

**Allama Iqbal Open University AIOU AD / BS  
solved Assignment no 2 Autumn 2025  
Code 5402 Fundamentals of Business**

**Q. 1 The real strength of a business lies in the skills and competence of its employees for achieving growth and profitability. Discuss the importance of human resources (employees) for a manufacturing business**

The success, growth, and long-term sustainability of any manufacturing business largely depend on the quality, skills, and competence of its human resources. While

machinery, technology, capital, and raw materials are essential inputs in manufacturing, it is ultimately the human element that plans, operates, controls, and improves all other resources. Employees transform raw materials into finished goods, ensure quality standards, maintain equipment, manage supply chains, and drive innovation. Therefore, human resources are rightly considered the backbone and real strength of a manufacturing organization.

In the modern competitive business environment, where manufacturing firms face challenges such as globalization, technological change, cost pressures, and quality demands, the role of skilled and competent employees becomes even more critical. A manufacturing business that invests in its workforce is better positioned to achieve

higher productivity, efficiency, profitability, and sustainable growth. The importance of human resources in a manufacturing business can be discussed under several interrelated dimensions, as explained below.

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### **1. Human Resources as the Core Productive Force**

In a manufacturing business, production does not occur automatically by installing machines or building factories.

Machines require human operators, supervisors, engineers, and managers to function effectively.

Employees are the ones who:

- Operate machinery and production lines
- Monitor production processes
- Handle raw materials and finished goods
- Ensure safety and efficiency in operations

Even in highly automated manufacturing environments, human resources remain indispensable. Skilled technicians are needed to program, operate, and maintain advanced machinery, while engineers design production systems and improve processes. Without competent employees, physical capital remains underutilized or inefficiently used.

Thus, human resources act as the **core productive force** that brings life to manufacturing operations and converts inputs into valuable outputs.

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## **2. Role of Human Resources in Productivity and Efficiency**

Productivity refers to the amount of output produced per unit of input. In manufacturing, labor productivity is a key determinant of cost efficiency and competitiveness. Skilled

and well-trained employees can produce more output in less time with fewer errors and less wastage.

## **2.1 Skill and Technical Expertise**

Skilled workers understand production techniques, machine handling, and quality requirements. Their technical expertise enables them to perform tasks accurately and efficiently, reducing downtime and rework.

## **2.2 Reduction of Wastage and Defects**

Competent employees are better at minimizing raw material wastage, reducing defective products, and maintaining consistent quality. This directly lowers production costs and increases profitability.

## **2.3 Optimal Use of Resources**

Trained employees can optimize the use of machines, energy, and materials. Efficient resource utilization

improves operational efficiency and enhances the firm's overall performance.

In contrast, unskilled or poorly trained labor leads to inefficiencies, higher costs, frequent breakdowns, and lower productivity, ultimately harming the manufacturing business.

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### **3. Human Resources and Quality Management**

Quality is a critical success factor for manufacturing businesses, especially in competitive domestic and international markets. High-quality products enhance customer satisfaction, brand reputation, and market share.

#### **3.1 Quality Control and Assurance**

Employees play a central role in quality control and

assurance. Inspectors, supervisors, and production workers are responsible for identifying defects, maintaining standards, and ensuring compliance with quality specifications.

### **3.2 Continuous Improvement Culture**

Skilled employees contribute to continuous improvement initiatives such as Total Quality Management (TQM), Six Sigma, and Lean Manufacturing. Their involvement helps identify process inefficiencies and implement corrective actions.

### **3.3 Customer Satisfaction**

High-quality output depends on employee commitment and attention to detail. Motivated and competent employees take ownership of their work, leading to

consistent product quality and higher customer satisfaction.

Thus, human resources are essential in building and sustaining a quality-oriented manufacturing culture.

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#### **4. Human Resources as a Source of Innovation and Technological Advancement**

Innovation is no longer limited to research laboratories; it is an ongoing process within manufacturing firms.

Employees at all levels contribute to innovation by suggesting improvements, adopting new methods, and embracing technological change.

##### **4.1 Process Innovation**

Engineers, technicians, and shop-floor workers often identify better ways to improve production processes,



reduce cycle time, and enhance efficiency. Their practical experience provides valuable insights for innovation.

## **4.2 Product Innovation**

Human resources play a key role in product design, development, and customization. Skilled designers and engineers help manufacturing firms develop new products that meet changing customer needs.

## **4.3 Adoption of New Technologies**

The successful adoption of advanced manufacturing technologies such as automation, robotics, artificial intelligence, and digital manufacturing depends on employee competence. Trained employees ensure smooth integration of technology into existing systems.

Without capable human resources, technological investments may fail to deliver expected benefits, making employees the true drivers of innovation.

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## **5. Importance of Human Resources in Cost Control and Profitability**

Profitability is a primary objective of manufacturing businesses. Human resources significantly influence cost structures and profit margins.

