30 Lecture - MGT201

Important Subjective

1. **What is business risk, and how does it impact a company's financial performance?**
   Answer: Business risk refers to the uncertainties associated with a company's operations that may affect its ability to generate profits. It impacts a company's financial performance by affecting its revenue and costs.

2. **What is operating leverage, and how does it impact a company's risk profile?**
   Answer: Operating leverage is the degree to which fixed costs are present in a company's cost structure. It impacts a company's risk profile by making it more sensitive to changes in sales volume, which can either increase or decrease the company's profitability.

3. **How is break-even point calculated, and why is it important for a company to know its break-even point?**
   Answer: Break-even point is calculated by dividing fixed costs by the contribution margin per unit. It is important for a company to know its break-even point because it helps to determine the minimum amount of sales required to cover its costs and generate a profit.

4. **What is ROE, and how is it calculated?**
   Answer: ROE is a financial ratio that measures a company's profitability by calculating the amount of net income returned as a percentage of shareholders' equity. It is calculated by dividing net income by total equity.

5. **How does a company's capital structure impact its risk profile and cost of capital?**
   Answer: A company's capital structure impacts its risk profile and cost of capital by affecting its debt-to-equity ratio, which can increase or decrease its financial risk and cost of capital.

6. **What are some factors that affect a company's operating leverage, and how do they impact the company's financial performance?**
   Answer: Some factors that affect a company's operating leverage include the mix of fixed and variable costs, pricing strategy, and sales volume. They impact the company's financial performance by affecting its revenue and costs.

7. How does a company's break-even point change when its variable costs increase?
   Answer: When a company's variable costs increase, its break-even point increases because it needs to sell more units to cover its costs and generate a profit.

8. **What is the relationship between a company's break-even point and its operating leverage?**
   Answer: The higher a company's operating leverage, the lower its break-even point because it has a higher contribution margin per unit, which means it needs to sell fewer units to cover its fixed costs.

9. **What is the impact of a company's business risk on its cost of capital?**
   Answer: The higher a company's business risk, the higher its cost of capital because investors require a higher return to compensate for the increased risk.

10. **How can a company increase its ROE?**
Answer: A company can increase its ROE by increasing its net income or decreasing its total equity. This can be achieved through various strategies, such as increasing sales revenue, reducing expenses, or increasing profit margins.