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MGT201 FINAL TERM PAPER SHARED BY STUDENT

[SOBIA](#) ON SEPTEMBER 3, 2018 AT 8:18PM

#mgt201
#mcqs_24
#questions_8

*in three questions data was given and we have to find #WACC.
*explain SML and write its formula.
*explain CML and write formula.
*risk and return formula for portfolio and individual stock .

MGT201 FINAL TERM PAPER SHARED BY STUDENT

[MANIA MALIK](#) ON SEPTEMBER 4, 2018 AT 10:26PM

Current mgt201 exam: (Share by someone).
24 MCQ's.
12 subjective questions:

Q1: compute the standard deviation of portfolio?

Q2: Define speedy collection

Q3: Calculate Beta portfolio

Q4: Write drawbacks of capital structure theory



Q5: Compute preferred equity

Q6: Compute CV's of 4 stocks and suggest what is better for investment?

Q7: Compute weighted average mean of return and beta portfolio?

MGT201 FINAL TERM PAPER SHARED BY STUDENT

[MANIA MALIK](#) ON SEPTEMBER 8, 2018 AT 12:45PM

Mine MGT 201 Paper:

TOTAL QUESTIONS=36

MCQS =24

SUBJECTIVE=12

MCQS FROM HANDOUTS AND CONCEPTUAL BUT EASY. 1,2 FROM PAST PAPERS.

Subjective:

2 QUESTIONS FROM EXPECTED RETURN AND RISK. VALUES IN TABLES ARE GIVEN WE HAVE TO FIND OUT EXPECTED RETURN AND RISK.

3. VALUES ARE GIVEN IN TABLE FORM FIND THE LEAST RISK.

4. WRITE THE NOTE ACCORDING TO CAPITAL WORKING ON FINANCE ON FOLLOWING BRIEFLY:

1. AGGRESSIVE.

2. CONSERVATIVE.

5. WHAT IS RISK? WRITE THE TYPES OF RISK. 5 MARKS.

6. WRITE A NOTE ON SMALL CURRENT ASSETS.

7. ONE QUESTION IS ABOUT COEFFICIENT VARIATION.

REMAINING QUESTIONS WERE NUMERICALLY.



MGT201 FINAL TERM PAPER SHARED BY STUDENT

[RANA \(MBS\)](#) ON SEPTEMBER 12, 2018 AT 9:26AM

Mgt201 final term - 12 sept 2018

Q- correlation coefficient - numerical - 3 marks

Q- payout ratio numerical

Q-dividend growth model vs capital asset pricing model CAPM

Q- CML vs SML

Q- 5 option was given we had to tell which one is systematic risk and which are unsystematic risk

Q- ROE numerical

Q- standard deviation numerical

Q- Calculate stock

Q- expected return and risk

Not a single question came from WACC , only 2 mcqs was there from WACC.

MGT201 FINAL TERM PAPER SHARED BY STUDENT

ON FEBRUARY 22, 2018 AT 7:40PM

mcqs conceptual the kch numericals the

24mcqs..3marks k 6 question...5marks k 6 question

WACC ma se mosly questions the..

CAMP n SML relation n risk premium.

2-Stock Portfolio Risk Calculation long..ROE or interst rate ka tha..

how divirstification helps in reduce risk?



MGT201 FINAL TERM PAPER SHARED BY STUDENT

ON FEBRUARY 22, 2018 AT 7:40PM

Today mgt201 paper

Total 36 questions

24 msq's

6 questions X3

6 questions x5

3 short questions about expected return

1 question clientele policy

2 questions finding risk

3 long questions about WACC

1 questions find market risk premium and cost price

1 question about find WACC leverage

1 question in which write 5 ways for manage effective accounts receivable.

MGT201 FINAL TERM PAPER SHARED BY STUDENT

ON FEBRUARY 22, 2018 AT 7:40PM

Today's mgt201 8am

24 mcqs,

6 shorts (3 marks each)

6 long (5 marks each)

Short



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- 1) Discuss main assumptions of capital structure theory proposed by MM.
- 2) write formulas of Net income, Equity, VL(value of levered firm)
- 3) calculate stock beta.
- 4) calculate port folio of two stocks if correlation coefficient is 0.4.
- 5) calculate average collection period of time, if 40% sales of credits on 30 days and 60% sales of credits on 60 days.
- 6) in SML what is risk premium? What does it means.

