Eastwell proforma

a)

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ | £ | £ |
| Cash flow | 60,000 | 160,000 | 300,000 |
| All equity |  |  |  |
| Return on equity |  |  |  |
| 40% gearing |  |  |  |
| Debt interest |  |  |  |
| Earnings for OSH |  |  |  |
| Return on equity |  |  |  |
| 80% gearing |  |  |  |
| Debt interest |  |  |  |
| Earnings available to OSH |  |  |  |
| Return on equity |  |  |  |

b)

Standard deviation under each capital structure:

All equity:

|  |  |  |  |
| --- | --- | --- | --- |
| Return | Probability | Return x probability | (Ri - ‾R)₂ x p  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Expected return |  |  |  |
| Standard deviation |  |  |  |

40% gearing

|  |  |  |  |
| --- | --- | --- | --- |
| Return | Probability | Return x probability | (Ri - ‾R)₂ x p  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Expected return |  |  |  |
| Standard deviation |  |  |  |

80% Gearing

|  |  |  |  |
| --- | --- | --- | --- |
| Return | Probability | Return x probability | (Ri - ‾R)₂ x p  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Expected return |  |  |  |
| Standard deviation |  |  |  |

c)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Gearing | Expected return | Standard deviation | Business risk | Financial risk |
| All equity |  |  |  |  |
| 40% |  |  |  |  |
| 80% |  |  |  |  |

Definition Business risk:

Definition financial risk:

d)