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**Subject: Working Capital**

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**Q1:Ans Part A**

Sale: when the receivable turnover and credit rejection rate is normal, the sales will be remain constant as there is no change in credit rejection rate.

Profit: The profit will be decline due to loss from high percent of bad debts. The high level of bad debts leads to losses.

**Part B**

Sales: Low credit rejection rate will be increase the sales and there well be no effect of high percentge of the past due accounts on sales.

Profit: The profit will be increase due to low credit rejection rate but will have to bear financing cost due to the high percentge of the past due accounts that will be impact the profitability of the company.

**Part C**

Sales: The high rejection rate will leads to decrease in sales and low percentage of the past due accounts do not impact sales.

Profit: A high rejection rate would conclude in decreases in the sales as well as reduction in the profit while a low percentge of the past due accounts conclude in savings in financing and collection cost which conclude in increase in profits. While high rate of accounts receivables will conclude in less time for the collection of receivables causes less time for financing of working capital.

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**Q2: Ans**

**CREDIT APPLICANT-SOURCES OF INFORMATION**

A number of services supply credit information on businesses, but for some accounts, especially small ones, the cost of collecting this information may outweigh the potential profitability of the account. The firm extending credit may have to be satisfied with a limited amount of information on which to base a decision. In addition to cost, the firm must consider the time it takes to investigate a credit applicant. A shipment to a prospective customer cannot be delayed unnecessarily pending an elaborate credit investigation. Thus, the amount of information collected needs to be considered in relation to the time and expenses required. Depending on these considerations, the credit analyst may use one or more of the following sources of information.

**Financial Statements**

At the time of the prospective sale, the seller may request financial statements, one of the most desirable sources of information for credit analysis. Frequently, there is a correlation between a company refusal to provide statements and a weak financial position. Audited statements are preferable. When possible, it is helpful to obtain interim statements in addition to year-end ones, particularly for companies having seasonal patterns of sales.

**Credit Ratings and Reports**

In addition to financial statements, credit ratings are available from various credit reporting agencies.

A leading credit reporting agency credit reports containing a brief history of a company and its principal officers; the nature of the business; certain financial information; and a trade check of suppliers, including the length of their experience with the company and whether payments are discount, prompt, or past due. The quality of the leading credit reporting agency report varies with the information available externally and the willingness of the company being checked to cooperate with a leading credit reporting agency reporter. The report itself can be accessed via a computer terminal if so desired.

**Bank Checking**

Another source of credit information for the credit analyst checking on a particular firm is the firm bank. Most banks have credit departments that will provide information on their commercial customers as a service to those customers seeking to acquire trade credit (credit granted from one business to another). By calling or writing a bank in which the credit applicant has an account, the analyst can obtain information, such as average cash balance carried, loan accommodations, experience, and sometimes more extensive financial information. What is provided is determined by the extent of the permission given by the bank customer. In exchanging credit information, most banks follow guidelines adopted by Robert Morris Associates (RMA), the national association of bank loan and credit officers. Both the RMA Code of Ethics and the Statement of Principles describe how to respond to requests for commercial credit information, whether they are received in writing, by telephone, or by fax.

**Trade Checking**

Credit information is frequently exchanged among companies selling to the same customer. Through various credit organizations, credit people in a particular area become a closely knit group. A company can ask other suppliers about their experiences with an account.

**The Company Own Experience**

A study of the promptness of past payments, including any seasonal patterns, is very useful. Frequently, the credit department will make written assessments of the quality of the management of a company to whom credit may be extended. These assessments are very important, for they pertain to the original three of credit analysis: character (creditor willingness to honor obligations), capacity (creditor ability to generate cash to meet obligations) and capital (creditor net worth and the relationship of net worth to debt). The person who made the sale to a prospective customer can frequently offer useful impressions of management and operations. Caution is necessary in interpreting this information because a salesperson has a natural bias toward granting credit and making the sale.

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**Q3: Ans Part A**

Terms of trade (TOT) represent the ratio between a country's export prices and its import prices.

When more capital is leaving the country then is entering into the country then the country’s TOT is less than 100%. When the TOT is greater than 100%, the country is accumulating more capital from exports than it is spending on imports.

A trade credit is a business-to-business (B2B) agreement in which a customer can purchase goods on account without paying cash up front, paying the supplier at a later scheduled date. Usually businesses that operate with trade credits will give buyers 30, 60, or 90 days to pay, with the transaction recorded through an invoice. Trade credit can be thought of as a type of 0% financing, increasing a company’s assets while deferring payment for a specified value of goods or services to some time in the future and requiring no interest to be paid in relation to the repayment period.

**Key Points**

Trade credit is a type of  commercial financing  in which a customer is allowed to purchase goods or services and pay the supplier at a later scheduled date.

Trade credit can be a good way for businesses to free up cash flow and finance short-term growth.

Trade credit can create complexity for financial accounting.

Trade credit financing is usually encouraged globally by regulators and can create opportunities for new financial technology solutions.

