Cost-Volume-Profit

Accounting & Finance

The model relating cost, volume and profit, and where it breaks.

Assumptions and their limits.

Assumes

- Selling price constant at all volumes
- Variable cost per unit constant
- Fixed costs constant in the range
- Sales mix constant for multiple products
- Production equals sales

Breaks when

- Discounts are needed to sell more
- Bulk buying reduces unit cost
- Volume forces a step in fixed cost
- Mix shifts toward lower-margin lines

> The relevant range is where the assumptions hold. Extrapolating a CVP chart beyond it produces confident nonsense.