BF Assignment 2

1) Liquidity Preference is a theory proposed by John Keynes. According to this theory people tend to prefer cash more than any kind of investement eg. As Price of Stock is Inversely proportional to interest rate of Stock therefore people tend to sell their Stocks when interest rate ~~falls~~ increases.

2) Companies who have recently listed on the Indian Stock exchange ~~has~~ will affect their dividend policy. as unlisted company has dividend into ~~taxable~~ Taxable capital income and Tax exempt income. So listed companies's dividend will not be taxable and it can't be considered tax exempted.

3) Factors influencing Dividend Policies are as follows

1) Stock Markets - Announcement of dividend cuts have adverse reaction on market. So change in dividend policy.

2) Cash Reserves — Huge cash reserve companies may give generous divident to increase loyality in there shareholders. and also investor won't see cash piled up. and thus such companies ~~uses~~ gives shareholder's money to them.

3) Tax - Companies with a large proportion of non-tax paying shareholders distribute a large proportion of earnings.

4) Growth Opportunities –
higher growth Industries may look forward in reinvesting or touching new untouched areas of field rather than spending high amounts as dividend to people. This is indirect promise of superior growth in future. This is the key attractive point of such companies.

4] They are five business entities.
1) Sole propietorship.
2) partnership.
3) Corporation
4) S corporation
5) Limited Liability Company. (LLC)

I] Ownership.
Sole propietorship has a individual entrepreneurship
In Partnership under one condition on agreement of Profit Sharing The profit and ownership is divided equally or ~~by~~ based on income.
Corporation is owned by shareholder. and they elect board of directors to manage activities on their behalf. but shareholders are not liable for actions
S-corporation can have only one owner. who has all estate after his death or Shareholder too but here only 100 shareholders possible.
In LLC the company exist as its own legal entity. the members are not personally liable for activities.

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II] Liability:

→. Sole proprietors and partners are totally liabile for their actions

In partnership jointly every partner is liabile even for acts done by his or hers partner as it is agreed condition

corporation acts by employes or agents on it's behalf are liable.

In S corp owners have limited liability protection. i.e personal assets will be safe from claims.

LLP as the name say the partners are limited to ~~have~~ liability and so it has has both corporate as well partnership structure.

III) Legal structure

→ In Sole proprietorship there is no legal difference between owner and entity

In partnership agreement it self has maintained how each and everthing is shared.

In corporation The company is separate legel entity

In S corp Among shareholders ~~partner~~ partnership is divided

LLP. here risk is spreaded according to their partners.

Explain the concept of Economies of scale?

=> The cost advantage taken by companies due to efficient production. The companies in this increase production and simultaneously reduce costs.

=> Working capital is money used for managing day-to-day expenses of business. It is also known as operating liquidity. Net working capital is difference between current assets and current liability.

Fixed capital is real physical asset which is ~~to~~ repeatedly being used eg machinery buildings. As the name suggest it is fixed i.e durable and unlike working capital isn't fully consumed in one go.

=> The irrelevance proposition theorem developed by merton miller and Franco Modigliani:

According to them If income tax and distress costs are absent in business environment Financial leverage does not affect income tax value:

It criticized becoze factors which depicts realty i.e income tax and distress costs gets totally neglected.