ULTIMATE CA

CA Intermediate
New Syllabus
Financial Management

FM Handwritten Notes

(Fill in the blanks format)

[For Early Bird Batch Students]

By CA Mohnish Vora (MVSIR)

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1st Oct

IF YOU CLEAR CA FOUNDATION

Join the Inter Batch at Old Fees of ₹ 38,000/- and get a Setoff of ₹ 999/-

Net Fees = ₹ 37,001/-

Net Savings

Revised Fees for SEPT Batch - Rs. 44,000/-
(-) Fees for Early Bird Students - Rs. 38,000/-

MASSIVE SAVINGS of - Rs. 6,000/-

IF YOU DO NOT CLEAR CA FOUNDATION

Join the Foundation Fast Track Batch at Old Fees of ₹ 7,999/- and get a Setoff of ₹ 999/-

Net Fees = ₹ 7,000/-

Net Savings

Revised Fees for SEPT Batch - Rs. 9,999/-
(-) Fees for Early Bird Students - Rs. 7,999/-

MASSIVE SAVINGS of - Rs. 2,000/-

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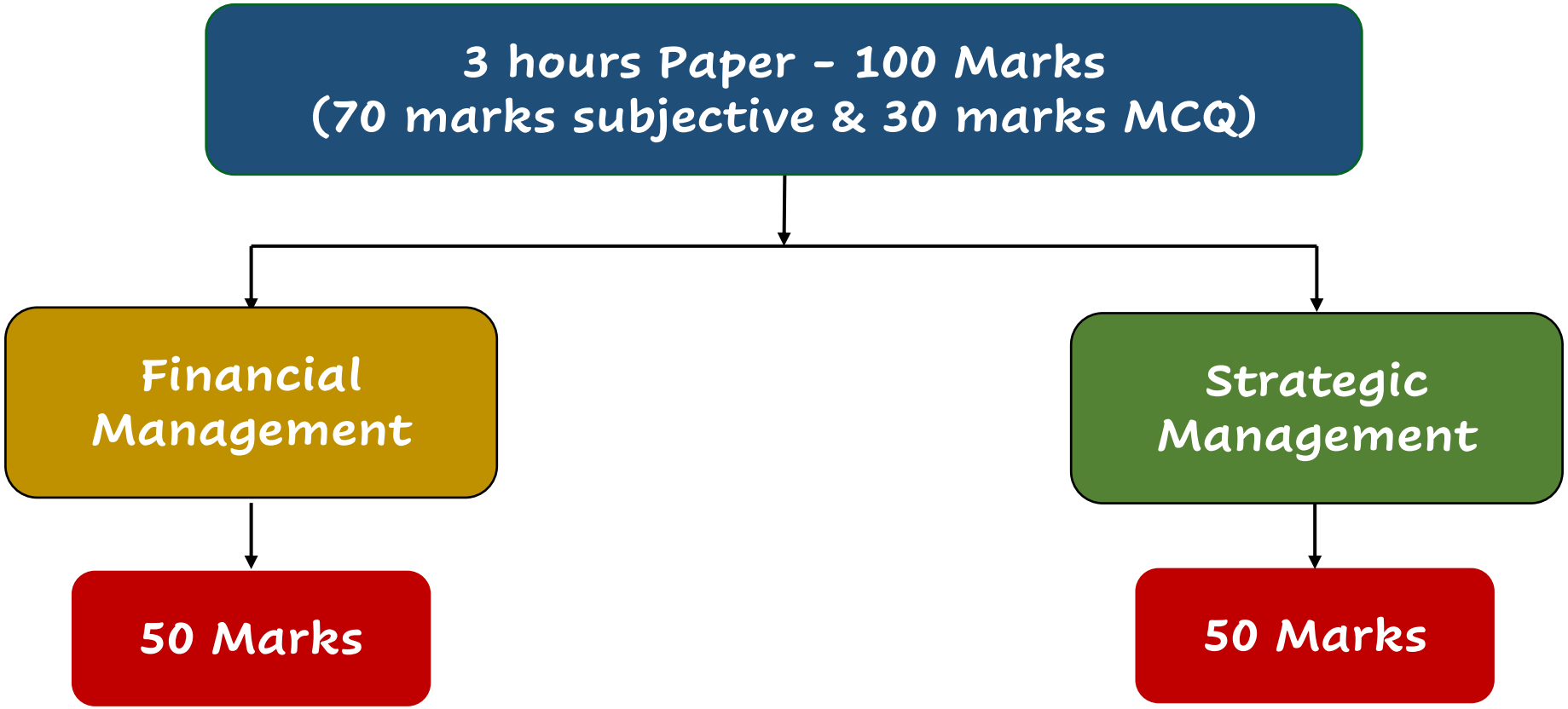
CA Inter May/Sep 2025
FM/SM by MVSIR



MCQs will have NO negative marking

MV Sir

CA Inter May/Sep 2025 (New Syllabus)

Paper 6 – Financial Management & Strategic Management

Syllabus

FM Chapters	Weightage (50 Marks)
• **Chapter-1:** Scope and Objectives of Financial Management • **Chapter-3:** Financial Analysis and Planning- Ratio Analysis	10-15% **(5 – 8 M)**
• **Chapter-2:** Types of Financing • **Chapter-4:** Cost of Capital • **Chapter-5:** Financing Decisions- Capital Structure • **Chapter-6:** Financing Decisions- Leverages	45-50% **(22 – 25 M)**
• **Chapter-7:** Investment Decisions	20–25 % **(15 – 17 M)**
• **Chapter-8:** Dividend Decisions	
• **Chapter-9:** Working Capital Management	15–20 % **(8 – 10 M)**

SM Chapters	Weightage (50 Marks)
• **Chapter-1:** Introduction to Strategic Management	15-25% **(7 – 12 M)**
• **Chapter-2:** Strategic Analysis: External Environment	15-25% **(7 – 12 M)**
• **Chapter-3:** Strategic Analysis: Internal Environment	15-25% **(7 – 12 M)**
• **Chapter-4:** Strategic Choices	15-25% **(7 – 12 M)**
• **Chapter-5:** Strategy Implement. & Evaluation	15-25% **(7 – 12 M)**

CA Inter May/Sep 2025 (New Syllabus)

Paper 6 – Financial Management & Strategic Management

Regular Detailed Batch by CA Mohnish Vora (MVSIR)

