

BUSINESS STUDIES

FORM ONE NOTES

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INTRODUCTION TO BUSINESS STUDIES

Objectives: By the end of the topic, the learner should be able to:

Explain the meaning of Business studies

Explain the importance of Business studies in society.

Business: Any activity that is carried out by an individual or an organization concerning provision of goods and services with a view to making profit.

Business studies: Is the study/examination of the business activities in society. These activities are related to the production of goods and provision of services.

-It can also be defined as the study of activities that are carried out in and around production, distribution and consumption of goods and services.

iii) Goods: These are items that are tangible .i.e. they can be touched and felt.

Activity 1: The students to list items in the classroom that can be touched and felt

-Furniture, buildings, books, vehicles e.t.c

iv) Services: These are efforts or acts/actions or activities that may be sold and are intangible (cannot be touched nor felt).

Activity 2: The students to list items that money is paid to get but they cannot touch.

v) Production: Refers to the creation of goods and services or increasing their usefulness through activities such as transporting them to where they are required. People who are involved in production of goods and services are referred to as **producers**.

Activity 3: Using the lists of goods and services above, the students to name those involved in their production.

vi) Distribution: Refers to the movement of goods and services from producers to the users. Some activities that take place as goods and services all moved include transportation, storage, insurance, communication, advertising.e.t.c

vii) Consumption: Refers to the act of using the goods or services

produced consumption is the ultimate goal of production. The persons who uses a good or a service is referred to as a **consumer**.

Activity 4: The students to list the consumers of the goods and services listed in activity (1) and (2) above.

Business studies as a subject is composed of topics drawn from various disciplines such as:

- Commerce
- Accounting
- Economics
- Office practice
- Entrepreneurship

Commerce

This is the study of trade and aids to trade. Trade refers to the exchange of goods and services for other goods and services or money.

Aids to trade are human activities (services) that assist trade to take place.

Economics

This is the study of how human beings strive to satisfy their endless wants using the available scarce resources.

Accounting

This refers to a systematic way of recording business activities which all used for decision making.

Office practice

This refers to all activities that are carried out in an office e.g. communication, filling, clerical work, reproduction of documents e.t.c

Entrepreneurship

This is the study of activities involved in the process of identifying a business opportunity and acquiring the necessary resources to start and run a business. The person who carries out these activities is referred to as an **entrepreneur**.

Importance of Business studies in society

Business studies is meant to prepare learners to function as informed consumers, producers and workers in the society.

Some of the benefits of learning business studies include:

- Assists the learners/members of the society to acquire knowledge and awareness of business terminologies which are necessary when discussing business issues such as profit and loss.

- Assists the individuals in appreciating the role of business in society/in provision of goods and services.

It enables the learners to acquire basic knowledge, skills and attitudes necessary for the development of self and the nation by starting and operating business.

Equips the members of society with knowledge and skills necessary to start and run a business comfortably.

Makes the members of society to appreciate the need for good business management practices

Assists individual to acquire self-discipline and positive attitude towards work

Equips individual with abilities to promote co-operation in society through trade

Enables the individual to understand the role of government in business activities

Equips individuals with abilities to understand the role of communication and information technology in modern business management

Helps the individuals to develop positive attitudes towards the environment

Equips the individual with knowledge and skills required to evaluate business performance

It helps individual to develop various intellectual abilities such as inquiry, critical thinking, analysis, interpretation, rational judgement, innovation and creativity.

It enables learners to acquire skills for wise buying and selling.

It creates a firm foundation for further education and training in business and other related fields.

It enables one to understand and appreciate the basic economic issues that affect the society such as increase in prices of goods and services.

BUSINESS AND ITS ENVIRONMENT

By the end of the topic, the learner should be able to:

Explain the meaning and purpose of a business

Identify various business activities

Identify various types of business environments

Explain how the various business environments influence a business.

Meaning of a business

This refers to any activity carried out by an individual or by an organization with the aim of making a profit.

Profit is what the business earns above what it spends in providing goods and services to the people who need them.

The term **business** also refers to firms or organizations that provide goods and services to make a profit.

Purpose of business (Reasons for the existence of businesses)

Business is important in any society because it is not possible for people to provide themselves with all what they need without direct or indirect aid from others. Some of the main reasons why businesses exist are:

To provide goods and services-Businesses exist to satisfy the needs and wants of buyers by providing them with goods and services. Buyers include individual consumers, other businesses and the government.

To create employment-Businesses provide job opportunities through which members of society can earn money, which can be used to buy goods and services for the satisfaction of their needs.

To earn profit-Profit is the primary goal of carrying out business operations. It is earned by the people who put their resources and effort in business

As an outlet of new innovation-Some businesses provide unique goods and services which may not be existing in society e.g. plastic fencing poles that are now replacing wooden poles.

To be as own boss-Some people run businesses so as to be in full control of the operations and make all the decisions regarding the business without need of reference to people.

To utilize extra resources-Some people go into business to make use of money or property which is not being put to profitably use at a given time.

To offer special services-Some businesses provide services that raise the living standard of people e.g. government enterprises that provide public utilities such as health care and water.

To utilize spare time-Some people run businesses in order to make use of extra time at their disposal and in the process make some extra money. A large number of formally employed people have small business which they run during their free time in order to earn more money.

NB: Whatever purpose a business fulfills, it has to earn a reasonable return on the invested money to survive.

TYPES OF BUSINESS ACTIVITIES

People carry out different business activities in order to earn income. **Business activities** are activities which involve the provision of goods or services with an aim of earning a profit.

Activities done without the intention of making profit are referred to as **non-business activities**. Business activities may be grouped into the following seven categories:

Extraction

This involves obtaining goods from their natural setting e.g. mining, farming, lumbering, fishing, quarrying e.t.c

Processing-This involves the conversion of raw materials into more useful products without combining it with other goods. Examples here include milling/grinding flour, refining oil, tanning of skins and hides, conversion of iron into steel e.t.c

Manufacturing-This involves combining different raw materials to come up with one final product. Such activities include bread baking, making a table e.t.c

Construction-This involves building of structures such as bridges, ships, aeroplanes, houses, roads, railways e.t.c

Distribution of goods-This refers to the activities involved in moving goods from where they are produced to where they are needed. People who carry out distribution are called **distributors**. Examples of distributors are **wholesalers and retailers**.

Trade-Activities in this category involve the buying and selling of goods with a view of making a profit. People involved in trade are called **traders**.

Provisions of services-Activities in this category involve human acts which could be mental or physical. These include activities such as hair-cutting, hair styling, car-washing, nursing, teaching, driving, and entertaining e.t.c.

NOTE: Students to give examples of activities they pay money for which are not goods.

BUSINESS ENVIRONMENTS AND THEIR EFFECTS ON THE BUSINESS

Business environment refers to conditions or factors which surround and affect business operations. These factors could be within the business (**internal environment**) or from outside the business (**external environment**).

These factors affect the decisions, strategies, processes and overall performance of the business.

Activity: Discuss some factors that have a strong influence on businesses within the immediate environment.

