

Chapter 4

Financing Decision - Leverages

Question 1 - May 2022

Details of a company for the year ended 31st March, 2022 are given below:

Sales	₹ 86 lakhs
Profit Volume (P/V) Ratio	35%
Fixed Cost excluding interest expenses	₹ 10 lakhs
10% Debt	₹ 55 lakhs
Equity Share Capital of ₹ 10 each	₹ 75 lakhs
Income Tax Rate	40%

Required:

1. Determine company's Return on Capital Employed (Pre-tax) and EPS.
2. Does the company have a favourable financial leverage?
3. Calculate operating and combined leverages of the company.
4. Calculate percentage change in EBIT, if sales increases by 10%.
5. At what level of sales, the Earning before Tax (EBT) of the company will be equal to zero?

Question 2 - Nov 2022

The following information is available for SS Ltd.

Profit volume (PV) ratio	30%
Operating leverage	2.00
Financial leverage	1.50
Loan	₹ 1,25,000
Post-tax interest rate	5.6%
Tax rate	30%
Market Price per share (MPS)	₹ 140
Price Earnings Ratio (PER)	10

You are required to:

1. Prepare the Profit-Loss statement of SS Ltd. and
2. Find out the number of equity shares.

Question 3 - Rtp May 2022

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 ₹ 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.

Question 4 - Rtp Nov 2022

Debu Ltd. currently has an equity share capital of ₹ 1,30,00,000 consisting of 13,00,000 Equity shares. The company is going through a major expansion plan requiring to raise funds to the tune of ₹ 78,00,000. To finance the expansion the management has following plans:

Plan-I : Issue 7,80,000 Equity shares of ₹ 10 each.

Plan-II : Issue 5,20,000 Equity shares of ₹ 10 each and the balance through long-term borrowing at 12% interest p.a.

Plan-III : Issue 3,90,000 Equity shares of ₹ 10 each and 39,000, 9% Debentures of ₹ 100 each.

Plan-IV : Issue 3,90,000 Equity shares of ₹ 10 each and the balance through 6% preference shares.

EBIT of the company is expected to be ₹ 52,00,000 p.a. Considering corporate tax rate @ 40%, you are required to-

1. Calculate EPS in each of the above plans.
2. ASCERTAIN financial leverage in each plan and comment.

Question 5 - Rtp May 2023

The selected financial data for A, B and C companies for the current year ended 31st March are as follows:

Particulars	A	B	C
Variable Expenses as a % of sales	60	50	40
Interest	₹ 1,00,000	₹ 4,00,000	₹ 6,00,000
Degree of Operating Leverage	4:1	3:1	2.5:1
Degree of Financial Leverage	3:1	5:1	2.5:1
Income Tax Rate	30%	30%	30%

1. PREPARE income statement for A, B and C companies
2. COMMENT on the financial position and structure of these companies

Question 6 - Mock Oct 2022

Axar Ltd. has a Sales of ₹ 68,00,000 with a Variable cost Ratio of 60%.

The company has fixed cost of ₹16,32,000. The capital of the company comprises of 12% long term debt, ₹1,00,000 Preference Shares of ₹ 10 each carrying dividend rate of 10% and 1,50,000 equity shares.

The tax rate applicable for the company is 30%.

At current sales level, Determine the Interest, EPS and amount of debt for the firm if a 25% decline in Sales will wipe out all the EPS.

Question 7 - Mock Oct 2022

The following information is related to Navya Company Ltd. for the year ended 31st March 2022:

Equity share capital (₹ 10 each)	₹ 65,50,000
12% Bonds of ₹ 1,00 each	₹ 60,91,400
Sales	₹ 111 lakhs
Fixed cost (excluding interest)	₹ 7,15,000
Financial leverage	1.55
Profit-volume Ratio	25%
Income Tax Applicable	30%

You are required to Calculate:

1. Operating Leverage.
2. Combined leverage; and
3. Earnings per share.

Show calculations upto two decimal points.

Question 8 - Study Material, Nov 07

CALCULATE the operating leverage for each of the four firms A, B, C and D from the following price and cost data:

	Firms			
	A(₹)	B(₹)	C(₹)	D(₹)
Sale price per unit	20	32	50	70
Variable cost per unit	6	16	20	50
Fixed operating cost	60,000	40,000	1,00,000	Nil

What calculations can you draw with respect to levels of fixed cost and the degree of operating leverage result? Explain. Assume number of units sold is 5,000.

