

**NIOS lesson adaptation project**  
**By EMBRACE Volunteers**  
(A community initiative of Harchan Foundation Trust)

**Chapter 12**  
**Purchase and Sale**

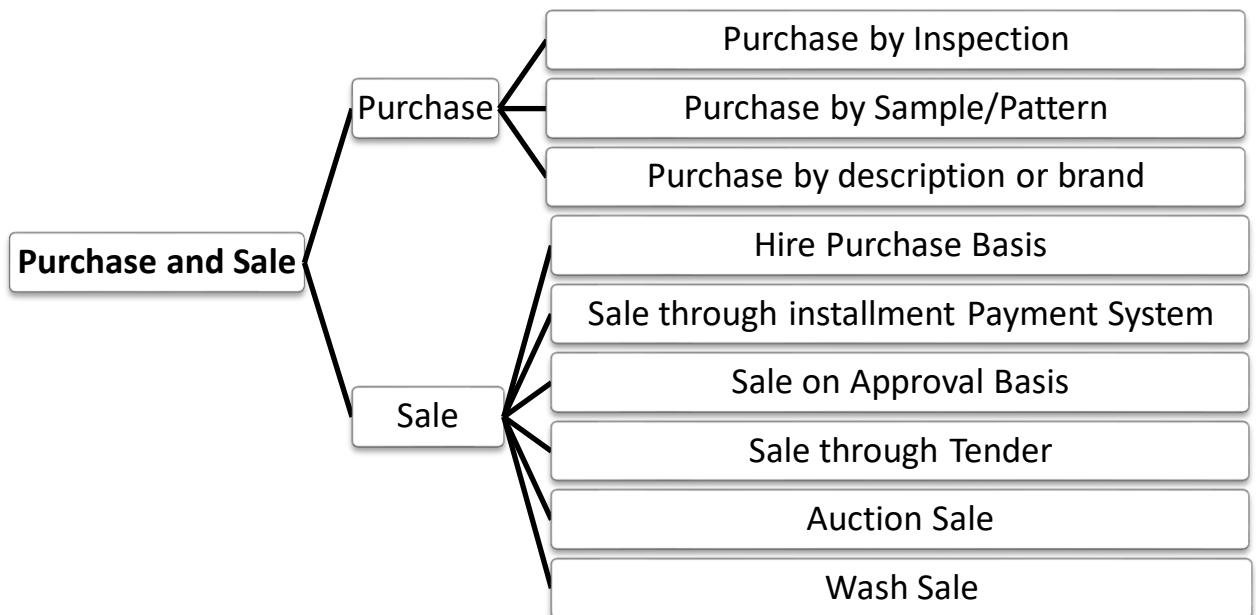
(Printable Version)

- **Simplified Lesson**
- **Previous Year Questions with Answers**
- **Terminal Questions**

This project is aimed at supporting children with different needs. Information provided is adapted to the best of knowledge by the volunteers. For complete information please refer to the NIOS resources in <https://www.nios.ac.in/online-course-material/secondary-courses.aspx>.

## LESSON 12

### Purchase and Sale



### MEANING OF PURCHASE AND SALE

- You have day-to-day needs and wants e.g. milk, bread, clothes, cycle, medicines etc..
- You purchase these things from the market.
- Similarly, in business, all business organizations Purchase things like raw materials, machinery, etc..
- Raw material is used for production.
- These organizations also need land, building, furniture, stationery, computer etc. for office premises and so on.

- **Purchase** is a process, in which
  - a person gets the ownership of some goods or properties
  - These goods are transferred in his name from another.
  - He pays money for this.
- **Sale** is a process in which
  - The ownership of some goods or properties is transferred from one person (seller) to another person (buyer).
  - Buyer pays price to seller.
- In every sale and purchase there exist two parties.
  - The first party who sells is known as the '**seller**', and
  - The other party who buys is known as the '**buyer**'.
- Sale and purchase always go together.
- In every sale and purchase there exist two parties.