### **5.1 Labor Cost Management**

Although labor represents a cost, skilled employees help reduce overall costs by improving productivity, minimizing errors, and preventing machine breakdowns.

### **5.2 Reduction in Maintenance and Downtime Costs**

Competent operators and maintenance staff can detect

problems early, perform preventive maintenance, and reduce costly machine downtime.

### **5.3 Efficient Supply Chain and Inventory Management**

Employees involved in procurement, logistics, and inventory control ensure timely availability of materials, reduce holding costs, and prevent production disruptions.

Through effective cost control and operational efficiency, human resources contribute directly to higher profitability and financial stability.

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## **6. Human Resources and Workplace Safety**

Manufacturing environments often involve heavy machinery, hazardous materials, and complex processes, making workplace safety a critical concern.

## **6.1 Safety Compliance**

Trained employees understand safety protocols, machine handling procedures, and emergency responses. Their awareness reduces workplace accidents and injuries.

## **6.2 Reduction in Legal and Financial Risks**

A safe working environment minimizes compensation claims, legal liabilities, and production disruptions. This protects the firm's financial resources and reputation.

## **6.3 Employee Well-being and Morale**

When employees feel safe and valued, their morale and motivation increase, leading to better performance and lower turnover.

Thus, human resources are essential in maintaining a safe and productive manufacturing workplace.

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## **7. Human Resources and Organizational Culture**

Organizational culture reflects shared values, beliefs, and practices within a manufacturing firm. Employees play a vital role in shaping and sustaining this culture.

### **7.1 Teamwork and Collaboration**

Manufacturing operations require coordination among different departments such as production, quality, maintenance, and logistics. Effective teamwork enhances efficiency and reduces conflicts.

### **7.2 Discipline and Work Ethics**

A disciplined and committed workforce ensures adherence to schedules, standards, and operational procedures.

### **7.3 Employee Loyalty and Commitment**

When employees are treated as valuable assets, they develop loyalty toward the organization. High commitment reduces absenteeism and labor turnover, ensuring operational continuity.

A positive organizational culture driven by human resources strengthens the manufacturing firm's internal stability and external competitiveness.

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### **8. Human Resources and Strategic Decision-Making**

Human resources are not limited to shop-floor operations; they are equally important at managerial and strategic levels.

## **8.1 Strategic Planning**

Managers and executives analyze market trends, production capacity, and competitive strategies. Their expertise determines long-term growth and expansion decisions.

## **8.2 Resource Allocation**

Human judgment is required to allocate resources effectively among production lines, projects, and departments.

## **8.3 Change Management**

Manufacturing businesses often undergo restructuring, modernization, or expansion. Skilled human resources help manage change smoothly, minimizing resistance and disruption.

Thus, competent employees at all levels contribute to strategic success and sustainable growth.

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## **9. Human Resources and Customer Relationships**

Although manufacturing businesses are often production-focused, customer relationships remain crucial for success.

### **9.1 Meeting Customer Requirements**

Employees involved in production planning and quality assurance ensure that products meet customer specifications and delivery timelines.

### **9.2 After-Sales Support**

Technicians and service staff provide maintenance,



repairs, and support, enhancing customer satisfaction and loyalty.

### **9.3 Brand Image and Reputation**

Employee behavior, professionalism, and product quality collectively shape the firm's brand image in the market.

Satisfied customers lead to repeat business, positive word-of-mouth, and long-term profitability, all of which depend on human resources.

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## **10. Human Resource Development and Training**

Continuous training and development are essential in manufacturing due to technological advancements and changing market demands.

## **10.1 Skill Enhancement**

Training programs improve technical, managerial, and problem-solving skills of employees.

## **10.2 Adaptability to Change**

A trained workforce adapts more easily to new machines, processes, and organizational changes.

## **10.3 Long-Term Competitiveness**

Human resource development ensures that the manufacturing business remains competitive in the long run by maintaining a skilled and innovative workforce.

Investment in employee development is not a cost but a strategic investment that yields high returns in productivity and profitability.

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## **11. Human Resources and Sustainable Growth**

Sustainable growth in manufacturing requires balancing economic performance with social and environmental responsibilities.

### **11.1 Efficient and Environment-Friendly Practices**

Employees play a key role in implementing energy-saving measures, waste reduction, and environmentally responsible production methods.

### **11.2 Social Responsibility**

Fair wages, safe working conditions, and employee welfare enhance social sustainability and corporate reputation.

### **11.3 Long-Term Stability**

A stable and skilled workforce ensures continuity of operations and resilience against external shocks.

Human resources thus contribute not only to immediate profits but also to long-term sustainable development of the manufacturing business.

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## **12. Challenges Related to Human Resources in Manufacturing**

Despite their importance, managing human resources in manufacturing involves several challenges:

- Shortage of skilled labor
- High labor turnover
- Resistance to technological change
- Industrial relations issues
- Training and development costs

Effective human resource management policies, such as fair compensation, continuous training, employee

engagement, and performance-based incentives, are essential to overcome these challenges.

