Assignment - 1

Name: Het Shah
Subject: Business Finance - 1
Roll no: ~~65~~ 67

---

① 4 medical practitioners are planning to set up their own practice, compare and contrast Traditional partnership vs LLP. Give your suggestion.

Soln I would suggest 4 medical partitioner plan to set limited liable partnership instead of the partnership (Traditional).

→ A partnership is a business which is owned by more than one person and is not a limited company. where as LLP is a new corpate identity. LLP was introduced in UK in 2001. This is a business vehicle which are the benefits of limited liability while retaining the characteristic of partnership.

→ LLP has to be registered in the companies House, whereas ~~they~~ Partnership do not require any type of registration.

→ In partnership, owner have unlimited liability. All the partnership are jointly liable for any business debts. They will be 'severally liable', that is, each partner is liable for full extent of their personal estate for the defenceincies of the partnership.

→ Whereas, In the limited liable partnership the liability is limited.

→ The traditional partnership is not separate legal entity wherear in the LLP is a separate legal entity.

→ No specific documentation is needed in partnership where An incorpate document must be submitted to company house which must be signed by atleast 2 person, who must be the first member

→ Traditional partnership and limited liable company are taxed in the way.

→ Thus as a conclusion, ~~so~~ LLP would be more recomanded rathar than traditional partnership.

(2) Mr. Darshan Lodha the new CFO & of the perspective that sharehdder give more value to corpation which have higher earning. What is your opinion about vero?

Solⁿ I ~~[illegible]~~ partially agree Mr Darshan Lodha as some shareholders give more value to the companies which have higher earning as they high growth potential.

→ It's a fact that shareholder are interested in maximising the value of their investment in the shares, they want high return on the value of their investment in shares.

→ A company which have the higher earning will be given more value by shareholder as higher earning ~~[illegible]~~ dep depicts increasing profit which will automatically increase the share price, it also implies to the strong and wise board of the directors and senior manager, whose stragic decision to make wise investment generated a health return on invested capital.

→ However, shareholder also take into consideration the social responsibility undertaken by the company ethics of the participating business.

→ If the return offered by the investment project is higher than the rate of return that shareholder can get investment on their own, then the shareholder can vote for investment project.

- If the ~~return~~ return of investment project is low than the rate of the return than shareholder can acheive on their own, the shareholder could vote to cancel the project & take out the cash instead.

- The firm must take into account the effects of the policies, and actions on the society as whole.

- The expectation of workers, consumers & various interested group create own dimension for formulate the policies.

- Thus, the shareholder also value the company on the basis of their business & social responsibilities undertaken by them.

- CFO must strive to maximise shareholder wealth within external constrains such as social responsibilities and business ethics.

(3) As an investor in a start-up suggest that Mr. Kevin must subscribe to ESC, PSC or Convertible?

Solⁿ (i) ~~ESC~~ Equity Shares (ESC)

→ Marketability of the ordinary shares varies according to the size of the company.

→ Investor tend to buy & sell the shares more frequently than they trade.

(ii) Preference Shares (PSC)

→ Preference shares are ~~more~~ much less common than ordinary shares. assume that the company make profit. you are offered a fixed stream of investment income.

(iii) Convertibles

→ Convertible forms of company securities are almost invariable, unsecured, loan stock or preference share that convert into ordinary of issuing company

→ Thus, As a investor I would suggest Mr. Kevin to subscribe to convertible because it will give them a security & a long term wealth create opportunity.

classmate
Date
Page

(4) Explain the difference between private Ltd and Public Ltd

Solⁿ The two forms of company are very similar. The difference is largely how they are register themselves.

→ It is quite easy for almost any private limited company to re-register as public limited.

→ The name of public limited company must end with the 'public limited company' or abbreviation PLC or Plc. whereas the end of private company company name ~~must~~ with 'limited' or ltd.

→ Public limited company offer shares to the general public & shareholder have limited liability. while private company are not allowed to put their shares to the public.

→ Public companies are generally being the large company whose shares are held by many shareholder who doesn't take part in the day-to-day activity, whereas the private companies are typically small companies.

→ It's a requirement of the Stock Exchange that a company that wants the full stock ~~must be~~ exchange must be listed to the public limited company.

→ A public limited company must be correctly registered with Registration of companies at company house.

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

Soln proprietership is a firm which is owned by the one person and is not limited company.

* Advantage of Propeitorship :

ty.

→ The first one is the proprietorship is easy & inexpensive you just have to register your business to local government.

→ You have complete control on your business, because you are only the owner of the business.

→ you can draw out money from the business as and required, so there is thing to keep in mind that the money should be kept to run business.