- The first party who sells is known as the 'seller'
- The other party who buys is known as the 'buyer'
- The buyer pays money to the seller for buying goods or services for his use or consumption.
- The seller accepts money and gives up his right over those goods and services.

Example -

|  |                                       |
|--|---------------------------------------|
| ○ Ramesh is a shopkeeper. He buys ready-made garments from the wholesalers on payment of money | Seller – Wholesaler<br>Buyer - Ramesh |
| ○ You buy a shirt from Ramesh by paying its price.   | Seller – Ramesh<br>Buyer - You        |

#### **Buyer needs to consider following before purchase**

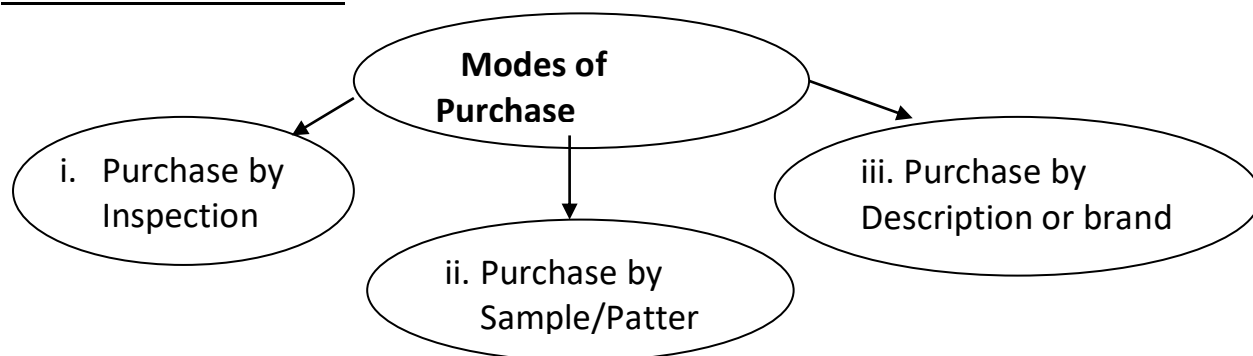
- (i) Identify his /her needs
- (ii) Attributes of the commodity/ service
- (iii) Price affordability
- (iv) Social and cultural aspects.

#### **PURCHASE AND SALE ON CASH AND CREDIT BASIS**

Purchase and sale can be on cash or credit basis.

- If the buyer pays the price immediately while taking delivery of goods it is known as **cash purchase**.
- If the buyer is unable to make payment while taking delivery of goods. Buyer requests the seller to give him some time for payment say 15 days or 30 days. Seller accepts the same. This is known as **credit purchase**.

#### **MODES OF PURCHASE**



### 1. Purchase by Inspection (Used in Retail Buying)

- The buyer inspects the goods planned to be purchased.
- **For Example**, If you want to buy some vegetables, you will possibly go to the nearest shop and check by yourself vegetables before buying.