Internal Business Environment

This comprises factors that are within the business unit itself. These factors can be controlled fully by the business. Internal environmental conditions could be either strengths or weaknesses. The strengths tend to improve the performance of the firm while weaknesses tend to affect the operations of the business negatively.

Internal environment is also referred to as: **micro-environment**. Micro environmental factors include:

Objectives of the business

These are targets or goals that are set by the owners or managers of a business to be achieved. The objectives will influence the following;

The strategies of a business-This is a plan of action which a business intends to follow so as to achieve its goals.

The resources required-By studying the objectives set; a business can determine the resources required for its effective operation.

These resources may be physical, financial, human etc.

Management policies and style

The management refers to the people who are responsible for directing the day-to-day operations of a business. It is the management that sets the objectives and policies of an organization.

A policy is a course of action for achieving set objectives, which is adopted by a business. (It is the established way of doing things in a business.)

The policies of a business-The policies adopted by a business may boost or hinder its growth and survival e.g. the management may decide that workers will not be allowed to join trade unions. This may make the workers feel locked out of the decision-making process, resulting in tension. This tension may interfere with the performance of the employees and result in inefficiency.

The activities of a business - Management policies will determine the activities of a business i.e. the goods and services provided, location of business etc.

Management style-This refers to how managers conduct the daily operations of the business. This will determine how workers relate with their managers. The style adopted by the management will influence the workers' performance positively or negatively thus affecting the overall performance of the business.

Business structure

This is the formal arrangement of activities that are carried out at various levels of the organization so that objectives of the business can be achieved.

Duties and responsibilities of all the workers are defined in the business structure. Their interrelationships are also defined.

A well laid out business structure is likely to lead to success of the business since:

Each of the employees know what is expected from them

There will be no conflicts or confusion among the workers

Team work is enhanced

Ensures proper control which in turn promotes efficiency.

A poor business structure leads to business failure.

Business Resources

A resource refers to anything that can be used to achieve an objective.

These resources include;

Human resource-Human resource (personnel) refers to the employees working in an organization. Employees will only be useful if they have the necessary knowledge and skills to successfully carry out the assigned tasks. It is therefore necessary for the management to match the correct people with the correct job activities; this will ensure success for the business.

Financial resource-Money is required in order to start and operate a business. A business with adequate finances that are properly allocated to various activities and also monitored is likely to do better than the one lacking such aspects.

Physical resources-These include tangible facilities which belong to the business such as buildings, machinery, furniture and stock. Availability of such facilities enables the business to operate.

Technology-This refers to skills and methods used in production. Use of modern technology enhances production of goods and services.

5.) Research and development

Research and development is an important factor for the success of a business. Research generates new ideas, skills and better methods of doing things.

A business has to do market and consumer research regularly to find out how the consumers perceive its goods and services, and how they

can improve in order to outdo their competitors.

Research also assists in the development of new and unique goods and services that may attract new consumers or maintain the loyalty of the existing ones.

6.) Business culture

This is a combination of employees expectations, beliefs and values within the business. It is normally passed on from one generation of employees to the next. Employees acquire norms and code of conduct that is acceptable to all from the general manager down to the sweeper. A business that has a culture of involving employees in decision-making may perform better than one that does not involve its employees.

7. Owners

The owners of the business provide finances/resources to start and run the business. They also make decisions concerning operations of the business.

Appropriate decisions are likely to lead to well being of the business while poor decisions may adversely affect the business.

External Business Environment

This environment consists of all the factors which affect the operations of the business from the outside. Some of these factors offer business opportunities while others may create problems (threats).

Business have limited or no control over external environmental factors and should therefore try to do adjust in order to cope with them.

External environmental factors are also referred to as **macro-environment** i.e. environment that is in large scale.

External business environment can further be sub-divided into **operating environment** and **remote environment**, depending on whether the factors can be influenced to some extent or not. Those environments that can be influenced are referred to as **operating environment** while those that cannot be influenced are known as **remote environment**.

ENTREPRENEURSHIP

By the end of the topic, the learner should be able to:

- Explain the meaning of entrepreneurship
- Discuss the importance of entrepreneurship to an economy
- Describe characteristics of an entrepreneur
- Generate business ideas
- Identify a business opportunity

- Evaluate a business opportunity
- Explain the need for a business plan
- Discuss factors that influence entrepreneurship practices in Kenya
- Discuss the causes of business success
- Recognize the need for ethical practices in business

Meaning of entrepreneurship

This is the process of identifying business opportunities and gathering the necessary resources to start and run a business.

An entrepreneur who identifies business opportunities and gets the necessary resources in order to start and run a business. The entrepreneur therefore creates new businesses or transform the existing ones in the face of risks and uncertainties in order to make profits.

An entrepreneur is therefore a business owner; he starts and organizes the business (the factors of production in appropriate combination)

Importance of entrepreneurship to an economy

Creation of employment-Through entrepreneurship, jobs are created which help in absorbing people who would otherwise have been jobless e.g. people employed in the jua kali sector.

Formation of capital-Profit earned by entrepreneurs may be used to expand the business or even to start other businesses. Wages and salaries paid to the employees is a source of capital to them.

Raising standards of living-Entrepreneurs pay wages and salaries to their employees which enable them to acquire goods and services they need to live comfortable lives. Entrepreneurs also provide a wide variety of goods and services to consumers hence leading to improved living standards.

Encourages the use of local resources-Entrepreneurship makes it possible to use/exploit local resources. Idle resources such as scrap metal may be used to make jikos.

Improving infrastructure-The existence of businesses in the economy makes the government establish or improve infrastructure such as roads, communication facilities and water. At other times, entrepreneurs may combine forces to improve infrastructure in their area of operation.

Savings on imports-Local entrepreneurs are able to produce goods and services that are a substitute to imports. This helps the country to reduce the amount of money required to pay for such imports.

Reducing foreign dominance of the economy-Participation of local entrepreneurs in various business activities helps in reducing

investments by foreigners in the particular area.

Promotion of technology/promotion of innovation, research and development-Entrepreneurs are creative and they come up with new and better ways of accomplishing tasks. Most of the inventions and innovations in our society have been developed by entrepreneurs.

Promotion of entrepreneurial culture/helps in the creation of role models- Successful entrepreneurs/entrepreneurial ventures encourage other members of society to initiate their own businesses and hence act as role models in the business world.

It contributes to government revenue-Taxes and fees paid by entrepreneurial ventures constitute part of government revenue / income that helps it to facilitate its operations.

It promotes economic growth-Entrepreneurs produce goods and services. This increases the volume of goods and services in the economy leading to expansion of the economy.

It may promote self-actualization and esteem-By initiating businesses in which they are their own bosses, entrepreneurs pride is boosted and this may promote the overall productivity of the economy.

Characteristics of an entrepreneur

A good entrepreneur should have the following characteristics:

Desire to achieve-An entrepreneur is a person who wishes to excel and has the drive to succeed while competing with others. He/she always tries to accomplish something new.

Ability to solve problems-An entrepreneur is expected to struggle with determination to get solutions even under difficult situation so that the business can succeed.

Risk taker-Entrepreneurs take viable business ventures even when they are not sure of the returns. They assess situations and take calculated risks.

