



## MGF301 Exam 1 Notes - Professor Unknown

Corporation Finance (University at Buffalo)

## Forms of Business Organizations:

### Sole Proprietorship:

- a. Easy to setup but difficult to transfer ownership
- b. 100% profit but also 100% liability(if u can cut someone you're liable for it)
- c. Limited access to capital(99% out of pocket bc bank won't lend)
- d. No business tax, only income tax(single taxation)

### Partnership:

#### General Partnership:

1. Legal and financial liability are shared.
2. Unlimited liability
3. Partnership agreement

#### Limited Partnership

1. At least one general partner meaning participate day-to-day operation (signing contracts)
2. At least one limited(silent) partner meaning only responsible for money invested or only liability in agreement

### Corporation:

- a. Bylaws: tell the gov how business will operate
- b. Borrow money from bank
- c. Limited liability(legal entities separate from owners)
- d. Double taxation (drawback) taxed at corporate level and personal income

### Limited Liability Company(LLC):

- a. Hybrid between partnership and corporation
- b. Limited liability
- c. Tax as partnership

## Financial Manager's Decision in a Corporation

1. Firm(shareholders) and managers are separated
2. Manager's Job:
  - a. Investment Decision (Capital Budgeting)(spend money)
    1. Decision to invest tangible or intangible long term investment project (Starbucks opening a store on campus)
    2. Identify investment projects that will add value to the company
  - b. Financing Decision (Capital Structure)(get money)
    1. Left hand side of balance sheet
    2. Determine the right mixture of long-term debt and equity financing
  - c. Payout Decision
    1. What should be done with profits? Dividend
- D. Working capital management
  1. Manage current assets/ liabilities of day-to-day business

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### Principal-Agent Relationship

Shareholders(principal)=Owners of a corporation

Managers(agent)=Decision makers

Proxy Statement: informations to vote on decision, salaries of managers

### Agency Problem:

Manager maximize their own interest

Possible ways to fix it:

Internal governance mechanism:

Managerial Compensation

Board of Directors

External governance mechanism:

Activist shareholders:

Proxy Fight:

Market takeover

Regulation:

Information transparency

Primary market (Issuance Market): Markets where corporations raise capital by issuing new securities

Public offerings: sells securities to general public

Private placement: negotiates a sale with specific buyers

Initial public offering (IPO): first equity issue made available to public by a private company(private to public)

Seasoned equity offering (SEO): new equity issue by a public company

Secondary markets (Trading market):

Organized securities exchanges:

Auction market: NYSE(New York Stock Exchange) A market where buyers(sellers) indicate highest (lowest) price they willing to pay (accept)

Over-the-counter:

Transact through dealers: ex NASDAQ