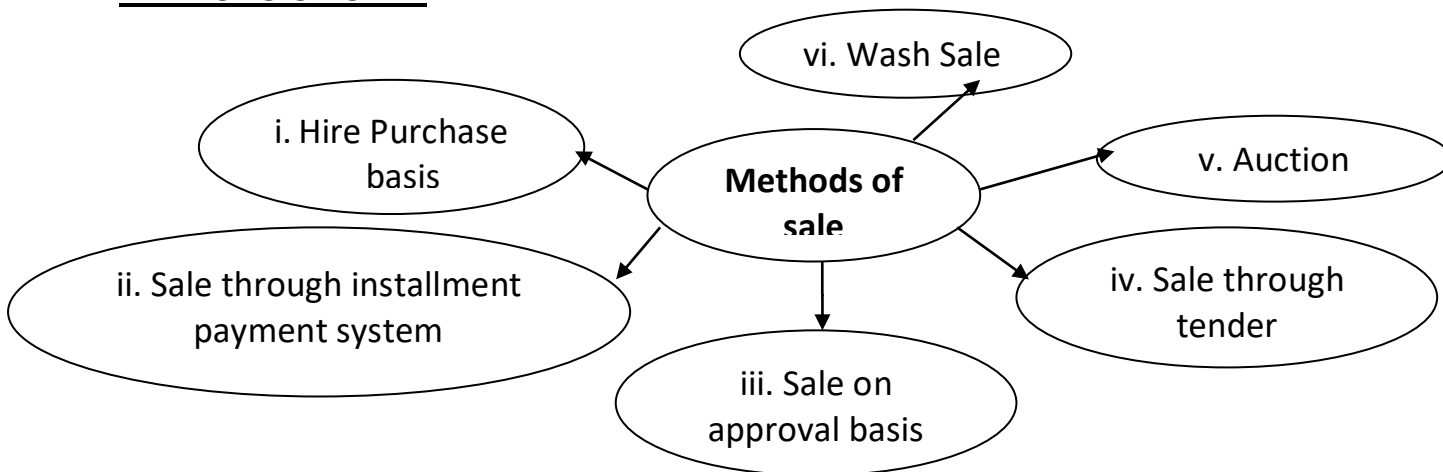
### 2. Purchase by Sample/Pattern

- If one want to buy goods in bulk, he/she will look at the sample or pattern
- Bulk supply shall be of the same quality as the sample/ pattern shown
- A sample or pattern is a specimen of bulk goods.

### 3. Purchase by description or brand

- Seller carries a catalogue.
- Catalogue contains price list, the description of goods or brand.
- **For example**, a manufacturer of furniture cannot move around showing samples to the intending buyers.
- So, he carries a catalogue with price and description

## METHODS OF SALE



|   |  |
|---|--|
| 1. Hire Purchase Basis                      | <ul style="list-style-type: none"> <li>• Payment in installments</li> <li>• The goods are on hire, ownership right remains with the seller</li> </ul>  |
| 2. Sale Thorough Installment Payment System | <ul style="list-style-type: none"> <li>• Payment is agreed on deferred instalment plan</li> <li>• Ownership rights pass to the buyer</li> </ul>  |
| 3. Sales on Approval basis                  | <ul style="list-style-type: none"> <li>• Conditional sale and Goods are delivered on payment</li> <li>• Good are on return basis</li> </ul>  |
| 4. Sale Through Tender                      | <ul style="list-style-type: none"> <li>• Purchases made where quantity of goods is large</li> <li>• A tender is an undertaking indicating the terms and conditions of sale</li> <li>• The tenders are usually published in newspapers</li> <li>• Seller selects the most competitive supplier</li> </ul> |
| 5. Auction Sale                             | <ul style="list-style-type: none"> <li>• Sale of certain goods openly on a specific date and time.</li> <li>• People may bid for the goods.</li> </ul>   |
| 6. Wash Sales                               | <ul style="list-style-type: none"> <li>• Clear surplus or old stocks</li> <li>• Mostly these sellers offer heavy discount</li> </ul>   |

