

Assumption of Breakdown Analysis

1. Sell everything you produce. It ignores the possibility of opening and closing stocks. The analysis holds true if stock levels remain constant or do not change significantly.
2. The selling price remains constant over the entire range. (to expand Output, companies often decrease selling price).
3. Variable costs remain constant over the entire range. This in practice May not hold as:
 - * Sometimes labour is remunerated at 'time and a half' (Overtime) to achieve the desired production level.
 - * Companies can earn bulk discounts on materials required to meet expanding production needs.
4. All costs can be classified as being either fixed or variable.

Limitations of Breakdown Analysis

1. In practice there are opening and closing stocks.
2. The C.V.P. relationships are only true for an individual product or a specific mix of products.
3. To achieve high sales volume, companies reduce their selling price (Competition).
4. Variable costs can change where companies can earn bulk discounts on materials required to meet expanding production needs or where labour is remunerated at 'Time and a half' to achieve required production level.
5. The analysis does not take into account Capital Employed, an important Factor in relation to expansion.

Uses

- For presenting a simplified picture of cost-volume-profit relationships.
- Provides guidance to Management in decision making in short term.
- The limitations do not apply over a 'relevant range' of activity.