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PURCHASE AND SALE

In your day-to-day life you require several things to satisfy your needs and wants. For example, you want milk, bread, etc. for your breakfast; clothes, cycle, medicines etc. How do you get all these things? These are all available in the market for sale and you can purchase them as and when you need them. Similarly, in business, all business enterprises are engaged in purchasing things like raw materials, machinery, etc. for production; land, building, furniture, stationery, computer etc. for office premises; and so on. Business enterprises are also engaged in selling the goods and services they produce. Thus, we find that purchase and sale are two essential activities that take place around us. Let us learn more about these in this lesson.



OBJECTIVES

After studying this lesson you will be able to

- define purchase and sale;
- explain the concept of ‘selling’ in business;
- describe various modes of purchase and methods of sale; and
- explain the selling procedure and the documents used in sales.

12.1 MEANING OF PURCHASE AND SALE

Purchase is a process through which a person gets the ownership of some goods or properties transferred in his name from another, on payment of money. Similarly, sale is a process through which the ownership of some goods or properties is transferred from one person (seller) to another person (buyer), for a price.

Thus, sale and purchase always go together. Whenever there is a sale, there is also a purchase and vice versa. So, basically in every sale and purchase there exist two parties. The first party who sells is known as the ‘seller’, and the other party who buys is known as the ‘buyer’.



Let us take an example. Ramesh is a shopkeeper in your locality. He goes to the city and buys ready-made garments from the wholesalers on payment of money. Here the wholesalers are the sellers and Ramesh is the buyer. After Ramesh brings the readymade garments to his shop, you go to his shop and buy a shirt for yourself paying Ramesh its price. Here you are the buyer and Ramesh is the seller.



Thus, we find that in every sale and purchase the buyer pays money to the seller for buying goods or services for his use or consumption and the seller accepts money and thereby gives up his right over those goods and services. In this process the buyer either pays money immediately or at a later date.

Concept of Purchasing And Selling

You know that, businessmen produce goods or services for others' use. People buy those goods and services for a price and thus, the businessmen earn money from them. This money needs to be more than the amount spent in producing the goods and services. That is how a business can earn profit. Profit is the reward for risk-taking by businessmen and it is also the return on capital invested by them. So it is required that the goods and services produced by business enterprises must be sold. Sale of goods is thus necessary for the very existence of business and its growth over time. Buyer needs to consider following before purchase (i) Identify his /her needs (ii) Attributes of the commodity/ service (iii) Price affordability (iv) Social and cultural aspects.

In order to sell goods and services something more needs to be done before production is undertaken.

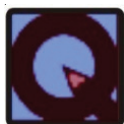
- a. It is important to identify and determine the requirement of the people and design the product or service accordingly.
- b. The customers must always derive satisfaction from what they buy and therefore continuous improvement of the product or service is required.
- c. It must be ensured that the product or service is easily available to the customers.
- d. The price of the product or service should be such that the customers can afford it.
- e. The customers should be made aware about the product or service and its related benefits both before and after sale.

All the above activities taken together are called the marketing functions of any organisation. Selling as a function is different from the marketing function, although it is a part of the marketing function.





Notes



INTEXT QUESTIONS 12.1

Fill in the blanks with appropriate words chosen from those given within brackets:

- (i) Sale and _____ always go together. (market, purchase, a shop)
- (ii) In every sale and purchase, the _____ pays money to the seller. (shopkeeper, buyer producer)
- (iii) Businessmen earn _____ because people buy goods and services for a price. (profit, money, surplus)
- (iv) Offering goods at a price which customers can afford to pay is a part of _____ function. (selling, marketing, distributing)
- (v) All activities directed towards the flow of goods and services from the producer to the consumer are part of _____. (distribution, transportation, selling)

12.2 PURCHASE AND SALE ON CASH AND CREDIT BASIS

Purchase and sale can be on cash or credit basis. If the buyer pays the price immediately while taking delivery of goods it is known as cash purchase. If the buyer is unable to make payment while taking delivery of goods and requests the seller to give him some time for payment say 15 days or 30 days and seller accepts the same this is known as credit purchase.

In today’s competitive environment seller cannot afford to stick to cash sales only. While selling goods on credit the seller should ensure the creditability and the paying capacity of the buyer.

12.3 MODES OF PURCHASE

After having some idea about purchasing and selling, let us learn about the different modes that may be adopted while purchasing goods. Goods may be purchased either by inspecting them personally or on the basis of sample or pattern examined or on the basis of description or brand name of a product. Let us learn more about these modes:

- (i) **Purchase by inspection:** Suppose you want to buy a shirt or a pen or some vegetables. Now what do you do? You will possibly go to the nearest shop and check by yourself the shirt or pen or vegetables before buying them. This is the most common method of buying known as purchasing by inspection where the buyer goes to the seller and inspects the goods or a whole lot of goods planned to be purchased. It is mostly used in case of retail buying.

