

-The sender hands over the form, the amount of money to be sent and the commission to the post office clerk for processing

-The transfer is done via the internet through a machine that gives a twelve-digit number for the transaction called the  ***‘Transaction control number’(TCN).***The sender then conveys this number, amount sent and pay location to the recipient and instructions to the recipient to visit the named post office for payment. This message is usually conveyed through the quickest means possible such as a telephone call

-The sender is given a copy of the processed ‘send form’ as proof that money has been sent. The post office retains the original for record purposes.

-When the receiver visits the post office, he/she will fill a ‘receiver form’ giving the following details;

1. The transaction number(i.e. the twelve-digit number)
2. The expected amount
3. The name, address and telephone number of the sender
4. The city town or location of the sender
5. Signature of the receiver.

The receiver then identifies himself or herself by producing an ID card or passport before receiving the money.

-The recipient/payee is then given the money, a copy of the receive form as proof of having received the money. The paying post office retains a copy as proof of payment.

**Advantages of using Posta pay as a means of payment**

1. **Accessibility-**Posta pay outlets (post offices) are located countrywide to eliminate movement over long distances to get money
2. **Ease of use-**Sending or receiving money is easy as one only needs to fill a form which is processed immediately
3. **Speed-**the transfer of money is instant (fast)
4. **Security-**Confidentiality in the transmission of money is provided and money is only paid to the person intended
5. **Convenience-**Posta pay services are offered for long hours during the day and pay locations are conveniently located
6. **Affordability-**Posta pay services are relatively affordable as large amounts can be sent at reasonable costs.
7. **Postal orders**

**-**Postal orders are sold by the post office for the purpose of remitting money

-They are available in fixed denominations of sh.5, 10.20,40,60,80,100 and 200

-On buying a postal order, the sender pays for both the face value of the postal order and a commission charged for the service

-Postal orders just like money orders are issued with counterfoils that the sender will keep as evidence of remittance in case the person to whom he/she remits the money does not receive it.

The sender writes the name of the payee on the postal order as a safety measure.

Payment to the bearer can be made in any post office with postal order facilities

Postal orders may also be crossed or open (see crossed and ordinary money orders)

**Circumstances under which postal orders are appropriate**

1. Where the amounts involved are small
2. Where it is the only means available
3. Where there is need to avoid inconveniences and risks associated with the other means of payment

**Differences between postal orders and money orders**

|  |  |
| --- | --- |
| **Postal orders** | **Money orders** |
| 1. It can be cashed at any post office | 1. Can only be cashed at a specific post office |
| 1. Are in fixed denominations | **b)**Varies according to the needs of the remitter |
| 1. Does not require any application form to make a remittance | **c)**Requires the filling of an application form in making remittance |
| 1. Can be cashed by the bearer | **d)**Can only be cashed by the payee |
| 1. Value can be increased by affixing revenue stamps | **e)**Value cannot be increased by affixing revenue stamps |

1. **Postage stamps**

Postage stamps may be used to pay small amounts of money. The person to whom the stamps are sent can then use them for sending mail and/or to pay someone else.

1. **Premium Bonds**

Premium bonds are issued by the post office in denominations of sh.10 and sh.20.They mature after a given period, after which one can cash them.

-Bearers can also enter into draws so as to win money.

-Premium bonds can be used to settle debts, but it is not a safe method because they can be cashed by anybody i.e. by the bearer.

**Circumstances under which postage stamps and premium bonds are used**

1. Where the amounts involved are small
2. Where they are the only means available.

**Means and payments which arise from private arrangements between the sellers and the buyers.**

There are various business documents that originate from private agreements between buyers and sellers. The buyer acknowledges the credit and accepts to pay at specified future dates by signing some documents. These documents include;

1. I Owe you(IOU)
2. Bill of exchange
3. Promissory note
4. **Bill of Exchange**

This is unconditional order, in writing, addressed by one person to another, requiring the person to whom it is addressed by one person to another, requiring the person to whom it is addressed to pay on demand, or at a stated future date, the sum of money on the bill to the drawer, or a named person or to a bearer.

