Leverage Analysis - MCQ

Exclusively Designed for CS Executive Financial and Strategic Management Paper BY CMA Chander Dureja

1. **EBIT /EBT is the formula for**
   (a) Operating Leverage
   (b) Financial Leverage
   (c) Combined Leverage
   (d) None of above

2. **Contribution / EBIT is the Formula for**
   (e) Operating Leverage
   (f) Financial Leverage
   (g) Combined Leverage
   (h) None of above

3. **Contribution /EBT is the Formula for**
   (a) Operating Leverage
   (b) Financial Leverage
   (c) Combined Leverage
   (d) None of above

4. **If Sales =10 L ,EBIT =5L ,Contribution = 7L ,EBT =2 L then Operating Leverage will be**
   (a) 0.715
   (b) 1.4
   (c) 2.5
   (e) 3.5

5. **If Sales =10 L ,EBIT =5L ,Contribution = 7L ,EBT =2 L then Financial Leverage will be**
   (a) 0.715
   (b) 1.4
   (c) 2.5
   (d) 3.5

6. **If Sales =10 L ,EBIT =5L ,Contribution = 7L ,EBT =2 L then Combined Leverage will be**
   (a) 0.715
   (b) 1.4
   (c) 2.5
   (d) 3.5

7. Operating Leverage of 2 gives us the relation between

(a) Sales and EPS
(b) Sales and EBIT
(c) EBIT and EBT
(d) Sales and Contribution

8. Financial Leverage of 2 gives us the relation between

(a) Sales and EPS
(b) Sales and EBIT
(c) EBIT and EBT
(d) Sales and Contribution

9. Combined Leverage of 2 gives us the relation between

(a) Sales and EPS
(b) Sales and EBIT
(c) EBIT and EBT
(d) Sales and Contribution

10. Combined Leverage will be higher if

(a) We increase Fixed Cost

(b) We increase Interest Cost

(c) We increase Fixed and Interest Cost both

(d) Any of above

11. Operating Leverage will be higher if

(a) We increase Fixed Cost

(b) We increase Interest Cost

(c) We increase Fixed and Interest Cost both

(d) Any of above

12. Financial Leverage will be higher if

(a) We increase Fixed Cost

(b) We increase Interest Cost

(c) We increase Fixed and Interest Cost both

(d) Any of above

13. If Operating Leverage is 2 and Combined Leverage is 5 then Financial Leverage will be

(a) 10

(b) 2/5

(c) 2.5

(d) 3

14. If Operating Leverage is 2 and Financial Leverage is 5 then Combined Leverage will be

(a) 10

(b) 2/5

(c) 2.5

(d) 3

15. If Financial Leverage is 2 and Combined Leverage is 5 then Operating Leverage will be

(a) 10

(b) 2/5

(c) 2.5

(d) 3

16. Operating leverage helps in analysis of:

(a) Business Risk

(b) Financing Risk

(c) Production Risk

(d) Credit Risk

17. Which of the following is studied with the help of financial leverage?

(a) Marketing Risk

(b) Interest Rate Risk

(c) Foreign Exchange Risk

(d) Financing risk

18. Combined Leverage is obtained from OL and FL by their:

(a) Addition

(b) Subtraction

(c) Multiplication

(d) Any of these

19. High degree of financial leverage means:

(a) High debt proportion

(b) Lower debt proportion

(c) Equal debt & equity

(d) No debt

20. Operating leverage arises because of:

(a) Fixed Cost of Production

(b) Fixed Interest Cost

(c) Variable Cost

(d) None of the above

21. Financial Leverage arises because of:

(a) Fixed cost of production

(b) Variable Cost

(c) Interest Cost

(d) None of the above

22. Operating Leverage is calculated as :

(a) Contribution ÷ EBIT

(b) EBIT ÷ PBT

(c) EBIT ÷ Interest

(d) EBIT ÷ Tax

23. Financial Leverage is calculated as :

(a) EBIT ÷ Contribution

(b) EBIT ÷ PBT

(c) EBIT ÷ Sales

(d) EBIT ÷ Variable Cost

24. Which combination is generally good for a firm?

(a) High OL, High FL

(b) Low OL, Low FL

(c) High OL, Low FL

(d) None of these

25. Combined leverage can be used to measure the relationship between:

(a) EBIT and EPS

(b) PAT and EPS

(c) Sales and EPS

(d) Sales and EBIT

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26. FL is zero if:

