

Cost Control with the special reference to KGB Inspections Services at Trichy

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Abstract

In view of growing competition and globalization of the economy, cost accounting is now considered more as a technique for cost control as compared to cost ascertainment. An organization can maximize its profits and produce goods at minimum cost. In this paper, in order to achieve the project cost control effectively and create greater economic benefits and cost control measures were studied. The purpose of this paper is also to understand the decisions made by KGB Inspections Services with regards to marginal costing, absorption costing and budgetary control. Cost control is the part of project management such that cost management processes involved in planning, estimating, budgeting, and controlling costs so that the budget can be completed within the approved budget.

Keywords: Cost Control, Marginal Costing, Budgeting

1. Introduction

Cost control plays its part at the discretion of the management, who wish to maintain the cost within a specified limit. It is exercised through numerous techniques, some of which are standard costing, budgetary control, inventory control, quality control etc...,

Cost control is the guidance and regulation by executive action, of costs of operating undertaking. Cost control plays its part at the discretion of the management, who wish to maintain the cost within a specified limit. It aims to improve performance or efficiency to achieve the target. Cost control can be ensured through as,

1. Setting up standards for expenses and production.
2. Finding out the different of actual against standards.
3. Analyzing the differences with reasons.
4. Talking up corrective measures to eliminate variations.

1.1 .Essentials of Cost Control

1. Quality and price standards should be set to, or to be estimated for, each physical unit.
2. To make the standards realistic, all concerned should be associated in determining standard costs collected.

3. To data collected should be kept to a minimum and proper collection and processing of cost control data are important.
4. The different variance, price, usage, mix and efficiency should be considered, whether they are relating to material, labour or overheads.
5. It is not only include realistic targets but also flexible.

1.2. Absorption Costing

Absorption costing is the practice of charging all costs both fixed & variable cost to operating processes of products. Absorption costing uses the total costs and overhead costs associated with manufacturing a product as the cost base.

1.3. Marginal Costing

Marginal costing is the amount of any given volume of output by which aggregate costs are changed if the volume of output is increased by one unit. The amount at any given volume of output by which aggregate cost are changed if the volume of output is increased or decreased by one unit.

1.4 Cost Volume Profit Analysis

Cost volume profit analysis measures variations of costs and volume and their impact on profit. If a concern produces to the maximum capacity and sell, contribution is also increased to the maximum level.

1.5. Ratio Analysis

1.5.1. Operating Ratio

Operating ratio is calculated to measure the relationship between total operating expenses and sales. The total operating expenses include sum total of the cost of goods sold, office and administrative expenses, and selling and distribution expenses. This ratio indicates a firm's ability to cover total operating expenses. To compute this ratio the following formula is used.

$$\text{Operating ratio} = \frac{\text{Cost of goods sold} + \text{Operating Expenses}}{\text{Sales}} \times 100$$

1.5.2. Stock Turnover Ratio

Stock turnover ratio is otherwise called as inventory ratio. This ratio is used to measure whether the investment in stock in trade is effectively utilized or not. It reveals the relationship between the sales and cost of goods sold or average inventory at selling price. The ideal standard of this ratio may be considered as 5 to 6 times. Generally, a high turnover ratio is considered for business as it implies better cash flow. A very low inventory turnover ratio is dangerous. It signifies excessive inventory or over investment in inventory. To compute this ratio, the following formula are used.

$$\text{Stock turnover ratio} = \frac{\text{Net Sales}}{\text{Inventory}}$$

2. Research Methodology

To carry out the research objectives KGB Inspection Services has been selected being one of the topmost industries in terms of cost estimation. This study covered the period of five years and it to do take from five years annual report 2013 to 2017 .The data collected from the published annual reports of the selected company for the five year period have been suitably re-arranged, classified and tabulated as per requirements of the study.

2.1. Objectives of the study

1. To evaluate the absorbing costing of KGB Inspection Services
2. To find out the marginal costing of the firm.
3. To assess the cost volume profit and analysis ratio.
4. To analysis budgetary control of the firm.

2.2. Scope of the study

- The study cover all expenses of the production in the company. It helps in reduce the selling price and minimize the cost of the product
- It is useful for allocation of resources. It is useful for deciding operation operating policy.

2.3. Limitation of the study

- The study cover a period of five years only that is from 2013-2017.This research has been contained only to cost sheet of the company.
- It only analysis the production units of the company. Heavy expenses in installing and maintaining the system.

