Business Finance Assignment

1] A limited liability partnership is a new-age form of business organization which includes both the benefits from traditional partnership as well as limited companies. The 4 medical practioner could consider a LLP over a ~~doa~~ partnership as LLP provide security of limited liability, so in case the business goes bankrupt the personal assets of the practioner won't be sold to recover the money unlike in traditional partnership which has unlimited liability. Also in a LLP the medical practioner are members, so if a customer sues they will sue the LLP due to its separate legal identity which is benefical for their profession. Whereas in traditional partnership there is no separate legal entity. Hence I would suggest a LLP, as it saves the practioner from the hassle of forming limited company but provide same benefits of protection for the members of LLP, whereas traditional partnership gives unlimited liability and no separate identity.

~~2] Shareholders main objective is wealth maximisation when they decide to invest in a company. Hence wealth maximisation doesn't necessarily translate into higher earnings but rather higher earning is a small part of the decision. This is because higher earnings will allow company to payout more dividend but if the~~

2] Shareholders main objective when they invest is wealth maximisation and higher earnings results in wealth maximisation. As higher earnings means the company has ability to payout more dividends, hence increasing rate of return. Also market value of shares increases if company shows higher earning as the intrinsic value of company when discounted with same rate as previously increases, pushing up stock prices, hence increasing shareholder wealth. Higher earnings also show a good management and corporate governance increasing confidence. Hence what Mr. Lodha thinks is in line with how market works.

3] As an investor of start-up which are usually risky but carry great potential for growth Mr. Kevin should opt for convertibles as it will give him the ability to cash in on the growth by converting to equity shares but also protect him in case the business fails by being a debt holder.

Another scenario could be, as start-up usually struggle with working capital and hence additional pressure of debt could force them to bankruptcy and make it hard for Mr. Kevin to recover money anyways. Hence he could opt for equity shares as they will be cheaper to buy compared to convertibles but also carry a greater risk with them.

4] A private limited company is a company whose shares aren't listed on stock exchanges and general public can't buy and trade their shares. ~~only limited to selling to known~~ Whereas public companies are those whose shares are listed on the stock exchanges and public have the right to buy shares into those companies.

5] ~~Setting~~ Proprietorship or sole traders are the oldest form of the business where a single person is the sole owner and most time manager of the busy. Mr Mohit will benefit significantly from setting up sole trading concern as they are quite easy and hassle free to setup and don't need special auditing or accounting. Also the initial capital required to start is the lowest and many big corporation had started out as sole traders. Mr Mohit would have first hand control over everything and gets to take home all the profits he earns.

But sole trading concern comes with unlimited liability wherein if the business fails pay its dues, Mr Mohit's personal asset would be sold to recover money. Also Mr. Mohit would have no separate legal identity so if a customer sue the business he will be liable. Also sole trader find it hard to raise capital as debt is costly due to the riskiness and Mr. Mohit will have limited funds to invest and would rely on reinvesting profit.

6] Delta corp can raise short term finance through various methods like bank overdraft, Trade credit, factoring, bills of exchange and commercial paper.

Bank OD means delta corp can pay more than what they have as balance in their bank account. The interest will be charged on the overdrawn amount and will usually be of higher rate but the bank can ask the company to repay at anytime.

Trade credit is facilities provided by suppliers ~~to~~ which ~~cons~~ allows Delta corp to take goods now and pay the amount back on specified, agreed date later on. Trade credit doesn't carry any explicit cost but early payments avail discounts hence it's overall more expensive. But trade credit helps manage working capital.

Factoring is a facility ~~DE~~ wherein Delta corp can get cash against its invoices early but ~~pay~~ at ~~di~~ a little discount. The burden of collection can either be transferred or stay on delta corp.

Bills of exchange are ~~dra~~ securities that are backed by bank for repayment and hence can be given ahead for settlement of dues.

Commercial paper is a type of bearer document that Delta corp can issue at discount, redeemed at par, to raise short term capital from methods other than bank OD and short-term bank loan.

7] Leasing is used by companies to get heavy machinery or other long term assets on rent, the ownership never changes hand. Leases can be divided on basis of duration.

If the lease is for a period more than 75% of the life of the asset than it is a financial lease. The lessee will be bear all the operating and maintenance cost.

If the lease is of a very short time than the expected life of asset it is an operating lease. The owner of the asset bears all the cost of maintenance.

8] i) A convertible is a type of unsecured loan stock ~~that~~, or preference shares, that allows the investor to convert their ~~loan~~ holding into equity share at specified rate and specified date.

ii) A warrant is an agreement that an investor can buy to have the rights to purchase companies stock at a specified date and, at a specified price.

iii) As convertibles carry with them the safety of being less risky and get specified sum as interest every year so or as agreed, they are traded at a higher price.

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iv) The running yield of convertible is higher than equity as equity is an underlying part of convertible and hence the higher the share price the higher yield of convertible. Also as convertible is debt until converted it is offered higher return than equity share.