Finance organization and long-term planning

Finance

Genesis Corporation has various long term financial alternatives at its disposal. One of the alternatives is to issue common stock. In order to sell common stocks in the open market the firm has to become a public firm by undergoing an initial public offering (IPO) process. One of the advantages of issuing common stock is that the company does not have to incur in any debt, instead the firm issues equity to obtain money. A disadvantage of selling common stocks is that it dilutes the power of the original owners (Besley & Brigham, 2000). A second long term financial activity option is the sale of preferred stocks. Preferred stocks do not dilute the power of the owners because they do not have voting rights. A con of the use of preferred stocks is that preferred stocks must pay dividends to its stockholders at least once a year (Investopedia, 2012). .

A third alternative for Genesis is to sell commercial paper. The most common form of commercial paper is corporate bonds. A corporate bond is a debt instrument that allows companies the ability to raise large sums of money. The main components of a bond are the coupon rate, principal, and maturity age. The coupon rate is the interest rate that the company must pay to the bondholders (Adkins, 2012). Coupon rates are paid on a monthly, semiannual, or annual basis. The relative risk impacts the cost of capital for Genesis because it affects the required return in an investment for an investor. Higher required return increases the cost of capital.

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