



# *Chapter 4 – Leverages & Cost of Capital*

*Prof. Siddhesh Soman*

## Q.1

a) Find the operating leverage from the following data:

Sales	Rs.50,000
Variable Cost	60%
Fixed Cost	Rs.12,000

b) Compute the financial leverage from the following data:

Shareholders Funds	Rs.25,00,000
Debt/Equity	3 : 1
Interest Rate	12%
Operating Profit	Rs.20,00,000

## Q.2

Firm	Change in Revenue	Change in Operating Profit	Change in EPS
P	27%	25%	30%
Q	25%	32%	24%
R	23%	36%	21%
S	21%	40%	23%

Calculate for all the firms:

- Degree of Operating Leverage
- Degree of Combined Leverage

## Q.3

Particulars	Amount
Sales per annum	1,00,000 units
Variable cost	Rs.90 per unit
Fixed cost including interest per annum	Rs.18,00,000
P/V Ratio	25%
10% Debentures	30,00,000
Equity Share Capital (share of Rs.10 each)	40,00,000
Corporate Tax Rate	30%

Calculate:

- a) Operating Leverage
- b) Financial Leverage
- c) Combined Leverage
- d) Earnings Per Share

## Q.4 - HW

The selected financial data for A & B companies for the current year ended March 31 are as follows:

Particulars	A	B
Variable expenses as a percentage of sales	66.67	75
Interest expenses (Rs.)	200	300
Degree of operating leverage	5	6
Degree of financial leverage	3	4
Income-tax rate	0.35	0.35

Prepare income statement of co. A & B with as many details as possible

## Q.5

Determine the weighted average cost of capital using:

- a) Book Value weights
- b) Market Value weights

Sources of Funds-	Book Values	Market Values	Specific costs
Debt	4,00,000	3,80,000	5%
Preference	1,00,000	1,10,000	8%
Equity	6,00,000	12,00,000	15%
Total	11,00,000	16,90,000	-

## Q.6



JKL Ltd. has the following book-value structure as on March, 31,2019

Particulars	Rs
Equity share capital (2,00,000 shares)	40,00,000
11.5% preference share	10,00,000
10 % debenture	<u>30,00,000</u>
	<u>80,00,000</u>

The equity share of the company sells for Rs 20. It is expected that the company will pay next year a dividend of Rs 2 per equity share , which is expected to grow at 5% p.a forever. Assume a 35% corporate tax rate  
Compute weighted average cost of capital (WACC) of the company based on the existing capital structure

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