Uddhav Jadhav 91
Business Finance Assignment

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Q1ans) Traditional Partnerships:-
A partnership is a business which is owned by more than one person and is not a limited company. The partnerships may be owned in equal or unequal amounts by the partners. The owners have unlimited liability. All the partners are jointly liable for any business debts. They will also be '~~severally liable~~ 'severally liable', i.e, each partner is liable to the full extent of their personal estate for the deficiencies of the partnership. Usually all partners will be involved in the running of the business, but some may just provide capital and take no part in ~~day to day~~ ~~day~~ day-to-day operation of the business (such partners are called sleeping partners). Most partnerships will have a 'partnership agreement' which sets out the rights of individual partners.

Limited liability Partnerships:-
A new corporate identity, the limited liability partnership (LLP), was introduced in UK in 2001. This business vehicle gives the benefits of limited liability whilst retaining other characteristics of a traditional business partnership. Any firm consisting of two or more members (note: not partners) engaged in a profit-making venture may become a limited liability partnership. Limited liability partnership, as with a limited company, is a ~~seperate~~ ~~se~~ separate legal entity and whilst the limited liability partnership itself is responsible for its assets and liabilities, the liability of its members is limited. As with companies,

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however, actions may be taken against individual members who are found to be negligent or fraudulent in their dealings. Unlike limited company, limited liability partnership has no ~~memorandum of articles~~ Memorandum of Association or Articles of Association. In ~~ge~~ general terms, a limited liability partnership is governed by partnership agreement that may already be in force with an existing partnership. Unlike limited companies, there are no directors (or company secretary) and no shareholders. Limited liability partnerships are taxed in the same way that conventional partnerships are taxed. It is expected that limited liability partnerships will prove most attractive to professional firms such as ~~accountants~~ ~~a~~ accountants and ~~solicitors.~~ solicitors. ~~Lim~~

After comparing traditional partnership and limited liability partnership, I would recommend the four medical practitioners to set up a limited liability ~~partnership as it will provic protect their personal assets.~~ ~~pa~~ partnership because of the following reasons:-

1) ~~need for~~ Need for finance and amount of finance
2) ~~the~~ The ease of raising finance in the future
3) ~~Protect personal assets of members~~

4) ~~ease of setting up~~
3) Liability for debts
4) ~~ease of~~ Ease of setting up
5) Disclosure
6) Control of business
7) The type of business

Q2 ans) 1) I partially agree with Mr. Darshan Lodha. because some ~~investors~~ shareholders give more value to the company which has higher earning as they have high growth potential.

2) It is a fact that shareholder are interested in maintaining the value of their investments in the shares. They want high return on the value of their investment in shares.

3) A company which has higher earning will be given more value by shareholders as higher earning depicts increasing profit which will automatically increase the share price. It also implies to the strong and wise board of the directors and senior manager whose decision to make wise investment generated a healthy return.

4) However, shareholders should also take social responsibility ~~of company und~~ into consideration by the company.

5) If the return offered by the investment project is higher than the rate of return that shareholder get investment on their own, then the shareholder can vote for investment project.

6) If the return of investment project is low than the rate of return than shareholder can achieve on their own, shareholder could vote ~~cane~~ to cancel the project and take out the cash invested.

7) The firm must take into account the effects of the policies and actions on society as a whole.

8) The expectation of workers, consumers and various interested groups create their own dimension to formulate policies.

9) Hence, shareholders also value the company on basis of their business and social responsibilities undertaken by them.

10) CFO must strive to maximise shareholder's wealth within external constraints such as social responsibilities and business ethics.

11) Also, investing in companies that generate profits more efficiently than their rivals can be very profitable for portfolios.

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Q3ans) Equity ~~So~~ Shares (ESC)

1) Marketability of ordinary shares varies according to the ~~size~~ size of company.
2) ~~Investors find it hard~~ Ordinary shares offer investors high potential returns for high risk, particularly risk of capital losses.

Preference Shares (PSC)

1) Preference shares offer fixed stream of investment income, which is paid and generally taxed like a dividend, ~~assumin~~ ~~assu~~ assuming company makes sufficient profits.
2) For all investors, expected rate ~~of~~ ~~of~~ of return on ~~pre~~ preference shares is likely to be less than on ordinary shares because the risk of holding preference shares is less.

Convertibles:-

1) Convertible form of company securities are almost invariably, unsecured loan stocks or preference shares that convert into ordinary shares of issuing company. This additional prospective ~~means~~ return means that the issuer does not have to offer excessively high rates of interest on loan stocks to attract lenders.
2) Convertible unsecured loan stocks give the right to convert into ordinary shares of company at a later date.
3) Convertible preference shares give right to convert into ordinary shares at a later date. The investor does not pay anything to convert other than surrendering the convertible ~~preference sh~~ ~~pr~~ ~~pro~~ ~~p~~ preference ~~sh~~ shares.
4) ~~Convert~~ ~~G~~ Convertibles generally provide higher income

than ordinary shares and lower income than conventional loan stock or preference shares.

