BUSINESS FINANCE ASSIGNMENT.

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Q.1. 4 medical practisioners are planning to set up their practice, compare and contrast Traditional partnership VS LLP, Give your suggestions.

→ Comparison between Traditional Partnership and LLP.

Traditional Partnership	LLP
• Written agreement not essential	• Incorporation document essential.
• Not a legal entity separate from its partners	• It is a legal entity separate from its partners, having perpetual succussion
• Property cannot be held in name of partnership firm	• Property can be held in name of LLP.
• Death of partner dissolves a firm, in absense of agreement	• Death of partner does not dissolve LLP.

— My suggestion is, the partness of an LLP have more liability protection than partness of a traditional partnership, but they still have unlimited personal liability for obligations of the practice, that's why LLP is better for medical practisioners to set up their practice. LLP is a business vehicle that gives the benefits of limited liability whilst retaining other characteristics of a traditional business parlnerplp.

Q.2 Mr. Darshan Lodha the new CFO is of the perspective that shareholder give more value to corporations which have higher earnings. What is your opinion about his views?

→ Shareholder value is the value delivered to the equity owners of a corporation due to management's ability to increase sales, and free cash flow, which leads to an increase in dividends and capital gains for the shareholders.

A company's shareholder value depends on strategic decisions made by its board of directors and senior management, including the ability to make wise investments and generate a healthy return on invested capital. If this value is created, particularly over the long term, the share price increases and the company can pay larger cash dividents to shareholders. Mergers, in particular, tend to cause a heavy increase in shareholder value.

Q.3. As an investor in a startup suggest that MR KEVIN must subscribe to ESC, PSC OR CONVERTIBLES?

→ - From the ~~e~~ investor's (Mr Kevin) point of view, Convertible ~~sour~~ securities offer the opportunity to combine the lower risk of a debt security with the potential for larger gains of an equity. The price paid for this is a lower running yield than on a normal loan stock or preference share.

- Convertibles generally provide higher income than ordinary shares and lower income than conventional loan stock or preference share.

- For all investors, the expected return on preference shares is likely to be less than on ordinary shares because the risk of holding preference shares is less.

- Convertibe Preference Shares are preference shares which give the right to convert into ordinary shares at a later date. The investor does not pay anything to convert other than surrendering the convertible preference shares.

- From my point of view, Mr Kevin should subscribe for convertibles, as it is good for investors in a startup.

Q.4. Explain the difference between Private Ltd and Public Ltd.

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Public ~~Private~~ Ltd	~~Public~~ Private Ltd.
• Document mention it to be a Public ltd Co.	• Company is not a public Ltd company.
• Issued shared capital >= GBP 50,000	•
• Name ends with PLC	• Name end with Ltd.
• Registered with ROC as PLC	• Registered with ROC as Pvt Ltd co
• Produces audited accounts every year.	• No offer of shares to public.

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

→

Pros	Cons
• Easy setup and low cost	• Unlimited Liability
• No Corporate Business Taxes	• No Ongoing Business life.
• No annual Reports/ Filings	• Difficult to raise money
• Not restricted by formal business structure	• Inability to take on Business debt
• Easy Recordkeeping	• Can be seen as Unprofessional.

~~Q.6) Data corp. wishes~~

- **Pros** - 1) Easy setup & Low cost - Because a sole proprierterorship is not a formal business structure, there are no filings or paperwork. for you to complete before you get started
2) As a sole properietor, you don't pay 21% in corporate taxes on business profits the way you would in a C-corporation
3) Sole proprietorship do not require annual reports or filings with the state in order to stay current
4) Other, more formally structured businesses face certain limits on operations in addition to requirements they have to meet.
5) In an LLC or other formally-structured business, you're required to segregate your business and personal finances.
- **Cons** - 1) If you're a sole proprietor, you don't have any of the limited liability protections offered in an LLP, LLC, etc.
2) If you're a sole propreitor and something happens to you, however that's the end of the business
3) Structuring your business as a sole proprietorship is not a good idea if you may need to raise money from outside investors
4) Because a sole proprietorship isn't a formally-established company, it's not possible to take out a business loan,
5) Customers and business partners often view sole proprietorship as lacking professionalism

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

→ The methods to raise short term funds for working capital are as follows:

- **Bank Overdrafts** -

An overdraft is a form of short-term borrowing from a bank where the borrower is granted a facility to draw money out of a current account such that it becomes negative, down to an agreed limit. The borrower pays interest only on the amount by which they are actually overdrawn. No explicit capital repayments are made

- **Trade Credit** -

Trade Credit is an agreement between a company and one of its suppliers to pay for goods or services after they have been supplied. In most cases no explicit interest is charged.

- **Factoring** —

There are two types of factoring : "non-recourse factoring" and "recourse factoring" (or invoice discounting)

a) Non-recourse factoring is where the supplier sells on its trade debts to a factor in order to obtain cash payments of the accounts before their actual due date. The factor takes over all responsibility for credit analysis of new accounts, payment collections and credit losses.

b) Recourse factoring only provides early payment of invoices. It is a loan which is secured against the invoices, and has a value which automatically fluctuates with the amounts that the company sells. Credit risk remains with the original supplier.

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- **Bills of Exchange -**

A bill of exchange is effectively a claim to the amount owed by a purchaser of goods on credits and may be "accepted" by a bank (for a free"). This means that the bank guarantees payment against the bill to whomsoever holds the bill at maturity. The bill can then be sold to raise short-term finance.

- **Commercial Paper -**

It is a single name form of short-term borrowing used by large companies. It comes in the form of bearer documents for larger denominations which are issued at a discount and recedemed at par. Commercial paper is not listed on the Stock Exchange.

Q.7. Explain operating and financial lease

→ A lease is an agreement where the owner of an asset gives the lessee the right to use the asset over a period, in return for a regular series of payments. Legal ownership does not change hands. There are two types of lease:

1) **Operating lease -**

Under an operating lease, the ~~and~~ owner of the asset will retain most of the risks associated with owning the assets. The lease will be for a period substantially shorter than the likely life of the asset.

2) **Financial lease -**

Under a 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. The present value of the payments under the agreement is shown ~~al~~ in the lessee's balance sheet twice : as an asset and as a corresponding liability

Q.8. Explain :

i) Convertible :

Convertible forms of company securities are, almost invariably, unsecured loan stocks or preference shares that convert into ordinary shares of the issuing company. This additional prospective return means that the issuer does not have to offer excessively high rates of interest on the loan stocks to attract lenders. Convertibles unsecured loan stocks are unsecured loan stocks which give the right to convert into ordinary shares of the company at a later date. Convertible preference shares are preference shares which give the right to convert into ordinary shares at a later date. The investor does not pay anything to convert other than surrendering the convertible preference shares.

ii) Warrant :

It is a call option for share holder wherein company gives right to investor to buy fixed number of share at fixed price (strike price). This increase outstanding number of shares in the market. ~~Convertible~~ ~~not no~~

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

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→ Convertible must normally trade at a price higher than equity stock because convertible give investor a chance to enjoy both bond and ordinary share growth.

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

→ The running ~~st~~ yield of convertible must be greater the equity because in convertible returns are of both hands and equity whereas equity consist retums only of shares.