

A STUDY ON COST VOLUME PROFIT ANALYSIS

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ABSTRACT

In this article, the traditional cost volume profit analysis is useful in the early stages of planning. It is the systematic method to analyse about the effects of changes in an organizations cost, revenue and profit. The cost volume profit analysis is used to determine the operating income after taxes, revenue, profit and cash flow of firm's operations. This article has taken four years of financial data from the period of 2015-2016 to 2018-2019 in the form of secondary data. It is also helpful in finding a products break even sales. The study is to understand about the sales, profit and operating profit of Sri Senthil Crusher.

Key words: Break-even point, Cost, Sales

INTRODUCTION

Cost volume profit analysis is a systematic method of analysing the effects of changes in an organization's volume of activity through costs, revenue and profit. The cost volume profit analysis is used to calculate the correct value of profit and sales during a particular year of an organization. The cost volume profit analysis classifies that all the costs are either fixed or variable. Cost benefit is regarded as lifeblood of a business. The cost benefit may also have two concepts such as gross concept and net concept. The gross cost benefit simply called as cost benefit, it refers to the firm's investment in current assets. The net cost benefit is the differences between firm's current assets and current liabilities.

The cost volume profit analysis has several assumptions such as sales price per unit is constant and variable cost per unit is constant. It is also used to determine the operating income and net income of the company. It is in the factors of selling price per unit and sales amount. Total cost which may be in any form that is fixed cost or variable cost.

Cost Benefit

The cost benefit is commonly defined as the difference between current assets and current liabilities. It is the exact amount of varying from industry to industry. The cost benefit requirements are also determined by the nature of business cycle. The cost benefits are also classified into two types such as permanent cost benefit and variable cost benefit

OBJECTIVES OF THE STUDY

In this article the following objectives has framed to know about the correct values.

1. To find out the break-even point for the blue metals of Sri Senthil Crusher.
2. To analyse the profit volume of Sri Senthil Crusher.

LITERATURE REVIEW

Waller et Fawcett (2012) conducted a study on “deployment decision of a new distribution”. In this study the costs are associated with distribution process. The study conducts the inventory costs and labour costs and other factors may change over the period. The findings for the difficulties for the transportation frequencies are limited and also it proves that economic way is influenced by different variables in different intensity.

Bornia (2010) conducted a study on “calculation to contribution margin”. The study conducts the shutdown point concept is mainly true for the analysis of decision to a product line. He has performed clearly about the primary reason of clearable costs on the contribution margin.

Abdullahi (2015) conducted a study on “changes in costs”. The study shows that the cost volume profit analysis of both fixed and variable. It has been known by the price and sales volume of the company’s profit.

RESEARCH METHODOLOGY

The study has taken in Sri Senthil Crusher, Pudukkottai, Tamilnadu to analyse the cost volume profit analysis at different levels. The study is based on secondary source of data. It has been mainly obtained in the form of annual reports, records and books of Sri Senthil Crusher. For this, four years data is collected from the period of 2015-2016 to 2018-2019 from the company balance sheet, profit and loss account of the year.

RESULTS AND FINDINGS

Break even analysis and ratio analysis tools are used to know the profitability position of the company (Sri Senthil Crusher)

1. Break even analysis

The break even analysis is used to know the correct financial position to maximize the profit. In a specific way it has the study of interrelationship between costs, volume and profit. The business is said to be breakeven when the total revenue and total costs are equal and also it should have no profit no loss at the end of the business. The break even sales is calculated as fixed cost divided by total contribution.

