Why corporate finance is important assignment

Business

Why is corporate finance important to all managers? Corporate finance is Important to all mangers because it lets them know the company's financial situation before any decisions can be made wealth the organization. It helps managers develop strategic financial issues associated with achieving goals. Having a solid understanding of corporate finance helps mangers find ways to raise and manage its capital, which type of investments the firm should make, if profits are earned, how these profits should be allocated to shareholders in the form of dividends and lastly If any other type of firms should be acquired or urged with.

Knowing these key points about corporate finance will help the overall organization. B. Describe the organizational forms a company might have as it evolves from a start-up too major corporation. List the advantages and disadvantages of each form. The organization forms a company as it evolves from a start-up to a major corporation are a sole proprietorship, partnership and a corporation. A sole proprietorship Is a business owned by one Individual. A partnership exists when two or more Individuals form a business together. It's common for each partner to have he same amount of responsibility.

A corporation is a legal entity that has been incorporated through a legislative or registration process through the state it resides in. Each type of business has its advantages and disadvantages. The advantages off proprietorship are: * They are easy and Inexpensive to form * They are subject to some government regulations * There Is no corporate taxation The disadvantages of a proprietorship are: * It can be very difficult to obtain the needed capital to start-up & to grow the business * Life of the business is based on the founder. If the founders were to die r get sick, chances are the business would suffer or not exist. There is unlimited personal liability for the proprietorship businesses' debts The advantages of a partnership are: * Very easy to establish * There more chances of gaining more funds to start the business * Able to attract employees easier if they are given the incentive to become a partner * Gained knowledge and skills with having two or more people, in addition the added support will help the business * Can be cost effective The disadvantages off partnership are: * profits must be shared amongst partners Disagreements could occur amongst the partners Limited life * Partners are Jointly and individually liable for the actions of the other partners * In order to make decisions, it requires all partners to be in agreement * Unlimited liability * Unlimited life * Ownership interest is easily transferable * Limited Liability The disadvantages of a corporation are: * Double Taxation * Expensive to form * They are very complex to form * There is no one owner c. How do corporations go public and continue to grow? What are agency problems? What is corporate governance? Corporations go public and continue to grow by setting up an PIP (Initial Public Offering); this involves registering the company's stock with the Securities and Exchange Commission to sell shares to the public. Companies can also offer a small corporate offering registration, this is considered to be less costly and an easier approach to filing a traditional PIP. This is often done for small businesses. These two ways allow the company to grow by receiving funds for the shares purchased.

Companies use these funds to invest in their company. Companies are able to raise significant amounts of capital, giving them the ability to expand their current operation. Agency problems occur within the company when mangers that are working for the company find ways in the process that will benefit themselves that are not in the best interest of the stockholders or the owners of the company. They find loop holes within the system to benefit themselves; often what they are doing is illegal. Corporate governance are the rules and practices by which the company's ensures accountability, fairness in a company's relationship with all stockholders.

This includes financiers, customers, management, employees, government and the community. D. What should be the primary objective of managers? The primary objective of mangers is to focus on maximizing the shareholder return, which means to maximize the profitability of the company's stock price. (1) Do firms have any responsibilities to society at large? Yes, companies have the responsibility to be ethical and act in a way that will help society. Companies cannot produce items that would do harm to the environment, to its customers or to society as a whole. If they did not have any responsibilities, then companies could do what they want without any repercussion. (2) Is stock price minimization good or bad for society?

As you look at trying to maximize a company's stock price there are both good and bad reasons for both. In general, maximizing the stock price can be good for the economy. It can help companies hire more individuals because their product or service is in demand and it means that the company is doing well and is growing. However, for every good there is a bad, maximizing the stock price can lead to greed. Company's goals are to which can be bad for society. (3) Should firms behave ethically? Yes, firms should behave ethically. As a business, they have great potential to help ransom people's lives. By doing so, firms help alleviate poverty in the economy by generating economic growth.