Details	Option 1 (Live Batch– starts from 10th Nov)		Option 2 (Latest Recorded Batch Which was taken for Jan 2025)
Batch Duration	10th Nov 2024 to 10th Feb 2025		Watch as per own schedule
Validity & Views	9 mts validity with 3 views (1 Live + 2 Rec)		9 mts validity with 3 recorded views
No. of Lec & hrs (approx.)	FM – 160 Hrs (80 Lectures)	SM – 85 Hrs (50 Lectures)	FM hours- 160 hours SM hours- 85 hours (Total 130-135 lectures)
Timing of Live Classes (Mon to Sat)	FM – 2.30 PM to 4.30 PM SM – 5.00 PM to 6.45 PM		
Chapters covered live	FM – All Chapters except 2 & 3 SM – All Chapters		
Chapters covered in recorded form	FM Chapter 2 & 3		
Notes to be provided	6 Coloured Printed Books FM Shastra, FM Compiler, FM Handwritten Notes, SM Shastra, SM Compiler, SM Handwritten Notes		Same all 6 printed books

- Delivery of books within **7 to 14 working days** from dispatch date (depending on location, some might get early also)
- However, students **can start watching FM classes even before books deliver**, as MVSIR makes students write all concepts in class itself, so **no book will be required to start the class**.
- Once a live class once ends, it will be uploaded for recorded view on our app within 24 hrs
- Classes will work only on Android Mobile/Tablet & Window Laptop
- (Apple devices & Desktop is **not** supported for classes)

FM & SM by MVSIR

Details regarding books

Financial Management (FM)

3 Printed Books of FM

1) **FM Shastra (Coloured Printed Book)**
   - Contains all concepts as per ICAI new syllabus Study material

2) **FM Compiler (Coloured Printed Book)**
   - Contains all questions & MCQs of ICAI SM , RTP/MTP/PYQ.
   - 395+ descriptive questions &
   - 235+ MCQs arranged chapter-wise
   - 2 Case Study Based MCQs

3) **FM Handwritten Notes (Coloured Printed Book)**
   - Will be provided in fill in the blanks format- to be completed in class

A separate register (of 300 pages) will have to be maintained **by students** for practicing questions in class.

Strategic Management (SM)

2 Printed Books & 1 PDF

1) **SM Shastra (Coloured Printed Book)**
   - Contains all concepts as per ICAI new syllabus Study material

2) **SM Compiler (Coloured Printed Book)**
   - Contains all questions & MCQs of ICAI SM , RTP/MTP/PYQ.
   - 215+ descriptive questions &
   - 350+ MCQs arranged chapter-wise
   - 15+ Case Study Based MCQs

3) **SM Handwritten Notes (Printed Form)**
   - Will be provided in fill in the blanks format- to be completed in class.

No need to maintain separate register for SM.
SM Summary will be given in fill in the blank form, to be completed in class.

In previous slides it is clearly mentioned which books will be provided in Fastrack & which in Regular Batch

FM & SM by MVSIR

How will MVSIR teach ? } in Main Regular Batch

1. Develop **strong basics**
2. **Interesting and practical life examples** & colourful PPTs & notes.
3. Write **all concepts of FM** in class itself.
4. All **ICAI Questions / MCQs** will be discussed. Also will discuss important **MTP/RTP/PYQ questions**
5. **Daily homework** will be given, so that students **inculcate habit of self-studies.**
6. **Tests will be conducted section-wise** (combining 2-3 chapter together).
7. **Revision & marathon sessions** will be conducted. Support till exams.

CA Intermediate
New Syllabus
Financial Management

FM Handwritten Notes
(Fill in the blanks format)

FM Basics &
Time Value of Money

By CA Mohnish Vora (MVSIR)

BASICS OF FM

* Financial Management is the process of efficient
  - Acquisition of funds [Procurement]
  - & Allocation of funds [Utilisation]

  with the objectives of -
  i) maximisation of profits
  &
  ii) maximisation of wealth of shareholders.

* wealth of shareholders =

---

* F.M. subject focusses on 3 major financial decisions

Financing Decision

i) How much funds are required?
2) From where (source) to bring these funds?

- Chp 2: Types of Fin.
- Chp 4: Cost of Capital
- Chp 5: Capital Structure
- Chp 6: Leverage Analysis

Investment Decision

Where to invest (allocate) the funds raised?

&

Fixed Assets | Current Assets

- Chp 7: Investment Decision
- Chp 9: Working Capital Mgt.

Dividend Decisions

How much profits to be distributed among EQUITY shareholders (as dividend) & how much to be retained?

- Chp 8: Dividend Decision

FM Chp 1 → Scope & Obj of FM → (Basics of FM)
FM Chp 3 → Ratio Analysis

Balance Sheet

Liabilities & Capital		Assets	
Equity Share Capital		Fixed Assets	
Reserves & Surplus			
Pref. Share Capital			
Long Term Debt		Current Assets	
Current Liabilities			

Long term sources of finance

Short term source of finance

* COMPARISON OF DIFFERENT SOURCES OF FINANCE

Basis	Point of view [POV]	Comparison (ESC vs. LTD vs. PSC)
RISK	Company [Issuer]	> >
RISK	Investor	> >
EXPECTATION OF RETURN	Investor	> >
COST OF CAPITAL	Company	> >

* INCOME STATEMENT

	Particulars	Amount
	Sales	xx
(-)	Expenses (excl. Interest & Depn)	(xx)
	PBITDA or EBITDA	xx
(-)	Depreciation & Amortisation	(xx)
	PBIT or EBIT (Operating Profit)	xx
(-)	Interest	(xx)
	PBT or EBT	xx
(-)	Tax	(xx)
	PAT or EAT	xx
(-)	Preference Dividend	(xx)
	Earnings available for equity SH [EFES]	xx
(-)	Equity Dividend	(xx)
	Retained Earnings.	xx

* Also, Sales (-) Variable cost = Contribution
  Contribution (-) fixed cost (excl. Interest) = PBIT

* Earnings Per Share =

---

* "Interest on Debt" is a AGAINST PROFIT
  [i.e., Tax pay karne se pehle, Interest pay KARNA HI PADTA HAI, chahe profit/loss ho]

* "Pref. Dividend" & "Equity Dividend" are OF PROFITS.
  [i.e., Tax pay karne ke baad, agar Profit bacha toh hi dividend pay hoga]

