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Answer to Question No. 01

Mid Term Financing:

The County Council reviews its budgetary position annually and produces a rolling 3-year plan, known as the Medium Term Financial Plan. This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy. The budget for 2022/23 was the last Somerset County Council MTFP to be approved, with the new Somerset Council starting in April 2023. Find more information about the new Somerset Council.

The Medium Term Financial Plan provides a focus on both revenue expenditure (day-to-day running costs of providing services) and capital expenditure (long-term investment in infrastructure, like schools and roads), as well as setting out the Council's overall financial strategy. Along with the MTFP publication, the Council has also produced a separate capital strategy document which concentrates on its policy relating to investment in public assets.

The County Council set a balanced revenue budget for 2022/23 as part of the Medium Term Financial Plan. This included setting a progressive capital programme of continued investment in its operational assets. The meeting of County Council on Wednesday 23 February 2022, Somerset County Council, agenda item 7, contains the full suite of documents including:

- The 2022/23 budget detail by service
- A list of transformation, savings and income generation proposals
- Additional financial requirements
- Capital and Treasury Management strategies – both contain various statutory prudential indicators

Medium-term assets or investments are held by different investors for various purposes. For instance, an individual investor can buy medium-term bonds to cater for expenses that might occur in the immediate future such as paying children's school fees, buying a property, starting a business and other reasons. Also, stock traders have a different yardstick for measuring what position qualifies as medium-term, for instance, an investor who holds a position for a week can consider holding a position for a month as a medium-term position. This is to say that there is no strict measurement of the time horizon or investment duration that make a medium-term. In real estate, for example, properties held for less than 10 years can be tagged medium-term assets.

- Risk Tolerance, Return Rates and Term Lengths
- Term lengths for short, medium and long assets are considerably flexible. For instance, assets held for duration below three years are often called short-term, while 3 to 10 is medium term; and 10 years or more is long term. The risk tolerance of investment varies, and it depends on how quickly an investor seeks to access the initial capital. While short-term investments have higher risks, long-term investments have lower risks. Return rates of investments or assets are also determined by the type of assets, maturity date and sometimes other factors such as market forces. However, medium-term investments are known to strike a balance between risk and return.

Determining an investment's time horizon, also called its term, is usually based on the intention or goal behind the investment, rather than the nature of the investment itself. An investor might consider when the funds will be used for other goals, or whether a lump sum or an income stream is the desired result. The most common terms are short, medium, and long.

- Though the term does not necessarily denote a specific length of time, many consider anything below two years to be short-term; from two to ten years as medium term; and anything beyond 10 years to be long term. Since these timeframes are flexible and open to interpretation, what might be a medium-term investment for one person might be characterized as a long-term investment for a different investor.
- An investor's risk tolerance is heavily influenced by the term of the investment. For example, if you intend to purchase a car within the next two years, it's wise to invest conservatively. You might consider a traditional savings accounts or a CD (assuming the appropriate time until maturity). Since the funds are required soon, volatility in higher-risk markets may actually prevent one's goals from being reached.
- When saving for longer-term goals, such as retirement in 20 years, you can generally afford to take on a greater level of risk with the goal of generating higher returns early. Since the funds will not be required for quite some time, the account can withstand a certain degree of market fluctuations. As a person begins

getting closer to retirement age, the assigned time horizon may shift from long-term to medium-term, prompting a move toward more conservative investments.

- If your goals are medium-term, you should seek a balance between risk and returns—act more conservatively than if your goals were long-term but opt for more risk than if your goals were short-term options. Some examples of medium-term investments are various types of bonds (with maturity dates between three and 10 years), income funds, or growth funds.

Answer to Question No. 05

Short-term financing means business financing from short-term sources, which are for less than one year. The same helps the company generate cash for working of the business and for operating expenses, which is usually for a smaller amount. It involves developing money by online loans, lines of credit, and invoice financing.

It is also referred to as working capital financing and is used for inventory, receivables, etc. In most cases, this type of financing is required in the business process because of their uneven cash flow into the business or due to their seasonal business cycle.

