



JAGATPUR P.G COLLEGE

***AFFILIATED MAHATMA GANDHI KASHI VIDYAPITH,
VARANASI***



M.COM 1ST SEMESTER

SUBJECT- COMMERCE

NAME OF PAPER- FINANCIAL MANAGEMENT

TOPIC- CONCEPT OF RETURN

E-content

Dr. SUSHIL KUMAR CHAURASIA

(ASSISTANT PROFESSOR)

DEPARTMENT OF COMMERCE,

JAGATPUR P.G. COLLEGE, VARANASI

E-mail Id – chaurasiasushil05@gmail.com

MOBILE NUMBER- 8726661590

DECLARATION

- *The content is exclusively meant for academic purpose and for enhancing teaching and learning. Any other use for economic/ commercial purpose is strictly prohibited. The user of the content shall not distribute, disseminate or share it with anyone else and its use is restricted to advancement of individual knowledge . The information provided in this e-content is authentic and best as per knowledge.*

DR. SUSHIL KUMAR CHAURASIA

CONCEPT OF RETURN

Main objective of investment is to receive return on Capital employed/funds. Returns can be in the form of interest or Dividend. Apart from this Investor may have other objectives too.

Example: Capital increase, Liquidity of investment , safety of Investment, Protection form Inflation etc. Investor may desire capital gain apart from return on investment. Return can have many forms. For Example:

1. Stock Return: *Stock Return includes present income and capital gain. Stock returns are presented as a percentage on employed capital. It can be computed as follows:*

$$r = \frac{\text{Price Change} + \text{Cash Dividend}}{\text{Purchase Price}} \times 100$$

2. Bond Return : *Bond Return is received as an interest. These are alike Promissory-notes. These can be issued by Government and Companies.*

TECHNIQUES OF MEASUREMENT

For a certain period of time, Income can be Actual or estimated. Income can be calculated as follows:

$$\text{Estimated yield} = \frac{\text{Estimated cash yield}}{\text{current Value of Asset}}$$

$$\text{Actual yield} = \frac{\text{Cash yield}}{\text{Capital Employed}}$$

Income can be calculated for both stock and Bond.

Bond: Bond are matured after certain period of time. Return on Bond is calculated at maturity time.

$$\text{Current yield} = \frac{\text{Annual Coupon Price}}{\text{Purchase Price}}$$

Stock: Return on stock can be measured by way of Dividend. In can be estimated or Actual

$$\text{Estimated yield} = \frac{\text{Expected Cash Dividend}}{\text{Current share Price}}$$

$$\text{Actual yield} = \frac{\text{Dividend Received}}{\text{Share Price in the beginning of the year}}$$

MODERN TECHNIQUES

(A) Holiday Period yield: It's a modern Technique to measure yield.

(B) Price-Earning Ratios: For estimating the price of shares, Investors employ this ratio Every Financial report and newspaper publishes per share yield.

Preferred Stock Valuation

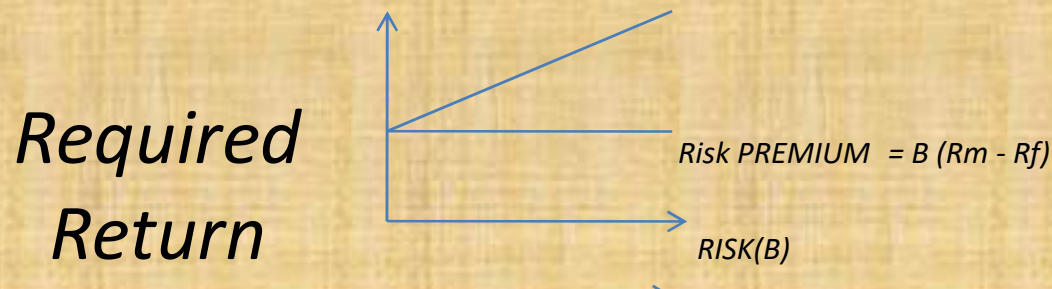
Fixed income is received on Preference shares. This can be calculated by using following equation:

$$P = \frac{D}{r} = \frac{\text{Dividend}}{\text{Required Rate of Return}}$$

Computation of cost of Bond and Equity Share Capital By Capital Asset Pricing Model (CAPM)

To Calculate cost of Equity Capital Asset Pricing Model is also used as alternative.

CAPM was developed in mid 1960. It was evaluation by William Sharpe. But John Lintner and John Mossin had also contributed in its evaluation. As a result, It is also know as sharp-Linter-Mossin (SLM) Capital Asset Pricing Model. The model explains the relation between required rate of return and risk on equity shares.



Risk can be Classified in two parts by C.A.P.M

- 1. Unsystematic Risk :It means, a risk which can be finished by more and more diversification.*
- 2. Systematic Risk : A risk which affects all firms at specified point of time. Hence, it can not be finished.*

Risk Free Rate of Interest : The interest which is certain ,an amount which will be received in any case.

According to (CAPM)

Premium for Risk =[Market return from a diversified Portfolio – Risk free Rate of Return] x Beta Co -efficient

Questions

Long Answer Type Questions

1. Traditional and Modern Techniques of return Measurement.

Short Answer Type Questions

1. What is Return ? Explain the traditional and modern technique of measurement of return.
2. Explain the capital asset Pricing Model (CAPM)

REFERENCE

- *Dr. Sharma F.C.*
- *PUBLICATION- SBPD Publication Edition
2019*

THANK YOU