INTEREST is a TAX DEDUCTIBLE EXPENSE

(Amt in ₹ Lakhs)

Particulars	Case I: No Debt [No Interest]	Case II: Debt ✓ [Interest ✓]
Sales	1000	1000
(-) Variable cost	(300)	(300)
Contribution	700	700
(-) Fixed cost	(200)	(200)
PBIT	500	500
(-) Interest	0	
PBT	500	
(-) Tax @ 30%	(150) →	
PAT or EAT	350	

In case II, due to Interest expenditure, the company is able to save Tax of ₹ Lakhs

Tax Saving / Shield on Interest

= (x)

* Due to issue of Debt } Interest Exp } Tax Saving }

Case I: Total Capital = ₹10L ESC = ₹10L ; LTD = 0 (₹100/Sh.)		Case I: Total Capital = ₹10L ESC = ₹7L ; LTD = ₹3L (10%) (₹100/Sh.)
EBIT	3,00,000	3,00,000
(-) Interest	0	
EBT	3,00,000	
(-) Tax @ 40%	(1,20,000)	

EAT	1,80,000	
(-) Pref Div	0	
EFES	1,80,000	
(÷) No. of Eq sh.	10,000 sh.	
EPS	₹ 18/sh.	₹ 1/sh.

As, debt ↑, Interest, EPS
BUT, simultaneously financial risk also increase.
Thus, we cannot just go on increasing debt in our capital structure.

Hence, a finance manager, while selecting capital structure, focusses on 3 aspects -
1) (Risk as per tolerable limit)
2) (Existing shareholders control should not dilute)
3) (should be minimum)

Practically, achieving all 3 together is difficult, thus, a finance manager shall try to achieve a (balance).

TIME VALUE OF MONEY [TVOM]

* TVOM means
  Value of ₹1 > Value of ₹1 in .
  [greater than]

That is, value of an amount of money is different in different time periods.

- Since money received today has more value, rational investors would prefer current receipts over future receipts.

- Thus, if we borrow ₹1 Lakh (Principal) from Bank for 1 year. At the end of 1 year (at maturity), we will have to repay to bank an amount greater than ₹1 Lakh, say ₹1,10,000

The excess amount we have to pay (₹10,000) over principal amount (₹1 lakh), is called Interest

* Bank (or any lender) charges interest for use of their money because of -

a) Time Value of Money
Present worth (value) of money received after some time will be less than same amount of money received today.

b) Opportunity Cost
Lender incurs opp. cost because of the possible alternative uses of the money lent.

c) Inflation

Inflation means fall in purchasing power of money. Eg: Earlier when your parents were young, they used to buy 1 plate samosa for ₹5, but now in ₹5 you can get only its chutney.

d) Risk factor

There is always a risk that borrower may go bankrupt or default on loan.
A lender charges more interest rate (risk premium) for taking more risks.

Thus, INTEREST is the price paid by a borrower for the use of lender's money.

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* Interest amount is directly proportional to-
a) Amt of money borrowed (principal amt)
b) Period of time for which money is borrowed.
c) Rate of interest agreed upon.

SIMPLE INTEREST Vs. COMPOUND INTEREST

* SIMPLE INTEREST is the interest computed on the same principal amt for entire period of borrowing.

It is calculated on outstanding principal balance & not on interest previously earned.

$$S.I. = P.r.t$$

Example

Alia deposited ₹1,00,000 in her bank for 2 years at simple interest rate of 6%.

- How much interest would she earn?
- How much would be the final value of deposit?

Solution:

a) Simple Interest = P . r . t
=
=

b) Final value of Deposit =
=

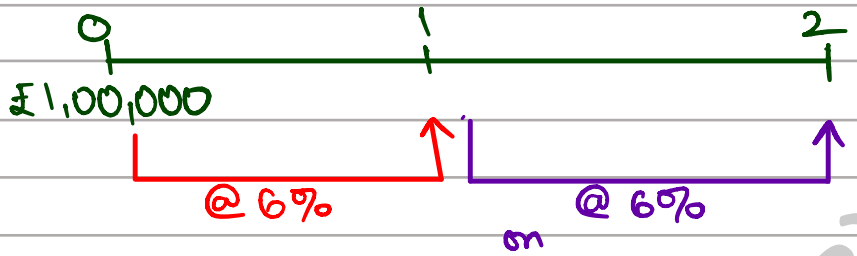
In F.M. subject we do NOT use "Simple Int" F.M. revolves around the concept of "Compound Interest"

---

* COMPOUND INTEREST is the interest that accrues when earnings of each specified period are added to the principal, thus increasing the principal base on which subsequent interest is computed.

INTEREST ON INTEREST

In previous eg of Alia, if ₹1,00,000 are deposited for 2 years at compound interest rate of 6%, then



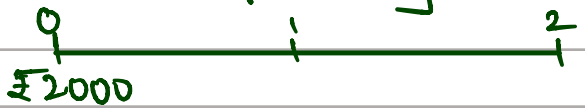
a) Compound Interest =
=

b) Final value of Deposit =
=

* **Example**
₹2,000 is invested at 10% p.a.
What is the amount after 2 years, if compounding is done
a) Annually
b) Semi-Annually
c) Quarterly
d) Monthly

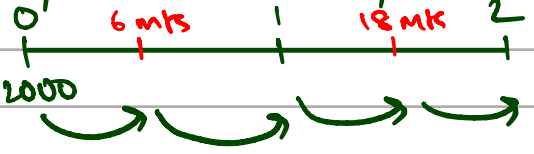
Solution:

