

What Is A Purchase Agreement?



A purchase agreement is a type of contract that outlines terms and conditions related to the sale of goods.

As a legally binding contract between buyer and seller, the agreements typically relate to buying and selling goods rather than services.

They cover transactions for nearly any type of product. In real estate, for example, the purchase agreement outlines the purchase price and other conditions for a title transfer.

You may also hear them referred to as a purchase contract, a purchase and sale agreement, or a sale contract.

Generally speaking, purchase agreements are used when the purchase price is higher than \$500, but they can also be used for smaller transactions.

They can be used in a variety of industries, and they are common in real estate, telecommunications, and more.

If your company will be buying or selling goods, the purchase agreement serves as documentation of the transaction.

This is especially helpful for more complex transactions. In terms of complexity, it

may involve several aspects, such as the terms of payment or the delivery of goods.

A purchase agreement must be signed by both the buyer and seller before the goods are delivered and before any payment is made. It is not a binding contract until it is signed by both parties.

If you w dealing with simpler transactions, you can use a less complicated document such as a bill of sale or receipt. These are typically given in conjunction with the transfer of the goods and the payment.

For instance, if your company is buying a single computer, a receipt may be sufficient. However, if your company is purchasing several computers, and the goods will be delivered and paid for over a period of time, a purchase agreement is a more appropriate choice.

A purchase agreement is not the same as a purchase order. A purchase order is an offer to purchase goods, where the agreement is the commitment to make the purchase.

How to Use a Purchase Agreement

Either the buyer or the seller can prepare the purchase agreement. Like any contract, it can be a standard document that one party uses throughout the normal course of business or it can be the result of several rounds of back-and-forth negotiations.

If additional terms are negotiated outside of the standard agreement, they can be added to a purchase agreement addendum.

Beyond creating an agreement that fully covers all aspects of the sale, it is crucial that the agreement is signed by individuals who have the legal authority to bind the parties in the contract.

If either party is an individual person or person operating a business as a sole proprietor, that person needs to be the one who signs the agreement. If you're working with another type of business entity, the agreement needs to be signed by officers or directors of the corporation, a manager or a member of an LLC, or

at least one of the partners in a partnership.

Types of Purchase Agreements

Purchase agreements often start as purchase orders that are accepted by the buyer and seller.

Purchase orders are a request made from buyer to seller that specify the details of what they want in their order. When the seller accepts the order, it is a binding contract - a purchase agreement.

There are four primary types of purchase orders. The difference is between them is essentially based on how much information is known at the time the order is made.

The four types are standard purchase orders, planned purchase orders, blanket purchase orders, and contract purchase orders. We cover these in more detail in this blog post about types of purchase orders.

Beyond those four main types, however, you may find that there are nearly as many types of project contracts as there are projects.

When dealing with high volume or high-frequency suppliers, it is often a good idea to use either the blanket purchase order (BPA) or the indefinite-delivery/indefinite-quantity (IDIQ) contract.

Understanding the difference between BPA and IDIQ is essential to knowing which purchase agreement is right and when it is right.

What to Include in a Purchase Agreement

Any purchase agreement needs to include at least:

- The identity of the buyer and seller including names, addresses, and phone numbers
- A description of the property or items that are being purchased including quantities
- The purchase price
- Type of sale

- Terms regarding how and when payment will be made
- Terms regarding how, when, and where the goods will be delivered
- Signatures of both parties
- Contact information for witnesses or consigners
- Agreement date
- Dates relating to the fulfillment of various requirements
- Whether amendments or revisions to the agreement are allowed

Often, purchase agreements will include additional details such as:

- Any amount that must be, or was voluntarily paid as a down payment or earnest money deposit
- Any warranty that the seller makes regarding and the seller having legal ownership of the property or items
- Any warranties the seller makes regarding the quality of goods or their suitability and fitness for their intended use by the purchaser
- Consequences of default by either party
- Any legally required disclosures

It is crucial that the agreement fully sets forth the responsibilities of the other party because, in the event that you decide you want to get out of your purchase agreement, it can only happen if there is a breach of contract by the other party.

Purchase agreements must be clear and specific so that there are no misunderstandings regarding the various terms.

They are generally more complicated than simple purchase receipts or invoices because they often detailed different conditions that each party must meet in order to complete the sale.

For instance, in the case of real estate transactions, the real estate purchase agreement may describe:

- The terms of financing since most people cannot afford to purchase homes in cash
- Who is responsible for closing costs
- Home inspection requirements
- Closing date
- Contingency clauses, such as the buyer must sell their current home

before having the necessary funds to complete the transaction.

- Any repairs the seller is responsible for
- Seller's responsibility to declare environmental hazards

Purchase agreements reflect the nature of the goods and the industry involved.

The wholesale purchase agreement for steel, for instance, will contain different terminology than you would find any commercial purchase agreement for a large number of fleet vehicles.

Searching online for purchase agreement template or purchase agreement form provides you with numerous options to be used in a variety of situations. For complex transactions, it is a good business practice to use a comprehensive purchase agreement.

Well-crafted documents can ensure both parties understand what is expected and to help them avoid potentially costly misunderstandings.

It is in the best interest of both parties to have an attorney look over the agreement once drafted before signing takes place.

If you intend to use purchase agreements on a regular basis, having an attorney draft a standard template legal document you can use repeatedly and make adjustments for each specific case is often the best choice.

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