COST-VOLUME -PROFIT ANALYSIS

The cost-volume-profit analysis is a method of cost & management accounting that analyses the impact of cost & volume on the profit of an organisation. It is used to determine how changes in costs and volume affect a company's operating income and net income. It is one of the most widely tools in management accounting to help managers make better decisions. For the purpose of cost-volume-profit analysis, costs are divided into: Fixed & Variable.

The C-V-P analysis is based on certain assumptions:
1. The sales price per unit is constant.
2. The variable cost per unit is fixed.
3. Total fixed costs are constant.
4. The sales mix is constant.
5. There is no semi-variable or semi-fixed costs.

OBJECTIVES OF C-V-P ANALYSIS

1.To help in determining the maximum sales volume required to avoid losses.
2. To help to determine the sales volume at which the profit goal of the company will be achieved.
3. To help management to find out the most profitable combination of cost & volume.

ADVANTAGES OF C-V-P ANALYSIS

1.It helps in finding out the Break-even Point i.e. the point where there is no profit, no loss.
2. It helps in evaluation of Investment proposals.
3. It provides base for planning and marketing efforts.
4. It provides base for budgeting.

LIMITATIONS OF C-V-P ANALYSIS

1. It is difficult to divide the total costs into fixed and variable.
2. Fixed costs are unlikely to stay constant.
3. It is impractical to assume a constant sales mix.
4. It does not consider other factors that affect costs viz. inflation, efficiency, capacity etc.
