

## HW - Chapter 6 - Leverages - Q5

(a) Calculation of DOL, DFL and (DCL).

$$\text{DOL} = \text{Rs. } 3,40,000 - \text{Rs. } 60,000 \div \text{Rs. } 2,20,000 = 1.27$$

$$\text{DFL} = \text{Rs. } 2,20,000 \div \text{Rs. } 1,60,000 = 1.38$$

$$\text{DCL} = \text{DOL} \times \text{DFL} = 1.27 \times 1.38 = 1.75$$

(b) Earnings per share at the new sales level

	(i) Increase by 20%	(ii) Decrease by 20%
Sales level	4,08,000	2,72,000
Less: Variable expenses	72,000	48,000
Less: Fixed cost	60,000	60,000
Earnings before interest and taxes	2,76,000	1,64,000
Less: Interest	60,000	60,000
Earnings before taxes	2,16,000	1,04,000
Less: Taxes	75,600	36,400
Earnings after taxes (EAT)	1,40,400	67,600
÷ Number of equity shares	80,000	80,000
EPS	1.76	0.85

Working Notes:

(i) Variable Costs = Rs. 60,000 (total cost - depreciation)

(ii) Variable Costs at:

(a) Sales level of Rs. 4,08,000 = Rs. 72,000 (increase by 20%)

(b) Sales level of Rs. 2,72,000 = Rs. 48,000 (decrease by 20%)