B-18.09

Examine the following and place check marks beside the five true assumptions regarding cost/volume/profit analysis:

√ CVP assumes costs can be segregated into fixed and variable portions.

CVP assumes multiple-product firms will tie sales commissions to contribution margins rather than the sales price.

CVP assumes multiple-product firms meet the expected product mix ratios.

CVP assumes that gross margins will change as costs increase under "cost plus" agreements.

CVP assumes linearity of costs is preserved over a relevant range.

CVP assumes that it is impossible to increase profits without also increasing gross margin.

CVP assumes that per unit fixed costs will not change with volume.

CVP assumes inventory levels are fairly constant, with the number of units produced equaling the number of units sold.

CVP assumes that the contribution margin can be determined by subtracting per unit fixed costs from per unit sales.

CVP assumes revenues are constant per unit.