1. **Order-**is a command not a request
2. **Unconditional-**Without condition i.e. no use of such words as ‘if’ or ‘whom’
3. The bill must be in writing
4. Amount of money must be clearly stated
5. Payee must be named. He/she can be the drawer or someone else or the bearer
6. Date of payment must be stated or can be determined e.g. ‘Two months from the date of today’ or Three days after 31st January 2012’

-A bill of exchange is prepared by a creditor to a debtor when a creditor wants to be assured of payment by a debtor on a given future date or when asked to do so by the creditor

-If the buyer/debtor signs the bill **“accepted”** then he/she cannot deny responsibility for the debt since he/she has acknowledged responsibility for the date.

**Procedure for preparing a bill of exchange**

A bill of exchange is written by a person (creditor) to his debtor to seek assurance that the debtor would pay the debt.

**Step 1.**The creditor prepares the draft and sends to the debtor.

**Step 2.**The draft and after accepting the conditions laid therein, he/she signs on it and write the words “**accepted”.** He/she then sends it back to the creditor. At this point the draft becomes a bill of exchange.

**Step 3.**The creditor receives the bill and may:

1. Keep it until maturity when he would present it to the debtor(accepted) for payment
2. Discount it with a bank. This is presenting to a bank or any financial institution and receiving cash against it before the maturity date. One is however charged(discounting charge) for the service
3. Negotiate it-Using it to pay someone else apart from the payee.

**Parties to a bill of Exchange**

1. **Drawer-**This is the person who gives the debtor the written order to pay the value of the bill of exchange(the creditor)
2. **Drawee-**This is the person to whom the order to pay is given (Debtor).He or she accepts the bill.
3. **Payee-**This is the person to whom the payment is to be made. The payee may be the drawer, or

**Essentials of a bill of Exchange**

1. It must be signed by the drawer(creditor)
2. It must be accepted by the drawee(debtor)
3. It must be accepted unconditionally
4. It must bear appropriate revenue stamps

**NOTE:**A bill of exchange becomes a means of payment when it is presented(discounted) to the banks or negotiated.

**Advantages of using a Bill of exchange**

1. The holder may pass rights on the bill to another person
2. Date of payment is determined
3. Acceptance by the debtor makes it legally binding
4. The payee may receive money before due dates by discounting

**Disadvantages of using a Bill of Exchange**

1. It may be dishonoured on maturity
2. Cash may not be readily available as banks may be reluctant to cash bills from debtors of doubtful financial backgrounds
3. It is an expensive form of credit as the creditor may lose part of the face value of bill in form of discount

**Circumstances under which a Bill of exchange is appropriate.**

-When the creditor wants to be assured that the payment would be done

-Where the creditor wants money while the debtor is not able to raise it before the end of the credit period

-Where the creditor wants to use the debt to pay another debt.

1. **Promissory note**

This is a document in which a debtor promised to pay a creditor a specified sum of money at a specified time/date.

**Features of a promissory note**

1. There are two parties i.e. the drawer(debtor) and the payee(creditor)
2. There is a promise to pay
3. It is written by the debtor to the creditor
4. It does not require acceptance since it is signed by the person committing to pay the money
5. The writer/maker is liable on the note as he/she is the debtor.

-After drawing and signing the promissory note, the debtor (borrower) sends it to the seller.(lender)

-The seller/lender may keep it until maturity and then present it for payment or may discount it with the banks before maturity.

**Similarities between a Bill of Exchange and a promissory note:**

1. Both act as evidence of the acknowledgement of a debt
2. Both may be discounted or endorsed before maturity
3. Both are negotiable i.e. can be transferred from one person to another
4. Both are legally binding
5. Both allow for adequate time within which to organize for the payment of the value of the bill or note.

**Differences between a promissory note and a bill of exchange:**

|  |  |
| --- | --- |
| **Promissory note** | **Bill of Exchange** |
| **-**Drawn and signed by the debtor | **-**Drawn and signed by the creditor |
| **-**It does not need to be accepted | **-**It must be accepted by the debtor for it to be valid |
| **-**The drawer and drawee are one person | **-**The drawer is the creditor and the drawee is the debtor |

1. **The IOU**

-IOU is an abbreviation of ‘I Owe you’

-It is a written acknowledgement by a buyer of a debt arising from the purchase of goods and services on credit

-It is written and signed by the buyer and sent to the seller

-If the seller accepts it, then the buyer can receive goods and services on credit

Though the IOU does not usually indicate the specific date of payment, the buyer acknowledges the debt and accepts responsibility to pay at a suitable future date

**NOTE:** The use of IOU is restricted to commercial transactions involving parties who have dealt with each other for a long time; hence they know each other well.