**Sec part of question**

In my opinion Pakistan should focus on agriculture sector because Pakistan is a country which is blessed with the quality products. If you look at the exports, it has some top and exceptional products which are knowable in international market.

Pakistan is a land of many natural resources and provides amazing products. Pakistan has many bilateral contracts with other countries. Every country is blessed with some unique products which become the cause to increase the export.

Pakistan exports the **high grade rice**  to the other countries, Oman, UAE, Kenya, Thailand, Jordan, USA, UK, Gulf countries and many others. Basmati crop is the most famous product in other markets. Pakistan exported 4.097 million metric tons rice this year during the period of June -July. Exports in rice are improving gradually which is a satisfied progress in country’s economy. For more success in export of rice, the members of REAP (rice exporters association of Pakistan) are working more aggressively. Now china is becoming the importers for rice.

**Mango** the king of fruits is the most favorable fruit in every corner of the world. If we say Pakistan is the king in the production of mangoes, it won’t be wrong. Pakistan produces 110 [kinds of mangoes](https://bit.ly/2XT4aAE) including dasehri, chaunsa, langra, sindhri, anwar ratool, saroli, fajri. Mango is 2nd largest crop and 2nd largest exported fruit from Pakistan. If we look worldwide Pakistan ranks on number 5th in the production of mangoes.

In Pakistan, exceptional quality **kinnows** are produced in Sargodha. They are best in taste and quality. Pakistan has exported around 350,000 tons of kinnow during the current season, registering an increase of 5% as compared to the 335,000 tons exported in the previous season. Pakistan exports high grade kinnows toRussia, Philippine, Iran, Sri-Lanka, Indonesia, Singapore, Saudi Arabia, Canada, Bangladesh, Malaysia, and the UAE.

**Cotton** Fiber, Spun Cotton, and Raw Cotton are exported as the top cash crop of Pakistan. Pakistan additionally exports **cotton merchandise**  like cotton yarn, readymade garments, knitwear, cotton cloths, bed wear, and towels. Pakistan export cotton to China, Germany, USA, UK, France, Russia, Italy, Spain, Canada, Brazil, Australia, Netherlands and many other different countries.

So for land trading agriculture is best.

**Q3: Part B**

This is one of the payment term used in purchasing goods or selling good. It helps cash flow and reduce credit. This are not commonly used in a lot of companies.

An applicable 2% discount if payment made within 10days otherwise normal payment term will be applied which is 60days term. This will reduce accounts receivable in long term basis and assist cash flow.

The 2/10 net 30 discount makes no statement on the payment of bills  beyond 30 days. Vendors may or may not have a late payment penalty for such customers. It is up to the discretion of the purchaser to decide the best method of closing account payable  when 2/10 n 30 is available.

Yes it will not effect our sale but it effect our liquidity If we can’t pay in 10 days, if we pay in 10days it will give us 2% discount otherwise we will be charged for full payment.

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**Q4: Ans Part A**

**Floating liens**

A floating lien (floating charge) is a method that businesses use to obtain financing, collateralized by short-term current assets rather than particular fixed assets.

In retail, floating liens may be secured by inventories or accounts receivable.

Floating liens may be converted into fixed charges via a process of crystallization. This typically will only occur if a bank defaults or enters bankruptcy.

**Trust receipt**

A trust receipt is a notice of the release of merchandise to a buyer from a bank, with the bank retaining the ownership title of the released assets.

In an arrangement involving a trust receipt, the bank remains the owner of the merchandise, but the buyer is allowed to hold the merchandise in trust for the bank, for manufacturing or sales purposes.

The trust receipt serves as a promissory note to the bank that the loan amount will be repaid upon sale of the good.

## **Chattel Mortgages**

The movable property, or chattel, guarantees the loan, and the lender holds an ownership interest in it.

Chattel mortgages are frequently used to finance mobile homes that are situated on leased land, as well as certain types of business equipment.

These loans typically come with higher interest rates than traditional mortgages.

**Q4: Ans Part B**

As A Bank Manager Secured loans require the borrower to pledge specific assets as collateral, or security. The secured lender can legally take the collateral if the borrower doesn’t repay the loan. Commercial banks and commercial finance companies are the main sources of secured short-term loans to business. Borrowers whose credit is not strong enough to qualify for unsecured loans use these loans. Typically, the collateral for secured short-term loans is accounts receivable or inventory. Because accounts receivable are normally quite liquid (easily converted to cash), they are an attractive form of collateral. The appeal of inventory—raw materials or finished goods—as collateral depends on how easily it can be sold at a fair price.

Another form of short-term financing using accounts receivable is factoring. A firm sells its accounts receivable outright to a factor, a financial institution (often a commercial bank or commercial finance company) that buys accounts receivable at a discount. Factoring is widely used in the clothing, furniture, and appliance industries. Factoring is more expensive than a bank loan, however, because the factor buys the receivables at a discount from their actual value.

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