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B.F Assignment 1.

Q1) 4 medical practitioners are planning to set up their own practice, compare and contrast traditional partnership v/s LLP. Give your suggestion.

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Traditional Partnership	Limited Liability Partnership
1) In this type, the owners have unlimited liability. They are 'jointly' and 'severally' liable to the full extent of their personal estate for the deficiencies of partnership/ business debts.	1) LLP is responsible for its assets and liabilities and liability of the partners is limited. Individual members found to be negligent or fraud in dealings will be held liable and action taken
2) Formed when 2/more people agree to own and operate a business which is not a limited company.	2) This is a business vehicle or model that gives benefits of limited liability but retaining the characters of a Traditional one.
3) Usually, all partners will be involved in the business operations except sleeping partners who only provide money.	3) An LLP has no directors, shareholders and thus it's run by the members. It is governed by a partnership agreement.

T.P	L.L.P
4) Usually such TPs have an agreement / deed which sets out the rights & rules	4) An LLP doesn't have memorandum & articles of association and is also governed by a partnership agreement
5) No specific documentation is needed to form a T.P	5) It has to be registered at Companies House, the document must be signed and the accounts are like that of companies.

I think, the practitioners should adopt for an L.L.P as it suits perfect for all the requirements they have.

Q2) Mr. Darshan Lodha the new CFO is of the perspective that shareholders give more value to corporations which have higher earnings. What is your opinion about his views?

→ Shareholders, i believe, are partial owners of the company and thus the primary objective of a company is to maximise shareholder's wealth.

- Shareholders give more value to the corporations which have higher earnings because it reflects a positive economic added value i.e. net profit exceeds the firms capital cost which then shows value addition for shareholders.

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- Higher earnings mean higher dividends and capital gains for the shareholders on their investment.

Thus, I totally agree to the new CFO's opinion and respect it, equally!

Q3) As an investor in a startup suggest that MR. KEVIN must subscribe to ESC, PSC OR CONVERTIBLES?

→ Since Mr. Kevin's an investor in a startup, i suggest him to subscribe to convertibles.

- Convertible unsecured loan stocks are unsecured loan stocks which give right to convert into ordinary shares at a later date. They have a stated annual rate of interest.
- Convertible preference share are preference shares which give right to convert into ordinary shares at a later date. The stated rate will be in a similar format to dividends.

Also, it is more suitable than equity shares capital or preference share capital since, overall there's less validity in the price of convertible than the price of underlying equity.

Q4) Explain differences betn private LTD and Public LTD.

→ ① A public LTD is a company recognized stock exchange and stocks are traded publically. while, private LTD is neither listed nor are the stocks traded.

② Minimum no. of members required to start a public company is seven.
while for private its Two!

③ In case of a public company, it is compulsory to call a statutory meeting of members.
while, there's no such compulsion in private LTD.

④ Issue of prospectus / statement is mandatory.
Not the case, in private LTD.

⑤ A signed written resolution is received by holding general meetings of Private LTD but their's greater regulatory burden on Public LTDs.

⑥ while it is mandatory for public companies to appoint a company secretary, private companies may choose to do so only at their will.

Q5) Mr. Mohit feels that setting up a proprietorship business is best suitable to him. Explain him pros and cons.

→ A sole proprietorship is a business owned by one person and which is not a limited company. They are the sole owners of the business but may/may not have employees.

PROS:-

① As the sole trader is the only owner of the business operations, it leads to quick decisions

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thus efficient.

② sole trader can draw out money from the business as per their wants.

③ sole trader is the recipient of all profits.

④ No specific documentation is needed to legally establish this form of business entity, but has to pay income tax.

CONS:-

① The sole trader has unlimited legal liability for debts and hence, sole proprietor's personal wealth will be available to pay off debts.

② sole trader has limited resources and may face problems while raising capitals.

③ Business is dependant on the sole proprietor, Hence, death insolvency can lead to closure.

④ there's limited scope for expansion and growth owing to constraints on capital and limited managerial skills / abilities.

Q6) Delta corp wishes to raise short term funds for working capital needs. suggest suitable methods.

→ ① Trade credit:-

- It is an agreement between company & supplier to pay for the goods/services after supply.
- Generally no explicit interest is charged. Late payment is quite frequent in certain industries.

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② Bank Overdrafts:-
- An overdraft is a form of short term borrowing from a bank where borrower is generally granted facility to draw money out of current account to a point where it becomes negative.
- Borrower pays interest on amt. overdrawn.

③ Factoring:-
A) Non-recourse factoring:- when supplier sells trade debts to a factor to obtain cash payment before maturity / due date. Factor is responsible for credit analysis, payment collection & bears the credit risk.
B) Recourse Factoring:- It is a loan secured against invoices and has a value that fluctuates with the amt company sells.

④ Bills of Exchange:-
- It is a claim to the amt. owed by purchaser of goods on credit.
- It can be accepted by bank - Thus, bank guarantees payment to the issuer at maturity.

⑤ Commercial Paper:-
- It comes in the form of bearer document for large denomination - issued at discount and redeemed at par.

- Not listed on stock exchange.
- The company that raises finance by commercial paper must be listed on Indian Stock Exchange, and issue a statement to confirm that they comply with requirements of stock exchange.

Q7) Explain operating and financial lease.
→ Operating Lease involves the owner of the asset to retain most of the risks associated with owning the asset. The lease is for a period shorter than the life of the asset.

Financial Lease the leasee takes on most of the risks related to ownership of the asset. The period of lease will be similar to life of the asset.
It is almost equivalent to lessee buying the asset by paying rent rather than lumpsum.

Q8) Explain:-
i) Convertible:-
Convertible refers company securities, almost invariably unsecured loan stocks or preference shares that convert into ordinary shares of the company.

ii) Warrant:-

Warrant gives the owners of the convertible the right to buy shares without paying cash but rather by exchanging the bond for the shares of the stock.

iii) Why a convertible must normally trade at a price higher than equity stock?

→ Convertibles normally trade at higher price since:-

① There's less volatility in the price of the convertible than underlying equity.

② It gives investor the option to keep the bond or exchange it for shares, thus it has a higher price.

iv) Why the running yield of convertible must be greater than equity?

→ ① It combines the lower risk of debt and large gains of equity. Owing the benefit, the running yield of convertible must be greater than equity.

② Also, since there's the ~~[illegible]~~ option and not an 'obligation' to convert.

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