Short Term Financing Objectives

The main objectives of financial planning differ for each plan and individual planner, as a financial plan is created based on personal goals and financial resources. The objectives also differ for companies compared to personalized financial plans for the home. In other words, the main objectives of short-term financial planning are those that are important for the creator or business in question.

Short-term objectives are those that can be completed within a shorter period. Some short-term objectives are obtained within a day or week, while others are completed within a month. In comparison, medium-term and long-term objectives are those that take a longer period, either because the projects or goals are larger or because extensive research is required before the objective is executed.

TYPES OF FINANCIAL OBJECTIVES

There is no one main objective for short-term financial planning, as the goals and needs depend on the individual person or business creating the plan. Examples of short-term financial objectives for a business include finding resources and funding to launch a website and newsletter and brainstorming and developing ideas for new products. Short-term objectives for personal planning may include creating a budget using fixed and flexible expenses and paying off small credit card payments and loans.

CREATING OBJECTIVES

Short-term financial objectives are created based on the desires or goals of the company or individual who wish to make a plan. For instance, if the goal is to develop a savings account with $6,000 within three months, the objective is short term because it must be completed within 90 days. The financial plan includes setting aside $2,000 per 30-day period. Part of the objective includes getting the $2,000 without throwing the budget off balance.

IMPORTANCE OF FINANCIAL OBJECTIVES

Short-term financial objectives are important, because they help create a plan the business or individual can follow. Financial objectives also require the planner to address financial issues, such as balancing budgets and ensuring financial research and resources are available. In addition, setting objectives also allows the planner to address any risks associated with launching and implementing the financial plans.

Spontaneous Sources

Some sources of funds, which are created during the course of normal business activity have zero cost and are termed as spontaneous sources. For example suppliers supply goods; employees provide services where the payment is made at a later stage. To an extent, the payment is delayed and the funds are made available to the

firm. These are called trade liabilities or current liabilities. The two important spontaneous sources of short-term finance are (a) Trade credit and (b) Outstanding expenses / accrued expenses. These are explained in detail below:

A. Trade Credit

The credit extended in connection with the goods purchased for resale by a retailer or a wholesaler for materials used by manufacturers in producing its products is called the trade credit.

Trade credit is a form of short-term financing common is almost all types of business firm. As a matter of fact, it is the largest source of short-term funds. The amount of such financing depends on the volume of purchase and the payment timings. Small and new firms are usually more dependent on the trade credit, as they find it difficult to obtain funds from other sources. This trade credit may be extended to the customers in the form of

1. An opening account credit and
2. Acceptance credit management / bills payable.

(i) Open Account

Trade credit is mostly an informal arrangement, and is granted on an open account basis. Open account is usually extended only after the seller conducts a fairly extensive investigation of the buyer's standard and reputation. In the case of open account credit arrangement the buyer does not sign any formal debt instrument as an evidence of the amount due by him to the seller. The only evidence is the copy of the invoice that goods have been delivered. Open account trade credit appears as Sundry creditors on the buyer's balance sheet in the liability side.

(ii) Acceptance credit / Bills payable

Trade credit may also take the form of Bills payable. In such a case the buyer accepts a bill of exchange or gives a promissory note for the amount due by him to the seller. This bill has specified future date, and is usually used when the supplier is less sure about buyers' willingness and ability to pay or when the suppliers' wants cash by discounting the bill from a bank. Thus, it is an arrangement by which the indebtedness of the buyer is recognized formally. This appears in the buyer's balance sheet as accounts payable or bills payable.

Merits of Trade Credit

Easy availability: Unlike other sources of finance trade credit as a source of finance relatively easy to obtain. The easy availability is very important in the case of small and medium firms where they cannot raise funds in the capital market.

Flexibility: The trade credit increases or decreases depending upon the growth of the firm. Moreover it need not pledge securities or adhere to strict payment schedule.

Informality: Trade credit is an informal spontaneous source of finance. It does not require signing in the negotiable instruments to obtain the credit.

Demerits of Trade Credit

Increased cost: The trade credit is usually very high when compared to cash sales. The seller while fixing the selling price will consider all explicit and implicit costs.

