Cost-volume-profit analysis for new startups

Finance

CVP Analysis is even recognized as the cost-volume-profit analysis, which is an accounting technique that helps entrepreneurs in making the decision regarding their businesses (Kinney, 2013). The analysis helps entrepreneurs in identifying the breakeven point or the point at which their sales and expenditure will be equal to each other. This, in turn, helps a new startup in identifying the number of units it should sell in order to meet the minimum expenditure and investment it had made in the business. It will help them in identifying the time period around which the business might start making profits. Identifying the time period when the business might start making a profit is essential for new business as a new business does not start making profits as soon as it starts functioning. Identifying the time period helps businesses remain focused on and change their strategies accordingly to meet the profitability timeline. The analysis even provides information regarding the number of goods and services that will be needed to produce goods and services. This can be used by new entrepreneurs in reducing their future input costs of production. This even helps the entrepreneur in identifying how certain changes in the variable or the fixed cost can reduce or increase the cost of production of various goods as well as services.