Assignment 1

Q1 4 medical practitioners are planning to set up their own pratice, compare and contrast Traditional partnership vs LLP. Give your suggestions.

Ans I would suggest the 4 medical practitioners ~~are~~ ~~pt~~ to set up Limited Liability Partnership ~~In~~ instead of traditional partnership.

→ A partnership is a business which is owned by more than 1 person and which is not a limited company. whereas LLP is a new corporate identity. LLP was introduced in UK in 2001. This is a business vehicle the benefits of business limited liability while retaining other characteristics of traditional partnership.

→ The most important difference between partnership and Limited Liability partnership is, the liability. In traditional partnership the liability of partners is unlimited, joint and sevralit means that incase of loss the business is insuffient to pay the debts the partners private estate will be in danger. They would be liable jointly to pay the debts. whereas in Limited Liability partnership the liability of partners is limited LLP ~~itsep~~ itsey responsible forassets and liabilites. The liability of partners is limited but as the companies however actions may be taken againts individual members who are found to be negligent of fradent in the evidence.

→ Traditional Partnership is not a seprate legal entity whereas LLP is a seprate Legal entity. It can act in its own name. (enter contract, hold propertyetc).

→ Two or more partners engaged in profit making are not partners or shareholders. In LLP they are known as membes

→ Traditional patnership and Limited liability Partnership are controlled by the Indian Partnership Act 1932 and both of them are taxed the same way.

Thus these are the comparison and contranst between LLP and Traditional Partnership and thus for these reasons I would recomend LLP.

2 Mr Darshan Lodha the new CEO is of the prespective that shareholders give more value to corporations which have higher earnings. What is your opinon about his views. (5 eg notes)

I completely do not agree with Mr Darshan Lodha's prespective that share holders give more value to corporation which have higher earning. This takes into consideration other factors while valuing a company.

It is a fact that shareholders are intrested in maximising the value of their investment in shares. They want high returns on value of their investment. A company which has higher earnings will be given more value by the share holders as higher earning implies increasing profit which will automatically attract the investors and result in increasing share price. Higher earnings also implies a strong and wise board of directors and senior management whose strategic decisions to make wise investments generated a health return on invested capital.

However, share holders also take into consideration the social responsibilitys undertaken by the company and their ethics of praticing business. The shareholders look into the way by which the company is genrating profit. Companies reputations can be seriously damaged if they are found to be untrustworthy or thought to be unethical, and there can be serious consequences for the share price. Firms must take into account the effects of their policies, and actions on society as a whole. The expectations of workers, consumers and various interest group create other dimensions of the external enviorment that firm must respond to. Externalities (such as pollution, product safety and job security) must be considered when formulating policy

Thus, the shareholders also value the company on the basis of their business ethics & social responsiblities undertaken by them. CFO must strive to maximise shareholder wealth within external constraints such as social responsibility and business ethics.

3 As an investor in a startup suggest that MR Kevin must subscribe to ESC, PSC or CONVERTIBLES.

As an investor in a startup Mr Kevin must subscribe to convertible preference shares convertible preference shares are preference shares which give the right to convert into ordinary shares at at a later date. The investor does not pay anything to convert other than surrendering the convertible preference shares. This means the investor is able to get the best of both worlds. The investor also has the option to not convert into ordinary shares if he believes that the company isn't performing well.

Ordinary shares (ECS) offer investors the potential for high returns but shareholders take great risk, particulary the risk of capital loss and paying dividend on these shares is not mandatory.

Preference Share ~~holders~~ (PCS) offer the investor a lower risk than ordinary shares and therefore a lower expected rate of return

Thus, a convertible preference share will be best for Mr Kevin as an investor. They will generally be less volatility in the price of the convertible than in the share price of the underlying equity. This is because divident payment is fixed and to a extend does not depend to the same extent on the short-term profit growth of the company. The security of dividend payment for a convertible is higher than that of an ordinary share and the option to convert an ordinary share or leave it as a preference share allows the investor to be sure of a minimum expected return.

Thus I ~~recommend~~ suggest Mr Kevin to do so.

4. Explain the difference between private Ltd and Public Ltd.

Ans A Limited company is business which has legal entity seprate from the owners business. There are two kinds of Limited companies:-
① Private Ltd and ② Public Ltd.

