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## **A STUDY ON COST MANAGEMENT WITH REFERENCE TO L&T VALVES LIMITED, CHENNAI**

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### **ABSTRACT**

*The project report entitled “To Study about the Cost Management with reference to the L&T Valves Limited. Cost management means the management of the process of planning and controlling the budget of a business. Cost management is a form of management accounting that allows a business to predict impending expenditures to help reduce the chance of going over budget. The objective of the study to analyses the cost of production of L&T Valves Ltd. In addition, compare the standard cost with the actual cost to improve the profit of the company. The study aims to identify the cost sheet, Marginal Costing Statement; Material Control requirement of L&T Valves Ltd for five financial years from 2013 to 2018. The information needed for the research has been gathered from secondary data. The results of this study conclude the management enables to predict the profit as a wide range of volume and to determine the price of the products very carefully. Through the analyses, the management shall easily take decisions showing in its reports how utilization of available capacity will lead to increase in profit.*

### **INTRODUCTION**

**COST:** The term ‘cost’ is the money used for the purpose of producing something. Cost means the amount of expenditure (actual or notional) incurred on, or attributable to, a given thing..

#### **Cost Accounting**

Cost Accounting may be defined as, “the process of accounting for cost”. The process involves recording as well as controlling of various costs. This is a formal system of accounting which ascertains and controls costs related to various products and services.

### **Cost Management**

Cost management is the process of planning and controlling the budget of a business. Cost management is a form of management accounting that allows a business to predict impending expenditures to help reduce the chance of going over budget.

#### **Purpose of Cost Accounting**

- Cost control
- Cost computation
- Cost reduction

### Advantages of Cost Management

- Cost management provides information regarding individual products, departments, divisions, and cost centres. This facilitates the management to identify unprofitable operations and improve overall profitability.
- With the help of management, the management can set budgets and standards for various elements of cost and compare them with actual to measure efficiency.

### INDUSTRY PROFILE INDIAN VALVES INDUSTRY

Valves segment contributes significantly to the growth of Indian economy. They have proved highly critical in productivity of the core sectors of the economy. The Valves sector has a net value addition ratio in manufacturing of over 20 per cent. India already exports Valves worth over US\$ 1.55 billion, serving various engineering segments, to over 100 countries. The exports in this segment are growing at a healthy rate of around 10-12 per cent annually. Additionally the Indian market is already worth over Rs 5,000 crore (US\$ 780 million) in pumps & Rs 4,500 crore (US\$ 700 million) in valves. India is already selling & supporting niche scientific & engineering technologies to developed economies in areas such as in aerospace engineering, auto components, biotechnology etc.

### COMPANY PROFILE



L&T Valves Ltd (L&T), a premier valve manufacturing company, is jointly owned by Larsen & Toubro Limited (L&T) in India and USA. L&T Valves manufacturing operations commenced in 1962 and over last five decades the company has expanded to cater to the needs of the national and the International markets. L&T Valves Ltd is widely respected for its quality & its ability to offer solutions to special & critical valve applications and has significantly contributed to nation building.

Valves are components which are used to control flow of fluids. There is more need for valves in

world market. Since a small problem in a single valve bring down the efforts of petroleum industry. So it is necessary to produce a valve with good quality.

### NEED FOR THE STUDY

The need for the study is to analyse the cost of production of L&T Valves Ltd. The standard cost has to be compared with actual costs to improve the profit of the concern. It is also needed to reduce the cost of production and the remedial measures has to be taken for it, which helps in ascertaining the strength and weakness in the operational and financial position of L&T Valves Ltd.

### OBJECTIVES OF STUDY

#### PRIMARY OBJECTIVE:

- To Study about the Cost Management with reference to L&T Valves Limited.

#### SECONDARY OBJECTIVES:

- To ascertain the marginal cost statement for the annual report of L&T Valves Ltd (L&T)from 2014 to 2018.
- To identify the profitability of L&T Valves Ltd using Profit Volume Ratio.
- To identify the Break Even Point to reduce losses.
- To provide remedial measures to reduce costs in L&T Valves Ltd.

### SCOPE OF THE STUDY

The scope of the study is to identify the Cost Sheet, Marginal Costing Statement, Material Control requirement of L&T Valves Ltd. It used to control and manage the inventory level of L&T Valves Ltd and used to find out the cost of production and profit of L&T Valves Ltd.

The cost has to be controlled and reduced in order to increase the profit, which leads to development of the business in competitive advantage. The Break Even Point and Margin of Safety is calculated, which helps the organization to reduce losses. It is also to suggest means of improvement in the existing process if necessary.

### REVIEW OF LITERATURE

S. Kevin “Cost reduction is the process used by companies to reduce their costs and increase their profits. Depending on a company’s services or product the strategies can vary. Every decision in the product development process affects cost.