Overtrading: Trade credit facility may induce the buyer to buy a large quantity as a result it may occur in over trade.

Accrued Expenses

Another spontaneous source of short-term financing is the accrued expenses as the outstanding expense liabilities. Accrued expenses refer to services received by the firm but the payment for which has not been made. The accrued expenses represent an interest free source of finance.

There is no explicit and implicit cost included in the accrued expenses. The most common accrued expenses are salary, wages and taxes. In these cases the amount may be due but the payments are not paid immediately. For example a firm may have a policy of paying salary and wages on a monthly basis. Similarly, the sales

commission or target incentives, sales tax etc. are always payable with a time lag. The interest on debentures and borrowings is also payable periodically and thereby provide funds to the firms for the intervening period between two interest rates.

Merits Interest free cost

The accrued expenses are interest free sources of financing. It is consistent with the general philosophy of paying the creditors as late as possible as long as the firm does not damage its credit rating.

Answer to Question No. 06

Owner's Capital

Owner's Capital, also called owner's equity, is the equity account that shows the owners' stake in the business. In other words, this account shows the how much of the company assets are owned by the owners instead of creditors. Typically, the owner's capital account is only used for sole proprietorships. Partnerships call their capital accounts members' capital and corporate owners report their ownership in the common stock and retained earnings accounts. Some people due use the term owner's capital as a generic owner's equity account though.

Basically, the owner's capital account represents the net assets of the company. It's the amount of money left over after the company sells all of its assets and pays off all of its creditors. This remaining amount of money is what the owner actually owns.

Its balance is computed in much the same way that retained earnings is calculated for corporations. The ending owner's capital account equals the beginning balance minus any withdrawals, plus contributions, plus or minus any net income or loss for the period. This formula is recalculated at the end of each year to find the balance at the end of the accounting period.

Example

The owner's capital account is important for financial accounting as well as tax accounting. Financial accounting tracks the balance in the capital account to calculate how much money the owner can withdrawal during a year and how much equity he or she has to borrow against. Tax accounting is more concerned with the taxation of owner's basis in the capital account.

If an owner withdrawals more from his capital account than his basis in the account, the excess withdrawals are taxed at different levels. This is generally more of a concern with partnerships, but sole proprietors still have to watch out for tax implications.

Retained Earnings

Retained earnings are the cumulative net earnings or profits of a company after accounting for dividend payments. As an important concept in accounting, the word "retained" captures the fact that because those earnings were not paid out to shareholders as dividends, they were instead retained by the company.

For this reason, retained earnings decrease when a company either loses money or pays dividends and increase when new profits are created.

- Retained earnings (RE) are the amount of net income left over for the business after it has paid out dividends to its shareholders.
- The decision to retain the earnings or distribute them among shareholders is usually left to company management.
- A growth-focused company may not pay dividends at all or pay very small amounts because it may prefer to use retained earnings to finance expansion activities.
- Companies may choose to use their retained earnings for increasing production capacity, hiring more sales representatives, launching a new product, or share buybacks, among others.

- Retained earnings are an important variable for assessing a company's financial health because it shows the net income that a company has saved over time, and therefore has the ability to reinvest in the business or distribute to shareholders.

Retained earnings refer to the historical profits earned by a company, minus any dividends it paid in the past. To get a better understanding of what retained earnings can tell you, the following options broadly cover all possible uses that a company can make of its surplus money. For instance, the first option leads to the earnings money going out of the books and accounts of the business forever because dividend payments are irreversible.

All of the other options retain the earnings for use within the business, and such investments and funding activities constitute retained earnings.

- The income money can be distributed (fully or partially) among the business owners (shareholders) in the form of dividends.
- It can be invested to expand existing business operations, like increasing the production capacity of the existing products or hiring more sales representatives.
- It can be invested to launch a new product/variant, like a refrigerator maker foraying into producing air conditioners or a chocolate cookie manufacturer launching orange- or pineapple-flavored variants.
- The money can be used for any possible merger, acquisition, or partnership that leads to improved business prospects.
- It can also be used for share buybacks.
- The earnings can be used to repay any outstanding loan (debt) that the business may owe.