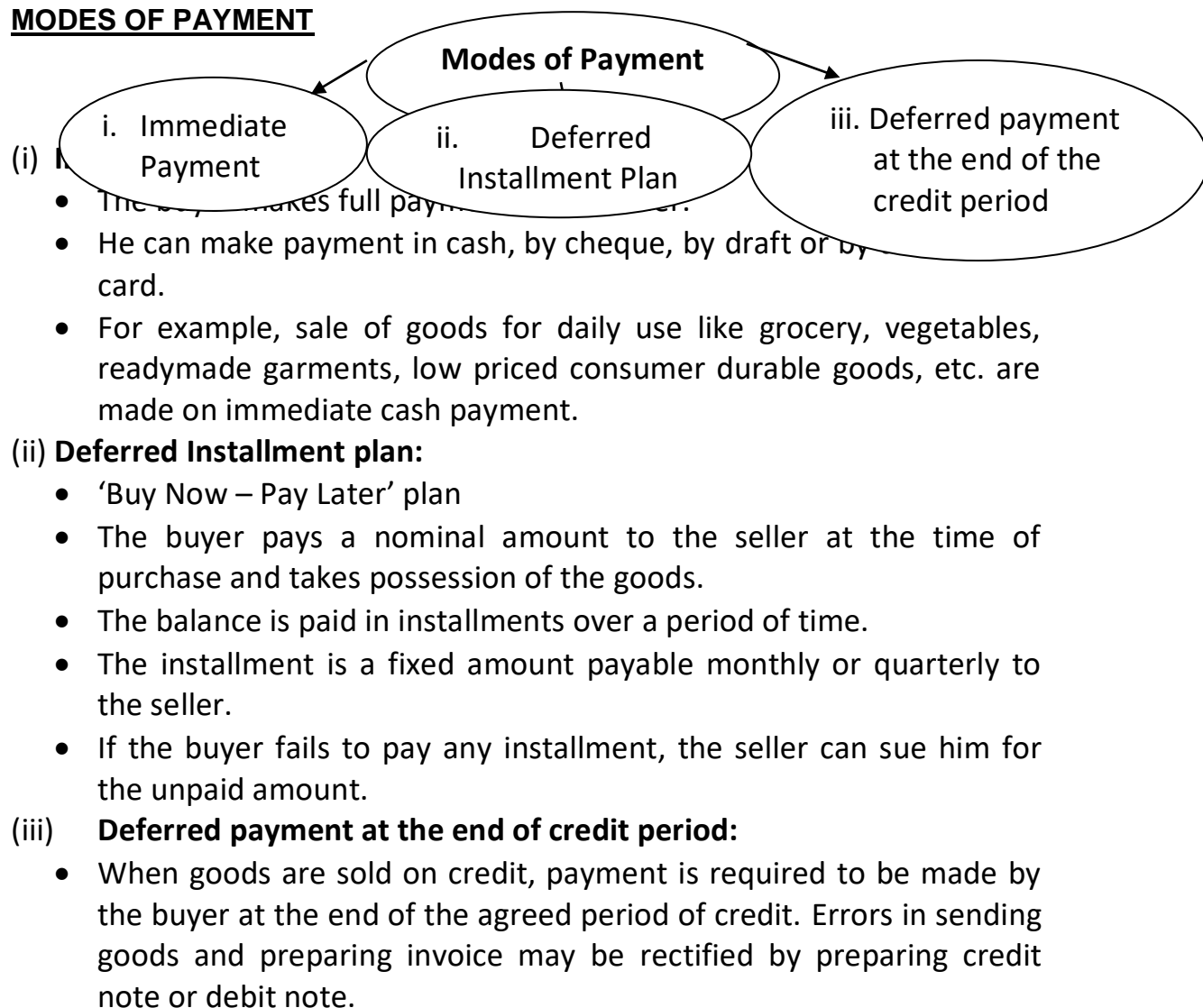
### Difference between deferred installment method and hire-purchase method

| Deferred Installment Method   | Hire-Purchase Method  |
|---|---|
| It is essentially a contract for sale.  | It is essentially a contract for hiring of goods.   |
| The ownership rights passes to the buyer immediately at the time of purchase. | The ownership rights remain with seller and the customer exercises his option for purchasing the goods. |
| The buyer can return the goods at any stage.                                  | The buyer cannot return the good and adjust the amount of payment due.                                  |
| The seller can also take back the goods                                       | In case of default in payment the seller  |

in case of non-payment.

an sue the buyer for balance installments. He cannot take back possession of the goods.

