

1. Calculate operating leverage, financial leverage and combined leverage under situation 1 and 2 in financial plans A & B from the following information relating to the operation and capital structure of a company.

Installed capacity – 2,000 units

Actual production and sales – 50% of the capacity

Selling price ₹20 per unit

Variable Cost ₹10 per unit

Fixed Cost:

Under Situation I ₹ 4,000

Under Situation II ₹ 5,000

Capital Structure:	Financial Plan	
	A (₹)	B (₹)
Equity	5,000	15,000
Debt (Rate of Interest 10%)	15,000	5,000
	20,000	20,000

Particulars	Financial Plan A		Financial Plan B	
	Situation 1	Situation 2	Situation 1	Situation 2
units	1000	1000	1000	1000
Sales	20000	20000	20000	20000
Less: Variable Cost	10000	10000	10000	10000
Contribution	10000	10000	10000	10000
Fixed Cost	4000	5000	4000	5000
EBIT	6000	5000	6000	5000
Less: Interest	1500	1500	500	500
EBT	4500	3500	5500	4500
DOL = contribution/EBIT	1.6666667	2	1.66666667	2
DFL = EBIT / EBT	1.3333333	1.4285714	1.09090909	1.1111111
DCL	2.2222222	2.8571429	1.81818182	2.2222222

2. The selected financial data for A, B and C companies for the year ended 31st March, 2014 were as follows:

	A	B	C
Variable cost as a % of sales	66.67	75	50
Interest Expense	200	300	1000
Degree of Operating Leverage	5	6	6
Degree of Financial Leverage	3	4	2
Income Tax rate	35%	35%	35%

Prepare an income statement for each of the companies.

Income Statement:

Particulars	A	B	C
Sales	9000	36000	24000
Less: Variable cost	6000	27000	12000
Contribution	3000	9000	12000
Less: Fixed cost	2400	7500	10000
EBIT	600	1500	2000
Less: Interest	200	300	1000
EBT	400	1200	1000
Less: Tax @ 35%	140	420	350
EAT	260	780	650
DFL	3	4	2
DFL = EBIT/EBT	$x/x-200$	$x/x-300$	$x/x-1000$
DOL	5	6	6
DOL = Contribution / EBIT			
Contribution = DOL * EBIT	$5*600$	$6*1500$	$6*2000$
Variable cost as a % of sales	66.67	75	50

3. From the following prepare income statement of Company A and B.

	A Co.,	B Co.,
Financial Leverage	4:1	5:1
Interest Expense	₹ 6,00,000	₹ 7,00,000
Operating Leverage	3:1	4:1
Variable cost as a % of sales	66.67	50
Income Tax rate	30%	40%
No. of Equity shares	100000	70000

Income Statement:

Particulars	A Co.,	B Co.,
Sales	7200000	7000000
Less: Variable cost	4800000	3500000
Contribution	2400000	3500000
Less: Fixed cost	1600000	2625000
EBIT	800000	875000
Less: Interest	600000	700000
EBT	200000	175000
Less: Tax @ 35%		
EAT		
DFL	4	5
DFL = EBIT/EBT	$x/x-600000$	$x/x-700000$
DOL	3	4

DOL = Contribution / EBIT		
Contribution = DOL * EBIT	3*800000	4*875000
Variable cost as a % of sales	66.67	50