DOCUMENTS USED IN HOME TRADE:

A commercial transaction

Is dealing between two parties involving the buying and selling of goods and services for money.

Hence, there are two parts of a transaction.

i) The transfer of goods or services by the seller
ii) The payment for them by the buyer.

Types of transactions

1. **Cash transaction**

This is when both parts of the transaction, the transfer of goods or services and the payment for them are executed simultaneously (at the same time).

Types of cash transactions

1. Cash with order (C.W.O). Here the buyer sends money along with the order.
2. Cash on delivery (C.O.D). Here the seller collects money when he receives the goods.
3. Spot cash.here, the buyer pays for the goods as he collects them from the seller's premises.

Note: A cash sale slip is a document issued by the seller to the buyer when goods have been sold for cash. It is issued to conclude a cash transaction.

2. **Credit transaction**

Is a transaction in which payment for goods is made after a specified period from the date of delivery.

If the buyer wants to be granted credit facilities, he has to give credible evidence that he will pay in agreed time.

Transactions in home trade need a lot of documents in order to know that a transaction has reached a particular stage and to ensure that the transaction is successful.

STEPS AND DOCUMENTS INVOLVED IN A CREDIT TRANSACTION

1. **Birth of the idea**

This step involves making the public aware of the existence of the business goods and services. Before any transaction is made, the seller must first make the public aware of the existence of his goods or services.

This can be done in various ways which include:

i) Advertising
ii) Exhibitions or trade fairs
iii) They may also send circulars or leaflets to the retailers to inform them about the goods stored by them.
iv) They may also employ various sales men to visit various retailers in the country.

2. **Makinginquiries**

This involves contacting a number of suppliers inquiring about the goods offered by them, their terms, services, methods of payment etc.

Letter of Inquiry (inquiry note):

This is a document sent by the buyer to seller asking for information about the nature of goods available and the prices at which they can be supplied.

An inquiry can be made orally or by writing a letter of inquiry.

Types of the letter of inquiry

i) A general letter of inquiry. This asks for general informationie concerning various types of goods and services, terms and conditions of payment, mode of delivery, discounts if any etc.

ii) A specific letter of inquiry. This clearly specifies an area of interest. It looks at a particular product, its price, terms and conditions of payment, discount if any etc.

3. **Reply to the letter of inquiry:**

This is sent by the seller to the buyer after receiving the letter of inquiry. It may include.

i) **Pricelist:** This is a list of items sold together with their respective prices. It does not contain a lot of information and it is useful only when the goods listed are well known.

ii) **Catalogue:** This is a booklet, which briefly describes each of the items offered for sale. It often carries an illustration and it is more detailed than the price list. It is always designed to attract customers.

iii) **Price current:** As prices tend to fluctuate, the supplier sends a list known as a price current to show the existing prices at a time.

iv) **Quotation:**is an offer to supply goods according to the specifications and requirements of the buyer. It is more specific in nature as it provides all details of particular goods that the buyer is interested in.

v) **Tender:** is submitted by a potential supplier to a buyer in response to an advertisement requiring information about certain goods or services.

vi) **Samples:** Some suppliers send samples to the buyers. A sample is an item representing the rest of the items or products supplier's warehouse. Suppliers of textbooks and shoes normally send such samples.

4. **Placing an order.**

After the buyer has received a quotation, price list or samples, he can examine and select the goods and then send an order note.

An order note: Is a document sent by the buyer to the seller asking for goods to be supplied therein. It contains the details of goods and quantity, quality and the prices of individual items, the date, address to which the goods are to be delivered. It is written in duplicate so that the buyer and the seller each have a copy.

An order can be placed verbally or by filling an order form. But it is not advisable to place orders verbally as misunderstandings may arise in future.

5. **Decidingonthemethodofpayment.**

At this stage, if it is not indicated in an order note, the seller has to decide for the terms of payment whether to give credit facilities or cash is to be paid immediately.

A large number of transactions between wholesalers and retailers are credit transactions and those between retailers and consumers are cash transactions.
If the seller refuses credit and the buyer is then required to pay cash.

6. Credit status inquiry:
This is a document issued by the seller to find out about the credit worthiness of the new customer. If the seller fails to pay proper attention to his aspects, he looses through bad debts as some debtors order for goods they cannot pay for at all.
The credit status inquiry is sent to referees of the new customer.