a) **Annual compounding**



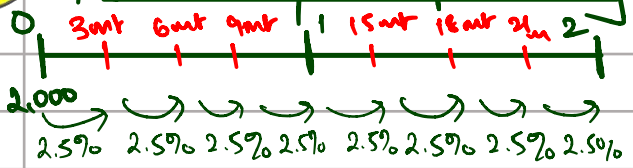
Value at end of 2yrs =
Or
FV_2 =
=

b) **Semi-Annually**



FV_2 =
OR
FV_2 =
=

c) Quarterly Compounding



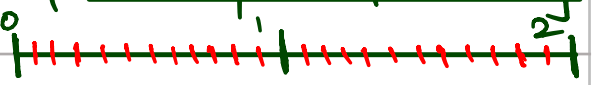
$FV_2 = 2000 + 2.5\% + \ldots + 2.5\%$

or

$FV_2 =$

$=$

d) Monthly Compounding



$FV_2 = 2000 + 0.83\% + \ldots + 0.83\%$

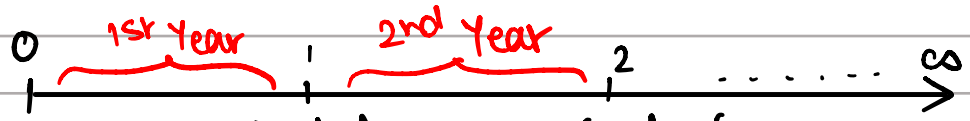
$=$

$=$

$=$

*	FUTURE VALUE (F.V.)	PRESENT VALUE (P.V.)
	F.V. is the cash value of an investment at some time in future. It is tomorrow's value of today's money compounded at a rate of interest. $FV = PV(1+r)^n$	P.V. is the sum of money to be invested today in order to achieve a specific amount in future. OR P.V. is the current (today's) value of future sum of money or stream of cashflows, at a specified rate of int. $PV = \frac{FV}{(1+r)^n}$

* Timeline

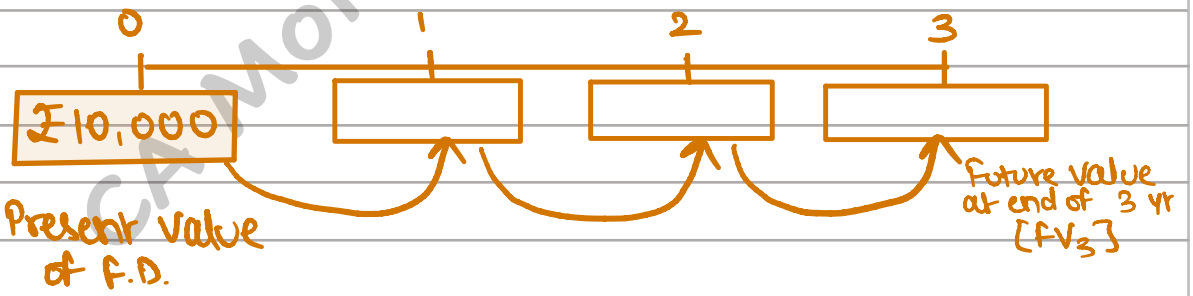


- Today (Present) or Beginning of 1st year
- End of 1st year or Beginning of 2nd year
- End of 2nd year. or Beginning of 3rd year.

Please note, while solving questions of FM, if que does not specify that cashflow are of beginning or end of the year, we ASSUME them to be at the END OF THE YEAR only.

IY FV of a Single Amount

* Suppose you invest ₹10,000 in a bank's fixed deposit. Interest rate is 10% p.a. What will be the F.V. at the end of 3 years?



Thus, the value of FD [Today at ₹10,000] becomes [FV_3] at the end of 3rd year if interest rate is 10% p.a.

10,000 + =

10,000 + (10% x) =

11,000 + (10% x) =

12,100 + (10% x) =

10,000 + 10% + 10% + 10%

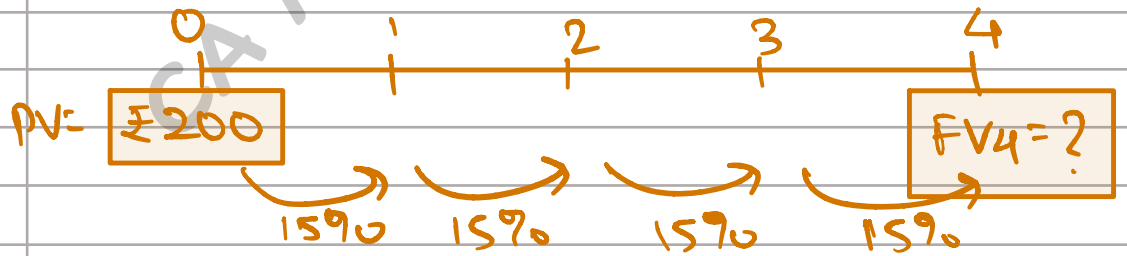
10,000 x ( ) x ( ) x ( )

⇒ 10,000 x =

PV x = FV_n

⇒ PV x =

* Suppose CMP of a share is ₹200. The shares value increases by 15% every year. What will be its value at the end of 4th yr?



FV_4 = PV ( )

= 200 ( )

= 200 ( )

= 200 x

=

How to do on calculator?

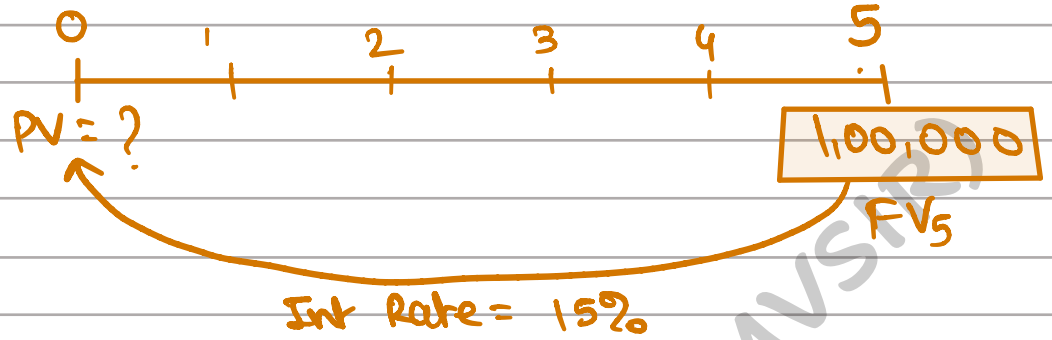
Step1:

Step2:

Step3:

II) PV of a Single Amount

Suppose you are going to receive ₹1,00,000 after 5 yrs from now. Then what will be the P.V., if interest rate is 15% p.a.?



PV + [FV5] = 1,00,000

PV x = 1,00,000

$\Rightarrow PV = \frac{1,00,000}{(\quad)} = 1,00,000 \times \frac{1}{(\quad)}$

$= 1,00,000 \times \frac{1}{(1.15)^5}$ → How to do on calculator?

