Introduction to Finance (Basics)

1. Corporations
   1. Contains most wealth in society
   2. Invest in building , roads etc.. 🡪 flow of money
2. Financial Statements and Analysis
   1. Its like a resume of the company
      1. If we need to know how good its since last months , we can simply see the financial statements and understand
   2. **Balance sheet**
   3. **Income statement**
   4. **Cashflow statement**
3. Time value of money

# Business Form

Decides which income tax return you need to file and how much liability protection. 3 most important forms

1. Sole proprietorship
   1. Single person is owner , he only runs the business
   2. Best structure for business
   3. Ex: bakeries , barber, restaurants…
   4. No need for large amount to start.
   5. **Walgreens company ( included in DOW Jones industrial average in 2018)**
   6. **Advantages**
      1. Easy, inexpensive
      2. Not lot of paperwork is involved
      3. License not strict
         1. Ex: for liquor we need license , but for this one , its not really needed
      4. Complete control , no need to consult , quick decision , easy changes
      5. Taxes , no separate taxes. All profits are yours
   7. **Disadvantages**
      1. Unlimited personal liability
      2. Lawsuits coming only to you
      3. If business is broke , then you need to take in all the expenses
      4. Limited life , life of company is linked to life of owner. Owner quits , sells , dies , business dies
      5. Difficult to obtain money , banks are hesitant to lend money.. cos if business fails , then only one person needs to pay entire amount and there is a risk if he is unable to do so.
      6. Borrowing from family members in case of losses
   8. Statistics
      1. 1-10 no. of people employed
2. Partnership
   1. 2 or more people own a business together.
   2. Agreement between partners, split profits
   3. Many big companies started with partner ship
      1. Morgan stanley
      2. Meryll lynch
      3. Goldman sachs
      4. Microsoft
   4. Advantages
      1. Inexpensive to expand business as funds get distributed between partners
      2. No corporate income taxes (business is not taxed)
   5. Disadvantages
      1. Huge liability
         1. If business runs into problem, each partner needs to take a share of funds to save business
         2. Know your partners very well
         3. Accounting companies like KPMG , Deloitte
3. Corporation
   1. Legal entity that’s separated from its owners
   2. Pay corporate income tax on their profits
   3. Shares are held by small group of shareholders initially
   4. When the company grows, its shares are traded in public markets as NYSE or NASDAQ ( Public companies)
      1. Process of converting a private company to public company is called “Initial Public Offering”
   5. Advantages
      1. Independent life from shareholders
         1. If shareholders wants to leave , they can leave and corp can continue to work. They will simply sell the shares
      2. Strongest protection to shareholders from personal liability
      3. Easy to raise funds 🡪 sell shares in markets
   6. Disadvantages
      1. Double taxation
         1. Tax on profit
            1. First taxed when company generates profit
            2. Then dividends are paid to shareholders ( taxed at personal level)
      2. Cost to form a corp is higher than other structures ( complex legal requirement)
      3. Book keeping , share holder meeting ,
   7. Corporations can be good choice for medium or higher risk business
   8. Article of Incorporation ( Article of association , corporate charter)
   9. Birth certificate of corporation. ( funding document)
   10. TARGET corp
   11. By laws 🡪 how to run the corp
       1. Legal backbone of corp. ( work with Article of Association)
   12. In US corp constitute to only 20% of the business , but they contribute 70 % of total business profits
4. LLC (Limited Liability company)
   1. Limited liability 🡪 just like corporation
      1. Owners are protected from personal liability ( in case business failure)
      2. Max amount they can lose , is money invested in company
   2. No double Taxations
      1. Business income is passed through its owners( who have to pay personal taxes)
   3. Legal Documents
      1. LLC -> Articles of Organisation and operational Agreement
      2. Corporation 🡪 Article of incorporation and ByLaws
   4. Operating agreement
      1. Imp documents ( contains responsibilities for owners )
         1. How to divide profits and transfer ownership
         2. Similar to corporation by laws
   5. Owners of LLC can be
      1. Individuals members(people , sole)
      2. Partnership
      3. corporation
   6. in corporation 🡪 shareholders and shares , while in LLC 🡪 members and interest
   7. LLC : “members managed ” or “manager - managed” ( much simple , smaller scale business)
      1. In corp 🡪 board of directors , officers , shareholders ( large scale business)
   8. Disadvantages
      1. Lack of uniformity with state laws
         1. Same LLC may have diff structure in diff states
         2. People treated differently
         3. Diff standard and rules
      2. Cannot issue stock
         1. For funding only members need to provide money
         2. Or borrowing

# Goal of Financial Management

Goal of the company / corporation to make its shareholders happy

1) why not increase profits??

2) concept of stake holders ( all parties attached to business)

Include 🡪 employee , customers , suppliers , creditors , society

3) investing in employees

Benefits , insurance , working environment , training , motivate employee , ( using these company will spend money on employee but on long term its going to attract people , efficient people …in return ppl will be more loyal and create more profits)

4) Improve Customer Satisfaction

High quality product

Continue innovative (at par with others in industry standard)

Happy customer 🡪 express on Facebook 🡪 social media 🡪 lead to more customers

5) survey done by Yoshimori ( 1995)

in US and UK , they care about shareholders. While in others like Japan , Germany , France stakeholders are more impr

ex: in Germany 🡪 50% board of directors are chosen by company ppl

Toms Business Model , one for one. TODO -> do some research

Giving shoes is one option 🡪 later on more choices were added , giving water , medical treatment , women’s rights

# Corporate Governance

How corp is managed and controlled

Shareholder > 50% shares 🡪 majority shareholders ( founders or descnednts) ex: facebook

Mostly outside investors 🡪 minority shareholders

Highest governing body 🡪 board of directors ( selected by shareholders)

Good corporate governance requires a balance between insider directors and outside directors

Executive committee, Audit committee, Compensation committee, and the Nominating committees.

Executive committee 🡪 set priorities for the whole board

Audit 🡪 outside investors independent

Board of directors 🡪 select and appoint senior executives and to supervise their performance. They also set major policies of a company, such as how much dividends to pay shareholders. They also determine the CEO's compensation and approve annual budgets.