

HW - Chapter 5 - Capital Structure - Q4

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

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

$$(EBIT \times 0.6 \div 60,000 = (EBIT - 7,20,000) \times 0.60 \div 2,00,000$$

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

$$EBIT = \text{Rs. } 10,80,000$$

Therefore, at EBIT of Rs. 10,80,000 earnings per share for the two alternatives is equal.