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ASSIGNMENT - 1

Q1. 4 medical practitioners are planning to set up their own practice, compare and contrast Traditional partnership vs LLP. Give your suggestion

→ A limited liability Partnership (LLP) is suggested due to various reasons like:

(i) The ENTITY

The partners of a partnership registered under the Partnership Act, 1932 are personally liable for an unlimited amount of liabilities. Hence, the partnership firm and the partners are not considered separat legal entities, neither do they have perpetual existence.

Whereas, the partners of an LLP are not personally liable for the liabilities, and it is limited to the amount of his/her capital contribution to the LLP. Therefore the LLP and the partners are two separate legal identities and it has perpetual existence, until dissolved.

(ii) TRANSFERABILITY OR CONVERSION

A person can transfer the share in a partnership to another person after obtaining the permission of all the partners. The process is cumbersome. There is a lengthy process for converting the partnership into a LLP or a private limited company.

Whereas, the share of a LLP can be transferred but the

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transferee is not allowed to become a partner automatically. It is an easier process and a LLP can be converted into a Private limited Company or a limited company easily.

Hence, ~~...~~ opting for a LLP would be more convinient for the medical practioners and the different processes are easier in a LLP.

Q2. Mr. Darshan Lodha the new CFO is of the perspective that the shareholders give more value to corporations which have higher earnings. What is your opinion about his views?

→ All managers, employees, the CFO's main objective is to maximise shareholder's funds but this doesn't mean that the only objective is that.
To maximise shareholder's fund, the company must work hard and meet it targets on time, the employees might have to work ~~ex~~ extra and ~~...~~ may be denied bonuses if the only focus is on shareholder's wealth. If this happens the employees will be unhappy and tensions may arise between the management and employees.
Thus a CFO must take into consideration both the shareholders and employees well-being and also to the certain social ethics of a business.
Hence, I do not agree completely with Mr. Darshan Lodha, he should take into consideration various business ethics and his employees well-being. ~~and~~

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Q3. As an investor in a start-up suggest that Mr. Kevin must subscribe to ~~ECA~~ ESC, PSC or convertibles.

→ convertibles are bonds with an option for the holder to exchange the bond into shares of common stock of the issuing company under specific terms and conditions.

→ ESC or Equity shares are those shares which do not carry any special or preferential rights in respect of payment of dividend and repayment of capital. The money raised by issue of equity shares is termed as Equity Share Capital. (ESC)

→ PSC or Preference shares are those shares, which enjoy certain priorities regarding the payment of dividend at a fixed rate and return of the investment (capital). The money raised by the issue of preference shares is called preference share capital. (PSC)

Thus, convertibles would be a better option as you can convert them into any type of share in the future. Depending upon the company's performance Mr. Kevin can choose to convert it into ~~sha~~ any shares. ~~which will be~~ a

Thus, Mr. Kevin shall choose convertibles as an investor.

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Q4. Explain the differences between private Ltd and public Ltd.

BASIS	PRIVATE LTD	PUBLIC LTD
Defination	It is a company which is neither listed on the stock exchange nor they are traded. It is privately held by ~~the~~ its members only.	It is a company listed on a recognized stock exchange and the stocks are traded publicly.
No. of Members	It can be started with a minimum of 2 members. There is a limit for maximum members which is 200	Minimum no. of members required is 7 and maximum limit of members is ~~200~~ unlimited.
No. of director	It must ~~of~~ have at least two directors.	It must have atleast three directors
Transfer of shares	There is ~~no~~ restriction on transfer of shares.	There is no restriction on transfer on shares.
Invitation to public	It cannot invite public to subscribe for its shares or debentures.	It can invite public to subscribe for its shares or debentures
Paid up capital	It must have minimum paid up capital of ₹1 lakh.	It must have minimum paid up capital of ₹5 lakhs

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Q5. Mr. Mohit feels that setting up a proprietorship business is best suitable to him. Explain him pros and cons.

→ Proprietorship or sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profit and bearer of all risks.

* Merits of Proprietorship:

1.> QUICK DECISION MAKING

→ It facilitates quick decision making as there is no need to consult others. He takes all major and minor decisions.

→ Timely decisions help him to take advantage of market opportunities as and when they arise.

2.> CONFEDENTIALITY OF INFORMATION

→ As proprietor has the sole decision making authority it enables him to retain all information related to business operations confidential.

3.> DIRECT INCENTIVE

The proprietor enjoys all the profits of the business as there is no one else to share earnings of the business.

4.> SENSE OF ACCOMPLISHMENT

It provides personal satisfaction to people who want to be self employed. As he himself is

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responsible for the success of business, he will feel satisfied.

5.) EASE OF FORMATION AND CLOSURE

→ It can be easily started or dissolved at anytime with minimum legal formalities. ~~to~~

→ No separate law governs sole proprietorship.

* LIMITATIONS OF PROPRIETORSHIP

1.) LIMITED RESOURCES

→ The resources are limited to his personal savings and borrowers. Banks hesitate to give them loans.

