

CS - Executive Leverages

Maximum Time: 70 Minutes

Total Marks: 35 Marks

Question 1: The Net Sales of Apex Co. is ₹15 crores. EBIT of the Company as a percentage of Net Sales is 12%. The Capital Employed comprises ₹5 crores of equity and Debt Capital of ₹3 crores at an annual interest rate of 15%. Corporate Income Tax Rate is 40%. Calculate Operating Leverage given that Combined Leverage is 3.

(2 Marks)

Question 2: Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage for the following firms:

Particulars	P	Q	R
Output (units)	2,50,000	1,25,000	7,50,000
Fixed Cost (₹)	5,00,000	2,50,000	10,00,000
Units Variable Cost (₹)	5	2	7.50
Unit Selling Price (₹)	7.50	7	10.0
Interest Expense (₹)	75,000	25,000	-

(9 Marks)

Question 3: You are given two financial plans of a company which has two financial situations. The detailed information are 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:

(Amount in ₹)

Particulars	Financial Plans	
	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.

(8 Marks)

Question 4: From the following financial data of Company A and Company B: Prepare their Income Statements.

Particulars	Company A (₹)	Company B (₹)
Variable Cost	56,000	60% of sales
Fixed Cost	20,000	--
Interest Expenses	12,000	9,000
Financial Leverage	5 : 1	--
Operating Leverage	--	4 : 1
Income Tax Rate	30%	30%
Sales	--	1,05,000

(10 Marks)

Question 5: Alpha Ltd. has furnished the following Balance Sheet as on March 31, 2011:

Liabilities	Amount in ₹	Assets	Amount in ₹
Equity Share Capital (1,00,000) (Equity share of ₹10 each)	10,00,000	Fixed Assets	30,00,000
General Reserve	2,00,000	Current Assets	18,00,000
15% Debentures	28,00,000		
Current Liabilities	8,00,000		
	48,00,000		48,00,000

Additional Information:

(1) Annual Fixed Cost other than Interest	₹28,00,000
(2) Variable Cost Ratio	60%
(3) Total Assets Turnover Ratio	2.5
(4) Tax Rate	30%

You are required to calculate:

- (i) Earnings per share (EPS), and
- (ii) Combined Leverage.

(6 Marks)