### **MODES OF PAYMENT**

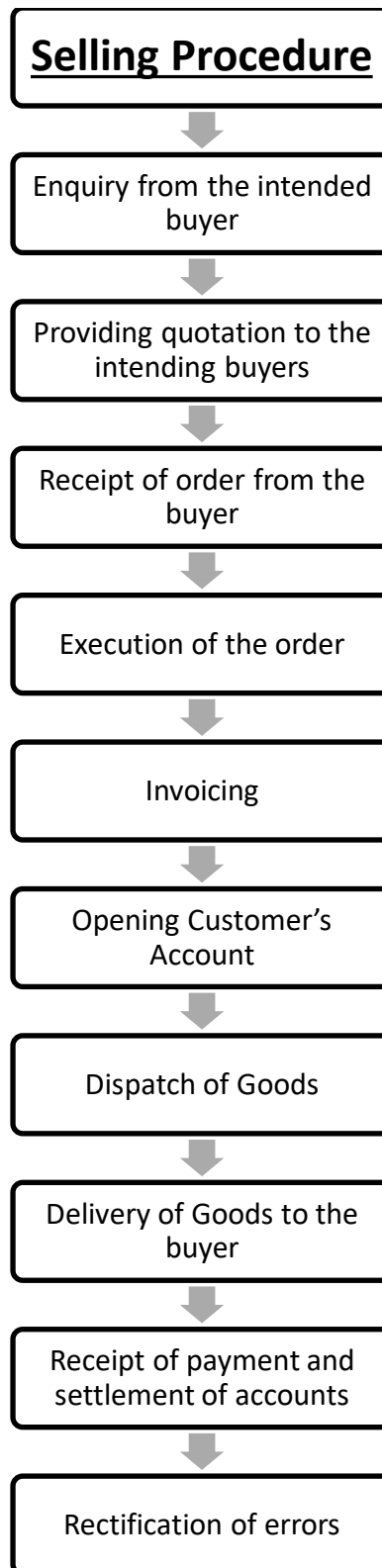


#### **Credit Note**

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

#### **Debit Note**

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



### **PREVIOUS YEARS QUESTIONS**

**1. Explain the following methods of sale:**

- a. Hire purchase basis**
- b. Sale on approval basis**

**Ans:**

**Hire Purchase basis:**

- Goods are taken on Hire
- Buyer pays in instalments
- Ownership of the goods remain with the seller

**Sale on approval basis:**

- Goods are delivered to the Seller
- Seller pays
- Buyer can return the goods (the whole lot or even a part of it) to the seller and claim refund within a specified period, if the goods do not meet his requirements.

**2. Explain the steps after receiving the order till dispatch of goods.**

**Ans:** The steps till dispatch of good after receiving the order:-

- i. Execution of the order.
  - ii. Invoicing
  - iii. Opening customers account
  - iv. Dispatch of the goods
- i. **Execution of the order:**
  - a) On receiving the order, the seller acknowledges it and confirms its acceptance.
  - b) The order is then stamped with date of receipt, assigned a reference number and entered into the Order Received Register.
  - c) If the order is from a new customer then the seller may verify the credit worthiness and/or financial status of the buyer.
  - d) If the seller is not satisfied with the creditworthiness of the buyer, He sends him a letter of regret
  - e) A copy of the order is sent to the production department with the date of delivery.
- ii. **Invoicing:**
  - a) An invoice contains
    - Details of the transaction and
    - The amount to be received
  - b) The seller sends the invoice with the supply of goods to the buyer.
  - c) A copy of the invoice stays with
    - The seller
    - Production department or go down
    - The accounts department
- iii. **Opening customers account:**



- a) An account is opened in the ledger in the name of the customer.
- b) This account keeps a record of
  - The invoice
  - Price of goods sold
  - Credit allowed to the customers
  - Payments made by the customers.

iv. **Dispatch of the goods:**

- a) Godown or the production department get the invoice copy or a delivery note
- b) Goods are released by the packaging department
- c) They do the final check that all goods are in accordance with the order.
- d) Then the goods are labelled and sent to the dispatch section.
- e) Dispatch note is sent to buyer with the goods.
- f) The goods are labelled and dispatched to the buyer.

