

CHAPTER 5

BUYING AND SELLING OR PURCHASE AND SALE OF GOODS

Objective

To make students conversant with some additional terms and abbreviations in business.

5.1 Essential Documents Used in Buying and Selling

5.1.1. Proforma invoice:- This is not a document of indebtedness. It is not one on which a charge is being raised. In other words, it is an invoice being sent just for its sake.

It could be used in any of the following circumstances:

- (a) When credit facilities are refused for a customer politely. That is, when it is being politely impressed on a customer that he would have the goods, if only he would make payment first.
- (b) When goods are sent "On approval" i.e., if the customer approves of the goods after inspection, he could send payment.
- (c) When goods are sent "On consignment" only i.e., goods sent to an agent for sale on commission.
- (d) When goods are sent on "sale or return" account i.e., the goods left unsold could be returned to the wholesaler or supplier.
- (e) When mere formal quotation of goods is sent to a real or potential customer.
- (f) When the customer's regulations require the value of goods being sent abroad to be stated.

5.1.2 Credit note:- The debts of a customer in the books of his supplier or creditor are reduced by the amount shown on the credit note. For instance, if Nduka Ezech Bookstores Ltd., had a debit of ₦10,400.00 but received a credit note of ₦400.00 from Evans Brothers (Nigeria Publishers) Ltd., then the debt of Nduka Ezech Bookstores Ltd., is reduced by ₦400.00 to ₦10,000.00.

In order to distinguish a credit note from an invoice or a debit note, it is usually printed, written or typed in red. Alternatively, a credit note could be prepared on a paper of a different colour from that of an invoice or a debit note.

Circumstances that could give rise to the issue of credit notes are:-

- (a) If goods once invoiced are discovered later on to be overcharged.
- (b) If goods once invoiced are discovered to be damaged or of poor quality and are, therefore, returned.
- (c) When packages, cases, bottles, etc., earlier invoiced with goods are returned to the wholesaler.
- (d) If the invoice of an order that was wrongly sent to a customer in the first place is cancelled.
- (e) To compensate for any voucher received on behalf of, or from the debtor customer.

It must be emphasized that the idea of issuing credit notes to compensate for an earlier indebtedness arises from the book-keeping principle that on no grounds should invoices be destroyed or cancelled. Students of accounts would recall that it is a way of preventing accounting frauds. When a customer who owes no debt at all receives a credit note, he is entitled to either a cash refund or receiving goods to the value of the credit note without any further payment.

5.1.3. Debit Note:- This, like the invoice, increases the indebtedness of a customer. It is the opposite of a credit note. A debit note could be sent under the following conditions:

- (a) If it is discovered that an invoice is understated as a result of arithmetical error.
- (b) If goods are undercharged through wrong unit price.
- (c) If it is discovered that more goods were despatched and accepted than actually invoiced.
- (d) If the goods sent and retained were discovered to be of a better quality than invoiced.
- (e) Where in error, invoices were not sent at all for goods despatched and retained.
- (f) Where a customer has no debt on his account before receiving a debit note to the value shown on the debit note.

In actual practice, it is a rarely used document. Wholesalers are in the habit of raising a supplementary invoice when they detect an undercharge. The issue of debit note is not a one way affair. Some large retailers usually send it to their supplier/wholesalers on discovery of an overcharge instead of waiting for a receipt of a credit note from their suppliers.

5.1.4. Statement of Accounts:- Where the business transactions between a seller and his customers are other than on prompt cash payments i.e. where credit facilities apply, it is usual for the customers to be indebted to the seller at a point in time. A statement of account, therefore, is a periodical document or summary of business transaction

between a seller and a debtor customer, as it appears in the books of accounts of the former (seller). Some people do confuse the invoice with a statement of accounts. There is a difference between the two. The invoice is merely informative - giving the details of goods sent to the customer to enable him to check the goods received against his original order. On the other hand, the statement of accounts is a polite reminder to the debtor customer that he should pay up his debts. Unlike the invoice, it is not a full detail of transactions but a mere totality of transactions.