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## **Conclusion**

The real strength of a manufacturing business undeniably lies in the skills, competence, dedication, and creativity of its employees. While machines, technology, and capital are essential components of manufacturing, they are ineffective without capable human resources to utilize them productively. Employees drive productivity, ensure quality, control costs, promote innovation, maintain safety, and contribute to strategic decision-making. They transform manufacturing firms from mere production units into competitive, profitable, and sustainable organizations.

In today's dynamic and competitive manufacturing environment, businesses that recognize human resources as strategic assets rather than mere costs gain a significant advantage. By investing in employee skills, training, motivation, and well-being, manufacturing businesses can achieve sustained growth, higher profitability, and long-term success. Therefore, human resources are not just a supporting function but the **central pillar and real strength** of a manufacturing business.

## **Q.2 Discuss in detail the following government organizations:**

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### **i. Federal Board of Revenue (FBR)**

The **Federal Board of Revenue (FBR)** is one of the most important government organizations of Pakistan, responsible for the **assessment, collection, and administration of federal taxes**. It plays a central role in the country's economic management, fiscal policy implementation, and revenue generation, which are essential for running the state and financing development projects.

### **Historical Background**

The origins of FBR can be traced back to the British colonial period when revenue collection systems were

established in the subcontinent. After the creation of Pakistan in 1947, the organization evolved through different phases and reforms. In 2007, the Central Board of Revenue (CBR) was restructured and renamed as the **Federal Board of Revenue (FBR)** to enhance efficiency, transparency, and autonomy.

### **Organizational Structure**

FBR functions under the **Ministry of Finance, Government of Pakistan**. It is headed by a **Chairman**, assisted by several **Members**, each responsible for specific domains such as Inland Revenue, Customs, Policy, Legal Affairs, IT, and Human Resource Management. The organization is divided mainly into two wings:



- **Inland Revenue Wing** (direct and indirect domestic taxes)
- **Pakistan Customs Wing** (taxes related to imports and exports)

## **Functions and Responsibilities**

The primary responsibility of FBR is **revenue collection** for the federal government. Its major functions include:

- Collection of **direct taxes**, such as income tax and corporate tax.
- Collection of **indirect taxes**, such as sales tax and federal excise duty.
- Administration of **customs duties**, including import/export regulations.
- Formulation and implementation of tax policies in coordination with the Ministry of Finance.

- Prevention of tax evasion, smuggling, and illegal trade.
- Registration of taxpayers and maintenance of tax records.
- Implementation of automation and digitization systems like IRIS and Pakistan Single Window.

## **Role in Economic Development**

FBR plays a crucial role in Pakistan's economic development by generating revenue required for:

- Public sector development programs
- Infrastructure projects
- Health, education, and social welfare schemes
- Defense and administrative expenditures

Efficient tax collection strengthens fiscal discipline, reduces budget deficits, and decreases reliance on external borrowing.

## **Challenges Faced by FBR**

Despite its importance, FBR faces several challenges:

- Narrow tax base and low tax-to-GDP ratio
- Tax evasion and informal economy
- Corruption and lack of public trust
- Complex tax laws and procedures
- Resistance to documentation of the economy

To overcome these challenges, FBR has introduced reforms such as digitalization, tax amnesty schemes, and taxpayer facilitation centers.

## **Importance of FBR**

Without an effective FBR, the government cannot function properly. It is the backbone of Pakistan's fiscal system and a key institution for economic stability and sustainable development.

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### **ii. Securities and Exchange Commission of Pakistan (SECP)**

The **Securities and Exchange Commission of Pakistan (SECP)** is the apex regulatory authority responsible for **regulating the corporate sector and capital markets** in Pakistan. It ensures transparency, investor protection, and healthy growth of the financial system.

## **Historical Background**

SECP was established in **1999** under the **Securities and Exchange Commission of Pakistan Act, 1997**, replacing

the Corporate Law Authority (CLA). The creation of SECP marked a significant shift toward modern corporate governance and financial regulation in Pakistan.

## **Organizational Structure**

SECP operates under the **Ministry of Finance** but enjoys operational autonomy. It is governed by a **Commission** consisting of a Chairman and Commissioners appointed by the federal government. SECP is organized into various specialized divisions, such as:

- Company Law Division
- Securities Market Division
- Insurance Division
- Non-Banking Finance Companies (NBFC) Division
- Enforcement and Legal Affairs Division
- Policy and Research Division

## Functions and Responsibilities

SECP's primary role is to **regulate and supervise** the corporate and financial sectors. Its major functions include:

- Registration and regulation of companies under the Companies Act.
- Regulation of stock exchanges, brokers, and capital markets.
- Protection of investors' rights and interests.
- Regulation of insurance companies and non-banking financial institutions.
- Enforcement of corporate laws and prevention of financial fraud.
- Promotion of corporate governance and transparency.

