

A Study On “Cost Volume Profit Analysis” Hetero Drugs

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ABSTRACT

This study was conducted only on overall cost volume profit analysis and not on each and every variables. This study helps to forecast profit fairly and accurately as it is essential to know the relationship between profits and costs.

This study assists in evaluation of performance for the purpose of control and also assists in formulating policies by showing the effect of different price structure on costs and profits.

KEYWORDS: COST VOLUME, PROFITS, COST, POLICIE

INTRODUCTION

Cost volume profit (CVP) analysis generally defined as a planning tool by which managers can evaluate the effect of a change(s) in price, volume, variable cost or fixed cost on profit. Additionally, CVP analysis is the basis for understanding contribution margin pricing, related short-run decisions, target costing and transfer pricing. In the marginal costing varies directly with the volume of production or output. On the other hand, fixed cost remains unaltered regardless of the volume of output. In net effects, if volume is changed, variable cost varies as per the changes in volume. In this case, selling price remains fixed, fixed remains fixed and then there is a change in profit.

Cost – Volume profit Analysis is a logical extension of Marginal costing. It is based on the same principles of classifying the operating expenses into fixed and variable. Now-a-days it has become a powerful instrument in the hands of policy makers to maximum profits.

There elements need to be related in order to achieve the maximum profit. Apart from profit projection, the concept of cost volume profit is relevant in the short run. The relationship among cost, revenue and profit at different levels may be expressed in graphs such as breakeven charts, profit volume graphs or in various statements forms.

NEED OF THE STUDY

In a competitive world the key factors are costs, prices, turnover and profit and these are factors, which no manager can ignore. The significance of the study were as follows:

1. The study of cost-volume-profit analysis would help the management or firms know which of their products result in large profit margin.
2. It will afford the management the opportunity to know changes in cost, which occur as a result of shift in policy concerning products, produced.
3. The likely effect of changes in the mix of product produced and sold, and the behaviour of cost in relation to different sales volume.

OBJECTIVES OF THE STUDY

- To analyze the Cost Volume Profit and its impact with HETERO.
- To identify the effect of breakeven point for HETERO and ascertain which product is as advantages.
- To analyze the level of sales needed to achieve a desired target profit.
- To identify margin of safety and its significance.

1.4. HYPOTHESIS OF THE STUDY

High aggregate import ratio of raw materials, machines and expertise used by manufacturing firms and coupled with the ever declining value of the naira resulted in cost problem with rising cost. Consequent increase in the cost of foreign exchange is that some manufacturing firms that could not cope with the situation were pulsed out of business cycle..

RESEARCH METHODOLOGY

RESEARCH DESIGN

Research Design is the conceptual structure within which the research is conducted,. A research is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine the relevance to the research purpose with economy in procedures. Research constitutes the blue print for the collection. Measurement and analysis of data. The research design used for this study is analytical and descriptive research design.

ANALYTICAL DESIGN:

The researcher has to use facts or information already availability and analyze these to make a critical evaluation of the materials.

AREA OF THE STUDY

The sampling area included in this study is HETERO for finance department.

METHOD OF DATA COLLECTION;

The base data has been collected as below

PRIMARY DATA

The Primary data has collected by observation and discussion with the finance department.

SECONDARY DATA

The secondary data is to be collected from the financial reviews of the company it consists of Trading account and annual report which is already been collected by the company, company website, journal, newspaper, books etc.,

LIMITATIONS OF THE STUDY

1. All cost can be categorized as variable or fixed.
2. Sales price per unit, variable cost per unit and total fixed cost are constant.
3. All units produced are sold.
4. When a company sells more than one type of product, the sales mix (the ratio of each product to total sales) will remain constant.
5. Costs can be classified accurately as either fixed or variable.

REVIEW OF LITERATURE

“Some industries today are encountering problems raised by expansion through increased sales and the introduction of new products. Many on the other hand are facing problem of contraction due to the introduction of substitute materials, products. Whenever is the case, it is vitally important that management should be in a clear position to plan for these changing levels of activity”.

Apart from the problem of contraction and expansion, during the period of economic depression a business may be faced with the alternative or closing down or selling its products at a price below the total cost. Also profit planning and control is made more difficult by the changes in the general pattern of demand for the types of products offered and the action of competitors.

In order to solve the problem created by the above situation profit planning, cost and decision making require an understanding of the characteristics of costs and their

behaviour at different operating levels. One of the most important tools develop by accountants to assist management in meeting the challenges is the cost volume-profit-analysis (C.V.P) otherwise known as the behaviour analysis.