The contents of a statement of accounts are :

- (i) The outstanding balance, credit or debit
- (ii) Sales
- (iii) Returns - goods or credit or debit note
- (iv) Cash or cheque payments
- (v) Debit note
- (vi) A balance figure, which might be debit or a credit

Let us illustrate a statement of account with this simple example:-

On 16-2-2002, **ABC Ltd** (seller) sent goods on an invoice No.58 valued at **N500.00** to **XYZ Ltd** (buyer) with a container separately charged at **N12.00** and subject to 10% discount on payment within 15 days of despatch.

On 18.3.2002, an error of overcharge for **N25.00** was detected on the goods sent on 16.2.2002. A credit note was sent to **XYZ Ltd** (buyer) to this effect

On 17.2.2003, **XYZ Ltd** (buyer) made his first payment of **N450.00** by cash for goods sent him on 16.2,2002, and returned the container as well in good condition.

On 30.3.2003, another batch of goods valued at **N6000.00** by **ABC Ltd** (seller) on invoice No.78 was sent to **XYZ Ltd** (buyer) with a 5% discount on payment within 30 days.

On 2.4.2003, a debit note for **N1,000.00** was sent to **XYZ Ltd** (buyer) in respect of an undercharge on goods invoiced on 30.3.2003:

On 3.4.2003, damaged goods valued **N500.00** was sent by **XYZ Ltd** (buyer) to **ABC Ltd** (seller) in respect of goods on invoice No. 78.

On 15.4.2003, **XYZ Ltd** (buyer) paid **N1,645.00** by cheque in order to clear the whole of his accounts with **ABC Ltd** (seller).

A specimen Statement of Accounts of XYZ Ltd (Buyer) in the Books of ABC Ltd (Seller)

Date	Invoice No.	Particulars	(Debit) Dr N k	(Credit) Cr N k	Balance Dr.Red Cr. N k
16.02.03	58	Sales of goods	5,000.00		5,000.00
16.02.03	58	Charged returnable container	1,200.00		6,200.00
17.03.03	58	Cash (payment)	-	4,500.00	1,700.00
17.03.03	58	Returned container	-	1,200.00	500.00
18.03.03	58	Credit note (overcharge)	-	250.00	250.00
30.03.03	78	Sales (goods)	6,000.00	-	6,250.00
02.04.03	78	Debit note (Undercharge)	1,000.00	-	7,250.00
03.04.03	78	Returned goods (credit)	-	500.00	6,750.00
15.04.03	58	&			
78		Cheque (payment)	-	1,645.00	5,105.00
15.04.03	78	*Less 5% N6,500 (within 30 days)		*325.00	**250.00

N.B.: *The N325.00 as a 5% discount of payment within 30 days, arrived at thus:

On 30.8.2003 goods of N6000.00 sold was subject to discount within 30 days payment.

On 2.4.2003, a debit note of N1000.00 was added to N6000.00 making a total of N7000.00.

On 3.4.2003, damaged goods returned (a credit item to â€™Bâ€™™ (buyer) was N500.00, leaving a balance of net sales of N6500.00 â€™Bâ€™™ (buyer) met the 5% discount terms by paying before 30 days i.e. on 15.4.2003. Consequently, he was entitled to a discount of 5% on N6500.00 = N325.00 Sales less discount N6500.00-325.00 = N6,175.00

* The debit balance as at 18.3.2003 was N2,500.00 (red). Add net value of sales of 30.3.2003, i.e. N6,175.00 as above. Balance as at 3.4.2003 was N6750.00, but cheque sent by â€™Bâ€™™ to clear his account was N1645.00. He has a balance of N2.500.00 in credit (black).

Additional Notes on the Specimen

- (i) It could be seen from the goods invoiced on 16.2.2003 and paid for on 17.3.2003 that, unless a buyer could meet the cash discount terms he would forfeit the offer. â€™Bâ€™™ could not pay within 15 days, therefore, he forfeited the 10% cash discount offer.
- (ii) He was able to pay for the goods despatched on 30.4.2003 before the expiration of the 30 days cash discount offer, and he was credited with the 5% cash discount (N325.00).
- (iii) Returned containers and overcharged value detected were credited while undercharged values were debited, once detected.
- (iv) A statement of accounts might not necessarily end in a debit item referred to in accounting terminology as, *accounts being in the â€™redâ€™™*. It could show a credit figure usually referred to as *being in the â€™blackâ€™™*.
- (v) When in the red (debit), the statement is a polite reminder of how much is overdue for payment, but when it is in black (credit), the buyer could buy more goods to that value without any further payment. Alternatively, the credit amount could reduce his next

debit account similarly. In the case of a none-for-all customer, cheque or postal order to the value of the credit should be returned to him by the seller.