Long

- 1) portfolio risk if correlation coefficient is -0.3
- 2) 2 questions are from equity numericals
- 3) Calculate expected risk and return
- 4) write a brief note on aggressive and conservative.
- 5) numerical

All numericals are from handouts. Lectures 19 to 40



MGT201 FINAL TERM PAPER SHARED BY STUDENT

MY TODAY PAPER MGT201, 15 AUG 2017

Question no 01: Calculate stock beta, if expected rate on market portfolio is 15%, expected return on stock is 14%, and risk free rate is 3%? (marks 03)

Question no 02: Calculate market Value of equity for a 100% equity firm, using following information extracted from its financial statements; (marks 03)

EBIT = Rs 50,000/-

Return of Equity = 12%

Amount of Equity = Rs 100,000/-

Tax Rate = 35%

Question no 03: Differentiate between Security Market line(SML) and Capital Market Line(CML)? (Marks 03)

Question no 04: Write Impact of Stock Dividend & Stock Splits on Earning per share and Stock Price? (Marks 03)

Question no 05: Calculate Co-efficient variation of a common stock by using given information; (marks 03)

Actual Return = 20%

Expected Return = 17%

Standard deviation = 13%

Question no 06: Briefly describe conclusion of capital structure theory along with areas ignored therein? (marks 05)

Question no 07: Write down four main weakness of capital structure mathematical Model?

Question no 08: XYZ corporation has a plan for making investment in a n asset, for this purpose corporation has gathered the data about annual rate of return & probability of asset and has presented the info in following table:

Rate of Return

Probability

Poor

16.25%

0.55



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Good

14.75%

0.45

Keep in view above information you are required to calculate expected value of Return and risk of asset? (marks 05)

Question no 09:

Risk free Rate of Return

10%

Expected rate of return of Market

18%

Expected portfolio Return

12%

Risk of Portfolio

5%

Calculate Risk of market by using Capital Market Line(CML) equation? (marks 05)

Question no 10: Briefly explain following two approached used for common stock valuation and also formulas; (marks 05)

- a) Dividend growth Model
- b) Capital Asset pricing model

=====

Question no 02: Calculate market Value of equity for a 100% equity firm, using following information extracted from its financial statements; (marks 03)

EBIT = Rs 50,000/-

Return of Equity = 12%

Amount of Equity = Rs 100,000/- Tax Rate = 35%

Solution :

Expected EBIT	50,000
Less Interest rate (12% on Equity) 100,000 %12 percent find ki jo k bni (8333)	
EBT	41667
Less Tax (35% on EBIT)	(14583)



Net income niche a jaye ghi wo ha answer

27083

Question2:

Calculate Weighted Cost of Capital (WACC)

$$WACC = r_D X D + r_P X P + r_E X E .$$

$$= r_D X D + 0 + 0$$

$$= 11.2 (1) = 11.2 \%$$

Question 3:

Diversifiable Risk: random risk specific to one company, can be virtually eliminated.

Market Risk:

Market Risk: It is defined as uncertainty caused by broad movement in market or economy. More significant.

Question no 01: Calculate stock beta, if expected rate on market portfolio is 15%, expected return on stock is 14%, and risk free rate is 3%? (marks 03)

solution

$$\text{stock beta} = \beta ?$$

$$\text{expected rate on market portfolio} = r_M = 15\%$$

$$\text{return on stock} = r_A = 14\%$$

$$\text{risk free rate} = r_{RF} = 3\%$$

Formula

$$= A = \text{Risk Relative to Market} = (r_A - r_{RF}) / (r_M - r_{RF})$$

$$= (14 - 3) / (15 - 3)$$

$$= 0.916$$

Question no5:

cml and sml ka difference tha

Answer:

SML and CML ka main difference ye hai k SML straight line model aur is measured by Beta and CML is CAMP model is measured by standard deviation,



Question no:6

calculate the risk of market by using capital market line(cml)?

Risk free Rate of return 10%

Expected rate of return of marketk 18%
5%

Expected portfolio return 12%

Risk of portfolio

ANswer:

$$r_{P^*} = r_{RF} + [(r_M - r_{RF}) / \sigma_M] \sigma_P$$

$$r_{P^*} = 10\% + [(18-10)/12]5$$

is ki calculation kr lena yeh tha 5 no ka ha

Question 7

Ahmad Corporation, a small business man, provided the following information about the production level:

Fixed operating cost = Rs. 2,500, Sale price per unit is Rs.10 and its operating variable cost per unit is Rs. 5. You are required to calculate the breakeven quantity from the above information. If variable cost has changed and it is increased up to Rs. 6 then what will be the effect of this change on Break even quantity.

