Assessment of Cost of Production and Profit (with special reference to XYZ Pvt Ltd Company)

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Abstract: The study determines the cost of production and profit of a soft drink manufacturing industry. The study combined both descriptive and analytical research design. Secondary data were used. They were analysed with abstraction method / technique. The result reveals that the cost of production determined by all the associated costs they are Direct Material cost, Direct Labour cost, Consumable store, Factory Overhead, Depreciation cost, Administrative overheads. Then the cost of sales is measured by adding the selling and distribution overheads with cost of production. The profit is identified by deducting cost of sales and selling price. Based on the result, the researcher recommends that soft drink manufacturing industry should focus on the Material and Labour cost to reduce them to earn more profit.
Key words: Cost of Production and Profit.

1. INTRODUCTION:

Soft Drinks are one of the most popular drinks, which are consumed on all types of occasions. The demand for soft drinks is increasing day by day due to changing climatic conditions, liking for fast food and changing culture (increase western culture). It includes all types of non alcoholic, carbonated and flavoured beverages. These artificially sweetened drinks are available in different flavours, different sizes and in different packages. Soft drink is fast moving consumer goods (FMCG). Soft drinks are consumed for various reasons and in various occasions by consumers based on various aspects like price, convenience, medicinal value and social status.

Developing urbanization, changing food habits, changing climatic conditions and increasing population will contribute to growth of soft drink industries in the near future. Per capita consumption and increase in number of consumers may be expected in the near future and any of these or both will result in the growth of the soft drink industry. Brands occupy a particular niche in consumer's mind. Powerful brands influence consumer and so much that it becomes difficult for them to shift their preference to other product.

Objectives:

- ✓ To identify the cost components in production of soft drinks by Selected company.

II. REVIEW OF LITERATURE:

Ama (2001) According to him, standard costs are cost plans relating to a single cost unit. Because standard cost purports to be what cost should be, any deviation represent a measure of performance. The predetermined costs are known as standard costs and difference between the standard costs and actual costs are known as a variance.

Mc William and Miller (2002) here the author says that the similar cost differences are seen. They adopt a broader societal perspective which incorporates out-of-pocket expenses and the care time of informal caregivers into the analysis. It identifies the quality and quantity of the raw materials used for producing a single unit of product.

Anthony, et al (2005) the author says that by reducing costs or at least restricting their rate of growth the cost management and cost containment is defined as a broadest of cost accounting methods and management techniques with the gold to improve the business cost efficiency. Businesses use the cost control methods to monitor, evaluate and mainly to enhance the efficiency of specific areas like departments, divisions or product lines within their operations.

III RESEARCH DESIGN:

A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem research. Descriptive vs. Analytical research design was used. Secondary data was collected in the company. Absorption Technique and Comparative Analysis was used to analysis the collected data.

IV ANALYSIS AND INTERPRETATION:

The term analysis refers to re-arrangement of the data given in the financial statements i.e. Simplification of data by methodical classification of the data given in the financial statements. Interpretation refers to explaining the meaning and significance of data so simplified

Cost of Production

Cost of production (COP) = Direct material cost + Labour cost + Factory overhead + Depreciation + Consumable store + Administrative overhead.

Table 1: Product Wise Cost of Production

Products	No of Unit Produced	Mat. cost (Rs)	Labour cost (Rs)	Factory O/H (Rs)	Dep. Cost (Rs)	Consu.Store (Rs)	Admin.O/H (Rs)	COP (Rs)	Cost per Unit
Mango drink	1245000	12752605	828843.59	678929.739	3836.087	2410.30435	19778.02174	14286402.74	11.47502228
Orange drink	379000	2299770	646567.42	595727.565	3365.9783	2114.92391	17354.24457	3564900.132	9.406068949
Lemon drink	930000	8804012	1109580.9	595727.565	3365.9783	2114.92391	17354.24457	10532155.61	9.32489851
Mixed Fruit drink	370880	1970998	622893.9	595727.565	3365.9783	2114.92391	17354.24457	3212454.612	8.66170894
Cola drink	375000	2090700	653464.14	595727.565	3365.9783	2114.92391	17354.24457	3362726.852	8.967271605
Total	**3299880**	**28418085**	**3861350**	**30,61,840**	**17300.0002**	**10870**	**89195.00002**	**34958639.95**	**49.83497028**

Interpretation

The table 1 depicts the cost of production incurred for each product produced. Cost of production is identified by adding all the cost as in the formula and the cost per unit is calculated by dividing the cost of production by number of units produced.

Table 2: Cost of Sale, Profit and Selling Price

Product	Cost of Sale	Profit	Selling Price
Mango drink	14296739.94	467800.45	14764540.39
Orange drink	3567479.6	388000	3955480
Lemon drink	10539776.35	368900.25	10908676.6
Mixed Fruit drink	3214779	398760.6	3613539.6
Cola drink	3365160.02	381230.9	3746391

Interpretation

The table 1 depicts the Cost of Sale, Profit and Selling Price of Mango Drink was Rs.14296739.94, Rs. 467800.45 and Rs. 14764540.39. The Cost of Sale, Profit and Selling Price of Orange Drink was Rs. 3567479.6, Rs. 388000 and Rs. 3955480. The Cost of Sale, Profit and Selling Price of Lemon Drink was Rs. 10539776.35, Rs. 368900.25 and Rs. 10908676.6. The Cost of Sale, Profit and Selling Price of Mixed Fruit Drink was Rs. 3214779, Rs. 398760.6 and Rs. 3613539.6. The Cost of Sale, Profit and Selling Price of Cola Drink was Rs. 3365160.02, Rs. 381230.9 and Rs. 3746391.

Finding

Direct material cost

- ✓ Total material cost Rs. 12752605 is high in production of mango drink and its cost per unit is Rs.9.072.

Direct Labour cost

- ✓ Direct Labour cost per Unit is high in producing Cola drink (Rs. 1.743)

Consumable store

- ✓ Consumable store cost is high in producing Orange Drink, Mixed Fruit Drink and Cola drink (Rs.0.006).

Depreciation cost

- ✓ Depreciation cost is high in producing Mixed Fruit Drink (Rs.0.0090) and Low in producing (Rs.0.0030).

Factory Overheads

- ✓ Factory Overheads is high in producing Mixed Fruit Drink (Rs.1.606) and low in producing Mango Drink (Rs.0.545).

Administrative overheads

- ✓ Administrative overhead is high in producing Mixed Fruit Drink (Rs.0.0467) and low in producing (Rs.0.0158).

Cost of production

- ✓ Cost of production is high for producing Mango Drink (11.47) and low in Producing Mixed Fruit Drink (8.661).

Selling and Distribution Overheads

- ✓ Selling and Distribution Overheads is high in producing Lemon Drink (Rs.0.0078) and low in producing Mango Drink (Rs.0.00071).

Cost of sales and Profit

- ✓ Cost of sales is high in producing Mango Drink (Rs.11.48) and low in producing Mixed Fruit Drink (Rs.8.67). Profit is high in production of Mixed Fruit Drink (Rs.1.075) and low in production of Lemon drink (Rs.0.340).

Conclusion

The wider is the different between two varying factor such as sales and cost. In this competitive environment it may not be possible to increase the sale price without having its adverse effect on the sales volume which in turn will reduce profit. The profit can be maximised by reducing cost by achieving economy of scale. Thus a resource has to be utilized very sensibly to reduce waste in order to have a control over the cost. Further awareness can be among employees about the cost and quality.

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