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Business Finance

Assignment - 1 (Unit - 1 & 2)

Ans 1. Partnership

:) It is a form of business owned by more than one person.

:) The owners have unlimited liability, that is each partner is liable to the full extent of their personal estate for the deficiencies of the partnership.

:) ~~Pa~~ The partnership firm is not a seperate legal entity.

Limited Liability Partnership (LLP)

:) Any firm consisting of two or more members engaged in a profit making venture, may become a LLP.

:) The liability of its ~~members~~ members is limited

:) The LLP as with a ltd. Company, is a separate legal entity

Both forms of Business are taxed in the same way

→ I would recommend to set up an LLP as it gives the benefits of limited liability while retaining the traditional characteristics of ~~an~~ Partnership.

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Ans 2. It is known that shareholders are interested in maximising the value of their investments in shares, but they also consider other factors while investing. Shareholders also look at the social responsibilities undertaken by the company & their ethics of practicing business.

The Externalities (such as job security pollution etc.) are also looked ~~of~~ upon while investing.

The CFO must target maximising shareholders weath keeping in mind all the externalities.

Ans 3. As an investor Mr. Kevin must subscribe to a convertible preference share. Convertibles give the best of both worlds by providing bonds at first and equity in the ~~last~~ later stages. He will also have the option to stay with bonds if he feels the companys future is not secure!

Equity Shares provide a higher rate of return but with a potential for profit losses Dividends also depend on the performance of the company

Preference shares also offers higher rate of return when compared to bonds but less the E.S.C Therefore the risk is also less the E.S.C

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Thus, as an investor a convertible preference share will be best for Mr. Kevin

Convertibles offer the opportunity to combine the lower risk of a preference share with the potential for large gains of an equity.

Ans 4. Private Limited Companies

- A Pvt. Ltd company is not allowed to offer the shares to the public
- A Pvt Ltd companies name must end with the word limited or the abbreviation LTD.
- Private companies are typically small companies, often being 'family run' business.

Public Limited Companies

- These can offere shares to the general public
- Their documentation states that they have a issued capital of at least £50,000
- Their name must end with the word public ltd. company
- They must produce audited accounts.

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Ans 5. The advantages & disadvantages of a proprietorship business are :–

Advantages –

i) Easy to set up
ii) A sole trader takes all the decisions
iii) No specific documentation is needed to legally establish this form of business
iv) The owner can withdraw money whenever he/she wants

Disadvantages :–

i) Their is no separate legal entity of the business
ii) The owner has unlimited liability
iii) The business can't ~~r~~ raise funds from the public, Thus their is a financial burden

Ans 6. Short Term Working Capital Needs

To raise short term funds for working capital :-

i) Bank Overdrafts

It is a facility granted by the banks to companies to draw out money from a current account such that it becomes negative, down to an agreed limit. OD's are usually secured by floating charges

ii) Trade Credit

It is a agreement to pay later for the goods or services already acquired or used. The invoice contains a payment within a specific period. Mostly no interest is charged.

iii) Bills of Exchange

A bill of exchange is effectively a claim to the amount owed by a purchase of goods on credit. The bill can be sold to raise short term finance. An eligible bill can ~~also~~ be used for funds in banks.

1) Commercial Paper

It is a form of short term borrowings by large companies. It is a type of bearer document, i.e there is no register of holders. Payment is made to whoever presents the paper ~~att~~ at the end of the term.

Ans 7. Operating lease

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

Financial Lease.

The lessee takes on most of the risks associated with owning the asset in financial lease. In effect, in using a financia lease the lessee is in a similar position to buying the asset outright, but financing this by paying rent rather the by paying a lump sum upfront.

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Ans8.(i) Convertibles

Convertibles are securities usually bonds or preferend shares, that can be converted into common stock. These allow investors to covert their position from a creditor to equity holder at an agreed-upon price.

(ii) Warrant

Warrants are contracts that give the rights, but not the obligation, to buy or sell a security, most commoly an equity, at a certain price before expiration

(iii) Convertibes Normally Trade at a Higher Price Than Equity

This is to prevent the investors to make instantaneous profits at the time of conversion and sell his stocks immediately. The company would face losses every time the investors convert into shares. Thus to stop ~~int~~ instantaneous losses for the company convertibles trad at a higher price than equity.

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iv) Running Yeild of convertibles must be greater than Equity.

This is because of mandatory payments in the form of dividends or coupons in preference shares or loan stocks.
An equity ~~shareth~~ share may not receive dividends everytime, Moreover ~~iti~~ it is the underlying ~~patter~~ of a convertible.
Therefore an increase in share price increases the value of a convertible. Convertibles generally provide higher income then ordinary shares & a lower income the loan stock or preference share.
But longer term convertibles offer the prospect of benefiting from growth of the dividends.