- Development of capital markets to mobilize savings and investments.

## **Role in Economic Development**

SECP contributes to economic development by:

- Creating a secure and transparent investment environment.
- Encouraging domestic and foreign investment.
- Strengthening capital markets for long-term financing.
- Promoting entrepreneurship and corporate growth.
- Ensuring financial stability through effective regulation

A strong SECP boosts investor confidence, which is vital for industrial growth and economic expansion.

## **Reforms and Initiatives**

SECP has introduced several reforms to modernize the corporate sector, such as:

- E-registration of companies
- Corporate governance codes
- Investor education programs
- Regulatory frameworks for fintech and startups
- Strengthening enforcement mechanisms

## **Challenges Faced by SECP**

Some challenges faced by SECP include:

- Weak corporate compliance culture
- Financial fraud and market manipulation
- Limited investor awareness
- Rapid technological changes in financial markets



Despite these challenges, SECP continues to evolve as a modern regulator.

## **Importance of SECP**

SECP is vital for ensuring **fairness, transparency, and stability** in Pakistan's corporate and financial sectors.

Without SECP, capital markets would lack credibility, and investor confidence would decline, adversely affecting economic growth.

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## **Overall Significance**

Both **FBR and SECP** are cornerstone institutions of Pakistan's economic framework. While FBR ensures **revenue generation and fiscal stability**, SECP safeguards **corporate integrity and financial market development**. Together, they support sustainable

economic development, good governance, and financial discipline, making them indispensable for Pakistan's progress.

### **Q.3 A Business Needs a Suitable Location to Achieve Its Objectives. Explain the Factors That Affect the Location of a Business**

#### **Introduction**

The location of a business is one of the most critical strategic decisions taken by entrepreneurs and management. A suitable business location directly affects **costs, efficiency, sales, profitability, growth, and long-term survival** of an enterprise. Whether a business is small or large, manufacturing or service-oriented, local or multinational, its success largely depends on where it is established.

A wrong location can increase costs, reduce customer access, create logistical problems, and ultimately lead to failure. On the other hand, a well-chosen location can

provide **competitive advantage**, operational efficiency, and sustainable growth. Therefore, understanding the factors affecting business location is essential for achieving business objectives.

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## **Meaning of Business Location**

**Business location** refers to the geographical place where a business sets up its operations such as offices, factories, warehouses, or retail outlets. It includes decisions related to:

- City or region
- Industrial zone or commercial area
- Urban or rural setting
- Domestic or international location

The location decision is usually a **long-term decision** and difficult to change, hence it requires careful evaluation of multiple economic, social, and environmental factors.

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### **Objectives of Choosing a Suitable Business Location**

A business chooses a location to:

- Minimize production and operating costs
  - Maximize sales and profits
  - Ensure smooth supply of inputs
  - Improve customer accessibility
  - Achieve long-term growth and stability
  - Gain competitive advantage
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### **Factors Affecting the Location of a Business**

The major factors influencing the location of a business can be broadly classified into **economic, technical, social, and government-related factors**. These are explained in detail below.

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## **1. Availability of Raw Materials**

### **Explanation**

For manufacturing businesses, the availability and cost of raw materials play a crucial role in location decisions.

Industries that use bulky or heavy raw materials prefer to locate near the source of raw materials to reduce transportation costs.

### **Importance**

- Reduces transportation and handling costs

- Ensures continuous supply of inputs
- Minimizes production delays

#### **Examples**

- Sugar mills near sugarcane farms
- Cement factories near limestone deposits
- Textile mills near cotton-producing areas

#### **Relevance to Pakistan**

Industries in Pakistan such as textile, sugar, cement, and fertilizer are often located close to raw material sources to reduce costs.

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## **2. Availability of Labour**

#### **Explanation**

Labour is a key factor of production. The availability of skilled, semi-skilled, and unskilled labour greatly influences the choice of business location.

#### **Types of Labour Consideration**

- Skilled labour (engineers, technicians)
- Semi-skilled labour (machine operators)
- Unskilled labour (helpers, loaders)

#### **Importance**

- Reduces recruitment and training costs
- Increases productivity
- Ensures operational efficiency

#### **Pakistan's Perspective**

- Urban areas provide skilled labour
- Rural areas offer cheap unskilled labour
- Industrial zones attract labour migration



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### **3. Availability of Power and Utilities**

#### **Explanation**

Modern businesses depend heavily on electricity, gas, water, and internet services. An uninterrupted and affordable supply of utilities is essential for smooth operations.

#### **Importance**

- Reduces production interruptions
- Ensures quality output
- Supports use of modern machinery

#### **Examples**

- IT firms prefer areas with high-speed internet
- Manufacturing units need reliable electricity

## **Pakistan's Situation**

Power shortages have significantly influenced industrial location, forcing businesses to move towards areas with better energy supply or install captive power plants.

