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ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

Course: Fundamentals of Business (463) • Level: AD/BS

Semester: Autumn 2026

Assignment No. 2 (Units 5–9)

Total Marks: 100 • Pass Marks: 50

SOLVED ASSIGNMENT GUIDE

(For Study & Reference)

Note: This guide is prepared for study and reference purposes. Students are advised to read the relevant units of the course book, understand the concepts and then write the assignment in their own words.

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Question 1: Logistics and Inventory Management (20 Marks)

Discuss the following concepts in detail: (i) Logistics (ii) Inventory management.

Introduction

A business does not create value by production alone. The raw material must reach the factory on time, the finished goods must reach the right customers in good condition, and the correct quantity of stock must be available when it is needed, neither so little that sales are lost nor so much that cash is buried in godowns. The activities that move and store materials and products are studied under logistics, and the control of the stock itself is called inventory management. The two concepts are closely connected, and together they form the physical backbone of supply chain management. Both are discussed in detail below.

Part (i): Logistics — Meaning

Logistics is the process of planning, implementing and controlling the efficient movement and storage of goods, services and related information from the point of origin to the point of consumption, in order to meet the requirements of customers. Originally a military term for moving armies and their supplies, logistics in business covers everything that physically connects the supplier, the factory and the customer. Its aim is often summarised as the seven

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Rs: getting the right product, in the right quantity, in the right condition, to the right place, at the right time, for the right customer, at the right cost. When logistics works well it is invisible; when it fails, factories stop for want of material, shelves go empty and customers are lost.

Components and Activities of Logistics

- Transportation: choosing and managing the means of movement, road, rail, air, sea or pipeline, balancing cost against speed and reliability. Road transport dominates within Pakistan because of its door-to-door flexibility, while sea transport through Karachi ports serves imports and exports.
- Warehousing and storage: holding goods safely in godowns and distribution centres located near production or near markets, including handling, packing and protection from damage, theft and weather.
- Material handling: the movement of goods within the factory and warehouse by trolleys, forklifts, conveyors and cranes, arranged so that goods move short distances, quickly and without damage.
- Order processing: receiving, checking, recording and executing customer orders accurately and promptly; an error or delay here spoils all the physical work that follows.
- Packaging: protective packaging for safe transport and storage, distinct from the attractive consumer packaging used in marketing.
- Inventory control support: deciding where stock should be held and in what quantity, which links logistics directly with inventory management discussed below.
- Information flow and logistics management: documents, tracking, barcodes, computerised warehouse and transport systems and communication with suppliers and customers, so

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that managers know where every consignment is. Reverse logistics, increasingly important, deals with returns, repairs, recycling and disposal of goods moving backwards from customer to firm.

Importance of Logistics

Logistics matters because it typically absorbs a large share of the total cost of a product, so even a small improvement in it directly increases profit. Good logistics creates time and place utility: goods are worth more when they are available where and when they are wanted. It improves customer service and goodwill, because reliable delivery is one of the strongest reasons customers repeat orders. It enables a business to serve distant and even foreign markets, to buy raw material from the cheapest sources wherever they are, and to keep production running without interruption. In e-commerce, logistics is practically the product itself, since the customer's experience depends on fast, accurate and traceable delivery. Conversely, poor logistics shows itself as high transport bills, damaged goods, late deliveries, excess stock in one branch and shortages in another, and eventually as lost customers. Modern developments such as third-party logistics (3PL) providers, GPS tracking, containerisation and projects like CPEC have steadily raised the importance and capability of logistics for Pakistani businesses.

Part (ii): Inventory Management — Meaning

Inventory means the stock of goods and materials held by a business for use in production or for resale. It includes raw materials and components, work-in-progress (partly finished goods), finished goods ready for sale, and stores and spare parts used for maintenance. Inventory management is the process of deciding how much stock to hold, when to order, and how much

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to order each time, and of controlling, recording and protecting that stock. Its central problem is a balance between two opposite dangers. Holding too much inventory locks up cash, occupies space, and risks spoilage, theft, damage and becoming outdated. Holding too little inventory stops production, delays deliveries and loses sales and customers. Inventory management exists to find and maintain the level at which total cost is lowest while service to production and customers remains reliable.