Solution:-

a) Sales per unit - variable per unit = Contribution margin per unit

$$10 - 5 = \text{Contribution margin per unit}$$

$$\text{Contribution margin in units} = 5$$

$$\text{Break even in unit} = \text{Fixed Cost} / \text{Contribution margin per unit}$$

$$\text{Break even in units} = 2500 / 5$$

$$\text{Break even in units} = 500$$

b) Sales per unit - variable per unit = Contribution margin per unit

$$10 - 6 = \text{Contribution margin per unit}$$

$$\text{Contribution margin in units} = 4$$

$$\text{Break even in unit} = \text{Fixed Cost} / \text{Contribution margin per unit}$$

$$\text{Break even in units} = 2500 / 4$$

$$\text{Break even in units} = 625$$



Question

From the given information calculate the Net income. EBIT is Rs. 50, 000, fraction of debt in capital structure is 20, return on debt is 10%, amount of debt is Rs. 20, 000 and tax rate is 35%.

Solution:-

Expected EBIT 50000

Less Interest (10% on Debt) 2000

EBT 48000

Less Tax (35% on EBIT) 16800

Net Income 31200

Question

Aamir Corporation has a capital structure of debt and equity with the percentage of 40 and 60 respectively. Tax rate for the company is 35%. On company's outstanding bonds it pays 9%. Aamir has calculated the WACC for his company is 9.96%. What would be the cost of equity capital of Aamir Corporation?

Corporation?

Solution:-

40% Debt

60% Common equity

$r_d = 9\%$

$T = 35\%$

$WACC = 9.96\%$

$r_s = ?$

$WACC = (w_d)(r_d)(1 - T) + (w_c)(r_s)$

$0.0996 = (0.4)(0.09)(1 - 0.35) + (0.6) * r_s$

$0.0996 = 0.0234 + 0.6 * r_s$

$0.0762 = 0.6 * r_s$

$r_s = 12.7\%$.

Question:



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Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations Expected return on market portfolio Risk- free rate Beta

1 16% 12% 1.00

2 18 8 0.80

3 15 14 0.70

4 17 13 1.20

5 20 15 1.60

What generalization can you make?

$$: \text{Required return} = r = r_{RF} + (\beta (r_M - r_{RF}))$$

Where r_{RF} = risk free return

r_M = expected return on market

β = beta of stock

1. $r_M = 16\%$

$r_{RF} = 12\%$

$\beta = 1.00$

$$r = r_{RF} + (\beta (r_M - r_{RF}))$$

$$= 12\% + (16\% - 12\%)1.00$$

$$= 12\% + 4\%$$

$$= 16\%$$

2 isi trha agye part 2 and 3 and so on jitne wo kahye Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations, Expected return, on market, portfolio, Risk- free, rate, Beta

1 16% 12% 1.00

2 18 8 0.80

3 15 14 0.70

4 17 13 1.20



5 20 15 1.60

What generalization can you make?

: Required return = $r = r_{RF} + (\beta (r_M - r_{RF}))$

Where r_{RF} = risk free return

r_M = expected return on market

β = beta of stock

1. $r_M = 16\%$

$r_{RF} = 12\%$

$\beta = 1.00$

$r = r_{RF} + (\beta (r_M - r_{RF}))$

$= 12\% + (16\% - 12\%)1.00$

$= 12\% + 4\%$

$= 16\%$

2.

Question

aik is formula k aya tha wo question ni mila

$WACC = r_D D + r_E E + r_P P$

Step 1:

Calculate Required ROR using Bond Pricing or PV Formula

$PV = 100 / (1+r^*) + 100 / (1+r^*)^2$

$2 + 1000 / (1+r^*)^2$

$= 100 / (1+r^*) + 1100 / (1+r^*)^2$

= Net Proceeds = NP = Market Price - Transaction Costs

$= 950 - 50 = \text{Rs } 900$

Solve the Quadratic Equation for Pre-Tax Required ROR = r^* Using the Quadratic Formula: $r^* = 16\%$ AND $r = -5\%$

This question is just to represent the concept through an example. The values i.e. 16% & -5% are assumed not exactly calculated.