- (vi) The **â€ˆBâ€™** (buyer) here, on receipt of this statement, is expected to compare with his own books account. Any discrepancies must be reported to the seller who is expected to explain the differences promptly.
- (vii) Failure by a buyer with a debit balance to pay after sending him statement of accounts on a number of occasions might result in cutting off further supplies to him or possibly consulting a solicitor if the debit balance is substantial.

5.1.5 Collection Letter:- This is a letter reminding a buyer of an overdue account. It could be a follow-up to a number of statements of accounts sent out but unheeded by a buyer. Although, at this stage, the seller must have become very anxious for payment, the ethics of business demands that collection letters be written with tact and restraint, to avoid offending the customer. Consequently, phrases like *â€ˆplease send paymentâ€™*, *â€ˆaccount overdueâ€™*, *â€ˆsecond reminder - payment long overdueâ€™*, usually feature in collection letters.

If collection letters are unheeded, the sellerâ€™s personal representative might make visits to discuss with the debtor. Nevertheless, legal action to recover overdue debts should be made as the last resort and reserved for substantial debts that would render court cases very economical.

5.1.6 Letter of enquiry:- This is a letter from a prospective buyer or a retailer making an enquiry about the particulars of certain goods in stock. Information required might relate to types of goods stocked, their prices, credit facilities obtainable, discounts if available, promptness and means of delivery. Such a letter must be written in clear and simple language. In some cases, the information sought here would be available in the catalogue **and** price list; in which case, the retailer would simply ask for these as indicated in the specimen letter below:

A Specimen letter of enquiry

Nduka Eze Bookstores & Sons Ltd
5 Azikiwe Avenue
P.O. Box 428
Onitsha

26 July 2003

The Sales Manager
Evans Brothers (Nigeria Publishers) Ltd
Jericho Road
P.M.B. 5164
Ibadan

Dear Sir

Enquiry on Secondary School Books

We are a newly formed company, specializing in the sale of secondary school books only. We shall be grateful if you could send us a copy of your catalogue and price list for secondary school books, as well as your conditions of payments, credit facilities and discounts.

As the new school session is to start very soon, we shall be grateful for your prompt attention.

Yours faithfully

Signed, Eno Etuk
Secretary

5.1.7. (a) The catalogue and the price list: In some cases, both the catalogue and the price list are contained in the same booklet. With other wholesalers or manufacturers, they are produced separately. The catalogue carries the list of all available goods at the moment and, sometimes, plus those that would be available in the nearest future. However, in view of the high cost of printing catalogues and the frequency of price changes, the catalogue might not carry the price of goods, in which case, the prices are printed separately in a price list. When there are price changes, therefore, only the price lists are reprinted to reflect the current prices.

(b) Quotation: This is a document usually sent by a seller (supplier) to a buyer (customer) in reply to an inquiry. In other words, it is a written statement from a seller to a prospective buyer in which he states as follows:-

- (i) the description of the goods available for sale, indicating the name, make, brand, size and colour; (sometimes, a coloured catalogue is sent).
- (ii) the price at which the goods are sold;
- (iii) the terms of sale of the goods including any discount to be allowed;
- (iv) the cost of carriage of the goods.
- (v) the length of time needed for the delivery of the goods;
- (vi) any other information sought for in the letter of inquiry.

Alternatively, where catalogues carry the price lists as well, increase in prices could be reflected in reduction of trade discounts. It is possible, however, that one might frown on the practice of reducing trade discount, since to most retailers, higher, and not lower trade discounts means good business; which might generate a higher sales turnover as well for the wholesaler or manufacturer. Another note of warning on catalogue is that it must not carry titles of goods that would not be available for a long time to come, so that customers would be disappointed if they place orders for such goods. Usually, catalogues and price lists would contain information on discounts, terms of payment, delivery term, returns on containers, etc.

