December 2018

ECO-01 Business Organisation

PART - A

1. Attempt any four of the following : 5+5+5+5

(a) Enumerate the essentials of an effective advertisement.

Ans: The essential characteristics of a good advertisement may be divided into two broad categories:

1) Features relating to the message

2) Features relating to consumer reach

Features Relating to the Message

Desirability: The message should say something desirable and interesting about the product. Otherwise, the advertisement may fail to induce the customers to buy the product.

Exclusive: Customers should know how the product advertised is better than the other products. So, the advertisement message should point out the unique features of the product. In other words, it should say something exclusive or distinctive about the product which does not apply to any other brand in that product category. Then only people may realise why and how the product is better than others.

Believable: Whatever is stated in the message should be believable. For instance, if the message conveys imaginary qualities of any product, people will never take the advertisement seriously. The message should actually compare with the product which the customer may verify so as to be convinced. Therefore, the message should be believable and provable.

Attractive: If the message is attractive, it will draw the attention of the customers very easily. If the message is not catchy, it will not have any effect on the minds of people. Therefore, such words or pictures which may draw the attention of customers should be used in the advertisement.

Memorable and easy to recall: The message should be easy to remember, so that it may be easy to recall it. Whenever customers go for shopping, the advertisement message should come to their mind and remind them about the product. Therefore, the words used in the message should be easy to memorise and recall.

Features Relating to Consumer Reach

Appropriate media: The advertisement message should be presented through the media to which the target customers have access. For example, if the majority of the target customers do not have television sets, the message presented by TV transmission will not reach them. Similarly, if the majority of customers are illiterate, the message presented in newspapers may not reach them. So, the use of appropriate media is highly important for the effectiveness of advertisements.

Frequency: Frequency refers to the number of times any advertisement is repeated within a specified period of time. It also refers to the time gap between two or more advertisements. In other words, it refers to how many times and at what intervals the advertisement is repeated. The main purpose of repetition is to keep the message alive in the memory of the customers. If the frequency is less, people may not remember the message. If the frequency is more, people may get irritated and may stop giving attention to it. So, the frequency should be optimum.

Timing: The specific time of advertising the message is an equally important aspect ' of advertisement. For example, if the advertisement appears on the T.V. when most of the customers are not viewing it, the effect will be much less as compared with the effect when a majority of the customers are viewing the T.V. programme. Hence, the timing of the advertisement should be so determined that it may reach the majority of customers.

(b) Briefly explain the services provided by retailers to consumers.

Ans: Services of retailers to consumers are:

i) Holding ready stocks : By holding stocks, retailers supply varieties of goods of daily use to consumers.
ii) Display of goods : By displaying goods on shelves or in show-cases, retailers bring new products to the notice of customers. They also keep the customers informed about the latest varieties of goods available for sale by explaining their qualities and prices. Customers are also given demonstration of new products on the sales counter.

iii) Advice to consumers : Very often retailers help the customers to make their decision to buy certain goods by advising them on the merits and use of particular varieties of products.

iv) Personal services : Apart from meeting the needs of different types of customers, retailers also offer a variety of services like home delivery, sale on credit, etc.

(c) List out the factors affecting the capital structure of a firm.

Ans: Factors determining the capital structure of a firm are:

1.Nature of the business: If a company is engaged in business activities in which sales are subject to wide fluctuations, it is desirable to have a smaller proportion of borrowed funds. Companies manufacturing televisions, refrigerators, machine tools and capital goods are normally subject to fluctuations in sales from time to time. Companies dealing in essential consumer goods of daily use are products having inelastic demand generally have stable earnings, and thus may depend to a greater extent on borrowed capital.

2. Characteristics of the company: The size of a company as well as its credit standing also determines the extent to which equity or debt capital should be raised. Small firms have to depend more on owners' funds as it is difficult for them to raise long-term loans. This is because investors consider lending to small firms to be riskier. In contrast, large companies must make use of different sources of raising funds as no single source can meet their total financial requirements. Normally investors prefer to lend money to large companies as they believe that their money is safe and the risk is less with big business firms.