Question 9 - Study Material, May 11

You are given two financial plans of a company which has two financial situations. The detailed information is as under:

Installed Capacity	10,000 units	
Actual Production and Sales	60% of installed capacity	
Selling Price per unit	₹ 30	
Variable cost per unit	₹ 20	
Fixed cost	Situation A = ₹ 20,000	Situation B = ₹ 25,000

Capital Structure of the company is as follows:

	Financial Plans
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	XY (₹)	XM (₹)
Equity	12,000	35,000
Debt (Cost of Debt 12%)	40,000	10,000
	52,000	45,000

You are required to calculate operating Leverage and Financial Leverage of both the plans.

Question 10 - Study Material, Rtp

(i) You are required to calculate the Operating leverage from the following data:

Sales	₹ 50,000
Variable Costs	60%
Fixed Costs	₹ 12,000

(ii) You are required to calculate the Financial Leverage from the following data:

Net Worth	₹ 25,00,000
Debt /Equity	3:1
Interest rate	12%
Operating Profit	₹ 20,00,000

Question 11 - Study Material

A Company produces and sells 10,000 shirts. The selling price per shirt is ₹ 500. Variable cost is ₹ 200 per shirt and fixed operating cost is ₹ 25,00,000.

- Calculate operating leverage.
- If sales are up by 10%, then what is the impact on EBIT?

Question12 - Nov 12

Find Ltd. has estimated that for a new product, its operating break-even point is 2,000 units, if the item is sold for ₹ 14 per unit. The cost accounting department has currently identified variable cost of ₹ 9 per unit. Calculate the operating leverage for sales volume of ₹ 2,500 units and 3,000 units and their difference, if any?

Question 13 -

Ram Ltd. produces Mobile phones with a selling price per unit of ₹ 100. Fixed cost amount to ₹ 2,00,000. 5,000 units are produced and sold each year. Annual profits amount to ₹ 50,000. The company's all equity-financed assets are ₹ 5,00,000.

The company proposes to change its production process, adding ₹ 4,00,000 to investment and ₹ 50,000 to fixed operational costs. The consequences of such a proposal are:

- Reduction in variable cost per unit by ₹ 10
- Increase in output by 2,000 units
- Reduction in selling price per unit to ₹ 95

Assuming a rate of interest on debt is 10%, examine the above proposal and advice whether or not the company should make the change. Ignore taxation. Also measure the degree of operating leverage and overall break-even-point.

Computation of Operating Leverage and Beta Analysis

Question14 - Nov 04, May 15

The following summarises the percentage changes in operating income, percentage changes in revenues, and betas for four pharmaceutical firms.

Firm	Change in Revenue	Change in Operating Income	Beta
PQR Ltd.	27%	25%	1.00
RST Ltd.	25%	32%	1.15
TUV Ltd.	23%	36%	1.30
WXY Ltd.	21%	40%	1.40

Required:

- Calculate the degree of operating leverage for each of these firms. Comment also.
- Use the operating leverage to explain why these firms have different beta.

Computation of DOL, DFL and DCL**Question 15 - Nov 13**

Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage for the following firms:

Particulars	N	S	D
Production (in units)	17,500	6,700	31,800
Fixed cost (₹)	4,00,000	3,50,000	2,50,000
Interest on loan (₹)	1,25,000	75,000	Nil
Selling price per unit (₹)	85	130	37
Variable cost per unit (₹)	38.00	42.50	12.00

Question 16 - Nov 07

(i) Consider the following information for Omega Ltd.:

Particulars	₹ (In lakhs)
EBIT (Earnings before Interest and Tax)	15,750
Earnings before Tax (EBT)	7,000
Fixed Operating costs	1,575

Required:

Calculate percentage change in earnings per share, if sales increases by 5%.

