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Business Finance:

1. A Traditional partnership firm is a partnership between 2 or more people. All partners are fully liable for any profits or losses to the company ie. they have unlimited liability.

While LLP: Limited Liability Partnership is a company with limited liability, while retaining all features of Traditional Business Partnership.

LLP is just like a cherry topping or extra scoop of ice cream which makes whole ice-cream tasty, ~~feasal~~ feasible...

There is hardly any difference between between both, except the liability.

* Suggestion: Just to be on safer side, and to avoid personal wealth being attached to company, they should go with an LLP.
All deeds, agreements are same as that of normal partnership.

2. Corporations which have higher earning look to the public as a very respected and hardworking, efficient one. Public is largely money-oriented, for them, a company earning, with high profits is a lot trust worthy one. Shareholders, while buying ~~shareholo~~ look at these factors. Mr. Darshan, CFO is correct in his views. ~~a~~ He way shareholders to invest in the company. For that public has to be attracted towards the company. Major thing

that attracts is profits, money. Thus, for the future and investment, a company should have high earnings. Thus public gives more value to high earning corporation, after all, public is the real king in business (deciding factor).

3. Preference Shares Holders have no voting rights
They have a right to either dividends, return of cap. Expected rate of return is less than ordinary shares.

Equity Shares are more risky, but offer higher return
They are main source of capital for various companies
Yield is volatile.

→ Convertibles, are form of security, or unsecured loan stock, preference share that can be converted into an equity ~~any~~ at a point in future.
Conversion depends upon discretion of policy holder.
If he doesnot convert then it continues as loan or PS.

Mr. Kevin, must subscribe to a Convertible because;
Convertible give dual benefit, by providing gross income on loan or Pref. Share as dividends.
It also recieves benefit of large gain from equity as well.

Only worry is, for loan stock, interest may get negotiated but benefits are surely there.
Convertibles are like a package of a bond and a

warrant. This benefit combines low risk of debt (as interest rate is reduced, repayment possible) security with great potential benefit of equity (if share price booms up, then we can convert into).

4) Public Ltd's basic difference is in the name as a public company has word 'public company' in documentation while a pvt company's name has word 'limited or Ltd'.

A public company can issue shares to general public while pvt company cannot.

A private company, may not be able to ~~earn~~ gather as capital, as large as of public Ltd.
In private Ltd, Ownership and Management to a large extent remains in hands of Board of Directors Managers.
In a public company, ~~owner~~ there is a divorce between ownership & management.
Ownership is with Shareholders.

5. For a sole trader proprietorship, one person manages the whole business. He bears unlimited liability i.e. if any business losses are not able to be paid ~~by~~ business assets, then personal wealth of the proprietor gets attached and can be used to pay off remaining liabilities.
Certain benefits are like he can hire any person in his business. He takes all decisions, without interference, and ~~at~~ has claim over all profits of business alone.
He can withdraw any money required, as per the need without any interference or objection.

Q.6 Various Short Term Finances are:

a. Bank Overdraft: It is short term borrowing from bank where borrower is granted facility to draw money from current a/c, to a limit. Borrower pays interest ras on amount.
It is generally used by, short term companies eg: sudden increase needed in production during festive season. In this scenario, for excess production, business needs extra money, but not a pressure of a bank loan. Here, Overdraft becomes helpful.

b) Trade Credit: It is an agreement between company and suppliers stating credit purchase/sales of goods and services. ~~A~~ It is also a type of 'Free Finance' for businesses as they can use goods without making payment for months. Some suppliers may give immediate cash discount so that company makes payment at time of purchase.

c. Factoring: Factor or factoring house is like a middleman in payments. Seller, after selling goods to company, may send the invoice to factoring house, Factoring House gives 85-90% money to seller. Now factoring company continously checks upon the buyer asking for payment. They may call the buyer many times as they need the money. This is Non-Recourse Factoring.

Another case is where, seller gets money from factoring house. Now the selling company is responsible to get the payment from buyer, on behalf of Factoring House. Factor has no control over debt collection process.

- Final Settlement: 85% Money + Interest on 85% — Invoice Value.

d. Bill of Exchange: They are Two Name Papers as they have name of company that owes money and accepting bank.
BOE can be sold to discount house, or bank which we pay amount less than face value of bill.
It means that bank gaurantees payment against bill to whomsoever holds bill at maturity.
It can be used to raise short term finance.

e. Commercial Paper: A Single Name Paper, for short term borrowing by large companies For company, issuing commercial paper, is better alternative to overdraft or short term bank loans.
It is a bearer document, i.e. no registration of holder and payment is made to anyone who holds the bill / piece of paper at end of term.
Issued at discount, redeemed at par, Effective Interest Rate paid is slightly higher than one on risk-free investment. The size of margin of interest depends upon credit rating.
Although not listed on Stock Exchange, it has one another market for borrowing.

