

BUSINESS FINANCE

Assignment-I

- 1) Comparison between Traditional partnership and LLP:
 - a) Traditional partnership refers to an arrangement wherein two or more person agree to carry on a business and share profits & losses mutually while Limited Liability Partnership is a form of business operation which combines the features of a partnership and a body corporate.
 - b) Partners are collectively known as firm, so there is no separate legal entity while LLP has a separate legal status.
 - c) Traditional Partnership has an unlimited liability whereas LLP's Liability is limited to capital contribution, except in case of fraud.
I would suggest the 4 medical practitioners to setup the practice in LLP format to avoid unlimited liability.
- 2) I partially agree to Mr. Darshan Lodha as some shareholders give more value to the companies which have higher earning as they have high growth potential
But there as those set of investors too who prefer to take less risk and invest in more stable companies.
- 3) As an investor in a startup, I would suggest Mr. Kevin to subscribe to convertibles because it will give him a security and a long-term wealth creation opportunity.
- 4) Differences between Private Ltd and Public Ltd. Companies are as follows:

Private Ltd. Company	Public Ltd. Companies
No minimum share capital.	A public limited company must have a minimum of £50,000 in share capital.
• Not permitted to trade on stock market. • Can only sell or transfer shares privately.	Can sell shares on the stock market to raise money for the company.

• Requires at least one individual to act as director, who must be at least 16 years old. • This person can also be the sole shareholder. • Doesn't require a company secretary.	Requires a qualified secretary and at least two directors, who are all different people.
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5) Pros. of proprietorship:

- Easy to Establish - A sole proprietorship business does not have any specific registration requirements and the proprietor's legal identity is used by the business. Hence, a proprietorship can be started without any registration.
- Easier to Operate - As a single person is at the helm of affairs, it is easier to operate as the particular person will be the sole decision maker and he need not consider a plethora of opinions.
- Privacy - Since sole proprietorships are an unregistered form of entity, there is no database maintained by the Government with a list of all proprietorships.

Cons. of proprietorship:

- Unlimited Liability – This is one of the most disturbing aspects of a sole proprietorship firm. On the occurrence of a loss, the proprietor must meet the liabilities at any cost, which implies that if the need occurs, his/her personal assets may have to be used for discharging the liabilities.
- Difficulty in Obtaining Funds - A sole proprietor cannot indulge in sale of business interest or shares, which deprives the entity from the receipt of any type of equity funding.

6) Suitable methods for Delta corp. to raise short term funds for working capital needs are:

- bank overdrafts
- trade credit
- factoring
- bills of exchange
- commercial paper.

7) Operating Lease - An operating lease is a contract that permits the use of an asset without transferring the ownership rights of said asset.

Financial Lease - A finance lease is a type of lease in which a financial company is typically the legal owner of the asset for the duration of the lease, while the lessee not only has operating control over the asset, but also some share of the economic risks and returns from the change in the valuation of the underlying asset.

8) Answers of the following are:

- i. Convertible - A convertible is a bond with an option for the holder to exchange the bond into "new" shares of common stock of the issuing company under specified terms and conditions. These include the conversion period and the conversion ratio.
- ii. Warrant - A warrant gives investors a right to buy an underlying security at a certain rate in the future. Convertibles, on the other hand, allow investors to convert their security into the common stock in the future.
- iii. Convertible bonds allow investors to exchange the bonds for a stated number of shares of the firm's common stock. This conversion feature offers investors the potential for high returns if the price of the firm's common stock rises. Because of this feature, the bonds can be issued at a higher price.
- iv. Like regular corporate bonds, convertibles pay income to investors. But unlike bonds, they have the potential to rise in price if the company's stock performs well. The reason for this is simple: Since the convertible bond contains the option to be converted into stock, the rising price of the underlying stock increases the value of the convertible security. If the stock does poorly, however, the investor may not be able to convert the security to stock and will only have the yield to show for their investment. But unlike stock, convertible bonds can only fall so far provided the issuing company remains solvent since they have a specific maturity date when investors will receive their principal. In this sense, convertible bonds have a more limited downside than common stocks.