Step1:

Step2:

Ans:

$= 1,00,000 \times$

$=$

↓

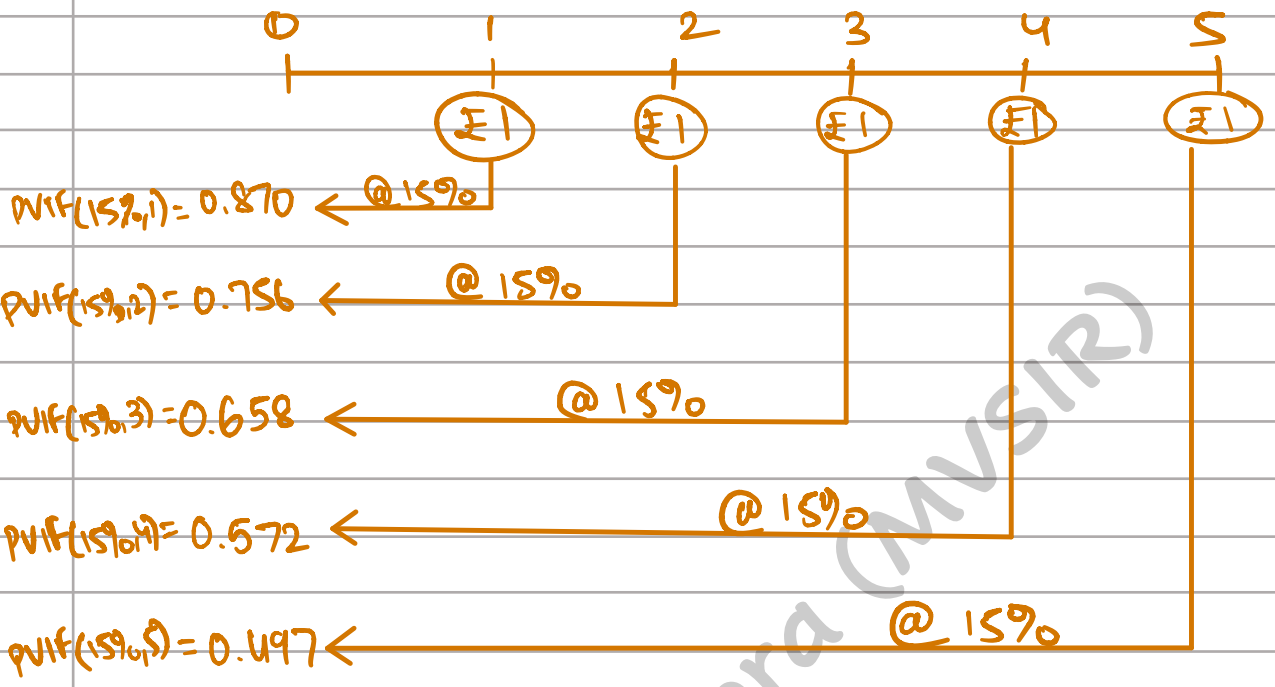
$PVIF_{(15\%,5)} =$

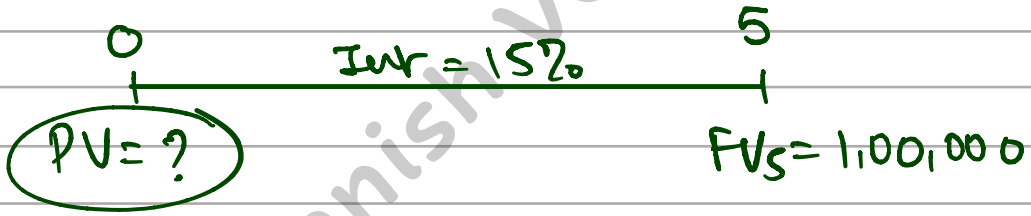
---

* Discounting factors @ 15%
[Present value Interest factors → PVIF(15%,n)]
1st yr ke end mei ₹1 chahiye → aaj 15% →
2nd yr ke end mei ₹1 chahiye → aaj 15% →
3rd yr ke end mei ₹1 chahiye → aaj 15% →

4th yr ke end mei ₹1 chahiye → aaj 15% →

5th yr ke end mei ₹1 chahiye → aaj 15% →



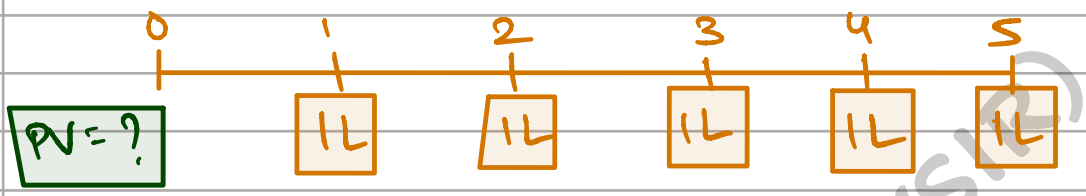


Amt to be invested today	If at end of 5th yr
₹	₹
PV = ?	₹

PV = 1,00,000 x = ₹

III) PV of Annuity [Uniform cashflows each year for finite period]

Eg: Suppose as per a contract, you are going to receive ₹1,00,000 at the end of every year upto 5 yrs. Then what is the P.V., if rate is 15%.



$PV_1 =$

$PV_2 =$

$PV_3 =$

$PV_4 =$

$PV_5 =$

$$PV = \frac{1L}{(1.15)} + \frac{1L}{(1.15)} + \frac{1L}{(1.15)} + \frac{1L}{(1.15)} + \frac{1L}{(1.15)}$$

=

$= 1L(\quad) + 1L(\quad) + 1L(\quad) + 1L(\quad) + 1L(\quad)$

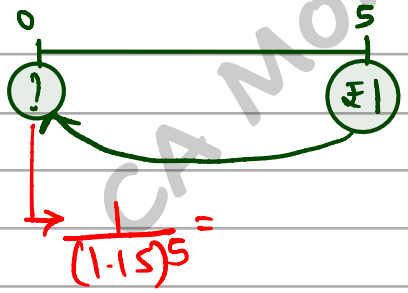
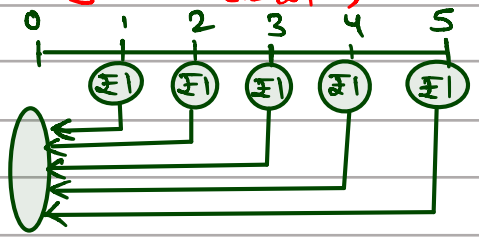
$= 1L(\quad + \quad + \quad + \quad + \quad)$

