AN ANALYSIS OF MARGINAL COST PERFORMANCE WITH REFERENCE TO R3 ENTERPRISES

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ABSTRACT

The project report entitled "An Analysis of Marginal Cost Performance with Reference to R3 Enterprises, Pallavaram". Marginal concept is associated with a specific change in the quantity used of a good or service, as opposed to some notion of the over-all significance of that class of good or service, or of some total quantity. The marginal use of a good or service is the specific use to which an agent would put a given increase, or the specific use of the good or service that would be abandoned in response to given decrease.

By analytical research design and sources of data (i.e. secondary data collection of about 6 years of balance sheet, the research project is carried out in R3 Enterprises. The objective of the study is to determine the condition for cost control and analysis. To examine the management under this technique makes product decision by the enterprises. To evaluate the marginal costing technique towards ascertaining its effectiveness and efficiency. To find out any inherent deficiencies in its application by the R3 enterprises. Therefore, management Accounting may be defined as the application of accounting techniques for providing information designed to aid all levels of management in planning and controlling the activities of the business enterprise in decision making. Marginal costing is a costing technique in which only variable manufacturing cost are considered and used while valuing inventories and determining the cost of goods sold. The research involved in trend analysis and comparative balance sheet for their analysis of marginal cost performance by the R3 Enterprises. Capacity will lead to increase in profit

Keyword: - *Marginal Cost, Quantity, Cost Control and analysis*

1. INTRODUCTION

Marginal Cost performance analysis is a term used to describe the change in total cost of production resulting from the addition of one item. It can also be seen as the avoidable cost of not producing an additional item. It is usual to look at short term marginal cost, which is an additional cost when only some of the cost of production can be varied in long term or more commonly known as long run marginal cost is the change in cost when all input cost can varied. It is closely related to marginal cost pricing, in which prices are set at an amount equal to the Marginal Cost. The marginal cost is the cost to produce one additional unit. This cost would include the raw materials used to make the item, the average labour cost of the item, the average machine or hardware cost associated with creating the item. Marginal costs are sometimes very difficult to assess. First, we must determine the useful life of our machinery, that can be a very subjective determination. Typically, the raw material is easy access, although not always, determining Marginal cost is much easier in a manufacturing setting that it is in a service-oriented area. Marginal Costing is the ascertainment of marginal cost and of the effect on profit due to changes in volume or type of output by different between fixed cost and variable cost.

Marginal Cost = (Change in Cost / Change in Quantity)

1.1 TYPES OF MARGINAL COST

However, cost may not vary directly on a per unit basis. It is possible that increasing production by a unit may not cause a proportion increase in costs. This is because different business activities face different forms of cost behaviors.

- Unit costs would be the traditional idea of variable costs where an increase in a single unit of production leads to proportional increase in costs.

- Product costs occur regardless of the number of batches or units produced. This is a cost that is attributed to a particular item on a particular item on a product portfolio.

1.2 NEED FOR THE STUDY

The need of the study helps the company to identify their position by which the company can increase or decrease the total cost of production. It also helps the company to identify and offer a minimum rate of product price according to the expectations of the customer so that the company's sales level will get increased. Hence, this study has been carried on marginal cost analysis.

1.3 OBJECTIVES OF THE STUDY
PRIMARY OBJECTIVE:

- An Analysis about **Marginal Cost Performance** in **R3 Enterprises.**

SECONDARY OBJECTIVES:

- To evaluate the marginal costing technique towards ascertaining its effectiveness and efficiency.
- To Find out any inherent deficiencies in its application.
- To determine the condition for cost control and analysis.
- To Examine management under this technique makes product decisions.

1.4 SCOPE OF THE STUDY

This study will cover marginal costing technique as a tool for marginal decision making with particular references to organization. The study is limited to these organizations because it is difficult to undertake a study of all the manufacturing companies that adopts marginal costing technique in organization. The companies are chosen on the assumption that is obtainable from them covers the entire manufacturing companies currently in use of the technique

1.5 LITERATURE REVIEW

Robert E Hall "*New evidence on the markup of prices over marginal costs and the role of mega-firms in the us economy*" National Bureau of Economic Research, ISSN: 24574, Volume 5(2), May 2018. The markup of price over marginal cost reveals market power. The distinction between marginal and average cost is key. Average cost is easy to measure, but the price/average cost ratio understates the price/marginal cost ratio when fixed costs are present. In particular, in free-entry equilibrium, where revenue equals cost, the price/average cost ratio is always one, while the price/marginal cost ratio may be above one. The idea here is to calculate marginal cost as the ratio of the adjusted expenditure on inputs to the adjusted change in output. The first adjustment is to remove the change in expenditure that arises from the changes in input costs. The second adjustment is to remove the change in output attributed to productivity growth. Application to KLEMS productivity data finds a typical markup ratio of 1.3 Markup ratios grew between 1988 and 2015. For mega-firms, the paper uses employment at firms with 10,000+ workers.

Substantial heterogeneity occurs across sectors and in growth rates. There is no evidence that mega-firm-intensive sectors have higher price/marginal cost markups, but some evidence that markups grew in sectors with rising mega-firm intensity.