3. Cost of finance: Since interest paid on borrowings is chargeable to profits before tax calculation, the cost of debt financing is inevitably lower than the expected rate of earnings (i.e., profitability) on equity capital. Hence, it is always beneficial to raise part of the total financial requirement through long-term loans. With lower cost of debt financing, the overall (average) cost of financing is reduced, and the return on equity capital is higher. This is one of the important determinants of the capital structure.

4. Flexibility of capital structure: The capital structure decision is usually made by management keeping in view their ability to adjust the sources of funds. The scope of changing the capital structure in future happens to be a basic consideration. For instance, in case additional funds are needed, a firm which is already financed with heavy debt may be forced to issue equity shares with a higher cost of finance involved. Or, again if funds raised are to be refunded on account of declining business, a firm may be unable to do so if it earlier relied heavily on equity capital.

5. Availability of cash (cash flow): The ability of a business to discharge its fixed obligations depends essentially on the availability of liquid cash. Profits earned may be adequate to cover the fixed charges arising out of debt, but the firm may not have sufficient cash to pay as the income gets continually invested in the form of more inventory, book debts or even purchase of equipment. Hence, besides profitability, it is necessary to estimate the cash flows before deciding on the proportion of debt in the capital structure.

6. Expected earnings in relation to interest charges: Another factor determining debt-equity ratio is the estimated coverage of interest by profits. If the average earnings of the company are expected to be three to four times the amount of interest payable on borrowed capital, it may be considered safe to raise long-term loans rather than equity capital. Three to four times coverage of interest by earnings is regarded as a reasonable assurance that interest payment would be possible even if profits decline substantially.

7. Effect of debt financing on the earnings per equity share: The effect of debt on the rate of return on equity (or earning per share) is known as 'trading on equity' or 'leverage effect', Thus in business ventures with assured prospect of rising income, there is greater emphasis on debt capital in the capital structure.

8. Management control: Promoters who had major shareholding and control the management of the company take into account the probable effect of raising funds through the Issue of equity shares. Equity shareholders having voting rights can influence the policy decisions of the company or the selection of directors. But the persons who give loans do not have any right to elect directors or to participate in the management of the company. Hence the existing management group, in order to retain their control over management, prefer to raise additional finance through the issue of debentures and preference shares.

(d) Distinguish between 'Entrepreneur' and 'Promoter'.

Ans: Difference between Entrepreneur and Promoter:

Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. The entrepreneur is someone who comes up with the idea/solution and/or develops a business around it. Those who take steps to set up the business and make it operational are known as 'promoters'. Entrepreneurs may or may not be specialists in the field of business. Promoters are basically specialists who work to set up a new business, expand an existing business or combine two or more business firms. An entrepreneur can be a promoter but a promoter may or may not be an entrepreneur. In actual practice, such distinction does not hold well because Entrepreneurship (act of Entrepreneurs) does not remain confined only to identifying a business opportunity and his preparedness to do something new. It does not end with the entrepreneur undertaking to bear the risks of business. It also extends to planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. An entrepreneur is basically someone who has founded the company. A promoter, on the other hand, is someone who promotes the business. An entrepreneur is fully responsible for the company's success or failure. Promoter is responsible for getting others to invest into the business venture.

(e) Explain the benefits of containerisation for transportation of goods.

Ans: Containerisation refers to the technique of using specially made containers for transportation of goods. It involves carriage of goods in large box like containers that can be loaded and unloaded to and from trains, trucks, ships and air crafts by mechanical devices instead of manual labour being engaged in transferring packaged lots. Containerisation is intended to eliminate manual handling of cargo, mechanising the operation and ensuring automatic control over transfer of goods in containers from storage to carriers and from one type of carrier to another. Containers can be hauled by trucks to railway yards, docks or airports and can be transferred readily to rakes, flatcars, ships or airplanes, thus, the main advantage of containerisation is its adaptability to efficient transfer between different modes of transportation. The transfer can be made by mechanical devices with minimum use of manual labour. For sea transport, operation of larger and faster general cargo vessels has become possible due to containerisation. Specialised container ships are required for the purpose, and it involves heavy capital expenditure. Even then it is found economical since loading big containers is easier, less time consuming and less costly compared with loading of small boxes or pieces. Movement of cargo by air may also be possible more conveniently with the prospect of containerisation enabling goods to be loaded and unloaded using highly automatic mechanical devices. However, it remains to be seen whether it is economically feasible to operate huge air freighters which are required to cany containerised cargo. In the West European countries and the United States, containerisation has become an integral part of the transport system. It is gradually gaining ground in India. At present Inland Container Depots (ICDs) serve as dry ports to promote exports and imports from and to inland locations.