Objectives and Costs of Inventory

The objectives of inventory management are to ensure a continuous supply of material for uninterrupted production, to maintain enough finished goods to meet customer demand promptly, to keep the investment in stock at the minimum workable level, to avoid wastage, deterioration and pilferage, and to provide accurate stock information for purchasing, costing and financial accounts. Four costs govern every inventory decision. Ordering costs are incurred each time an order is placed: paperwork, communication, inspection and transport arrangements, so fewer and larger orders reduce them. Carrying or holding costs rise with the quantity held: warehouse rent, insurance, interest on money locked in stock, spoilage and obsolescence. Shortage or stock-out costs arise when stock runs out: lost sales, idle machines and workers, emergency purchases at high prices and loss of goodwill. The purchase cost of the material itself completes the picture. Good inventory management minimises the sum of these costs rather than any one of them in isolation.

Techniques of Inventory Management

Several proven techniques are used. The ABC analysis classifies items by annual consumption value: a few A items account for most of the value and receive strict, continuous control; B

items receive moderate control; and the many low-value C items are controlled simply, so that management effort is spent where the money is. The economic order quantity (EOQ) is the order size that minimises the combined ordering and carrying cost, calculated as EOQ = square root of (2 x annual demand x ordering cost per order / carrying cost per unit per year). For example, if annual demand is 10,000 units, ordering cost is Rs 500 per order and carrying cost is Rs 20 per unit per year, then EOQ = square root of (2 x 10,000 x 500 / 20) = square root of 500,000, which is about 707 units per order, meaning roughly 14 orders a year. The reorder level fixes the stock level at which a fresh order must be placed, calculated as (maximum daily usage x maximum lead time) or, more simply, average usage during lead time plus safety stock: if daily usage is 50 units, lead time is 6 days and safety stock is 100 units, the reorder point is 50 x 6 + 100 = 400 units. Safety or buffer stock is the extra cushion kept against unexpected demand or delayed supplies. Other widely used methods include maximum, minimum and danger levels for every item; just-in-time (JIT) purchasing, which keeps stock very low by receiving material exactly when needed and requires highly reliable suppliers; perpetual inventory and stock verification through continuous records and physical counts; and modern computerised systems and barcoding that record every movement of stock in real time.

Table 1: Logistics and inventory management compared

Aspect	Logistics	Inventory Management
Main concern	Movement and storage of goods between points	Quantity of stock to hold, order size and order timing
Key question	How, where and by what means will goods flow?	How much stock, and when to reorder?
Typical activities	Transport, warehousing, handling, order processing, packaging	EOQ, reorder levels, ABC analysis, safety stock, stock records

Shared goal	Right goods, right place, right time, lowest cost, satisfied customer	Uninterrupted supply with minimum investment in stock

Conclusion

To conclude, logistics is the management of the flow and storage of goods and information from origin to consumption, covering transport, warehousing, handling, order processing and packaging, and aiming at reliable customer service at the lowest possible cost. Inventory management is its close companion, controlling how much stock to keep, when to order and how much to order, by balancing ordering, carrying and shortage costs through techniques such as ABC analysis, EOQ, reorder levels and safety stock. Together they ensure that production never stops for want of material, customers receive their goods on time, and the firm's money is not wasted lying idle in unnecessary stock.

Question 2: Government Organisations — CCP and SECP (20 Marks)

Discuss in detail the following government organizations: (i) CCP (ii) SECP.

Introduction

A modern market economy cannot be left entirely unregulated. Businesses must be registered and supervised so that investors and the public are protected, and competition must be protected so that a few powerful firms cannot exploit consumers by fixing prices or blocking rivals. In Pakistan, two specialised government organisations perform these tasks in their respective fields: the Competition Commission of Pakistan (CCP), which protects competition in all markets, and the Securities and Exchange Commission of Pakistan (SECP), which regulates companies and the capital markets. Both organisations are discussed in detail below.

Part (i): Competition Commission of Pakistan (CCP)

The Competition Commission of Pakistan is an autonomous regulatory body established under the Competition Act, 2010, which replaced the earlier Monopolies and Restrictive Trade Practices Ordinance, 1970 and its Monopoly Control Authority. The purpose of the CCP is to promote and sustain free competition in all spheres of commercial and economic activity, to enhance economic efficiency and to protect consumers from anti-competitive behaviour. The Commission consists of a chairman and members appointed by the federal government, and its head office is in Islamabad. Importantly, the CCP's jurisdiction extends across all sectors of the economy and over all undertakings, including government-owned commercial entities, which makes it one of the broadest regulators in the country.

