



Moving Further ...

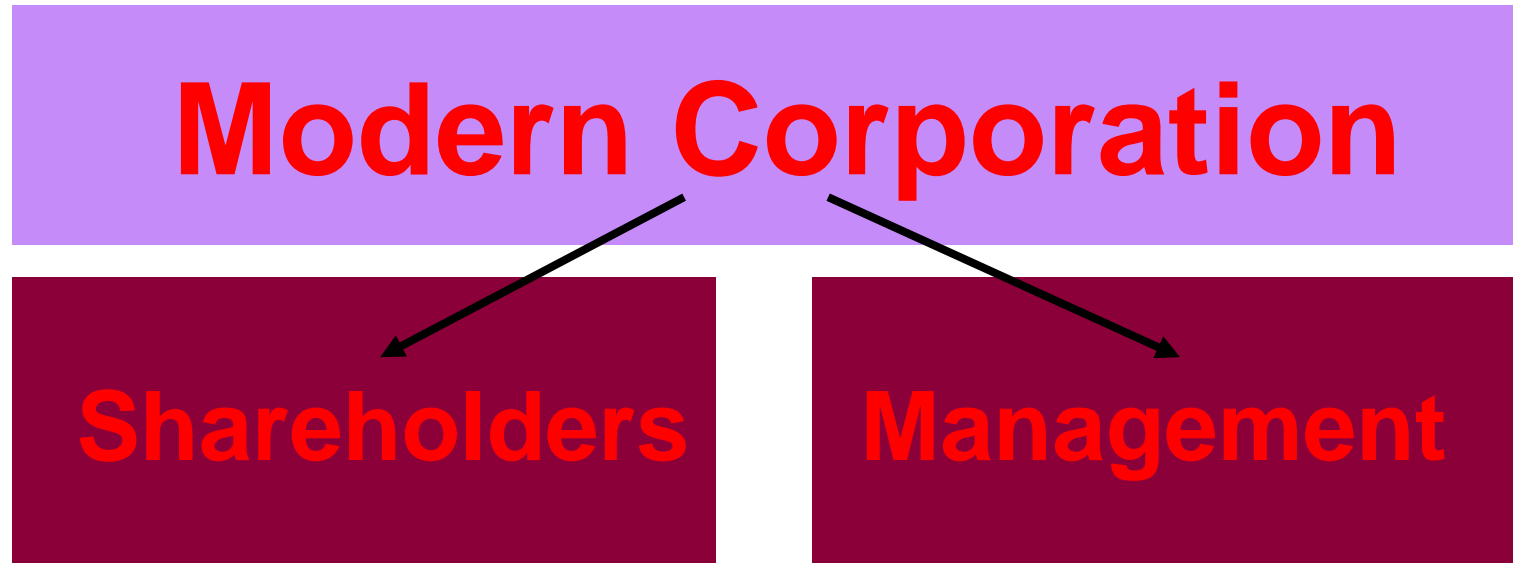


Ram Kumar Kakani...

Structure of Business Entity ...

- Sole Proprietorship
 - ... M/s Ladduram & Sons
- Partnership
 - ... S S Billimoria & Co.; Reflection Investments
- Limited Liability Company
 - Private Limited
 - ... Mukand Initiatives Private Limited
 - Public Limited
 - ... Lawreshwar Polymers Limited
- Can non-individuals be shareholders?
- Can organizations move from one structure to another?

Agency Concept



There exists a SEPARATION between owners and managers.



Agency Theory

- ◆ Jensen and Meckling developed a theory of the firm based on *agency aspects (a.k.a. contractual problems)*.
- Agency Theory is a branch of economics relating to the behavior of principals and their agents.