5) There will be generally less volatility in the price of convertible than in the share price of the underlying ~~equity~~ ~~eo~~ equity.

6) From investor's point of view, convertible securities offer the opportunity to combine the lower risk of debt security with the potential for large gains of an equity.

7) The price paid for this is lower running

yield than normal stock or preference share.

8) A convertible bond gives its owner the option to exchange the bond for a pre-determined number of common shares.

9) The convertible bondholder hopes that the company's share price will zoom up so that the bond can be converted at a big profit.

10) But if shares zoom down, there is no obligation to convert, the bondholder remains just that.

11) Investors value this option to keep the bond or exchange it for shares, and, therefore, a convertible ~~bond~~ bond sells at a higher price than a comparable bond that is not convertible.

Therefore, after comparing equity shares, preference shares and convertibles, I ~~recc rec recom~~ recommend Mr. Kevin ~~t~~ as an investor ~~to~~ in a startup to subscribe to convertibles.

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Q4 ans) Public limited Companies

1) A public limited company is a company whose documentation states that it is a public company and which has an issued share capital of at least £50,000. Public limited companies offer shares to general public and shareholders have limited liability. The name of a public limited company must end with the words ~~"limited' (or the abbreviation LTD or ltd).~~ 'public limited company' (or the abbreviation PLC or plc).

2) It is a requirement of Stock Exchange that a company that wants to have a full Stock Exchange listing must be a public limited company. Most public limited companies are large whose shares are held by many different shareholders who don't take part in company's day to day operation.

Private Limited Companies

1) A private ~~company~~ limited company's name must end with the word 'limited' (or the abbreviation LTD or ltd). A private limited company is not allowed to offer it's shares to the public.

2) Private limited companies are typically small companies with a narrow range of shareholders often being family run.

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Q5ans) A proprietorship business or sole trader is a business which is owned by one person and which is not a limited company.

Pros of ~~t~~ proprietorship business are as follows:-

1) Sole proprietorship are easy to establish as no legal documentation is required. No specific ~~documen~~ documentation is needed to legally establish this form of business entity. However, sole trader will need to ~~file~~ fill in a normal tax in respect of business. ~~of the business.~~

2) Compliance and taxation

3) ~~2)~~ You can protect the name of your sole proprietorship.

4) ~~3)~~ You can hire as ~~mon a~~ many people you want

5) ~~4)~~ You have complete control as the owner

6) ~~5)~~ Sole proprietorships are ~~stev~~ stepping stone to incorcorporation

7) ~~6)~~ It is easier to operate

8) ~~7)~~ ~~Ow~~ Sole trader is sole beneficiary of profits

Cons of proprietorship business are as follows:-

1) ~~1)~~ Sole trader has unlimited liability which means that if a consumer sues the sole trader for breach of contract, the total ~~wealth of sole trader~~ personal wealth of sole trader including the sole trader's house and bank deposits, would be ~~payable~~ available to pay off ~~trading li tra~~ trading ~~l~~ liabilities.

2) It is very hard to raise finance

3) It lacks ~~professi~~ professional risk and talent

4) There is risk for wrong decisions

5) No large-scale economies
6) Limited scope for employees
7) Lack of financial control and difficulty tracking expenses
8) Higher tax incidence

Q6ans) Suitable methods to raise short term funds for working capital needs are as follows:-

1) Bank overdrafts:-

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

b) The borrower pays interest only on amount by which they ~~have~~ are actually overdrawn.

c) No explicit capital repayments are made

d) Overdrafts made to companies are usually secured by a floating charge.

e) Interest charged on overdraft will usually be higher than on a loan of equivalent amount.

f) A bank can demand immediate repayment of ~~loan a~~ an ~~an~~ overdraft with no notice.

2) Trade credit:-

a) Trade credit is an agreement between a company and one of its suppliers to pay for goods or services after they have been supplied.

b) In most cases no explicit interest is charged.

c) In many industries, late payment is so common that explicit discounts can be negotiated for not using trade credit.

3) Factoring :-

There are two types of factoring : 'non-recourse factoring' and 'recourse factoring' ~~or~~ (or (invoice discounting).

a) Non-recourse factoring is where the supplier sells on its trade debts to a factor in order to ~~e obtain~~ obtain cash payment of the accounts before their actual due date. The factor takes ~~overall~~ over all responsibility for credit analysis of new accounts, payments collection and credit losses.

b) Recourse ~~factor only~~ factoring only provides early payment of invoices. It is a loan which is secured against invoices, and has a value which automatically fluctuates with the amount that the company ~~sells. Credit risk~~ sells. Credit risk remains with the original supplier.