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Prohibited Practices and Functions of the CCP

The Competition Act prohibits the main forms of anti-competitive conduct, and the CCP enforces these prohibitions. First, abuse of dominant position is prohibited: a firm that dominates a market must not exploit that power by charging unfair prices, limiting production, refusing to deal or imposing unfair conditions in order to crush competition. Second, prohibited agreements are forbidden: competitors may not agree among themselves to fix prices, divide markets or customers, limit output or rig bids in tenders; such secret collusion, called a cartel, is treated as a most serious offence. Third, deceptive marketing practices are prohibited, including false and misleading claims, fake discounts and the distribution of wrong information that harms consumers or other businesses. Fourth, mergers and acquisitions that would substantially lessen competition require the prior approval of the CCP, which examines large

combinations before they are allowed so that no single group can dominate a market through purchase.

To perform these duties, the CCP has wide powers of inquiry and investigation, including calling for information, conducting search and entry under court warrant, and holding hearings. It can impose heavy penalties, which may extend to Rs 75 million or up to ten per cent of the annual turnover of the offending undertaking, direct the firm to stop the practice, and in suitable cases order corrective action. Alongside enforcement, the CCP performs an advocacy role: it reviews government policies and laws for their effect on competition, issues policy notes, conducts market studies, and educates businesses and consumers about the benefits of competition and their rights. Its leniency programme encourages a member of a cartel to come forward and report the collusion in return for reduction or waiver of penalty, which helps break secret cartels from inside.

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Importance of the CCP

Fair competition benefits everyone: consumers get lower prices, better quality and more choice; efficient firms grow while inefficient ones must improve or leave; and the economy as a whole uses its resources better. The CCP protects this process. Its actions against cartels in sectors such as cement, sugar, poultry, automobiles and professional services have repeatedly shown how price-fixing quietly taxes every household. By keeping markets open, the CCP also protects honest small businesses from being destroyed by the unfair tactics of powerful rivals, and improves Pakistan's image for foreign investors, who prefer markets with predictable and fair rules.

Part (ii): Securities and Exchange Commission of Pakistan (SECP)

The Securities and Exchange Commission of Pakistan is the apex regulator of the corporate sector and the capital markets. It was established under the SECP Act, 1997 and started working in 1999, taking over from the old Corporate Law Authority. The SECP is headed by a chairman and commissioners appointed by the federal government, with its head office in Islamabad and offices in major cities. Its stated mission is the development of a modern, efficient and transparent corporate sector and capital market, based on sound regulatory principles that protect investors and encourage investment and economic growth.

Functions and Powers of the SECP

- Incorporation and regulation of companies: the SECP registers (incorporates) companies under the Companies Act, 2017 through its company registration offices and e-services, registers their charges and documents, receives their annual returns and audited accounts, and takes action against companies that fail to comply.
- Regulation of the capital market: it supervises the Pakistan Stock Exchange (PSX), the central depository (CDC) and clearing company, stock brokers, and the issue of shares and other securities to the public, so that trading is fair, orderly and transparent.
- Regulation of non-banking financial companies (NBFCs): it licenses and supervises mutual funds, asset management companies, investment advisors, leasing, modarabas and other non-bank financial institutions.
- Insurance regulation: since 2000 the SECP also regulates the insurance industry, licensing insurers and protecting policyholders.

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- Investor protection and enforcement: it investigates fraud, insider trading and market manipulation, can impose penalties, and runs investor education and complaint-handling services.
- Reform and facilitation: the SECP has steadily modernised company law, introduced online incorporation which allows a company to be registered quickly at low cost, simplified procedures for small companies, and promoted good corporate governance through codes, reporting standards and oversight of the accounting and auditing profession.

CCP and SECP Compared

Although both are economic regulators, their fields do not overlap: the SECP regulates the formation and conduct of companies and financial markets, while the CCP regulates the behaviour of all businesses in the marketplace itself, including companies the SECP has registered. A company may be fully compliant with the SECP's filing rules and still be penalised by the CCP if it fixes prices with competitors.

Table 1: CCP versus SECP

Point	CCP	SECP
Full name	Competition Commission of Pakistan	Securities and Exchange Commission of Pakistan
Established under	Competition Act, 2010	SECP Act, 1997 (working since 1999)
Main purpose	Protect free and fair competition and consumers	Regulate companies, capital markets, NBFCs and insurance
Field of work	All markets and all undertakings, every sector	Corporate sector and financial markets
Typical actions	Action against cartels, abuse of dominance, deceptive marketing; merger approvals	Company incorporation, supervision of stock exchange, brokers, mutual funds and

		insurers
Main beneficiaries	Consumers and competing businesses	Investors, shareholders and the corporate sector

Conclusion

To conclude, the CCP and the SECP are two pillars of Pakistan's market regulation. The CCP, under the Competition Act, 2010, keeps markets open and fair by acting against cartels, abuse of dominance, deceptive marketing and harmful mergers, and by advocating competition-friendly policies. The SECP, established under the SECP Act, 1997, registers and regulates companies and supervises the stock market, non-banking financial institutions and insurance, thereby protecting investors and promoting a transparent corporate sector. Together they make the business environment more orderly, trustworthy and attractive for honest business and investment.