Initiative –An entrepreneur should be aggressive in implementing ideas well ahead of other businesses so that he/she can be ahead of them.

Time consciousness-An entrepreneur should be able to use time wisely and avoid wasting it. A wise and quickly implemented decision may mean success in business whereas time lost may mean failure.

Creativity and innovation-An entrepreneur should be able to generate new ideas as well as think of the best ways of putting them into practice.

Independence and self confidence-Entrepreneurs are their own bosses

and should believe in their ability to do things and succeed.

Persistence and patience-An entrepreneur should not give up when challenges arise. Sometimes, he/she takes time and make a repeated action or adopts a different course of action in order to overcome such challenges so as to reach the target

Decisive-Entrepreneurs have strong problem, solving and decision making skills. The business environment is such that decision has to be made quickly to respond to any situation that may arise.

Persuasive-Convincing people to believe in their ideas and buy their products keeps entrepreneurs in business

Goal-oriented-Entrepreneurs are achievers who work towards set goals. They continually monitor progress to determine whether they are achieving the goals they have set and where improvements need to be made.

Seek information-Entrepreneurs use various methods to get the relevant information that is necessary for the success of the business.

Concern for high quality products-An entrepreneur should strive to cope or beat the existing standards of quality. This will enable him/her succeed in a competitive market.

Commitment to work-An entrepreneur places priority on getting tasks accomplished. To achieve this he/she may make extra ordinary personal sacrifice e.g. working until very late.

Concern for customer satisfaction-An entrepreneur should ensure that customers are satisfied so as to continue being/remain loyal to the business.

Desire to feedback-An entrepreneur should be interested in knowing how the business is performing.

Generating Business Ideas

For an entrepreneur, the first step in starting a business begins with an idea (business idea).

Business ideas are all about thoughts on possible businesses an entrepreneur can start or improve. It indicates among other things;

The products to produce/sell

Who the business will sell to (market)

Where the business will be located

How the will be run (management)

Why the business is needed (objectives)

Sources of Business Ideas

Newspapers-Local newspapers like the Daily Nation, East African e.t.c especially in the business and advertising sections have a lot of information about commercial opportunities as well as personal services.

Shows and exhibition-Visiting shows and exhibitions organized by manufactures and distributors and asking questions from the sales persons. Entrepreneurs can also get business ideas from products displayed in such shows.

iii. Magazines and journals-Reading magazines and journals with business information may equip an entrepreneur with new business ideas.

iv. Hobbies –These are activities pursued for pleasure but they can also serve as a source of business ideas e.g. photography.

v. Vocational training and experience-A business idea may be developed from one's own area of training or experience e.g. a teacher may use ideas from his/her training to start a private school.

vi. Surveys and market research-This involves conducting an investigation to gather information from consumers on what products they require.

vii. Recycling/using waste products-Some waste products could be converted into useful products e.g. scrap metal for making jikos, old tyres for making sandals e.t.c

viii. Listening to what people say-By listening keenly to what people say, one can identify unsatisfied needs e.g. complaints about goods and services in the market. These complaints may form a basis of a business idea for an entrepreneur.

ix. Identifying a market gap (niche)-An entrepreneur may try to identify/spot the needs of consumers which are not being met by the existing goods and services.

x. Brain storming-An entrepreneur can engage other people in a discussion on how best to develop businesses.

xi. Listing attributes of a product-By listing the attributes of a product that is already existing in the market, one can find new use for the product.

xii. Copying/improving an existing business-This involves identifying the weaknesses of a business and trying to come up with solutions.

Business Opportunity

A good business plan is not necessarily a business opportunity. A business idea becomes a business opportunity if it is viable i.e. it can be developed into a successful/profitable business enterprise

A business opportunity is a favourable chance that an entrepreneur accepts for investment. It exists where there is a gap to be filled in the needs of the market. Examples of such gaps include:

In availability of products-This is where goods and services needed by the consumers are not available at all in the market.

Poor quality products-A business opportunity exists if one offers better quality goods and services than those of the existing businesses.

Insufficient quantities-This is where the goods supplied are not enough to meet the demand/need of the consumers.

Unaffordable prices-A business opportunity exists where one would charge affordable prices.

Poor services-A business opportunity exists where customers are not served well.

Evaluating a business opportunity

This means assessing whether the identified opportunity is viable or not. This helps in arriving at the best decision concerning the business idea to implement

Evaluation should be done carefully, systematically and without emotions. Evaluation is necessary even where there is only one business idea. This will help in avoiding starting a business that cannot succeed.

Factors to consider when evaluating a business opportunity

The following are the factors to consider when evaluating a business opportunity.

Personal consideration-These are the abilities and expectations of an entrepreneur. They include the following;

Objectives-The entrepreneur should evaluate the business idea to find out whether it is in line with his/her objectives.

Skills-Where a business requires certain specialized skills and those skills are lacking the idea may be dropped.

Commitments-Where the business is likely to interfere with the entrepreneurs other commitments it may fail.

Interest-It is necessary to check whether the intended business will interest the entrepreneur or not. If the entrepreneur will not enjoy running the business, the idea should be dropped.

Business consideration-These are external factors that are likely to affect the operations of the business and they include;

Availability of market for the product-An entrepreneur should assess the availability of customers before starting a business. Customers exist where there is a gap/nich in the market.

Technology-The business should be evaluated in terms of whether there is an appropriate technology that can be used in production. Factors to be looked into include;

- Appropriateness of the technology
- The cost of the technology
- The possibility of the business suffering in case the technology becomes outdated/obsolete.

Availability of raw materials and other resources-The raw materials and resources required should be within the reach and affordable to the entrepreneur.

Government policy-An entrepreneur should consider the requirements of the government before starting a business e.g. the government may require certain businesses to be located in certain areas only.

Amount of capital required-The capital required to run and maintain the business should be considered i.e the source of capital.

Profitability of the business-Within a certain duration of time.

The break-even period-How long the business can take to support itself.

Possibility of expansion i.e. the potential for growth of the business.

Impact of the business operations on the environments; some businesses lead to environmental degradation and should be located in appropriate places/effect on community and environmental health.

Security-Availability of security should be considered.

Level of competition-This will help determine whether the business will survive or not.

The risks that the business will face.

BUSINESS PLAN

This is a written document that highlights the objectives of the business and steps to be followed in order to achieve these objectives. It indicates where the business is, where it wants to move to, how and when.

Contents of a good business plan

- Name of the business
- The product to be sold or produced
- Personnel to manage the business
- Amount of finance and other resources required
- The market to be served (customers)
- Types of employees required
- Projection (level of achievement in future in terms of profit)

Summary of the plan.

Need for the business plan

A business plan is necessary to an entrepreneur for the following reasons:

Avoiding mistakes-in the process of drawing a plan; mistakes that would take place in the business are identified and corrected in the plan. This helps in avoiding the occurrence of such mistakes in the business.

Identifying strength and weaknesses-A business plan helps in identifying strengths or weaknesses and where weaknesses are detected, remedial actions may be taken early enough.

Requirement by financiers-Financial institutions such as banks may require a business plan before they can accept to finance the activities of the business.

