Assessment 2.1

A Company has sales of $20,000,000, variable cost of $14,000,000 and fixed costs of $4,000,000 and debt of $10,000,000 at 10% rate of interest.

Required/ 1) What are the operating, financial and combined leverages?

2) If the firm wants to double its Earnings before Interest and Tax (EBIT), how much of a rise in sales would be needed on a percentage basis?

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Assessment 2.2

Following data is taken from the company's management recordings:

Installed capacity **1000 units**
Operating capacity **800 units**
Selling price per unit **$10**
Variable cost per unit **$7**

Required/ Calculate operating leverage under the following the above situations!

Fixed cost:

Condition 1 $800
Condition 2 $1200
Condition 3 $1500

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Assessment 2.3

From the following information:

Earnings before interest and tax (EBIT)	**$1120**
Earnings before tax (EBT)	**320**
Fixed cost	**700**

Required/ calculate the percentage of change in earnings per share (EPS) if sales are increased by 5%

Assessment 2.4

A Company has sales of $ 75,000,000, variable cost of $42,000,000 and fixed cost of

$ 6,000,000. It has a debt of $45,000,000 at 9% and equity of $ 55,000,000. Total assets $100,000,000

(i) What is the company's ROI?

(ii) Does it have favourable financial leverage?

(iii) If the company belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?

(iv) What are the operating, financial and combined leverages of the company?

(v) If the sales drop to $50,000,000 what will be the new EBIT?

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Assessment 2.5

The following information is available for two companies:

	Co. Y	**Co. Z**
Fixed assets	$2,000,000	$8,000,000
Current assets	8,000,000	2,000,000
Total assets	10,000,000	10,000,000
Earnings before interest and tax	1,000,000	1,000,000

Required/ compare the sensitivity of earnings of the two companies for a 25% change in the level of their current Assets.

EPS can be ascertained as below:

$$\text{EPS} = \frac{(EBIT -)(1-t) - \text{Dp}}{N}$$

The degree of financial leverage measures the responsiveness of EPS to the changes in EBIT.

$$\text{Earnings per Share} = \frac{\text{Net Income - Preferred Dividends}}{\text{Weighted Average Shares Outstanding}}$$

$$\text{Working Capital Leverage} = \frac{C.A.}{\text{T.A.} - \Delta\,\text{C.A.}}$$

Where;

CA= current assets

TA= Total assets

ΔCA= change in current assets