Q-1.

Solution: B.

The operating breakeven point is: $\frac{\text{Fixed costs}}{\text{Contribution margin}} = \frac{\$12{,}000}{\$12} = 1{,}000$

C is incorrect because the numerator is ($12,000 + $3,000) making it the breakeven quantity and not the operating breakeven quantity.

A is incorrect because the numerator is ($12,000 + $3,000 + $2,000) = 1,417.

Q-2.

Solution: B.

$$\text{Operating breakeven units} = \frac{\$1290 \text{ million}}{(\$3{,}529\text{-}\$1{,}500)} = 635{,}781.173 \text{ units}$$

$$\text{Operating breakeven sales} = \$3{,}529 \times 635{,}781.173 \text{ units} = \$2{,}243{,}671{,}760$$

$$\text{Total breakeven} = \frac{\$1290 \text{ million} + \$410 \text{ million}}{\$3{,}529\text{-}\$1{,}500} = 837{,}851.1582 \text{ units}$$

$$\text{Breakeven sales} = \$3{,}529 \times 837{,}851.1582 \text{ units} = \$2{,}956{,}776{,}737$$

Q-3.

Solution: C.

The change of DFL from 1.2 to 1.3 means an increase of interest expense, but the change of interest does not affect operating breakeven point.

Q-4.

Solution: B.

A “pull” on liquidity occurs when disbursements are made too quickly (e.g., current liabilities are paid instead of being held or when credit availability is reduced or limited). A “drag” on liquidity occurs when receipts lag (i.e., non-cash current assets do not convert to cash quickly). Consequently, a reduction in a credit line is a “pull” on liquidity.

Q-5.

Solution: C.

The cost of trade credit if paid on day = $(1+2/98)^{365/35} - 1 = 23.45\%$