**3. Describe the following methods of sale**

- a. Sale through tender
- b. Wash Sales

**Ans.**

**Sale through tender:**

- Tenders are invited by the purchaser in one or more newspapers.
- Interested parties respond to the tender.
- Particulars and forms for submission are given to these parties
- Tenders are required to deposit and earnest money along with the tender.
- Tenders will be usually received in sealed covers.
- The sealed covers are opened in the presence of proper authorities. The most favourable tender will be accepted.
- After deciding, a formal contract for sale is entered into with the tender.

**Wash Sale:**

- This is a sale conducted by clear surplus or old stocks.
- Mostly these sellers offer heavy discount.

**4. A person wants to buy goods in bulk, the best mode of purchase for him will be**

- a. Purchase by inspection
- b. Purchase by description
- c. **Purchase by sample**
- d. Purchase from nearest shop

**5. A document which contains the details of the transaction and the amount to be received**

- a. Quotation
- b. **Invoice**
- c. Dispatch Note
- d. Letter of Advice

**6. What is meant by the term 'Purchase'? Explain in brief any two modes of purchase.**

**Ans:** Purchase is a process. In this process a person pays money to another person

- a) To get ownership of goods or
- b) To transfer properties in his name

**Following are the method of**

**1. Purchase by inspection:**

- The buyer inspects the goods planned to be purchased.
- **For Example**, If you want to buy some vegetables, you will possibly go to the nearest shop and check by yourself vegetables before buying

**2. Purchase by sample / pattern:**

- If one want to buy goods in bulk, he/she will look at the sample or pattern
- Bulk supply shall be of the same quality as the sample/ pattern shown
- A sample or pattern is a specimen of bulk goods.

**3. Purchase by description or brand:**

- Seller carries a catalogue.
- Catalogue contains price list, the description of goods or brand.
- For example, a manufacturer of furniture cannot move around showing samples to the intending buyers.
- So, he carries a catalogue with price and description

## **Terminal Questions**

**1. What is meant by purchase?**

**Ans:** Purchase is a process. In this process a person pays money to another person

- To get ownership of goods or
- To transfer properties in his name

## **2. State the activities involved in selling product.**

**Ans:** The activities involved in selling a product are:

1. Buyer enquires and Seller receives the Enquiry
2. The seller gives the quotation to the Buyers. ( The Quotation is a list of items and the cost)
3. Buyer places the order.
4. The seller confirms his acceptance to the buyer.
5. He executes the order.
6. Seller sends invoice along with the supply of goods.
7. The customers (buyers) account is opened by the Buyer in the Account Department.
8. Then the goods are dispatched through rail or road transport long with a dispatch note.
9. Buyer takes delivery of the goods.
10. Payment is made according to the conditions agreed upon earlier.
11. Payments (Remittances) received are acknowledged by the seller and a periodic statement of account is issued.
12. Rectification of errors is made by preparing credit note or debit note.

## **3. What is meant by “Auction sale”?**

**Ans:** An Auction sale is a sale of certain goods openly on a specific date and time. People bid for the goods. The goods are sold to the highest bidder.

**In an auction:**

- The goods are displayed
- There is a reserve price fixed below which goods are not to be sold.
- There is also an upset price from which the bidding starts, which may be regarded as the minimum price.
- The highest bid is accepted and the bidder cannot go back and must pay the price and purchase it.
- However the seller has the liberty not to sell even at the highest bid.
- Now a day’s auctions are done commonly through the Internet.

## **4. Explain the “Differed installment Plan” as a mode of payment.**

**Ans:**

- Deferred installment plan is known as 'Buy Now – Pay Later' plan.
- The buyer pays a nominal amount to the seller at the time of purchase and takes possession of the goods.
- The balance is paid in installments over a period of time.
- The installment is a fixed amount payable monthly or quarterly to the seller.
- If the buyer fails to pay any installment, the seller can sue him for the unpaid amount.