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## **4. Transportation and Communication Facilities**

### **Explanation**

Efficient transportation and communication networks are vital for moving raw materials, finished goods, and information.

### **Importance**

- Reduces logistics costs
- Facilitates quick delivery
- Improves market access

## **Types of Transportation**

- Roadways
- Railways
- Ports and airports

## **Examples**

- Export-oriented industries near ports (Karachi, Gwadar)
  - Retail businesses in well-connected urban areas
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## **5. Proximity to Market**

### **Explanation**

Businesses that produce perishable goods or provide services often prefer locations close to their target market.

### **Importance**

- Reduces distribution costs
- Ensures quick customer service
- Helps understand consumer preferences

#### **Examples**

- Retail stores in commercial areas
- Bakeries and restaurants in residential zones

#### **Pakistan's Context**

Large markets like Karachi, Lahore, and Islamabad attract businesses due to dense population and high purchasing power.

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## **6. Cost of Land and Rent**

#### **Explanation**

The cost of land, buildings, and rent significantly affects business location decisions, especially for small and medium enterprises.

#### **Importance**

- High land cost increases fixed expenses
- Affordable land allows expansion

#### **Trade-off**

- Urban areas: High rent, better market access
- Rural areas: Low cost, limited infrastructure

#### **Pakistan's Situation**

Industrial estates are developed to provide affordable land and facilities to businesses.

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## **7. Government Policies and Incentives**

## **Explanation**

Government policies, laws, and incentives strongly influence business location.

## **Types of Incentives**

- Tax holidays
- Subsidies
- Export incentives
- Special Economic Zones (SEZs)

## **Importance**

- Reduces operational costs
- Encourages investment
- Promotes regional development

## **Pakistan's Example**

CPEC-related SEZs have attracted local and foreign investment due to tax exemptions and infrastructure support.

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## **8. Availability of Capital and Financial Institutions**

### **Explanation**

Access to banks, financial institutions, and credit facilities is essential for business operations and expansion.

### **Importance**

- Easy access to loans
- Financial advisory services
- Smooth transaction processing

### **Urban Preference**

Businesses prefer cities where banking and financial services are well-developed.

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## **9. Infrastructure and Industrial Facilities**

### **Explanation**

Well-developed infrastructure such as roads, drainage systems, warehouses, and industrial parks attracts businesses.

### **Importance**

- Reduces setup costs
- Improves operational efficiency
- Enhances safety and compliance

### **Pakistan's Scenario**



Lack of infrastructure in remote areas discourages industrial development.

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## **10. Environmental and Climatic Conditions**

### **Explanation**

Climate and environmental factors affect certain types of businesses.

### **Importance**

- Climate-sensitive industries (agriculture, tourism)
- Environmental regulations
- Availability of water resources

### **Examples**

- Cold storage near agricultural areas
- Tourism businesses in scenic regions

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## **11. Availability of Supporting Industries**

### **Explanation**

The presence of ancillary and supporting industries such as suppliers, repair services, and packaging units influences location choice.

### **Importance**

- Reduces downtime
- Encourages industrial clusters
- Improves coordination

### **Examples**

- Auto industry clusters
  - Textile clusters in Faisalabad
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## **12. Law and Order Situation**

### **Explanation**

Security and law enforcement conditions play a vital role in location decisions.

### **Importance**

- Protects assets and employees
- Ensures uninterrupted operations
- Builds investor confidence

### **Pakistan's Context**

Businesses avoid areas with political instability or security risks.

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## **13. Social Environment and Quality of Life**

### **Explanation**

For service industries and multinational firms, social factors such as education, healthcare, housing, and lifestyle matter.

#### **Importance**

- Attracts skilled professionals
  - Improves employee satisfaction
  - Reduces labour turnover
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## **14. Availability of Technology and Innovation Ecosystem**

#### **Explanation**

Modern businesses prefer locations with access to technology, research centers, and innovation hubs.

#### **Importance**

- Encourages innovation

- Improves competitiveness
  - Supports digital transformation
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## **15. Future Growth and Expansion Opportunities**

### **Explanation**

Businesses consider the potential for future expansion while selecting a location.

### **Importance**

- Availability of additional land
  - Growing market demand
  - Long-term sustainability
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## **Conclusion**

The location of a business is a **strategic decision with long-term consequences**. It directly affects production costs, market access, employee efficiency, profitability, and overall business success. A suitable location helps a business achieve its objectives efficiently, while a poor location can become a major obstacle to growth.

In the context of developing countries like Pakistan, factors such as **infrastructure, energy supply, government policies, security, and market size** play an especially important role. Therefore, businesses must carefully analyze all economic, social, technical, and environmental factors before selecting a location.