The following can be sources of information about the credit worthiness of the customers:

i) **The bank of the buyer:** the seller can obtain information about the credit worthiness of his customer from the bank where he has an account.
ii) **Other suppliers:** The retailer may also be asked to name other wholesalers from whom information about his paying habits may be obtained.
iii) **Other customers:** The seller may ask some of his customers who may know the new customer's credit worthiness or his paying habits.
iv) **Trade associations:** If the retailer happens to be a member of this association, the supplier can contact the association for a confidential report about the retailer's financial status.
v) **Study of final accounts:** The supplier can study the audited accounts of the retailer. This can help him to get clear information about the financial position of the buyer's business.
vi) **Personal interview:** The seller can talk with the buyer about his honesty, if convinced, the seller accepts the promises made by the buyer and gives him goods on credit.

7. Deciding on the credit terms
Having approved of the credit status of the buyer, the seller then may decide about the length of the credit period. A seven day or less of credit period is often referred to as prompt cash.

8. Packing of the goods
At this stage, the order received from the prospective buyer is passed on to the sales department. It is from here that goods are sent to the warehouse where packing takes place. The document involved at this stage is known as a package sheet.

i) **A package sheet** is a document, which shows the list of goods packed in a particular container or box. Each container will contain its package sheet.
Package sheets are usually written in four copies, the original copy is placed inside the packet or the case, one copy is sent to the buyer by post, another copy is sent to the accounts department and the other one is retained by the warehouse.

ii) **Consignment note:**
This is a document sent by the seller to the buyer instead of a package sheet. It gives a brief description about the goods and the number of boxes or containers sent.

9. Delivering of goods ordered for

This involves physical transfer of the goods from the seller to the buyer. This stage involves two documents which include:-

i) **Dispatch note (Advice note)**:
This is a document sent by the supplier to the buyer to inform him that the goods ordered for have been sent such that he gets ready to receive them and transports them from the delivery point and also prepares room for them in his warehouse.

ii) Delivery note:
This is sent by the seller to the buyer with goods bought. It consists of the list of all goods that have been sent. It is given to the buyer by the transporter to prove that the goods have been delivered to the buyer.
The buyer signs it after crosschecking the goods listed on it whether they correspond with the order note. The buyer retains one copy and another one is taken back to the seller by the transporter. A package sheet also accompanies the delivery note.

Procedure on receipt of goods.

A buyer.

i. Inspects them to see they are not damaged.
ii. Make a record in his stores record books of the description and quantity of goods received.
iii. Verify goods received with the copy of order placed and package sheets received.
iv. If no delivery note is received from the seller a buyer may himself issue a goods received note to the seller.

10. **Invoicing**

This is where the seller informs the buyer about the amount due from him. He does this by preparing document known as an invoice.

Invoice

This is a document sent by the seller to the buyer summarizing the details of goods sold on credit. An invoice notifies the buyer of the amount he owes to the seller and it also serves as evidence to the seller when making accounting entries in his books.
It consists of the following details:

- Name and address of the buyer
- Name and address of the seller
- The exact description of goods.
- Quantity of goods supplied
- Unit price of the goods sold
- The total cost of goods sold
- The date of the invoice
- The invoice number
- The terms of payment, discounts granted and the credit period allowed.
- **E & O.E**. It stands for Errors and Omissions Excepted. This impression means that the seller reserves the right to correct any mistake that may appear on the invoice. It informs the buyer that such errors that may appear on the invoice are not intended and may be corrected.

11. **Receiving of an invoice.**

On receiving an invoice, the buyer performs the following activities.

i) He verifies the invoice with the copy of the order note places to ensure that he has been invoiced what he actually ordered for.
ii) He verifies the invoice against the package sheet, delivery note and the goods received to ensure that the goods invoiced have actually been received.
iii) He checks the prices and trade discounts allowed if any to ensure that no overcharge has been made.
iv) He checks the calculation of the invoice against the total multiplication.

12. **Passing the document to the accounts department to prepare a cheque for payments to be made.**

13. **Correcting any mistake in the invoice**

If an invoice upon checking is found incorrect, the buyer takes appropriate steps to ensure that he pays only correct amounts. An incorrect invoice may lead to either an overcharge or an undercharge.
To correct an overcharge, the seller prepares a credit note and to correct an undercharge, the seller prepares a debit note.

i) Credit note:

This is a document sent by the seller to the buyer to correct an overcharge on an invoice. It is always printed in red to distinguish it from an ordinary invoice since it shows the amount owed to the buyer rather than that owed by the buyer to the seller.