Step 2:

Calculate After Tax Cost of Debt

$$r_D = r_D^* (1 - TC) = 0.16 (1 - 0.30) = 0.16 (0.70) = 11.2\%$$

Step 3:

Calculate Weighted Cost of Capital (WACC)

$$WACC = r_D X_D + r_P X_P + r_E X_E$$

$$= r_D X_D + 0 + 0$$

$$= 11.2 (1) = 11.2\%$$

$$WACC = r_D X_D + r_E X_E + r_P X_P$$

$$= 11.2\% (1/3) + 16.5\% (1/3) + 22.7\% (1/3)$$

$$= 16.9\%$$

formula yeh ha bs values put krni thi or rdxdk 2 time values di thi means k 2 part thye a and b aik br values thi 5 or 2nd time thi 6 baki aik do short rehte ha wo theroy k thye lecture 19 or 20 me tha 2 or aik 37 me se tha 5 no ka

Answer

Capital Structure Theory:

From the discussion of Financial leverage we know Financial Leverage (FL = Debt / (Debt + Equity))

- Increases Overall Return (Mean ROE) when EBIT/Total Assets > Interest (or Cost of Debt) then Leverage is Good because small Increase in EBIT causes much LARGER Increase in ROE.
- Increases Overall RISK (Standard Deviation of ROE) of FIRM. Leverage will always MAGNIFY or AMPLIFY a small change in EBIT into a LARGER change in ROE.
- Fundamental Principle in Risk-Return: Rational Investors in Efficient Markets will only take Extra Risk if they are compensated by Sufficient Extra Return.
- Should the Management of a Firm undertake Financial Leverage? If so, then how much Debt should a Firm have?

– Answer provided by Capital Structure Theory.

Modigliani - Miller:

- Fathers of Corporate Finance



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- “Cost of Capital, Corporate Finance and the Theory of Investment” Revolutionary Article Published by Professors Modigliani & Miller in American Economic Review in June 1958. Won Nobel Prize.

- “Pure M-M” (or Modigliani-Miller) Model - IDEAL CASE:

There is no fixed ratio for debt in capital structure. Generally it varies with each company’s needs and requirements. Capital structure theory tries to determine the most suitable ratio for a firm.

– Major Assumptions: No Taxes, No Bankruptcy Costs, Efficient Markets, Equal Information Available to All Investors

– Major Conclusions:

- Capital Structure has no affect on value of a FIRM! Capital Structure is Irrelevant!

- It does NOT matter how a firm finances its operations, how much debt it has because it has no bearing on a Firm’s Overall Value as calculated using NPV!

- Corporate Financing & Capital Structure Decisions have no bearing on Investment (or Capital Budgeting) Decisions.

- Capital Budgeting can be carried out without knowing the exact Capital Structure of a Firm - you can assume 100% Equity (Un-levered) Firm.

Keep in view these conclusions of the theory are correct only under the ideal conditions as assumed by Modigliani-Miller.

question:

answer

Weaknesses of Capital Structure Mathematical Models:

Here are some of the rules of thumb or general principles financial managers keep in view while deciding for capital structure of the company:

- Forecasting Errors

– Changes in Cost of Debt and Equity (or Capitalization Rates) are unpredictable when Debt Ratio is changing

– Changes in EBIT are also difficult to correlate to changes in Debt or Capital Structure

- Share Price and EPS calculation is very sensitive to minor errors in the estimates.

- Focus on Corporate Finance is on Market Value (of Equity, Debt, and Stocks) BUT Market Value may not be so important for Proprietorships and Private Ltd Companies where only a few shareholders to whom the market value assessed by investors in the market is irrelevant.



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- Fundamentally, Stock Prices should be fundamentally driven by Operating Decisions and Focus on Improving Earnings and Cash Flows – and NOT by manipulating Capital Structure. Capital Structure and Corporate Financing can be used to fine tune the value. Practical Capital Structure Management:

- Financial Stability and Conservatism vs. Real-time Capital Structure Optimization! Aim for Target Capital Structure

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- Long Run Viability vs. Short-term Stock Price Maximization

- Financial Ratio Targets

- Coverage Ratio i.e. TIE (Times Interest Earned)

- = $EBIT / \text{Interest}$. Higher (over 2.0) is better.

