Grade: ______ Div.: ______ Roll No.: ______

Date : ______ Subject : ______ Topic : ______

Business Finance Assignment - 2

1.i Liquidity ~~ro~~ preference refers to the preference of investors to hold liquid assets rather than securities or long term interest-bearing investments. e.g. Investors often tend to demand a higher ~~risk~~ interest rate or premium on securities with long term maturities that carry greater risk when investors prefer cash or other highly liquid holdings.

2. Yes, listing ~~a~~ the company would also affect their dividend policies in some way. As and when the company grows and earns profit the share price of the ~~sto~~ company will eventually increase, so to attract more and more customers the company will make some changes in the dividend policy. Every investor enjoys ~~to~~ dividends. Although it is not compulsory for a company to ~~st~~ give dividends by few changes in the dividend policy will benefit ~~a~~ the ~~investor~~ shareholders as well as the company itself.

3. Factors that affect the dividend policy of a company are:-

a) Stock Markets → It ~~p~~ displays significant adverse reaction to announcements of dividend cuts. Managers therefore tend to conservatism in good ~~tax~~ years, particularly in cyclical industries and for smaller companies. A change of dividend policy can have significant repercussion for a company's market rating and its capacity to raise finance.

b) Cash Reserves → Companies with large cash ~~res~~ reserves that fear a takeover bid may well distribute generously to both encourage shareholder loyalty and limit the size of the cash pile. A cash pile is seen by investors as a sign of weakness.

c) Tax → Companies with a large proportion of non-tax paying shareholders may feel it appropriate to distribute a large portion of earnings. Non tax ~~tax~~ payer will ~~choose~~ prefer the companies ~~distribu~~ distribute dividends more.

d) ~~Growth~~ Stability and consistency → An adverse market reaction will be caused by any move from one category to another as investors readjust their portfolios for high dividend giving companies.

e) Growth opportunities → Companies in high-growth industries may find that the demands for capital investments to maintain competitive advantage exceed their capacity to borrow on satisfactory terms and may prefer to pay low dividends rather than making ~~p~~ frequency right issues.

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4. The business entities are:—

a) Sole Proprietorship

Ownership → Owned, managed and controlled by a single person.

Liability → Unlimited liability.

Legal status → No registration required so no separate legal entity.

b) Partnership

Ownership → Owned, managed & controlled by 2 more persons

Liability → Unlimited liability and upto their share of profit & loss.

Legal status → A seperate legal entity.

c) Limited Companies

Ownership → ~~Sharho~~ Shareholders are the owner.

Liability → limited liability to fully paid value of share.

Legal status → Seperate legal entity. Memorand of Association and Article of Association required.

d) Limited Liability Partnership

Ownership → Owned, managed and controlled by 2 or more persons.

Liability → limited liability.

Legal status → A seperate legal entity which is registered with the government.

5. In my opinion he should opt for sole proprietorship. Tax payment in sole proprietorship ~~m~~ is much less as compared to a ~~p~~ limited company. A limited company is a separate legal entity ~~which~~ due to which more tax is leived on it.

6. Modigliani and Miller's irrelevance proposition states that market value of a company is independent of its capital structure. The market value of a company is determined by its investment decisions and not by its financial decision. It states that the capital structure of a company does not affect its value.

7. Working capital → It is the difference between a current assets and current liabilities. It is too cash or other liquid assets that a business uses to cover day to day operations e.g. daily expenses.

Fixed capital → It is the value of capital assets which are used for production ~~purc~~ purposes e.g. machinery, property, equipment etc. It is a type of ~~g~~ capital good.

8. Economies of Scale are the cost advantages gained by the company when production becomes efficient and the company grows. This can be done by buying inputs required for production in bulk or hiring more skilled labours, ~~ruby~~ ~~options~~ and using the resources optimally and creating the best out of it. ~~These can~~ The risks and inefficiency can be minimized by training the workers and avoiding strike circumstances.

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9. If a pension fund has to report its financial position every year it may be more averse to very short-term investment losses that if it had to report only every three times. The consequences of this might be to force the fund to invest in less volatile assets in order to reduce the risk of having to report a poor financial position. It might therefore result in the fund investing less heavily in equities and possible also less heavily in long-term bonds.

10. ~~8~~ I would prefer Scenario a 2 because even if I ~~for~~ find Rs 2000 note in my back pocket the loss ~~worst~~ of ₹2000 won't change. The money I found in my back pocket is mine only and not some gift ~~or present~~ ~~so~~ Psychologically I might think its a gain and will forget about the loss of ₹2000 so I would prefer neither of these events occur.

11. Holding costs are those associated with storing inventory that ~~re~~ remains unsold. A firm's holding cost includes the price of goods damaged or spoiled, as well as that of storage place, labor and insurance. It is an additional cost.