Question 17 - Rtp May 2020

The following data have been extracted from the books of LM Ltd:

Sales - ₹ 100 lakhs

Interest Payable per annum - ₹ 10 lakhs

Operating leverage - 1.2

Combined leverage - 2.16

You are required to calculate:

- The financial leverage,
- Fixed cost and
- P/V ratio

Question 18 - Study Material, Nov 02

The data relating to two Companies are as given below:

Particulars	Company A	Company B
Equity Capital	₹ 6,00,000	₹ 3,50,000
12% Debentures	₹ 4,00,000	₹ 6,50,000
Output (units) per annum	60,000	15,000
Selling price/ unit	₹ 30	₹ 250
Fixed Costs per annum	₹ 7,00,000	₹ 14,00,000
Variable Cost per unit	₹ 10	₹ 75

You are required to calculate the Operating leverage, Financial leverage and Combined leverage of two Companies.

Question 19 - Study Material, May 97

A firm has sales of ₹ 75,00,000 variable cost of ₹ 42,00,000 and fixed cost of ₹ 6,00,000. It has a debt of ₹ 45,00,000 at 9% and equity of ₹ 55,00,000.

- What is the firm's ROI?
- Does it have favourable financial leverage?
- If the firm belongs to an industry whose asset turnover is 3, does it have a high or low assets leverage?
- What are the operating, financial and combined leverages of the firm?
- If the sales drop to ₹ 50,00,000 what will be the new EBIT?
- At what level the EBT of the firm will be equal to zero?

Computation of DOL, DCL and DFL and Beta Analysis**Question 20 -**

The following summarises the percentage change in E.P.S. percentage change in revenues & betas for four companies in mobile business

Name of Companies	Change in Revenues	Change in EPS	Beta
Nokia	10%	50%	1.40
Motorola	20%	80%	1.27
Samsung	25%	75%	1.18
Blackberry	30%	75%	1.10

- Calculate the Degree of Combined Leverage for each of these companies.
- If the Degree of operating leverage of these four companies is 2.5, 2, 2.25 & 1.2 respectively for Nokia, Motorola, Samsung and Blackberry. Compute Degree of financial Leverage.
- Explain why these companies have different betas.

Question 21 - May 2017

You are given the following information of 5 firms of the same industry:

Name of the firm	Change in revenue	Change in operating income	Change in Earning per share
M	28%	26%	32%
N	27%	34%	26%
P	25%	38%	23%
Q	23%	43%	27%
R	25%	40%	28%

You are required to calculate:

- Degree of operating leverage and
- Degree of combined leverage for all firms.

Computation of DOL, DFL, DCL with different fixed cost and Interest cost**Question 22 -**

ABC Ltd. has its assets turnover ratio equal to 2. Its variable cost ratio is 60% of sales. Consider the following three different capital structures and calculate the operating and financial leverages for the three different fixed costs:-

- ₹ 4,000.
- ₹ 6,000.
- ₹ 8,000.

Capital Structure

(In ₹)

Particulars	A	B	C
Equity	60,000	40,000	20,000
10% Debt	20,000	40,000	60,000

Which combination has the highest & lowest DCL?

Computation of DOL, DFL, DCL – Risk Analysis**Question 23 - Mock Sept 2022**

PI Limited has the following Balance Sheet as on March 31, 2020 and March 31, 2021:

Balance Sheet

Particulars	March 31, 2020	March 31, 2021
Sources of Funds:		
Shareholders' Funds	87,500	87,500
Loan Funds	1,22,500	1,05,000
	2,10,000	1,92,500

Applications of Funds:		
Fixed Assets	87,500	1,05,000
Cash and bank	15,750	14,000
Receivables	49,000	38,500
Inventories	87,500	70,000

Other Current Assets	35,000	35,000
Less: Current Liabilities	(64,750)	(70,000)
	2,10,000	1,92,500

The Income Statement of the PI Ltd. for the year ended is as follows:

Particulars	March 31, 2020	March 31, 2021
Sales	7,87,500	8,33,000
Less: Cost of Goods sold	(7,30,100)	(7,38,500)
Gross Profit	57,400	94,500
Less: Selling, General and Administrative expenses	(38,500)	(61,250)
Earnings before Interest and Tax (EBIT)	18,900	33,250
Less: Interest Expense	(12,250)	(10,500)
Earnings before Tax (EBT)	6,650	22,750
Less: Tax	(1,995)	(6,825)
Profits after Tax (PAT)	4,655	15,925

You are required to Calculate for the year 2020-21:

1. Inventory turnover ratio
2. Financial Leverage
3. Return on Capital Employed (after tax)

Practical Problems

Question 24 - Study Material, May 92

The following information is available in respect of two firms, P Ltd. and Q Ltd.:

(In ₹ Lacs)

Particulars	P Ltd.	Q Ltd.
Sales	500	1,000
Less: Variable Cost	200	300
Contribution	300	700
Less: Fixed Cost	150	400
EBIT	150	300
Less: Interest	50	100
Profit before tax	100	200

You are required to calculate different leverages for both the firms and also comment on their relative risk position.