$= 1L(\quad)$

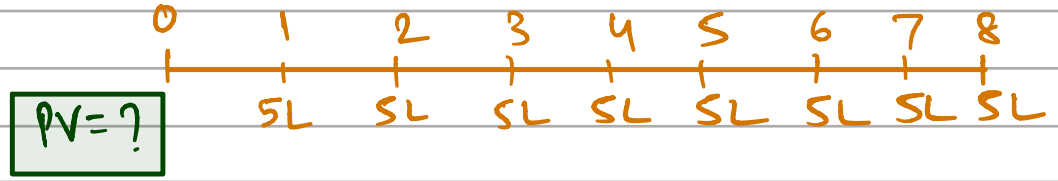
$= ₹$

Here, is PVAF (15%, 5)

PV = Annuity x
= 1,00,000 x
= ₹3,35,300

Present value Interest Factor [PVIF]	Present value Interest factor Annuity or cumulative factor or PV Annuity factor [PVIFA or PVAF]
Eg: PVIF (15%, 5)  $\frac{1}{(1.15)^5}$ =	Eg: PVAF (15%, 5)  $PVAF_{(15\%,5)} = \frac{1}{(1.15)^1} + \frac{1}{(1.15)^2} + \frac{1}{(1.15)^3} + \frac{1}{(1.15)^4} + \frac{1}{(1.15)^5}$ =
Calculator Steps ① ② Ans.	Calculator Steps ① ② ③ Ans. 3.352

Example



Int Rate = 12.50%

PV =

=

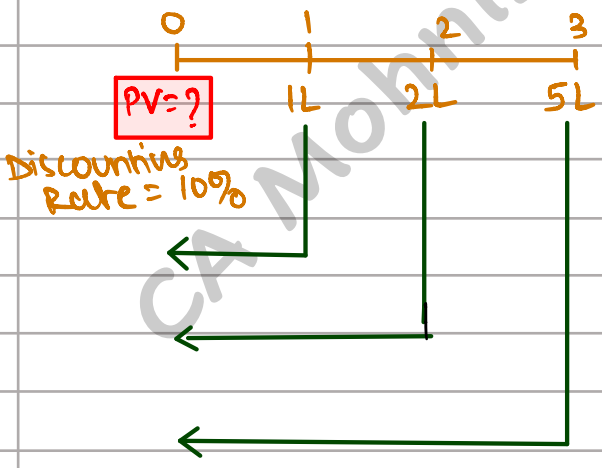
=

=

PV of Annuity = OR $A \times \left[\frac{1-\left(\frac{1}{1+r}\right)^n}{r}\right]$

Not to be used ever

IV) P.V. of uneven cashflow



PV =

=

= 1L x ( ) + 2L ( )
+ 5L x ( )

=

Tabular form

1,00,000
2,00,000
5,00,000

Example

Suppose a machinery costs ₹ 5,00,000 today. We can receive cashflows of ₹ 2,00,000, ₹ 3,00,000 & ₹ 4,00,000 at the end of Yr 1, 2 & 3 respectively.
Our companies fund providers expect a return of 12% on their funds. (Cost of capital)
Whether should we purchase this M/C or not?

PV of M/C @ % =

=

= ₹

↓

If we want earn a return of %, then we should purchase the M/C at ₹

However, cost of M/C is only ₹
Thus, we should M/C.

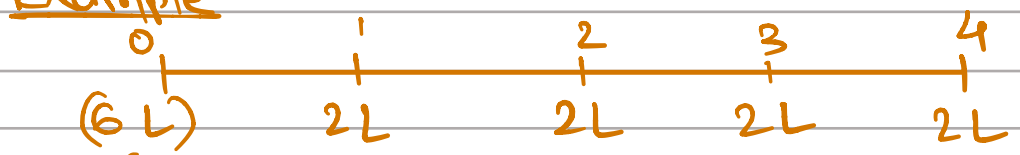
Now, we will be able to earn % on the asset additional

Net Present Value =

= 7,02,500 - 5,00,000

⇒ NPV = ₹

Example



Cost of M/c

If cost of capital = 10%, then whether should we purchase M/c using NPV method?

Sum of PV of cf from M/c =
discounted @ Ko = =
=

NPV =
= = ₹

Since, NPV is , we should

Example

Cost of M/c

If cost of capital = 12%, then whether should we purchase M/c using NPV method?

- Sum of PV of cf =
discounted @ Ko = 12%

= ( ) + ( ) + ( )
= ₹

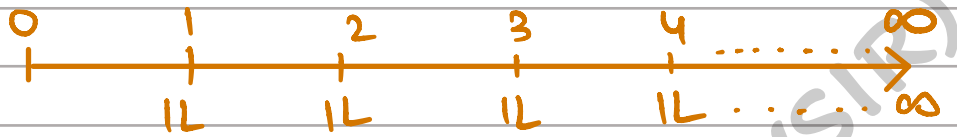
- NPV = =

Thus, M/c should as NPV is

IV PV of Perpetuity [Uniform Cashflows for Infinite Period]

Perpetual Annuity

Eg: Suppose as per a contract, you are going to receive £1L at the end of each year for infinite period. Find PV, if interest rate is 12%.



PV of Perpetuity = $\frac{1L}{(1+0.12)^1} + \frac{1L}{(1+0.12)^2} + \frac{1L}{(1+0.12)^3} \ldots \infty$

Sum of Infinite GP (when $r < 1$) = $\frac{a}{1-r}$ = _____

First Term (a) =

Common Ratio =

$\therefore$ Sum of Infinite GP = $\frac{a}{1-r}$

= [ ] ÷ [ ]

=

=

PV of Perpetuity =

Example
Suppose today MV foods Ltd's share price is of ₹500. It is expected to earn ₹60 as dividend perpetually from this share. Whether should we purchase this share or not, if we expect a return of 10% [Ke] ?

PV of share discounted @ =

NPV = Sum of PV of CF - Initial Invt
=

Since NPV is , we should

VI) PV of Growing Perpetuity [Constant Growth]

Example
Suppose today MV foods Ltd's share price is of ₹500. Last year's dividend was ₹80. It is expected that dividend will grow by 5% every year till infinity.
Whether should we purchase this share or not, if we expect a return of 12% [Ke] ?

- D_1 =
- D_2 =
- D_3 =

Now, PV of Growing Perpetuity $= \frac{}{(1+0.12)^1} + \frac{}{(1+0.12)^2} + \frac{}{(1+0.12)^3} + \ldots\ldots^{\infty}$

$= \frac{80}{(1+0.12)^1} + \frac{80}{(1+0.12)^2} + \frac{80}{(1+0.12)^3} + \ldots\ldots^{\infty}$

The above is also like an infinite G.P.