**5. Describe how errors in sending goods and preparing invoice may be rectified.**

**Ans:** Errors in sending goods and preparing invoice may be rectified by preparing credit note or debit note.

- **Credit note** informs the buyer that his account has been credited with a particular amount.
- **Debit note** informs the buyer that his account has been debited with a particular amount.

**6. Differentiate between deferred instalments and hire purchase methods of sale.**

**Ans:**

| Deferred Installment Method   | Hire-Purchase Method  |
|---|---|
| It is essentially a contract for sale.  | It is essentially a contract for hiring of goods.   |
| The ownership rights passes to the buyer immediately at the time of purchase. | The ownership rights remain with seller and the customer exercises his option for purchasing the goods.                           |
| The buyer can return the goods at any stage.                                  | The buyer cannot return the good and adjust the amount of payment due.  |
| The seller can also take back the goods in case of non-payment.               | In case of default in payment the seller can sue the buyer for balance installments. He cannot take back possession of the goods. |

**7. What are the various models one may adopt to make payment for purchase of a product? Explain.**

**Ans.** Various modes adopted to make payment for purchase of a product are:

(iv) **Immediate payment:**

- The buyer makes full payment to the seller.

- He can make payment in cash, by cheque, by draft or by credit/debit card.
- For example, sale of goods for daily use like grocery, vegetables, readymade garments, low priced consumer durable goods, etc. are made on immediate cash payment.

(v) **Deferred Installment plan:**

- 'Buy Now – Pay Later' plan
- The buyer pays a nominal amount to the seller at the time of purchase and takes possession of the goods.
- The balance is paid in installments over a period of time.
- The installment is a fixed amount payable monthly or quarterly to the seller.
- If the buyer fails to pay any installment, the seller can sue him for the unpaid amount.

(vi) **Deferred payment at the end of credit period:**

- When goods are sold on credit, payment is required to be made by the buyer at the end of the agreed period of credit.

**8. Explain the procedure of sale through tender.**

**Ans.** Sale through tender is normally found in the case of purchases made by big organisation or government agencies where quantity of goods requires and the amount are very large.

**A tender is an undertaking to supply material / goods. It indicates the terms and conditions of sale.**

**Method:**

1. Tenders are invited by the purchaser in one or more newspapers.
2. Interested parties respond to the tender.
3. Particulars and forms for submission are given to these parties
4. Tenders are required to deposit and earnest money along with the tender.
5. Tenders will be usually received in sealed covers.
6. The sealed covers are opened in the presence of proper authorities. The most favourable tender will be accepted.
7. After deciding, a formal contract for sale is entered into with the tender.

**9. Describe the different modes for purchase of a product.**

**Ans:** Different modes of purchase of a product are:

1. **Purchase by inspection**
2. **purchase by sample/ pattern**
3. **Purchase by description or brand**
1. **Purchase by inspection:**

- The buyer inspects the goods planned to be purchased.
  - **For Example**, If you want to buy some vegetables, you will possibly go to the nearest shop and check by yourself vegetables before buying
2. **Purchase by sample / pattern:**
- If one want to buy goods in bulk, he/she will look at the sample or pattern
  - Bulk supply shall be of the same quality as the sample/ pattern shown
  - A sample or pattern is a specimen of bulk goods.
3. **Purchase by description or brand:**
- Seller carries a catalogue.
  - Catalogue contains price list, the description of goods or brand.
  - For example, a manufacturer of furniture cannot move around showing samples to the intending buyers.
  - So, he carries a catalogue with price and description

**10. What are various methods that may be adopted to sell a product?**

**Ans:** The various methods that may be adopted to sell a product are:

1. **Hire purchase basis**
2. **Sale through instalment payment system**
3. **Sale on approval basis**
4. **Sale through tender**
5. **Auction Sale**
6. **Wash sales**

1. **Hire Purchase basis:**

- Goods are taken on Hire
- Buyer pays in instalments
- Ownership of the goods remain with the seller

2. **Sale through instalment payment systems:**

- Known as deferred instalment plan
- Goods are sold and payment is made in instalment.
- If buyer defaults in instalment seller can sue in court
- Ownership rights of goods are passed on to the buyer when the goods are sold after initial payment is made.

