

Practice Questions on Leverage

Q1. Consider the following data regarding M/s. Delta Ltd:

Total assets	Rs.56 lakhs
Fixed operating costs	Rs.24 lakhs
Variable cost to sales ratio	0.6
Total asset turnover ratio	2
Interest coverage ratio	3.2

If the sales increase by 1%, calculate how much change (in %) will be reflected in

a. EPS and

b. EBIT

Q2. The following figures relate to two companies:

	Zenith Ltd. (in Lakhs)	Alpha Numeric Co. Ltd. (in Lakhs)
Sales	500	1,000
Variable costs	200	300
Contribution	300	700
Fixed Costs	150	400
Interest	50	100
Profit before tax	100	200

- You are required to calculate operating leverage for both the firms
- You are required to calculate financial leverage for both the firms
- You are required to calculate combined leverage for Alpha Numeric Co. Ltd.