A well-planned location decision ultimately leads to **competitive advantage, sustainability, and long-term success**.

## **Q.4 The Government Imposes Taxes on Businesses to Get the Required Revenues for Meeting Its Budgetary Requirements. What Is the Sales Tax, and How Is It Paid? Explain in Detail**

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### **Introduction**

Governments require large financial resources to perform their essential functions such as providing public services, developing infrastructure, maintaining law and order, ensuring national defense, and promoting economic development. To meet these budgetary requirements, governments impose various types of taxes on individuals and businesses. One of the most important and widely used forms of indirect taxation is **sales tax**.

Sales tax is a major source of government revenue in many countries, including Pakistan. It is imposed on the sale of goods and certain services and is usually collected by businesses on behalf of the government. Because of its broad base and ease of collection, sales tax plays a vital role in financing government expenditures.

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### **Meaning and Definition of Sales Tax**

**Sales tax** is an **indirect tax** levied on the sale, supply, or consumption of goods and services. Although it is collected by sellers or registered businesses, the **actual burden of the tax is borne by the final consumer**.



In simple words, sales tax is a tax charged as a percentage of the price of goods or services at the time of sale.

### **Definition**

Sales tax can be defined as:

“A tax imposed by the government on the sale of goods and services, collected by sellers from buyers, and deposited into the government treasury.”

In Pakistan, sales tax is governed by the **Sales Tax Act, 1990** and administered by the **Federal Board of Revenue (FBR)**.

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### **Nature of Sales Tax**

Sales tax has the following characteristics:

- It is an **indirect tax**
  - It is imposed on **goods and certain services**
  - The tax burden is transferred to consumers
  - It is collected at different stages of production or distribution
  - It is a **major source of government revenue**
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## **Objectives of Imposing Sales Tax**

The main objectives of sales tax are:

1. To generate revenue for the government
2. To broaden the tax base
3. To ensure equitable contribution from consumers
4. To regulate consumption patterns

5. To reduce budget deficit

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## **Types of Sales Tax**

Sales tax can be classified into different types based on the stage of collection and method of imposition.

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### **1. Single-Stage Sales Tax**

In this system, sales tax is charged at **only one stage**, usually at the retail or manufacturing level.

#### **Advantages**

- Simple to administer
- Easy to calculate

#### **Disadvantages**

- Encourages tax evasion

- Narrow tax base
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## 2. Multi-Stage Sales Tax

In this system, sales tax is levied at **multiple stages** of production and distribution.

### Advantages

- Wider tax base
- Higher revenue collection

### Disadvantages

- Risk of double taxation
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## 3. Value Added Tax (VAT)

VAT is a modern form of sales tax where tax is charged on the **value added at each stage** of production or distribution.

#### Features

- Input tax credit system
- Tax paid only on value addition
- Reduces tax evasion

Pakistan follows a **VAT-type sales tax system**.

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#### Sales Tax System in Pakistan

In Pakistan, sales tax is imposed under the **Sales Tax Act, 1990**. The standard rate of sales tax is generally **18%**, though reduced rates or exemptions may apply to certain goods and services.

## **Authority Responsible**

- **Federal Board of Revenue (FBR)** for federal sales tax
  - **Provincial Revenue Authorities** for services (e.g., PRA, SRB)
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## **Goods and Services Subject to Sales Tax**

### **Taxable Goods**

- Manufactured goods
- Imported goods
- Locally produced items

### **Taxable Services**

- Telecommunications
- Banking and insurance

- Advertising
  - Transportation
  - Professional services
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## **Registration for Sales Tax**

### **Who Must Register?**

- Manufacturers
- Importers
- Exporters (for refund purposes)
- Wholesalers and distributors
- Service providers above threshold

### **Registration Process**

- Online registration through FBR's portal
- Issuance of Sales Tax Registration Number (STRN)

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## **How Sales Tax Is Paid (Procedure of Payment)**

The payment of sales tax involves several steps, explained below in detail.

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### **1. Charging Sales Tax on Sales**

Registered businesses are required to:

- Charge sales tax at the prescribed rate on taxable supplies
  - Mention sales tax separately on invoices
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### **2. Issuance of Tax Invoice**

A proper tax invoice must include:



- Seller's name and STRN
  - Buyer's name and NTN (if registered)
  - Date of supply
  - Description of goods or services
  - Value excluding tax
  - Amount of sales tax
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### **3. Input Tax and Output Tax**

#### **Input Tax**

Sales tax paid on purchases of raw materials or services.

#### **Output Tax**

Sales tax charged on sales to customers.