Allocation of resources-It helps to determine the resources required and plan on how and where to use them. This ensures that resources are neither underutilized nor used for the wrong purpose.

Facilitates business evaluation-A business plan helps an entrepreneur to assess the progress of the business and any deviation (difference) from the intended plan can be corrected in good time.

It helps an entrepreneur outline competition-It helps the entrepreneur to be fully aware of the market she or he plans to operate in, understand important trends and know who her/his competitors are and their strengths and weaknesses. This information aids the entrepreneur to develop products that are better than those of the competitors.

A motivating factor-A business plan is communicated to all employees in the business. This makes them aware of the direction to be taken by the business. This motivates them to work towards that direction.

Adaptability-Normally, not all events occur as predicted in the business plan. However, a well drawn business plan should give room to accommodate any changes that might occur in the future.

Tool for control-Planning involves setting of standards against which performances can be assessed. In case of deviation corrective measures can be taken.

Factors that influence entrepreneurship practices

There are many conditions or factors which may encourage or discourage

entrepreneurship. Some of these factors are:

Government policy-Some government policies are favourable to the operations of the business and thus encourage people to go into business while other policies may be unfavourable and will discourage people from going into business. E.g. higher taxes are unfavourable hence discouraging.

Infrastructure-infrastructure includes transport and communication networks, water, security e.t.c. Availability of good infrastructure in an area tends to encourage people to set up businesses while poor infrastructure tends to discourage them

Levels of education and skills-Relevant and appropriate knowledge and skills are necessary if the business has to succeed. These are acquired through education, training or experience.

Availability of markets-Adequate markets encourages existing entrepreneurs to continue producing and also encourage/attract new ones to venture into business.

Availability of resources-Appropriate resources are necessary for starting and smooth running of a business. These resources include physical, human, capital and technology.

Cultural and social beliefs and attitudes-These are norms, values and beliefs of a given community. Culture helps determine the kind of goods and services that people consume. this in turn, dictates the type of businesses to be established in such communities.e.g Muslims do not take pork therefore businesses selling pork will not do well in such communities.

Competition-Businesses will do well if they are able to complete favourably. Others will avoid competition by establishing businesses where there is no competition.

Political stability-political stability gives conducive atmosphere for businesses to start and thrive on the other hands, where there is no political instability, businesses may not do well and entrepreneurs may close down businesses or new ones may not come up.

Natural factors-natural factors such as rainfall, temperatures, earthquakes, pests, drought e.t.c. may influence the type of businesses that are carried out in an area, especially agricultural businesses.

Presence of role models in the society-The presence of successful entrepreneurs acts as an encouragement to aspiring entrepreneurs.

Causes of Business success

A business is considered as being successful if it makes consistent profit and experiences progressive growth in the scale of its operations.

Some of the factors that lead to the success of business may include:

Right choice of business-A good business opportunity needs to be evaluated on the basis of ability to capture many customers, make reasonable profit for the owner(s) and provide an opportunity for growth. Making the right choice of a business or product ultimately contributes to the success of a business.

Proper managerial skills-An entrepreneur should be able to carry out management roles effectively. A good manager will carry out roles such as;

Hiring staff-The process of acquiring new employees to take up new positions or to replace employees who have left the business.

Assigning duties-Allocating employees duties according to their qualifications.

Supervising-Ensuring that employees carry out tasks that are assigned to them

Training-Enabling employees to acquire knowledge and skills necessary to perform duties assigned to them.

Motivating-giving employees inducement to perform their duties.

Proper location/availability of customers-The business should be situated in a place convenient for its operations e.g. where customers are easily available.

Adequate finance/capital-Money is needed to acquire other resources that are required by the business. A business that has adequate capital is likely to do well as it is able to finance all its operations.

Lack of competition-Most businesses are put out of operation by stiff competition. Therefore, a business operating in an area where there is little or no competition is likely to succeed.

Commitment to business

Proper financial management-Proper management of finances is necessary for the success of the business. It ensures that money is available and is used for the intended purpose.

Management of finances includes:

Acquisition of finances-This involves raising of the required amounts of money. This can be done through a variety of ways such as loans from financial institutions and owner's contributions.

Managing cash-This ensures that the available money is only used for the activities that are beneficial to the well being of the business.

Proper record keeping-This involves having a record of finances raised and how they are used.

Proper debt management-Care should be taken to ensure that credit is only extended to credit worthy customers (credit worthy customers are those whose chances of paying are high).Debt collection should also be carefully planned to ensure that they are collected when due.

Good public relations-This involves creating and improving a good relationship between the business and other people. Good relations are necessary for attracting and retention of customers.

Being creative and innovative-This involves finding new uses of a product, new channels of communication and new ways of doing things. This enables the entrepreneur to be ahead of others.

Proper market research-The business environment usually changes at a high rate. This makes it necessary for an entrepreneur to study his/her customer's preferences, tastes, spending patterns, income levels, competitions, and behavior and substitute products.

Good/proper time management-Time management is the ability to carry out planned activities within the allocated period.

Proper skills and attitudes of employees-Employing qualified staff results in work being done in a professional manner. This enhances the performance of the business.

Proper pricing of goods and services-Pricing should be done appropriately. If the prices for the products are too high, the business will lose customers. Very low prices may attract customers but kill the business. It is therefore important to create a balance between price to charge and the profit margin to realize.

ETHICAL ISSUES IN BUSINESS

Ethics -refers to a set of values, principles and rules of acceptable behavior which influence how individuals, groups of people and the society in general behave.

Business ethics-refers to acceptable behavior that should be displayed by business people. Business ethics helps businesses in deciding what actions are right or wrong depending on circumstances.

Ethical issues-are the moral concerns that arise in the course of carrying out business.

Need for Ethical issues in Business

The need for ethical issues in business includes the following;

Ensures no discrimination in business-Business ethics ensures there is no discrimination in areas such as recruitment (hiring), promotion, training, remuneration and assignment of duties. These processes should be objective and based on merit, qualification, experience and ability.

-It ensures that everybody is given an equal opportunity (has equal chance) and is not discriminated against because of their sex, religion, ethnicity, social background e.t.c.

Ensures protection of the environment/Helps in avoiding environmental pollution-Business ethics prohibits business units from carrying out activities that may cause pollution and degradation of the environment. Environmental degradation may be caused by human activities such as logging and unplanned cultivation. Pollution may be caused by activities such as:

Dumping effluents from production units into water masses thereby causing water pollution. Water pollution is disastrous to human health and also to aquatic animals.

Emitting carbon dioxide and other gases into the atmosphere causing air pollution

Dumping of waste material on the land surface causing solid waste pollution This creates terrible sites to watch and also breeding places for dangerous insects such as flies.

Ensures fair play in competition-Ethics ensures that businesses do not engage in unfair practices while competing with others. These practices may include:

Destroying a competitor's product or promotional tools such as billboards

Buying and destroying competitor's products before they reach the market

Giving false information about a competitor's product

Helps in avoiding environmental degradation-Ethics ensures that the physical environment is not degraded through business activities.