(f) State the features of public utilities.

Features of public utilities are:

1) Indispensability: Public utilities deal with essential services such as water, gas, light, power, transport, telephone, telegraph, postal services, etc. These services are required to meet basic needs of the community and to provide a civilised and comfortable life to every citizen irrespective of caste and creed. Therefore, these services must be made available regularly, uniformly and adequately. That is why these public utilities are indispensable in all modem societies.

2) Field of operation: The field of operation of public utility undertakings is mostly local. Such concerns fulfil the needs of the citizens, usually of a city, town or at the most of a district. Fo; example, Delhi Milk Supply Undertaking or Mother Dairy supplies milk through its booths at various localities to the people living in Delhi only.

3) Monopolistic or semi-monopolistic position: Undertakings supplying essential public services by nature assume the position of a monopoly. They do not have competitors. You can take the example of Delhi Electric Supply Company. It does not have any competitors for supplying electricity to the residents of Delhi. If another undertaking is involved in the same operation in the same town, equal

amount of money is required which is a waste. To avoid any such wasteful expenditure, monopoly is given to public utilities. However, some public utilities may have a few competitors. Take the case of milk supply in Delhi. Mother Dairy supplies the milk. But Delhi Milk Supply Undertaking or Nanak Milk Supply Company also supplies milk in Delhi. Therefore the position enjoyed by Mother Dairy is semimonopolistic.

4) Regulation and control : These undertakings enjoy a monopolistic or semi-monopolistic position. So, they are in a position to misuse it and exploit the customers. For instance they may supply poor quality goods, services may be irregular, may charge high prices, etc. The government has to ensure the quality of the products or services at reasonable prices. Public is to be assured of regular and adequate supply of services and goods without discrimination. Therefore, it is essential to regulate their working as well as the price and supply policies of public utilities. Regulatory powers of the government in respect of these undertakings are provided in Special Acts of the legislature.

5) Franchise: Public utilities operate under franchise i.e. the right to interfere with public property (land, buildings, roads, etc.) for proper functioning. For example, the railways which is a public utility undertaking, can put up barriers on roads restricting movement of traffic across railway track at level crossings. Similarly, water supply undertakings can dig pits across the roads whiIe laying water pipes, and so on. The government grants special rights as well as casts duties and responsibilities on these concerns through a charter which is called franchise. The franchise or charter contains the powers, privileges and rights granted to these undertakings as well as duties and liabilities for which these undertakings are accountable. This is done to ensure their working efficiently and satisfactorily. The franchise can be withdrawn if the undertaking does not comply with the regulations and resttictions subject to which the franchise is issued.

6) Huge capital investment: These undertakings require huge capital investment in fixed assets. Take the case of Mother Dairy which supplies milk in Delhi. For supply of milk . to its consumers it has to set up a milk plant, storage plant, and large fleet of vans1 tankers. It has also to construct depots for distribution of milk at various places in different localities of Delhi. Then, it has to monitor the distribution of milk to its consumers properly. Thus, all the public utilities invest huge amount of capital in fixed assets.

7) Risk involved: The degree of risk involved in the business carried out by the public utilities is less as compared with other industries. This is because the demand for essential goods and services is not likely to fall, rather it is likely to increase over time. For instance, the demand for water, gas, milk, electricity, etc., is not likely to fall but increase since the population is increasing continuously year after year.

8) Non-transferable demand by the consumer: The demand of the consumer is nontransferable. If a consumer is provided electricity at his house, he cannot transfer his right of using electricity to his neighbour. Every consumer is to obtain the supply separately after fulfilling the rules and regulations of the undertakings.