Cost-volume-profit analysis is a management tool that could be used in making vital decision when a firm is faced with problems having cost, volume profit implications. Problems within this area do abound and occur frequently that appropriate decision on them are near daily requirements. Some of them are profit planning, product planning, product pricing, selection of promotion mix, selection of distribution channels make-or-buy decision and add-or-drop decisions.

COMPANY PROFILE

Hetero is a research based global pharmaceutical company focused on development, manufacturing and marketing of Active Pharmaceutical Ingredients (APIs), Intermediate Chemicals & Finished Dosages. Ever since its establishment in 1993, Hetero showed a tradition of excellence and deep sense of commitment in developing cost effective processes to offer wide range of affordable drugs.

Hetero is building on the strengths of vertical integration in discovery research, process chemistry, API manufacturing, formulation development and commercialization. Hetero is a leading international supplier with a rich portfolio of over 200 products from wide range of therapeutic categories both in active pharmaceutical ingredients and finished dosages.

Hetero's manufacturing facilities are GMP compliant meeting global standards in terms of infrastructure and systems. Majority of them are approved by the various regulatory authorities of USFDA, WHO-Geneva, Australian TGA, Spanish

agency of medicines & health care products, ANVISA-Brazil, IDA-Netherlands etc.,

With full-fledged marketing capabilities, the company has been able to market its products in over 138 countries across the globe.

Awards & Accolades

Hetero has been scaling new heights on a continual basis. These achievements have been the result of concerted efforts on the part of different functions within the organisation to achieve the organisational goal of being a leader.

In its path to success, Hetero has seen many a milestone being crossed and achieved many awards on various fronts. Awards for exemplary work in R&D and marketing are just a few to name.

A track of few events that saw Hetero reaching its Zenith of glory are :

2012

- Top Pharmexcil Gold Patent award.
- Top Pharmexcil Outstanding Export Performance award in Drugs and Pharmaceuticals.

STATISTICAL ANALYSIS

TREND ANALYSIS

The trend analysis equation $Y = a + bx$

The straight line equations are

1. $\sum y = Na + b\sum x$
2. $\sum xy = a\sum x + b\sum x^2$

Year - x	Profit - y	X	X ²	XY
14-Mar	73.51	-2	4	-147.02
15-Mar	424.5	-1	1	-424.5
16-Mar	814.6	0	0	0
17-Mar	1732.56	1	1	1732.56
18-Mar	1196.79	2	4	2393.58
Total	4241.96	0	10	3554.62

$$N=5$$

$$\sum y = Na + b\sum x \text{ ----- (1)}$$

$$4241.96 = 5a + b * 0$$

$$5a = 4241.96$$

$$a = 4241.96 / 5 \qquad \qquad \qquad \mathbf{a} =$$

848.39

$$\sum xy = a\sum x + b\sum x^2 \text{ ----- (2)}$$

$$3554.62 = a * 0 + b * 10$$

$$b = 3554.62 / 10$$

b = 355.46

$$Y = a + bx$$

$$Y = 848.39 + 355.46 * x \qquad \qquad \mathbf{X =}$$

$$2010 - 2010 = 3$$

$$Y = 848.39 + 355.46 * 3 = 1914.77$$

From the trend analysis the trend profit of the year 2014 is 1914.77

COMPARATIVE BALANCE SHEET (2018-2017)

PARTICULARS	31/03/2018	31/03/2017	INCREASE/DECREASE	%
CURRENT ASSETS				
Inventories	421349	278926	(142423)	(33.80)
undry debtors	149654	85716	(63938)	(42.72)
Cash & bank balance	118440	60903	(57537)	(48.57)
Claims receivable	-	14580	14580	100
Loans & advances	203535	208857	5322	2.61
Total current assets(A)	892978	648982	(243996)	(27.32)
FIXED ASSETS				
Gross block	2332619	2571479	238860	10.23
Accumulated depn.	(801060)	(907251)	(10691)	(13.25)
Net block(b)	1531559	1664228	132669	8.66
Capital work in progress(c)	222652	1281473	1058821	475.54
Total work in progress	1754211	2945701	1191490	67.92
Total assets	2647189	3594683	947494	35.79
LIABILITIES & PROVISION				
Current liabilities	(658946)	(574552)	(8394)	(12.80)
Provisions	(118019)	(40364)	(84394)	(65.79)
Loan fund				
Secured loan	837156	1932401	1095245	130.82
Unsecured loan	443981	356396	(87585)	(19.72)
Total	1281137	2288797	1007660	78.65
SHARE HOLDERS FUND				
Share capital	118721	118721	-	-
Reserves & surplus	362855	452731	89876	24.76
Total	481576	571452	89876	18.66
Deferred tax	8325	7885	(440)	(5.28)
Deferred tax liabilities net	99186	111633	12447	12.54
Total liabilities and capital	2647189	3594683	947494	35.79