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### **4. Adjustment of Input Tax**

Registered businesses are allowed to:

- Deduct input tax from output tax
- Pay only the **net amount** to the government

**Formula:**

$$\text{Net Sales Tax} = \text{Output Tax} - \text{Input Tax}$$

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**5. Filing of Sales Tax Return**

- Sales tax returns are filed **monthly**
  - Filing is done electronically through FBR's online system
  - Returns must include details of sales, purchases, and tax paid
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**6. Payment of Sales Tax**

- Payment is made through authorized banks
  - Using online banking or designated challan
  - Payment must be made **before filing the return**
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#### 7. Sales Tax Refund (If Applicable)

If input tax exceeds output tax:

- The business can claim a refund
  - Common for exporters and zero-rated supplies
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#### Time Schedule for Sales Tax Payment

- Sales tax return is usually due by the **18th of the following month**
- Late payment results in penalties and surcharges

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## **Zero-Rated and Exempt Supplies**

### **Zero-Rated Supplies**

- Export goods
- Tax charged at 0%
- Input tax refundable

### **Exempt Supplies**

- Certain food items
- Agricultural produce
- Education and health services

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## **Advantages of Sales Tax**

1. Broad-based tax
2. Easy to collect

3. Stable source of revenue
  4. Promotes documentation of economy
  5. Less burden on government administration
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### **Disadvantages of Sales Tax**

1. Regressive in nature
  2. Increases cost of living
  3. Encourages inflation
  4. Burden on low-income groups
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### **Role of Sales Tax in Pakistan's Economy**

- Major contributor to government revenue
- Supports public spending
- Helps reduce budget deficit

- Encourages formalization of businesses
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## **Problems in Sales Tax System of Pakistan**

1. Tax evasion
  2. Refund delays
  3. Complex procedures
  4. Low compliance
  5. Informal economy
- 

## **Suggestions for Improvement**

- Simplification of procedures
- Expansion of tax base
- Automation and digitization
- Effective enforcement

- Public awareness
- 

## **Conclusion**

Sales tax is a vital instrument of fiscal policy and an important source of revenue for the government. It is an indirect tax that is collected by businesses but ultimately paid by consumers. In Pakistan, sales tax operates under a VAT-type system, allowing adjustment of input and output tax to avoid double taxation.

Proper implementation of sales tax ensures steady revenue generation, improved economic documentation, and financial stability. However, for sales tax to be effective and equitable, the system must be simplified, transparent, and efficiently administered. A

well-functioning sales tax system plays a crucial role in meeting the government's budgetary requirements and supporting sustainable economic development.



## Q.5 Why Is International Business Necessary? Explain in Detail the Working of an Import–Export Transaction

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### Introduction

In the modern era of globalization, no country can remain economically self-sufficient. Differences in natural resources, technology, labor skills, capital availability, and consumer preferences make **international business** an essential component of economic development.

International business involves the exchange of goods, services, capital, technology, and knowledge across national borders. It enables countries and businesses to expand markets, increase efficiency, and achieve economic growth.

International business is not limited to large multinational corporations; even small and medium enterprises now participate in global trade through imports and exports. Understanding why international business is necessary and how import–export transactions work is crucial for students of business, economics, and commerce.

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## **Meaning of International Business**

**International business** refers to all commercial transactions that take place between two or more countries. These transactions include:

- Import and export of goods and services
- Foreign direct investment (FDI)
- Licensing and franchising

- International banking and finance
- Technology transfer

Among these, **import and export trade** forms the foundation of international business.

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## **Why International Business Is Necessary**

International business is necessary due to several economic, social, and strategic reasons, which are discussed below in detail.

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### **1. Unequal Distribution of Natural Resources**

**Explanation**

No country in the world possesses all natural resources in sufficient quantity. Some countries have abundant oil, gas, minerals, or fertile land, while others lack these resources.

#### **Importance**

- Countries import goods they cannot produce efficiently
- Resources are utilized where they are available
- Promotes global economic cooperation

#### **Example**

Pakistan imports oil and gas, while exporting agricultural and textile products.

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## **2. Differences in Cost of Production**

#### **Explanation**

Production costs differ due to variations in labor wages, technology, land availability, and government policies.

#### Importance

- Countries specialize in goods they can produce at lower cost
- Encourages specialization and efficiency
- Reduces prices for consumers

This concept is explained by the theory of **comparative advantage**.

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### 3. Expansion of Market Size

#### Explanation

Domestic markets are often limited. International business allows firms to sell products beyond national boundaries.

### **Importance**

- Increases sales volume
  - Enhances economies of scale
  - Increases profitability
- 

## **4. Utilization of Surplus Production**

### **Explanation**

Sometimes domestic production exceeds domestic demand.

### **Importance**

- Exports help dispose of surplus goods
  - Prevents fall in prices
  - Maintains production stability
-

## **5. Access to Advanced Technology**

### **Explanation**

Developing countries often lack advanced technology.

### **Importance**

- Importing machinery and technology improves productivity
  - Enhances product quality
  - Promotes industrial development
- 

## **6. Foreign Exchange Earnings**

### **Explanation**

Exports generate foreign exchange, which is essential for:

- Paying for imports
- Servicing foreign debt

- Stabilizing currency

For Pakistan, exports are a major source of foreign exchange.