1. **Other means of payment**
2. **Credit cards**
3. **Mobile money transfer services e.g. M-pesa**
4. **Credit cards(plastic money)**

**-**These are plastic cards that enable a person to purchase goods or services on credit from any business willing to accept the card

-They are both a means of payment and a term of payment

1. **Mobile money transfer services e.g. M-pesa**

-This is a means of money transfer services provided by mobile phone service providers to their customers (subscribers)

-It can only be used to transfer money between people subscribed to the same mobile phone network e.g. from one safaricom subscriber to another safaricom subscriber, Airtel to Airtel e.t.c

-The sender must register for the money transfer service and is issued with a PIN (personal identification number)

-When money is sent, both the sender and the receiver will receive a message confirming the transfer.

-A person can send money anytime anywhere so long as he/she has value in his/her m-pesa, pesa pap account.

-Each mobile service provider has a range of value that can be transferred using this method.

-A small transaction fee is charges for the transfer i.e. for sending and withdrawing

**Benefits of mobile money transfer services**

1. **Confidentiality-**The secret PIN protects the value in the customer’s account
2. **Ease of use-**The service is easy to use as the agents assists to carry out transaction
3. **Speed-**Money transfer is an instant service conveyed to the receiver via the short message service(SMS)
4. **Convenience-**The service is convenient to both the sender and the receiver, as they only need to go to the nearest agent(money can be sent/deposited or received anywhere)
5. **Accessibility-**The agents e.g. m-pesa agents are located in most parts of towns and also in rural areas. Money can hence be sent and received anywhere and anytime.
6. **Affordability-**The service charges are very low for registered users and very affordable for non registered users
7. **Security-**Relatively secure when the sender uses the correct phone number of the receiver.

**TERMS OF PAYMENTS**

These are the various agreements/conditions agreed upon between sellers and buyers regarding how debts arising from their transactions should be settled. These conditions include;

-How payment is expected

-When payment is expected

-What is included in the quoted price e.t.c

-**Terms of payments are broadly categorized into two;**

1. Cash payments
2. Deferred payments(credit payments)

**-**This classification depends on whether the agreement is to pay for the products immediately or at a later date.

1. **Cash Terms of payments**

Cash terms of payment apply when a buyer is required to pay for goods or services immediately before or after delivery. They include the following:

1. **Spot cash-**This is where payment is done at the point of purchase.

**-**Mainly used in retail businesses where customers are required to pay as they get the goods or receive the service.

**b) Cash on Delivery (C.**O.D)

**-**This is where the buyer pays for the goods (or services) as soon as they are delivered to his or her premises.

**c) Cash with order (C.W.O)**

**-**This is where the buyer is required to pay for the goods when making the order for the goods or the services.

**Circumstances under which C.O.D and C.W.O are appropriate**

1. When the buyer is new to the seller
2. Where the buyer’s credit worthiness is in doubt
3. Where the seller is operating mail order stores(C.W.O only)
4. Where C.W.O or C.O.D is the policy of the business
5. If the cost of collecting debts is considered high by the seller
6. When a seller is to make goods based on unique specification provided by a particular buyer(C.W.O only)
7. Where the seller wants to avoid tying up business capital in debts.

**d)Prompt cash**

This is where payment should be made within a few days (normally seven days) after delivery.

-Prompt cash period allows them to examine the goods and check the invoice to certify its corrections

**ii) Deferred payments**

This means that goods or service are not paid for in full on delivery. They are instead paid in future in a lump sum or in several instalments.

The period within which a buyer is supposed to pay the seller is referred to as **credit period** and is expressed in terms of days.

-Terms of payments in credit transactions are usually agreed upon by the seller and the buyer depending on;

* Capital base/financial stability of the seller
* The nature of the goods supplied
* The relationship between the buyer and the seller
* The credit worthiness of the buyer

-In determining the credit worthiness of a buyer, the seller will consider;

**a) Character-**The behavior of the buyer in terms of honesty, which determines the probability of the buyer honoring his /her debt obligations

**b) Capacity-**The buyer’s ability to pay as indicated by past business performance records or the profitability and the value of his/her assets.