R K Uppal and Rimpi Kaur (Uppal& Kaur, 2009).examined various aspects of reducing cost in banking sector, The major challenge that banks face these days is to utilize the funds in an efficient manner and to earn maximum income with the reduction in costs so as to compete and survive in the emerging global competitive environment.

Commercial banks organize their funds coming from deposits and borrowings. These funds are then disbursed in several investments and leads to getting

returns in the form of interest and dividends for the bank.

**Ryall**, “From a technical point of view, the term cost may be used when referring to the cost of manufacturing only or the cost of selling and distribution of goods, or to indicate the total cost of manufacturing, selling and distribution”

**Stefania-Eliza and Florin (Stefania, Bana, & Sgardea, 2009)** considered that the information regarding the production cost is used in goods evaluation and profit growth. The book named *Q finance-The Ultimate Resource*, mentioned that entry cost is the cost of introducing a product to the market, which includes the cost of all research, development, production, testing, marketing, advertising and distribution of the new product. According to the above theory, this research will give the cost structure, linking the cases chosen.

**Mila Getmansky 2016** Cost reduction means conducting some innovations in the way of working in a new style, so that he excess cost of production and operation could be eliminated. Cost working in a new style, so that it towards specific efforts to reduce costs by improving methods work arrangement and products.

Cost reduction can be made in different areas and stages of production, storing and distribution process by applying more advanced and scientific techniques of operation. So a cost reduction program needs a research and development activity”.

**W.H. Harper 2013**, “Cost is the value of economic resources used as a result of producing or doing the thing costed”. From the above, it is clear that the term cost is perceived by different people differently. In simple terms cost may be described as the total of all expenses incurred, whether paid or due in the production and sales of the product, or expended in rendering a service.

Cost management is one of the most hallowed, and yet one of the simplest, management tool in management accounting. In a general sense, it provides a sweeping financial overview of the planning process (**Horngren et. Al., 2014**).

These decisions can include such crucial areas as pricing policies, product mixes, Market expansion or contractions, outsourcing contracts, idle plant usage, discretionary expenses planning and a variety of other important considerations in the planning process. Given the board range of context in which cost volume profit can be used. The basic simplicity of cost volume profit is quite remarkable. Armed with just three inputs of data – Sales price, variable cost per unit, and fixed cost – a managerial analyst can evaluate the effect of decision that potentially alter the basic nature of a firm.

## RESEARCH METHODOLOGY RESEARCH

This chapter focuses on research methodology that was used in the study. It provides a detailed description of the research approach adopted in this study. Research design, research instruments, data collection and analysis methods used were presented in the subsequent sections.

### RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the problem. It may be understood as a science of studying how research is done scientifically. The advanced learner’s dictionary lay down the meaning of research as a careful investigation or inquiry especially through search for new facts in any branch of knowledge.

### RESEARCH DESIGN

Research Design is the conceptual structure within which the research is conducted.

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

### SOURCES OF DATA

#### Secondary Data

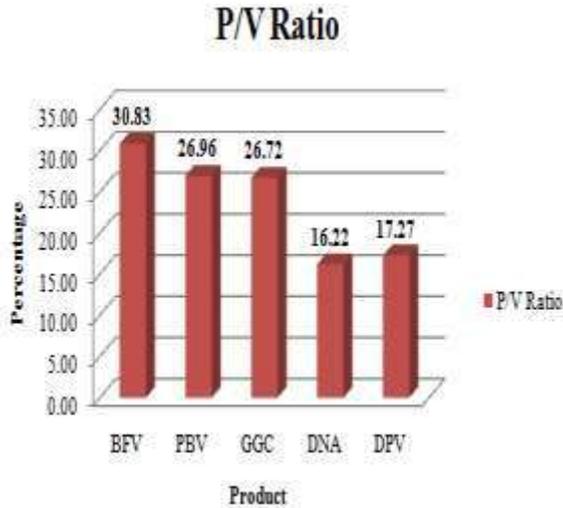
The secondary data are those data that are already in presence for specific purpose. This study is descriptive in nature and hence secondary data is used to conduct the research. The data was collected from Internet by exploring the Secondary sources available on websites.

