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Solutions To Chapter 1 Problems

Chapter 12 Leverage and Capital Structure

■ Solution to Problems

P12.1. LG 1: Break-even Point-Algebraic

Basic:

$$Q = \frac{FC}{(P - VC)}$$

$$Q = \frac{\$12,350}{(\$24.95 - \$13.45)} = 1,300$$

P12.2. LG 1: Break-even Computations-Algebraic

Basic:

$$(a) Q = \frac{FC}{(P - VC)}$$

$$\text{Firm F: } Q = \frac{\$45,000}{(\$18.00 - \$6.75)} = 4,000 \text{ units}$$

$$\text{Firm G: } Q = \frac{\$30,000}{(\$21.00 - \$13.50)} = 4,000 \text{ units}$$

$$\text{Firm H: } Q = \frac{\$90,000}{(\$20.00 - \$12.00)} = 4,500 \text{ units}$$

$$(b) \text{ Firm least risky to most risky: F and G are of equal risk, then H. It is important to recognize that operating leverage is only one measure of risk.}$$

P12.3. LG 1: Break-even Point-Algebraic and Graphical

Intermediate:

$$(a) Q = FC / (P - VC)$$

$$Q = \$73,000 / (\$129 - \$80)$$

$$Q = 11,000 \text{ units}$$