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Question 3: Factors Affecting the Location of a Business (20 Marks)

A business needs a suitable location to achieve its objectives. Explain the factors that affect the location of a business.

Introduction

The choice of where to locate a business is one of the earliest decisions an entrepreneur makes, and one of the hardest to correct later. A factory building, once constructed, cannot be moved; even a shop that shifts localities loses its walk-in customers. A well-chosen location lowers costs, brings the business close to its materials and its customers, and supports growth for decades, while a careless location permanently raises expenses and limits sales. This answer

explains the main factors which affect the location of a business, and notes how their importance differs between manufacturing, retail and service businesses.

Why Location Matters

Location directly affects both sides of profit. On the cost side, land, rent, transport, power and labour are all priced differently in different places. On the revenue side, a location decides how easily customers can reach the business and how quickly goods can reach the market. Location also affects the availability of skilled workers, relations with government, room for expansion and even the image of the business. Because the decision is long-term and involves heavy investment, it must be made by systematically examining the following factors.

1. Availability of Raw Materials

Businesses that use bulky, heavy or perishable raw material try to locate near its source, because transporting such material over long distances adds greatly to cost and loss. Sugar mills are built in the sugarcane-growing districts, fruit-canning and juice units near orchards, cement plants near limestone deposits, and flour mills near wheat-producing areas. A location close to raw materials also ensures regular supply and reduces the stock that must be held. For weight-losing industries this is often the single most important factor.

2. Nearness to Market

Businesses whose finished product is bulky, fragile, perishable or costly to transport locate near their customers instead. Bakeries, ice factories, bricks, furniture and printing presses serve local markets and must be close to them. Nearness to market also gives quick delivery, better after-sales service, and close knowledge of customer needs and changing tastes. Most retail and service businesses depend almost entirely on this factor, because for them the location is

practically the business itself: a well-placed shop in a busy bazaar will outsell a better shop hidden in a quiet street.

3. Transport and Communication Facilities

Good transport reduces cost and time in bringing material in and sending goods out. Locations near highways, railway stations, ports and airports are preferred, especially by exporters and by businesses handling heavy goods; the textile exporters of Karachi and the industries along the main national highways enjoy this advantage. Reliable communication, including telephone, internet and courier services, is equally necessary for orders, banking and coordination, and modern businesses such as software houses and call centres treat fast internet as a basic locational requirement.

4. Availability and Cost of Labour

Every business needs workers, but the type of labour required differs. Labour-intensive industries such as garments, hosiery and sports goods need large numbers of reasonably priced workers, and they flourish in the populous cities of Punjab such as Sialkot, Gujranwala and Faisalabad where generations of skilled craftsmen exist. Industries needing highly skilled or technical staff locate near universities and large cities. Management considers not only wages but also the supply, skill, training facilities, attitude and industrial relations of local labour, because frequent strikes or a shortage of trained people can paralyse a well-equipped plant.

5. Power, Water and Other Utilities

Continuous and reasonably priced power and fuel are essential for manufacturing; frequent load-shedding raises costs through generators and idle machines, and has pushed many Pakistani businesses to value reliable supply, gas connections and now solar potential when

choosing a site. Industries such as dyeing, paper, chemicals and food processing also need abundant water and proper drainage and waste disposal. A location lacking basic utilities, however cheap its land, proves expensive in operation.

6. Land, Climate and Natural Conditions

The cost of land or rent, the availability of a sufficiently large plot with room to expand, and the physical suitability of the site must all be examined. Climate affects some industries directly: cotton spinning historically favoured a humid atmosphere, food storage needs cool conditions, and agriculture-based industries depend on local weather. The site should be safe from floods and other natural risks, a consideration of growing importance as flood damage has repeatedly shown in Pakistan.

