20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Break Even Point is the level of business activity where total revenue equals total cost and profit is zero.

TRUE

This is the standard definition of BEP used in cost and management accounting.

Question 2

BEP in units is calculated as Fixed Cost divided by Contribution per unit.

TRUE

Dividing fixed cost by contribution per unit gives the number of units needed to break even.

Question 3

BEP in sales value is calculated by multiplying Fixed Cost by the P/V Ratio.

FALSE

BEP in sales value is Fixed Cost divided by the P/V Ratio, not multiplied by it.

Question 4

Contribution is calculated as Selling Price minus Variable Cost.

TRUE

Contribution is the surplus from each unit after covering its own variable cost.

Question 5

An increase in fixed cost decreases the break even point.

FALSE

An increase in fixed cost raises the break even point because more units are needed to cover it.

Question 6

A higher P/V ratio results in a lower break even point.

TRUE

Since BEP equals Fixed Cost divided by P/V ratio, a larger ratio means fewer sales are needed to break even.

Question 7

Margin of Safety is the gap between Fixed Cost and Variable Cost.

FALSE

Margin of Safety is Actual Sales minus Break Even Sales, not a comparison of costs.

Question 8

Fixed costs such as branch rent and staff salaries remain constant regardless of business volume.

TRUE

Fixed costs must be paid even if a branch conducts no business at all.

Question 9

Variable costs such as payment gateway charges rise and fall with transaction volume.

TRUE

Variable costs move directly with the level of business activity, unlike fixed costs.

Question 10

Depreciation is treated as a variable cost in break even point analysis.

FALSE

Depreciation is a non-cash fixed cost and is excluded specifically when computing the cash break even point.

Question 11

The Cash Break Even Point excludes non-cash fixed costs like depreciation.

TRUE

Removing depreciation gives a lower break even figure that is useful for judging liquidity.

Question 12

Composite BEP for a bank offering multiple products uses a weighted average contribution based on the sales mix.

TRUE

This reflects real branches, which almost always sell more than one product simultaneously.

Question 13

Below the break even point, a bank branch or product earns a profit.

FALSE

Below the break even point the business is in the loss zone; profit begins only above it.

Question 14

Above the break even point, every additional loan or transaction adds directly to profit.

TRUE

Once fixed costs are fully recovered at BEP, extra contribution flows straight to the bottom line.

Question 15

The P/V ratio should be used as a whole percentage figure, not a fraction, when dividing in the BEP formula.

FALSE

A P/V ratio given as a percentage such as 25 percent must be converted to a fraction like 0.25 before dividing.

Question 16

In project finance, a borrower operating well above its break even point is generally viewed as a lower credit risk.

TRUE

Operating comfortably above BEP indicates the project can more safely service and repay its loan.

Question 17

The angle of incidence on a break even chart has no relationship with the rate of profit earned after BEP.

FALSE

A larger angle of incidence actually signals a higher rate of profit earning once BEP is crossed.

Question 18

BEP analysis helps banks judge whether a new digital banking product will recover its investment.

TRUE

Banks use BEP to assess cost recovery for mobile apps, fintech integrations and IT infrastructure spend.

Question 19

When loans cannot be fractional, the required break even number of loans should always be rounded down.

FALSE

The break even number should be rounded up, since the business must fully cross the break even point to avoid a loss.

Question 20

BEP is a recurring topic in IIBF JAIIB and CAIIB exams, appearing as concept questions, numericals and case studies.

TRUE

Its predictable, formula-based nature makes it one of the more scorable topics across bank promotion exams.