

# DPBS (PG) COLLEGE, ANOOPSHAHR

PAPER: FINANCIAL MANAGEMENT

PAPER CODE: C 305

TOPIC: LEVERAGE ANALYSIS

PRACTICE SET (II)

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1. \_\_\_\_\_ is the potential use of fixed financial charges to magnify the effects of changes in earnings before interest and taxes on the firm's earnings per share.
  - A. Financial leverage
  - B. Operating leverage
  - C. Total leverage
  - D. Debt service
  
2. A decrease in fixed operating cost will result in \_\_\_\_\_ in the degree of financial leverage:
  - A. A decrease
  - B. An increase
  - C. No change
  - D. An undetermined change
  
3. \_\_\_\_\_ leverage is concerned with the relationship between sales revenues and earnings before interest and taxes.
  - A. Financial
  - B. Operating
  - C. Variable
  - D. Total
  
4. A firm's degree of operating leverage (DOL) depends primarily upon its
  - A. Evaluating the effects of business risk on EPS.
  - B. Examining EPS results for alternative financing plans at varying EBIT levels.
  - C. Determining the impact of a change in sales on EBIT.
  - D. Showing the changes in EPS quality over time.
  
5. EBIT is usually the same thing as:
  - A. Funds provided by operations.
  - B. Earnings before taxes.
  - C. Net income.
  - D. Operating profit.
  
6. An EBIT-EPS indifference analysis chart is used for -----
  - A. Evaluating the effects of business risk on EPS.
  - B. Examining EPS results for alternative financing plans at varying EBIT levels.
  - C. Determining the impact of a change in sales on EBIT.
  - D. Showing the changes in EPS quality over time.

7. **EBIT is usually the same thing as:**
- A. Funds provided by operations.
  - B. Earnings before taxes.
  - C. Net income.
  - D. Operating profit.
8. **A firm's degree of total leverage (DTL) is equal to its degree of operating leverage its degree of financial leverage (DFL).**
- A. Plus
  - B. Minus
  - C. Divided by
  - D. Multiplied by
9. **The further a firm operates above its operating break-even point, the closer its degree of operating leverage (DOL) measure approaches .....**
- A. Minus one.
  - B. Zero.
  - C. One.
  - D. Infinity.
10. **Financial leverage measures the effect of fixed operating cost on the relationship between:**
- A. Sales and EBIT
  - B. Sales and EPS
  - C. EBIT and EPS
  - D. None of the above

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