5.1.8 The order form:- This is asking for specific goods to be sent by the supplier to the buyer. It is a form that generates actual sales. Sometimes, it is already printed by the supplier whose name is put on top of the form. Copies of order forms could be enclosed in the catalogue sent to the retailer. In this case, the retailer would simply mark or tick off those goods with the quantities wanted. Since all the terms are

already explicit in the catalogue and the price list, a cheque could be sent with the order, depending on whether purchases are on cash with order. However, the following details must appear on the order form:

- (a) Reference number of order and date
- (b) Reference number in supplier's catalogue
- (c) The list of ordered goods (with brand names if any)
- (d) Their prices
- (e) Discount allowable
- (f) The authentic (genuine) signature of the purchasing officer, or authorized representative if the retailer is big enough to delegate this power.

Tender: This is after a detailed estimate of cost has been concluded by the prospective buyer and the intention to buy has been communicated to the seller. Examples are in boarded items e.g. vehicles by the Government.

A Specimen Order: In the case of Nduka Ezech's bookshop, the purchasing manager wish to make an order in the specimen shown below, instead of merely indicating this in the price catalogue. In this particular case, as is usual with most booksellers, we are assuming the order is through Nduka Ezech's personal assistant, with spot payments, to take advantage of a 20% cash discount.

Nduka Ezech Bookstores & Sons Ltd
5 Azikwe Avenue
P.O.Box 428
Onitsha

28 August 2003

The Manager
Evans Brothers (Nigeria Publishers) Ltd
P.M.B. 5164
Jericho Road
Ibadan

Dear Sir,

Our Order No. 147 - Secondary School Books

Please, send through the bearer - Mr. Jaja Udo - my shop assistant, the following books:-

50/10	50 copies of West African Economics by Ewa Udo	N300.00	N15,000.00
50/15	100 copies of SSCE/RSA Commerce Objective Test and Answers by Ayodele Asaolu	N350.00	N 35,000.00
50/20	200 copies of SSCE/RSA Business Methods Objective Tests and Answers by Ayodele Asaolu	N300.00	N60,000.00
50/25	30 copies Introduction to Financial Accounting by H. Bierman & A. Derbin	N100.00	<u>N 3,000.00</u>
	Gross total		N113,000.00
	Less 20% Cash discount		N22,600.00
	Net		<u>N90,400.00</u>

Our crossed cheque No. 24365/34127 for ₦90,400,00 (Ninety Thousand, four Hundred Naira only)
Yours faithfully,
Signed: Nduka Ezech

It is correct accounting procedure that this order once processed, must be sent to the accounts department for crosschecking, record-keeping and preparation of the invoice.

5.1.9 Advice note: This is a note sent to inform the retailer that the goods have been sent, and it is usually sent as soon as the goods are retailer, when returned to the wholesaler, serves as a delivery note. The detailed information on the note consists of the prices, retailer's order number, terms of payment, mode of delivery and quantities.

Advice note is only necessary, when goods are sent through independent or outside transporters like the railways. Where a wholesaler could send the invoice to the retailers immediately after the despatch of goods, advice note would be unnecessary.

5.1.10 Delivery note: This is detailed document of all goods being sent to the buyer. It is usually a duplicate of the invoice, but without the prices of the goods.

5.1.11 Consignment note: This is only necessary when goods are sent through an independent transporter or carrier as shown in the advice note below. A consignment note is the carrier's note. It is meant to be filled by the wholesaler sending the goods in order to give instructions about the delivery. The charges are higher if the goods are carried at the independent carrier's risks and lower if at the wholesaler's risks.

The consignment note is the only document signed by the retailer as evidence of delivery and, therefore, should not be dispensed with like the advice note, even when the invoices are despatched almost immediately.

N.B. We are assuming here that the order of Nduka Ezech Bookstore is being sent through the railways.

A Specimen advice note

Evans Brothers (Nigeria Publishers) Ltd.,
Jericho road,
P.M.B.5164,
Ibadan.
3 September, 2003.

