Class: JSS 1

Subject: Business studies

Topic: Concept of Credit

Week:

Meaning of Credit

Credit is an arrangement for deferred payment of a loan or purchases. It is the provision of money, goods or services with the expectation of future payment. Credit is an agreement reached by two or more people based on trust under which money, goods or services are exchanged against the promise to pay later.

Reasons for taking credit:

1) To start or develop a business
2) For business expansion
3) To have money to buy things that one's money cannot easily afford; e.g. car, building, furniture etc.
4) To pay school fees for children
5) To pay medical bills
6) To meet up an emergency.

Benefits of taking credit;

a) It increase or improve cash flow
b) It is convenient or comfortable since no money is carried from place to place
c) It is useful to meet up to emergency needs such as illness, death, accident etc.
d) It allows one buy things that are needed
e) It allows one to have properties like others

Types of credit;

1) **Trade credit or commercial trade:** This is the credit that a supplier or seller gives to the buyer. Any seller or supplier who gives credit should employ a **credit manager** or sometimes be ready to lose money and other valuables.
2) **Consumer credit**: This is the credit provided by banks or other financial institutions to consumers or customers to buy goods.

Sources of credit: These are places or institutions we can get or receive credit when we need it:

i. Commercial banks

ii. Micro-finance/savings and loan banks
iii. Cooperative societies (Credit unions)
iv. Consumer finance companies
v. Sales finance companies
vi. Insurance companies
vii. Family and friends
viii. Loan sharks: they are not licensed to lend money. They charge very high interest and give short period for repayment for repayment of loan unlike others.