**Notes**

- (ii) **Purchase by sample/ pattern:** When you want to buy goods in bulk, it is not possible to inspect the whole lot to be purchased. What you do is look at the sample or pattern and then decide which one to buy. A sample is a specimen of goods, particularly of raw materials, foodstuffs, etc. It is a representative of the bulk. Its quality largely reflects the quality of the whole lot. Similarly, pattern is a specimen of standard manufactured goods such as cloth, coir mattresses, etc. It reveals the shade, texture etc. and sometimes bears a code number. The code number can be quoted while placing orders for purchase. It is agreed upon by both the parties that the bulk supply shall be of the same quality as the sample/ pattern shown.
- (iii) **Purchase by description or brand:** In certain cases it is not possible for a seller to even show a sample to the prospective buyer. For example, a manufacturer of furniture cannot move around showing samples to the intending buyers. So, what he does instead, he carries a catalogue and price list that contains the description of goods offered for sale. Sometimes goods are standard products having specific quality and price etc. They are often given a number or a name. Sometimes the names become quite popular as brands, like Godrej Storewell, Surf, Dhara, Lifebouy, Fevicol, Pepsodent, etc. Here the buyer just needs to mention the brand name or the product described while giving the order.

12.4 METHODS OF SALE

Before buying anything, we are not always sure about how they can be actually obtained and paid for. If we go to a shop dealing with electrical goods the shopkeeper normally expects that we shall pay cash for the item we select. If the item is somewhat expensive, the buyer may not be able to afford the price immediately. The seller may allow that a small amount be paid initially and the balance be paid in monthly instalments. Again, you may come across banners on the road side that furniture will be sold by auction on a particular Sunday. You may attend the auction to bid for the chosen item. Sometimes you may have read notices of the State Government inviting tenders/quotations from businessmen for supply of certain items. These are all methods of sale. We shall now discuss these methods in detail.

- i. **Hire Purchase basis:** Sale on hire-purchase basis provides for payment of purchase price in instalments. However, the goods are regarded as being on hire until all instalments are paid. In other words, even though the goods are delivered to the buyer, the ownership right remains with the seller, and the amount that the customer pays is treated as payment for hiring the goods. If the customer fails to pay any instalment, the



seller can ask for the goods to be returned and also sue the defaulting buyer for damages. It may be noted that the customer has the right to purchase the goods by paying the total remaining amount at any stage of the instalment period. This type of sale is used in case of durable and expensive items like car, motorcycle, TV, Machinery etc.

- ii. **Sale through Instalment Payment System :** When goods are sold and payment is agreed to be made in instalments, it is known as deferred instalment plan of sale. In this case, if there is default in the payment of any instalment by the buyer, the seller cannot ask for the goods to be returned as the ownership rights pass to the buyer when goods are sold and initial payment is made. The seller can only sue the buyer in a court of law for payment of the balance due.
- iii. **Sale on approval basis :** A sale on approval is basically a conditional sale. In this type of sale, goods are delivered to the buyer on payment with the understanding that the buyer can return the goods (the whole lot or even a part of it) to the seller and claim refund within a specified period, if the goods do not meet his requirements. If the buyer does not communicate within the given time then it is assumed that the goods are sold. Sometimes this method of sale is practised with a variation. Goods are delivered to the buyer 'on approval' with the understanding that he may remit the price signifying approval or return the goods without any obligation.
- iv. **Sale through tender :** This method of sale is normally found in the case of purchases made by big organisations or government agencies where the quantity of goods required and the amount involved are very large. A tender is an undertaking to supply materials/goods indicating the terms and conditions of sale therein. This method of sale involves responses to tenders invited by intending purchasers with a view to selecting the supplier who offers the most competitive and favourable terms. The advertisement or notice inviting tenders are usually published in one or more newspapers and contains details regarding the goods to be purchased. Particulars and forms for submitting tenders are sometimes made available to the interested parties on applying in response to the advertisement. Tenderers are usually required to deposit an earnest money along with the tender. This ensures the seriousness of the interested parties. The general practice is to receive tenders in sealed covers so that the terms and conditions offered by the parties remain secret and





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are not tampered with. The sealed covers are opened in the presence of proper authorities and the most favourable tender is accepted. Thereafter, a formal contract for sale is entered into with the tenderer whose tender is acceptable, on the basis of the terms offered.

