

Name Ronit Shah R. No. 67 Class / Div. B Date _____

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Assignment - 2

1) Liquidity Preference means preference of investors to hold liquid assets rather than securities or long term ^{investment.} ~~investment~~

3) The factors that can influence dividend Policy are :

i) Cash reserves & -

Companies can have large cash reserves as cash is accumulated over the years. Companies can decide to retain the profit to ~~and~~ grow the company but when it's in a good stage. Then, the company can use its good reserve to pay dividends.

ii) Tax -

Companies have to pay tax and so to use the amount constructively then they can give dividends to the shareholders rather than paying ~~tax~~ extra tax which can be used for better purposes.

iii) Growth opportunities -

Companies may have set a projected growth rate but sometimes they keep it so high that to meet it

iv) Consistency -

Companies with high dividend policies attract investors who want high dividends so any change in the policy could lead to bad ~~reacta~~ reactions on the market so having consistent dividend is required.



- 4) The major types of business are Sole Proprietorship, Partnership, Limited company and Limited Liability Partnership.

The ownership of different types of business are not same. ~~Sole~~ sole proprietorship is owned, managed and controlled by an individual whereas in partnership, it is ~~controlled~~ owned by more than one person, however in limited companies, business has separate legal identity from the owners and shareholders are the owners of the company. Similarly, company has separate legal identity, in limited liability partnership, but there are no directors and no shareholders.

The Liability for the businesses are different.

In Sole Proprietorship, it has unlimited liability and similarly in Partnership, it has unlimited liability.

In limited companies, it has limited liability as well as Limited Liability Partnership also has limited liability.

No specific documentation is required for legal status in sole proprietorship. However, in Partnership, mostly for legal status they have Partnership agreement. Whereas limited companies have memorandum of Association and Articles of Association as legal status. However, in limited liability partnership, there is no memorandum of Association and Articles of Association but company would definitely have a Partnership agreement.



- 5) The individual should open the business as a sole trader. This type of business will help an individual to minimize the tax amount. This is because limited company has separate legal identity so an individual has to pay state and federal taxes on the money earned.
- 6) Modigliani and Miller's irrelevance propositions shows that market value of a company is not dependent of its capital structure. This suggests that the market value of a company is determined by the investment ^{decision} ~~decision~~.
- 7) Working capital is cash or any other assets which are liquid and are used by business to cover day to day operations. However, Fixed capital includes assets or investments needed to start and maintain the business.
- 8) Economies of scale is the proportionate savings in cost by an increased level of production. Economies of scale can be achieved by buying inputs required for the production of goods in bulk, hire skilled and efficient managers who could run the business properly and use advanced technology to cut down production time and make more products.
- 10) In scenario 1, I lose ~~you get~~ RS 2000 and next day get the amount back but are actually because of time value of money, I am losing the money although its for a ^{less significant} ~~small~~ of time. However, in scenario 2, neither of the ^{event} ~~two~~ happens so the money I have can be invested for long time and receive interest compounded. Thus, I feel, I would prefer scenario 2.

a) The financial position of an investment company or pension fund is necessary for investors to look upon.

If the reports are made triennially then it's difficult to assess the current situation and wouldn't be able to know the proper loss or gain. The consequence of this would be averse. The investors who look to manage their risk by shifting the assets to make it volatile so triennially ~~assets~~ reports could force them to invest in less volatile class to reduce the risk and manage it accordingly. This could result in investors investing less on equities which is assumed to be high volatile class ~~and~~ as well as on long term bonds.
~~that's early~~

ii) Holding costs ~~of~~ are referred to ~~a~~ inventory that remains unsold. The possible costs are:

- i) price of damaged or spoiled goods
- ii) Storage space
- iii) Labour costs
- iv) Insurance costs