**P12–19 EBIT–EPS and capital structure** Data-Check is considering two capital structures.

The key information is shown in the following table. Assume a 40% tax rate.

**Use $50,000 and $60,000 for the two EBIT numbers.**

**Source of capital Structure A Structure B**

Long-term debt $100,000 at 16% coupon rate $200,000 at 17% coupon rate

Common stock 4,000 shares 2,000 shares

**a.** Calculate two *EBIT–EPS coordinates* for each of the structures by selecting any two EBIT values and finding their associated EPS values.

**b.** Plot the two capital structures on a set of EBIT–EPS axes.

**c.** Indicate over what EBIT range, if any, each structure is preferred.

**d.** Discuss the leverage and risk aspects of each structure.

**e.** If the firm is fairly certain that its EBIT will exceed $75,000, which structure would you recommend? Why?