4) Bills of exchange :-

a) A bill of exchange is effectively a claim to the amount owed by a purchaser of goods on credit and may be 'accepted' by a bank for fees.

b) This means that the bank guarantees payment against the bill to whomsoever holds the bill at maturity.

c) The bill can then be sold to raise short term ~~finance~~ finance.

d) Where the endorser is an 'eligible' bank the bill is known as an 'eligible bill ~~of ex~~ ~~of~~ ~~of~~ ~~of~~ of ~~exchange'~~ exchange' which is a very secure investment.

e) Bills of exchange are known as 'two name' papers because they carry both the name of the company which owes the money and the name of the accepting bank.

5) Commercial paper :-

a) Commercial paper is a single name of short term borrowing used by large companies.

b) It comes in the form of bearer documents for large denominations which are issued at a discount and redeemed at par.

c) Commercial paper is not listed on stock exchange.

d) Companies that wish to raise finance by issuing sterling commercial paper must meet certain minimum standards.

e) Issuing companies must :

i) be listed on London Stock Exchange

ii) issue a statement to confirm that they comply with the requirements of Stock Exchange and that there have been no adverse changes in the company's circumstances since they last published accounts in accordance with Stock Exchange rules.

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Q7ans) A lease is an agreement where the owner of an asset gives the 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: operating lease and finance lease

Operating lease :-

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

Finance lease :-

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

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Q8.1ans) Convertible forms of company securities are, almost invariably, unsecured loan 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 to attract lenders. Convertible unsecured loan stocks are unsecured loan stocks which give the right to convert into ordinary shares of the company at a later date. Convertible preference shares are preference shares which give right to convert into ordinary shares at a later date. The investor does not pay anything to convert other than surrendering the convertible preference shares. The convertible loan stock will have ak stated annual interest payment. For convertible preference shares, stated rate will be in a similar format to dividends. Date of conversion might be a single date or, at the option of the holder, one of a series of specified dates. The period prior to the ~~firs~~ first possible date for conversion is known as the rest period. There will be a specified number of ordinary shares for each convertible. If the holder chooses not to convert, then the security might continue as a loan stock or preference ~~share for a pe~~ share for a period of time.

Alternatively, it might be redeemed on a prescribed basis immediately. At any time, the cost of obtaining one ordinary by purchasing the required number of convertible securities and converting can be compared with market price of share. The difference is known as conversion premium. The characteristics of a convertible loan stock in the period prior to conversion are a cross between those of fixed interest stock and ordinary shares. As this happens, its behaviour becomes closer to that of the security into which it will convert. This is also the case for preference shares. Convertibles generally provide higher income than ordinary shares and lower income than conventional loan stock or preference shares. From the investor's point of view, convertible securities offer the ~~opportuninity~~ opportunity to combine the lower risk of a debt security with the potential for large gains of an equity. The price paid for this is a lower running yield than ~~on a normal~~ ~~on a normal~~ on a normal £ loan stock or preference share.

Q8.2 ans) Warrant gives the holder the right to purchase a company stock at a specific price at a specific data. A warrant is issued directly by the company concerned. When ~~an~~ investors exercise warrant, they purchase stock and the proceeds are a source of capital for the company. Warrant certificate includes the terms of the warrant, such as expiry date and final date it can be exercised.

Q8. 3ans) 1) Convertibles generally provide higher income than ordinary shares and lower income than conventional loan stock or preference share. Loan stocks provide gross income and preference shares provide income in the same format as dividends. There will generally be less votality in the price of convertible than ~~the~~ in the underlying equity.

2) From investor's point of view, convertible securities offer the opportunity to combine the lower risk of a debt security with the potential for large gains of an equity.

3) The price paid for this is lower running yield than a normal stock or preference share.

4) A convertible bond gives its owner the ~~right, to~~ option to exchange the bond for a predetermined number of common shares.

5) The convertible bondholder hopes that the company's share price will zoom up so that the bond can be converted at a big profit.

6) But if shares zoom down, there is no obligation to convert, the bondholder remains just that.

7) Investors value this option to keep the bond or exchange it for shares, and, therefore, a convertible bond sells at a higher price than a comparable bond that is not convertible. ~~(equity)~~

8) Hence, a convertible must trade at a higher price than equity stock.

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Q8.4ans) 1) The running yield of the convertible must be greater than equity because of ~~man~~ mandatory dividends or coupon payment in the ~~p~~ preference shares.

2) Also, equity is an underlying part of the convertible, thus increase in the value of share price increases the value of convertible.

3) The security dividend payment for the convertible is higher than that of the ordinary shares and the option to convert to ordinary shares or ~~leave~~ ~~leave~~ leave it as fixed interest security allows investor to make minimum expected return.

4) Hence, the price of convertible must be greater than equity.