Such activities may include:

Deforestation through logging

Unplanned cultivation

Helps in avoiding environmental pollution-Environmental pollution may be caused by activities such as:

Releasing carbon dioxide and other gases into the atmosphere thereby causing air pollution

Channeling effluents from factories to water masses thereby causing water pollution. Such pollution can be harmful to human health and aquatic animals.

Disposing of waste material such as paper and scrap metal on the land surface thereby causing solid waste pollution.

Producing too loud noise which might be harmful to human beings hearings

Emitting too strong light that may be harmful to our eyesight

Ensures rights of employees are upheld-Ethics ensures that the employer does not violate the rights of employees especially as laid out in their terms and conditions of employment. Such rights include payment of dues in time.

Eliminates use of unfair means of achieving business objectives-Ethics ensures that the business operations are carried out in a professional way e.g. it is unethical to give or receive a bribe in order to win a business contract. Similarly, it is not ethical to hoard goods awaiting their prices to go up.

Avoids consumer exploitation-Ethics ensures that consumers are not exploited by the business. Consumers may be exploited through practices such as:

Overcharging them

False advertisement

Selling poor quality goods and services

Selling wrong quantities

Selling harmful commodities

THE OFFICE

Define the term an office

An office is a building, room or a place set aside for administrative, communication or clerical work of an organization.

Outline the functions of an office

Receiving of information in various forms such as calls, personal visits or documents such as letters

Recording and sorting of information received.

Storing of information for future reference

Distribution of information within and outside the organization to the various sections, departments or personnel for necessary action

Reproduction or making of copies of document by use of various methods, such as photocopying, duplicating and carbon copying

Protecting or safeguarding the organization's property

State the various reprographic techniques that can be carried out in an office

Carbon copying

Stencil duplication

Photocopying

Spirit duplicating

Ink duplicating

Your school would wish to use photocopying as a method of making copies of exams. State the advantages and disadvantages of using this method

Advantages of photocopying

It is a fast method of reprography

It is a simple method and require little training of the users

One will obtain the exact copies of the original document

The method is not expensive if the copies to be made are few

It is environmental friendly

Disadvantages of photocopying

The copies that are made fade in the cause of time

Photocopying can be costly if the copies being made are many

The employees may misuse the method due to its convenience

Photocopying machine requires electricity which may be expensive

Few colours in a document may be obtained by use of this method

State the types of office layout

Enclosed office layout

Open office layout

Landscape office layout

Suggest reasons why an organization should use landscape office layout

It creates a relaxed atmosphere for the workers

It is more attractive and beautiful

The image of the organization/firm is enhanced

It promotes good working relations and co-operation among the workers

Equipment and office facilities may be shared among the employees

The flowers or plants used break the monotony of open spaces

State ways in which landscape office layout can be created

By placing plants/flowers in an office

By having paintings of animals or plants on the wall

By placing fish aquariums in an office

Through shaping of office furniture in form of animals, birds and concrete shapes

Creating miniature physical features such as waterfalls and mountains in the office

State why you will advice an office manager to use an open office layout instead of an enclosed office layout

In an open office layout it is easier to supervise workers than in an enclosed office

An open office discourages absenteeism which may be common in an enclosed office

It is cheaper to maintain an open office than an enclosed office

Equipment, facilities and machines can be shared in an open office which may not be possible in an enclosed office

Floor space is saved in an open office than in an enclosed office

There is enhanced attraction and framework in open office

It is cheaper to light an open office than an enclosed office

It is easy to locate employees in an open office

State the advantages of enclosed office layout

It is ideal for work that is confidential in nature

It is more secure than an open office layout

The office is ideal where high level of concentration is required

It is prestigious for the occupant of such an office as they are recognized

The worker is not disrupted by noise or movement of other employees

Highlight the disadvantages of an open office layout

There is a lot of noise and disruption from other employees

Contagious diseases may spread easily among the employees

The top ranked workers may feel belittled being placed among other workers

It is not very conducive for work that is confidential or secretive in nature

Property within the office is not very safe

Due to use by many people the office may not be very tidy

Outline the factors that have to be taken into consideration when deciding on a type of office layout to use

The cost of construction and maintenance

The number of staff to be accommodated in the office

The climatic condition of the area

Government directive if any

The nature of work to be carried out in that particular office

The nature and rank of staff to be accommodated in that particular office

The floor space available for the office

The need to maintain a good work flow among the workers

State the disadvantages of an enclosed office layout

It can encourage absenteeism

It is not easy to supervise the employees

It is expensive to construct and maintain

Facilities and office equipment cannot be shared among the workers

Workers can misuse office equipment such as the telephone

The office layout takes up more space

A lot of time is wasted when moving from one office to another

It may promote individualism as some employees are isolated from others

Enumerate the factors you will advice Mr.Mwajuma to consider when buying office machines for his company

The effect of the machine on the workers

The cost of the machine or equipment

The suitability of the machine for the task that is intended for

The availability of after sales services provide by the seller

Presence of office staff with the skills required to operate the machine

One has to consider space or room to keep the machine or equipment

The likelihood of the machine being outdated absolute or out of date

One has to consider whether that machine can adopt to future changes

State the best type of machine one would use to perform the following tasks:

	Functions	Type of machine
(a)	To create postage impressions on envelopes	Franking machine
(b)	To fold documents put them in envelope	Composite machine

	and seal them	
(c)	To destroy sensitive but unwanted documents	Paper shredder
(d)	To store large volumes of data	Computer
(e)	To run 300 copies of an exam for students in a school	Printing machine
(f)	To make exam copies of a certain original document	Photocopier
(g)	To trim papers to the required sizes	Guillotine machine

Highlight the disadvantages of using office machine

They can be very costly/expensive to buy and operate

They occupy space which can be used for other tasks

Machines may replace labour causing unemployment

Some may require electricity which may be expensive

Any breakdown of the machine may delay work

The machine may become obsolete(out of date)

They are subject to wear and tear(depreciation)

Some may require specialized or trained personnel to operate

State the three categories of office staff

Managerial staff

Junior staff

Subordinate staff

Outline the advantages of using office machines

Machines are labour saving and can be cost effective in the long run

The output of machines is of good quality

They can be used to minimize fraud or theft

Machines can be very fast saving on time

They can produce uniform work

Machines can be very accurate as compared to human labour

Some machines can be adapted to multiple task such as a computer

Highlight the role played by a good filing system in an organization

Filing provides security/safety of documents

It facilitates easy retrieval or access of documents

Good filing enhances orderliness and tidiness of an office

It guarantees confidentiality of information since it cannot get to the wrong hands

Good filing promotes good communication

Filing guarantees that documents are protected from damage

Good filing guarantees good future reference in case the information is required

Outline the various categories of office equipment giving examples in each case

	Category	Example
(a)	Typing office machine	(i) Typewriter (ii) Dictating machine
(b)	Mailing office machine	(i) Franking machine (ii) Composite machine (iii) Folding machine
(c)	Communication office machine	(i) Telephone (ii) Telex (iii) Cell phone
(d)	Duplicating/reprographic machine	(i) Photocopier (ii) Duplicator (iii) Printing machine

Distinguish between centralized and decentralized filing system

In centralized system one department is given the responsibility of keeping and managing all the files in the whole organization. This department is referred to as a registry. Decentralised filing

