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A STUDY ON COST VOLUME PROFIT ANALYSIS

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ABSTRACT :

Current conditions for the successful operation of enterprises are characterized by the globalization of the economic sphere, the accelerated pace of scientific and technical progress, and the strengthening of innovative trends. Therefore, any institution, when building its own strategy, first of all strives to provide conditions for long-term and promising activity, which can be achieved only by creating a strong competitive advantage. In particular, a recognized way to win the competition is cost leadership. Therefore, the search for a rational tool for the organization of the cost management system is currently an urgent issue. In addition, the competiveness of modern enterprises depends on the model of financial flow management. Advantage and leadership in the market goes to organizations that minimize business risks by calculating losses with constant and variable components.

KEY WORDS : sales volume, selling price, costs affect a company's profit, break-even analysis.

INTRODUCTION:

Cost-Volume-Profit (CVP) analysis is a cost accounting method used to analyze the relationship between cost, volume, and profit. It helps to determine the impact of cost, volume, and pricing changes on a company’s profitability. Companies use it to determine the breakeven point, the point at which total revenue equals total costs, and to project how changes in costs, volumes, and prices will affect a company’s future profit. This information is useful for pricing, production, and cost control decisions.

OBJECTIVES FOR THE STUDY

- To study the cost volume profit analysis and its impact
- To find out the break-even point.
- To study on CVP analysis towards the Larsen and Toubro.

NEED FOR THE STUDY:

CVP analysis helps managers make informed decisions regarding pricing, production levels, product mix, and cost control measures. By understanding how changes in volume, costs, and prices affect profitability, managers can optimize their business operations and maximize profits. CVP analysis enables businesses to develop profit plans and set targets for sales volume, costs, and profits. It helps identify the level of sales needed to achieve desired profit levels and provides insights into the feasibility of business goals.

SCOPE FOR THE STUDY:

Profit Planning: CVP analysis helps businesses set profit targets and develop plans to achieve them. By understanding the relationship between sales volume, costs, and profits, managers can establish realistic goals and identify strategies to reach them.

Pricing Decisions: CVP analysis provides insights into how changes in selling prices impact profitability. Businesses can use this information to set optimal pricing strategies that maximize revenue and profitability while remaining competitive in the market.

Product Mix Decisions: CVP analysis helps businesses evaluate the profitability of different product lines or services. By comparing the contribution margins of various products, managers can determine the optimal product mix that maximizes overall profitability.

REVIEW OF LITERATURE

- According to Drury (2000), the CVP analysis determines performance, measurement, control, stock evaluating, costs that need to be planned for production or service, the creating sales prices etc.2 The definition of the CVP analysis according to the Accounting Institute's rules in the official terminology is "Calculating the predetermined cost as sum, should be under the special conditions of work in the enterprise (business environment).3 According to Hilton R.W 4according to mathematical approach, CVP shows the relationship between revenue and cost.
- According to Gautier Et al 2001 the CVP analysis shows the relationship between sales prices, production volume, costs, expenses and income, target profit.
- Cost- volume- profit analysis according to Hilton R.W (2002) is a mathematical representation of the economics of producing a product. The relationship between a products revenue and cost function expressed within the cost-volume-profit analysisare used to evaluate the financial implication of a wide range of strategic and operational decisions.

RESEARCH METHOLODOGY:

Research Methodology is a systematic way to solve a research problem. It includes various steps that are generally adopted by a researcher in studying the problem along with the logic behind them.
The study depends mainly on the secondary data namely the annual reports of the company. two years annual reports had been collected from the company. Data had also been collected from text books, journals, newspapers, magazines and internet.

RESEARCH DESIGN:

“A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure”. In fact, the research design is the conceptual structure with in which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data, the research design utilized in this study is analytical research.

***TOOLS FOR ANALYSIS*:**

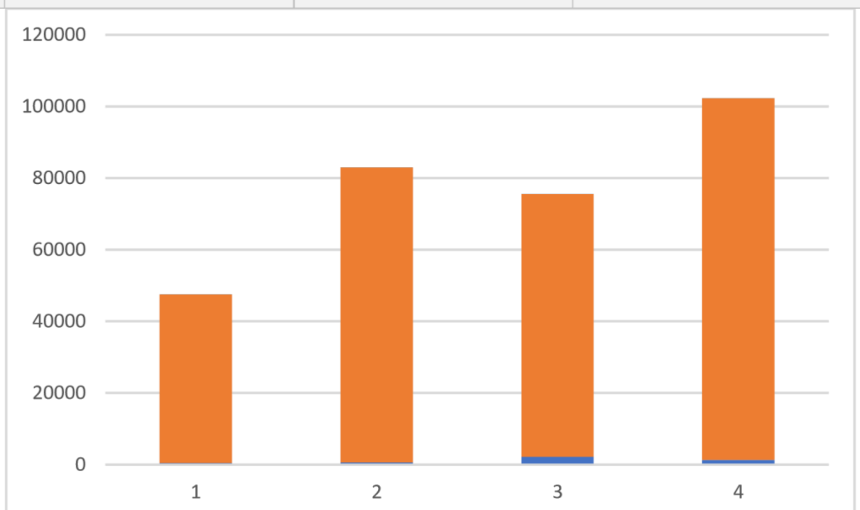
CONTRIBUTION PROFIT VOLUME RATIO BREAKEVEN ANALYSIS MARGIN OF SAFETY
MARGINAL of SAFETY RATIO

