

Chapter wise Test (2002)
Leverage

Instructions

- All questions are compulsory.
- Test Duration will be 45 Minutes, starting from 11:00 AM to 11:45 AM
- 5 minutes reading time will be provided before 11, i.e. question paper will be shared by 10:55 AM.
- Share your scanned answer sheets by 11:50 on below link
<https://forms.gle/wLRZWiTvMELNpCeC6>

1. [5 Marks] Company P and Q are having same earnings before tax. However, the margin of safety of Company P is 0.20 and, for Company Q, is 1.25 times than that of Company P. The interest expense of Company P is Rs. 1,50,000 and, for Company Q, is 1/3rd less than that of Company P. Further, the financial leverage of Company P is 4 and, for Company Q, is 75% of Company P.

Other information is given as below:

Particulars	Company P	Company Q
Profit volume ratio	25%	33.33%
Tax rate	45%	45%

- You are required to PREPARE Income Statement for both the companies.

2. [10 Marks] The following details of PQR Limited for the year ended 31st March, 2021 are given below:

Operating Leverage	1.4
Combined Leverage	2.8
Fixed Cost (Excluding Interest)	2.10 Lakhs
Sales	40 Lakhs
10% Debentures of Rs. 100 each	25 Lakhs
Equity Share Capital of Rs. 10 each	20 Lakhs
Income Tax rate	30%

REQUIRED:

- (i) Calculate Financial leverage
- (ii) Calculate P/V ratio and Earning per Share (EPS)
- (iii) If the company belongs to an industry, whose assets turnover is 1.6, does it have a high or low assets turnover?



- (iv) At what level of sales, the Earning before Tax (EBT) of the company will be equal to zero?

In the question, assume that 10% Debentures and Share Capital consists of total liabilities.

3. [10 Marks] Following is the Balance Sheet of Soni Ltd. as on 31st March, 2018 :

Liabilities	Amount in Rs.
Shareholder's Fund	
Equity Share Capital (Rs. 10 each)	25,00,000
Reserve and Surplus	5,00,000
Non-Current Liabilities (12 Debentures)	50,00,000
Current Liabilities	20,00,000
Total	1,00,00,000
Assets	Amount in Rs.
Non-Current Assets	60,00,000
Current Assets	40,00,000
Total	1,00,00,000

Additional Information:

- (i) Variable Cost is 60% of Sales.
- (ii) Fixed Cost p.a. excluding interest Rs. 20,00,000.
- (iii) Total Asset Turnover Ratio is 5 times.
- (iv) Income Tax Rate 25% You are required to:

- (1) Prepare Income Statement
- (2) Calculate the following and comment:
 - (a) Operating Leverage
 - (b) Financial Leverage
 - (c) Combined Leverage