Example-1

Earnings before interest & tax	= 1 Crore
− Int on debenture (5 lak × 7%)	(35,000)
	9,96,5000
− Tax (40%)	39,86,000
Earnings after Tax	59,79,000

$$EPS = \frac{\text{Earnings after Tax}}{\text{No. of shareholders}}$$

$$= \frac{59,79,000}{10,00,000 + 1,00,000}$$

(Old) (New)

₹5.44

Example-2.

	PBIT = 14 lakh		PBIT = 7 lakh	
	a	b	a	b
PBIT	14 lakh	14 lakh	7 lak	7 lakh
Int on debentures (35 Lakh × 0.12)	−	(4,20,000)	−	(4,20,000
PBT	14 lakh	9,80,000	7 lakh	2,80,000
PAT	7 lakh	4,90,000	3.5L	1,40,000
÷ No of shares	7 lakh	3.5 lakh	7 lakh	3.5 lakh
EPS	1	1.4	0.5	0.4

If PBIT is X

a) EPS = (X − 0) 0.5 / 7 lakh

b) $EPS = \frac{(X - 4,20,000)\,0.5}{3.5 \text{ lakh}}$

Break Even PBIT, when both plans give same EPS.

Hence $\frac{0.5x}{7,00,000} = \frac{0.5x - 2,10,000}{3,50,000}$

So $x = 8,40,000$

Ex. 3

	P.V.	Total (700 units)	Total for (1100 units)
S.P / sales	10.	7,000	11,000
- variable cost	4	2,800.	4,400
- S & D cost	2	14,000	2,200
- Fixed cost	—	1000	1000
Profit		1,800	3,400

Operating leverage $= \frac{1600}{400} \times \frac{700}{1800}$

$= 1.56.$

Example-8.4

a) EPS - PBIT equation for three alternatives

A) EPS = $\frac{(PBIT-0)(0.5)}{3,75,00,000}$

B) EPS = $\frac{(PBIT-0)(0.5)-(66,00,000)}{3,45,00,000}$

C) EPS = $\frac{(PBIT-1,68,00,000)(0.5)-}{3,15,00,000}$

*. Indifference point for A & B.

$\frac{(PBIT-0)0.5}{3,75,00,000} = \frac{(PBIT-0)(0.5)-6600,000}{3,45,00,000}$

PBIT = 16.5 Cr.

Example-5

(a) If EBIT remains same

	eq.	Pref.	deb.
PBIT	40,000	40,000	40,000
− interest	−	−	5,000
PBT	40,000	40,000	35,000
− Tax			
PAT	20,000	20,000	17,500
− Pref. div.	−	6,000	−
Earning available to eq. holders.	20,000	14,000	17,500
÷ No. of eq. shares.	15,000	10,000	10,000
EPS.	1.33	1.4	1.75

(b) If EBIT increases by 10,000

	~~eq.~~	~~pref.~~	deb
EBIT	50,000	50,000	50,000
− interest	−	−	5,000
PBT	50,000	50,000	45,000
− Tax			
PAT	25,000	25,000	22,500
− pref. div.	−	6,000	−
Earning available to eq. holders	25,000	19,000	22,500
÷ No. of eq. shares	15,000	10,000	10,000
EPS	1.67	1.9	2.25

Example-6

(a)

Year	1	2	3	4	5
PBIT	20,000	40,000	80,000	1,20,000	2,00,000
- Tax					
PAT	10,000	20,000	40,000	60,000	1,00,000
÷ No. of shares (1,00,000) = EPS	0.10	0.20	0.4	0.6	1

(b)

EBIT	20,000	40,000	80,000	1,20,000	2,00,000
- deb. int.	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
PBT	(20,000)	0	40,000	80,000	1,60,000
- Tax					
PAT	(10,000)	0	20,000	40,000	80,000
÷ No. of shares (50,000) = EPS	(0.2)	0	0.4	0.8	1.6

(c)

EBIT	20,000	40,000	80,000	1,20,000	2,00,000
PAT	10,000	20,000	40,000	60,000	1,00,000
- Pref. div.	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
Earning avail. to shareholders	(30,000)	(20,000)	0	20,000	60,000
÷ No. of " = EPS	(0.6)	(0.4)	0	0.4	1.2

Example-7

	PBIT	PBIT
	1,00,000	1,20,000
-interest	(60,000)	(60,000)
PBT	40,000	60,000
PAT	20,000	30,000
÷ No. of shares	10,000	10,000
EPS	2	3.

Fin. leverage $= \frac{20,000}{20,000} \times \frac{1,00,000}{40,000}$

$= \boxed{2.5}$

Example: 8.

PBIT	1800	3400.
- interest	(700)	(700)
PBT	1100	2700
PAT	550	1350
÷ shares		
= EPS	2.75	6.75

Fin. leverage $= \frac{1600}{1600} \times \frac{1800}{1100}$

$= \boxed{1.64}$

Combined = 1.64 X 1.56 [Ex.3]

$= \boxed{2.56}$