- First Term (a) = _____
- Common Ratio (r) = _____

Sum of Infinite GP (when $r<1$) $= \frac{a}{1-r}$

$\therefore$ Sum of Infinite GP $= \frac{80(1+0.05)}{(1+0.12)} \div \left[1 - \frac{1+0.05}{1+0.12}\right]$

$=$

$=$

$=$ $= ₹1200$

[Here, $D_0 = 80$; $K_e = 0.12$ (12%); $g = 0.05$ (5%)]

$\therefore$ PV of Growing Perpetuity $=$ _____ or _____

The value of share should have been ₹ in the above example, but in market it is only of ₹ , which means it is " ", thus we should the shares.

Example

Suppose today IG Rani Pvt Ltd's share price is of ₹1,200. The expected dividend at end of 1st year is ₹90. It is expected that dividend will grow by 6% every year till infinity. Whether should we purchase this share or not, if we expect a return of 15% [Ke] ?

PV of Share =

=

=

Theoritical MP = ₹ (Kya price honi chahiye formula ke hisab se)

Actual MP = ₹

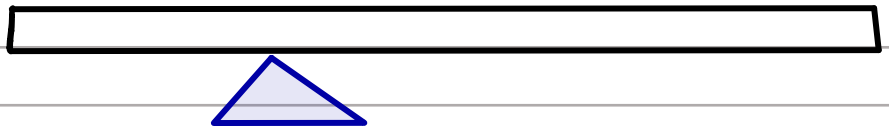
The share is , we should the share.

CA Intermediate
New Syllabus
Financial Management

FM Handwritten Notes
(Fill in the blanks format)

Chapter 6
Leverage Analysis

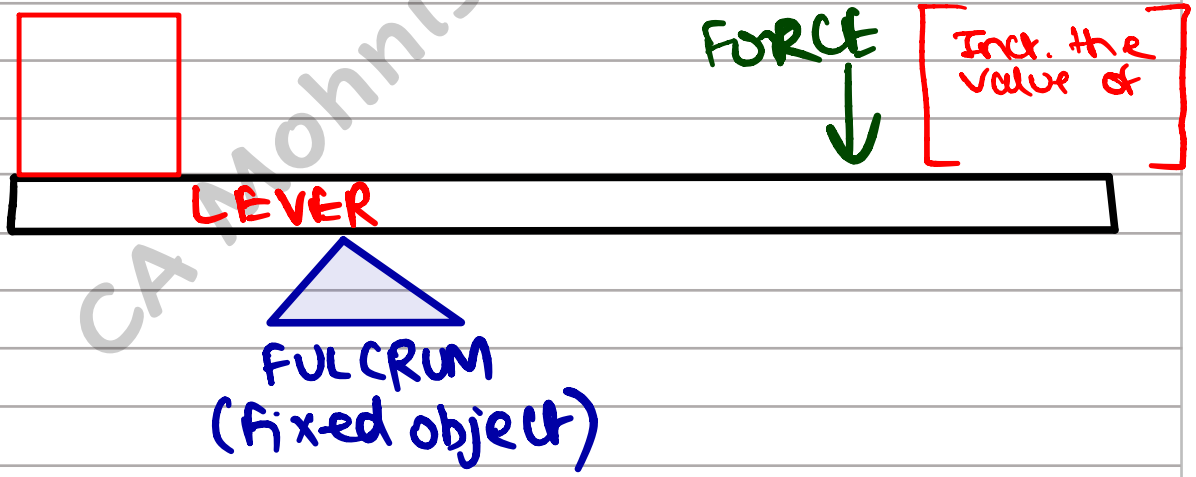
By CA Mohnish Vora (MVSIR)



* "LEVERAGE" means gaining BENEFIT by using EFFORTS

* In FM, "leverage" means to gain with the help of

* In other words, "leverage" is the ability of a company to use fixed cost or fixed cost → in order to



TYPES OF RISK

BUSINESS RISK [Aka. OPERATING RISK]

- Whether a company will be able to generate sufficient revenue to cover its _____ or not.
- It depends upon competition, technological obsolescence etc.

B.R. is measured by _____

FINANCIAL RISK

- Whether a company will be able to repay its _____ [like _____] or not.
- It depends on the amount of debt taken. [Higher the _____ → Higher the _____]

F.R. is measured by _____

COMBINED RISK of co. is measured by _____

Thus, in other words, "Leverage" in FM means-
a) use of _____ to enhance the _____ of company [_____]
&
b) Use of _____ to enhance _____ [_____]

HOW TO GAIN _____ WITH _____ ?

HOW TO AVOID?

BUSINESS RISK

- Make operations & keep fixed cost

But, if we want to ↓ of our co., then we NEED TO incur fixed exp. & take B.R.

FINANCIAL RISK

- Take Debt

But, if we want to take the benefit of ↑, in order to enhance EPS, then we will have to take Debt.

---

* EXAMPLE

INCOME STATEMENT

Particulars	Amt (₹)	Change	Amt (₹)
Sales		+20%	
Less: Variable cost [30% of Sales]			
Contribution			
Less: Fixed cost			
Op. Profit [EBIT]			
Less: Interest			
EBT			
Less: Tax [40%]			
EAT [= EPES assuming no PSC]			
÷ No. of Eq. Sh.			
EPS			

DOL =

DFL =

DCL =

---

* FORMULAS OF LEVERAGES

1) OPERATING LEVERAGE

DOL means the tendency of to change disproportionately with a change in

OR

DOL =

DOL =

Here, instead of % Δ Sales we can also use

2) FINANCIAL LEVERAGE

DFL means the tendency of " " to change disproportionately with a change in

OR

DFL =

DFL =

Note: If Pref. Div. is given in Q^n,

DFL =

Here, instead of % Δ EPS we can also use

3) COMBINED LEVERAGE

DCL means the tendency of " " to change disproportionately with a change in .