DATA ANALYSIS AND INTERPRETATION

CONTRIBUTION (C)

Contribution(C) = Sales(S) – Variable Cost (VC)

S.no	Year	sales	variable cost	contribution
1	2018-2019	47,120	39,218	7,902
2	2019-2020	82,383	78,832	3,551
3	2020-2021	73,315	69,494	3,821
4	2021-2022	10,100	94,871	6,129
5	2022-2023	71,081	57,563	13,581



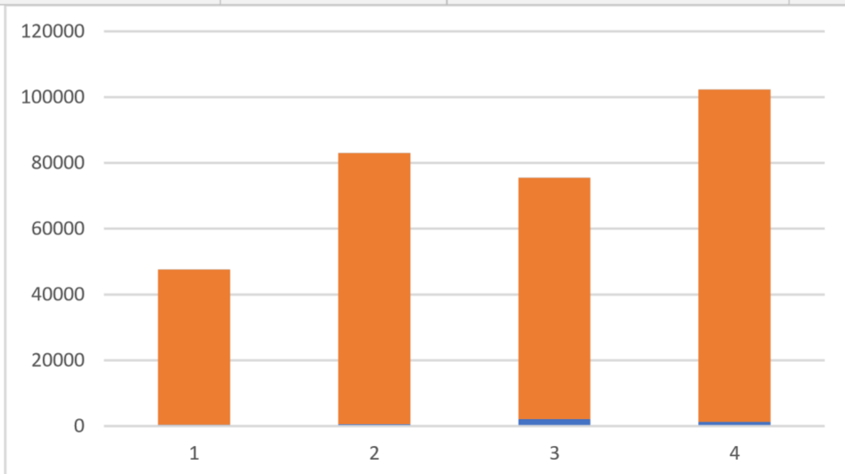
INFERENCE:

In the year of 2018-2019 the contribution is 7902 , whereas compared with present year 2022-2023 contribution is 6129 decreasing.

BREAKEVEN ANALYSIS

Break-even analysis is that the most generally used technique of price volume profit analysis. It establishes the relationship between cost and profit with sales volume. It is a method of presenting and studying the interrelationship among cost,

S.no	Year	Fixed cost	Selling – variable cost	Break even point
1	2018-2019	48,632	7,902	6.20
2	2019-2020	85,191	3,551	23.90
3	2020-2021	76,751	3,821	20.10
4	2021-2022	1,04,613	6,129	17.60
5	2022-2023	73,138	13,518	5.40



INFERENCE:

In the year of 2019-2020 the break even analysis is 23.90 whereas compared with the present year 2022-2023 the break even analysis 5.40 decreasing

FINDINGS:

- The margin of safety ratio is 0.89 in the year of 2019 and it has decreased to

0.74 in the year of 2020

- The contribution is 7902 in the year of 2019 and it has decreased to 3551 in the year of 2020.
- The pv ratio is 16.76 in the year of 2019 and it has decreased to 4.30 in the year of 2020.
- The break-even point is 6.20 in the year of 2019 and it has increased to 23.90 in the year of 2020.
- The margin of safety is 407 in the year of 2019 and it has increased to 609 in the year of 2020.

SUGGESTIONS

- The margin of safety ratio has decreased from 0.89 in 2019 to 0.74 in 2020. If this trend continues over the past five years, it might indicate a declining trend in profitability relative to risk.
- The contribution has decreased significantly from 7902 in 2019 to 3551 in 2020. This suggests a decline in the company's ability to cover fixed costs and generate profits from each unit sold.
- The PV ratio has also seen a substantial decrease from 16.76 in 2019 to 4.30 in 2020. This indicates a decline in the proportion of each sale contributing to covering fixed costs and generating profits

CONCLUSION

Therefore I conclude by saying the company’s profit ability and efficiency as got decreased and the risk factor as increased based on the analysis of balance sheet for the past five years.

The CVP analysis conducted for the project serves as a valuable tool for financial management and decision-making, providing actionable insights to enhance the company's performance and competitiveness in the marketplace.

However, to show the better business result, the management may concentrate on increases of sales, sales level before changing credit policy variable, credit policy helps to retained its old customer and create new customer by coming them away from competitors. Better co-ordination between each department is very important, like sales, production, purchase because it helps to avoid the credit risk and it decrease the debt collection days.