

JuiceNotesTM

Corporate Issuers

CFA Level 1
2026

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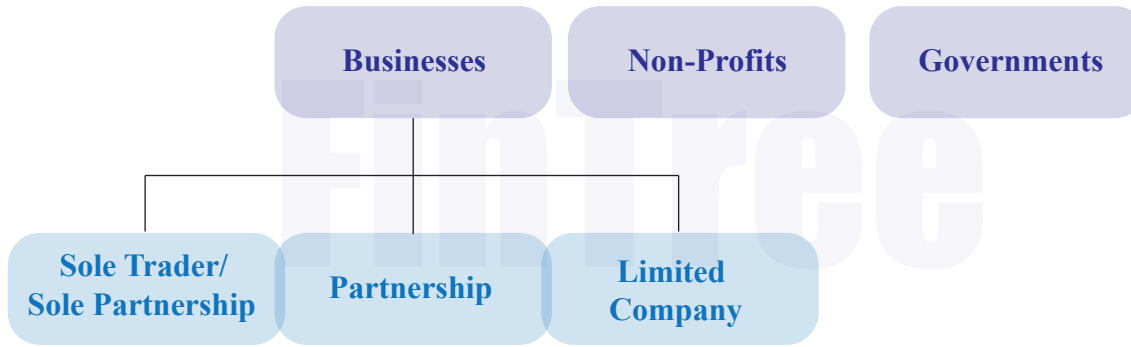
Corporate issuers

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Organizational Forms, Corporate Issuer Features, and Ownership

FinTree Fruit 1: ORGANIZATIONAL FORMS OF BUSINESSES



Businesses:

- Primary focus on financial analysis
- Operate to generate profit for owners/shareholders

NPO:

- Serve public or community purposes
- May invest in businesses
- Exempt from paying taxes

Governments:

- Provide public services; issue debt
- Also act as investors in markets

Organizational forms of businesses differ by:

	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Partnership (LLP)	Private Limited Company	Corporation
Legal Identity	No	No	No	No	Separate	Separate
Operated by	Owner	Partners	GP operated	Partners	BOD & Managers	Board & Manager
Liability	Owner has unlimited liability	Partners have unlimited liability	LPs liable only to extent of investment	Partners have limited liability	Owners have limited liability	Limited by equity investment
Taxation	Pass-through profit taxed as personal income	Pass-through profit taxed as personal income	Pass-through profit taxed as personal income	Pass-through profit taxed as personal income	Taxed at company level	Corporation income taxed. Dividends taxed as personal.
Risks	Owner	Shared by partners	Shared by partners	Shared by partners	Limited by equity investment	Limited by equity investment
Financing	Limited: owner's ability to finance & personal risk tolerance	Limited by partners' ability to raise their risk capital	Limited by partners' ability to raise their risk capital	Limited to capital, legal constraints (only for professional services)	Moderate, restricted ownership limits, but easier share transfer	Unlimited potential – access to capital

FinTree Fruit 2: KEY FEATURES OF CORPORATE ISSUERS**Features of Corporations:**

Separate Legal Entity: A corporation is legally distinct from its owners, formed by filing articles of incorporation with a regulatory authority.

Rights Similar to Individuals: Corporations can enter contracts, sue/be sued, hire employees, borrow/lend money, invest, and pay taxes.

Owner–Manager Separation:

- Shareholders **own the business but do not manage** daily operations.
- Board of directors, elected by shareholders, appoints management (e.g., CEO) **responsible for** investment, financing, and operations
- If a board or management does not act in shareholders' best interests, **shareholders can enact change** through **exercising voting rights** attached to their shares

Limited Liability: Shareholders have **limited liability** - can lose only what they invested.

External Financing

Sources: Individuals, mutual funds, pension funds, banks, governments, etc.

Equity

Ownership Capital
Shareholders receive dividends.
Either retain or reinvest profits.
Dividends are Non-Tax deductible.

Debt

Borrowed Capital
Loans, bonds, and leases
Must be repaid with interest.
Interest is tax deductible

Economic Profit

Measures value above the required return expected by shareholders.