3. Area of the study

KGB COMPANY PRIVATE LIMITED is a leading manufacturer and supplier of boiler and small power plants from India. The first company of the group premier industries was started in the year 1995 as a vendor for manufacturing pressure parts for Bharath Heavy Electrical ltd. (BHEL) Trichy. Premier industries was later merged with KGB in the year 2000. Manufacturing experience of 35 year for BHEL, a leading Utility boiler Manufacturing is the basic strength of KGB. After gaining valuable experience in the manufacturing of highly sophisticated Non – pressure parts like structures, ducting , dampers and pressure parts like drums, water wall, super heaters piping etc. KGB COMPANY enjoys a very high ‘Brand Name’ in the market in India and in some countries in a Asia and Africa having supplied more than 4500 Boilers.

4. Review of Literature

“A classification has to be made to arrive at the detailed costs of departments, production orders, jobs, or other cost units. The total cost of production can be found without such analysis, and in many instances an average unit cost could be obtained but none of the advantages of an analyzed cost would be available”- HAROLD J.WHERDON

“Cost control represents the employment of management devices in the performance of any necessary operation so that pre-established objects of quality, quantity and time may be attained at the lowest possible outlay for goods and services”- KOHLER

Cost control requires timely and meaningful cost reports. If report has not been made in time, it may be too late to take corrective action will be lost. Cost control is exercised through various like a standard costing, budgetary, inventory Control, quality Control performance

analysis and reporting- V.K.SAXENA

“As a systematic effort by business management to compare performance to predetermined standards, plans or objectives in order to determine whether performance is in line with these standard in order to take any remedial action required to see that human and other corporate resources are being used in the effective and efficient way possible in achieving corporate objectives.” - ROBERT J.MOCKLER

Cost control the technique used by various level of management within that the cost incurred fall within acceptable levels. Cost control is assisted by the provision of financial information by the use of such technique as budgetary control and standard costing, which highlight. - R.HUSSEY

5. Data Analysis and Interpretation

Table -1

Absorption Costing for the year 2013-2017

YEAR	SALES	COST O GOODS SOLD	NET PROFIT
2013	30120.12	23935.87	6184.25
2014	32120.13	28220.73	3899.40
2015	44300.64	38461.09	5839.55
2016	39260.15	33644.00	5615.43
2017	44399.88	37707.02	6692.68

Absorption costing means that all of the manufacturing costs are absorbed by the units produced; it included fixed cost and variable cost. In the year 2017 the company reduces the expenses so attain maximum profit compare with other years.

