TERMS AND MEANS OF PAYMENT

There are different terms and means of payment which are used in commercial transactions. When a customer buys goods from a seller, he takes them under any of the following means and terms of payment.

Cash payment

This is where a customer pays money for the goods and services as soon as he receives them. Cash payments may take the following forms.

1. **Cash on delivery**
   This is where the buyer pays for the goods as they are being delivered to him/her. This system is widely used by the post office to collect money from recipients of certain parcels on behalf of the suppliers.
2. **Cash with order**
   This is when a customer makes his/her order for goods or services and at the same time sends money for what he/she has ordered for. This method is mainly common by mail order business which undertakes to send goods after receiving payment for them.
3. **Spot cash**
   This is when the buyer pays for goods or services immediately they are handed over to him/her. Most shops receive money across their counters as they hand over the goods to their customers.
4. **Net cash**
   This is a situation where the customer fails to settle his bills within a specified period of time such that he fails to qualify for the discount offered (cash discount offered). The seller therefore withdraws the discount being offered signifying that the original price before the discount must be paid by the customer.

Advantages of cash payment

1. It is a suitable means of payment if the amount is small.
2. Cash is widely used in Uganda compared to other modes such as cheques, credit cards, etc. since they are often not available; they are not trusted especially in rural areas.
3. Immediate payment is received by the seller. Hence he does not waste time following up his debtors for payment.
4. Bank notes and coins are legal tender and nobody can refuse to accept them as a means of payment unlike other modes such as cheques and credit cards which can be rejected.
5. Since the seller is paid spot cash, he does not lose any money on bad debts.
6. Cash payments enable the seller to restock regularly since money for restocking is available.

Disadvantages of cash payment

1. It is inconveniencing to carry cash always especially if it is in large sums of money.
2. It is risky to handle big amounts of cash because it puts the seller or buyer in a danger of being robed.
3. There may be no proof of payment if the receipt is not obtained unlike a cheque which provides a record of payment in the cheque counter foil.
4. The seller will lose customers who prefer credit payment hence lowering the turnover and consequently reducing on the profits.
5. Due to loss of credit customers, the seller stocks may deteriorate or reduce in value due to prolonged stay in the shop or warehouse.
6. Mistakes may be made in counting large sums of money which may lead to inaccuracy of payment.

Credit payment of Transactions

This is a system under which the buyer takes the goods from the seller without making immediate payment but postpones it to a late date.

Advantages

1. It enables salary earners to obtain what they require and pay at the end of the month.
2. Credit transactions improve the standards of living of people since they can acquire the items and pay for them at a later date.
3. It enables the seller to sell more of his goods hence achieving a high turnover.
4. It helps to boost the traders' profit margins since goods that are sold on credit basis are more expensive.
5. Credit sales sometimes improve the relationship between the buyer and the seller.

Disadvantages

1. Business may collapse in case of many bad debts.
2. The buyer may not be in a better position to bargain making the traders to overcharge him.
3. Credit sales may affect the capital of the seller by tying it up on credit limiting the amount of working capital.
4. It requires a lot of paper work to administer credit which increases on the cost of production.
5. There is a possibility of credit customers purchasing items beyond their ability to pay.
6. Some credit customers have a tendency of returning goods more often than cash customers.

Paying through post office

The post office offers the following ways of remitting/transferring money.

1. **Registered post or registered mail**
   This can be used for sending cash cheques, bank drafts, bills of exchange etc. The mail is registered upon which a receipt is issued to the sender. The mail is then delivered to the addressee who has to sign on the form provided by the post office.
2. **Money order**
   This is a method used for sending large sums of money from one place to another payable only at a named post office. A receipt is issued to acknowledge payment and the recipient (receiver) must provide proof of his identity. A fee called poundage is charged for this service.
3. **Postal order**
   This is a method of remitting or sending small amounts of money through the post office. They are issued in fixed denominations and payable at any post office. Payment can be made to any person upon presenting it. A lower fee (Poundage) is charged for this service.

Differences between postal orders and money orders

a) Postal orders are sold in fixed denominations while money orders vary according to the needs of the sender.
b) A postal order can be cashed at any post office while a money order is cashed only at a specified post office.
c) For a postal order, the sender is not required to fill in any application form while the money order requires the sender to fill application forms.
d) While a postal order is convenient for remitting small amounts of money, a money order is convenient for remitting large amounts of money.