Total fixed cost

$$\text{BREAK EVEN POINT} = \frac{\text{Total fixed cost}}{\text{Total contribution}} \times 100$$

Total contribution

TABLE – 1 BREAK EVEN POINT

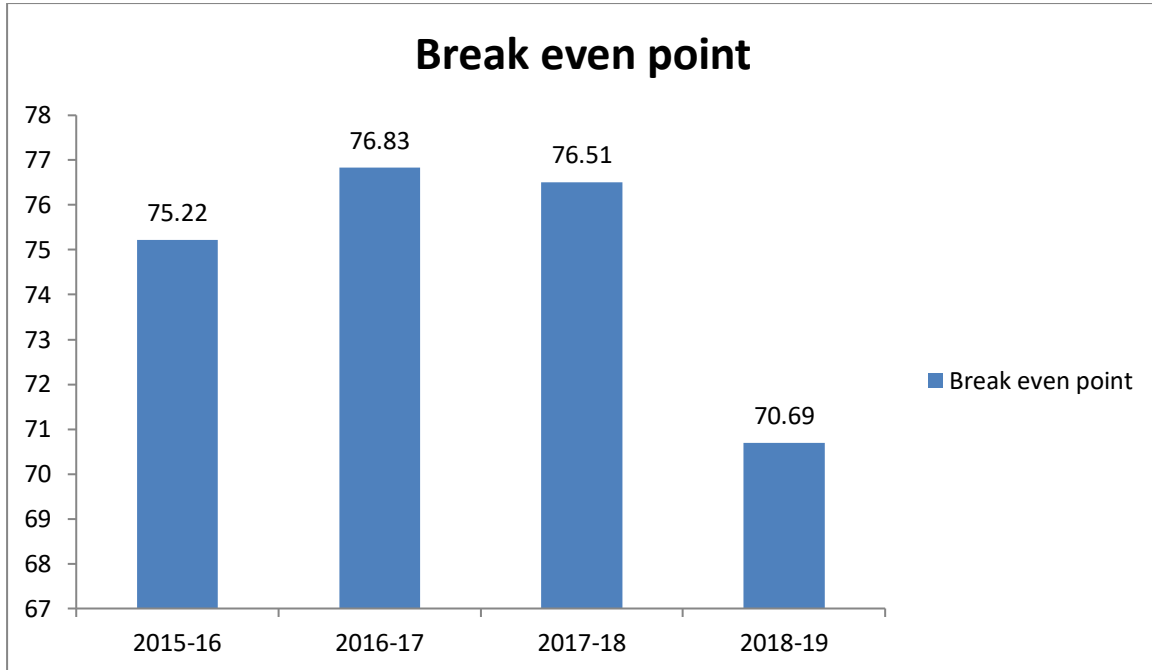
YEAR	FIXED COST	TOTAL CONTRIBUTION	BREAK EVEN POINT
2015-16	42650000	56700000	75.22
2016-17	51630000	67200000	76.83
2017-18	25632000	33500000	76.51
2018-19	32660000	46200000	70.69

INTERPRETATION

Break-even point table shows that the analysis in the year 2015-16 to 2018-19 is satisfactory levels. During the year of 2015-16 it has the lowest value of 75.22 of break-even point and during the year of 2016-17 it was slightly increased to 76.83 of break-even point. Therefore

every year total costs are based on the volume of sales. The chart - 1 shows a clear picture about the cost and volume of sales from 2015-16 to 2018-19.

CHART -1 BREAK-EVEN POINT



2. Profit volume ratio(PV Ratio)

The Profit volume ratio indicates that to profitability position of the year and the ratio is said to be the comparison of changes in profit and changes in sales. The profit volume ratio also used to identify the increasing profit and the levels of production in the company. The profit volume ratio is also be called as contribution ratio or sales ratio. The profit volume ratio is calculated by Sales minus Variable cost divided by sales.

Sales – variable cost

PROFIT VOLUME RATIO = $\frac{\text{Sales} - \text{variable cost}}{\text{Sales}}$ X100

