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Business Finance
Assignment - 2

1. Liquidity Preference refers to the preference of investors to hold liquid assets rather than securities or long-term interest bearing investment.

eg: Investors prefer cash or other highly liquid holding

2. → Yes, there are changes when the companies are listed in the Indian stock Market.
→ They can ~~decrease~~ decrease their dividend as they can now invest the money in the market.
→ They can opt. for scrip / stock dividend also.
→ The name of company can also get great fame.
→ Conflicts can be solved by same decision.

3. Factor influencing the dividend policy.

★ Stock Market
→ Significant adverse reactions to announcement of dividend can be displayed.

★ Cash reserve
→ Complanies having large cash reserve accumulate over the year fear a takeover bid it hence

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may wish to distribute profit thereby increasing shareholder loyalty & limit the size of cash.

• Growth Opportunity

→ Companies have a demand to capital investment to be in the competition. These exceeds their borrowing abilities & hence they prefer to pay low dividend, rather than making right issue.

• Tax

→ Non tax paying shareholder will want that companies distribute large amount of earning in dividend.

• Stability & Consistency

→ Companies with high dividend policy atract investor seeking high growth.

4. (i) Sole Proprietership

• Ownership

→ Owned, managed & controlled by an individual who is the recipient of all profit & bearer of all risk

• Liability

→ Unlimited liability

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- legal Status

→ No specific documentation is required for this business

ii) Partnership

- Ownership

→ This is business which is owned by more than one person, in equal & unequal propotion.

- liability

→ Unlimited liability of all the partner.

- Legal status

→ Most of the partnership have partnership agreement

iii) Limited company

- Ownership

→ It is a business which has a seperate legal identity from the owners. Shareholder are owner of the company.

- Liability

→ The owner's liability is to fully paid value of their share.

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- Legal status

→ They have memorandum of Association & Article of association.

iv) Limited liability partership

- Ownership

→ In this two or more members engage in a profit making venture.

- Liability

→ liability of all member is limited.

- Legal status

→ No MOA & AOA are required.

5. The individual should opt for sale propriter-ship instead of floating a limited company as the former pays less taxes. This is because a corporation is treated as a seperate entity meaning that it has to pay state as well as federal taxes on the money it earn.

6. Modigfani & Miller's irrelevance proposition suggest that make value of a company is

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independent of its capital structure. They beleive that the market value of a company is determined by its investment decision & not by its financing decision.

(7) Working capital is the cash or other liquid assets that a ~~company~~ business uses to cover day to day operation like paying bills & payrolls of employees. It is the difference between a company current asset & liability

(8). Economics of scale refers to the proportionate saving in cost gained by an increased level of production. This can be done by buying inputs required for the production process in bulk or hiring more skilled & experienced manages to overlook the production or using advance & better technology & getting rid of the obsolete.

(9). If a pension fund or investment company must report its financial position every year, it may be more averse to very short term investments losses than if it had to report only every three years. It might therefore resut in the fund investing less heavily in equities, and possibly also in long term bonds.

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10. Scenerio 2 is preffered over 1 as in the first case. It potentially lossing out on the time on the time value of money if it's for a very insignificant amount of time. In the 2nd scenario we can potentially invest the 2000 rupees earn some amount in that one day even if it's a small amount of time.

11. Holding cost are those assciated with storing investors the remain unsold. The cost could Include.

- Price of demand or spoiled goods
- Storage space
- Labor
- Insurance