→ Due to lack of resources, proprietorship is generally of small size with low growth rate.

2.) LIMITED LIFE OF A BUSINESS CONERN

→ According to law, the owner and the business are the same. So, it does not have a continuity of life.

→ If anything happens to the proprietor, it may lead to the closure of business.

3.) UNLIMITED LIABILITY

→ The proprietor is liable for all the debts of the business. The creditors can recover their dues not only from the business assets but also from the personal assets of the business.

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4.) LIMITED MANAGERIAL ABILITY

→ Managerial ability of the single owner is limited as he cannot posses all the qualities and not likely to be an expert in all matters of the business.

Q6. Delta corp wishes to raise short term funds for working capital needs. Suggest suitable methods

→ Some short term funds are:

1.) TRADE CREDIT

→ It is an agreement between a company and one of its suppliers to pay for goods and services after they have been supplied.

2.) FACTORING

There are two types of factoring:

→ Non Recourse factoring - the supplier sells on its trade debts to a factor in order to obtain cash payment of the accounts before their actual due date.

→ Recourse factoring - only provides early payment of invoices. It is a loan which is secured against the invoices has a value which automatically fluctuates with the amount that the company sells.

3.) BANK OVERDRAFTS

→ It is a form of short term borrowings from bank where the borrower is granted a facility to draw money out of a current account such that it becomes negative, down to an agreed limit.

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4) BILLS OF EXCHANGE

It is effectively a claim to the amount owed by a purchase of goods on credit and maybe accepted by a bank (for a fee). This means that the bank guarantees payment against the bill to whoever holds the bill at maturity.

5) COMMERCIAL PAPER

It is a single name for short-term borrowing used by large companies. It comes in the form of bearer documents for large denominations which are used at a discount and redeemed at par. It is not listed on the Stock Exchange.

Q7. Explain operating and financial lease.

→ A lease is an agreement where the owner of the asset ~~will~~ gives the ~~lessee~~ lessee the right to use the asset over a period, in return for a regular series of payments. Legal ownership does not change hands. There are two types of lease:

① → Under an operating lease, the owner of the asset retain most of the risks associated with owing the assets. The lease will be for a period substantially shorter than the likely life of an asset.

② → Under financial lease, the lesee takes on most of the risks associated with owing the asset. The lease will be for a period similar to the likely life of an asset. The present value of the payments under the agreement is shown in the lesee's balance sheet twice: as an asset and as a corresponding liability.

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Q8. Explain

(i) Convertibles

→ Convertible forms of company securities are, almost invariably, unsecured loans stocks or preference shares that convert into ordinary shares of the issuing company. This additional prospective return means that the issuer does not have to offer excessively high rates of interest on the loan stocks which give the right to convert ~~on the~~ ~~to~~ to attract lenders.

(ii) Warrant

Warrants are call options written by company on its own stock. The purchase of a warrant has the right but not the obligation to buy a fixed number of company's shares at a fixed price (known as 'strike price' at a fixed date. Taking up this right is known as exercising. When they are 'exercised', the company issue more of its shares and sells them to the option holdr for the strike price. The exercise of a warrant leads to an increase in the number of shares that are outstanding

(iii) Why a convertible must normally trade at a price higher than equity stock?

→ A convertible must normally trade at a price higher than equity stock as to prevent the investor to make instantaneous profit at the time of conversion and sell his stocks immediately. The company would

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face losses almost everytime an investor converts his preference stock or loan stock in equity shares. Thus in the case the convertible become a big liability for the company instead of being the source of funding for them. Hence the price at which the investor receives the shares is usually greater than the market price. So if he tries to sell the units which are technically bought at a higher price, the investor will face losses. Thus, to make sure that the investor sticks with the company and does not make instant profit on his investment by selling them, the convertible normally trades at a higher price than equity stock.

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

→ The running yield of convertible must be greater than equity because of the madatory dividend or coupon payments in preferential right to either dividend, or return of capital or both, compared to ordinary shareholders. In a loan stock the company has to make mandatory coupon payment to investors. Ordinary shareholders may recieve dividend payments when there's profits but preference shareholders always gets. Also equity is an underlying part of the convertible, thus an increase in the share price increases the value of convertibles. Also dividend or coupons received from preference share or loan stock are usually more in value than dividend recieved. than ordinary shares. The dividend payment is fixed and does not depend to

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the same extent on the short-term profit growth of the company. The security dividend payment for a convertible is higher than that of ordinary share and the option to convert to ordinary share ~~of~~ or leave it as a fixed interest security allows the investor to make sure of minimum expected return convertibles generally provide higher income than ordinary shares and lower income than conventional loan stock or preference shares. This is because prior to conversion ~~loan stock or preference sh~~ do not benefit from the dividend ~~f~~ growth enjoyed by ordinary shareholders but longer term convertibles do offer the prospect of benefitting from the growth of the dividend. Thus, the running yield of convertible greater than the equity.