Ownership Vs Management

Differences in Information

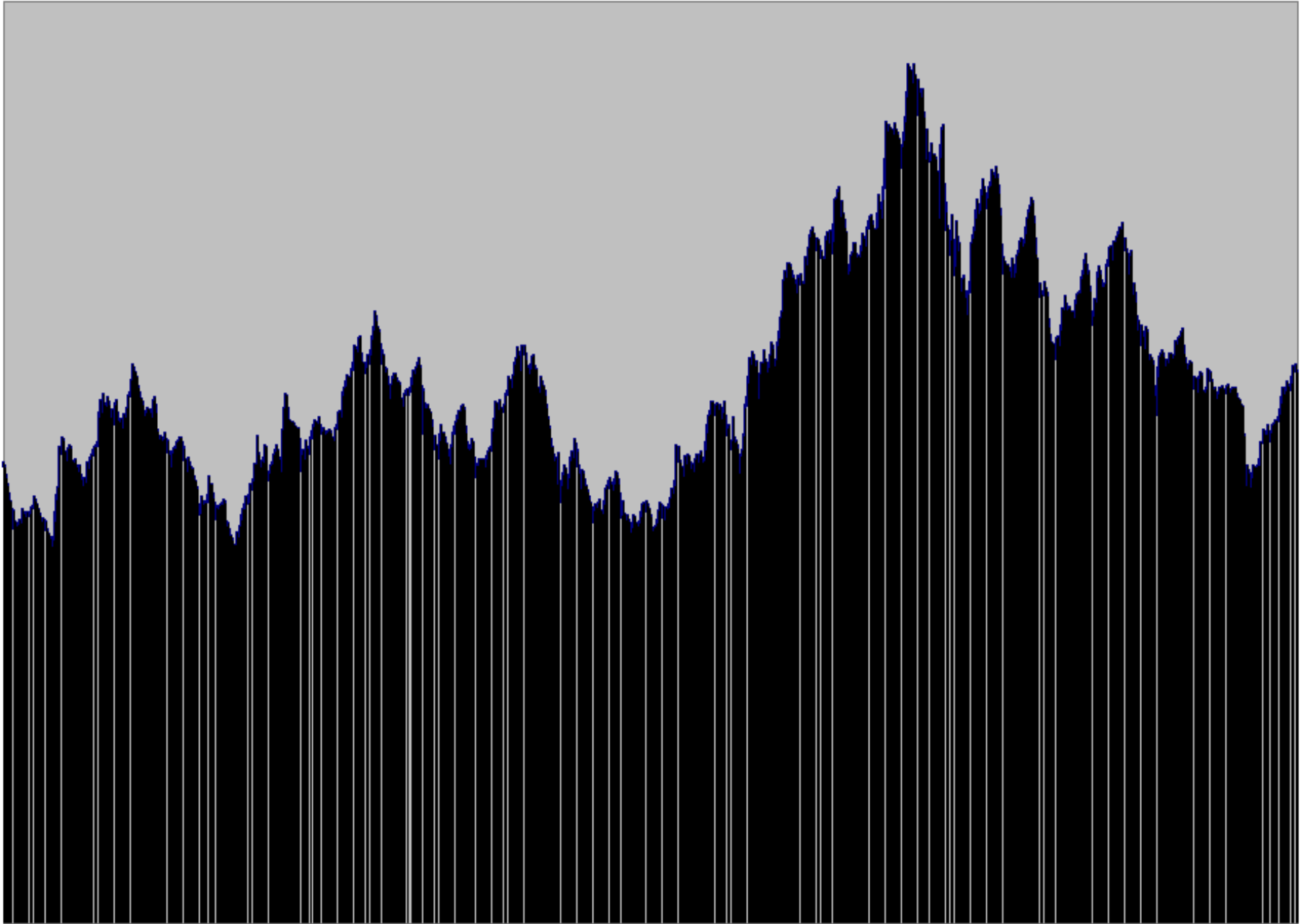
- Stock prices and returns
- Issues of shares and other securities
- Dividends
- Financing