→ You only need to fill the normal income tax return in respect of the business.

* Disadvantage of ~~the~~ Proprietorship:

→ The biggest disadvantage is owner has unlimited personal liability.

→ The customer can sue the sole trader (propriđership), so the owner is complete the debts by his own weath.

→ He ~~[illegible]~~ should pay all his debts by using his all personal weath, house, car and finance and etc.

→ Thus after this pros and cons. If he is entitled into proprietorship, he would get all the profit & also alone responsible for business debts, losses and liability.

Shot on OnePlus
Powered by Triple Camera

classmate

Date

Page

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

Sol^n Delta crop could consider any option for the short-term funds for capital needs.

i) 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 become negative, down to an agreed limit.

→ The borrower pay interest only on the amount by which they are actually overdrawn. No explicit capital repayment are made.

→ Overdrafts made to companies are usually secured by a floating charge. The interest charge on an overdraft will usually be higher than to an loan of equivalent amount. A bank can demand immediate repayment of an overdraft with no notice.

2) Trade Credit :

→ Trade credit is an agreement btwn a company & one of its supplier to pay for goods or service after they have been supplied.

→ In most cases no explicit interest is charged. In many industries, late payment is so come that explicit discounts can be negotiate for not using trade credit

3) Bills of Exchange :

→ A bill of exchange is effectively a claim to the amount owned by a purchaser or goods on credit and may be 'accepted' by bank, which means that the bank gaurantee payment against th bill to whomsoever holds the bill at maturity.

→ The bill can be sold for short term funding. where the endroser is an 'eligible' bank the bill is known as 'eligible bill of exchange' which is very secure investment.

→ Bills of exchange are known as 'two name' papers because they carry both the company [illegible] ~~ones~~ money & the accepting bank [illegible].

classmate

Date
Page

④ Commercial paper :

→ commercial paper is a single name form of short-term borrowing used by large company.

→ It comes in the form of the bearer document for large denomination which are issued at a discount and redeemed at par. commercial paper is not listed in stock exchange

→ Condition for Commerical paper are

① Company must be listed in london stock exchange

② Company must issue a statement to confirm that they comply with the requirement of the stock exchange and the there have been no adverse change in the company's circumstance since they last published account in accordance with stock exchange.

⑦ Explain operating and financial lease

Solⁿ "A lease is an agreement where the owner of an assest give the lease the right to use the assest over a period, in return for a regular series of the payment."

— legal ownership does not change hands.

1) Operating Lease:

→ The owner of the asset will retain most of the risk associate with owning the asset. The lease will be for a period substantially shorter than the likely life of the asset.

2) Finance Lease:

→ The lesse takes on most of the risks associate with owning the assets.

→ The lease will be for a period similar to the likely life of the asset.

→ The present value of the payment under the agreement is shown in the lese's balance sheet twice, as an assets and as a corresponding liability.

(3) Explain

i) Convertibles.
ii) Warrant
iii) Why a convertible must normally trade at a price higher than equity stock?
iv) Why the running yields of convertible must be greater than equity.

classmate
Date
Page

Sol^n

i) Convertibles -

→ Convertible form of company securities are almost invariably, unsecured loan stock or preference share ~~capital~~ that convert into the ordinary shares of the issuing company.

→ There will be a specific number of ordinary shares for each convertible. If the holder choose not to convert, then the security might continue as a loan stock or preference share of period of time.

→ Convertible generally provide higher income them ordinary shares & lower income than conventional loan stock or preference share.

ii) Warrant -

→ Warrant gives the holder the right to purchase a company stock at a specific price & at a specific data

→ A warrant is issued directly by the company concerned.

→ When an investor exercise a warrant, they purchase stock, and the proceeds are a source of capital for the company.

→ The warrant certificate include the ~~investor~~ terms of the warrant, such as expiry date & final day it can be exercised.

(iii)

→ A convertible must normally trade at the price higher than equity stock so as to prevent the investor to make instantaneous profit at the time of conversion & sell his stock immediately.

→ The company suffer losses during convertible, as a result the company has a big liability on convertibles

→ Hence, the price at which investor receive the share are greater than the market price.

(iv)

→ The running yield of the convertible must be greater than equity because of the mandatory dividends or coupon payment on the preference share or loan stock.

→ Also the equity is an underlying part of the convertible, thus increas in the value of share price increase the value of convertible.

→ The security dividend payment for the convertible is higher than that of the ordinary shares and the option to convert ~~the~~ to ordinary shares or leave it as fixed interest security allows investor sure to make minimum expected return.

→ Thus, the price of convertible must be greater than equity.

——x——x——x——