

1.0 INTRODUCTION

Management has been defined as a process of planning, controlling, organizing, directing and coordinating the affair of an organization. This process demand decision making at every stage. Where there is a problem and choice of action not just to the satisfactory of management but for the optimal goods of the firm. This optimal choice provide solution to the problem. The data provided must be used in reaching or deciding an end. In reaching this end, there is a powerful tool for planning and decision making that is required which is cost volume profit analysis. Cost volume profit analysis (CVPA) is a systematic method of examining the relationship between change in activity and change in total sales revenue, expenses and net profit (Drury, 2004:263). In another development (Adeniyi, 2004: 94) observed that, it is possible to predict the net profit which should emerge at various volumes of sale whether expressed in unit or in value.

This research is done to established what will happen to the financial results if a specific level of activity or volume fluctuates. A careful study has indicated that most variable has influencing total sale revenue, total costs and profit which is output or volume. This important variable has affect the profitability structure of a company. Therefore, the researcher attention is on this variable. Cost volume profit analysis (CVPA) is used to examine the number of units that must be sold to breakeven, the impact of a given reduction in fixed costs on the breakeven point, and the impact of an increase in price on profit (Hansen, 2003:656). This knowledge of this relationship will enable management of peacock paint limited Etinan, to identify the critical output levels, such as the level at which either a profit or a loss will occur. An effective management is the one which can tell where the organization is going, and the extend and magnitude of the economic trouble a division is facing and to help pinpoint the necessary solution of the problems. The management cannot identify this economic trouble without knowing the relationship between volume and sale revenue, cost and

profit in the short run (Hormgren, 2006:60).

The researcher notices that, the output of a firm is restricted to the current operating capacity in the short run. This input can be increase other cannot, but it takes time to expand the capacity of plant and machinery. This output is limited in the short run because plant facilities cannot be expanded which enable a firm to take time to reduce it capacity. A firm must operate on a relatively constant stock of production resources because most of the costs and prices of a firm product will have already been determined, and the major area of uncertainty will be the sale volume. The researcher also notices that, profitability will therefore be most sensitive to sale volume in the short run. Hence, cost volume profit analysis thus highlights the effects of changes in sale volume on the level of profit in the short run. CVP Analysis is also one of the tools that could be applied to identify organization targets of opportunity or potential areas of weakness by matching the organization breakeven.

It is the contention of the researcher therefore, to investigate the application of cost volume profit analysis as an aid in decision making in a manufacturing industry such as peacock paint limited Etinan and also look at the information provided by the account whether it is sufficient for decision making to determine the estimate to produce.

1.1 BRIEF HISTORICAL BACKGROUND OF PEACOCK PAINT LIMITED, IKOT EKAN, ETINAN L.G.A

Peacock Paint Limited, Ikot Ekan, Etinan Local Government Area was incorporated in 1979 by the government of Cross Rivers State as Cross Rivers Paints Limited. The company started with an initial equity share capital of N1.5m. This was later increased to N3.5m in 1983. The operation of the company fully commenced in 1985.

December 31 2005, the company had an Authorised share capital of N100,000,000 and a paid up capital of N72, 702,842. The company has an installed capacity of three million litres per annum.

THE COMPANY

The original home of Peacock Paint was in England Manufactured by Silver Paints Limited, Yorkshire England and was the only exporter of the Peacock Paints to Nigeria when the restriction on importers started, then sole importers of this product Mr. C. Agu vowed not to allow Peacock Paints brand of paints to cease from the Nigeria market. He went into action solicited for shares and Peacock Paints Industry was established in Aba. Mr. C. Agu is the first Chairman and Managing Director of the company. Presently, the current Chairman of the company is Obong O. E. U. Etuk.

OWNERSHIP PROFILE

The ownership profile of the company includes Akwa Ibom State Government, Manilla Insurance Company Limited and other Nigerian investors. Others are Dyrups Copenhagen Limited and International Fund (IFU) and Denmark as foreign partners. The oversea partners hold 22.9% of the equity share, Akwa Ibom State government holds 39.9%. Business Committee 32% and the employee of the company hold 6%. The company has four departments. These are technical, account, marketing/sales, personnel and administrative departments. The technical department is sub-divided into factory production laboratory each headed by a manager.

LOCATION

Peacock Paint Limited is located in Etinan L.G.A. It occupies more than 150 acres of land. The major building are the factory houses, the production halls, raw materials and finished goods stores. At the location, it also has a private borehole, staff canteen, clinic and giant standby generator.

PRODUCTS

The company was incorporated for the manufacturing of paint of assorted colours. The company which uses high technology in production, has Carlux Reginish paints, which is considered to be among the best in terms of quality in the country. Other products of the company include Peatone synthetic gloss, Pealux Emulsion and Peacoatex texture finish. It also manufactures automotive and industrial finishes. The company also produces part of its raw material calcium carborate and china clay from

local sources at commercial quantities. Peacock paints are ranked in quality with that of its parent company in England. It equally competes favourably with other product of paints in Nigeria, hence the high level of patronage.