- **If $\text{Net Income} \div \text{Equity} > \text{Required Return on Equity} \rightarrow \text{Positive Economic Profit.}$**

Reflects whether the company is creating real value for owners.

Corporate Taxation

Taxable profits \neq Accounting profits

- Due to differences between tax laws and financial reporting standards.

Double Taxation:

A corporation pays tax on its profits.



Shareholders pay tax again on dividends received from those profits.

Key Reasons for Attractiveness:

- **Corporate shareholders are taxed only when dividends are paid. In contrast, sole proprietors/partners are often taxed on all profits, even if not distributed.**
- **Corporations can retain earnings for reinvestment (e.g., expansion), avoiding immediate taxation at the personal level.**
- **In countries where corporate tax $<$ personal income tax, businesses can “store” profits within the company to defer higher personal taxes.**

Example: Double Taxation of Corporate Profits

A U.S. corporation reports pre-tax income of \$1,000 million and pays corporate taxes at 25%. Shareholders pay a 15% tax on dividends. If the company distributes all after-tax income as dividends, what is the total tax rate as a percentage of pre-tax income?

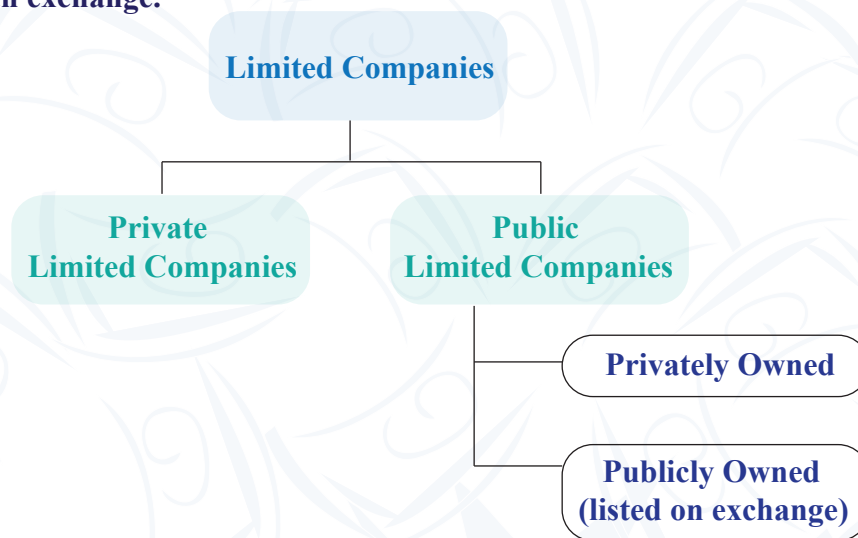
Solution:

	Calculation	Amount (\$ million)
Pretax Income		1,000
Corporate Tax (25%)	$1,000 \times 0.25$	250
After-Tax Income	$1,000 - 250$	750
Dividend Distributed		750
Investor Dividend Tax (15%)	750×0.15	112.5
Total Taxes Paid	$250 + 112.5$	362.5
Total Tax Rate	$362.5 \div 1,000$	36.25%

Therefore, Total taxes = \$362.5 million, and the Total tax rate = 36.25%

FinTree Fruit 3: PUBLICLY VS. PRIVATELY OWNED CORPORATE ISSUERS

Public vs. Private Corporations are often defined on the basis of whether shares are listed and tradeable on an exchange.



Features of a Public (Listed) Company

- Shares listed and traded on a stock exchange.

Free Float:

- Portion of shares freely tradeable in the market (not held by insiders/strategic investors).
- Expressed as a % of total shares outstanding.

Exchange Listing, Liquidity, and Price Transparency:

Public Company Shares :

Easily transferable via stock exchange (secondary market).
 Investors can buy/sell through brokerage accounts.
 High liquidity for frequently traded stocks.
 Share price transparency allows real-time tracking of company valuation.

Private Company Shares:

No exchange listing → no public valuation or price transparency.
 Share transfers require finding a buyer, price negotiation, and company approval.
 Investment is usually illiquid and long-term (exit via acquisition or IPO).