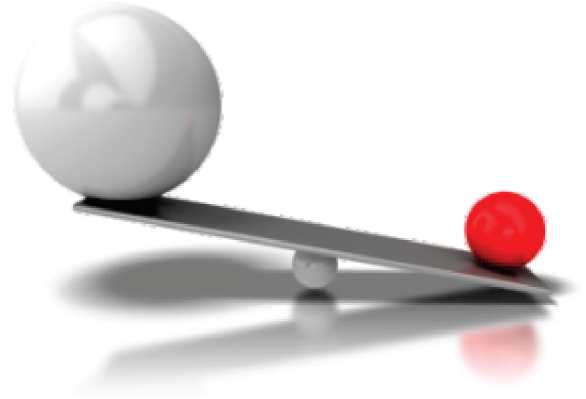


LEVERAGES

TENDENCY OF DISPROPORTIONATE CHANGE IS CALLED LEVERAGE. IT IS CREATED DUE TO FIXED EXPENSES. IT INDICATES RISK, HIGHER THE LEVERAGE HIGHER THE RISK.



TYPE	OPERATING	FINANCIAL	TOTAL
Reason	Operating Fixed Cost	<ul style="list-style-type: none"> Interest Dividend on preference share 	<ul style="list-style-type: none"> Operating Fixed cost Interest Dividend on preference shares
Formula	$\frac{\% \text{Change in EBIT}}{\% \text{Change in Sales}}$	$\frac{\% \text{Change in EPS}}{\% \text{Change in EBIT}}$	$\frac{\% \text{Change in EPS}}{\% \text{Change in Sales}}$
Shortcut Formula	$\frac{\text{Contribution}}{\text{Contribution} - \text{Fixed Cost}}$	$\frac{\text{EBIT}}{\text{EBIT} - \text{Interest} - \frac{D_p}{1-t}}$	$\frac{\text{Contribution}}{\text{Contribution} - \text{Fixed Cost} - \text{Interest} - \frac{D_p}{1-t}}$
Another Shortcut	$\frac{\text{Contribution}}{\text{EBIT}}$	$\frac{\text{EBIT}}{\text{PBT}}$ (Only if $D_p = 0$)	$\text{DOL} \times \text{DFL}$

CONCEPTS OF MARGINAL COSTING USED IN LEVERAGES:

- 1) Variable cost is variable and fixed cost is fixed in total.
- 2) Variable cost is fixed and fixed cost is variable per unit.
- 3) If Fixed cost per unit is given in the question then number of units at which it is calculated must also be given.
- 4) Contribution = Sales – Variable cost
- 5) Contribution per unit = Selling price – Variable cost per unit.

$$\text{PV Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{\text{Contribution per unit}}{\text{Selling price}} \times 100$$

$$\text{Break Even Point (units)} = \frac{\text{Fixed Cost}}{\text{Contribution per unit}}$$

$$\text{Break Even Point (amount)} = \frac{\text{Fixed Cost}}{\text{PV Ratio}}$$

$$\text{Margin of Safety (amount)} = \text{Sales} - \text{BEP}$$

$$\text{Margin of Safety (\%)} = \frac{\text{Sales} - \text{BEP}}{\text{Sales}} \times 100$$

For Remaining Pages of Leverages Concept Sheet and
Concept Sheets of all other chapter of CA Inter FM
(new/old syllabus)

on your android phone

Install “fmbytm” from play store.

FEATURES OF THE “FMBYTM” ANDROID APP

1. Free: Notes, solved questions of past exams, Concept Summary Sheets, Revision audios
2. Paid: Full syllabus videos (CA Final QT videos are free), Crash batch videos
3. Courses offers:- Currently: CA Final SFM, CA Final QT, CA Inter FM, CA Inter BLCL, Coming Soon: CFA Level1, 2,3 and NCFM modules, Current Affairs.
4. All the contents are high of high quality. Developed and delivered by Central India’s well known faculty Tarun Mahajan CA, CFA.
5. All the contents of the app can be played in app only and are non-transferable.