- Long Term Debt / Total Capitalization Ratio - about 30%

- FCC (Fixed Charge Coverage) = $(EBIT - \text{Lease Rental}) / (\text{Interest} + \text{Lease Rental} + \text{Adjusted Sinking Fund Payment})$. Takes into account Fixed Financial Charges other than Interest

- Maintain Reserve Borrowing Capacity (recall Signaling Theory) in case attractive Positive NPV

projects are found & also to give the right Signal to Market

- Management Control – use Debt to avoid giving away voting rights and control BUT Creditors can take control if firm becomes insolvent or defaults – Corporate Raiders can take over a firm with large assets if debt is too low - using LBO (Leveraged Buy Out). They convince shareholders to give them control in exchange for higher share prices and EPS as a result of future leveraging.

- Firms with (1) solid assets that can be mortgaged as security against a loan and (2) stable sales and Operating Leverage can generally use debt more safely.

- Retained Earnings: profitable firms have sizeable Cash and Retained Earnings. These are ideal sources of capital because No transaction costs.

- High Tax Bracket Firms: such firms have greater advantage in using debt because of large Interest Tax Shield Savings.

Question:

ANSser:

- Impact of Stock Dividends & Stock Splits on EPS and Price – In both cases (Stock Dividends and Stock Splits), EPS (Earnings PER SHARE = NI / shares) and Dividend PER SHARE fall because number of shares outstanding increases.



Note: FIRM VALUE IS UNCHANGED –only the number of SLICES OF THE VALUE PIE (i.e. Number of Shares) have increases – Price rises immediately afterwards because investors take them to be Positive Signals about the Company's future

Portfolio Rate of Return

Portfolio's Expected Rate of Return: (r_P).

It is the weighted average of the expected returns of each individual investment in the portfolio.

Formula is similar to Expected Return for Individual Investment but interpretation is different:

Portfolio Expected ROR Formula: $r_P^* = r_1 x_1 + r_2 x_2 + r_3 x_3 + \dots + r_n x_n$.

Where there are "n" different investments (i.e. Stocks, Bonds, Projects,...) in your portfolio. r_1 represents the expected return (in % pa) on Investment No. 1 and x_1 represents the weight of Investment No. 1 (fraction of the Rupee value of the total portfolio that Investment No. 1 represents).

Example:

Suppose that you hold a Portfolio of 2 Stock Investments: Value of Investment (Rs) Exp Individual Return (%)

Stock A 30 20

Stock B 70 10

Total Value = 100

Expected Portfolio Return Calculation:

$$r_P^* = r_A x_A + r_B x_B$$

$$= 20\% (30/100) + 10\% (70/100)$$

$$= 6\% + 7\%$$

$$= 13\%$$

$$\text{Expected Portfolio Return} = r_P^* = x_A r_A + x_B r_B$$

$$\text{CML Equation: } r_P^* = r_{RF} + [(r_M - r_{RF}) / \sigma_M] \sigma_P$$

r_{RF} = risk free rate of return

r_M = expected rate of return for the market of all possible stock

σ_M = risk of the market

σ_P = risk of stock portfolio



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- =====
- 1-A Firm with corporate tax rate of 35% has earning before interest and taxes of rs150 if the firm takes RS150 AS DEBT at 10% then what would be the firm's WACC WHILE HAVING RETURN on its equity at 15%.
 - 2-FIND the expected return on a stock given that risk free rate is 9.50% the expected return on the market portfolio is 12% and the beta is 1.2%
 - 3-capital structure wala bhi tha
 - 4-calculate the coefficient of variation of a common stock by using this data actual return is 25%, expected return is 18% standard deviation is 20%
 - 5-list down the name of working capital policies
 - 6-write the different risks faced by the firm while maintaining the desired capital structure.
 - 7-what type of legal restrictions affect dividend policy?
 - 8-Portfolio Trade Mark consists of four assets namely US(\$), UK(), EU(), JP(), having equal investment in these assets with beta co-efficients of -0.25, 1.75, 1.45 and 2.2 respectively. What beta can be assigned to this portfolio and what does this beta would mean.
 - 9- capital structure theory.

- =====
- calculate coefficient of variation of 5 marks
 - calculation of even breakpoint or ebit 5 marks
 - short and surplus inventory related ques 3 marks
 - company specific or market risk 3 marks
- =====