The Purchasing Manager,
Nduka Ezech Bookstores & Sons Ltd.,
5 Azikiwe avenue,
Onitsha.

Dear Sir,

YOUR ORDERNO. 147

We have despatched through the Nigeria Railway Corporation, carriage paid, the following title of books as per your order 147 dated 28.8.2003:

50 copies of West Africa Economics by
 EwaAdu.....N300:00
 100 copies of SSCE/RSA Commerce Objective
 Tests and answers by Ayodele Asaolu.....N350:00
 200 copies of SSCE/RSA Business Management
 Tests & Answers by Ayodele Asaolu.....N300:00
 30 copies of Introduction to Financial Accounting
 by H.Bierman&A. Derbin.....N100:00
 2 cases (returnable)

We thank you for your patronage.

Yours faithfully,

Ade Adeola
 Warehouse Manager

A specimen invoice

(Using the same Nduka Ezechâ€™s order)

Goods bought from:

Evans Brothers (Nigeria Publisher) Ltd.,
 Jericho road,
 P.M.B.5164,
 Ibadan.

24 September, 2003.

Nduka Ezech Bookstores & Sons Ltd.,
 5 Azikiwe Avenue,
 P.O.Box 428
 Onitsha.

Our catalogue	Quantity (copies)	Titles	Unit price N : K	Total value N : K
No.50/10	50	West African Economics Ewa Udo	300:00	1,500:00
No.50/15	100	SSCE/RSA Commerce Objective Tests and Answers - A. Asaolu	350:00	35,000:00
No.50/20	200	SSCE/RSA Business Method Objective Tests & Answers - A. Asaolu	300:00	60,000:00
No.50/25	30	Introduction to Financial Accounting - H. Bierman AA. Derbin	100:00 150:00	3,000:00 300:00
		2 cases returnable		* 113,300:00

Per Nigeria Railway - carriage paid
 â€ˆE&O.Eâ€ˆ.

***N.B.** Refer to the terms indicated above here. This means purchases are not agreed on immediate cash payments, but there would discounts of 5% and 2½% if payments is made within 30 days to 60 days respectively.

5.1.12 An invoice: This is a document showing the value of goods delivered to the retailer earlier on. it should be sent as the goods are despatched. This explains why, if sent on time, there might be no need for an advice note in case of goods sent through an independent transporter. It contains the same contents as per the advice note with the only addition of a "total column". It can be enclosed in the parcel with the goods; but invariably, it is sent separately when the goods are supplied in bulk or in crates, or even in loose forms. An invoice is a bill, but not necessarily a demand note, unless the terms of payment are agreed as "immediate" cash. However, it is the only document, on which payment for goods received should be paid. It is a statement of indebtedness on the goods received.

In order that the sellers or wholesalers could reserve their right to correct any errors made on the invoice, the expression "errors and omissions excepted" (E. & O.E.) is usually inserted. It is important for the delivery order to ensure that only the goods delivered are charged. This also agrees with the term "caveat emptor" - buyers beware i.e. check for the correct quality and quantity of goods supplied.

5.1.13 The Receipt: Normally, after a supplier has sent out statement, payment in settlement will be made by the customers concerned. They may pay in cash, by cheque or, by other means to be discussed later.

On receiving the amount, the supplier will usually issue a receipt. This is an acknowledgement that the payment has been received. In other words, a receipt is a written statement that one has received money. It is usually written in duplicate. The original is given to the customer who has settled his account or bill.

If the money received is above a certain sum, a stamp must be put on the receipt and cancelled. The usual rule is that a 2k stamp or its equivalent must be affixed if the payment is for ~~N~~4 or above. This serves as stamp-duty.

It is common commercial practice, in some countries, not to issue a receipt where payment is made by cheque unless one is specifically requested or demanded by the customer concerned.

5.1.14 Way-bill:

- (a) **Way-bill:-** is a document showing details of goods being carried or delivered by a carrier. It is usually used when goods are sent by road or rails unaccompanied. A copy of the way-bill is signed by the carrier and given to the consignor as his receipt.
- (b) **Airway-bill (Air Consignment Note)** When goods are sent by air their document becomes Airway-bill, and is in three parts. The first part is signed by the consignor and is retained by the carrier. The second part is signed by both the consignor and the carrier and accompanies the goods. Finally the third part is

signed by the carrier and handed over to the consignor as his receipt as in ordinary way-bill.