Question 25 - Study Material, May 2019

The capital structure of ABC Ltd. consist of an ordinary share capital of ₹ 5,00,000 (equity shares of ₹ 100 each at par value) and ₹ 5,00,000 (10% debenture of ₹ 100 each). Sales increased from 50,000 units to 60,000 units, the selling price is ₹ 12 per unit, variable cost amounts to ₹ 8 per unit and fixed expenses amount to ₹ 1,00,000. The income tax rate is assumed to be 50%.

You are required to calculate the following:

- (a) The percentage increase in earnings per share;
- (b) The degree of financial leverage at 50,000 units and 60,000 units;
- (c) The degree of operating leverage at 50,000 units and 60,000 units;
- (d) Comment on the behaviour E.P.S., operating and financial leverage in relation to increases in sales from 50,000 units to 60,000 units.

Question 26 - Nov 2019 Similar

A company had the following Balance Sheet as on March 31, 2006:

Liabilities and Equity	₹ (In Crores)	Assets	₹ (In Crores)
Equity Share Capital (1 crore shares of ₹ 10 each)	10	Fixed Assets (Net)	25
Reserves and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		

	40		40
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The additional information given is as under:

Fixed Costs per annum (excluding interest)	₹ 8 crores
Variable operating costs ratio	65%
Total Assets turnover ratio	2.5
Income-tax rate	40%

Required: Calculate the following and comment:

- (i) Earnings per share (iii) Financial Leverage (v) Current Ratio
(ii) Operating Leverage (iv) Combined Leverage

Computation of Leverage, EBIT for required EPS

Question 27 - Study Material

The Sale revenue of TM excellence Ltd. @ ₹20 Per unit of output is ₹20 lakhs and Contribution is ₹10 lakhs. At the present level of output the DOL of the company is 2.5. The company does not have any Preference Shares. The number of Equity Shares are 1 lakh. Applicable corporate Income Tax rate is 50% and the rate of interest on Debt Capital is 16% p.a. What is the EPS (At sales revenue of ₹ 20 lakhs) and amount of Debt Capital of the company if a 25% decline in Sales will wipe out EPS.

Question 28 - Nov 09

Z Limited is considering the installation of a new project costing ₹ 80,00,000. Expected annual sales revenue from the project is ₹ 90,00,000 and its variable costs are 60 percent of sales. Expected annual fixed cost other than interest is ₹ 10,00,000. Corporate tax rate is 30 percent. The company wants to arrange the funds through issuing 4,00,000 equity shares of ₹ 10 each and 12 percent debentures of ₹ 40,00,000.

You are required to:

- (i) Calculate the operating, financial and combined leverages and Earnings per Share (EPS).
(ii) Determine the likely level of EBIT, if EPS is (1) ₹ 4, (2) ₹ 2, (3) ₹ 0.

Computation of Leverage and effects of changes in Sales on EPS.

Question 29 - Study Material

PL Forgings Ltd. has the following balance sheet and income statement information:

Balance Sheet as on March 31st

Liabilities	₹	Assets	₹
Equity Capital (₹ 10 per share)	8,00,000	Net Fixed Assets	10,00,000
10% Debt	6,00,000	Current Assets	9,00,000
Retained Earnings	3,50,000		
Current Liabilities	1,50,000		
	19,00,000		19,00,000

Income Statement for the year ending March 31

Particulars	₹
Sales	3,40,000
Operating expenses (including ₹ 60,000 depreciation)	(1,20,000)
EBIT	2,20,000
Less: Interest	(60,000)
Earnings before tax	1,60,000
Less: Taxes	(56,000)
Net Earnings (EAT)	1,04,000

- (a) Determine the degree of operating, financial and combined leverages at the current sales level, if all operating expenses, other than depreciation, are variable costs.
(b) If total assets remain at the same level, but sales (i) increase by 20 percent and (ii) decrease by 20 percent, what will be the earnings per share at the new sales level?

