

Q#1: WHAT IS BARTER SYSTEM? WHAT ARE INCONVENIENCES OF BARTER SYSTEM?

Barter system

Barter is a system in which goods or services are directly exchanged with the goods or services without the use of money.

Barter system is suitable only when people have few needs and money system does not exist in the economy.

Inconveniences / difficulties/ hindrances /barriers / of barter system

Followings are the difficulties that were faced in barter system.

1. Lack of coincidence of wants
2. Lack of common measure of value
3. Lack of subdivision
4. Lack of store of value
5. Difficulty in future payments (credit)
6. Difficulty in transfer of wealth
7. Difficulty in tax collection
8. Lack of specialization
9. Difficulty in budgeting

1. Lack of coincidence of wants

Barter is possible only when there is double coincidence of wants. The main defect of barter is that there is lack of coincidence of wants.

Example

If a person has surplus rice and he wants to exchange it with wheat. He will have to find a person who has surplus wheat as well as he needs rice.

2. Lack of common measure of value

18. Difficulty in budgeting

Budgeting is an art of estimating of estimating () future expenses and revenues.
Money has made easy to estimate the future incomes and expenses in terms of money

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Q#4 what are the different kinds of money? **Or** what are the different stages in the evolution of money? **Or** what is the origin and growth of money?

Different forms of money

On the basis of evolution the money is classified in five main types

1. Commodity money
2. Metallic money
3. Paper money
4. Credit money
5. Electronic money

1. Commodity money

In commodity money, different commodities have been used as money like cattle (), Goats, Horses, animal skins, arrows. Commodity money was used in barter system in which goods were exchanged with other goods and services

Problems of commodity money

It was found that commodity money was not best to make payments due to the following problems.

19. Lack of coincidence of wants
20. Lack of common measure of value
21. Lack of subdivision
22. Lack of store of value
23. Lack of divisibility
24. Lack of transferability

2. Metallic money

Metallic money consists of gold coins, silver coins, nickel coins. In our country coins of Rs five, two and one are the metallic money. Metallic money cannot be eliminated from economy. It is playing vital role in the economy. Metallic money is of three kinds.

iii. Political stability

If there is political stability in country, it will encourage investment and increase in production which may help in controlling prices

iv. Smuggling of goods.

Shortage of supply is normally due to the smuggling of goods. If govt take actions to control smuggling it will help in controlling price level.

v. Price control policy

The government should adopt strict price control policy against the profiteers and hoarders. So that inflation can be controlled

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level of production and employment level is growing rapidly. This is an ideal stage of an economy

Features of boom

- High level of profit
- Ideal level of national income
- Maximum production
- Low cost of production
- Rapid increase in demand of goods
- Growth in public borrowings
- Low rate of unemployment
- Ideal investment opportunities

4. Recession

This is the level of economy where economic activities starts falling down. At this stage economy moves from boom to recession and investments, employment, production starts reducing. There is shrinkage in profit margin because cost of production exceeds the sale price, due to this poor firms close their business while other reduce their production.

Features of recession

- ❖ Decrease in production
- ❖ Fall in employment level
- ❖ Shrinkage in profit margin
- ❖ Decrease in public borrowings
- ❖ Decrease in demand
- ❖ Decrease in price of product
- ❖ Cut down in national income

Q #12 What are the causes/ reasons of trade cycle also explain remedies of trade cycle?

Causes of trade cycle

Trade cycle is affected by the two factors that are;

A. Internal factors

1. Under consumption

There is too much saving in the boom period. This reduces the price level. The price starts increasing but wages do not increase proportionately. The income of the rich starts increasing at a higher rate but incomes of the poor do not increase as compared to the price level; the result is that the demand for consumption goods decreases.

2. Unsold stock

Trade cycle is the result of inventories (closing stock). There is excess of goods and services but people are unable to buy goods of their own choices due to their low incomes. Unsold stock results in depression.

3. Imports

Imports are also the reason for depression. When the goods are imported, it increases the supply of goods. Increase in supply of goods decreases the price level.