4. **Telegraphic money orders /Transfer**
   This method is used when money has to be remitted urgently. The sender on approaching the post office fills in a form for the order of which the post office sends telegrams both to the paying post office and the payee. The payee on receiving the telegram presents it with proof of identification to claim for the money from the paying post office.
5. **Postage stamps**
   This is a mode of payment used by some business firms that accept postage stamps in settlement of debts from debtors who stay in far away towns and to whom any other means of payment are not conveniently available. These postage stamps are used for sending letters.

   Note:
   Stamps are used to effect small payment especially for goods and services through post office.

Disadvantages of paying through post office

a) Corrupt and untrustworthy post office officials may tamper with parcels sent.
b) It's a slow means of sending money unless if the envelope or parcel has been registered.
c) It is only those people within easy reach of the post office that can readily benefit from post office services.
d) High additional costs such as postage make the post services expensive.

INSTRUMENTS OF CREDIT USED BY TRADERS

These are mainly written promises made by traders and they include the following:

1. Bank draft.
2. Cheques.
3. Bill of exchange.
4. Promissory notes.
5. I owe you (IOU).

BILLS OF EXCHANGE

This is an unconditional order in writing addressed by the creditor to the debtor requiring him to pay on demand or at the stated future date a specified sum of money to a named person or to his order (payee) or to the bearer of the instrument.

Essentials / features to a bill of exchange

1. It must bear an appropriate revenue stamp or seal giving it legal framework as a trade instrument.
2. It must be properly dated i.e. Day, month and year accepted for the case of usance bills where three days of grace are allowed before payment is due.
3. It is a written document.
4. It is payable on demand or at the stated future date.
5. It is a negotiable instrument which is transferable either by endorsement or simple delivery.
6. It can be discounted at a commercial bank. i.e. paid to its order before the maturity date by presenting it to the bank and receiving from it the amount on its face value less the discount.
7. It is an unconditional order. i.e its execution is not subject to any condition being fulfilled by the payee or any other person concerned.
8. It's addressed by one person (drawer) to another and signed by the drawer.
9. It requires the drawee to pay a sum of money which he owes to the drawer.
10. It must be accepted by the drawee by writing the words "accepted" across the bill of exchange and signing his name as the drawee.

Parties to the bill of exchange

1. **The drawer:** This is the person who writes the bill of exchange i.e. The creditor.
2. **The drawee /Acceptor**: This is the person to whom the bill is sent (debtor). When the bill is accepted the drawee becomes the acceptor.
3. **The payee:** This is the person to whom the payment of the bill is to be made on the maturity date.

Types of bills of exchange

1. **Sight bill.**
   This is a bill of exchange payable on demand.
2. **Usance bill.**
   This is a bill of exchange payable at the future stated date. The due date is the number of days or months for which the bill is drawn plus three days of grace. Normally a bill of exchange matures after 90 days.
3. **Retired bill.**
   This is a bill of exchange which is paid before the maturity date. An allowance (Rebate) is always given because the full term of credit has not been taken.
4. **Trade bill.**
   This is a bill of exchange resulting from a trading activity. It orders the drawee to pay for the goods supplied or services rendered.
5. **Inland bill.**
   These are bills of exchange for which the drawer and the drawee are from the same country. Such bills are used in home trade.
6. **Foreign bill.**
   This is a bill where a trader or a person from one country (creditor) writes to another (debtor) in another country.
7. **Accommodation bill.**
   This is bill accepted not for the value received but to oblige and help businessmen to raise money by discounting or negotiating it. Its purpose is to accommodate a particular person with financial assistance for the period of the bill.
8. **Dishonoured bill.**
   This refers to non-acceptance or non-payment of the bill by the drawee at the time when the bill is presented for acceptance or payment.

Conditions for dishonouring a bill of exchange

1. When the bill drawn by the drawer is not accepted by the drawee i.e. If the bill has irregularities in it such as a missing date, incorrect amount or any other error on it.
2. When the drawee or debtor fails to make payments on the maturity date when the bill is presented for payment i.e. If the debtor is bankrupt.
3. Incase of death or insanity of the drawee or drawer before the maturity date of the bill.

N: B

The major difference between a trade and accommodation bill is that a trade bill is drawn to settle a trade debt owed to the drawer by the drawee while an accommodation bill is a bill of

exchange accepted without consideration for no value received by the drawee but to just oblige a businessman or friend who is temporarily in need of money.

Endorsing a bill of exchange

This is the process of transferring the right to receive money against the bill of exchange to someone else. The Person endorsing the bill signs at the back of the bill and names the new payee.

