

# **Free Webinar CFA Level I**

## **Corporate Finance**

### **Measures of Leverage**

### 3 Corporate Finance

The following information refers to **3.1 - 3.10**.

The following information is assembled by company A and by company B (in €):

	A	B
number of goods produced and sold	100,000	100,000
revenue	800,000	800,000
operating costs	300,000	350,000
operating income	500,000	450,000
financing expense	100,000	50,000
net income	400,000	400,000

**3.1.** What can be said about variable costs per unit?

- A. Company A's variable costs per unit equal €3, the ones of B are €2
- B. Company A's variable costs per unit equal €2, the ones of B are €2
- C. Company A's variable costs per unit equal €2, the ones of B are €3

**3.2.** What can be said about fixed financing expenses?

- A. Company A's fixed financing expenses amount to €100,000, the ones of B equal €50,000
- B. Company A's fixed financing expenses amount to €50,000, the ones of B equal €100,000
- C. Company A's and B's fixed financing expenses both equal €100,000

**3.3.** What is true about both companies' net income? We get ...

- A.  $NI_A = 6Q - 200,000$ , and  $NI_B = 5Q - 200,000$
- B.  $NI_A = 6Q - 200,000$ , and  $NI_B = 5Q - 100,000$
- C.  $NI_A = 6Q - 100,000$ , and  $NI_B = 5Q - 100,000$

**3.4.** What is true about the degree of operating leverage?

- A. Company A's DOL equals 1.0
- B. DOL tells us the absolute change in operating income, caused by an absolute change in units sold
- C. Company A's DOL equals 1.2

**3.5.** If the quantity sold by company A rises from 100,000 to 110,000, then the percentage change in operating income is going to be

- A. 20 %
- B. 12 %
- C. the number stays equal

**3.6.** What is true about the degree of financing leverage?

- A. Company A's DFL equals 1.2
- B. DFL tells us the relative change in operating income, caused by a percentage change in units sold
- C. Company A's DOL equals 1.25

**3.7.** If company A's operating income rises to €520,000 (from €400,000), net income is going to rise by ...

- A. 37.5 %
- B. 40 %
- C. it will not rise

**3.8.** What is true about the degree of total leverage?

- A. Company A's DTL equals 1.2
- B. DTL does not tell us the relative change in net income, caused by a percentage change in units sold
- C. Company A's DOL equals 1.5

**3.9.** If the quantity sold by company A equals 100,000 and rises by 20%, what percentage change to its net income will most likely occur?

- A. Net income will rise by 50 %
- B. Net income will go down by 25 %
- C. Net income will rise by 30 %

**3.10.** Which of the following statements is most likely true?

- A. Company A's breakeven-point equals 20,000
- B. Company A's breakeven-point equals 33,333.33, company B's breakeven-point equals 20,000.00
- C. Company A's breakeven-point equals 20,000, company B's breakeven-point equals 33,333.33.



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