v. **Auction sale :** An auction sale refers to the sale of certain goods openly on a specific date and time so that people may bid for the goods. The goods are sold to the highest bidder. In auction sale, the goods are displayed and there is a reserve price below which goods are not to be sold. This reserve price is fixed by the seller, which may be made known to the public or kept secret. Sometimes there is also an upset price from which the bidding starts. This may also be regarded as the minimum price below which goods are not to be sold. A bid by an intending purchaser is considered an offer and if it is the highest bid, it is accepted. Once accepted, the bidder cannot go back and must pay the price and purchase it. However, the seller has the liberty not to sell even at the highest bid. Now a days, auction sales are done more commonly through the internet.



vi. **Wash sales :** You might have seen advertisements mentioning ‘Grand Clearance Sale – Discounts up to 70%’ or ‘Summer Sale’ or ‘Annual Sale’ etc. These sales are generally conducted to clear surplus or old stocks. Some sellers periodically arrange such sales to dispose off stock. Mostly these sellers offer heavy discount.

Difference between deferred instalment method and hire-purchase method

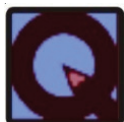
Deferred Instalment Method

Hire-Purchase Method

- | | |
|---|--|
| 1. It is essentially a contract for sale. | 1. It is essentially a contract for hiring of goods. |
| 2. The ownership rights passes to the buyer immediately at the time when the agreement is entered into. | 2. The ownership rights remain with the seller and the customer exercises his option for purchasing the goods. |
| 3. The buyer can return the goods at any stage. The seller can also take back the goods in case of non-payment. | 3. In case of default in payment the seller can sue the buyer for balance instalments. He cannot take back possession of the goods. Similarly, the buyer cannot return the good and adjust the amount of payment due. |



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INTEXT QUESTIONS 12.2

Which of the following statements are true and which are false?

- (i) In auction sale, goods are always sold to the highest bidder even when there is a reserve price.
- (ii) Sale on hire-purchase permits the buyer to return the goods at any stage.
- (iii) Goods delivered to the buyer ‘on approval’ basis are always paid for in advance.
- (iv) Earnest money payable by tenderers ensures their seriousness about the tender.
- (v) Wash sales refer to sale of goods at a discount just after rainy season.

12.5 MODES OF PAYMENT

When there is a sale, the buyer makes an offer to purchase goods for a price and the seller accepts the offer; or the seller makes an offer to sell goods for a price and the buyer accepts the offer. Now the payment for the goods may be immediate or deferred. Deferred payment can be instalment payment or full payment at the end of the agreed credit period.

- (i) **Immediate payment** : In case of immediate payment, the buyer makes full payment to the seller in cash. Of course he can make payment by cheque or draft or credit card or debit card, provided the seller agrees to it. Actually a seller is not bound to accept payment by cheque unless there is an express or implied agreement to that effect. This is the normal practice in retail buying and selling that involves small payment. For example, sale of goods for daily use like grocery, vegetables, readymade garments, low priced consumer durable goods, etc. are made on immediate cash payment.
- (ii) **Deferred Instalment plan** : Mostly known as ‘buy now – pay later’ plan, under this method the buyer pays a nominal amount to the seller at the time of purchase and takes possession of the goods. The balance is paid by him in instalments over a period of time. The instalment is a fixed amount payable monthly or quarterly to the seller and the total payment is equal to the unpaid amount and the interest charged on it. The interest charged on the unpaid amount normally reduces with payment of instalments. Sometimes, the seller can offer interest free instalments. If the buyer fails to pay any instalment, the seller can sue him for the unpaid amount. Let us take an example. Vinod went to the local shop to buy a colour television. The price of the TV set was Rs. 20,000/-. Under the deferred instalment plan he was required to pay 10

per cent of the total price initially and then pay the rest through 10 interest free monthly instalments. Thus, he had to pay Rs. 2000/- and take the television for use. He was to pay the rest at Rs 1800/- per month for ten months. If Vinod fails to pay instalments, then the seller can sue him in court to recover the unpaid amount. This method of sale is usually found in the case of goods which are less durable and have more chances of wear and tear.

- (iii) **Deferred payment at the end of credit period :** When goods are sold on credit, payment is required to be made by the buyer at the end of the agreed period of credit (say) three months. If payment is made by him earlier, the seller allows a special discount which is indicated in the invoice as the net amount payable on prompt payment before due date.