7. Infrastructure, Banking and Supporting Services

A good location offers developed infrastructure: roads, water supply, sewerage, industrial estates with ready plots, and repair and spare-part facilities. Banking and insurance services must be available for finance, payments and protection of goods. The presence of related and supporting industries nearby, called industrial clustering or agglomeration, is a powerful attraction: in Sialkot, a surgical-instrument maker finds suppliers, skilled workers, exporters' agents and specialised services all in one city, which lowers everyone's cost. Government-developed industrial estates and special economic zones offer these facilities in planned form.

8. Government Policy, Incentives and Legal Factors

Government strongly influences location through taxes, duties, licensing, zoning and incentives. Tax holidays, duty-free import of machinery, subsidised plots and one-window facilities in special economic zones, including those developed under CPEC, draw industries to particular

areas, while restrictions may keep polluting industries away from residential areas and big cities. Entrepreneurs also consider the law-and-order situation, political stability and the efficiency of local administration, since an insecure location threatens both property and personnel.

9. Competition, Community and Personal Factors

The location of competitors cuts both ways: retailers often benefit from clustering with rivals, as in a cloth market or a food street where comparison-shopping draws crowds, whereas a manufacturer may prefer distance from direct competitors. Community factors include the attitude of local people towards the industry, availability of housing, schools and hospitals for employees, and the social environment. Finally, personal factors of the owner, such as attachment to his home town, family connections and local knowledge and goodwill, frequently influence the choice of small businesses, sometimes decisively.

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Relative Importance for Different Businesses

No single factor dominates for every business; the list must be weighed according to the nature of the activity. Heavy manufacturing weighs raw materials, power, transport and land most heavily. Retail trade weighs nearness to customers, footfall, visibility, parking and rent most heavily. Services such as banks, clinics and tuition centres weigh nearness to their clientele and a respectable, accessible locality. Footloose industries, which use light, valuable materials and can serve customers from anywhere, such as software development and online businesses, are freest of all and choose locations mainly for skilled people, connectivity and cost. The correct method is to list the factors, rank them for the particular business, compare candidate sites factor by factor, and include the cost of a possible future expansion before deciding.

Conclusion

To conclude, the location of a business is decided by a combination of factors: availability of raw materials, nearness to market, transport and communication, supply and cost of labour, power and water, land and climate, infrastructure and banking, government policy and incentives, competition, community attitudes and personal considerations. A location that balances these factors gives the business lower costs, better sales and room to grow, and therefore directly helps it achieve its objectives; a location chosen casually becomes a permanent burden. Careful location analysis before investment is thus one of the best-spent efforts in the life of a business.

Question 4: Income Tax — Meaning and How It Is Paid (20 Marks)

The government imposes taxes on businesses to get the required revenues for meeting its budgetary requirements. What is the income tax and how is it paid? Explain in detail.

Introduction

Every government needs money to run the country: to build roads, schools and hospitals, to pay the armed forces, police, courts and civil servants, and to provide public services. The largest part of this money comes from taxes, which are compulsory payments made by citizens and businesses to the government without receiving a specific service in direct return. Among all taxes, the income tax is the most important direct tax on persons and businesses. This answer explains what income tax is, on what incomes and by whom it is charged in Pakistan, and then describes in detail how it is assessed and paid.

What Is Income Tax?

Income tax is a direct tax charged on the income earned by a person during a tax year. It is called a direct tax because the person who pays it also bears its burden; it cannot be shifted to someone else, unlike a sales tax which the seller collects from the buyer. In Pakistan, income tax is charged under the Income Tax Ordinance, 2001, and is administered by the Federal Board of Revenue (FBR) through its inland revenue offices and its online system. Every person whose income exceeds the basic exemption limit fixed by law is required to pay income tax at the rates announced through the annual Finance Act.

The word 'person' in tax law is wide: it includes an individual, a company, a firm (an association of persons or partnership), a Hindu undivided family and other legal entities. The tax is charged not on gross receipts but on taxable income, which is computed after allowing the deductions and expenses permitted by law. Rates are generally progressive for individuals: the higher the income, the higher the rate applied to the upper slices of income, so that the tax falls more heavily on those who can afford more. Companies are generally taxed at a flat corporate rate on their taxable profit. Because rates, slabs and limits are revised by Parliament in the annual budget, the exact figures change from year to year, while the system and procedure described here remain the same.