Retained earnings are also called earnings surplus and represent reserve money, which is available to company management for reinvesting back into the business. When expressed as a percentage of total earnings, it is also called the retention ratio and is equal to (1 - the dividend payout ratio).

Though the last option of debt repayment also leads to the money going out of the business, it still has an impact on the business's accounts (for example, on saving future interest payments, which qualifies it for inclusion in retained earnings).

Profits give a lot of room to the business owner(s) or the company management to use the surplus money earned. This profit is often paid out to shareholders, but it can also be reinvested back into the company for growth purposes. The money not paid to shareholders counts as retained earnings.

Lease

A lease is a contract outlining the terms under which one party agrees to rent an asset—in this case, property—owned by another party. It guarantees the lessee, also known as the tenant, use of the property and guarantees the lessor (the property owner or landlord) regular payments for a specified period in exchange. Both the lessee and the lessor face consequences if they fail to uphold the terms of the contract. A lease is a form of incorporeal right.

- A lease is a legal, binding contract outlining the terms under which one party agrees to rent property owned by another party.
- It guarantees the tenant or lessee use of the property and guarantees the property owner or landlord regular payments for a specified period in exchange.
- Residential leases tend to be the same for all tenants, but there are several different types of commercial leases.
- Consequences for breaking leases range from mild to damaging, depending on the circumstances under which they are broken.
- Certain protected groups are able to vacate their leases without any consequences, for which Understanding a Lease

Leases are legal and binding contracts that set forth the terms of rental agreements in real estate and real and personal property. These contracts stipulate the duties of each party to effect and maintain the agreement and are enforceable by each. For example, a residential property lease includes:

- The property address
- Landlord and tenant responsibilities
- The rent amount
- A required security deposit
- Rent due date
- Consequences for breach of contract
- The duration of the lease
- Pet policies
- Other essential information

Not all leases are designed the same, but all of them have some common features. These include the rent amount, the due date of rent, the expiration date of the lease. The landlord requires the tenant to sign the lease, thereby agreeing to its terms before occupying the property.

Most residential leases are standard with the same terms for all tenants. Leases for commercial properties, on the other hand, are usually negotiated in accordance with the specific lessee and typically run from one to 10 years, with larger tenants often having longer, complex lease agreements.

The landlord and tenant should retain a copy of the lease for their records. This is especially helpful if and when any disputes arise.

Leveraged Lease

A leveraged lease is a tax-advantaged lease arrangement in which a lessor borrows funds to acquire an asset that is then leased to a lessee. In this situation, the lender holds title to the leased asset, while all lessee payments are collected by the lessor and passed to the lender. The lender can repossess the asset in the event of a lessee payment default. In this arrangement, the lessor can recognize depreciation expense on the asset for tax purposes, while the lessee can deduct its lease payments from taxable income.

The name of this lease refers to the financing position of the lessor, which has used debt (leverage) to pay for most of the cost of the asset that is being leased. Leveraged leases are most commonly used to acquire assets that are expected to be used for a relatively short period of time, such as vehicles and business equipment.

Features of Leveraged Lease

Following are the salient features of leveraged leasing:

- The lender has no recourse to the lessor.
- Depending on the terms of the agreement, the title/ownership of the asset can remain either with the Lender or Lessor.
- The lessor doesn't have the responsibility to make payment to the lender. This is because the lessee makes the payment directly to the lender.
- Lessor usually invests only a small portion (or nothing at all) of the asset price. They borrow the remaining funds from the lender.
- The lender has more say than the lessor in the situation of sale or resale of the asset.
- The lender can verify the financial standing of the lessee. If the lender finds that the lessee won't be able to make the lease payment, then they may go for recourse loan payment. In such a case, the lessor would have to make the payment.
- Lessor also gets tax benefits.

- The debt to the lessor is usually of non-recourse nature. It means that in case of default, the lessor is not responsible for repaying the debt. The lender can get the payment only through the lease payment. Thus, it is crucial for the lender to properly estimate the financial standing of the lessee.

