

Assignment - 1

- 1) 4 medical practitioners were planning to set up their own practice and they were confused between Traditional partnership and Limited Liability Partnership. ^{In} my view, they should opt for Limited Liability Partnership. Limited Liability Partnership is a new type of business identity that gives benefits of limited liability while retaining other characteristics of a traditional business Partnership. ^{4 people} ~~People~~ may be reluctant to become involved as a part owner of a partnership since they risk their entire personal wealth ~~and~~ as equipments for them would be of ~~high~~ expensive for which larger amount would be needed. However, LLP would help to arrange funds in greater quantity as well as they could benefit from limited liability. LLP company have to comply with certain rules regarding the standards of accounts which give investors confidence in the company but as they are 4 medical practitioners they could have traditional partnership also as they wouldn't have to publish their accounts and keep their accounts as well as documents private. However, if they require money they could easily determine the value of shares which are quoted but difficult way in traditional Partnership. Nonetheless, both type of business entity will need a Partnership deed but LLP has to register with companies board. Although, LLP have a benefit of separate legal identity, this will help them to focus on their work and be productive whereas the administrative and other work can be done by others. ~~Thus~~ Thus, stating all the points, I feel, 4 medical practitioners should ~~also~~ select limited liability Partnership to set up their own practice.

2) Mr. Darshan Lodha, the new CFO, is of the Perspective that shareholders give more value to corporations which have higher earnings but in my view, it is not the case and I disagree. Shareholders do look for companies which have higher earnings but it is not the only factor. They also give importance to corporations who have good management and higher prospects. They also look in for companies having greater utilization of resources and their expectations ^{on} the ~~com~~ ^{corporation} which can bring higher value to shares or give dividends with one of the aim should be maximizing shareholder wealth. Thus, I feel, Shareholders doesn't give more value to corporations which have higher earnings.

4) 3) The Limited companies are dissected in two parts which are Public Limited Company and private Limited company. In Public Limited companies, documents mention it to be Public Ltd co, ~~the~~ the company name ends with PLC and it is registered with ROC as Public Limited company whereas, In private Limited companies, documents mention it to be private Limited company, company name ends with LTD and it is registered with ROC as a private Limited company. However, in PLC, issued share capital should be greater than or equal to ₹BP 50000 and shares can be easily transferable but in private Limited company, ~~offer of~~ shares are not offered to general public. Lastly, Public Limited company has to compulsorily produce and publish audited accounts every year and share it with public but in private limited companies, accounts are only provided to members and not general public thus documents are more secret in private limited company than in ~~same~~ public limited company.

5) Proprietorship business has its own pros and cons. It is run owned by 1 person but they can run themselves or hire manager or employee. Mr. Mohit will be flexible at work and can decide what time to work, how much to work and can take holidays whenever he wants to and doesn't have to tell ~~about~~^{about} it to anyone else. Mohit would also benefit from freedom in terms of time and responsibilities and accountability. He will be able to further invest or withdraw money from the business as needed without any difficulty. However, in proprietorship business, there will be limited capital as it will depend on the money owner will provide though as there is no legal documentation, he would be able to save costs. Not only this, all information of business can be kept secret ~~and~~ and the proprietor will take all the decisions without consulting anyone. However, Mohit will have unlimited liability so his personal wealth would be available to pay off his liabilities.

7) A lease is an agreement where the owner of the asset gives the lessee the right to use the asset over a period of time. There are two types of leasing which are operating lease and finance lease. In operating lease, the owner of the asset will retain most of the risks associated with owning the asset and this lease will be for a period substantially shorter than the likely life of the asset. However, in finance 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.

3) An investor may want to find ways to invest in a startup and to subscribe in Eurobonds, preference share or convertibles.

Traditionally, a company would issue loan stock with the rules and regulations of its own country but Eurobonds helps companies to issue stocks and borrow money from another company. Kevin could also benefit from it. He will be able to invest in stocks of potential companies which are foreign based. However, if the investor wants interest on timely intervals then it wouldn't be possible. Eurobonds are bearer form documents which means that to claim interest payments, holders must cut out coupons from the certificates and send them to the company to redeem it and get back the money. Another one is preference shares. Companies making sufficient profits, try to offer a fixed stream of investment income opportunity and give them benefit of ~~choosing~~^{getting} back in form of dividends, return of capital or both and these are less risky, however in terms of wind up, after creditors and outsiders, preference shareholders will get money but it can be less or hard as it is a startup. Lastly, the other option could be subscribing convertibles. Convertibles will benefit Mr. Kevin a lot. Convertibles will help Kevin to get a stated annual interest payment for stated date and then he can get a chance to convert the loan into ordinary shares otherwise still continue with the interest payments. In respect of startup, as they ~~will~~^{can} struggle financially, it's better to have cash inflow in form of interest payments and if the startup booms and is successful then he can buy the shares and benefit from capital appreciation. Thus, I feel, as an investor in startup, Mr. Kevin must subscribe convertibles.

6) Delta corp wishes to raise short term funds which can be in form of Bank overdraft, Trade credit, Factoring, Bills of exchange and Commercial Paper, for working capital needs. Delta corp could use Bank overdraft facility in form of short borrowing from a bank and it only has to pay interest only on the amount by which they are actually overdrawn. The company can get access to funds immediately and can use it ~~without paying~~ but a bank can demand immediate repayment of an overdraft with no notice. Another one is trade credit. Company can use trade credit facility which will help them to pay for goods and services after they have been supplied within a stated date and in most cases, no explicit interest is charged. However, if they fail to pay on time or unable to do the payment then it will lose its relationships with its supplier and if supplier has a Union then the other suppliers will not ~~be~~ sell them goods and services which will affect their ~~be~~ business. Afterwards, Delta corp could use Factoring to raise short term funds. Factoring could help to obtain cash payment of the accounts before their actual due date. This will help the corporation to get their money early and ~~it~~ ^{it} can help to reduce bad debts but if the factoring company behaves unprofessional to the customer then it can cause Delta corp losing the customer and ~~has~~ ^{can} have its reputation at stake. Looking on other operation, then they could check on Bills of exchange. It will help to get the money and it is easily accepted by bank with a fee charged. This will help Delta corp sure about the payment as the bank guarantees payment against the bill to whomsoever holds the bill at maturity. Eventually, Delta corp can also issue Commercial paper. It ~~is~~ ^{comes} in the form of bearer documents for large denominations which are issued at discount and redeemed at par and it is used by large companies. However, to issue it, Delta corp has to adhere to the minimum standards and rules which can be tiring and tedious work. Thus, I feel, Bills of exchange is less risky and a best ~~way~~ method to raise short term finance.

- 8) i) Convertibles ^{is a} ~~form~~ bond, preferred share or another financial instrument which are almost invariably, convert into ordinary shares of issuing company.
- ii) A warrant gives the holder the right to purchase a company's stock at a specific price and a specific date.
- iii) Convertibles ^{allows} ~~offer~~ investors to convert the bond into a common stock as well as it offers potential to investors for high returns and so convertible normally trade at a price higher than equity stock.
- iv) convertible securities offer the opportunity to combine the lower risk of a debt security with the potential for large gains of an equity and so running yield of convertible must be greater than an equity.