3. **Sale on approval basis:**

- Goods are delivered to the Seller
- Seller pays
- Buyer can return the goods (the whole lot or even a part of it) to the seller and claim refund within a specified period, if the goods do not meet his requirements.

#### 4. **Sale through tender:**

- Tenders are invited by the purchaser in one or more newspapers.
- Interested parties respond to the tender.
- Particulars and forms for submission are given to these parties
- Tenders are required to deposit and earnest money along with the tender.
- Tenders will be usually received in sealed covers.
- The sealed covers are opened in the presence of proper authorities. The most favourable tender will be accepted.
- After deciding, a formal contract for sale is entered into with the tender.

#### 5. **Auction Sale:**

- Goods are sold openly on a specific date and time so that people may bid for the goods.
- The goods are sold to the highest bidder.

#### 7. **Wash Sale:**

- This is a sale conducted by clear surplus or old stocks.
- Mostly these sellers offer heavy discount.

#### 11. **State the procedures required to sell a product**

**Ans:**The procedure required to sell a product are:

- i. Enquiry from intending buyer.
- ii. Providing quotations to the intending buyer.
- iii. Receipt of order from the buyer.
- iv. Execution of the order.
- v. Invoicing
- vi. Opening customers account.
- vii. Dispatch of the goods.
- viii. Delivery of goods to the buyer.
- ix. Receipt of payment and settlement of accounts.
- x. Rectification of errors.

- i. **Execution of the order:**

- a) On receiving the order, the seller acknowledges it and confirms its acceptance.
- b) The order is then stamped with date of receipt, assigned a reference number and entered into the Order Received Register.
- c) If the order is from a new customer then the seller may verify the credit worthiness and/or financial status of the buyer.
- d) If the seller is not satisfied with the creditworthiness of the buyer, He sends him a letter of regret
- e) A copy of the order is sent to the production department

with the date of delivery.

ii. **Invoicing:**

- a) An invoice contains
  - Details of the transaction and
  - The amount to be received
- b) The seller sends the invoice with the supply of goods to the buyer.
- c) A copy of the invoice stays with
  - The seller
  - Production department or godown
  - The accounts department

iii. **Opening customers account:**

- a) An account is opened in the ledger in the name of the customer.
  - This account keeps a record of
  - The invoice
  - Price of goods sold
  - Credit allowed to the customers
  - Payments made by the customers.

iv. **Dispatch of the goods:**

- a) Godown or the production department get the invoice copy or a delivery note
- b) Goods are released by the packaging department
- c) They do the final check that all goods are in accordance with the order.
- d) Then the goods are labelled and sent to the dispatch section.
- e) Dispatch note is sent to buyer with the goods.
- f) The goods are labelled and dispatched to the buyer.

v. **Delivery of goods to the buyer:** The buyer takes delivery of goods from the railway or transport authority.

vi. **Receipt of payment and settlement of accounts:** Payment is made by the Buyer as per agreement. If full payment is made. The seller also issue periodic statement of accounts, which shows

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

xi. **Rectification of errors:** Even though the seller is very careful while sending goods and preparing invoice there might be some errors. These errors can be rectified by preparing credit note or



debit note.

**12. What steps are required after an order is executed as part of the routine selling?**

**Ans:** Steps required after an order is executed as part of the routine selling

- i. **Invoicing**
- ii. **Opening customers account:**
- iii. **Dispatch of the goods:**
- iv. **Delivery of goods to the buyer:**
- v. **Receipt of payment and settlement of accounts:**
- vi. **Rectification of errors:**

For Details of each step, refer