Equity Share

An equity share, normally known as ordinary share is a part ownership where each member is a fractional owner and initiates the maximum entrepreneurial liability related to a trading concern. These types of shareholders in any organization possess the right to vote.

Features of Equity Shares Capital

- Equity share capital remains with the company. It is given back only when the company is closed.
- Equity Shareholders possess voting rights and select the company's management.
- The dividend rate on the equity capital relies upon the obtainability of the surfeit capital. However, there is no fixed rate of dividend on the equity capital.

Types of Equity Share

- Authorized Share Capital- This amount is the highest amount an organization can issue. This amount can be changed time as per the companies recommendation and with the help of few formalities.
- Issued Share Capital- This is the approved capital which an organization gives to the investors.
- Subscribed Share Capital- This is a portion of the issued capital which an investor accepts and agrees upon.
- Paid Up Capital- This is a section of the subscribed capital, that the investors give. Paid-up capital is the money that an organization really invests in the company's operation.
- Right Share- These are those type of share that an organization issue to their existing stockholders. This type of share is issued by the company to preserve the proprietary rights of old investors.
- Bonus Share- When a business split the stock to its stockholders in the dividend form, we call it a bonus share.
- Sweat Equity Share- This type of share is allocated only to the outstanding workers or executives of an organization for their excellent work on providing intellectual property rights to an organization.

Merits of Equity Shares Capital

- ES (equity shares) does not create a sense of obligation and accountability to pay a rate of dividend that is fixed
- ES can be circulated even without establishing any extra charges over the assets of an enterprise
- It is a perpetual source of funding, and the enterprise has to pay back; exceptional case – under liquidation
- Equity shareholders are the authentic owners of the enterprise who possess the voting rights

Demerits of Equity Shares Capital

- The enterprise cannot take either the credit or an advantage if trading on equity when only equity shares are issued
- There is a risk, or a liability overcapitalization as equity capital cannot be reclaimed
- The management can face hindrances by the equity shareholders by guidance and systematizing themselves
- When the firm earns more profits, then, higher dividends have to be paid which leads to raising in the value of the shares in the marketplace and its edges to speculation as well

Answer to Question No. 07

A dividend is an amount of money paid by a company to its shareholders. Quarterly is the most common frequency of payment, but a company can also choose to pay monthly, semi-annually, or annually. Dividends can alternatively be “special,” meaning that they are a one-time payment that won’t repeat (or won’t repeat at the same amount), but more often dividends are paid on a schedule.

A dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits. When a company earns a profit and cash flow, it can either reinvest it back into the business or pay out a portion to shareholders in the form of dividends.

Dividends cannot be distributed without the shareholders approving them through voting rights. Although cash is commonly given as dividends, it can also come in the form of more shares of stock. It is not only stocks that pay dividends, mutual funds and exchange-traded funds do as well.

The board of directors has the option of paying dividends at various intervals and with varying payout rates. Dividends can be paid on a monthly, quarterly, or yearly basis, depending on the situation. In addition to regularly scheduled dividends, companies can also issue non-recurring special dividends.

For most investors, dividends provide a source of income that can be reinvested back into the market or used to cover living expenses.

A dividend policy is a strategy that a company uses to decide how much money it will give out as a dividend.

It can be important for a company to have a diverse set of dividends so that the corporation’s shareholders are not allocating the same percentage of their income to different investments. A dividend policy also helps ensure that taxable distributions are distributed at the correct rate to shareholders.

The main reason for having a high dividend policy is that the company’s dividend payment policy to the investors encourages them to remain with the company and not withdraw their money. This is the main reason for maintaining a high dividend policy so that the company can attract investors and continue its business operations.

Different companies pay dividends according to their own policies, and some companies do not pay dividends at all. For example, Microsoft (MSFT). This article discusses some of the widespread dividend policies companies consider before declaring or paying dividends.

Relationship between Dividend Policy and Dividend Payout Ratio

Dividend policy refers to the determination and direction of dividend payout ratio by the company as a policy to its shareholders. It is one of the key factors that determine the future growth potential of a company.