4. Liquid assets

Liquid assets include coins, paper money, bonds and shares. Increase in liquid assets leads the economy toward boom. The increase in liquid assets increases the investments, in this way the stock exchange activities will flourish and the economy leads towards prosperity.

5. Unfilled orders

Unfilled orders mean the demand for goods is higher and the supply is low; the manufacturers are unable to meet the demand of customers. Increase in demand encourages the manufacturers to produce more which leads toward boom.

Government may start the public work program during depression. Government may start construction and development of various projects. Public development projects helps to control trade cycle.

6. Taxes

The government can increase the tax rate to control supply of money. The tax rate can be increased to reduce the supply of money and if there is shortage of money supply. Then tax rates can be decreased.

7. Budget

Surplus budget can be prepared in boom period and deficit budget is prepared in depression.

Government can use the budgetary measures to control trade cycle

8. Public debt

Government should borrow loans in depression to meet the various needs. In case of boom the debt should be repaid. The government can overcome crises by public debts.

9. Imports

Government should promote imports during the boom period but when there is depression; imports should be restricted or reduced.

10. Government purchase

Government should purchase goods during the depression. Government purchases plays an important role to control the depression.

C. International measures

11. Production control

The production of goods can be controlled at international level because goods produced in excess of demand can create problem. Producers can fix the quota at international level. In this way trade cycle can be controlled

12. Buffer stock

Buffer stock can be kept in warehouses. When production is low the suppliers can meet the demand from surplus stock.

Written by: **Ahmed Raza** (MBA, ACMA) providing quality education OF ACCOUNTING, MBF, ITB B.LAW, AUDITING AND BANKING

Q #13

What are the features of trade cycle?

1. Phases

Trade cycle has four phases

i. Boom

It is a period of good trade

ii. Recession

It is period in which there is a downward trend in business activities

iii. Depression

It is a period of bad trade

iv. Recovery

It is a period in which economic activities start rising up

2. Cyclic effect (following nature)

Phases of trade cycle follow each other. Boom follows depression and depression follows boom. The factors which generate boom automatically generate recession and depression and so on. The trade cycle is completed in this way.

3. Time period

Time period for the completion of trade cycle is not fixed. It may last for 5, 10, 15, 20 even it can be of fifty years.

4. International in nature

Trade does not affect economy only at national level, but it also effect the other countries through foreign exchange.

5. Rhythm change

A bank which buys and sells foreign currency to facilitate imports and exports is called exchange bank. In Pakistan commercial bank deals in foreign exchange.

6. Savings bank

A bank which collects the savings of the people having low income and pay interest on it is called saving bank. Such bank is formed to encourage saving habits of people. In Pakistan no such bank exists but saving account can be opened in post office

7. Investment banks

Bank which buys and sells shares, debentures and bonds is called investment bank. Investment banks also grant loan for the purchase of shares and other securities. Investment Corporation of Pakistan are national investment trust are the examples of investment banks.

8. Consumer's bank

The main purpose of these banks is to provide credit facility to the consumers to purchase goods. City bank is performing services of consumer bank in Pakistan.

9. Mortgage bank

This provides loan against land and building for short and long period. House building Finance Corporation is working as mortgage bank in Pakistan.

10. School banks

These banks provided the banking facility to the school's students. No bank in Pakistan is providing facility to the students of school. However in European countries these banks are providing banking facility to the students.

11. Co operative bank

These banks are formed to work for the welfare of society. Their aim is not to earn profit. These banks provide credit facility to the farmers of small income.

12. Consortium bank

A bank which is formed and run by some other banks is called consortium bank. These banks provide long term loan loans to large scale companies. In Pakistan no such bank exists.

v. Transfer of funds

Bank also transfers money from one place to another place by means of bank draft, telephonic transfer and cheques. Bank performs this function on the orders of his customer.

vi. Deduction of zakat

Bank deducts amounts of zakat from customer's account on the behalf of government

Such amount is transferred to the general zakat fund.