Question 30 - Study Material

The following information is available for a concern for the year ended 31.3.2011.

Total Sales (Quantity)	100,000 units
Fixed Cost	₹ 12,60,000

Variable Cost	55% of sales
Debt (@ 10%)	₹ 54,00,000
Equity (Face value of each share of ₹ 10)	₹ 50,00,000
Income tax rate	35%
Selling price per unit	₹ 80

You are required to find out –

1. Income Statement for the year ended 31.3.2011.
2. Operating and Financial Leverage
3. Company's Return on Investment
4. How much of the Company's sales have to come down so that earning of the company before tax comes down to zero?

Question 31 - Study Material

XYZ Ltd. sells 2,000 units @ ₹ 10 per unit. The variable cost of production is ₹ 7 and fixed cost is ₹ 1,000. The company raised the required funds by issue of 100, 10% debentures @ ₹ 100 each and 2,000 equity shares @ ₹ 10 per share. The sales of XYZ Ltd. are expected to increase by 20%. Assume tax rate of company is 50%. You are required to calculate the impact of increase in sales on earning per share.

Reverse Working with DCL

Question 32 - Nov 08, May 09

A company operates at a production level of 1,000 units. The contribution is ₹ 60 per unit, operating leverage is 6, and combined leverage is 24. If tax rate is 30%, what would be its earnings after tax?

Reverse Working with DFL - ROE and ROI with Interest Rate and Leverage.

Question 33 - May 07

ABC Limited has an average cost of debt at 10 percent and tax rate is 40 per cent. The financial leverage ratio for the company is 0.60. Calculate Return on Equity (ROE) if its Return on Investment (ROI) is 20%.

Reverse Working with DCL- ROE and ROI

Question 34 - Study Material

The net sales of Carlton Limited is ₹ 30 crores. Earnings before interest and tax of the company as a percentage of net sales are 12%. The capital employed comprises ₹ 10 crores of equity, ₹ 2 crores of 13% Cumulative Preference Share Capital and 15% Debentures of ₹ 6 crores. Income-tax rate is 40%.

- (i) Calculate the Return-on-equity for the company and indicate its segments due to the presence of Preference Share Capital and Borrowing (Debentures).
- (ii) Calculate the Operating Leverage of the Company given that combined leverage is 3.

Reverse Working with All Leverages

Question 35 - May 07, Nov 2017

The following details of RST Limited for the year ended 31st March, 2006 are given below:

Operating leverage	1.4 times
Combined leverage	2.8 times
Fixed cost (Excluding interest)	₹ 2.04 lakhs
Sales	₹ 30.00 lakhs
12% Debentures of ₹ 100 each	₹ 21.25 lakhs
Equity Share Capital of ₹ 10 each	₹ 17.00 lakhs
Income tax rate	30 per cent

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 1.5, does it have a high or low assets leverage?
- (iv) At what level of sales the Earning before Tax (EBT) of the company will be equal to zero?

Question 36 - Study Material, Nov 15

From the following prepare Income statement of Company A, B and C.

Company	A	B	C
Financial Leverage	3 : 1	4 : 1	2 : 1
Interest	₹ 200	₹ 300	₹ 1,000
Operating Leverage	4 : 1	5 : 1	3 : 1
Variable cost as a percentage to sales	$66\frac{2}{3}\%$	75%	50%
Income tax rate	45%	45%	45%

Question 37 - Nov 09

From the following data of Company A and Company B, Prepare their Income Statement

Particulars	Company A	Company B
Variable cost	₹ 56,000	60% of sales
Fixed Cost	₹ 20,000	-
Interest Expense	₹ 12,000	₹ 9,000
Financial Leverage	05:01	-
Operating Leverage	-	04:01
Income tax rate	30%	30%
Sales	-	₹ 1,05,000

Miscellaneous Practical Problems**Question 38 -**

Show the effect of Trading on equity on ROE of an entity from the following information:-

Particulars	(₹ in 000's)
Total Assets	2000
Debt Equity Ratio	
Case I	0:1
Case II	1:4
Case III	2:3

Tax rate – 35%, Rate of Interest – 15%, Return on Investment – 30%.

Question 39 - Study Material

X Ltd. details are as under:

Sales (@ 100 per unit)	₹ 24,00,000
Variable Cost	50%
Fixed cost	₹ 10,00,000

It has borrowed ₹ 10,00,000 @ 10% p.a. and its equity share capital is ₹ 10,00,000 (₹ 100 each).

