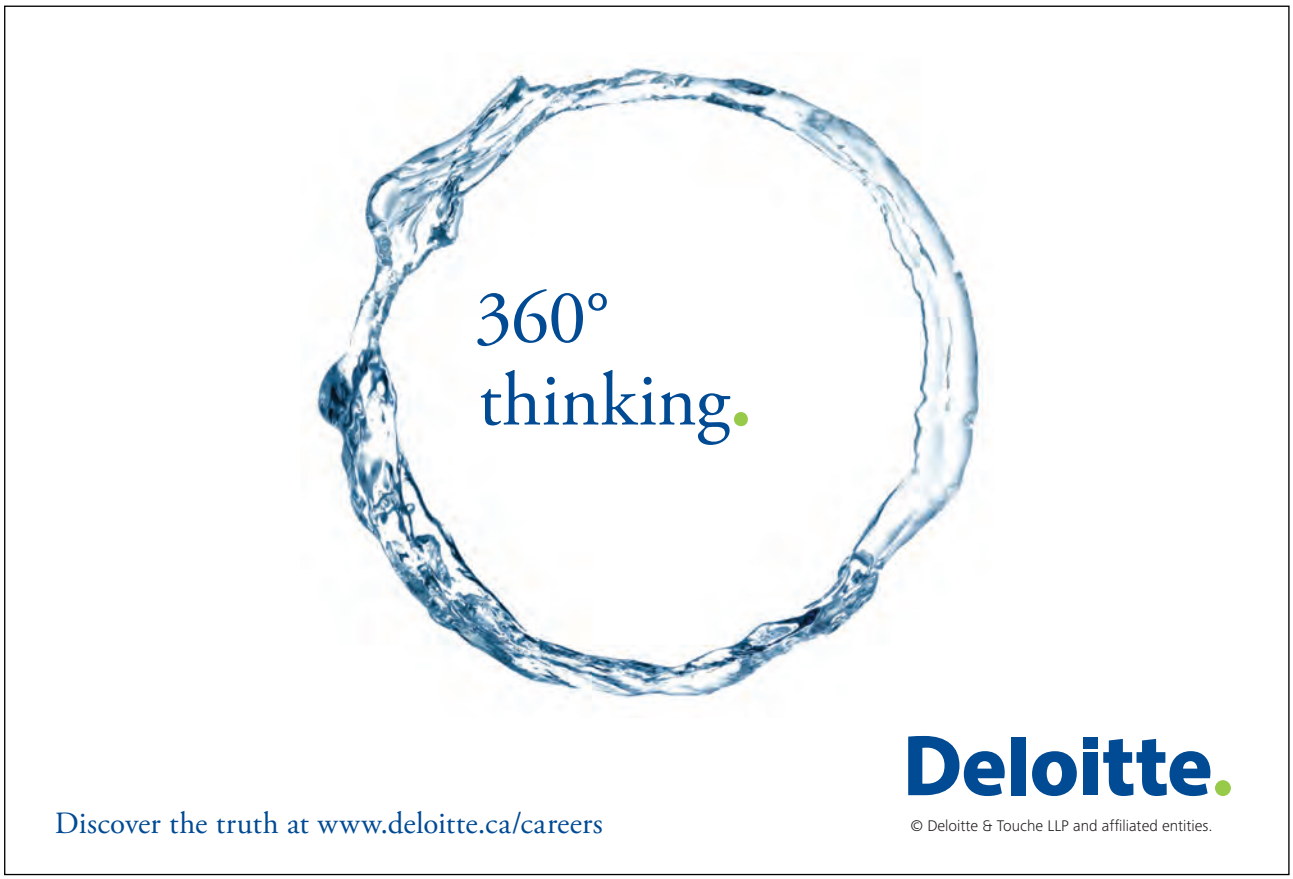
3 Restrictions

Beside its useful applications, break-even analysis is subject to some restrictions. In every single estimation of the break-even level, we use a certain value to the variable "selling price". Therefore, if we want to find out the level that produces profits under different selling prices, many calculations and diagrams are required.

A second drawback has to do with the variable "total costs", since in practice these costs are difficult to calculate due to the fact that there are many things that can go wrong and mistakes that can occur in production. During estimations, if sales increase and output reaches a level that is marginally covered by current investments in fixed assets, labor cost will be increased (recruiting of new employees or increase in overtime costs) and consequently variable costs will grow. After a point, new investments in fixed assets must be realized too. The above affect the production and change both the level and the inclination of the total costs' line in B.E.P. graph.

Another affect that is not algebraically measured, is that changes in costs may alter products' quality. Also, the break-even point is not easily estimated in the "real world", because there is no in mathematical calculation that allows for the "competitive environment". This refers to the fact that the competition may cause prices to drop or increase according to demand.



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