THE STAFF AND MANAGEMENT

Peacock Paints Limited which took off with about 31 staff has now increased up to 130. The staff strength of the company is sixty-nine (69) made up of seven (7) management staff and fifty-four (54) intermediate and junior staff. The seven (7) management staff are the members of the Board of Directors which are the highest decision making body of the company.

THE BRANCHES

Peacock Paints market area cover mainly Akwa – Ibom, Cross River, Imo, Anambra, Enugu, Abia and Rivers States. It also had depots at Onitsha and Kano in addition to the factory depot. It is the only paint company in Akwa – Ibom State and has a high dependence on imported raw material of about 60%.

FINANCIAL SUMMARY

Peacock paints which ranked in quality with that of it parents company in England. This is clearly evident in its financial performance in the past five years (i.e 2001 - 2005). The company makes a profit after tax of N15.11m in 2001, N20.79m in 2002, N1.15m in 2003, N1.73m in 2004 and A loss of N105.6m in 2005. The shareholders fund which is N86.5m in 2004 became a loss of N12.88m in 2005. The total asset of the company was N160m in 2005. In 2005, the company return on equity was a loss of 819%. Its total liabilities in 2005 is N172.96m.

1.2 STATEMENT OF THE PROBLEM

Most manufacturing company have not fully known the essentials of cost volume profit analysis as an aid in decision making. It is common place to hear of manufacturing industries failure arising from loss of capital, loss of sales and inefficient planning and many other factors. The problem of this study is to find out whether Peacock applied the concept of CVPA as an aid in decision making, and how it is generally used to

restore the economic development and growth of the profitability of the company. The company made their estimate of what the capacity can take them.

The problem is whether this estimate made by the company enables them to take care of their variable cost in order for them to arrive at their contribution margin? The essence of going into business is to make profit, increase the initial capital and other things. But a manufacturing company cannot achieve it, without knowing the exact quantity of goods that should be produced for them to cover their fixed cost and variable cost in order for them to achieve their profit or breakeven. Despite that, the information provided by the accountant in the company should be sufficient for decision making to determine the estimate to produce. The accountant/production manager must know the inflation rate with respect of the company's capital investments as regards the profitability structure of the variable component that are being incurred. The problem now is whether the company know what cost they are incurred in order for them to produce the estimated value which they are setting for themselves. It would be difficult to imagine any organization achieving and sustaining effectiveness without cost volume profit analysis.

This research argues that cost volume profit analysis as an aid in decision making has a significant role to play in the profitability structure of the company growth and influencing decision making in every facet of manufacturing company including Peacock Paints Limited Etinan.

1.3 OBJECTIVE OF THE STUDY

To assess the relationship between cost and profit

To examine the application of cost volume profit analysis in management decision.

To evaluate the usefulness of cost volume profit analysis in planning, controlling and evaluating the objective of the enterprises.

To identify the extent and magnitude of the economic trouble a division is facing and to help pinpoint the necessary solution.

To allow managers to do sensitivity analysis by examining the impact of various

price or cost level on profit.

1.4 SIGNIFICANCE OF THE STUDY

The main aim of this study is to investigate the application of cost volume profit analysis as an aid in decision making in Peacock Paint Limited, Etinan and how it is generally used for the economic development and growth of the company. This study will also serve as a reference material to other researcher who may carryout similar work in the nearest future.

Above all, for an organization to succeed, it needs accurate planning and decision making. Therefore the significance of this study would be

- a). To help the management of Peacock Paint Limited in providing a simple tool in making decision.
- b). It will also educate students more on the application of cost volume profit analysis.

1.5 SCOPE AND LIMITATION OF THE STUDY

The study is designed to discuss only the application of cost volume profit analysis as an aid in decision making in manufacturing industry as Peacock Paint Limited, Etinan.

- a). **Financial Constraint/Time:** The study cannot be expanded to cover other industrial areas due to available fund and time. Cost volume profit analysis itself has a wider scope, which needs a greater amount of time for a careful study. Considering other academic activities, the researcher had a very limited time to carry out this research.
- b). **Information Obtained:** The researcher is limited to available information obtained from the management and staff of Peacock Paint Limited Etinan, due to the distance of the case study company from my school.
- c). **Literature:** The researcher notices that the libraries around are too poor as far as accounting textbooks, journals and magazines are concerned. It was not easy to obtain secondary data from the library as a result of the few books available to treat this research topic. Also, most updated textbooks are not at my disposal either, due to

the poor library services or my personal poor finance.

1.6 RESEARCH QUESTIONS

What are the types of accounting statement kept in Peacock Paint Limited Etinan?

How does cost volume profit analysis help management to make decision?

Is the information provided by the Accountant sufficient for decision making?