9) Choice of site: The promoters of public utilities do not have much choice in the selection of site for the undertaking. They have to locate their enterprise as per the permission granted to them by the concerned authorities. They have to operate as per . the prescribed local conditions and regulations.

10) Size of the undertaking: These undertakings are required to be set up on a sufficiently large scale so as to meet the demand of the public of that locality. Moreover, the size of the unit must be large enough to make it possible for the undertakings to supply the service continuously at economical rates.

PART – B

Attempt any three questions :

2. Explain the financial performance of public enterprises in India. 10

The profitability of public enterprises is inadequate. The total net profit (before payment of tax) and the total capital employed for all the 2 14 Central government enterprises is presented in the Table below:

Total Profit Earned an2 Capital Employed by the Central Government Public Enterprises during 1984-87

Particulars	Years		
	1984-85	1985-86	1986-87
Capital Employed	36,382	42,965	51,931
Profit Before Tax	2,099	2,173	3,095
Profit as a Percentage on Capital	5.8	5.1	6.0

Further, we have to note the fact that bulk of the profit is earned in the petroleum, power and telecommunication sectors which have large elements of monopoly. Look at the Table 16:4 carefully. It presents sector-wise details of after tax profit loss made by 214 Central government public enterprises.

Group-wise Performance of Public Enterprises during **1986-87**

S.No.	Group	No. of Enterprises in the Group	Net Profit or Loss (Rs. in Crores)
1)	Steel	6	(-) 26.4
2)	Minerals & Metals	14	2.0
3)	Coal'	7	(-) 331.0
4)	Power	3	233.8
5)	Petroleum	12	2,142.1
6)	Chemicals & Fertilizers	28	(-) 146.3
7)	Heavy Engineering	16	8.9
8)	Medium & Light Engineering	20	54.8
9)	Transport Equipment	13	(-) 50.6
10)	Consumer Goods	16	(-) 141.1
11)	Agro-based Products	5	(-) 4.0
12)	Textile	14	(-) 189.6
13)	Trading & Marketing	19	40.4
14)	Transportation Services	9	(-) 55.6
15)	Contracts & Construction	7	(-) 27.5
16)	Industrial Development & Technical Consultancy	11	2.9
17)	Development of Small Industry	1	(-) 0.3
18)	Tourist Services	2	(-) 0.8
19)	Financial Services	5	38.3
20)	Telecom. Services	2	201.8
21)	Non-Commercial Public Enterprises Under Section **25** of the Companies Act	4	17.2
	Total	214	1,769.1

(-) indicates loss.

3. "All business risks are not insurable". In the light 6+4 of this statement, explain insurable risks and non-insurable risks.

Ans: Those risks which can be covered up by some type of insurance policy are called insurable risk. Insurable risks are risks in which the insurance provider can calculate potential future losses or claims. The loss causing factor should not be within the control of the insured in the case of insurable risk. Risks due to war (except cargo at sea) and certain risks such as radio activity arising from nuclear fusion are non-insurable risk. The characteristics of the insurable risks are as follows:

i. The risk should be accidental or random in nature. The loss causing factor should not be within the control of the insured. Thus, the loss which has occurred already or which is very likely to occur cannot be insured. For instance, a building which is on fire or which is already destroyed by fire cannot be insured against fire.

ii. The amount of loss should be measurable and possible to estimate. This condition is necessary to set the premium at appropriate levels.

iii. There should be a sufficiently large number of units exposed to the same risk. In other words, there must be a large number of people interested to insure against the same risk.

iv. The units facing the same risk must be spread over large geographical area. In other words, the risk must be spread over a wide geographical area so that the happening of a single event in a small region may not cause heavy burden to the insurer.

Whereas those risks which cannot be covered up by some type of insurance policy are called Noninsurable risk. Non-insurable risks are risks which insurance companies cannot insure because the potential losses or claims cannot be calculated. The risk should be accidental or random in nature. The risks which do not fulfill the above mentioned (characteristics of insurable risks) characteristics are noninsurable risks. Non-insurable risks include:

i. Risks due to war(except cargo at sea) and certain risks such as radio activity arising from nuclear fusion.

ii. Risks incapable of measurement such as unforeseen changes in fashion, marketing of new products etc.

iii. Risks too small and recuring too frequently, or risks so large and recurring so infrequently.