12.6 SELLING PROCEDURE

In the market, normally we move from one shop to another, enquire about the prices, compare the quality of goods and finally decide to buy the goods of our choice. But it is not so easy to buy from those producers and traders whose production centres or trade centres are situated at far off places. A procedure has to be adopted by the buyer as well as the seller and the transaction passes through various stages before it is finally concluded. In this section we shall study about the various stages involved in the process of buying and selling of goods within the geographical boundaries of a country. The knowledge about the procedure may be helpful to you as a consumer as well as a trader.

The usual procedure for selling goods, known as Selling Routine, involves the following steps :

- (i) **Enquiry from the intending buyer :** The process of sale starts with an inquiry by the intending buyer from the best available seller in terms of supply, price and quality of goods. This enquiry can be made from the secondary sources like advertisements, in newspapers, market reports, catalogues, price lists, etc. However, an enquiry normally refers to collecting information directly from the seller or the manufacturer so as to decide the best source of supply. Big business houses where regular purchases are made have printed enquiry forms.
- (ii) **Providing quotation to the intending buyers :** On receipt of an enquiry from the prospective buyer, the seller provides the required information known as quotation. The terms and conditions of sale as well as the price mentioned in the quotation from the seller's side are open for further negotiation. Sellers also use printed quotation forms.
- (iii) **Receipt of order from the buyer :** When the prospective buyer is satisfied with the terms and conditions of sale mentioned in the





quotation, he issues a formal order to the seller for supply of goods. Order forms are sometimes printed by the buyer.

- (iv) **Execution of the order :** On receiving the order, the seller usually acknowledges it and confirms its acceptance. If the order is executed at once then no confirmation is required. The order is then stamped with date of receipt, assigned a reference number and entered into the Order Received Register. If the order is from a new customer then the seller may verify the credit worthiness and/or financial status of the buyer. If the seller is satisfied with the creditworthiness of the buyer, he decides to sell him the goods. Otherwise the seller sends him a letter of regret, stating his inability to accept the order. If the goods ordered are not in stock, the date of delivery is fixed keeping in view the production time. A copy of the order is then sent to the production department with the date of delivery.
- (v) **Invoicing :** An invoice contains details of the transaction and the amount to be received by the seller from the buyer. The seller sends the invoice along with the supply of goods to the buyer. A copy of the invoice is also retained by the seller. A copy each is sent to the production department or godown and the accounts department.
- (vi) **Opening Customer's Account :** When the copy of invoice is received by the accounts department, an account is opened in the ledger in the name of the customer. This account keeps a record of the invoice price of goods sold, credit allowed to the customers and payments made by him. If there already exists an account then necessary entries are made therein.
- (vii) **Dispatch of the goods :** For release of the goods the godown or the production department requires a copy of the invoice or a delivery note from the accounts department, or both. Goods released are taken over by the packaging department where there is a final check that all goods are in accordance with the order. Then the goods are labelled and sent to the dispatch section. When the goods are dispatched a copy of the dispatch note is forwarded to the buyer. This note is also known as advice note or letter of advice, which contains full description of the goods dispatched. It also indicates how the buyer can take delivery of goods at his end. If the goods are dispatched by rail or road transport, a copy of the receipt of the transport authority is attached with the dispatch note.
- (viii) **Delivery of goods to the buyer :** After receiving the railway receipt or transport receipt from the seller, the buyer takes delivery of goods from the railway or transport authority. While taking delivery the buyer or his agent must check the goods thoroughly. If the goods are damaged, he must inform the transport authority and a claim for the damage seeking compensation should be made immediately.



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(ix) **Receipt of payment and settlement of accounts:** The last step in the process is the receipt of the payment for goods sold. Payment is made according to the conditions agreed upon earlier. In inland trade, payment is generally made by means of money order, cheque, bank draft, bill of exchange, promissory note, etc. In case of regular customers, all outstanding dues are taken together and the customer is required to pay at regular intervals rather than on transaction basis. If full payment is received the account is said to be settled. Remittances received are duly acknowledged and sometimes the sellers also issue periodic statements of account. It shows the following items:

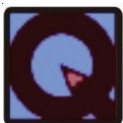
- a. The date of sale
- b. The amount of goods sold
- c. Payment received from the buyer
- d. Balance due from the buyer

Now you have fully understood that in the process of sale of goods various steps are involved. This can be made more clear with the help of a chart as given below.

(x) **Rectification of errors :** You have studied so far that the business transaction begins with the buyer's enquiry about the goods to be purchased and completes when he finally settles his account with the seller. Even though the seller is very careful while sending goods and preparing invoice, there might be certain errors. These errors can be rectified by preparing Credit note or Debit note . Let us know about these two notes in detail.

Credit Note : A document, which informs the buyer that his account has been credited with a particular amount.