Does inflation rate affect the company's capital investment as regards their profitability structure?

1.7 ASSUMPTION OF THE STUDY

The following assumptions were developed for the design of this study.

The researcher assumed that the respondents will fully co-operate by supplying the need information through the questionnaire sent out by the researcher and also returning some with a reasonable time.

It was further assumed that about 87.5% of the questionnaire sent to the management and accounting staff of Peacock Paint Limited Etinan, would be answered and returned to the researcher to justify conducting the study.

Finally, the researcher assumed that the supervisor would not fail to give adequate guidance necessary for this research.

1.8. ORGANIZATION OF THE STUDY

For the purpose of easy understanding of this paper, the study is organized into five (5) chapters and are in this sequence.

Chapter one which is the background of the study contains the introduction, historical background of Peacock Paint Limited Etinan, Statement of the problems, objective of the study, significance of the study, the scope and limitation of the study, research question and definition of terms used in the study.

Chapter two contains a review of the related literature. This establishes the basic theoretical framework with material from relevant papers presented by eminent business scholars during seminars, conferences and symposia.

Chapter three present research question. It describes the procedure of the research

area. It goes further to expose and elaborate the method of data collection and procedure of data analysis.

Chapter four shows the analysis, interpretation and presentation of the data collected through the use of tables and figures fully explained.

Chapter five is the final chapter of the research work and it contains the summary, conclusion and recommendation of the study.

1.9 DEFINITION OF KEY TERMS USED IN THE STUDY

In other not to confuse the reader of this project and remove any doubt as to the intended meaning of the word and terms used in the study. The researcher has certain words and terms as follows:

ACCOUNTING: Accounting is the body of knowledge and functions concerned with systematic originating, authenticating, recording, classifying, processing, summarizing, analyzing, interpreting, and supplying dependable and significant information covering transactions and events, which are in part, at least, of financial character, required for the management and operations of an entity and for the reports that have to be submitted thereon to meet the fiduciary and other requirements (Grady, 1970:23).

ACCOUNTING SYSTEM: This is concerned with the creation of procedures for the accumulation, reporting and interpreting of economic data, it provides for information flow procedure for safeguarding assets, and for reporting and interpreting economic data (Basseyy A. Akpakpan, 2002:28 Part 1).

ACCOUNTING INFORMATION: These are information that help to guide the use of accounting report. It is organized for a special purpose and helps the work of an accountant to translate raw data into information (Terry Lucey; 2006:135).

ASSETS: These are possession or wealth of a person, group of persons, company, corporation or government and such possession or wealth or property do have monetary value (Webster New Collegiate Dictionary, 2000:53).

LIABILITIES: A liability is the amount of money or value which a person or persons, or an organization owes to outsiders or other persons (Akpakpan B. A., 2002:16).

BUSINESS: Business could be described as a human creation meant to serve the need of the society which is counted as a success if the member of the society are satisfied with its output and show their willingness to continue to be satisfied by spending their limited resources on the product or services (Akpan, I., 2004:91).

FINANCIAL ACCOUNTING: Financial Accounting is a systematic identification, measuring, recording, classifying, summarizing, communicating and interpreting of financial information so as to enable third parties to have stewardship report and make informed investment decision (Amos A. Abohi, 2003:4).

COST ACCOUNTING: It is the establishment of budgets, standard costs and actual cost of operations, processes, activities or products, and the analysis of variance, profitability, or the social use of funds. (Terry Lucey, 2002:1).

MANAGEMENT ACCOUNTING: It is a professional skill of a field of study and knowledge specially designed for cost analysis and cost reporting for the purpose of equipping management with the requisite information for decision making (Adeniyi, 2006:5).

COST VOLUME PROFIT ANALYSIS: It is used to examine the behaviour of total revenue, total cost, and operating income as changes occur in the output level, the selling price, the variable cost per unit or the fixed cost of a product. (Hormgren, 2006:60).

BREAKEVEN POINT: This is a point where total revenue equal total cost. That is, the point of zero profit. (Hansen and Mowen, 2003:656).

CONTRIBUTION MARGIN RATIO: These are ratios that are used to represent the amount of revenue minus variable cost that contributes to covering fixed cost (Hormgren, 2006:62).

FIXED COST: These are cost that remain constant (Pandey, I. M., 2005:7).

VARIABLE COST: These are cost that change in direct proportion to volume changes (Pandey, I. M., 2005:7).

MARGIN OF SAFETY: It is the unit sold or expected to be sold or the revenue earned

or expected to be earned above the breakeven volume (Hanssem and Mowen, 2003:674).

RELEVANT RANGES: It is used to refer to the output range at which the firm expects to be operating within a short-term planning horizon. (Drury, 2004:267).

THE APPLICATION OF COST VOLUME PROFIT ANALYSIS AS AN AID IN DECISION MAKING IN A MANUFACTURING INDUSTRY

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