

## HW - Chapter 6 - Leverages - Q7

### 1. (i) Operating Leverage (OL)

	Situation-I	Situation-II
	(Rs.)	(Rs.)
Sales (3000 units @ Rs. 30 per unit)	90,000	90,000
Less: Variable Cost (@ Rs. 15 per unit)	45,000	45,000
Contribution (C)	45,000	45,000
Less: Fixed Cost	15,000	20,000
EBIT	30,000	25,000
OL = Contribution ÷ EBIT	$45,000 \div 30,000 = 1.5$	$45,000 \div 25,000 = 1.8$

### (ii) Financial Leverage (FL)

	A (Rs.)	B (Rs.)
Situation I		
EBIT	30,000	30,000
Less: Interest on debt	2,000	1,000
EBT	28,000	29,000
FL = EBIT ÷ EBT	$= \text{Rs. } 30,000 \div \text{Rs. } 28,000 = 1.07$	$30,000 \div 29,000 = 1.034$

	A (Rs.)	B (Rs.)
Situation-II		
EBIT	25,000	25,000
Less: Interest on debt	2,000	1,000
EBT	23,000	24,000
FL = EBIT ÷ EBT	$= \text{Rs. } 25,000 \div \text{Rs. } 23,000 = 1.09$	$= \text{Rs. } 25,000 \div \text{Rs. } 24,000 = 1.04$

### (iii) Combined Leverage (CL)

	A	B
Situation-I: CL = FL x OL	$1.5 \times 1.07 = 1.61$	$1.5 \times 1.034 = 1.55$
Situation-II: CL = FL x OL	$1.8 \times 1.09 = 1.96$	$1.8 \times 1.04 = 1.872$