Chart -1

Absorption Costing for the year 2013-2017

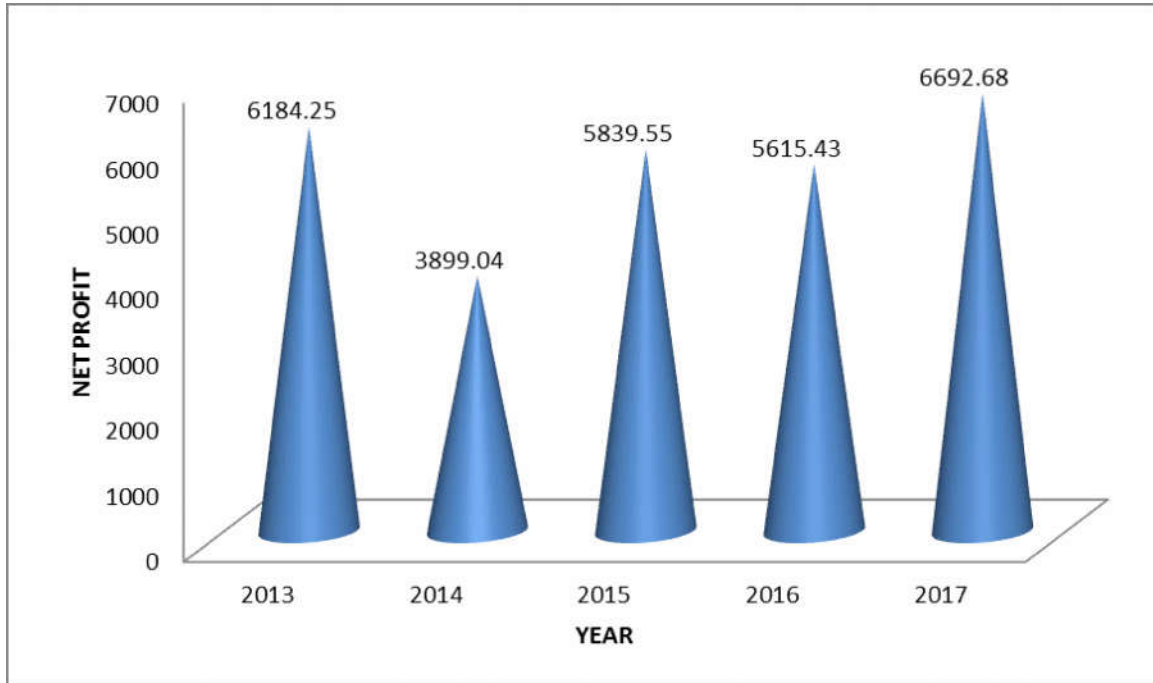


Table -2

Marginal Costing for the year 2013-2017

YEAR	SALES	CONTRIBUTION	FIXED COST	PROFIT
2013	30120.12	3913.74	370.44	3543.03
2014	32120.13	3307.83	344.45	2963.38
2015	44300.64	4756.68	775.22	3981.46
2016	39260.15	5645.11	332.02	5312.91
2017	44399.88	5339.04	886.21	4453.19

Marginal Costing is a costing technique that is variable cost is charged to units of cost, while the fixed cost for the period is completely written off against the contribution. If the company can reduce the fixed cost automatically company profit increased, in the year 2016 the

company profit is 4453.19 lakhs.

Chart -2

Marginal Costing for the year 2013-2017

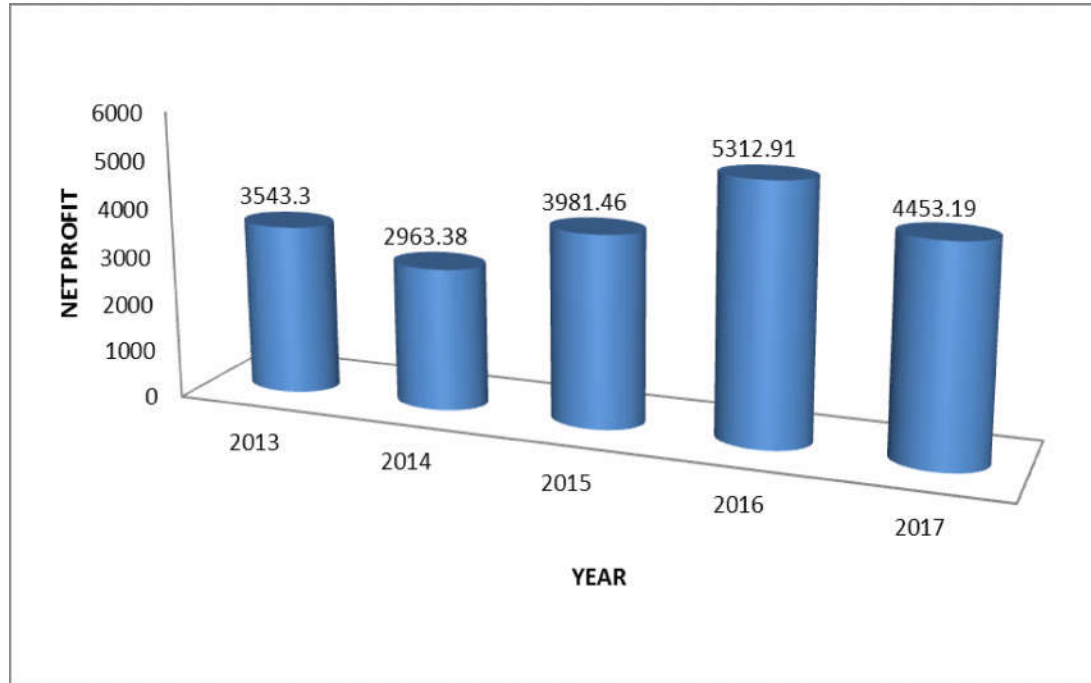


Table -3

Cost Volume Profit Analysis for the year 2013-2017

Year	Fixed cost	Profit	Contribution	Sales	P/V Ratio	BEP
2013	20940.01	17026.36	3913.74	30120.12	769.59	27.20
2014	21990.76	18682.93	3307.83	32120.13	971.03	22.64
2015	32753.18	27996.05	4756.68	44300.64	931.33	35.16
2016	24185.08	18539.97	5645.11	39260.15	695.47	34.77
2017	29215.14	23875.74	5339.04	44399.88	831.60	35.13

The above statement shows that the sale is high in the year 2015 & 2017, but the expense is low in the year 2015. So the company earns more profit compare with other year. The company reduces expenses to attain more profit.