OR

DCL =

DCL =

Here, % Δ Sales = Δ

% Δ EPS =

* FURTHER POINTS RELATED TO DOL

- **Derivation of Formula** [No Qn in Exam]

$$DOL = \frac{\%\,\Delta EBIT}{\%\,\Delta Sales} = \frac{\frac{\Delta EBIT}{EBIT} \times 100}{\frac{\Delta Sales}{Sales} \times 100}$$

$$= \frac{\Delta[Q(S-V) - F]}{Q(S-V) - F} \div \frac{\Delta Q}{Q}$$

$$= \frac{\Delta[Q(S-V)]}{Q(S-V) - F} \times \frac{Q}{\Delta Q} \quad \ldots\ldots\ldots [\Delta F = 0]$$

$$= \frac{\Delta Q \times (S-V)}{EBIT} \times \frac{Q}{\Delta Q} = \frac{Q \times (S-V)}{EBIT}$$

$$= \boxed{\frac{\text{Contribution}}{EBIT}}$$

- **What happens to DOL when value of FC changes?**

Particulars	Case I	Case II	Case III	Case IV	Case V
Contribution	10,000	10,000	10,000	10,000	10,000
(-) fixed cost	0	(2,000)	(6,000)	(10,000)	(15,000)
EBIT					
DOL = Contri / EBIT					

Observation:

As F.C. Rises → DOL → Op. Risk } Capacity to take more op. Risk

* Value of DOL

- DOL = 1 → F.C. → Op. Risk.
- DOL > 1 → F.C. is → Op. Risk
- DOL = ∞ → Contri → EBIT =
- DOL < 0 → FC → EBIT =

DOL can never be [between], because
- FC can never be , or
- EBIT can never be than Contribution.

---

* BREAK-EVEN (Sales) ANALYSIS & ITS RELATIONSHIP WITH DOL

- In FM Chp 5, we studied about "Financial BEP" which was the "Level of EBIT" where EPS = 0.

However, in this chapter we talk about "BEP in sales", which is "Level of Sales" where

[ ] or [ ] or [ ]

FORMULA of BEP Sales

in Units	in Amt	in %
[ ]	[ ]	[ ]

where,
P.V. Ratio [Profit Volume]
$= \frac{\text{Contribution}}{\text{Sales}} \times 100$

*Example

Particulars	Case I	Case II
Selling Price	₹20 p.u.	₹20 p.u.
(-) Variable cost p.u.	₹12 p.u.	₹12 p.u.
Contribution p.u.	₹8 p.u.	₹8 p.u.
Actual Qty sold	1000 units	1000 units
Total Contribution	₹8,000	₹8,000
Less: fixed cost	(₹2,000)	(₹5,000)
Op. Profit [EBIT]		
DOL = _____		
Breakeven Point		
• Sales In units =		
• Sales In Amount =		

[PV Ratio=]

Observation

- Higher the F.C. → the DOL → the BEP
  & vice versa.

---

* MARGIN OF SAFETY [MOS]

- Sales are called as MOS Sales.

In "Case I" above

In "Case II" above

X PV Ratio

→ Total Sales =

→ FORMULA OF MOS

MOS Sales (in %) =

MOS Sales (in %) = =

Example: S.P. = ₹20 ; V.C. p.u. = ₹6
No. of units sold = 1000 units
fixed cost = ₹10,000
Calculate → DOL, BEP Sales & MOS Sales.

Income Statement

Particulars	Amt (₹)
Sales	
(-) V.C.	
Contribution	
(-) F.C.	
EBIT	

i) y

ii) y a)

ii) b)

ii) c)

iii) a) MOS Sales

b) MOS Sales in Amt

CY MOS Sales (in units)

FORMULA of MOS Sales

in Units | in Amt | in %

* RELATIONSHIP BETWEEN MOS & DOL

→ As DOL rises → op. Risk → F.C. → BEP →

→ As DOL falls → op. Risk → F.C. → BEP →

→ When FC = 0
DOL = 1 → No op Risk → BEP = 0 →

→ When FC = Contribution [or EBIT = 0]
DOL = ∞ → Op. Risk (Highest Possible) → BEP = 100%

* OTHER POINTS

- If co. is earning Profit } Total Sales > BEP Sales } MOS →
- If co. is at No P/L } Total Sales = BEP Sales } MOS →
- If co. is at Loss } Total Sales < BEP Sales } MOS →

* FURTHER POINTS RELATED TO DFL

→ Use of [Eq - Debt] in capital structure in order to → is called financial leverage.

- What happens to DFL when value of Interest changes?

Particulars	Case I	Case II	Case III	Case IV	Case V
EBIT	10,000	10,000	10,000	10,000	10,000
(-) Interest	0	(2,000)	(6,000)	(10,000)	(15,000)
EBT					
DFL = EBIT / EBT					

Observation:
As Int. Rises → DFL rises → Fin. Risk Increases } Capacity to take more fin. Risk

* Value of DFL

- DFL = 1 → EBIT EBT → Int = 0
- DFL > 1 → EBIT EBT → Int < EBIT
- DFL = ∞ → EBIT EBT → Int = EBIT } EBT = 0 } Financial BEP
- DFL < 0 → EBIT EBT → Int. > EBIT

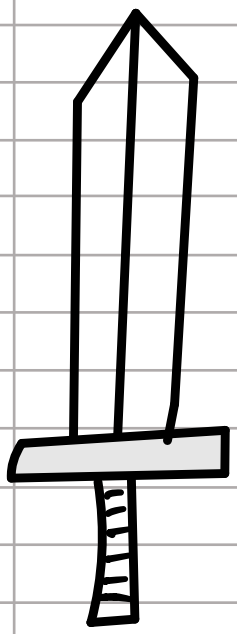
DFL can never be [between], because
- Interest can never be , or
- EBT can never be EBIT.

---

* TRADING ON EQUITY

When the amount of fixed cost funds (Eg Debt) is relatively equity capital, then it is said that firm is "Trading on Equity"

* FINANCIAL LEVERAGE → DOUBLE EDGED SWORD



Achi baat bhi hai

By using more Debt, Co. can

ROI > Interest (Kd)

• effect on ROE & EPS

Buri baat bhi hai.

By using more Debt, Co.'s

Interest (Kd) > ROI

• effect on ROE & EPS

* COMBINED ANALYSIS of DOL & DFL

DOL	DFL	Comments
Low	Low	Total Risk. Take advantage of Trading on Equity [T.O.E.]
High	High	Total Risk. Very Risky
High	Low	Total Risk. a good combination. EBIT → due to high F.C. take adv. of T.O.E.
Low	High	Total Risk. DOL → Low F.C. → High EBIT DFL → adv. of T.O.E High by Risk is Risk.

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