4. Define the term 'business' and explain its essential features. 2+8

Ans: Business refers to the human activities engaged in production and/or exchange of want satisfying goods and services carried with the intention of earning profits.

Any activity carried primarily with the object of earning profit can be called a business activity. This objective of earning profit is achieved by production and/or exchange of want satisfying goods and services. Therefore, we can define business as "any activity concerned with the production and/or exchange of want satisfying goods and services carried with a view of earning profit". Production of soaps, sale of eggs, production of TV sets, transport, etc., are some examples of business.

Five broad features of business are:

* Dealings in goods and services: Business deals with goods and services. The goods may be consumer goods such as sweets, bread, cloth, shoes, etc. They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible goods.

* Production and/or exchange: An economic activity is called a 'business' only when there is production or transfer or exchange or sale of goods or services for value. If goods are produced for self consumption or presentation as gift, such activities are not to be treated as business. In a business activity, there are two parties i.e., a buyer and a seller. Such activity should concern with the transfer of goods or exchange of goods between a buyer and a seller. The goods may be bartered or exchanged for money.

* Continuity and regularity in dealings: A single transaction is not treated as business. An activity is treated as business only when it is undertaken continually or at least recurrently. For example, if a person sells his residential house, it is not considered as business. If he repeatedly buys houses and sells to others, such activity comes under business. But how frequently the transaction should occur depends on the nature of the activity.

* Profit motive: Earning profit is the primary motive of business. A business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.

* Element of Risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks. (I) Risks whose probability can be calculated and can be insured. Losses due to fire, floods, theft, etc., are some examples. (2) Risks whose probability

cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely born by the enterprise.

5. Describe 'factoring' and 'discounting of bills of exchange' as methods of raising short-term finance. 5, 5

Ans:

Factoring: The amounts due to a company from customers on account of credit sale generally remain outstanding during the period of credit allowed i.e., till the dues are collected from the debtors. By this arrangement the responsibility of collecting the debtors' balances is taken over by the bank on payment of specified charges by the company. This is a method of raising short-term capital and known as 'factoring'. It helps companies to secure finance against debtors' balances before the debts are due for realization, and incidentally also helps in saving the effort of collecting the book debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

Discounting bills of exchange: Discounting of a bill of exchange is a method of short-term financing provided by banks. When goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. The bills so drawn are payable after 3 or 6 months depending on the prevailing practice among traders. Discounting of the bill refers to the encashment of the bill before the date of its maturity. Instead of holding the bills till the date of maturity, companies generally prefer to discount them with commercial banks on payment of a charge known as bank discount. This process of encashing the bill with the bank is called discounting the bill. Bills are endorsed in favour of the bank so that the bank gets the amount from the drawee on the due date. The amount of discount is deducted from the value of bills at the time of discounting. The rate of discount to be charged by banks is prescribed by the Reserve Bank of India from time to time. It really amounts to the interest for the period from the date of discounting to the date of maturity of the bill. If any bill is dishonoured on maturity, the bank returns it to the company which then becomes liable to pay the amount to the bank. The cost of raising finance by this method is the discount charged by the bank.

6. Explain the objectives of advertising. 10

Ans: Objectives of advertising are:

1. Introduction of new products : : Manufacturers introduce new products from time to time so as to compete with other manufacturers who might have succeeded in winning W over customers of the existing product. Advertising the new product is necessary so that consumers know about the introduction of the product, its usefulness, where it may be available, how to get more information about the product, etc. Indeed, advertising is highly important to promote the sale of new products.

2. Inducing potential customers to buy : Another important objective of advertising - to induce potential customers to buy the product. Advertising is one of the best means by which the sale of an existing product can be increased. For this purpose, the advertisement should emphasise the usefulness of the product, its quality, price advantage, etc., so as to win over potential buyers and make them actual buyers. If the product is so advertised, traders expect sales to increase and keep larger stocks for sale. Thus, advertising leads to immediate buying action among customers as well as traders.

