ISSN: 0474-9030
Vol-68-Issue-44-February-2020

# A Study On Cost Volume Profit Analysis Of Ambika Cotton Mills Ltd

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## ABSTRACT

This study is about the cost volume profit analysis of Ambika Cotton Mills Ltdand it is fully based on the secondary data taken from the websites, journals, etc. The importance of this analysis is to know about the behavior of profits in relation to the changes in cost and volume. Cost volume profit analysis determines the level of sales with the help of contribution, break-even point and profit volume ratio. The conclusion of this study shows a favorable impact as the sales volume of Ambika Cotton Mills Ltd gives an increasing trend.

Keywords:Contribution, Break-even point, P/V ratio, Break-even ratio

## INTRODUCTION

Profit worthiness of the firm depends upon the relationship between the cost, volume and profit elements. The main aspect which gives a foundation to the profit of the firm involves four. They are cost, market price, quantity of sales and quantity of production. Cost is highly influenced by the production volume. Production and sales have a direct relationship and impact on each other. So, when the market price has an impact on the sales volume due to the time factor, it hits the production factor. In turn when it hits the production, the volume of production shows an effect on the cost. Through this analysis, Ambika Cotton Mills Ltd can know their recent cost scenario and it tend to be useful to find out the probable positive decision making to the management.

 

ISSN: 0474-9030
Vol-68-Issue-44-February-2020

- Costisthecharge which has money value including in selling or producing any outcome or service.
- Volumeis the quantity of units sold or produced in the firm
- Profitis the amount of net revenue which arrives after the deduction of cost of production from the sales cost.

**STATEMENT OF THE PROBLEM**

The term CVP expresses the meaning of analyzing the volume of the activities through the means of cost for the better profit planning of the company Profit plays a vital role for each and every company for its existence in the market. The company's high sustainability in the business market is based on its profit-making strategy. When a company fails in making profit, the existence of such company comes to a critical situation. In order to realize the profit for the company, the elements of cost and profit fixation plays a significant role and this can be determined with the help of cost volume profit analysis. Every company faces situation of no profit no loss point to realize its profit. For this purpose, they should find out the break – even sales and its ratio of profit volume for better decision making.

**REVIEW OF LITERAURE**

B. Navaneetha and et al (2017) in their study 'an analysis of cost volume profit of Nestle Limited' tries to examine the relationship between changes in activity and changes in total sales revenue, cost and profit. It determines how many units of a product must be sold as to reach its break-even point. Cost Volume Profit allows to consider the effect on profits of various changes in operating costs and revenues in order to find out the sales volume required to achieve a specific profit level. The study concludes that the sales performance of the company is good and they should maintain the same in future.

Sunil Jauhar and et al (2012) in their study 'Cost benefit analysis of Rapid Manufacturing in Automotive Industries' deals with the application of rapid manufacturing techniques to save the time and cost of manufacturing a few critical components of automobiles. The aim is to reduce the lead time required for tooling for the conventional block-type investment casting process. Rapid prototyping is an ideal method

 

ISSN: 0474-9030
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when the components are complex in shape because it substantially comprises the time for developing prototypes, patterns and tooling. This method is even more promising on cost and time front. The study concludes that rapid prototyping has proved to be a cost-effective and time efficient approach for development of pattern making and a justifiable technology for Indian manufacturing industries.

**OBJECTIVES**

- To study about the performance of cost and profit of Ambika Cotton Mills Limited for five financial years.

**RESEARCH DESIGN**

This study is descriptive in nature and the period of the study is taken for five financial years from 2014-2015 to 2018-2019. The data extracted for this whole study is based on secondary resources from the websites of Ambika Cotton Mills Limited and from few online websites, journals, etc.

**DATA ANALYSIS AND INTERPRETATION**

**CONTRIBUTION ANALYSIS**

Contributionshows the basic approach of cost contributed to production. It is arrived as a result of deducting the market price from the variable costs of sales per unit.

**Contribution = Sales – Variable costs**

TABLE NO 1.1

CALCULATION OF CONTRIBUTION

(Rs. In Lakhs)

| YEAR | SALES (Rs.) | VARIABLE COST (Rs.) | CONTRIBUTION (Rs.) |
|---|---|---|---|
| 2014-2015 | 48373.76 | 33547.95 | 14825.81 |
| 2015-2016 | 48336.28 | 33188 | 15148.28 |
| 2016-2017 | 51594.33 | 36414 | 15180.33 |
| 2017-2018 | 56957.82 | 40676.39 | 16281.43 |
| 2018-2019 | 64450.09 | 45279.33 | 19170.76 |

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The contribution is highest (19170.76 rupees in lakhs) in the financial year 2018 – 2019 and lowest (14825.81 rupees in lakhs) in the financial year 2014 – 2015. This shows that the contribution is increasing year after year.