Different Objectives

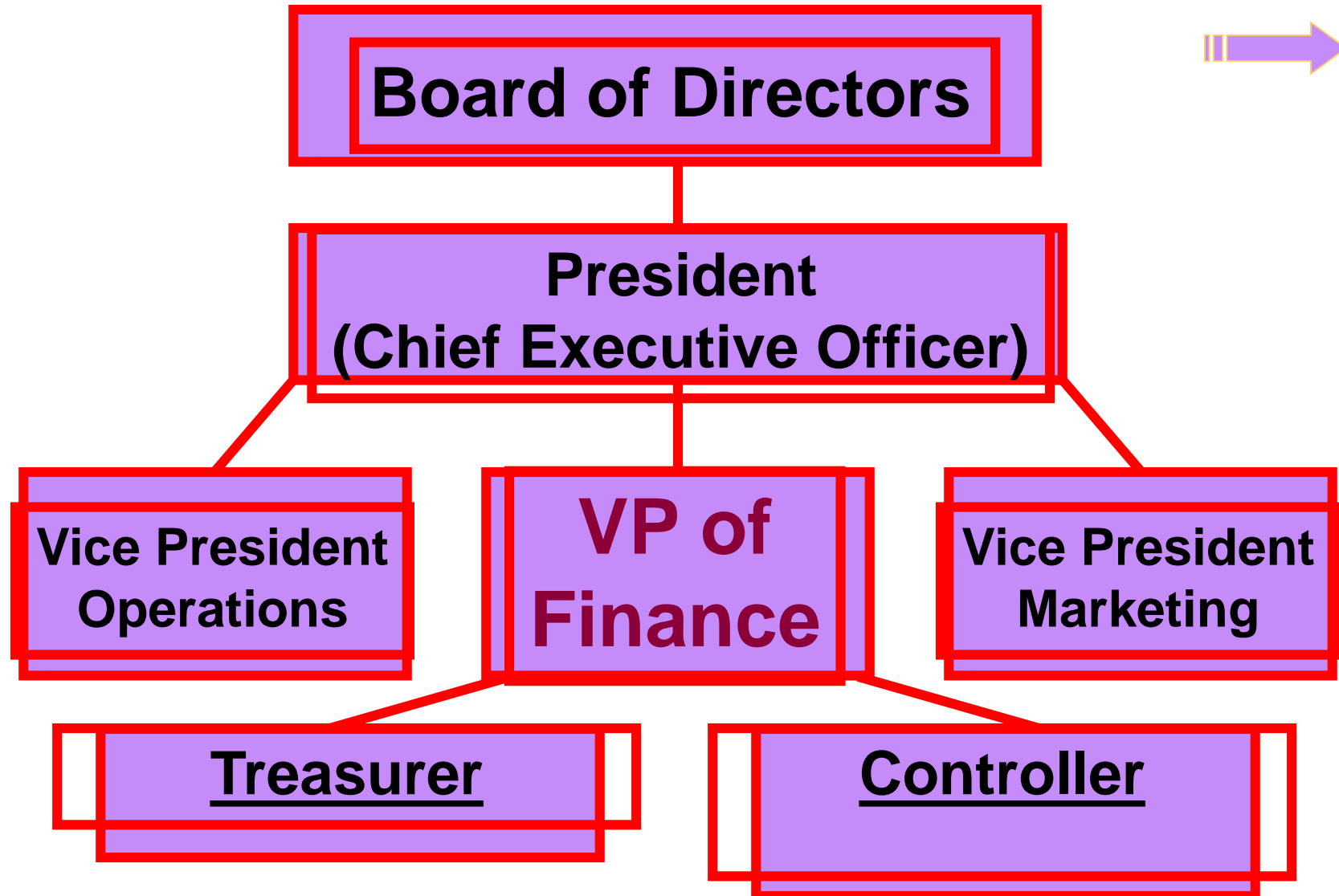
- Management Vs stockholders
- Top management Vs operating management
- Stockholders Vs banks and lenders

Social Responsibility

- Wealth maximization does *not* preclude the firm from being **socially responsible (??)**
- Assume we view the firm as producing *both* private and social goods.
- Then wealth maximization remains the appropriate goal in governing the firm.
- There are other opinions also.



Large Corporate Sector ... Organization of the Financial Management Function



Organization of the Financial Management Function

VP of Finance

Treasurer

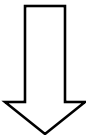
Capital Budgeting
Cash Management
Credit Management
Dividend Disbursement
Fin Analysis/Planning
Pension Management
Insurance/Risk Mgmt
Tax Analysis/Planning

Controller

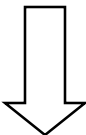
Cost Accounting
Cost Management
Data Processing
General Ledger
Government Reporting
Internal Control
Preparing Fin Stmts
Preparing Budgets
Preparing Forecasts

Organizational Structure vis-à-vis Role of Accounting

CEO



CFO



Finance
Officer

Accounts
Officer 1

Accounts
Officer 2

Clerk 1

Clerk 2

Clerk 3

EXTERNAL AUDIT

INTERNAL AUDIT