State the characteristics of a good office worker with office etiquette

Courtesy i.e dealing with people politely

Punctuality-keeping time at all times

Honesty-telling the truth

Co-operation with other employees

Tactical or being diplomatic when dealing with others

Good judgement and coming up with the best decision

Neatness and orderliness in terms of work arrangement

Dedication or loyalty towards the organization

Highlight personal attributes that Bakari should have as an office worker

He should be presentable

He should maintain high standard of morality

He should have a good sitting posture

He should maintain high standards of hygiene

He should be neat and accurate in the organization of his work

He should maintain good health and physical fitness through having proper diet and exercising

Define the roles played by the following office workers

(a)Departmental manager

Maintaining the books of accounts

He/she may prepare the budget for his/her department

Submitting reports to the senior manager about performance of the department

Monitoring and supervising workers in the department

Assigning roles and duties to employees in the department

(b)Personal secretary

Receiving and filing information

Booking appointments for the boss

Taking and writing minutes during meetings

He/she can maintain small amount of money for making small or petty purchases in the office

He/she receives and makes calls for his seniors

Highlight trends in office management

Use of modern computers enhances efficiency

Introduction of customer care desks or offices to address customers concerns

Movement toward open and landscape office plan to enhance more interaction among the workers

Outsourcing for some task that can be done by other firms instead of employing workers to do the same e.g. having external cleaners or security

Use of the cell phone for communication

E-Commerce is a recent trend in business. Outline the advantages of using this method in carrying out business activities.

Advantages

One can have a wide variety of goods and services from all over the world

It reduces the cost of travelling to the market or in search of product

It is fast as deals can be made within a short period of time

A seller can advertise goods to many consumers over a wide area

Paper work and the many documents used on other trade are removed or reduced as selling and buying is on-line

A lot of information about the market can be accessed on the internet

HOME TRADE

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

Explain the meaning and importance of trade.

Classify trade

Explain the forms of home trade

Discuss the types and functions of retailers

Discuss the types and functions of wholesalers

Describe the documents used in home trade and the circumstances under which they are used

Explain the means of payment used in home trade and the circumstances under which they are used

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:

Helps people to acquire what they cannot produce

Avails a variety of goods and services thereby improving the people's living standards

Creates an outlet for goods thereby enabling the producers to dispose of their surplus produce

Creates employment opportunities

Encourages specialization and division of labour

Promotes peace, social relations and understanding between the parties involved since they depend on one another

- Provides revenue to the business and the government in form of taxes and fees charged on the various trading activities
- Ensures steady supply of goods and services
- Exploitation of local resources as traders create goods and services using locally available resources
- Encourages economic growth and development

Classification of Trade

On the basis of geographical location of the portion involved, These are:

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**.

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;

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.

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

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;

Small scale retailers

Large scale retailers

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;

Small scale Traders without shops

- Itinerant Traders (Hawkers and peddlers)
- Roadside sellers
- Open air market Traders

Small scale retailers with shops

- Single shops -Tied shops -Kiosks -Mobile shops
- Market stalls -Canteens -Mail order stores

Small scale Retailers without shops

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

Are found mainly in densely populated areas

Move from place to place in search of customers

They are very persuasive

Their prices are not controlled.

Advantages of itinerant Traders

They require little capital to start

They are convenient because they bring goods closer to the people

The business is flexible in that they can move from place to place.

They can also change from line of business to another

Few legal formalities are required

They usually do not suffer bad debts because they sell in cash.

Disadvantages of itinerant Traders

The traders get tired because of moving from one place to another while carrying goods.

The business is affected by bad weather conditions

The traders sale a limited range of goods

It is difficult to transport goods from one place to another.

Do not offer guarantee, in case items are to be found defective

They are constantly in conflict with the local government.

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.

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

They require a small amount of capital to start and operate their businesses.

They are convenient since they take goods to the customers within their reach.

They incur low costs of doing business

Most of their goods are low-priced and hence more affordable to customers.

The business is flexible. It is easy to change from one business to

another

They require few legal requirements

The financial risks involved in these businesses are minimal

They do not suffer bad debts since they sell on cash bases

They interact at personal level with the customers and can convince them to buy their goods.

Disadvantages of small-scale retailers without shops

It is tiring for traders to move from place to place especially if the goods are heavy and the distance covered are long

The traders face stiff competition from other traders with more resources

They offer a limited variety of goods

They are affected by unfavorable weather condition

Lack of permanent operating premises denies them a chance to develop permanent customers

They face a lot of uncertainty, especially in terms of a steady flow of income

They sometimes sell defective or low quality goods because customers expect to pay little money for them.

Small scale Retailers with shops

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

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, cigarettes, and newspapers e.t.c. some kiosks also sell food

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, Kariakor, 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

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.

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.g. painting 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

Canteens: These are retail shops found in institutions such as schools, colleges, hospitals and army barracks.

- 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 license 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

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.

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

Easy to raise capital to start

Retailers are in close contact with the consumers and may give credit to credit worthy customers.

Are able to use free or cheap labour from family members

The risks involved in their businesses are small

The business is simple to start and manage

Few legal formalities required to start and run the business

The trader can easily change from one form of business to another i.e. the business is flexible

Disadvantages of small-scale retailers

Traders have limited access to loan facilities

They may not afford to hire specialists or technical staff

May suffer bad debts if they give credit to customers without proper assessment

Do not enjoy economies of scale

Have a low turnover because of the little capital invested

LARGE SCALE RETAILERS

Large-scale retailers have the following features/characteristics;

Require large amounts of capital to start and maintain

They operate from larger fixed premises

They operate mainly in urban areas

They have a large labour force

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

Require the services of specialists such as salespersons and accountants

May occupy one large premise or several premises in the same town or in different towns

They have large stocks and large sales volumes

TYPES OF LARGE SCALE RETAILERS

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

Features of supermarkets

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

Advantages of supermarkets

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

Disadvantages of supermarkets

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

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

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

Advantages of Hypermarkets

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

Disadvantages of Hypermarkets

- Are only convenient to customers who have cars because they are situated away from city centres
- They serve limited number of people due to their location
- They require large amount of capital to establish
- They can easily exploit their customers since their prices are not controlled
- Require large amount of space which are not available in central business district (CBD)
- They spend a lot of security to safeguard properties

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

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

Advantages of chain stores/multiple shops

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

Disadvantages of chain stores/multiple shops

Large amount of capital is required to start and maintain the business
 They cater mainly for the urban areas as they are situated in those places
 Organizational problems may occur due to their large size
 No credit facilities are offered except those operating exclusively on hire purchase schemes
 Response to market changes is slow due to the slow decision making
 Decision making is slow as the head office must be consulted
 Lack of personal touch with customers

Absence of personal touch between employer and employee may reduce incentives for hard work among staff

People tend to shy away from buying similar products such as clothes and this may reduce sales.

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

Each department has its own manager

Each department sells only one line of products

All departmental managers are answerable to a general manager

They offer a wide variety of goods at relatively low prices

They sell goods strictly on cash basis

They are usually in town centres

Goods are not transferable from one department to another as each has its own variety of goods.