Heads of Income

For assessment, income is classified under five heads, and the total income of a taxpayer is the sum of his income under all heads after allowable deductions. The heads are: (1) income from salary, the earnings of an employee, taxed mainly through deduction by the employer; (2) income from property, such as rent from buildings and land; (3) income from business, the

profits of a trade, profession or business carried on by an individual, firm or company, computed from accounts after deducting business expenses; (4) income from capital gains, the profit on selling capital assets such as shares, plots and property; and (5) income from other sources, the residuary head covering items such as bank profit, dividends and prizes. This classification matters because the rules for computing income and the deductions allowed differ from head to head. For businesses, income tax on business profits is the central charge: the firm or company prepares its accounts, adds back expenses not allowed by tax law, claims depreciation and other allowances as prescribed, and arrives at the taxable profit on which tax is calculated.

Basic Concepts: Tax Year, NTN and Return

Income tax works through a few basic concepts. The tax year is the twelve-month period, normally from 1 July to 30 June, in which income is earned and with reference to which it is taxed. Every taxpayer is identified through a National Tax Number (NTN) or registration number, which for individuals is their computerised national identity card (CNIC) number. Persons with taxable income, and many others specified by law, must file an annual return of income: a declaration, now filed electronically through the FBR's Iris system, showing total income, tax already paid or deducted, and the balance payable or refundable. Being on the Active Taxpayers List (ATL) as a filer carries practical benefits in Pakistan, because banking transactions, purchase of property and vehicles and many other dealings are taxed at higher withholding rates for non-filers.

How Income Tax Is Paid: The Methods of Collection

Income tax reaches the government through three main channels, which operate together so that most tax is collected during the year itself rather than at its end.

- Tax deduction at source (withholding tax): the person making a payment deducts tax before paying. The employer deducts tax from salaries every month; banks deduct tax on profit payments and certain transactions; the buyer or the organisation paying for goods, services and contracts deducts tax from the payment to the supplier or contractor; and tax is collected on imports at the import stage. The deducted amount is deposited into the government treasury on behalf of the taxpayer, who receives credit for it in his final assessment. This is the largest single source of income tax collection in Pakistan.
- Advance tax: businesses and other taxpayers pay tax in instalments during the tax year, in advance, based on their estimated or latest assessed income. Companies and firms generally pay quarterly advance tax, and if the final liability turns out to be higher, the extra amount is paid with the return; if advance payments exceed the liability, the excess is refundable or adjustable.
- Payment with the return and on assessment: after the tax year ends, the taxpayer computes his final liability in the return. If tax already deducted and paid in advance is less than the final tax, he pays the balance himself before or with filing the return. If the tax department, after examining a case in audit or assessment proceedings, determines additional tax, it issues a demand notice which the taxpayer must pay within the time allowed, subject to his rights of appeal.

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The Practical Procedure of Payment

In practice, paying income tax in Pakistan today follows a clear electronic procedure. First, the taxpayer must be registered with the FBR, which gives him access to the Iris online portal. Second, he prepares his accounts and computes his taxable income and tax liability for the tax year, applying the rates in force, and subtracting the withholding and advance tax already paid, for which he holds certificates and payment receipts. Third, for any balance payable he generates a computerised payment slip (PSID) through the FBR e-payment system, which shows the amount, the tax type and the taxpayer's identity. Fourth, he pays the amount through any bank branch, ATM, internet banking or mobile banking channel connected with the 1-Link and State Bank system; the bank confirms the payment against the PSID, and the payment appears in his FBR record. Fifth, he completes and submits the return on Iris within the due date, declaring the payments made. To illustrate the arithmetic with a simple hypothetical example (figures are illustrative only, since official slabs change every year): suppose a small business has a taxable profit of Rs 1,800,000 and the applicable illustrative rate is 20 per cent; the tax liability is Rs 360,000. If Rs 300,000 has already been deducted at source and paid as advance tax, the balance payable with the return is Rs 60,000, paid by PSID as described above.

If more tax has been paid than the final liability, the excess is a refund which the taxpayer claims in the return, and which the department pays after verification or allows to be adjusted against a future year's liability. Taxpayers must also maintain and preserve their books of account and records for the period prescribed by law, because the department may select a case for audit and ask for evidence of income, expenses and payments. Late filing and late payment attract default surcharge, penalties and, in serious cases, prosecution, while the

Ordinance also gives the taxpayer remedies: he may appeal against an assessment order to the Commissioner (Appeals) and further to the Appellate Tribunal and the courts on questions of law.

Importance of Income Tax

Income tax is the backbone of government revenue in a developed tax system because it grows with the income of the nation itself. It finances the budget, reduces dependence on borrowing, and, being progressive, it distributes the cost of government more fairly according to ability to pay. For businesses, honest tax payment is both a legal duty and a business asset: documented, tax-paid income creates a financial history that banks respect, qualifies the business for government tenders and the Active Taxpayers List, and protects it from penalties and disqualification. At the national level, widening the income tax base, so that all who earn above the threshold pay their share, is Pakistan's central fiscal challenge, and every business that files and pays correctly contributes to it.