- (c) **Bill of Lading:** When goods are consigned by ship, a Bill of Lading is used instead of or in place of way-bill.

5.2 Trade Terms and Abbreviations

5.2.1 Trade Terms

Introduction

In buying and selling there are certain conditions to be observed by both the buyers and the seller as buying and selling is a form of contract. Trade terms are the conditions of an agreement or contract reached by the buyer and seller. In other words, it is what the parties agreed to comply with when the transaction is concluded. For instance, what is each person's liability? E.g. who pays the cost of freight? Some of these trade terms are treated below:

- (i) **Carriage Forward:** Here, the cost borne by the seller is that of packages and arranging for despatch. The buyer is solely responsible for the cost of transport.
- (ii) **Carriage Paid: (CP)** When goods are invoiced CP it means that delivery charges to the buyers premises are borne by the seller, who might have included these in the cost of the goods.
- (iii) **Free On Rail (FOR):** Under this contract, the seller packages and delivers the goods to the railway station from where the buyer will be responsible for transporting the goods to his premises. Here, the seller's obligation is discharged when the goods are delivered to the railway station.
- (iv) **Cost and Freight (C and F):** This shows that the price of the goods includes cost of the goods and the freight. This is usually paid by the consumer or importer before the goods are shipped.
- (v) **Loco/Spot Price:** Loco or spot price is the price of the goods at the material time of sale. Loco price excludes cost of packing and delivery, which is paid for separately if the buyer requests such service.
- (vi) **Free Along Ship (FAS):** Here the seller packages and delivers the goods to the dock along the side of the ship at no cost to the buyer. From there on, the buyer bears all the charges of carrying the goods and delivering to his premises or warehouse.
- (vii) **Free On Board (FOB):** The seller bears the cost of moving the goods from his premises or warehouse until they are delivered on board the ship that will carry them to the port of destination or the buyer's premises or warehouse. Once the goods are on board the ship all other expenses are borne by the buyer or importer.

- (viii) **Franco (FCO):** This simply means that the price of the goods includes cost of delivery.
- (ix) **Ex-works, Ex-factory, Ex-warehouse, Ex-showroom, Ex-wharf, Ex-quarry, Ex-ship:** The selling price of goods in this category represents production and packing costs plus the seller's margin of profit at that spot where the goods are. It may be the factory, warehouse, showroom, wharf, etc. from these places the buyer bears the cost of transportation and delivery, as he chooses or likes, to his premises.
- (x) **Cash With Order (CWO):** This requires the buyer to send cash along with the order. In other words when placing the order, cash will be paid before the goods are despatched. It is usually adopted in situations where the seller is not sure of the buyer's ability to pay or where the buyer has proven to be doubtful debtor.
- (xi) **Cost and Freight (C and F):** When goods are invoiced or sold Cost and Freight (C and F) it means that the cost of the goods includes cost of transporting the goods to the port of destination. It is now left to the buyer to insure the goods for safety before they leave for the port of destination. Law demands that the seller has to inform the buyer in good time before shipment, otherwise the seller will bear the risk of loss or damage in transit.
- (xii) **Free Alongside Ship (F.A.S):** When the price of goods is quoted free along side of ship, it shows that the price of the goods includes all other charges incurred up to the time the goods are placed on the wharf. This excludes any other costs or charges incurred when the goods are placed on board the ship.
- (xiii) **Free on Board (F.O.B):** When goods are sold free on board (F.O.B), it means that the seller has to bear all the expenses incurred in packaging and transporting the goods to the harbour and placing the goods on board of a named ship. The buyer in this case can be responsible for the payment of the cost of freight and insurance. Port dues or charges can be paid by either the seller or the buyer depending on the agreement reached by them.
- (xvi) **Ex-ship:** This is the price quoted when the cost of transporting the goods to the destination including the cost of delivery at the side of the ship is included. While in transit the goods are at the risk of the seller. On the other hand when goods are priced cost and freight, the risk while in transit is that of the buyer.