**c) Capital-**The financial position of the buyers business or how much the buyer’s business is worth.

**d) Collateral-**These are the properties of value pledged by the buyer as security for the credit

**e) Condition-**The effect of the existing economic conditions on the buyer’s ability to pay his/her debts.

**Forms of Deferred payments (credit payments)**

1. **Open trade credit/open credit**

**-**Under these forms, goods and services are sold to the buyer who is expected to pay for them at a future date or within a given period

-The buyer may also be required to pay for goods or services on installments.

-Discounts may be allowed to encourage the buyer to pay on time.

-The ownership of the goods passes to the buyer immediately after entering the contract. The seller should however ensure the buyer will pay by:

* Ascertaining the credit worthiness of the buyer
* Asking the buyer to guarantee payment by signing some documents e.g. bill of exchange
* Asking the buyer to have someone else to guarantee the payment
* Asking the buyer to pledge (mortgage) some of his/her property as security.

**Factors to consider when giving credit**

1. Credit worthiness of the buyer
2. Repayment period
3. Amount of goods the customer wants
4. Availability of adequate stock
5. Honesty i.e. reliability of the customer
6. Frequency at which the customer buys from the seller
7. Seller’s intention to attract and retain customers.

**NOTE:** No interest is usually charged on open trade credit.

**Examples of open trade credit**

1. **Simple credit(prompt cash/personal credit)**

-Is a form of credit extended to a trader or a customer for a very short time, usually not more than a week

-It is a common form of credit between retailers and their customers.

-It is also referred to as prompt cash because payment is made within a short time.

**ii) Monthly credit**

**-**A form of credit extended when a seller allows the buyer to pay/settle his/her debt after one month

-The buyer can continue taking goods from the seller up to the end of the month.

-It is a form of credit usually allowed by retailers to salaried workers for goods such as food items and newspapers

**iii) Budget Accounts**

-Are usually operated by large scale retailers to approved customers

-The retailer keeps an account of the customer in his/her books

-To operate budget accounts;

* A deposit is required
* Regular payments are to be made
* There is a maximum amount of credit to be allowed
* The customer may be charged for any special services given by the seller called “**after sale services”**

**iv)Trade credit**

**-**This is credit given by a trader to another trader when goods are bought for selling

-Payments for the goods is made after selling the goods or within an agreed period of time

**v) Credit card facilities**

**-**Plastic money (credit cards) enables the holder to obtain goods and services on credit form specific suppliers (people willing to accept the cards)

-They also enable the holders to obtain money from specific banks and other specified financial institutions

-They are available to adults of approved credit worthiness

-Some credit cards can only be used locally while others like **visa cards** can be used both locally and internationally.

-When a customer makes a purchase using the card, the seller electronically verifies the validity of the card and whether the credit-card holder/customer has sufficient credit to cover the purchase. If all is well, the credit card customer signs a specific form that have been filled by the trader. Such forms are usually provided by the card company to the trader. The trader and the card holder retain a copy each and the other copies are sent either to the credit card company or to the trader’s bank.

-**There are therefore 3 parties to a credit card;**

* The company that issues the cards
* The card holder
* The trader

-At regular intervals, the credit card company sends a statement of account to each card holder showing the outstanding balance at that time. The outstanding balance should not be greater than the allowed credit limit.

-Examples of companies that issue credit cards include; **Barclays card, American Express, Access cards and Visa cards.**

**Advantages of credit card**

* They are safer to carry around than cash
* Convenient to carry around
* Enables the holder to get goods and services from specified sellers without paying immediately
* Some are acceptable both locally and internationally
* Enables the holder to get money from specified banks
* Increases credit rating of an individual.

**Disadvantages of credit cards**

* To acquire the credit card, the applicant is required to have an established credit record
* The holder is charged high interest rate by the card company
* It is prone to abuse through fraud
* Interest is charged if there is delay in payment
* Can only be used by those who are 18 years and above
* Holder may be tempted to overspend
* Their use is limited to only specific areas(urban areas)
* Faces stiff competition from other means of payment such as cheques, money orders and postal orders.
* Only few businesses accept the cards
* Long procedures are involved in getting the cards
* The cards can only be affected by people with high income.

