Business Finance Assignment

Q1. Traditional Partnership Vs. Limited liability Partnership.

	Traditional Partnership	Limited Liability Partnership
	Description	
i	When two or more people come together to do a business they may form a partnership.	i Any firm consisting of 2 or more members ~~engaged in a profit making~~ and of course no shareholders is a limited liability partnership.
	Legal Documentation	
ii	~~A~~ In traditional partnership a "partnership agreement" is made which sets out the rights of individual partners.	ii A LLP is governed by the Partnership agreement that may already be in force with in an ~~esta~~ existing partnership. A LLP has to be registered at Companies House. A LLP is taxed ~~as in~~ the same way that conventional partnership are taxed.
	Liability	
iii	The owners have an unlimited liability. All ~~partn~~ partners are jointly liable for any business debt. They will also be 'severally liable' i.e. each partner is liable to the full extent of their personal assets for the deficiencies of partnership.	iii LLP is itself responsible for its assets and liabilities. The liability of its members is limited.

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In my suggestion the 4 medical practioner should start a limited liability Partnership, It has many benefits i.e. the liability of the ~~Partnership~~ Partners is limited unlike tradional Partnership. The members of the partnership have to pay personal income tax only and no taxes on the company's profits.

Q2. The statement is my ~~opion~~ opinion is some what ~~correct~~ false because there are many other factors which are ~~consi~~ considered ~~by~~ while valuation of a company.

~~Sheath~~ Shareholders are mostly interested in maximising the value of their investments which is a correct attitude and mind-set to go by. A company which has higher earning will be given more value by the shareholders because they are going to get it's rewards which makes the ~~s~~shareholders happy. This will attract more and more shareholders and will result in ~~these~~ the increase in the value of share. The directors and board members also take wise and fruitful decisions ~~so~~ so that they can earn more and more profits. Not only these things share-holders also look at the goodwill of the company, ~~how if~~ if there are any malpractice taking place in the company. The expectations of worker, employees, labours and other stakeholders needs to be fulfilled. ~~No~~ Nowadays the environmental damage caused by several companies are also taken into consideration.

Therefor the CFO must not only focus on profit maximization but also ~~on~~ optimum utilization of resources, business ethics and social responsibilities is also must.

3. As per my opinion an investor should invest in convertible preference share. Convertible preference shares are preference shares which give right to convert it into ordinary shares at a future date. No additional ~~or~~ charges are paid by the investor in convertible preference shares other ~~to~~ than surrendering the convertible preference shares. The investor gets to ~~experi~~ experience the best of both the worlds. Mr. Kevin should opt for convertible preference shares as it is less volatile in term of price when compared to the share price of the underlying equity. The security of dividend payments is higher in convertible preference share as compared to an ordinary share the ~~of~~ choice of converting it acts as an extra benefit. These provide higher income than ordinary shares. The ~~pre~~ convertible preference share offers a combination of lower risk of a preference share with potential for ~~g~~ large gain of an equity.

4. Difference between Privet limited and Public limited.

Privat Limited Companies	Public Limited Companies
Description	
1 All other limited companies are classed as privet limited companies. A privet limited company's name must end with the word "limited". ~~A privet limited company is not~~	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 atleast £50,000. The name must end with "public limited company". or PLC.

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Offering of shares	
ii A private limited company is not allowed to offer its shares to the public.	ii A public limited company is allowed to offer its share to the general public.
Registered	
iii A ~~public~~ private limited company cannot be registered in stock market.	iii A public limited company can be registered in stock market as it is a requirement of stock market ~~to~~ ~~that~~ it must have a full stock exchange listing.
Name	
iv The name must end with the word "limited" or LTD or Ltd.	iv The name must end with "public limited company" or PLC or plc.

5. A proprietorship or sole trader is a business which is owned by one person and which is not a limited company. Sole traders have unlimited liability for their business. The pro's and con's are :-

Pros

i The owner is the whole sole person to take the decision for the business. He has freedom for taking independent decisions.

ii It is easy to setup a sole proprietorship business.

iii Registration of a sole proprietorship is not compulsory.

iv The sole trader can withdraw money from business as needed, he is not answerable to anybody.

Cons

i The liability of a sole trader is unlimited.

ii ~~Thus~~ a sole trader is not a separate legal entity hence answerable

iii

6. Delta corps can raise funds through several methods for working capital which are :-

(i) Trade credit → It is an agreement between a company and one of its suppliers to pay for goods or services after they have been received by the company. Trade credit is also given on a ~~wst~~ whole sale goods supply i.e. in large quantity. Goodwill plays an ~~ref~~ important role in trade credit. It often leads to late or no payments which results in a dispute between the creditor and the customer.