In simple words, it is a function of the company’s growth rate and capital spending. If the company has a high growth rate and a high growth spending ratio, it is expected to have high growth and low dividend payout ratio. The dividend payout ratio is also referred to as the dividend payout ratio, dividend per share, dividend payout, and dividend payout ratio. This ratio is expressed in terms of percentage.

A high dividend payout ratio indicates higher growth as it allows the company to have more capital available to grow and invest in the future growth of the company. On the other hand, a low dividend payout ratio indicates the lower growth of the company as the same amount of capital is not allowed for future investment. The dividend payout ratio is the total dividends as a percentage of the share capital.

Factors determining the dividend policy

Several factors could be applicable in individuality or in a combination of two or more factors that decide a company’s dividend policy. Let’s have a quick look at them in the following paragraphs:

Liquidity

For paying the dividend, a firm will require access to funds. Even extremely prosperous firms can occasionally have difficulties in paying dividends if the resources are locked up in other types of assets. In summary, firms with higher liquidity pay dividends more frequently than companies with cash locked up in fixed assets or inventory.

Repayment of Debt

Companies having a high load of interest-bearing debts may be hesitant to pay dividends. Dividend payout may be made difficult if the debt is due for repayment. Because paying interest on interest-bearing assets is a necessity

in virtually all nations. Shareholders acquire whatever remains after discharging liabilities of debt-holders. It is also conceivable that the firm is not left with any distributable earnings after paying interest on loans.

So, such firms would wait until an acceptable level of debt is cleared before they start paying dividends to shareholders. Preference share dividends may be an exception to this idea because their payout is viewed like interest-bearing debt.

Stability of Profits

As there are certain limitations on cash and loan credit given to the company, it has to earn revenue. A company has to generate an income from sales or some other means to earn money for its shareholders. At this point in time, the earning capacity of the company is known, and it can be predicted. This earning capacity is reflected in the company's earnings and profits. It indicates how much of the total sales and profits of the company can be generated from its operations.

In the event that earnings fall, the dividend policy will be lowered accordingly.

Control

The utilization of retained earnings to finance a new project maintains the company's ownership and control. This can be useful in businesses where the existing ownership disposition is relevant.

Legal Considerations

The legal rules set out parameters within which a business can declare dividends. It is done to safeguard the interests of creditors, lenders, and other parties having a stake in the firm. The court or company law boards can regulate whether or how much the firm can pay dividends.

The payment of dividends is generally restricted by law to prevent companies from paying out too much cash and running into financial trouble. For public companies, the law generally limits dividend payments to the net income earned in the previous year, with some exceptions for companies with a strong financial position.

Private companies may have more flexibility in terms of how much they can pay out in dividends, but they still need to be mindful of their overall financial condition. A company that pays out too much in dividends may find itself struggling to meet its obligations in the future.

Risks in the Market

As there is always a risk in the market, a company's dividend policy is determined in accordance with this risk. In the stock market, there are fluctuations. A company has to face this risk while deciding on the dividend policy.

A company has to decide on the dividend policy by taking into consideration the various risks. If the company is making a decision without this risk in mind, it is a bad decision.

Inflation

If the company does not have enough cash flow to cover its operating expenses and dividends, it will need to reduce or eliminate its dividend. Inflation can also be a factor in determining a company's dividend policy. A company that expects high levels of inflation in the future may choose to increase its dividend to protect the purchasing power of its shareholders' investment. However, if a company anticipates that inflation will erode its profits, it may choose to reduce or even suspend its dividend payment. Inflation must be taken into account when a firm establishes its dividend policy. This effect has been discussed in models of the dividend.

Expectations of the Management

The dividend policy is also affected by the expectations of a company's management. If the management is confident about the company's earnings, the dividend policy is high. In the same way, in case the management is not confident about the earning ability of the company, the dividend policy is lowered.

Other Factors

Tax considerations and other variables such as dividend policies followed by other companies similarly positioned in the sector, management stance on dilution of existing control over the shares, fear of being branded as inept or inefficient, and cautious policy versus non-aggressive one.