1. **Hire purchase**

**To Hire:** Means to use someone else’s property for a payment

**Hire purchase:** Is a method of hiring property with an option to buy.

-The term of payment for a hire purchase are;

* The buyer pays an initial deposit(down payment)
* The remaining amount(balanced is paid in equal monthly installment spread over an agreed period of time
* The installments paid include interest which usually makes the overall price paid relatively higher than would be the case if the goods were obtained on cash terms.

-Goods sold on higher purchase are durable and expensive such as; vehicles, furniture, electronics e.t.c

-The buyer can only posses the commodity but not own it.Therefore’the buyer cannot sell the goods to another person before all installments are paid

-Ownership of the goods remains with the seller. The goods are ‘on hire’ to the buyer.

-After completing the payment (after the last installment has been made),a certificate is issued to the buyer as proof of transfer of ownership

-Incase the buyer fails to make payment/defaults in payment; the seller can repossess the goods. However if the buyer has paid two thirds of the total/hire purchase price at the time of defaulting, the seller has no legal right to repossess the goods.

-The seller can only recover the remaining amount of money through a court action

-The seller must display both the cash price and the hire-purchase price on the items to enable the buyers to decide under what terms they want to buy the goods.

-A written agreement has to be entered into by both the seller and the buyer. The agreement safe-guards the intervals of all of them

-Examples of hire purchase businesses operating in Kenya include; Africa Retail Traders (ART), Kukopesha, Singer and Amedo.

-For salaried people, the hire purchase has introduced a system where the installments are deducted directly from the buyer’s salary every month. This is called the **check-off system**. In this system, no deposits/down payments are required. The buyer’s employer takes up the duty of remitting the deposits to the seller on a monthly basis.

**Advantages of Hire purchase**

**To the buyer**

1. The buyer acquires possession and use of goods immediately after entering into the contract
2. Installments to be paid are pre-deternined,so the buyer knows and is able to budget for this amount
3. One can acquire expensive goods/items which are difficult to get on cash terms
4. Payment is spread over a long duration of time making it convenient/suits the buyer’s income
5. Raises standards of living despite limited resources.

**To the seller**

1. The goods belongs to the seller until the last installment is paid
2. He/she can repossess the goods in case the buyer defaults in payments
3. The seller is able to make more profit due to higher prices in the long run
4. The sales volume increase due to greater ability by customers to pay/more buyers are attracted to hire purchase terms leading to more sales
5. No refund is payable to a buyer for goods repossessed from him/her
6. Due to the check-off system, chances of non-payment are minimized.

**Disadvantages of Hire purchase**

**To the buyer**

1. The hire purchase price is higher than the cash price.
2. The goods belong to the seller until the last installment is made
3. Because of the easy payment terms, the buyer may be tempted to overspend which might lead to financial problems
4. The variety of goods sold on hire purchase terms is limited to those goods that are durable
5. If the buyer defaults in payment, the already paid ones are treated as hire charges and are not refunded.
6. Goods may be repossessed if the buyer defaults in payment

**To the seller**

1. Goods repossessed can only be sold as second hand
2. There is a lot of documentation and filing of information/records
3. The cost of operating the business is usually very high
4. The risks of loss on hire purchase sales are normally high as some buyers may default in payment
5. High amount of capital is needed to finance a hire purchase business
6. A lot of money is spent on repair of damaged goods
7. A lot of capital is tied and held in stock and debts.
8. **Installment Buying/credit sale(deferred payment)**

-In this form of credit selling, the buyer is not required to pay a downpayment.Payment for the goods is made in equal installments spread over a period of time. These installments cover interest and related costs of selling.

**Other features of installment buying**

1. The ownership and possession of goods passes on to the buyer immediately the first installment is paid
2. Once the goods have been sold, they cannot be repossessed by the seller even if the buyer defaults in payment.
3. In case the buyer defaults in payment, the seller can obtain compensation through court action.
4. There is a written agreement between the buyer and the seller(creditor)
5. The buyer may dispose of the goods before paying for them fully
6. Can be used for non-durable goods