Chart -3

Cost Volume Profit Analysis for the year 2013-2017

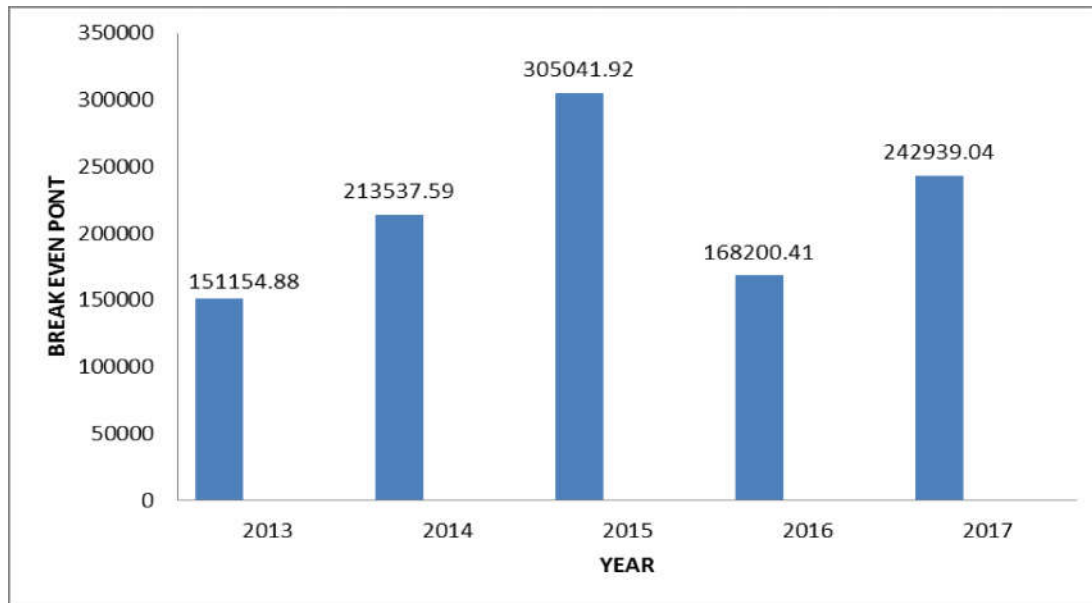


Table -4

Operating Ratio Analysis for the year 2013-2017

Year	Cost of goods sold + Operating Expenses	Sales	Ratio
2013	27600.12	43300.58	63.74
2014	28500.43	67900.41	41.97
2015	22900.58	77300.68	29.62

2016	24900.38	80200.12	31.04
2017	43100.56	88100.86	48.92

The above table indicates that firm's ability to cover total operating expenses. The lower ratio, the higher is the profitability and better is the management efficiency. The year 2015 is more profitability, the ratio is 29.62