Firms produce goods and services that customers want and in order to do that, they need people by creating Jobs. With paying taxes, firms contribute to the government revenues that help finance schools, hospitals and other public services. E. What three aspects of cash flows affect the value of any investment? The three aspects of cash flows that affect the value of any investment are the amount of the expected cash flows, when the company expects to receive the cash and the risk hat's involved with the cash flow. F. What are free cash flows? Fee cash flows is the cash that a company is able to generate after using money to maintain or expand its asset base. G. What is the weighted average cost of capital? The weighted average cost of capital is the rate that a company is expected to pay on average to all its security holders to finance its assets. " The WAC is affected by the firm's capital structure, interest rates, the firm's risk and the market's overall value of risk. Wisped. Http://en. Wisped. Org/wick/weighted_average_cost_of_capital h. How do free cash flows and the weighted average cost of capital interact to determine a firm's value? Free cash flows and the weighted average cost of capital interact to determine a firm's value by changing all of their free cash flow to the dollar today. I. Who are the providers (savers) and users (borrowers) of capital? How is capital transferred between savers and borrowers?

The providers (savers) are households. Non-financial corporations are the users (borrowers). In addition, Governments are net borrowers; the government is considered a saver when the economy is at a surplus. Capital is transferred in 3 ways. * Through direct transfer * Through an investment banking house * Through a financial intermediary such as individual deposits, and when a bank makes commercial loan to a company. J. What do we call the price that a borrower must pay for debt capital? What is the price of equity capital? What are the four most fundamental factors that affect the cost of money, or the general level of interest rates, in the economy?

The interest rate is the price paid for borrowed capital. The return on equity capital comes in the form of dividends plus capital gains. The four most fundamental factors that affect the cost of money or the general level of interest rates in the economy are: * Production opportunities * Risk * inflation k. What are some economic conditions (including international aspects) that affect the cost of money? There are several factors that will influence the cost of money. Such items include things as fed policy, deficits, business activity and foreign trade deficits. L. What are financial securities? Describe some financial instruments. Financial securities are any treatable asset of any kind.

Some financial instruments include: worth term instruments are instruments with low default risk; they include items such as treasury bills, banker's acceptances, commercial paper, negotiable CDC and Arteriolar deposits. Another type of financial instrument is U. S. Treasury notes and bonds which have maturities from two to thirty years; they are free of default risk. Mortgages have maturities of up to thirty years. Corporate bonds have maturities up to forty years. These are Just to name a few. M. List some financial institutions. Some financial institutions include Commercial banks, savings & loans, mutual paving banks, credit unions, life insurance companies, mutual funds and pension funds. N. What are some different types of markets?

The different types of markets include physical assets; financial assets spot markets, future markets money markets, capital markets, primary markets and secondary markets. O. How are secondary markets organized? Secondary markets are organized by location. In addition, secondary markets are organized by the way that order from buyers and sellers are matched. (1) List some physical location markets and some computer/telephone networks. Some of the hysterical location markets and some computer/telephone networks include the NYSE, AMES, CABOT and Tokyo stock exchange. The computer/telephone networks include NASDAQ, government bond markets and foreign exchange markets. (2) Explain the differences between open outcry auctions, dealer markets, and electronic communications networks (Sense).

The two largest auction markets for stocks are the NYSE and AMES. The individuals making the trades have trading rights on the exchange; they meet face to face and place orders for themselves for their clients. This is for the NYSE and AMES. In the dealer markets, dealers keep an inventory of the stock and place bid and asks, which are prices they are willing to buy and sell stocks. Dealer markets include the NASDAQ, the London SEAS and the German Newer market. Sense are computerized systems that match orders from buyers and sellers and execute the trades automatically. Examples include stocks explain mortgage serialization and how it contributed to the global economic crisis.

When borrows defaulted on mortgages and other types of loans in the economy, the issues at hand caused the market to tumble. Since there were so many loans and retrogress that were defaulted on, this led to the economy to tumble. In addition to the many defaults banks and other financial institutions were not lending money. In all, people were not spending, banks were not lending and the economy was at a halt. These added issues caused the market to tumble. (2-6) Statement of Retained Earnings In its most recent financial statements, In-house Inc. Reported $50 million of net income and $810 million of retained earnings. The previous retained earnings were $780 million. How much in dividends was paid to shareholders during the year?