(a) EBIT = Interest

(b) EBIT = Zero

(c) EBIT = Fixed Cost

(d) EBIT = Pref. Dividend

27. Business Risk can be measured by:

(a) Financial leverage

(b) Operating leverage

(c) Combined leverage

(d) None of the above

28. Financial Leverage measures relationship between:

(a) EBIT and PBT

(b) EBIT and EPS

(c) Sales and PBT

(d) Sales and EPS

29. Use of Preference Share Capital in Capital structure:
(a) Increases OL
(b) Increases FL
(c) Decreases OL
(d) Decreases FL

30. Relationship between change in sales and change in EPS is measured by:
(a) Financial leverage
(b) Combined leverage
(c) Operating leverage
(d) None of the above

31. Operating leverage works when:
(a) Sales Increases
(b) Sales Decreases
(c) Both (a) and (b)
(d) None of (d) and (b)

32. Which of the following is correct?
(a) CL = OL + FL
(b) CL = OL - FL
(c) OL = OL X FL
(d) OL = OL ÷ FL

33. If the fixed cost of production is zero, which one of the following is correct?
(a) OL is zero
(b) FL is zero
(c) CL is zero

(d) None of the above

34. If a firm has no debt, which one is correct?
(a) OL is one
(b) FL is one
(c) OL is zero
(d) FL is zero

35. If a company issues new share capital to redeem debentures, then:
(a) OL will increase
(b) FL will increase
(c) OL will decrease
(d) FL will decrease

36. If a firm has a DOL of 2.8, it means :
(a) If Sales increase by 2.8%, the EBIT will increase by 1 %
(b) If EBIT increase by 2.8%, the EPS will increase by 1%
(c) If Sales rise by 1%, EBIT will rise by 2.8%
(d) None of the above

37. Higher OL is related to the use of higher:
(a) Debt
(b) Equity
(c) Fixed Cost
(d) Variable Cost

38. Higher FL is related the use of:
(a) Higher Equity
(b) Higher Debt
(c) Lower Debt
(d) None of the above

39. If Operating Leverage =2 , Sales Increases by 20% then EBIT will
(a) Increased by 40%
(b) Decreased by 40%
(c) Will not changed
(d) Will increase by 10%

40. If Operating Leverage =2 , EBIT Increases by 20% then Sales will
(a) Increased by 40%
(b) Decreased by 40%
(c) Will not changed
(d) Will increase by 10%

41. If Financial Leverage =2 , EBIT Increases by 20% then EBT will
(a) Increased by 40%
(b) Decreased by 40%
(c) Will not changed
(d) Will increase by 10%

42. If Financial Leverage =2 , EBT Increases by 20% then EBIT will
(a) Increased by 40%
(b) Decreased by 40%
(c) Will not changed
(d) Will increase by 10%

43. If Combined Leverage =2 , Sales Increases by 20% then EPS will
(a) Increased by 40%
(b) Decreased by 40%
(c) Will not changed
(d) Will increase by 10%

44. If Combined Leverage =2 , EPS Increases by 20% then Sales will

(a) Increased by 40%

(b) Decreased by 40%

(c) Will not changed

(d) Will increase by 10%

45. . If Combined Leverage =2 , Sales Decreases By 20% then EPS

(a) Increased by 40% .

(b) Decreased by 40% .

(c) Will not changed .

(d) Will increase by 10% .

46. . If Combined Leverage =2 , Operating Leverage is 1 then Financial Leverage will be

(a) 2.0

(b) 3.0

(c) 0.5

(d) 1.0

47. Operating Leverage is 3:1, Financial Leverage is 2:1 , Interest Charges = Rs.20 Lakhs

Tax Rate =50% , Variable Cost as % of Sales = 60 % ,

EBIT will be

(a) Rs. 1,20,00,000
(b) 40,00,000
(c) Rs.80,00,000
(d) Rs.180,00,000

48. Operating Leverage is 3:1, Financial Leverage is 2:1 , Interest Charges = Rs.20 Lakhs

Tax Rate =50% , Variable Cost as % of Sales = 60 % ,

Contribution will be

(a) Rs. 1,20,00,000
(b) 40,00,000
(c) Rs.80,00,000
(d) Rs.180,00,000

49. Operating Leverage is 3:1, Financial Leverage is 2:1 , Interest Charges = Rs.20 Lakhs

Tax Rate =50% , Variable Cost as % of Sales = 60 % ,

Fixed Cost will be

(a) Rs. 1,20,00,000
(b) 40,00,000
(c) Rs.80,00,000
(d) Rs.180,00,000

50. Operating Leverage is 3:1, Financial Leverage is 2:1 , Interest Charges = Rs.20 Lakhs

Tax Rate =50% , Variable Cost as % of Sales = 60 % ,

Variable Cost will be

(a) Rs. 1,20,00,000
(b) 40,00,000
(c) Rs.80,00,000
(d) Rs.180,00,000

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