**BREAK-EVEN POINT**

Break - even point deals with the production level where the total revenue equals total expenses. Since the revenue equals expenses, the net income for the period will be zero. It generates the zero profit.

**Break-even point = (Fixed cost / Contribution) * Sales**

TABLE 1.2

CALCULATION OF BREAK-EVEN POINT

(Rs. In Lakhs)

| **YEAR** | **FIXED COST** (Rs.) | **CONTRIBUTION** (Rs.) | **SALES** (Rs.) | **BREAK-EVENPOINT** (Rs.) |
|---|---|---|---|---|
| 2014-2015 | 9658.8 | 14825.81 | 48373.76 | 31514.8 |
| 2015-2016 | 10324.53 | 15148.28 | 48336.28 | 32944.29 |
| 2016-2017 | 9324.29 | 15180.33 | 51594.33 | 31691.04 |
| 2017-2018 | 9931.44 | 16281.43 | 56957.82 | 34743.46 |
| 2018-2019 | 11737.79 | 19170.76 | 64450.09 | 39461.22 |

The break – even point is highest (39461.22 rupees in lakhs) in the financial year 2018-2019 and lowest (31514.8 rupees in lakhs) in the financial year 2014 – 2015. The break - even point doesn't show any specific trend.

**PROFIT VOLUME RATIO**

Profit volume ratio is the ratio of contribution to sales and it indicates the earned contribution with respect of one-rupee sales. It will be constant at all levels of activities

**P/V Ratio = (Contribution/Sales) *100**

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TABLE 1.3

CALCULATION OF P/V RATIO

(Rs. In Lakhs)

| YEAR | SALES (Rs.) | CONTRIBUTION (Rs.) | P/V RATIO (%) |
|---|---|---|---|
| 2014-2015 | 48373.76 | 14825.81 | 30.65 |
| 2015-2016 | 48336.28 | 15148.28 | 31.34 |
| 2016-2017 | 51594.33 | 15180.33 | 29.42 |
| 2017-2018 | 56957.82 | 16281.43 | 28.59 |
| 2018-2019 | 64450.09 | 19170.76 | 29.75 |

The profit volume ratio is highest (31.34%) in the financial year 2015 – 2016 and lowest (28.59%) in the financial year 2017 – 2018. The firm should concentrate on the stability for a better performance.

**BREAK EVEN RATIO**

Break even ratio compares the gross income to the total expenses. It expresses the relationship between actual sales and break - even sales.

**Break-Even Ratio = (Break even sales / Actual sales)* 100**

TABLE 1.4

CALCULATION OF BREAK-EVEN RATIO

(Rs. In Lakhs)

| YEAR | ACTUAL SALES (Rs.) | BREAK-EVENPOINT (Rs.) | BREAK-EVENRATIO (%) |
|---|---|---|---|
| 2014-2015 | 48373.76 | 31514.8 | 65.15 |
| 2015-2016 | 48336.28 | 32944.29 | 68.16 |
| 2016-2017 | 51594.33 | 30691.04 | 61.42 |
| 2017-2018 | 56957.82 | 34743.46 | 60.99 |
| 2018-2019 | 64450.09 | 39461.22 | 61.22 |

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The break – even ratio is highest (68.16%) in the financial year 2015 – 2016 and lowest (60.99%) in the financial year 2017 – 2018.The break - even ratio of the company is fluctuating year after year.

## FINDINGS AND SUGGESTIONS

Throughout the study period (2014-2015 to 2018-2019) the company showed an increasing trend in its volume of sales. So, the company is proceeding with its better contribution status but the fixed cost component in this is varying year after year.

The Break – even point of the company is favorable for the year 2018 – 2019 but the Break – Even ratio iscomparatively reduced. In order to boost up the Break – Even Ratio, it is suggested to strengthen the Break – Even point of the firm.

The profit volume ratio is relatively low (28.29% and 29.75%) in the years (2017 – 2018 and 2018 – 2019)as the volume of sales and the amount of contribution fluctuates for the whole period. So, it is suggested that the firm should concentrate to increase sales and contribution to set a better profit margin for the firm.

## CONCLUSION

This studyis about the cost volume profit analysis of Ambika Cotton Mills Limited for the financial period of 2015-2019. The above findings and suggestions depicted that the overall cost volume profit of ACML is favorably discharged. The sales volumeof the company expresses an increasing trend for all the years. It needs to maintain its stability to acquire a huge profit margin. Cost volume profit analysis determines the relationship between the cost, market price and volume of activities.

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