

PDF - THE IMPORTANCE OF COST VOLUME PROFIT ANALYSIS IN MANUFACTURING INDUSTRY (A CASE STUDY OF NIGERIA BOTTLING COMPANY) - researchcub.info

CHAPTER ONE

1.1 INTRODUCTIONS

Cost volume profit analysis is a systematic method of examining the relationship between changes in volume (i.e.) output and changes in total sales, revenue expense and net profit. As a model of these relationships cost volume profit analysis simplifies the real world condition that a firm will face like model which are abstraction from reality. Cost volume profit analysis is subjected to a number of underlying assumption and limitation.

Profit is the important measure of a firm performance in the free market economy: profit is a guide for allocating resource effectively on analysis of the effect of various factors on profit is an essential step in financial planning and decision. Making. The analytical techniques used to study the behaviours of profit in respond to the changes in volume, and prices are called cost volume profit analysis (CVP). However. It should be noted that formal profit planning and control also involves the use of budgets and other forecast. As a starting point in profit planning, cost volume profit analysis helps to determining the minimum sale volume to avoid losses and the sales volume at which the profit goal of the firm will be achieve.

Therefore, the survive in today business world as started by outer and brown (1984) "concealed in efficiency have to be tracked down, standard set.

Forecast made and rigorous control must be started to ensure even modest margin of profit. The efficiency and effective management the variances of cost.

Price, output (volume) and ultimately profit will play major determination roles in the growth and survival of an organization. The break-even point is that point of activity (sales volume) where total revenues and total expenses are equal. It is neither profit nor loss point. The break-even point can only be achieved where there is decision involves price, volume and cost that can be split in to two classifications. Cost volume analysis is the analysis techniques used to study the behavior of profit in response to the analysis techniques used to study the behavior of profit in response to the change in volume, cost and price, it is a device used to determine the usefulness of the profit planning of the firm in the short term.

Cost volume profit analysis sometimes termed break-even analysis is an application of marginal costing and seeks to study the relationship between cost volume and profit at different activity levels and can be useful guides for short term planning and decision making. It is more relevant where the proposed changes in activity are relatively small so that established cost patterns and relationships are likely to hold good, will greater changes in activity and over the long term existing cost structure of the amount of fixed cost and marginal. Cost per unit are likely to change so cost volume profit analysis is unlikely to produce useful guidance

1.2 STATEMENT OF RESEARCH PROBLEM

The focus of the research is to identify the importance of cost volume profit analysis in manufacturing company with emphasis on Nigerian bottling company Ilorin plant. Hence in the course of the study effort has been made to find solutions to the following research problem.

For budget planning – it is used to determine the volume of sales required to make profit

A target profit levels and to determine the margin of safety

Determining product pricing and sales volume decisions

For determining optimum production and sales mix

To determining the importance of capacity utilization on cost.

1.3 OBJECTIVE OF THE STUDY

The study has examined the importance of cost volume profit analysis in manufacturing industry in Nigeria. Due to the role of cost volume profit analysis which play in the effectiveness and efficiency management of a business enterprise. The aims and objective of the study are:

To examine the introduction of cost volume profit analysis in Nigeria

To highlight the reason for the introduction of cost volume profit analysis in Nigeria.

To critically examine the likely problems for cost volume profit analysis in Nigeria.

Limitation did not hinder effective completion and quality of the research work.

1.4 STATEMENT OF HYPOTHESIS

The general hypothesis that was tested in the course of the research is as follow:

Ho: the importance of cost volume profit analysis does not improve manufacturing industry service delivery.

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