A credit note may be issued due to any of the following cases:

- When goods were damaged in transit or few goods were sent.
- When containers like crates and boxes have been returned, a credit note is issued with the value of the containers.
- When a wrong quality of goods has been sent.
- When there is an arithmetic error on the invoice e.g. poor addition, subtraction or multiplication.
- In case some of the goods were returned to the seller.

ii) Debit note:

This is a document sent by the seller to the buyer to correct an undercharge on the invoice or it is sent when the seller wishes to make an extra charge on the buyer.
A debit note can be issued due to any of these cases:

- If there was an arithmetic error in invoicing e.g. if a typist made an error and typed shs. 100 instead of shs. 1,000 then such an under charge can be corrected by sending a debit note.
- If more goods or goods of better quality than those which were ordered for have been sent to the buyer and kept by him.
- When goods are wrongly priced
- When containers like crates and boxes have been retained yet not included in the invoice, a debit note is issued with the value of the containers.

14. **Preparing a statement of account**

Statement of account:
This is a document sent by the seller to the buyer indicating the amount of goods bought and the amount of money paid for those goods in a given period of time.
It is a summary of all transactions that have taken place during a certain period of time. It consists of the following:

- Name and address of the seller
- Name and address of the buyer
- The month for which it is prepared.
- Debit and credit columns
- The unpaid balance from the previous month if there is any.
- List of invoices and amounts due against them issued during the month.
- Value of items bought during a specific period.
- Payments made during that period and the balance due to the end of the month.
- Amount due at the end of the month.
- Cash discount allowed in the month.
- Terms of payment for the remaining balance
- Stamp and signature of the seller
- E & O. (errors and omissions excepted.)

Procedure on the receipt of statement of account
A buyer

- Checks it against previous statement to ensure that the opening balance is correct.
- Verifies it with invoices received during the month.
- Verifies it with credit notes received during the month.
- Verifies any payments made during the month.
- Prepares a cheque for payment.

15. Payment for goods:
Receipt:
This is an official acknowledgement of money paid for goods and services. It is issued by the supplier to the buyer. A receipt is issued to evidence that the buyer has paid the amount of money for the debt he owed.
A receipt is the last document in a commercial transaction and it therefore concludes a credit transaction.

Proforma invoice:
This is a document sent by the seller to buyer showing terms and conditions under which goods will be supplied.
A proforma invoice is similar to an ordinary invoice except that it is normally sent to the new customer. It can be sent due to the following reasons:

- When the seller does not want to supply goods on credit to the new customer, therefore this invoice is requesting him to pay for the goods before they are sent.

- When the quantity ordered for is small, here the seller may not want to waste time opening up an account for seller.
- In case samples were sent with a quotation, the seller can send a proforma invoice asking the buyer to pay for the samples if retained.

Compare and contrast an Ordinary invoice and a Proforma invoice.
Similarities:

- They both require payments.
- They are both sent by the A proforma invoice is sent to new buyers while seller to the buyer.
- They must be written in duplicate.
- They both give full description of goods sent.

Differences:

- An ordinary invoice is sent to all buyers irrespective of whether they are new or not.
- A proforma invoice is sent when goods are ordered in small quantities while an ordinary invoice describes goods, quantity and price.
- A proforma invoice is sent when goods are sold under sales or return basis while an ordinary invoice shows the amount of trade discount and cash discount.
- A proforma invoice cannot replace a quotation while an ordinary invoice can sometimes replace a quotation.
- A proforma invoice request for payment before goods are delivered while an ordinary invoice demands for payment after delivery goods.

Differences between a cash sale slip and a receipt.

1. A cash sale slip concludes a cash transaction whereas a receipt concludes both cash and credit transactions.
2. A cash sale only acknowledges receipt of money in cash while a receipt acknowledges receipt of money either in cash or by cheque.
3. A cash sale is evidence of a receipt of money in cash while a receipt is evidence of a receipt of money from whatever source i.e. not necessarily from a sale transaction.
4. The seller does not have to sign a cash sale unlike the receipt which has to sign.

Importance of Documentation in Home Trade

- Provides detailed information about goods/services for sale.
- Enables the seller to demand payment for goods supplied.
- It provides information for accounting system/ purpose /book keeping.
- Acknowledges payment/evidences payment i.e. receipt, cheques.
- It allows correction of discrepancies / mistakes i.e. debit note, credit note.
- Is used for reference purposes /record purpose.
- It makes it possible to follow up a transaction for audit purposes.