Chart -4

Operating Ratio Analysis for the year 2013-2017

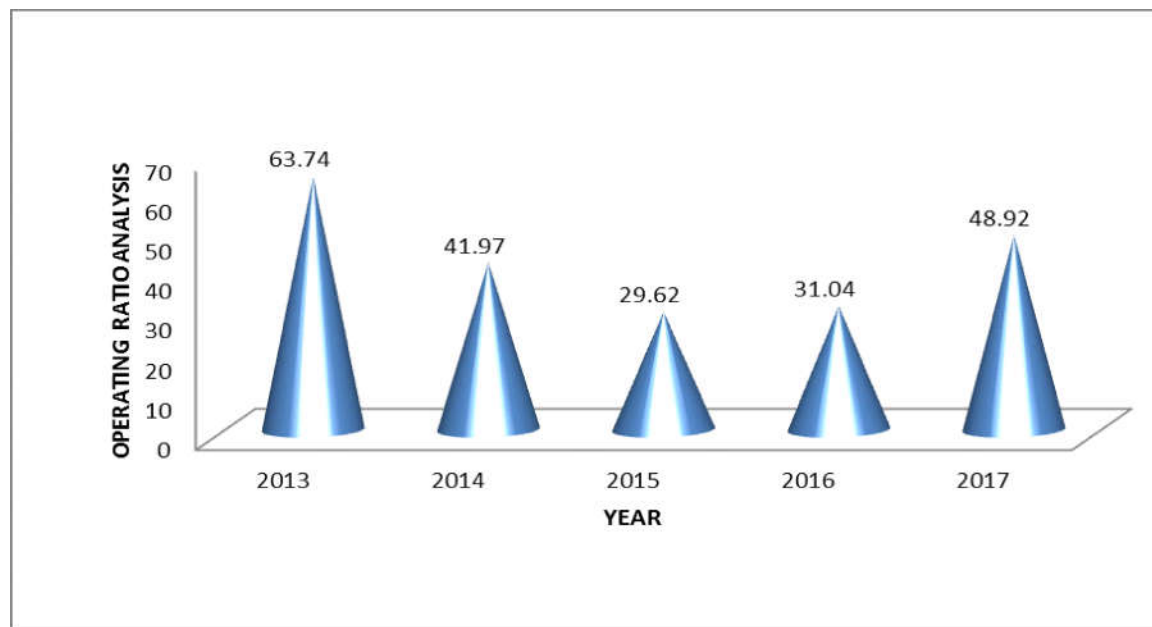


Table -5

Stock Turnover Ratio Analysis for the year 2013-2017

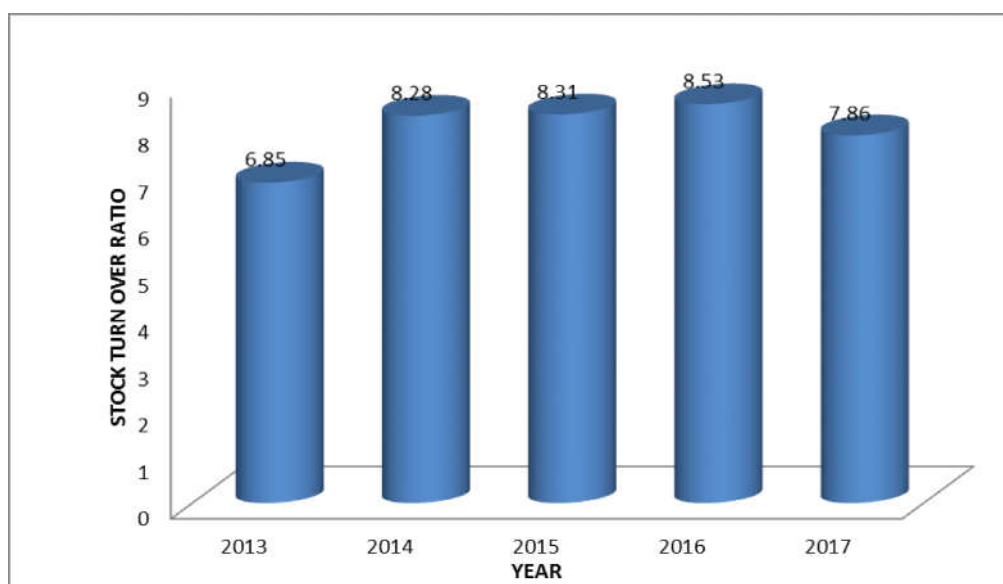
Year	Net sales	Inventory cost	Ratio
2013	43300.58	6300.45	6.85
2014	67900.41	8200.36	8.28

2015	77300.68	9300.45	8.31
2016	80200.12	9400.51	8.53
2017	88100.86	11200.85	7.86

The above table shows that the number of times the stock has been turned over in business during a particular period. This standard ratio may be considered as 5 to 6 times. In this every year has more than 6 times obtain the value. In the year 2016 is better value compare with other year, the value is 8.53 times.

Chart -5

Stock Turnover Ratio Analysis for the year 2013-2017



Suggestions

- The sales in increased from the year to year, so the concern can maintain the good position. The company should increase the current assets in future by adopting the new projects.

- The company can improve the financial position by way of reducing the unnecessary expenses.
- The company is requirement to maintain the fixed cost and variable cost. The variable cost effectively used it measures the stock value. The concern is maintaining the production cost in better way of controlling activity.

Conclusion

The firm has to improve their production capacity. If they improve their production they automatically increase their profits. The firm investing activity was also high they have to reduce the cost to improve the production so they can attain their company profits. The company has to control their various expenses for production. The firm has to maintain the current asset. The company has to increase the production and reduce the overall expenses. They have maintained the profitability and better management efficiency. It may helps to increase the revenue and income from the operation of the firm can easily attain their target and to achieve their goal.

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