The difference between the two is as follows.

| Basis (Appreviation written as mentioned) | Private Ltd | Public Ltd. |
|---|---|---|
| ① Meaning | Documents mention it to Private Ltd. A company is a private company if it is not a Public Ltd company. | Docoments mention it to be a Public Ltd Co. |
| ② Paidup Capital | No minimum requirements of paid up capital. | Issued Share capital >= GBP 50000 |
| ③ Name ends with | Name ends with ~~Ptc~~ Ltd | Name ends with ~~Ltd~~ PLC |
| ④ Registered under | Registered under ROC as a ~~Ptc~~ Pvt Ltd Co. | Registered under ROC as a ~~Pvt Ltd~~ Co. PLC |
| ⑤ Offer of Share to Public | No offer of share to the Public | Shares are offered to the public (It may be listed or non listed. |
| ⑥ Minimum Members | Minimum 2 members are required to form a private company. | Minimum 7 members must be required to form a ~~private~~ public company. |
| ⑦ Maximum Members | The maximum limit of members in a private company is 200 | There is no maximum limit of members in a public company. |
| ⑧ Issue of Prospectus | Not required in ~~public~~ private company | It is mandatory in ~~private~~ public company. |
| ⑨ Share Transferabiliy | ~~Not~~ Transfer of shares ~~is~~ is restricted in private company. | Shares can be most of the time freely transfered. |

5 Mr Mohit feels that setting up a proprietorship business is best suitable to him. Explain him pros & cons.

Ans A sole trader is a business which is owned by one person and which is not a limited company. Sole trader have unlimited legal liability for their business debts.

There are various pros and cons of this type of business. The pros of sole proprietorship are as follows:

1) Legal and Accounting documentation - No specific documentation is needed to legally establish this form of business. Sole trader just need to file normal income tax return in respect to the business.

2) Easy formation: It is very easy to form since there are minimum legal formalities for its formation.

3) Quick Decision:- The decisions of the sole trader completely rely on him/her. They do not need to consult ~~any~~ anyone. He is not answerable to anybody.

4) Maximum Secrecy:- ∵ the sole trader becomes the owner and manager he does not need to disclose his business strategies to anyone. Helping him maintain the maximum secrecy possible.

5) Flexibility:- A sole trader can start the business at his/her own will and shut down the business whenever desired ~~but~~ and also ~~share~~ sole trader can increase the capital and reduce the capital on his will.

6) Profit:- The sole trader enjoys the profit of the whole business giving him more motivation to work for himself.

The cons/disadvantages of a propritorship business are as follows:-

1) Limited Capital:- As sole trader is a single owner his capacity for raising capital is limited. May raise money (capital) from his friends, relatives & banks etc. Such sources are limited.

2) Limited managerial skill:- A sole trader has to manage and control the business. He may not posses qualification and experience.

3) Unlimited Liability:- The ~~tabil~~ liability of sole trader is unlimited. There is no distinction between personal assets and business assets. So he cannot be seprated from his business. His private property will

be in danger incase the business goes into bankcurrpcy.

4) Lack of Stability :- Existence of sole trading concern is totaly dependent on the existence of sole trader Death, insanity or insolvency of the sole trader affects the existence of business.

5) Lack of Specialization :- Division of work leads to specialization But sole trader involved in all activities of his business such as buying selling accounting etc. He has to play multiple roles so it is said that, "He is jack of all traders, master of none.

6) Not suitable for large scale operation : Sole trader conducts his business on small scale Generally, he operates in local market. Sole trading concern is one man show', Business can not be extended beyond certain limit.

Thus these were the pros and cons of having a sole trading concern/ proprietorship.

6 Delta corp wishes to raise short term funds for working capital needs. Suggest suitable methods.

There are various ways through which he can raise short term funds. These methods are as follows

1) Bank overdraft- Overdraft is the form of short term borrowing from bank. The borrower is granted facility to draw money out of the current account ~~as~~ even after it becomes negative. The amount borrowed in negative has a limit to it. Borrower has to pay interest on the amount accutaly ~~with~~ over drawn. No explicit capital repayment is made. Interest rate are most vary on daily basis. A banker may demand immediate repayment of overdraft with no notice

2) Trade credit :- It is an agreement between a company & one supplier to pay for the goods or services after they have been supplied. Trade credit available from almost all suppliers of goods & services to their business customers. Goods which are delieverd to customer, they sent invoice demanding payment during set period (28 days to 91 days). Forms part of the suppliers normal term business. No explicit interest is charged

3) Factoring :- There are 2 types of factoring :- i) ~~with~~ Non Recourse Factoring ii) Recourse Factoring.

i) Non-Recourse Factoring - when ~~seller~~ supplier sells on its tradedebts to a factor in order to obtain a cash payment of its accounts before the actual due date. Factor takes all the responsibility for creditanalysis of new accounts payment collection & credit losses.

ii) Recourse Factoring - A copy of the invoice is sent to the factor supplying company upfront equal to 85% of it set out. Supplying company is still responsible for collecting the debts from the customers - Supplying company ~~rec~~ recieves the money from the customer thus passes the amount to factor. Factor not responsible for collecting debts. Incase of default Supplying company is at a high credit risk.

