Assignment - II Business Finance - I

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

eg: Investor 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 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 fare.

→ The Conflict can be solved by anything same decision.

3) Factor ~~Influsing~~ Influncing the dividend policy.

- Stock Market:

→ Significant adverse reactions to announcement of dividend cut can be displayed.

- Cash Reserve:

→ Companies having large cash reserve accumalate over the has fear a takeover bid & hence many wish to distribute in profit thereby increasing shareholder loyalty a limit ~~the~~ the size of cash pile.

- Growth Opportunity:

~~→ Compare~~

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

- Taxi

→ Non. tax paying shareholder will from that Companies distribute large amount of earning in dividend.

- Stability and Consistency:

→ Company with high dividend policy ~~attaract~~ attract investor seeking high growth.

4) i) Sole Proprietership :-

• Ownership :-

→ Owned, managed & Controlled by a individual who is the receipt of all profit & loss of all risk.

• Liability :

→ Unlimited liability

• Legal Status :

→ No specific documentation is required for this business.

ii) Partnership :

• Ownership :

→ It is business which is owned by more than one person in equal & unequal proportion

• Liability :

→ Unlimited liability of all the partners.

• Legal status :

→ Most of the partnership have partnership Aggrement.

iii) Limited Company:

• **Ownership:**

→ It is a business which has a separate legal indentity owners. Shareholder are owner of the company.

• **Liability:**

→ The owner's liability is to tally paid value of their ~~Shot~~ Share.

• **Legal Status:**

→ They have Memorandum of Association & Article of Association

iv) Limited liability Partnership:

• **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 sole propritership ~~1st~~ instead of floating a limited Company as the former pays less taxes. This is because a Corporation is treated as a separte entity meaning that it has to pay state as well as federal taxes on the money it earn.

6) Modiglani & Miller's irrelevance proposition suggest that make value of a company is independent of its Capital structure. They believe 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 business uses to cov day to day operation like paying bills ~~&~~ payrolls of employees. It is the difference between a company current asset & ~~t~~ liability.

8) Economics of scale refers to the proportionate saving in cost gained by an increased. This can be done by buying inputs required for the production process in bull or ~~by~~ hiring more skilled and ~~sk~~ experience manager to overlook the production or using advanced ~~is better.~~ technology & getting rid of the obsolete one.

9) If a pension fund or investment company must report its financial position every year, it may be more adverse to very short term investment losses than of it had to report only every three years. It might therefore result in the ~~fr~~ fund investing less heavily in equities, & possibly also long term therefore bonds.

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

11) Holding cost are. those associated with storing investors the remain unsold. The costs could inllude.

- Price of demand or spoiled goods
- storage space.
- labor
- Insurance.