3. Reminding users : In a competitive market new products are introduced quite frequently by different firms. All these products are advertised in the market. As a result, old brands are likely to be forgotten by the consumers. To offset this fissibility, manufacturers continue to advertise their products to maintain the buyers' interest. Thus, advertisements are also designed to. serve as a reminder to existing customers.

4. To create brand image : Business firms very often advertise for establishing an image for the product (brand) and create customer loyalty for that product. When customers develop brand loyalty, they are not inclined to shift to other brands easily. This objective of advertising has great significance in the case of well-known manufacturers of products.

5. To intimate customers about new uses of a-product : Advertising is sometimes used to convey new uses of an existing product to the customers or to draw their attention to some new features of the product. The basic objective of advertising in this case is to convince the customers about the superiority of a product in comparison with other products in the same line.

6. To highlight brand character : For certain products. consumers feel that a particular characteristic is very important. Its existence determines the buyers' choice of a particular brand out of several brands. If the product has that feature, advertising is used to stress it and demonstrate its advantages. Similarly, if the product has a special feature which is linked with a desirable consumer benefit, advertising is used to ernphasise it.

7. Dealer support : Sometimes the aim of advertisement is to provide support to dealers and distributors. Thus, there are many advertisements in newspapers, in which the list of dealers and distributors are mentioned along with the particulars of the product.

8. Trafficking the retail trade : On certain occasions, the objective of advertisement is to increase retail sale through off-season or special festival discounts, gift schemes, clearance sales, etc. The objective of such advertisements is to draw the attention of customers towards the special offers.

9. Miscellaneous : In some cases the objective of the advertisement is to inform the customers in remote areas which are not accessible to salesmen. Similarly, it is also aimed at informing customers in far off places or outside the country about new products.

7. (a) Discuss how does a letter of credit help in financing foreign trade. 5

Ans: A safer and quicker method of obtaining payment is that of documentary credit whereby the importer arranges for a bank to open a letter of credit in favour of the exporter. In a letter of credit, the importer's bank branch gives a written undertaking to the exporter that if the exporter presents certain documents relating to the shipment of the goods within a fixed period, the bank will honour the bill of exchange drawn under the credit upto the amount specified in the letter of credit. In both the cases, the necessary documents along with the bill of exchange drawn on the importer are sent to the importer through the exporter's bank. The negotiating bank scrutinizes the documents and thereafter sends the bill of exchange, bill of lading, insurance policy and other documents to the importer's bank for discharge of payment. If the bill is payable at sight, the exporter receives his money immediately. If it is payable certain number of days after sight or date, the bank accepts it and the exporter discounts it.

Depending upon the terms of the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued.

A bank may issue any of the following types of letter of credit.

1) Revocable letter of credit: It can be withdrawn or altered or revoked at the discretion of the issuing bank without the prior consent of the exporter.

ii) Unconfirmed irrevocable letters of credit: It cannot be cancelled or altered or withdrawn by the issuing bank prior to the date of expiry, without the consent of the exporter and is thus much safer.

iii) Confirmed irrevocable letters of credit : The irrevocable letter of credit shall be more safe if it is confirmed or guaranteed by a bank. With a confirmed irrevocable credit, the bank must pay the exporter, whatever happens to the importer or the foreign bank.

(b) Narrate the shipping documents required to be submitted along with a documentary letter of credit. 5

Ans: ECO-01 Solved Question Paper In a letter of credit, the importer's bank branch gives a written undertaking to the exporter that if the exporter presents certain documents relating to the shipment of the goods within a fixed period, the bank will honour the bill of exchange drawn under the credit upto the amount specified in the letter of credit. In both the cases, the necessary documents along with the bill of exchange drawn on the importer are sent to the importer through the exporter's bank. The negotiating bank scrutinizes the documents and thereafter sends the bill of exchange, bill of lading, insurance policy and other documents to the importer's bank for discharge of payment. If the bill is payable at sight, the exporter receives his money immediately. If it is payable certain number of days after sight or date, the bank accepts it and the exporter discounts it.