

# Accounting finance



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## **Accounting/Finance**

ACCOUNTING/FINANCE Introduction This paper aims to discuss a few of the many additional funding options available to an organization; in this case, ours. Issuance of new stock, private placement of bonds and public bond offering will be analyzed in detail. Furthermore, a discussion will be carried out about whether stock splits mean something or not.

### Additional Funding Options

There are several options available to an organization for supporting itself financially. Three of the many are evaluated below.

#### Issuance of New Stock

' Issuance of stock' is simply when shares are given out to investing people in the stock exchange – a market for shares. These generate funds for an organization, for the time being, but have to be given a return on, to the shareholders. If this, however, does not raise enough capital (because of let's say, lower share prices), ' new stock' can be issued by this organization for the purpose of additional funding. The advantages of this are many including its immediate effect on the addition to the capital stock. Shareholders hardly bother about how the company is run; they are only concerned about their bond/return security.

Disadvantages are that ownership rights are further slashed down. Also, shareholders have to pay a certain amount as dividends (depending on the interest rate) on stock.

#### Private Placement of Bonds

A private placement bond is sort of a casual corporate bond, meaning that it is an underwritten and an unregistered bond that is issued to private

investing individuals or a group of investors. The biggest advantage of placing such kind of bonds is tax-exemption. Secondly, lesser paperwork and formalities are required. They can be changed according to the needs of both parties, so it is accommodating and flexible. Thus, private placements are becoming increasingly popular with non-profit organizations because of its many advantages such as the ones mentioned (tax-exemption being the biggest one) above in addition to lower fees, fewer players, and much shorter time to complete than public bond issues (Ambrose et al, 2007). Disadvantages also include less paperwork. There is little evidence if something goes wrong. Also, if disagreements arise, it could lead to even more problems like breach of contract. Little action can be taken against this. It is disadvantageous for the organization because the fee is lower.

#### Public Bond Offering

Public bond offering is when corporations issue their bonds to the general public. The advantages of this are that it increases capital for the issuer. A public offering makes your company's stock valuable so insiders who keep hold of stock may sell their shares. They could also use them as collaterals. (Lewis and Kappes, 2007). Also, company management gets to make decisions even though shareholders are part owners. These put the organization in a better position to promote it by giving it prestige. Disadvantages of public bond offering are that it is an expensive process. Secondly, there is no privacy for companies that offer public bonds. There are bigger risks associated with going public such as social liabilities, takeover attempts etc.

#### Stock Splits – Nothing or something?

A stock split is to increase the number of shares that a company owns but

the shares actually are the same. This statement is very confusing. To illustrate this, I'll take you through an example. Suppose you own 200 shares for \$10 per share. If the organization declares a stock split, let's say, of the ratio 2: 1, as a result, you'd own 400 shares. You'd think you invested \$2000 (200 shares x \$10) and suddenly the amount has changed to \$4000 with 400 shares. Actually, the share price also decreases by double. Therefore, after the stock split you'd own 400 shares of \$5 each. This means that a stock split has no effect on the value of what shareholders own. It still remains \$2000.

What's the point of this? This didn't make a difference to the shareholder as we have seen. This also didn't make a difference (in terms of the initial investment) to the corporation. So why do this? Why declare a stock split? An organization would do this because, as illustrated by the example given above, it decreases the price of a share. An organization could have a number of reasons for decreasing its share price. First of all, it makes the stock more affordable for investors. They do this when they believe the price of their stock is greater than the amount smaller individual investors would be willing to pay for the stock (US Securities and Exchange Commissions, 2004).

The above argument tells us that a stock split is not “ something that is nothing”. This action by an organization is taken in the first place because it has benefits for organizations in certain situations. A stock split has effects and if it were nothing, it would have no effects on anything. This, in contrast, increases the likelihood of shares being bought because they become affordable.

## REFERENCES

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