# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्ति उत्थान आश्रम लखीसराय बिहार

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Teacher name – Ajay Kumar Sharma

**Trade Credit**

Trade credit is the credit extended by one trader to another for the purchase of goods and services. Trade credit facilitates the purchase of supplies without immediate payment. Such credit appears in the records of the buyer of goods as 'sundry creditors' or 'accounts payable'. Trade credit is commonly used by business organisations as a source of short-term financing. It is granted to those customers who have reasonable amount of financial standing and goodwill. The volume and period of credit extended depends on factors such as reputation of the purchasing firm, financial position of the seller, volume of purchases, past record of payment and degree of competition in the market. Terms of trade credit may vary from one industry to another and from one person to another. A firm may also offer different credit terms to different customers.

**Merits**

The important merits of trade credit are as follows:

(i) Trade credit is a convenient and continuous source of funds;

(ii) Trade credit may be readily available in case the credit worthiness of the customers is known to the seller;

(iii) Trade credit needs to promote the sales of an organisation;

(iv) If an organisation wants to increase its inventory level in order to meet expected rise in the sales volume in the near future, it may use trade credit to, finance the same;

(v) It does not create any charge on the assets of the firm while providing funds.

**Limitations**

Trade credit as a source of funds has certain limitations, which are given as follows:

(i) Availability of easy and flexible trade credit facilities may induce a firm to indulge in overtrading, which may add to the risks of the firm;

(ii) Only limited amount of funds can be generated through trade credit;

(iii) It is generally a costly source of funds as compared to most other sources of raising money.