Detriments of Capital Structure

Chapter One: Introduction

Introduction

The modern theory of capital structure as been formulated by Modigliani and Miller. Also, we can not ignore the more recent contribution of Rajan and Zingales. These recent theories have made direct progress on the subject matter (Bauer, 2004). There was a clear department from the original theory especially in regards to the concept that would make the capital structure as relevant to the value of the firm (Harris & Raviv, 1991; Swanson, Srinidhi & Seetharaman, 2003). Very little research has tackled or showed a kind of an empirical relevance of the different theories.Determing the capital structure of a firm is an important decision. In this respect, the firms would need to study a variety of financial and economic aspects. Each form of capital structure would have a specific cost that would be different from the cost of another form. The cost of debt for instance is different from the cost of issuing corporate stocks. In addition, the taxation envirionment plays a crucial and an important role in this respect (Harris & Raviv, 1991; Swanson, Srinidhi & Seetharaman, 2003). It is essential and very important to consider the taxation factors as currently a variety of companies resort to the debt forms of capital structures in order to get the most benefits from the tax deducations that they would have as a result (Harris & Raviv, 1991; Swanson, Srinidhi & Seetharaman, 2003).

The growth and development of a firm depend crucially on that firm's access to and

Financial Evaluation of Business

Executive Summary

The report provides an analytical view of (MMH) from 1 April 2011 to 31 March 2014 using financial and non financial techniques and also by comparing into some extent, with TSB.

A key finding is that financial stability has been a risk throughout the period analyzed. MMH is an organisation high in quality, referrals and outcomes, yet still challenged by both short and long term sustainability. Given years of sizeable unrestricted deficits, MMH is striving to move towards a break-even position.

Income needs to be increased and the level of operating expenditure should be cut down. A critical evaluation of the MMH UK business model and strategic position as an independent service provider to the NHS is required.

1. Introduction

1.1. Background: MMH is a registered charity providing health care services. It currently has one wholly owned subsidiary MIL. 150 years ago, Rev William Pennefather and his wife Catherine, through their Deaconess Training School, sent two deaconess/nurses into the slums of Bethnal Green/Shoreditch, London in 1866. MMH thus began as a home care service. ("Our History", 2013) MMH became a medical mission (doctor led) eight years later, when in 1874 it opened a clinic with a consulting space and dispensary in London. In 1877, a warehouse was converted into a 3 ward 27 bed hospital. It became part of the NHS in 1948, but was allowed to retain its Christian character and associations. As a small hospital with less than 200 beds it was considered to be uneconomic and closed down in 1982. It reopened in 1985 as a charitable hospital. In 1988, MMH responded to the escalating HIV/AIDS crisis, thus becoming Europe's first hospice caring for people with AIDS. ("Our History", 2013; Albero, 2013)

The charity operated a number of projects in the UK and abroad, which were supported by the topic will enable the author to apply her knowledge built as an student to a company and industry she is involved in which is good for an accounting professional.

MMH was selected due to the high standard of care provided to HIV patients and also because it is a historic organisation that has been in existence for over a century. Many famous people, including the Princess of Wales Diana Spencer have supported MMH's work. She visited MMH a number of times after it entered the area of care for people with AIDS in the 1980s'. ("Our History", 2013)

1.2.2. Aims and Objectives: The objective of this research report is to analyze MMH business and financial performance over a three-year period. The report aims to research business and financial performance so as to develop an understanding of how this impacts the business strategy and long term sustainability. The research will ascertain:

- Circumstances that led to the decision to restructure company.
- The services provided by MMH (UK) hospital.
- Evaluation of business and financial performance of MMH over last three years and determine how this impacts short and long term sustainability. Focus is on the MMH UK operations as international programmes are now stand alone and thus the financial risks relate to the UK operations and business model.
- In 2011, MMH UK embarked on it's largest single development, the construction of a 26 bed specialist HIV hospital. MMH moved into this new hospital in September 2014. Given the increase in capacity, what are development plans?
- The return on investment for fund-raising activities. The areas of focus for fund-raising and the key risks in the sources of fund-raising income.

LULULEMON ATHLETICA: CASE STUDY

Financial Analysis

lululemon athletica has become a strong and successful company which can be measured economically, as well as by social responsibility. By being socially responsible and utilizing their strong code of ethics, lululemon has created a prestigious reputation for itself by effectively serving the interests of the customer by creating new, quality goods that helps benefit the customers'. lululemon has also fulfilled customer interests by letting them choose which charities in the community they want to support (Lavrence & Lozanski, 2014). lululemon also acts in a socially responsible manner by having in store yoga classes for customers to fulfill their mission of helping people live healthier, longer lives. Below is the financial analysis of lululemon athletica:

Ratios	**2010**	**2011**	**2012**
Gross Profit Margin	50.66%	49.26%	56.88%
Operating Profit Margin	19.10%	25.36%	28.68%
Net Profit Margin	12.87%	17.11%	18.49%
SG&A Expenses/Total Revenues	33.41%	29.90%	28.21%
Return on Stockholder's Equity		30.89%	36.98%
Increase in sales per Square foot		30.96%	52.05%
Increase in Total Assets		62.48%	139.05%

The Effect of International Trade on the Current Account

What is the Current Account?

The current account is an important measure of the health of an economy. The current account provides a measure of the ability of a country to increase the value of its exports as compared to its imports. The current account determines the overall balance of payments for a country which is another essential measure of the health of the economy. The current account provides an accounting record of the value of a country's exports and imports. The current account is said to be a surplus account when the value of the merchandise exported by a country is greater than the value of the merchandise imported. On the other hand, the current account runs a deficit when the value of the imported merchandise exceeds the value of merchandise exported. In some instances the value of services imported and exported is also included as a part of the current account but most of the time the current account consists of trade in goods only.

It is in the economic interests of a country to attain a surplus in its current account and to avoid a deficit. A country can do this by increasing the value of its exports and by reducing the value of its imports. This strategy allows the country to earn foreign exchange while reducing the amount of wealth leaving the country.

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	Qtr 4	Qtr 8	Qtr 12	Qtr 16
EBIT	814,825	1,199,313	1,276,640	1,186,571
Interest on Bonds	25,200	8,400	-	-
Interest on Term Debt	195,885	118,014	159,690	79,944
Earnings before Tax	593,740	1,072,899	1,116,950	1,106,627
Equity	26,871,572	22,720,782	22,720,782	17,667,420
Debt	8,677,081	4,435,416	5,899,998	2,700,000
Cost of Equity	2.21%	4.72%	4.92%	6.26%
Cost of Debt	2.55%	2.85%	2.71%	2.96%
Weighted Average Cost of Capital	**2.29%**	**4.42%**	**4.46%**	**5.83%**

Computation Formula:

Cost of Equity = Earnings before Tax / Equity

Cost of Debt = Interest on Debt / Debt

Weighted Average Cost of Capital = (Cost of Equity *(Equity / (Equity + Debt))) + (Cost of Debt * (Debt / (Equity + Debt)))