5.2.2 Trade Abbreviations

There are many abbreviations used in business transactions. Some of them are listed below. You will be adding to the list as you grow in your studies of business.

- | | | |
|----|-----|-----------------------------|
| 1. | A/c | Account(s) |
| 2. | Agt | Agent |
| 3. | A.m | Ante meridian (before noon) |
| 4. | b/d | Brought down |

5.	b/f	Brought forward
6.	B/L	Bill of Lading
7.	c/a	Current Account
8.	C and F	Cost and Freight
9.	Carri pa	Carriage paid
10.	c/f	Carried forward
11.	Chq	Cheque
12.	c.i.f	Cost Insurance and Freight
13.	c/o	Care of
14.	Co Ltd	Company Limited
15.	Cr	Credit/Creditor
16.	C.O.D	Cash on Delivery
17.	cum dir	With dividend/including dividend
18.	C.W.O	Cash with Order
19.	d/a	Deposit Account/discount allowed
20.	disc.	Discount
21.	Div.	Dividend
22.	Dr.	Debit/Debtor
23.	E.& O.E	Error and Omission Excepted
24.	Encl	Enclosure
25.	Ex.	Out of (of shipping)
26.	Ex Div.	Excluding dividend
27.	F.a.s.	Free alongside ship
28.	F.c.o	Franco (free)
29.	F.o.b	Free on board
30.	Ltd	Limited Liability
31.	memo	Memorandum
32.	m/s	Messr/Gentlemen/Sirs
33.	N/A	Not applicable/not available
34.	N/B	Note well/take note
35.	O/R	Owner's Risk
36.	Ord.	Ordinary/Order
37.	P.A.Y.E	Pay As You Earn (income tax)
38.	per pro (pp)	For and on behalf of
39.	Pkg	Package
40.	P.O	Post Office/Postal Order
41.	Qlty	Quality
42.	R.D.	Refer to Drawer (of cheque)

43.	Re	In regard to /Reference to
44.	Ref.	Reference
45.	Regd.	Registered
46.	Sgd	Signed
47.	S.A.E.	Stamped and addressed envelope
48.	Std	Standard
49.	Stet	Let it stand (as before)
50.	V.A.T	Value Added Tax

5.3 Terms of Sale

Terms of sale are the conditions given by the seller to the buyer in order to encourage him and make the business attractive for him. They are kinds of incentive which the seller gives to his customer, the buyer. This could be in the form of how much cash discount would be given for prompt payment of bill or settlement of accounts. Some of these terms are treated below:

- (i) **Cash Discount:** Discounts are of various kinds. *Cash discount*, for instance, is allowable strictly only if cash payment is made within the stipulated time. The condition could be for immediate payment, or for payment within a given number of days. The main motive is to encourage prompt payment for purchases made by customers. The rationale behind it is that, it might be more economical to allow some cash inducement than to spend time and money in the collection of some bad debts later on.

The advantages of cash discounts are as follows:

- (a) It helps to reduce the incidence of bad debts.
 - (b) Consequent upon (a) above, it improves the cash flow position of the supplier and relieves him of any likely liquidity problem.
 - (c) It could minimize or obviate completely, the need for the supplier to depend on loans for his business.
 - (d) It could also enable the supplier to pay for his purchases promptly and help the general economy.
 - (e) To the retailer or buyer, it could mean some gains since he would pay less for some goods.
- (ii) **Trade discount:** This is an allowance given to all customers irrespective of prompt cash payment or not. It applies to all buyers who are customers of a certain supplier or seller. It attaches no other condition than being a customer. It seems fairer than the cash discount for attaching no strings. And it helped to sustain the loyalty of customers to their suppliers who offer the trade discounts. However, as in the case of the cash discount, it is not unlikely that prices of such goods would have been marked-up enough to allow for such discount margins. Otherwise, the likely question is, how, with a

discount as large as 10-20%, does a supplier still declare a handsome profit? To most customers, however, this point of marked-up price is merely academic. Trade discounts still count much with consumers and, therefore still generate an increase in sales turnover. This fact is glaring when it is graduated. (See Quantity discount below).