(ii) Bankoverdraft → It is a facility given by bank to current bank account holders. It is a form of a loan that a current account holder can withdraw more amount that is present in its account. The ~~aaa~~ borrower pays interest on the exceeded amount which has been withdrawn. The disadvantage of bank overdraft is ~~that~~ the bank can anytime ask for the repayment of the amount.

(iii) Bills of exchange → A bill of exchange is an ~~document~~ instrument in writing containing an unconditional order, signed by the maker to pay a person a certain sum of money to the payee. A bill of exchange can be sold on a discount house or a bank ~~and~~ which will pay a price below the face value of the bill. There are 3 parties to a bill i.e drawer, drawee and payee. It must be signed by both drawer and drawee.

(iv) Commercial paper → It is a form of a short-term borrowing by large companies. Commercial paper is a type of bearer document i.e there is no register of holders. Payment is made to who-soever ~~is~~ presents the document at the end of the term. It is issued at discount and later redeemed at its face value. These instrument ~~for an agreed period~~ must be described as a ~~sing~~ 'single name'. The security is provided only ~~too~~ ~~too~~ by the company issuing the paper.

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(v) Factoring → There are 2 types of factoring i.e
a) Recourse factoring – A copy of the invoice is sent to the factor who then gives the supplying company the money up front. The factor has no control over the debt collection process, so it charges the supplying company interest on the money that it has paid from the debt the advance was made to the debt that supplying company gives the factor money.
b) Non-recourse factoring → Non-recourse factoring is when the supplier sells on its trade debts to a factor in order to obtain cash payment of the accounts before their actual due date. The factor takes all responsibility for credit analysis of new account, payment collection and credit losses.

7. Operating and Financial lease

~~(i) Operating lease →~~

→ A lease is an agreement the owner of an asset gives the other person the right to use the asset for a given period of time ~~for~~ ~~an~~ in return for a regular series of payments. The legal ownership of the asset does not changes. There are 2 parties one the 'lessor' and the other 'lessee'. The 2 types of leases are –

(i) Operating lease → The owner of the asset will retain ~~the~~ most of the risks associated with owing the asset. The lease will be for a period specifically shorter than that of the life of the asset.

(ii) Financial lease → The 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. In financ lease the lessee is in a similar position to buying the asset outright but financing this by paying rent than by paying a lump sum amount.

Q8. Explain

(i) Convertibles ⟹ Convertible forms of company securities are almost invariably, unsecured loan, stocks or preference shares that convert into ordinary shares of the issuing company. Convertible preference shares are preference shares which give the right to convert into ordinary shares at a later due date. The investor does not pay anything to convert other that surrendering the convertible preference share. Convertible unsecured loan stocks are unsecured loan stocks which give the right to convert into ordinary shares of the company at a future date. It might be redeemed on a prescribed basis immediately. Convertible securities offer the opportunity to combine the lower risk of a debt security with the potential for large gains of an equity. It provide higher income than ordinary shares and lower income than conventional loan stock or preference shares.

(ii) Warrant ⟹ Warrants are call options written by a company on its own stock. The purchaser of a stock warrant has the right but not the obligation to buy a fixed number of the company's shares at a fixed price at a future date. This right is known as 'exercising'. When they are exercised the company issues more of its own shares and sell them to the option holder for the strike price. The exercise of warrant leads to an increase in the number of shares that are outstanding. The warrant holder are not entitled to vote or receive dividend.

~~A warrant~~

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iii A convertible must normally trade at a higher price than equity stock so as to prevent the investor to make instantaneous profit at the time of conversion and sell his stocks immediately. The company would face losses almost every time an investor converts his preference shares or loan stock in equity share. Therefore a convertible becomes a big liability for the company instead of being a source of funding for them. Hence the prices at which the investor received the shares is usually greater than market price. So if he tries to sell those units which are technologically bought at a higher price, the investor ~~ma~~ will face losses.

iv The ~~rea~~ running yield of a convertible must be greater than equity because of the mandatory dividend or coupon payment in preference shares and loan stock. Preference shareholders have a preferential right to ~~eig~~ either dividends, a return of capital or both, as compared to ordinary shareholders. In a loan stock the company has to make ~~mandatory~~ mandatory coupon payments to the investor. Ordinary shareholders ~~must~~ may not receive dividend payment at time but preference shareholders always do. The dividends or coupons received from a preference share or loan stock are usually more in value than dividends received ~~on~~ on ordinary stocks. The dividend payment is fixed and does not depend to the same extent on short-term growth of company. The security of dividend payment for a convertible is higher than that of an ~~ordo~~ ordinary share and the option to convert to an ordinary share or leave it as a fixed ~~interest~~ security allows the investor to be sure of a ~~m~~ minimum expected returns. Thus running yield of a convertible is greater than an equity.