2. General utility function

Bank also provide general utility function to his customers some of them are given below

i. Locker facility

Bank also provides locker facility to his customer for the safe custody of valuable goods like jewelry, shares, securities etc. bank charges his services charges.

ii. Foreign exchange

Bank also deals in foreign exchange. It converts local currency into foreign currency and vice versa on customer demand.

iii. Relief fund

Bank performs the function of collecting money as a charity from general for the relief of victims of earthquake and war effected people

iv. 24 hour cash services

In this modern money economy commercial banks provide the facility of 24 hour cash services. Customer can withdraw money from ATM machines at any time

(834 words)

Written by: **Ahmed Raza** (MBA, ACMA) providing quality education OF ACCOUNTING, MBF, ITB B.LAW, AUDITING AND BANKING

Economic development is not only based on the development of industry but it also depends on the agricultural. Commercial banks are advancing loans to the farmers on small medium and long terms to purchase seeds, machinery, and other equipments.

11.Development of transport

The commercial bank financed the transport scheme through Punjab minister's scheme. It has reduced the unemployment on one hand and increased the transportation facility on the other hand.

12.Financial advices

Commercial bank also gives financial advices to their customers to promote their business, besides credit facility

13.Construction of houses

Commercial bank provides loans for the construction projects. It grants short term loans for repairing and long term loans for the construction of houses.

14.Assistance to government

It also grants loans to the government for the development projects. The commercial bank share the government for the economic stability

15.Economic prosperity

Economic growth depends upon the development of banking system. A sound banking system promotes economic status of people by providing loans on the lenient terms and conditions.

16.Development of foreign trade

Commercial bank help the importers and exporters by providing them foreign exchange, it also issues letter of credit to ensure the payment.

17.More production

The relationship between banker and customer is of principal and agent. The customer is principal and banker is agent at the time of collection of cheque and bill of exchange. Moreover banker also purchases and sale shares as an agent.

3. Financer and financee

The banker is called financer and customer is known as financee. Banker grants loans to his customer to meet the cash requirements

4. Bailor and Bailee

The customer becomes Bailor at the time of delivery of valuable goods for the safe custody. The banker acts as Bailee when he receives goods from customer

5. Pledger and pledgee

The customer can become Pledger at that time of providing security of moveable property for obtaining loan. And banker becomes pledgee when he grants loans against security.

6. Mortgager and mortgagee

The customer becomes mortgager at that time when he obtains loan against immovable property and banker becomes mortgagee when he grants loan against immovable property.

7. Author and trustee

Banker acts as trustee for a customer who keeps valuable & documents for the safe custody. The customer becomes the author.

8. Reference and referee

The customer becomes reference and banker becomes referee when banker is asked to comment on financial position of customer. The banker as referee can submit favorable and unfavorable reports to other bank.

9. Lessor and lessee

When the bank provides finance to his customer on the basis of lease, the relationship becomes of Lessor and lessee. The bank is Lessor and customer is lessee

It is the right of bank to retain the securities until the customer pays amount of debt. If customer fails to pay the amount of debt, the banker has right to sell the securities.

4. Right to adjust debit balance

It is the right of banker to adjust the amount of overdraft as soon as the customer deposit some cash in his account

Duties of banker

1. Payment of cheque

It is the duty of banker to make the payment of cheque drawn on him. The cheque must be drawn properly and presented within the time

2. Secrecy

It is the duty to banker to maintain the privacy of customer's account.

3. Standing orders

It is the duty of banker to obey the standing orders in making payments. Such as rent rate and taxes that are paid after the regular interval

4. Safe custody

It is the duty of banker to take reasonable care of goods that are deposited for the safe custody

5. Trustee

While acting as trustee, a banker must work according to the terms and conditions of agreement.

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i. Keeping deposits

Central bank keeps deposits of federal and provincial government. It makes payments on the behalf of government. Central bank does not pay interest on government deposits

ii. Fiscal agent

As a fiscal agent the central bank grants loans to the government and makes investments in the treasury bills and other long term securities

iii. Foreign loans

Central bank also makes arrangement to get foreign loans on the behalf of government

iv. Financial advisor

It advises government on all financial matters such as controlling the inflation or deflation and valuation of currency

v. Transfer of capital

Central bank is also responsible for transferring the funds of government from one place to another place.

