

## HW - Chapter 6 - Leverages - Q1

Operating Leverage (OL) = Contribution ÷ EBIT

$$\text{Rs. } 31,50,000 + \text{Rs. } 1,57,500 \div \text{Rs. } 31,50,000 = 1.05$$

Financial Leverage (FL) = EBIT ÷ EBT = Rs. 31,50,000 ÷ Rs. 14,00,000 = 2.25

Combined Leverage (CL) = OL x FL = 1.05 x 2.25 = 2.3625

Percentage Change in Earnings per share

DCL = % change in EPS ÷ % change in Sales

$$2.3625 = \quad \% \text{ change in EPS} \div 10\%$$

$$\% \text{ change in EPS} = 23.625\%$$

Hence, if sales increase by 10%, EPS will be increased by 23.625%.