



Management Accounting

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Practical Class #15

Agenda

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Exercise 47

Few Hours and Many Orders
Company

02

Theoretical Recap

Operating Leverage

03

EXERCISE 46

Armazéns Populares

01

Exercise 47

Few Hours and Many Orders Company

02

Theoretical Recap

Operating Leverage

Operating Leverage

Measures how sensitive profit is to a change in the volume of sales.

- A **high operating leverage** means the company is using a lot of fixed costs
- High levels of operating leverage lead to **higher risk arising from highly volatile profits** but the increase in risk also provides the potential for higher profit levels when sales are expanding.

$$\text{Degree of Operating Leverage} = \frac{\text{Contribution Margin}}{\text{Operating Profit}}$$

Example: CM = 50 000€, Operating Profit = 10 000€

- Operating Leverage = 50 000 / 10 000 = 5
- If the operating leverage is 5, then a **6% increase in sales** would translate into a **30% increase in net operating profit**: Impact on profit: $5 \times 0.06 = 0.3 = 30\%$

03

Exercise 46

Armazéns Populares