3. Banker's bank

Central bank is the banker of commercial banks and performs the followings functions to facilitate commercial banks.

i. Custodian of cash reserve

Central bank keeps a certain percentage of deposits of commercial bank as cash reserve; the amount is kept in safe custody

ii. Clearing house

Central bank acts as the clearing house for commercial banks. All scheduled banks have their accounts with central bank so the mutual obligation of banks are settled simple by passing debit and credit entries in their accounts.

iii. Lender of last resort

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17 Period	Period for making payment of bills of exchange is written on it	Payment period is written on the note	Cheque can be cashed within the period of six months from the date of issue
18 Use	Bills of exchange is less used than cheque and more used than the note	Promissory note is less used than the bills of exchange and cheque	Cheque is more popular than the bill and note
19 Drawer	Drawer of bill is always a seller	Drawer of the note is always buyer	Drawer of the cheque is always an account holder
20 drawee	Drawee of bills is always a buyer	Drawee of note is always a seller	Drawee of cheque is always a bank

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Q #28

What is business finance? What are the main types of business finance?

Business Finance

Business finance is the flow of capital and credit that makes the business possible. Finance includes raising of funds through debt or equity finance.

Business finance is the life blood of every business. In sole proprietorship and partnership less amount of finance is needed. Due to small scale of business, but in companies large amount of finance is required because of large size of business activities.

Definition

According to B.O wheeler “business finance is the concerned with the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of the business.

Types of business finance

Business finance can be categorized into the two main heads

3. On the basis of time
4. On the basis of source

3. On the basis of time

D. Short term finance

Short term finance is obtained for the period of one year or less than one year. it is obtained to meet the day to day operating expenses of business such as payment to creditors, wages, salaries, utility bills etc,

Following are some forms of short term finance

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There is no need of repayment as the finance is provided by the owner from his personal resources.

4. High rate of profit

Equity finance provide high rate of profit as there is no fixed interest payment so the rate of profit is high.

5. Minimum losses

There is minimum loss to owners during depression. The interest on loan increases the losses. In case of equity finance there is no interest so losses remain low.

6. Freedom of control

The owners of business enjoy the freedom of control because one man can claim his right on the assets of the company.

7. Full profit

In case of equity finance, the owners of business enjoy and share full profit of business they are free from the loan payment and interest payment.

8. Low operating cost

In case of equity of finance the operating cost is low as there is no burden of interest.

9. Financial base

The equity finance provides a sound financial base to the capital structure of a business by reducing the financial risk.

10. Liquidation of business

In case of liquidation of business, the assets of the business remain with the owners.

11. Financial worries

It is a benefit of equity finance that there are no financial worries of borrowing when the supply of money is short and interest rate is high.

12. Attention to business

Written by: **Ahmed Raza** (MBA, ACMA) providing quality education OF ACCOUNTING, MBF, ITB B.LAW, AUDITING AND BANKING

In case of debt financing the interest charged on debt is lower than the rate of return paid to the shareholders in form of dividend

8. Flexible finance policy

Debt financing enable the management to frame a flexible financing policy. Whenever they want to expand the business they can raise funds by obtaining loan.

Demerits of debt financing

1. Payment of interest

Businessman has to pay the amount of interest on this type of finance, regardless of the financial position of the business.

2. Business can be sued

If the amount of interest and borrowed amount is not paid at the maturity date, the creditors may sue the business.

3. losses

In case of loss, the business concern even has to pay the interest. This increases the losses of business

4. Repayment of loan

Repayment of loan is the liability of the business that is to be paid on the due date. Repayment of loan may put the business into the financial difficulty.

5. Dissatisfaction of shareholders

If the company decides to repay the amount of loan out of profits, the payment of dividend to shareholders is reduced. It creates dissatisfaction among them.

6. Winding up of business

In case of winding up of business, the creditors have the prior claim on the assets of the business, so the shareholders may suffer loss.

7. Attraction of funds

In times of depression, the rate of return on investment is lower than the rate of interest on loan. Therefore the new investors will not contribute their funds in the business.