Advantages of departmental stores

Customers can buy/access a wide variety of goods at fair prices under one roof.

They can afford to hire trained qualified experienced staff who provide quality services

They buy goods in large trade discounts. This enables them to sell at low prices.

Each department is able to make independent and quick decisions that affect its operations.

The independence of departments ensures that the weakness of one department does not affect each other.

Savings can be made on some activities such as product promotion by centralizing them.

Disadvantages of Departmental stores

A large amount of capital is required to start and maintain the stores

They require a large number of customers to operate profitably

It is difficult to give personal attention to customers

They cater mainly for the urban communities in which they are located

They strictly sell their goods on cash basis

Operational costs are high due to the wide variety of services

offered

Their large size could encourage theft and pilferage of goods

The independence of **departments** can make central control difficult.

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

Offers credit facilities: Retailers are in close contact with the consumers and some may give them credit facilities

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

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.

Advising consumers: Retailers may offer advice to consumers on choice and use of products

Availing needed goods: Retailers make goods available to consumers at the right time and place

Breaking bulk: Retailers sell goods to consumers in convenient quantities

Accumulating bulk

Stabilizing prices: By ensuring that goods are continuously available to consumers

Services Rendered to wholesalers

Retailers store goods and relieve the wholesalers the burden of storing goods and the storage costs

They relieve the wholesalers the burden of transportation

Retailers advice wholesalers on market trends(on consumers demand)and give valuable information

They help in distribution of goods to the consumers

They help in breaking bulk on behalf of the wholesaler

They finance wholesalers to continue with their operations through paying for the goods

They relieve the wholesaler of some risks that arise from the storage of goods such as theft, fire and accidents.

Services Rendered to producers

Through wholesalers retailers provide very vital information to manufactures about market demand

They advertise goods on behalf of producers

They sell and market goods to consumers. This relieves the manufactures the task and risk of retailing

They store goods on behalf of the producers

They break bulk on behalf of producers to consumers

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 do not make them retailers.

Classification of wholesalers/Types of wholesalers

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

According to the range of goods they handle

According to the geographical area in which they operate

According to their method of operation.

According to the range of goods they handle

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

General merchandise wholesalers

General line wholesalers

Specialized wholesalers

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;

Nationwide wholesalers

Regional wholesalers.

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:

Cash and carry wholesalers

Mobile wholesalers

Rack jobbers

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.

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.

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:

Those who buy goods store them in warehouses and sell them to traders without having added anything to them.

Wholesalers who act as wholesaler's agents or brokers. These are middlemen who are paid a commission for their work e.g. commission agents

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:

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.

Packing- Putting goods in packets and boxes ready for sale.

Branding- Giving a product a name by which it will be sold

Sorting- Selecting goods to desired sizes, weight, colour and qualities

Grading- Putting goods in groups of similar qualities to make it easier to price them

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

They relieve the producers the problem of distribution by buying goods from them and selling to retailers

They relieve the producers of some risks they would experience e.g. damage, theft, fall in demand e.t.c

Save the producers from the problem of storage by buying goods and keeping in their warehouses

They prepare goods for sale on behalf of the producers

They get feedback from consumers on behalf of producers

They promote products through advertising, displays, trade fairs and exhibitions

They finance producers by buying goods from them and paying in cash.

Services of wholesalers to the Retailers

They stock a wide variety of goods in large quantities relieving the retailer from buying from different producers

They avail goods at places convenient to retailers

They break bulk for the benefit of retailers

They offer transport facilities to retailers

They offer advisory services to retailers regarding market trends

They offer credit facilities to retailers

They engage in product promotion on behalf of retailers

They sort, blend, pack and brand goods saving retailers from having to do it.

Services of wholesalers to consumers

They ensure a steady supply of goods to retailers hence consumers are not faced with shortages

They ensure a stable supply of goods hence there will be stability in market prices

They enable consumers to enjoy a wide variety of goods

They break the bulk of goods thus enabling the consumer through the retailer to get the goods in convenient quantities

They prepare goods for sale e.g. branding, blending and packaging

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;

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;

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.

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.

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.

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 -Mode of payment
- Date of making document -Discounts given
- Name and address of prospective seller called the **tenderer**
- The prices at which the goods can be provided
- Period of delivery -Mode of delivery
- 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.

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.

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

Filling an order form. This is a pre-printed document that is used for making orders

Writing an order letter

Sending an e-mail, faxing or sending a short text message

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

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;

If the seller is convinced that the buyer is credit worthy, arrangements are made to deliver the ordered goods or services to the buyer.

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.

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

- A polite way of asking for payment before the goods are delivered
- Sent when the seller does not want to give credit
- Used by importers to get customers clearance before goods are delivered
- Issued to an agent who sells goods on behalf of the seller
- Show what the buyer would have to pay if the order is approved
- 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 buyer's premises or at any convenient place.

The main documents that are used at this stage are;

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.

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

Informing the buyer that the goods are on the way so that in case of any delay in delivery, the buyer can make inquiries

Alerting the buyer so that necessary arrangements can be made for payments when the goods arrive

Can serve as an acknowledgement note, where one is not sent/

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;

Name and address of the seller

Name and address of the buyer

Date of delivery

Delivery note number

Description of the goods delivered

Quantities of the goods delivered

Space for the buyer to sign and comment on the condition of the goods received.

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 be transported

Name and 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

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 is 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.

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

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:

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:

Cash invoice-This is sent when payment is expected immediately after delivery thus acting as a **cash sale receipt**

A credit invoice-This is sent when a buyer is allowed to pay at a later date.

Functions of an invoice

It shows the details of goods sold i.e. quantity delivered, unit price, total value of the goods and terms and conditions of sale.

It is a request to the buyer to make payment

It serves as an evidence that the buyer owes the seller a certain amount of money

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 verifies 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
It is issued after goods and services have been delivered	It is issued before goods and services have been delivered
It shows the total value of the goods or services on credit	2)Shows the total value of goods and services to be bought
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
Used as a basis for making payment for products already bought	4)Used as a basis for preparing payment for products not yet bought
Serves as a notice of payment for products bought on credit	5) Serves as a Quotation for products to be bought.

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.

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

When there is an undercharge in the invoice

If the buyer had been given a discount that was not due to him

If some items had been omitted in the original invoice

If the buyer decides to retain some empty containers or crates

Differences Between a debit note and a credit note

DEBIT NOTE	CREDIT NOTE
Issued to correct an undercharge on the invoice.	Issued to correct an overcharge on the invoice.
Written on blue or black.	2) Usually written in red
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;

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.

Summary of documents used in home trade

Document sent by buyer	Document sent by seller
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-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;

Cash

Means of payment provided by the post office

Means of payments provided by the commercial banks

Means of payments which arise from private arrangements between sellers and buyers

Other means of payment.

