

Name _____

Principles of Financial and Managerial Accounting II
Break-Even Analysis as a Decision Tool

Totsy Tool Company operated at full capacity during the past year. Fixed costs and expenses were \$275,000, variable costs and expenses were 45% of sales, and sales totaled \$600,000. Management proposed to expand plant capacity by 50%, which will increase fixed costs and expenses by \$110,000 yearly but will not affect the ratio of variable costs and expenses to sales.

(a) Compute the operating income under present conditions.

(b) Compute the break-even point under present and proposed conditions.

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(c) Compute the sales necessary under proposed conditions to reach current operating income.

(d) Compute the maximum operating income under the proposed conditions.