### LIMITATIONS OF THE STUDY

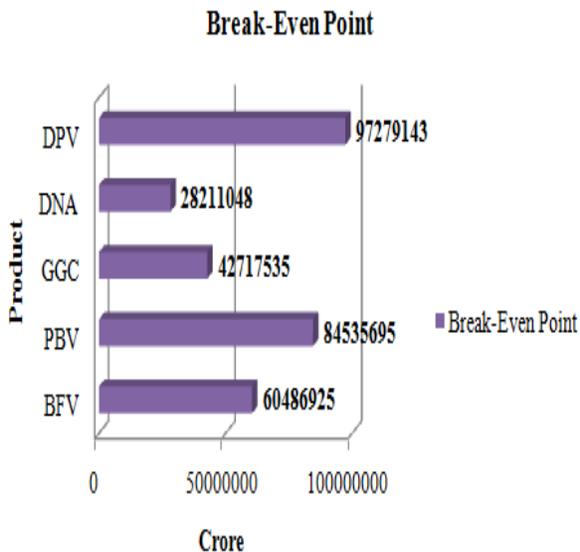
- Some of the data has not given by the company due to maintenance of financial secrecy.
- Time has been a limiting factor.
- Limited Access to the Financial Costing Numerical Data.
- Less awareness about financial and complexity.

**DATA ANALYSIS AND INTERPRETATION**

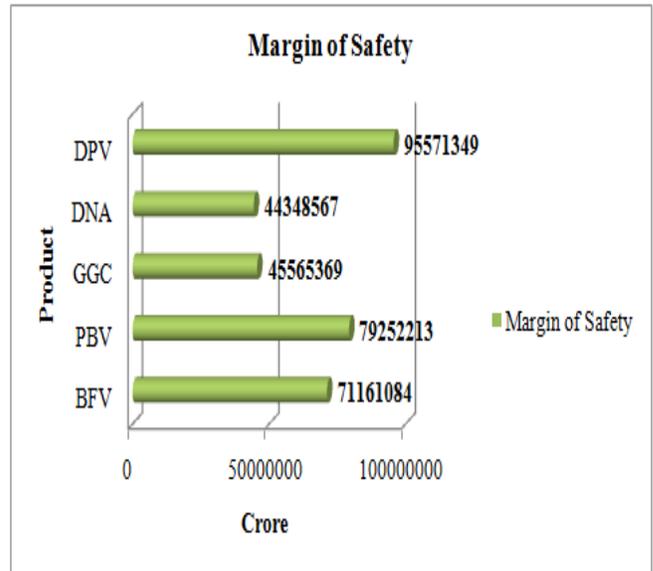
**1. Chart showing profit volume ratio of L &T Valves Ltd - 2018 .**



**2. Chart showing Break Even Point of L &T Valves Ltd - 2018 .**



**3. Chart showing profit volume ratio of L &T Valves Ltd - 2018 .**



**FINDING OF THE STUDY**

- In 2014 P/V Ratio is 22.12% then in 2015 and 2016 it was same P\ V Ratio is 26.50% and 2013 it increased up to 28.45%. In 2018 P\ V Ratio of GGC is decreased compared with last three years.
- It found that Contribution Margin of all the Valves Product has shown an increased trend except GGC and DNA Product.
- It found that Break-even Sales values of all the five products has shown and there is an increased trend which is the positive indicators of those products.

It found that the highest profit of all products in the year 2015-2016.

The large Margin of Safety indicates that business is sound in double block and bleed plug valves in the year 2017-2018.

It found that the sales percentage is increased to all the five products of L&T valves Ltd.

The minimum Margin of Safety is 5.7cr in 2013-2014 and the maximum Margin of Safety is 2014-2015. Margin of Safety of 2017-2018 is 10.2 cr.

The maximum leverages is in 2018. It clearly shows that financial leverage maintained from 1.00 to 1.01 times in all the 5 years. In 2018 operating leverage and combined leverage is 1.91 and 1.94 times. It is high compared to previous 4 years.

- In 2018-2019 highest value of raw material is 44%. Neutral value is 25% and lowest value of raw material is 31%.

## SUGGESTIONS OF THE STUDY

- It is benefit to maintain Break-even Points properly in multiple products for the growth of L&T Valves Ltd.
- Profit Volume Ratio of GGC and DNA Valves product has come down in 2017-2018. This has to be maintained as there is an increase in the previous years.
  - Low Financial leverage in 2017-2018 indicates that the company shall concentrate on various cost involved in usage of assets.
  - The company has to utilize the fixed cost efficiently and concentrate on some changes in DNA and DPV product.

## CONCLUSION

The study was done at L&T Valves Ltd to find out the Profit Volume Ratio stability of the company with the help of cost sheet for the five years. After an extensive and exhaustive analyse it was found that the company shall maintain fixed cost as long as it brings some profit.

The company should focus on improving its Margin Cost in upcoming years and also company should maintain Break-even point in multiple product for its growth and development. High operating leverage makes increasing in revenue and also Low financial leverage indicates that the company shall concentrates on usage of fixed asset.

Thus I conclude the company or management enables to predict the profit as a wide range of volume and to determine the price of the products very carefully. Through analyse the management shall take decisions easily and also shows utilization of available capacity which leads to increase in profit.

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