Q.7. Lease is an agreement where owner of an asset, gives the lesse (borrower) the right to use the asset for a period of time, in return for regular series of payments. Ownership doesnot change.

In operating lease, owner of asset will retain most of risks associated while ~~son~~ owning the asset. The lease is for period relatively shorter than expected life of ~~per~~ asset.

- When any owner gives any asset for small period of time and then still enjoys the profits and bears the loss on asset till the life of product, it is called operating lease.

In finance lease, leasse borrows asset for a period nearly equal to life of an asset. All risks of success/failure of asset is borne by leasse. It can also be said, that finance lease is like buying asset outright but financing it by paying small amount of rents rather than whole amount.

- When owner has little interest in the asset value and lends it for a period near to life of asset, it is finance lease.

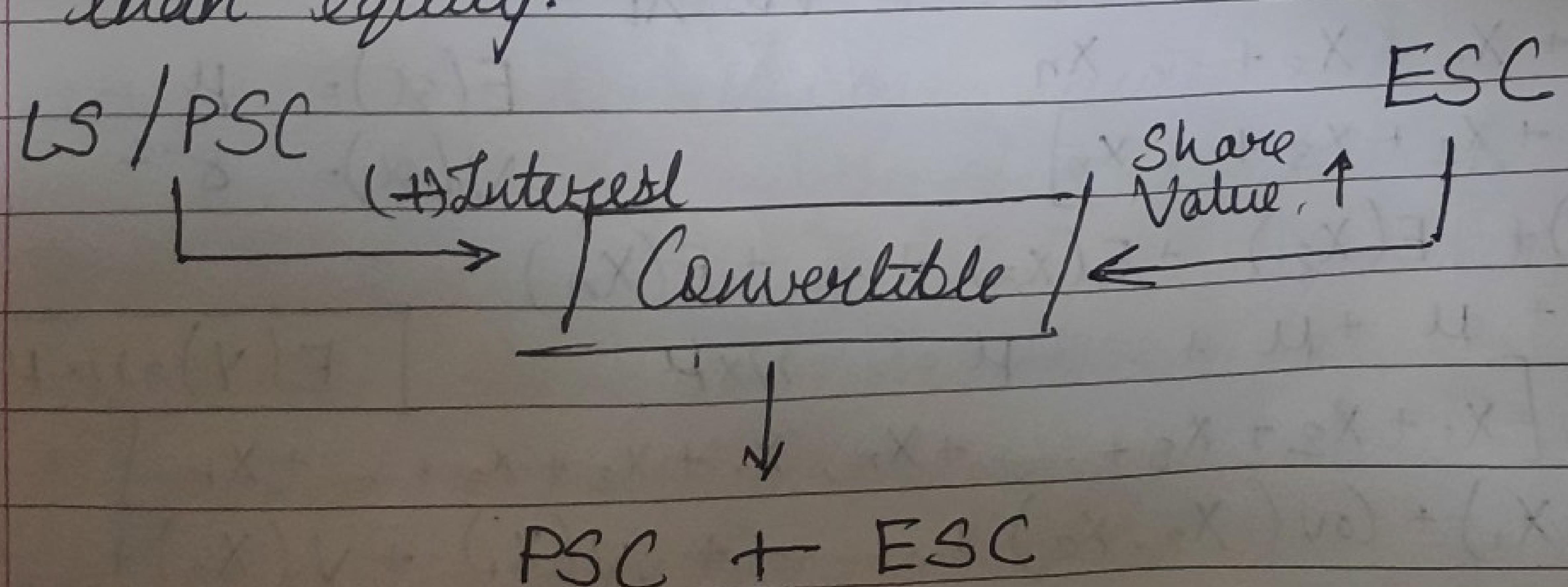
Q.8 i. Convertible: They are ~~a~~ form of securities, unsecured loan stocks or preference share capital, that can be converted into equity shares of issuing company.
Interest charged on loan stocks or PSC is lesser.
PSC or loan, can be converted into an Equity at a future date at the discretion of the investor.

ii.) Warrant: Here warrant is an ~~assurety~~ assurance and permission that any money lent as loan/PSC can be converted to Equity Shares of the company, at

a future date, on the discretion of the the investor based on the company performance and stock market position of that company.
Warrant is like a gaurantee of conversion if needed in future.

iii) A convertible must be traded at higher price than equity because, if any convertible is getting converted into an equity share cap, at a prize lower than stock market, then everyone will ~~auto~~ instantly convert into equity. Thus, value of a convertible decreases.
Hence, people will start buying convertibles rather than Equity Shares.

iv) For an investor, convertible helps to combine the lower risk of debt security with potential large gains of equity.
Convertible gives benefit of loan stock or PSC investment with regular interest payments, and then, when converted into equity, gives, the bigger benefit from stock market for sure.
As convertible is combination of loan stock / PSC and equity, it surely gives more yields than equity.



∴ Convertible gives a running yield greater than Equity.