Sales

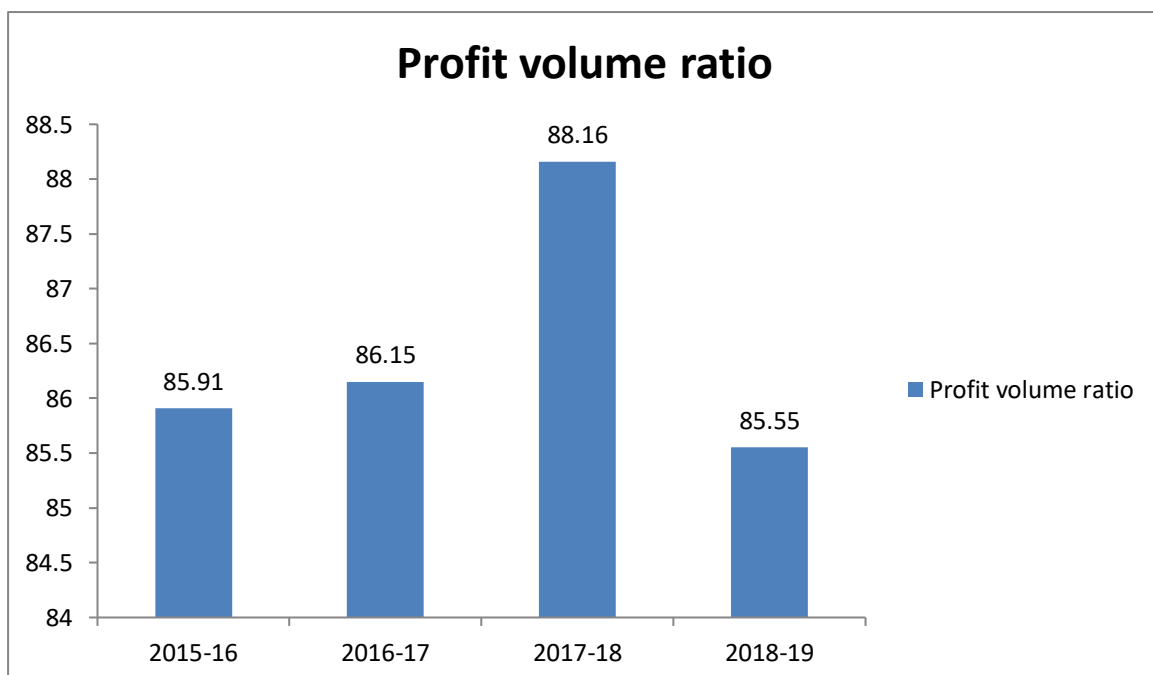
TABLE – 2 PROFIT VOLUME RATIO

YEAR	CONTRIBUTION	SALES	PROFIT VOLUME RATIO
2015-16	56700000	66000000	85.91
2016-17	67200000	78000000	86.15
2017-18	33500000	38000000	88.16
2018-19	46200000	54000000	85.55

INTERPRETATION

The profit volume ratio table shows that the analysis of 2015-16 it has the highest value of 85.91 and during the year of 2016-17 it was slightly decreased to 86.15. The profit volume ratio of Sri Senthil Crusher has a decreasing trend during the year of 2017-18 and 2018-19 but during the 2015 -16 it reaches the highest position.

CHART – 2 PROFIT VOLUME RATIO



FINDINGS

- In the break-even point the values are calculated by the relationship towards the revenue and costs. The break-even point during the year of 2015-16, 2017-18 and 2018-19 the values are not so high but in the year of 2016-17 it reaches the highest value. Therefore the break-even point in the table is satisfactory but also the company should focus on the sales volume to reduce the loss or risk in the company.
- In the profit volume ratio the values are calculated to identify the correct profit value and the relationship of contribution and sales. The profit volume ratio high during the year of 2015-16 and low during the year of 2016-17 to 2018-19. The company should focus on the profit to attain targets during the upcoming year. It shows the selling price is increased as well as the variable cost is reduced by Sri Senthil Crusher.

CONCLUSION

In this study an analysis of cost volume profit of Sri Senthil Crusher was done. The cost volume profit analyses are essential method for identifying the actual profit and sales value of the company. In this study the impact of variable, fixed costs and unit of production are used. The study shows that the break- even point and profit volume ratio during the year of 2015 - 2016 to 2018- 2019 of Sri Senthil Crusher. It also allows the sales and operations to achieve the targeted income of the company.

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