Debit Note : A document, which informs the buyer that his account has been debited with a particular amount.



INTEXT QUESTIONS 12.3

I. Match the columns :

Column A

- i. Quotation
- ii. Invoice
- iii. Deferred Instalment Plan
- iv. Deferred payment
- v. Letter of Regret

Column B

- (a) Buy now pay later plan
- (b) Satisfactory terms and conditions of sale
- (c) Detail transaction with the buyer
- (d) Non-execution of order
- (e) Amount to be received by the seller



- II. Which of the following statements are 'right' and which are 'wrong'?
- (i) A customer's account mainly keeps record of payments made by the customer.
 - (ii) A 'dispatch note' is also known as 'Letter of Advice'.
 - (iii) The buyer must make a claim for damages immediately from the transport authority if he finds goods were damaged in transit.
 - (iv) A credit note is intended by the seller to rectify error of excess credit given to the buyer.
 - (v) A debit note issued by the seller informs the buyer that his account has been debited with a certain amount.
- III. Multiple Choice Questions
- i. When a person wants to buy goods in bulk, the best mode of purchase for him will be.
 - (a) Purchase by Inspection
 - (b) Purchase by Sample
 - (c) Purchase by Description
 - (d) Purchase from the nearest retailers.
 - ii. Purchase means:
 - (a) Transfer of ownership of goods by a seller in favor of a buyer
 - (b) Physical possession of goods by a person from another person
 - (c) Taking articles from a friend for use for some time period
 - (d) Taking goods/articles on rent/hire from the owner.
 - iii. Which factor should not be considered by a buyer before purchase?
 - (a) Identification of buyers used
 - (b) Attributes of the goods/commodity
 - (c) Price affordability
 - (d) Attributes of the Commodity possessed by the neighbour.
 - iv. Which of the following is not a method of sale?
 - (a) Sale on cash basis
 - (b) Sale on Hire Purchase basis
 - (c) Sale on Credit basis
 - (d) Sale under Installment system
 - v. Which of the following is not a step in the Selling Procedure?
 - (a) Enquiry by the intending buyer
 - (b) Receipt of order from the buyer
 - (c) Dispatch of goods to the buyer
 - (d) Preparation of Credit Note by the seller.



WHAT YOU HAVE LEARNT

Purchase is a process through which one person gets some goods or properties transferred in his name from another, on payment of money. Sale is a process through which some goods or properties are transferred from one person to another for cash or on credit. Sale and purchase always go together.

Selling as a function of business includes all the activities directed towards flow of goods and services from the producer to the consumer.

Goods may be purchased either by inspecting them personally or on the basis of a sample or pattern examined or on the basis of description or brand name. Methods of sale include sale on hire purchase basis, deferred instalment plan of sale, sale on approval, sale through tenders, auction sale and wash sales. Payment for purchase may be immediate, through deferred instalment plan or in the form of deferred payment at the end of the credit period.

The selling routine involves enquiry, quotation, order, execution of order, invoicing, opening customer's account, dispatch and delivery, taking delivery of goods and finally, settlement of account. Errors in sending goods or preparing the invoice may be rectified through credit note and debit note.

Notes



TERMINAL EXERCISE

1. What is meant by 'purchase'?
2. State the activities involved in selling a product.
3. What is meant by 'Auction Sale'?
4. Explain 'deferred instalment plan' as a mode of payment.
5. Describe how errors in sending goods and preparing invoice may be rectified?
6. Differentiate between deferred instalment and hire purchase methods of sale.
7. What are the various modes one may adopt to make payment for purchase of a product? Explain.
8. Explain the procedure of sale through tenders.
9. Describe the different modes for purchase of a product.
10. Explain the various methods that may be adopted to sell a product.
11. State the procedure required to sell a product.
12. What steps are required after an order is executed, as part of the Routine Selling?

**Notes****ANSWER TO INTEXT QUESTIONS**

- 12.1** (i) purchase, (ii) buyer, (iii) profit,
(iv) marketing, (v) selling
- 12.2** (i) False, (ii) True, (iii) False, (iv) True, (v) False
- 12.3** I. (i) b, (ii) c, (iii) (a), (iv) f, (v) d
II. (i) Wrong, (ii) Right, (iii) Right, (iv) Wrong,
(v) Right.
III. (i) b, (ii) a, (iii) d (iv) b (v) d

ACTIVITIES FOR YOU

- Collect newspaper cuttings showing advertisements inviting tenders and read the information carried in them.
- If any of your friend or family member is working in an office, find out from them what procedure is adopted there to purchase items like office furniture, stationery, computer, etc.