- (iii) **Quantity discount:** This, unlike trade discount, has strings attached. One would earn so much discount if one buys so much. In essence, there is some relationship between quantity discount and graduated trade discount. It must also be explained that, the cash element is implicit in quantity discount i.e., without paying for the large quantity bought, the discounts allowable might not apply.

Consequently, the quantity discount seems to combine all the bad effects of both the graduated trade discount and the cash discount as mentioned above. In fact, it has one “bonus” disadvantage: it is capable of making the retailers overstock, in a reckless search for discounts based on large bulk purchases with all the associated evils of obsolescence, spoilage, pilfering and stock-over capitalization (tying up too much capital to stockpile).

Revision Questions

A. Essay Questions

1. Write in full each of these abbreviations:-
 - (A) CP.
 - (B) G.F.
 - (C) F.O.R.
 - (D) C.I.F.
 2. Write briefly on:
 - (A) Trade discount.
 - (B) Consignment note.
 - (C) Catalogue and price list.
 - (D) An invoice.
 3. When are the following put into use in trading transactions:-Delivery note, trade catalogue, price list, advice note and local purchase order?
 4.
 - (a) What is a document? Give two examples.
 - (b) Give five reasons why firms grant discounts.
- WASSCE 2000*
5. Messrs Ola and Musa are both merchants in the same trade line. Ola trades purely on cash basis, while Musa allows credit facilities to customers. Give two reasons each while Ola insists on cash payment and Musa allows credit sales. *WASSCE 1989*

B. Objective Questions

1. A wholesaler despatched in error 80 dozen packs of shirts to a customer instead of 60 dozen packs of the same shirts paid for. Which of the following will be used to correct the error?
 - A. Credit note
 - B. Debit note
 - C. Consignment note
 - D. Advice note

WASSCE 1999

2. The term *“caveat emptor”* means let the
 - A. Account be settled
 - B. Buyer beware
 - C. Manufacturer beware
 - D. Debtor beware

NECO (SSCE) 2001

3. What is a statement of account? It is
 - A. A note informing the customer of an increase in liability.
 - B. A letter asking a debtor to settle his bills
 - C. A statement of credit facilities to a customer.
 - D. A summary of a customer’s transactions for a given period.

NECO (SSCE) 2001

4. Which of the following is sent as a reply to an enquiry?
 - A. Tender
 - B. Estimate
 - C. Statement of accounts
 - D. Advice note
 - E. Quotation

WASSCE (SSCE) 1990

5. Which of the following will prepare the delivery note in this instance: A retailer Mr. Aigboye buys goods manufactured by Adefila Ltd. from wholesaler Mrs. Jumai.
 - A. Aigboye
 - B. Adefila Limited
 - C. Mrs. Jumai
 - D. Adegboye and Adefila Ltd.
 - E. Adefila Ltd. and Mrs. Jumai

6. An invoice does NOT contain:
- A. Date and references number of the invoice.
 - B. Discounts granted and other trade terms.
 - C. Name and address of the carrier/transporter.
 - D. Name and address of the supplier.
 - E. The goods sold and their prices.

NECO (SSCE) 2001

7. A document which makes it obligatory on the part of the seller to supply the goods or services if the inquirer accepts the conditions stated therein is called a/an
- A. Inquiry
 - B. Order
 - C. Invoice
 - D. Quotation
 - E. Receipt

NECO (SSCE) 2001

8. "E & O" as a trade term stands for:
- A. Errors and omissions excepted
 - B. Errors and orders excepted
 - C. Expect errors and omissions
 - D. Errors and omissions excepted
 - E. Errors and omissions excluded

WASSCE (SSCE) 1990

9. The purpose of issuing a credit note is to
- A. Correct errors of overcharging
 - B. Correct errors of undercharging
 - C. Write off bad debts
 - D. Encourage immediate payment
 - E. Encourage bulk payment

WASSCE (SSCE) 1990

10. Which term means that for the price quoted, transporting the goods is free up to the time it is placed on board of a carrier?
- A. Carriage Paid (CP)
 - B. Cost On Delivery (COD)
 - C. Ex-ship

- D. Free On Board (FOB)
- E. Free On Rail (FOR)

NECO (SSCE) 2001