The company is in a tax bracket of 50%. Calculate:

- Operating Leverage
- Financial Leverage
- Combined Leverage
- Return on Equity
- If the sales increases by ₹ 6,00,000; what will the new EBIT?

Question 40 - May 13, Nov 2016

The following information related to XL company Ltd. For the year ended 31st March, 2013 are available to you:

Equity share capital of ₹ 10 each	₹ 25 lakh
11% Bonds of ₹ 1000 each	₹ 18.5 lakh
Sales	₹ 42 lakh
Fixed cost (Excluding Interest)	₹ 3.48 lakh
Financial leverage	1.39
Profit-Volume Ratio	25.55%
Income Tax Rate Applicable	35%

You are required to calculate:

- Operating Leverage;
- Combined Leverage; and
- Earnings Per Share.

Question 41 - May 2018

The following information is related to YZ Company Ltd. for the year ended 31st March, 2020:

Equity share capital (of ₹ 10 each)	₹ 50 lakhs
12% Bonds of ₹ 1,000 each	₹ 37 lakhs
Sales	₹ 84 lakhs
Fixed cost (excluding interest)	₹ 6.96 lakhs
Financial leverage	1.49
Profit-volume Ratio	27.55%
Income Tax Applicable	40%

You are required to CALCULATE:

- (i) Operating Leverage;
- (ii) Combined leverage; and
- (iii) Earnings per share.

Show calculations up-to two decimal points.

Question 42 - Rtp May 2021

Following information has been extracted from the accounts of newly incorporated Textyl Pvt. Ltd. for the Financial Year 2020-21:

Sales	Rs 15,00,000
P/V ratio	70%
Operating Leverage	1.4 times
Financial Leverage	1.25 times

Using the concept of leverage, find out and verify in each case:

- (i) The percentage change in taxable income if sales increase by 15%.
- (ii) The percentage change in EBIT if sales decrease by 10%.
- (iii) The percentage change in taxable income if EBIT increase by 15%.

Question 43 - Jan 2021

The information related to XYZ Company Ltd. for the year ended 31st March, 2020 are as follows:

Equity Share Capital of ₹ 100 each	₹ 50 Lakhs
12% Bonds of ₹ 1000 each	₹ 30 Lakhs
Sales	₹ 84 Lakhs
Fixed Cost (Excluding Interest)	₹ 7.5 Lakhs
Financial Leverage	1.39
Profit-Volume Ratio	25%
Market Price per Equity Share	₹ 200
Income Tax Rate Applicable	30%

You are required to compute the following:

- (i) Operating Leverage
- (ii) Combined Leverage
- (iii) Earnings per share
- (iv) Earning Yield

Question 44 - Jan 2021

The data of SM Limited for the year ended 31st March 2020 is given below:

Fixed Cost (Excluding Interest)	₹ 2.25 Lakhs
Sales	₹ 45 Lakhs
Equity Share Capital of ₹ 10 each	₹ 38.50 Lakhs
12% Debentures of ₹ 500 each	₹ 20 Lakhs
Operating Leverage	1.2
Combined Leverage	4.8
Income tax rate	30%

Required:

- (i) Calculate P/V ratio, Earning per share Financial leverage and Assets turNover.

(ii) If asset turnover of an industry is 1.1, then comment on adequacy of assets turnover of SM Limited.

(iii) At what level of sales the Earnings before tax (EBT) of SM Limited will be equal to zero?

Question 45 - Dec 2021

Information of A Ltd. is given below:

- Earnings after tax: 5% on sales
- Income tax rate: 50%
- Degree of Operating Leverage: 4 times
- 10% debentures in capital structure: ₹ 3 lakhs
- Variable costs: ₹ 6 lakhs

Required:

(i) From the given data complete the following statement:

Sales	XXXX
Less: Variable Costs	₹ 6,00,000
Contribution	XXXX
Less: Fixed Cost	XXXX
EBIT	XXXX
Less: Interest Expenses	XXXX
EBT	XXXX
Less: Income tax	XXXX
EAT	XXXX

(ii) Calculate the Financial Leverage and Combined Leverage.

(iii) Calculate the percentage change in earning per share, if sales increased by 5%.