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:

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

Disadvantages of cash as a means of payment

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

Circumstances under which cash payment is appropriate

- Where the amounts involved are small
- Where the payee (receiver) does not accept other means of payment
- Where cash is the only means available
- Where the payee requires cash(money) urgently
- Where there is need to avoid expenses associated with other means of payments

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, Barclays bank, and Co-operative bank e.t.c**

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

- Cheques
- Bank drafts/bankers cheques
- Credit transfers
- Standing orders

Travellers cheques
 Telegraphic transfers
 Debit cards
 Electronic fund Transfer(E.F.T)

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

Drawer-This is the person or institution who writes and issues the cheque.He is usually a current account holder with the bank

Payee-The person or institution to be paid

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

Open cheques

Crossed cheques

Bearer cheques

Order cheques

Open cheques

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

Crossed cheques

This is a cheque 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
 - 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.
 - 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:

Insufficient funds in the account

If the signature on the cheque differs from the drawers specimen signature in the bank.

If the cheque is stalc i.e. presented for payment after six months from the date of issue.

If the cheque is **post dated**-meaning the cheque is presented for payment earlier than the date on the cheque

If the amount in figures is different from the amount in words

If there are alterations on the cheque which are not countersigned by the drawer

If the cheque is torn, dirty or default making it illegible

If the account holder(drawer) is dead and the bank is aware of the fact

If the drawer instructs the bank not to pay the particular cheque

If the cheque contains errors which need to be corrected

If the drawer becomes bankrupt or insane

If the drawer has closed his/her account.

Advantages of using cheques

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.

They are convenient to carry and can be used to pay large sum of money which would be otherwise inconvenient to pay using cash

They can be transferred to a third party to make payment/cheques are negotiable

Payment can be made by cheque without the need to travel to make payment

They provide a record of payment because of the counterfoits. The counterfoits acts as proof that payment has been made.

Under special circumstances, they can be cashed or discounted before maturity.

Disadvantages of using cheques

Cheques can be dishonored

Requires the payee to go to the bank and in some cases to have an account

The drawer pays some charges e.g. charges for the cheque book

Can only be issued by an account holder/the drawer must have an account

They are not readily acceptable by everybody

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

Bank drafts/Banker's cheques

-This is a cheque 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.

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 requesting 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
- The amount of money to be remitted
- Name of the payee
- 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.

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.

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.

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,

- Money orders

- Posta pay

- Postal orders

- Postage stamps

- Premium bonds

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 clerk 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

Where it is the only means available

Where other means are not acceptable

Where there is need to avoid inconveniences or risks associated with other means

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;

The transaction number(i.e. the twelve-digit number)

The expected amount

The name, address and telephone number of the sender

The city town or location of the sender

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

Accessibility-Posta pay outlets (post offices) are located countrywide to eliminate movement over long distances to get money

Ease of use-Sending or receiving money is easy as one only needs to fill a form which is processed immediately

Speed-the transfer of money is instant (fast)

Security-Confidentiality in the transmission of money is provided and money is only paid to the person intended

Convenience-Posta pay services are offered for long hours during the day and pay locations are conveniently located

Affordability-Posta pay services are relatively affordable as large amounts can be sent at reasonable costs.

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

Where the amounts involved are small

Where it is the only means available

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

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.

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

Where the amounts involved are small

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;

I Owe you (IOU)

Bill of exchange

Promissory note.

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.

Order-is a command not a request

Unconditional-Without condition i.e. no use of such words as 'if' or 'whom'

The bill must be in writing

Amount of money must be clearly stated

Payee must be named. He/she can be the drawer or someone else or the bearer

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:

Keep it until maturity when he would present it to the debtor(accepted) for payment

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

Negotiate it-Using it to pay someone else apart from the payee.

Parties to a bill of Exchange

Drawer-This is the person who gives the debtor the written order to pay the value of the bill of exchange(the creditor)

Drawee-This is the person to whom the order to pay is given (Debtor).He or she accepts the bill.

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

It must be signed by the drawer(creditor)

It must be accepted by the drawee(debtor)

It must be accepted unconditionally

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

The holder may pass rights on the bill to another person

Date of payment is determined

Acceptance by the debtor makes it legally binding

The payee may receive money before due dates by discounting

Disadvantages of using a Bill of Exchange

It may be dishonoured on maturity

Cash may not be readily available as banks may be reluctant to cash bills from debtors of doubtful financial backgrounds

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.

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

There are two parties i.e. the drawer(debtor) and the payee(creditor)

There is a promise to pay

It is written by the debtor to the creditor

It does not require acceptance since it is signed by the person committing to pay the money

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:

Both act as evidence of the acknowledgement of a debt

Both may be discounted or endorsed before maturity

Both are negotiable i.e. can be transferred from one person to another

Both are legally binding

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
---------------------------------------	--

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.

Other means of payment

Credit cards

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

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

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

Confidentiality-The secret PIN protects the value in the customer's account

Ease of use-The service is easy to use as the agents assist to carry out transaction

Speed-Money transfer is an instant service conveyed to the receiver via the short message service(SMS)

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)

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.

Affordability-The service charges are very low for registered users and very affordable for non registered users

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;

Cash payments

Deferred payments(credit payments)

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

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:

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

When the buyer is new to the seller

Where the buyer's credit worthiness is in doubt

Where the seller is operating mail order stores(C.W.O only)

Where C.W.O or C.O.D is the policy of the business

If the cost of collecting debts is considered high by the seller

When a seller is to make goods based on unique specification provided by a particular buyer(C.W.O only)

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)

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

Credit worthiness of the buyer

Repayment period

Amount of goods the customer wants

Availability of adequate stock

Honesty i.e. reliability of the customer

Frequency at which the customer buys from the seller

Seller's intention to attract and retain customers

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

Examples of open trade credit

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 from 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.

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 possess 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
- In case 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 safeguards the interests 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

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

To the seller

- The goods belong to the seller until the last installment is paid
- He/she can repossess the goods in case the buyer defaults in

payments

The seller is able to make more profit due to higher prices in the long run

The sales volume increase due to greater ability by customers to pay/more buyers are attracted to hire purchase terms leading to more sales

No refund is payable to a buyer for goods repossessed from him/her
Due to the check-off system, chances of non-payment are minimized.

Disadvantages of Hire purchase

To the buyer

The hire purchase price is higher than the cash price.

The goods belong to the seller until the last installment is made

Because of the easy payment terms, the buyer may be tempted to overspend which might lead to financial problems

The variety of goods sold on hire purchase terms is limited to those goods that are durable

If the buyer defaults in payment, the already paid ones are treated as hire charges and are not refunded.

Goods may be repossessed if the buyer defaults in payment

To the seller

Goods repossessed can only be sold as second hand

There is a lot of documentation and filing of information/records

The cost of operating the business is usually very high

The risks of loss on hire purchase sales are normally high as some buyers may default in payment

High amount of capital is needed to finance a hire purchase business

A lot of money is spent on repair of damaged goods

A lot of capital is tied and held in stock and debts.

Installment Buying/credit sale(deferred payment)

-In this form of credit selling, the buyer is not required to pay a down payment. 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

The ownership and possession of goods passes on to the buyer immediately the first installment is paid

Once the goods have been sold, they cannot be repossessed by the

seller even if the buyer defaults in payment.

In case the buyer defaults in payment, the seller can obtain compensation through court action.

There is a written agreement between the buyer and the seller(creditor)

The buyer may dispose of the goods before paying for them fully

Can be used for non-durable goods

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