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## **7. Economic Growth and Employment**

### **Explanation**

International business stimulates industrial activity.

### **Importance**

- Creates employment opportunities
  - Promotes skill development
  - Encourages entrepreneurship
- 

## **8. Improvement in Standard of Living**



### **Explanation**

International trade provides access to a wider variety of goods.

### **Importance**

- Better quality products
  - Lower prices
  - Increased consumer choice
- 

## **9. Strengthening International Relations**

### **Explanation**

Trade builds economic interdependence among nations.

### **Importance**

- Promotes peace and cooperation
- Strengthens diplomatic relations

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## **10. Global Competitiveness**

### **Explanation**

International competition forces businesses to improve quality and efficiency.

### **Importance**

- Encourages innovation
- Enhances global standards

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## **Conclusion on Necessity**

International business is essential for economic development, growth, and global integration. It enables countries like Pakistan to overcome resource limitations,

earn foreign exchange, and participate in the global economy.

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## **Working of an Import–Export Transaction**

An import–export transaction involves several steps, institutions, and documents. The process may vary slightly depending on the nature of goods and countries involved, but the general procedure is explained below in detail.

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### **PART A: Working of an Export Transaction**

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#### **1. Receipt of Export Order**

The export process begins when the exporter receives an order from a foreign buyer. The order specifies:

- Quantity and quality of goods
  - Price
  - Delivery schedule
  - Terms of payment
  - Mode of shipment
- 

## 2. Obtaining Export License (If Required)

Certain goods require government approval or export licenses.

In Pakistan:

- Exporters must register with **TDAP**
  - Obtain NTN and bank registration
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## 3. Pre-Shipment Financing

Exporters often need finance to:

- Purchase raw materials
- Process and pack goods

Banks provide **pre-shipment credit** or **packing credit**.

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#### 4. Production and Packaging of Goods

The exporter:

- Manufactures or procures goods
  - Ensures compliance with quality standards
  - Packs goods according to buyer's specifications
- 

#### 5. Appointment of Clearing and Forwarding Agent

A clearing agent handles:

- Customs documentation
  - Port formalities
  - Shipment arrangements
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## **6. Customs Clearance**

Exporter submits documents to customs, including:

- Shipping bill
- Commercial invoice
- Packing list
- Export license

After inspection, customs grants clearance.

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## **7. Shipment of Goods**

Goods are handed over to the shipping company.

Key document issued:

- **Bill of Lading (B/L)** for sea transport
  - **Airway Bill** for air transport
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## 8. Insurance of Goods

Goods are insured against:

- Damage
  - Loss
  - Theft
- 

## 9. Preparation of Export Documents

Documents include:

- Commercial invoice
- Bill of lading

- Certificate of origin
  - Insurance certificate
  - Letter of credit
- 

#### **10. Negotiation of Documents with Bank**

Exporter submits documents to the bank for:

- Collection of payment
  - Discounting of bills
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#### **11. Receipt of Export Proceeds**

The exporter receives payment through:

- Letter of credit
- Documentary collection
- Advance payment



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## **PART B: Working of an Import Transaction**

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### **1. Trade Enquiry and Order Placement**

Importer identifies suppliers and places an order specifying:

- Price
- Quantity
- Delivery terms

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### **2. Obtaining Import License (If Required)**

Certain goods require import permission.

In Pakistan:

- Importer must have NTN
  - Registration with customs
- 

### **3. Opening of Letter of Credit (L/C)**

Importer opens an L/C through a bank in favor of exporter.

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### **4. Shipment of Goods**

Exporter ships goods and sends documents through bank.

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### **5. Receipt of Documents**

Importer's bank receives documents and informs the importer.

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## **6. Payment to Exporter**

Payment is made according to agreed terms.

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## **7. Customs Clearance of Imported Goods**

Importer submits:

- Bill of entry
- Invoice
- Bill of lading
- Import license

Customs duties and taxes are paid.

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## **8. Delivery of Goods**

After clearance, goods are released and delivered to importer's premises.

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## **Important Documents Used in Import–Export**

1. Commercial Invoice
2. Bill of Lading
3. Letter of Credit
4. Packing List
5. Certificate of Origin
6. Insurance Certificate

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## **Role of Banks in Import–Export Trade**

- Provide trade finance
- Open L/Cs
- Collect payments
- Reduce risk

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## **Conclusion**

International business is necessary for economic growth, resource utilization, and global integration. Import–export trade forms the backbone of international business and involves a systematic procedure supported by banks, customs authorities, and shipping companies.

A clear understanding of the working of import–export transactions helps businesses minimize risks, ensure timely payments, and expand into global markets. For developing countries like Pakistan, international business is not only necessary but essential for sustainable economic development and financial stability.