Conclusion

To conclude, income tax is a direct tax on the income of individuals, firms and companies, charged in Pakistan under the Income Tax Ordinance, 2001 and administered by the FBR. It is computed on total income under five heads at the rates fixed by the annual Finance Act, and it is collected mainly through deduction at source and advance tax during the year, with the balance paid through a computerised payment slip (PSID) when the electronic return is filed, and any excess refunded. Understanding this system helps every business plan its cash flow, keep proper accounts and meet its legal obligations on time.

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Question 5: Business Expansion — Need and Forms (20 Marks)

Why is business expansion necessary? Explain in detail the various forms of business expansion.

Introduction

A business that stands still does not really stand still: competitors move forward, customer expectations rise, costs increase and markets change, so a static business slowly loses ground. Sooner or later every successful enterprise faces the question of growth: whether to produce more, sell in new markets, add new products or join hands with other firms. This deliberate increase in the size, scale or scope of a business is called business expansion. This answer first explains why expansion becomes necessary, and then discusses in detail the various forms which expansion can take.

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Meaning of Business Expansion

Business expansion means increasing the scale of operations of a business: producing and selling more, employing more people and capital, covering wider markets or entering additional lines of activity. Expansion may be measured by growth in sales, assets, production capacity, number of branches or market share. It is different from mere price increase or temporary extra sales; it is a planned, lasting enlargement of the business, normally financed by retained profits, fresh capital or borrowing, and it requires corresponding growth in management and organisation.

Why Is Business Expansion Necessary?

- Survival in competition: in a competitive market, a small and stagnant firm is easily pushed out by larger rivals who can advertise more, buy cheaper and serve wider areas. Growth is often necessary simply to hold one's position.

- Economies of scale: a larger business buys raw material in bulk at lower prices, uses machines and specialists fully, spreads its fixed costs such as rent and management over more units, and obtains finance more cheaply. Unit cost falls and profit margin improves, an advantage a small unit cannot match.
- Higher profits and better use of resources: expansion puts idle funds, surplus capacity, established goodwill and an experienced sales network to fuller use, converting them into additional profit instead of leaving them underemployed.
- Greater market share and bargaining power: an expanded business serves more customers, negotiates better terms with suppliers and dealers, and can influence market trends rather than merely follow them.
- Diversification and reduction of risk: expansion into additional products or markets spreads risk, so that a fall in demand for one product or in one region does not destroy the whole business; the saying 'do not put all eggs in one basket' applies directly.
- Meeting growing demand: when a firm's product is popular and demand exceeds its capacity, expansion is forced by opportunity itself; refusing to grow simply hands waiting customers to competitors.
- Research, technology and talent: larger businesses can afford research and development, modern technology and highly paid professional managers and specialists, which further strengthen them; expansion therefore feeds its own continuation.
- Prestige and stability: an expanded, well-known business enjoys greater public trust, finds it easier to attract dealers, employees and investors, and weathers temporary depressions better because of its larger reserves.

Forms of Business Expansion

Expansion takes two broad routes. Internal expansion grows the business from within, gradually, using its own resources; external expansion grows it suddenly by combining with other businesses. Within and across these routes, several distinct forms are recognised, and each is explained below.

1. Internal (Organic) Expansion

In internal expansion the business enlarges its own operations step by step: it increases the capacity of its plant, adds machines and shifts, opens new branches, depots or shops in new areas, widens its product range, and develops new markets for its existing products by advertising and appointing dealers. Its advantages are that growth is steady and controlled, the existing culture and quality are preserved, and no conflict with another firm's owners arises. Its limitation is speed: internal growth is slow, and in a fast-moving market a competitor may occupy the opportunity first. Most businesses begin their expansion in this form, for example a successful local bakery opening a second and third branch in the same city.

2. Expansion through New Products and Diversification

A business may expand by adding products rather than only selling more of the same. In related diversification (also called concentric diversification) the new products are connected with the old in technology or market, such as a soap maker adding detergents and shampoos, or a dairy adding flavoured milk, cheese and yoghurt. In unrelated or conglomerate diversification the business enters entirely new lines, such as a textile group entering cement or banking. Product expansion uses existing brand goodwill and distribution to enter the customer's basket more

deeply, while diversification, as noted above, protects the business against decline in any single product.