Types of endorsement

1. **Open or blank endorsement.**
   This requires the drawer's signature on the back of the bill without naming the payee therefore the person taking possession of the bill can either insert his own name as payee or insert someone else's name as payee if he wishes to pass it on. It is payable to the bearer.
2. **Conditional endorsement.**
   This involves the drawer stating one or more conditions which must be fulfilled before the new named payee assume the right to get the proceeds on the bill. In such a case, the endorser will not be liable until the happening of the event.
3. **Special endorsement.**
   This requires the drawer to name a specific new payee. The endorser therefore signs his or her name and adds direction to pay the amount stated in the bill to or to the order of the specified person.
4. **Restrictive endorsement.**
   This is an endorsement which restricts title to the named person and prohibits further negotiation of the bill to another person. This therefore gives the right to the endorsee to claim payments on the bill but prohibits him from transferring the right of payment to another person.

N. B: A holder in due course is the person who holds the bill of exchange before it becomes due for payment.

Differences between a cheque and a bill of exchange

1. A bill of exchange is drawn by the creditor while a cheque is drawn the debtor.
2. A bill of exchange must be accepted by the drawee to make it a legal document or valid while a cheque has no obligation for acceptance by the drawer to be valid.
3. Payment of the bill is made on demand or on future debt while on a cheque payment is made on demand.
4. In the bill of exchange, the drawee is the debtor while in a cheque the drawee is the banker.
5. A bill of exchange is mainly used in foreign trade while a cheque is mainly used for home trade.

PROMISSORY NOTES

This is unconditional promise in writing made and signed by the debtor to pay a specified amount of money to another person (creditor) or his order or bearer at an agreed date. It is a negotiable instrument.

Features of a promissory note

1. It must be in writing.
2. It must contain an express promise to pay in a given period of time.
3. The promise to pay must be unconditioned.
4. The maker of the promissory note (debtor) must sign it.
5. The amount payable must be stated.
6. It should be properly stamped.

N. B: A promissory note has two parties i.e. the creditor (payee) and the debtor (the maker).

Similarities between a promissory note and a bill of exchange

1. Both are evidence or acknowledgement of a debt.
2. Both can be discounted or endorsed before maturity.
3. Both should be in writing.
4. Both should be unconditional.
5. Both must be decided by the maker of the instrument.
6. In both cases, the amount payable must be stated in monetary terms.
7. Both must bear appropriate revenue stamps.

Differences between a bill of exchange and a promissory note

1. A bill of exchange is drawn by the creditor while a promissory note is drawn by the debtor.
2. A bill of exchange usually has three parties i.e. drawer, drawee and payee while a promissory note has two parties namely maker and the payee.
3. A bill of exchange is required to be accepted by the drawee (debtor) if it is to be a legal document while a promissory note needs no acceptance because the debtor himself makes the promise to pay.

Advantages of bills of exchange and promissory notes

1. Both acknowledge a debt since each of them is an evidence of a debt by a debtor to a creditor. Which creditor can use it to sue a debtor for the recovery of the debt.
2. The creditor can get the bill or promissory note discounted with the bank and get payment before the maturity of the document.
3. They allow enough time to the debtor to dispose off or sell the stock he has bought so that by the time the maturity date arrives. He is in position to settle the debt.
4. An accommodation bill helps the trader out of temporarily financial difficulties.
5. Foreign bills of exchange facilitate foreign trade.
6. They can easily be transferred from one person to another in settlement of debts since they are negotiable instruments.
7. They are helpful in increasing the size of the business since they facilitate credit transactions.

8. They provide a great facility to the creditors to know exactly when to expect payment and the debtor to know when to make payment since both specify the date of payment.

I OWE YOU (I OU)

This is a document drawn by the debtor to the creditor acknowledging a debt i.e. that sum amount of money is owed to a named creditor. It is prepared when the debt is of a small amount and no specific time of repayment is fixed.

The major difference between a promissory note and IOU is that whereas a promissory note fixes a specific time for repayment, IOU does not fix the time for repayment.

A promissory note is a negotiable instrument while IOU is not a negotiable instrument.

N. B

A negotiable instrument is a document whose title can be transferred from one person to another by endorsement or simple delivery. Examples include: cheques, bills of exchange, promissory notes, government bonds or treasury bills.

The non-negotiable instruments could include the following: postal orders, money orders, telegraphic transfers, bank drafts, letters of credit, IOU etc.