

HW - Chapter 5 - Capital Structure - Q3

Indifference point is that level of EBIT where EPS is the same between the two options.

$$\frac{[(EBIT - \text{Interest}) \times (1 - t)] \div \text{preference dividend}}{\text{No. of equity shares}}$$

$$\frac{(4,80,000 - \text{Rs. } 48,000) \times (1 - 0.30) \div 80,00,000}{4,80,000 (1 - 0.30) - \text{Pref. Div.} \div 80,00,000}$$

On solving, (please show the working of solving fully)

Preference Dividend = Rs. 33,600

Rate of Dividend = Preference Dividend \div Preference share capital \times 100

= Rs. 33,600 \div 4,00,000 \times 100 = 8.4%