3. Merger (Amalgamation)

A merger is the combination of two or more existing businesses into one. In an amalgamation, the combining companies dissolve and a new company is formed to take over all of them; in an absorption, one company takes over another which then loses its identity. Mergers are usually friendly and agreed. Businesses merge to gain scale quickly, eliminate a competitor, combine complementary strengths such as one firm's production with another's distribution, obtain economies of scale and enter new markets at once. The bank mergers witnessed in Pakistan, in which smaller banks combined into stronger institutions to meet capital requirements and compete better, are familiar examples.

4. Acquisition (Takeover)

In an acquisition, one business purchases a controlling share, often more than fifty per cent, of another business, which may continue to exist as a subsidiary under the buyer's control. Unlike a merger of equals, an acquisition is the act of a stronger buyer, and though usually negotiated, it can occasionally be hostile, that is, against the wishes of the target company's management. Acquisition gives instant access to the target's plant, brand, customers, licences and trained staff, saving the years that internal expansion would need; its risks include paying too high a price and difficulty in blending two different work cultures.

5. Joint Venture

A joint venture is formed when two or more businesses contribute capital, technology or skills to a separate, jointly owned venture for a particular project or market, while remaining

independent themselves. Each partner brings what the other lacks: a foreign partner may bring technology and capital while the local partner brings knowledge of the market, distribution and official procedures; this has been the standard route of foreign companies entering Pakistan, particularly in automobiles and energy. Joint ventures share both investment and risk, though partners must manage differences of objectives carefully.

6. Franchising and Licensing

Franchising allows a business to expand geographically with other people's capital. The franchisor grants franchisees the right to use its brand, products and business system in defined areas in return for an initial fee and a continuing royalty; the franchisee invests in and runs the outlet. Food chains, in Pakistan and worldwide, have expanded to hundreds of outlets mainly through franchising, because growth is fast, capital-light for the franchisor and the local owner-manager is highly motivated; quality control across outlets is its main difficulty. Licensing is similar but simpler: a firm permits another to manufacture or sell its patented or branded product for a royalty, expanding its reach without setting up its own plants.

7. Integration: Horizontal and Vertical

Expansion frequently follows the direction of the business's own chain. Horizontal integration means combining with or opening units at the same stage of production, such as a textile mill acquiring another mill, a school opening more campuses or a retailer opening more stores; it increases market share and eliminates competition. Vertical integration means expanding into earlier or later stages of the same chain: backward integration moves towards the supply of inputs, as when a garment exporter sets up its own spinning or dyeing unit; forward integration moves towards the customer, as when a manufacturer opens its own showrooms and

distribution company. Integration secures supplies, guarantees quality, captures the profits of middlemen and strengthens control over the whole chain, at the cost of heavier investment and management burden.

Table 1: Main forms of business expansion

Form	What Happens	Chief Advantage
Internal expansion	Own capacity, branches and markets are enlarged gradually	Controlled, steady growth
New products / diversification	Related or unrelated products are added	Risk is spread; goodwill is used more fully
Merger	Two firms combine into one, usually by agreement	Instant scale; competition reduced
Acquisition	One firm buys control of another	Immediate access to plant, brand and customers
Joint venture	Two firms jointly own a new venture	Skills and risks are shared
Franchising / licensing	Others expand the brand for a fee or royalty	Fast expansion with low own capital
Integration	Expansion along the same stage (horizontal) or chain (vertical)	Market power and secure supplies

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Risks and Conditions of Successful Expansion

Expansion is necessary but not automatically beneficial. Expanding faster than finance and management ability permit, called over-expansion or over-trading, has destroyed many businesses: capital gets stretched, quality and supervision slip, and a single setback then endangers the whole enlarged structure. Successful expansion therefore requires a clear assessment of market demand, adequate long-term finance rather than short-term borrowing, capable managers for the new units, and step-by-step implementation with control at each

stage. The correct question is not simply whether to expand, but when, how much and in which form.

Conclusion

To conclude, business expansion is necessary for survival against competition, for economies of scale, fuller use of resources, higher profits, diversification of risk and the ability to meet growing demand and afford modern technology and talent. It can take many forms: gradual internal growth, addition of new products and diversification, mergers, acquisitions, joint ventures, franchising and licensing, and horizontal or vertical integration. Each form has its own speed, cost and risk, and the wise business chooses the form, and the pace, that matches its resources and market conditions, so that expansion becomes a source of lasting strength rather than dangerous over-stretch.

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