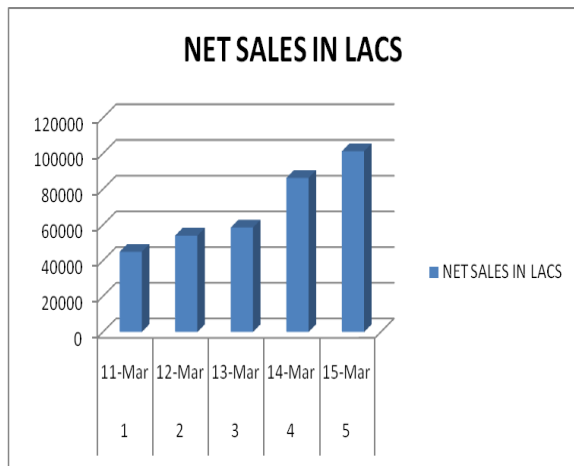
Source: Annual Report and Trading Account of HETERO

NET SALES OF HETERO

Source: Annual Report and Trading Account of HETERO

S.NO.	YEAR	NET SALES IN LACS
1	11-Mar	44918.75
2	12-Mar	54034.42
3	13-Mar	58528.28
4	14-Mar	86319.36
5	15-Mar	101305.01

NET SALES OF HETERO



INFERENCE:-

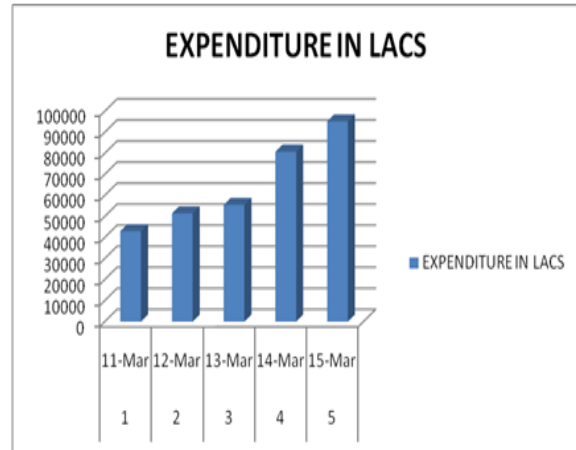
It is inferred that from the above table 44918.75, 54034.42, 58528.28, 86319.36 and 101305.01 (in lacs) net sales for the year of 2010, 2011, 2012, 2013 and 2014 respectively.

EXPENDITURE OF HETERO

S.NO.	YEAR	EXPENDITURE IN LACS
1	11-Mar	42971.04
2	12-Mar	51482.74
3	13-Mar	55490.56
4	14-Mar	80795.27
5	15-Mar	95194.82

Source: Annual Report and Trading Account of HETERO

EXPENDITURE OF HETERO



INFERENCE:-

It is inferred that from the above table 42971.04, 51482.74, 55490.56, 80795.27 and 95194.82 (in lacs) expenditure for the year of 2010,2011,2012, 2013 and 2014 respectively.

FINDINGS

- The PV Ratio for the year 2010,2011,2012, 2013 and 2014 are 8.02, 8.48, 7.19, 6.63 and 9.04 respectively.
- The Profit for the year 2010,2011,2012, 2013 and 2014 are 73.51, 424.50, 814.60, 1732.56, and 1196.79 in lakhs respectively.
- The operating leverage for the year 2010,2011,2012, 2013 and 2014 are 4.99, 2.62,1.95, 1.33 and 2.22 respectively. The operating leverage is greater than 1. The contribution is more than Earnings before interest and tax.
- The financial leverage for the year 2010,2011,2012, 2013 and 2014 are 4.56, 2.13, 1.88, 1.54 and 2.07 respectively. The financial is greater than 1.
- The combined leverage for the year 2010,2011,2012, 2013 and 2014 are 22.73, 5.57, 3.67, 2.05 and 4.60 respectively.
- The Margin of safety for the year 2010,2011,2012, 2013 and 2014 are 30075.76, 36932.61, 35019.40, 54606.60 and 67607.16 in lakhs respectively.

- From the trend analysis the trend profit of the year 2014 is 1914.77.

SUGGESTIONS

- The profit of the company is decreased in the year of 2014 than 2013 due to increase in expenditure. The cost of company should be reduced by constant material cost.
- The scrap should be reduced by proper maintenance of the material and well training of the employees.

CONCLUSION

The growth of the company is increasing year by year but it has been decreased in the year of 2014. It has to be improved by reducing the scrap and material cost and proper training to employees and the machineries should be maintained properly to reduce the scrap.

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