Business Finance Assignment 1

→ Units 1, 2, 3 and 4.

1. 4 medical practitioners to set up their own practice compare and contrast Traditional partnership vs LLP. Give your suggestion.

Soln. In a traditional partnership the liability is unlimited whereas in a limited liability partnership introduced in UK in 2001, each partner / member's liability is limited to the amount that they put into the business.
In a traditional parternership their legal identity is not separate whereas in LLP theirs is separate.
They both have to pay income tax on the share of their profits.
In case of documentation partnership requires none except a partnership agreement. In an LLP partnership agreement must be registered at Companies House and granted a certificate of incorporation.
Hence I suggest the 4 practitioners to enter into a limited liability partnership.

2. Mr. Darshan Lodha the new CFO is of the perspective that shareholders give more value to corporations which have higher earnings. Wht is your opinion abt his views?

Soln. According to me, Mr. Darshan Lodha's opinion is true as he will be able to monitor the market's reaction to various policies (either of its own company or others). For example, if the
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shareholders think a company's proposed investment is likely to increase shareholders wealth, the share price will tend to rise.
Managers can also monitor the policies and performance of other companies. Eg. if a company is buying other company's shares involved in a particular industry, then other such companies will consider themselves as possible targets. A company that has been performing less well than sector average and/or has lots of cash will be more valuable to take over because the predator will feel that it could make better use of the company's resources.

3. As an investor in a startup suggest what must Mr. Kevin subscribe to - ESC, PSC or CONVERTIBLES?

Soln. According to me Mr. Kevin should subscribe to convertibles as they are securities that are usually bonds or preference shares/stock that can be converted into a different security - typically shares of companies' common stock. In most cases the company's holder of common stock i.e. the company has the right to determine when the conversion occurs. It is much safer than Equity stocks because they are in the form of bonds.

4. Exp. the d.b. private Ltd. and public ltd.

Soln.

Private Ltd.	Public Ltd.
i) A private limited company cannot offer it's shares to the public with min - 2 & max - 200 members.	i) Public limited companies offer shares to the general public and shareholders that have limited company. min - 7 & Max. - unlimited.
ii) It's name must end with the words 'Limted'	ii) It's name must end with the words 'public limited company.'
iii) The abbreviation of the above being (LTD or Ltd).	iii) The abbreviation of the above being PLC.
iv) There is no requirement of a minimum share capital.	iv) It should atleast have a share capital of £50,000.
v) Minimum two board of direc.	v) Minimum 3 board of directors.

5. Mr. Mohit feels that setting up a propietorship business is the best situation to him. Exp. his pros & cons.

Soln. A sole propietorship is a business which is owned by one person and which is not a limited company. They have unlimited liability for their business debts. A sole trader needs no documentation. A company must have ~~a~~ a Memorandum of Association and Articles of Associatio and has to be registered at the Companies House. He prepares accounts for the tax authorities and pays income tax. It has to pay corporation tax

6. Delta corp wishes to raise short term funds for working capital needs. Suggest suitable methods.

Soln Ways to raise short term funds for working capital are

- Bank overdrafts
- Trade credits
- Factoring
- Bill of Exchange
- Commercial paper.

The last two are 'securities' which means that they can be sold from one investor to another. All the other types cannot be traded.

7. Explain operating and financial lease.

Soln A financial lease is a lease where the risk and the return gets transferred to the lease. It transfers the risk of ownership to the individual without transferring legal ownership.
Operating lease on the other hand, is an asset funding option for businesses that donot want to take risk of funding / selling at the end of the lease. Basically, it is a contract that permits the use of an asset without transferring the ownership rights to the asset.

8. i) Convertible – A convertible is a security usually a bond or a preferred stock – that can be converted into a different security – typically shares of the company's common stock. In most cases, the holder of the convertible determines whether or not to convert. In other cases, the company has the right to determine when the conversion occurs.

ii) Warrant – The option element in a convertib is known as a warrant. They are given with bonds or preferred stocks as an inducement to the invester, because they permit the purchase of company's common stock at a stated price at any time

iii) Same as 3.

iv) Why the running yield of convertible must be greater than Equity?

Soln. Running yield is the annual income on an investment divided by it's market value. Running yield is a calculation that divides the income from dividends (for stocks) or coupons (for bonds) by the market price of the security; the value is expressed as a percentage.