4) Commercial paper - It is a single name form of short-term borrowing used by large companies. It comes under bearer document issued at discount and reedemed at par. From companies prespective commercial papers are alternative to ~~be~~ overdraft or short term bank loans. It is a type of bearer document (very liquid) Payment is made to person who ever is holding the paper at the end of the term. They are not listed in stock exchange however ~~5~~ bought and sold very easily.

5) Bills of Exchange: Bills of exchange is a two name paper that carry both the name of the company money and the accepting bank (if any present). If the Endoser of the bill is an eligible bank then bill is known as eligible bill of exchange and is a secure investment. For these types of bills banks gurantees payment against the bill to whom soever holds the bill at maturity. can be sold to raise short term finance.

Therefore these are the 5 different ways in which Delta corp can raise short term funds.

PAGE No.
DATE / /

7 Explain operating and financial lease.

Leasing is used by companies to obtain the use of machinery, property and vehicle. Key difference between Leasing and ~~cat~~ Credit sale or ~~higher~~ Hire Purchase is that ownership does not change hands at all. No Purchase No Sale. Lease is an agreement from the leasee to rent from the lessor. It is agreement where owner gives lease a right to use the asset in return of a series of payment

There are two types of lease - i) operating lease and financial lease.

i) Operating lease - The owner of the asset retain most of the risks associated owning the asset. Lease period is substially shorter than likely life of the asset. The owner takes care of the asset in this case he may carry regular tests on his asset.

ii) Financial lease - The lessee takes most of the risk associated owing the asset. The period is likely to be the same as that of the life of the asset. Using financial lease is similar position to buying the assets outright, but financing this by paying rent rather than paying the lumpsum up front.

Thus the difference hinges the length of lease in relation as expected economic life of the asset. This was operating and financial lease.

8 Explain

i convertible

ii warrant

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

iv ~~what~~ why the running yield of convertible must be greater the Equity?

i) Convertible - Convertiable forms of company securities are almost invariably, unsecured loan stock or preference shares that convert into ordinary shares of the issuing company. Convertible preference shares are preference shares which give right to convert into ordinary shares at a later date. The investor does not pay anything to convert other than surrending the convertible preference shares. Convertible unsecured loan stocks are unsecured loan stock which give the right to convert into ordinary shares of the company at a later date. If the holder chooses not to convert, then the security might continue as a loan stock or preference share for a period of time. Alternatively it might be reedeemed on a prescribed basis immediately.

ii) Warrant: Warrants are call options written by company on its own stock. The purchaser of a warrant has the right but not the obligation to buy a fixed number of company's shares at a fixed price (known as 'strike price') at a fixed date. Taking up this right is known as exercising. When they are 'exercised', the company issue more of its shares and sells them to the option holder for the strike price. The exercise of a warrant leads to an increase in the number of shares that are outstanding.

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

A convertible must normally trade at a price higher than equity stock so as to prevent the investor to make instantaneous profit at the time of conversion & sell his stocks immediately. The company would face losses almost everytime an investor converts his preference stock or loan stock in equity shares. Thus in the case the convertible become a big liability for the company instead of being the source of funding for them. Hence the price at which the investor receives the shares is usually greater than the market price. So if he tries to sell these units which are technically bought at a higher price, the investor will face losses. Thus, to make sure that the investor sticks with the company & does not make instant profit on his investment by selling them. the convertible normally trades at a higher price than equity stock.

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

The running yield of convertible must be greater than equity because of the mandatory dividend or coupon payments in preference shares and loanstock. Preference share holder have a preferential right to either divident, or return of capital or both, compared to ordinary shareholders. In a loan stock the company has to make mandatory coupon payment to investors. Ordinary shareholders may receive dividend payment atime but preference share always do. Also equity is an underlying part of the convertible, thus an increase in the share price increases the value of convertible Also equity is an underlying party of the convertible, thus an increase in the share price increases the value of convertible. Also divident or coupons received from preference share or loan stock are usaly more in value than dividends received than ordinary shares. The dividend payment is fixed and does not depend to the same extent on the short-term profit growth of the company. The security dividend payment for a convertible is higher than that of ordinary share and the option to convert to ordinary share or leave it as a fixed interest security allows the investor to make sure of minimum expected return convertibles generally provide higher income than ordinary shares and lower income than convential loan stock or preferance shares. This is because prior to conversion convertibles do not benefit from the dividend growth enjoyed by ordinary shareholders but longer term convertibles do offer the prospect of benefiting from the growth of the dividend. Thus, the running yield of convertible greater than the equity.