Bauer, Daniel, and George Zanjani. "The marginal cost of risk, risk measures, and capital allocation." Management Science, ISSN: 1431-1457, Volume 62(5), Year 2016. Financial institutions use risk measures to calculate the marginal capital cost when expanding the exposure to a certain risk within their portfolio. We reverse this approach by calculating the marginal cost based on economic fundamentals for a profit-maximizing firm and then by identifying the risk measure delivering the correct marginal cost. The resulting measure depends on context. Whereas familiar measures can be recovered in some circumstances, other circumstances yield unfamiliar forms. In all cases, the risk preferences of the institution's claimants determine how the correct risk measure must weight various default states. Our results demonstrate that risk measures used for pricing and performance measurement should be chosen based on economic fundamentals and may not necessarily adhere to the mathematical properties typically imposed in the literature.

1.6 RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In this study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. Research is common dialect refer to such for knowledge research methodology is a way to systematically solve the research problem.

Tools to be used

- Trend analysis
- Comparative balance sheet

1.7 LIMITATIONS OF THE STUDY

- The study doesn't take into account the other areas such as dividend policy, financial statement etc.
- The researcher had difficulties in collecting all the relevant data required for an depth evaluation of this subject.
- This constraint emanated from the fact that the company is said to be a competitive manufacturing company concern and the general manger considers its risk to issue out information required.

2. DATA ANALYSIS AND INTERPRETATION

Table 2.1 Table showing on comparative balance sheet of enterprises in the financial year of 2017-18

Particular	2017-18	2016-17	Change in Absolute Value	Change in Percentage
ASSETS OWNED BY THE COMPANY				
Net Fixed Assets				
Gross fixed assets	182712.44	142353.37	40359.07	28.35
Less: depreciation	72193.43	68031.4	4162.03	6.11
	110519.01	74321.97	36197.04	48.70
All other	2887.28	2901.51	14.23	0.49

Inventories	37688.28	25518.52	12169.76	47.68
Investments	24594.53	18437.25	6157.28	33.39
Current Assets	24528.68	17025.56	7503.12	44.06
Total Assets	200217.78	138204.81	62012.97	44.87
LIABILITIES OF THE COMPANY				
Secured loans	64319.7	41336.84	22982.86	55.59
unsecured loans	22960.3	20798.61	2161.69	10.39
Other Liabilities	22682.92	16123.31	6559.61	40.68
Provisions	13570.49	7621.94	5948.55	78.04
Deferred Tax Liability (Net)	11240.93	19719.11	8478.18	42.99
	134774.34	96599.81	38174.53	39.51
COMPANY'S NET WORTH REPRESENTED BY				
Ordinary Share Capital	4574.16	4574.16	0	0
Reserves and Surplus	60869.28	37030.84	23838.44	64.37
	65443.44	37714.59	27728.85	73.52
Total Liabilities	200217.78	138204.81	62012.97	44.87

Sources: Secondary data

Interpretation:

The Comparative Balance Sheet for the Financial Year 2017 to 2018 shows that the current assets were decrease and the current liability were increased.

Table 2.2 Table showing on comparative balance sheet of enterprises in the financial year of 2014-16

Particular	2015-16	2014-15	Change in Absolute value	Change in Percentage
ASSETS OWNED BY THE COMPANY				
Net Fixed Assets				

Gross fixed assets	120437.89	115471.98	4965.91	4.30
Less: depreciation	63289.52	58478.89	4810.63	8.22
	57148.37	56993.09	155.28	0.27
All other	2819.25	2499.033.	319.95	12.80
Inventories	23024.07	20306.62	2717.45	13.38
Investments	20142.28	20079.44	62.84	0.31
Current Assets	19897.17	13565.42	6331.75	46.67
Total Assets	123031.14	113443.6	9587.54	8.45
LIABILITIES OF THE COMPANY				
Secured loans	26051.36	30678.1	4626.74	15.08
unsecured loans	24403.88	13895.63	10508.25	75.62
Other Liabilities	18559.95	14537.6	4022.35	27.66
Provisions	4512.32	6943.3	2430.98	35.01
Deferred Tax Liability (Net)	11789.04	12450.7	661.66	5.31
	85316.55	78595.33	6721.22	8.55
COMPANY'S NET WORTH REPRESENTED BY				
Ordinary Share Capital	4574.15	4574.15	0	0
Reserves and Surplus	33140.44	30274.12	2866.32	9.46
	34848.27	41605	6756.73	16.24
Total Liabilities	123031.14	113443.6	9587.54	8.45

Sources: Secondary data

Interpretation:

The Comparative Balance Sheet for the Financial Year 2015 to 2016 shows that the current assets were decrease and the current liability were increased.

Table2.3 Table showing on income statement under statement marginal costing in the financial year of 2015

Particular	Amount	Total
Sales		156572.15
Less: Variable Cost:		
Cost of goods manufactured	57387.23	
Variable Selling Expenses	23706.08	
Variable Administration Expenses	18194.47	99287.78
Contribution		57284.37
Less: Fixed Cost:		
Fixed Administration Expenses	11362.06	
Fixed Selling Expenses	27379.09	38741.15
		18543.22

Sources: Secondary data

Interpretation:

Net Income statement under marginal costing (309.81) in the financial year 2015. The marginal costing for the financial year 2015 is good.

Table 2.4: Table showing on income statement under statement marginal costing in the financial year of 2015

Particular	Amount	Total
Sales		344032.16
Less: Variable Cost:		
Cost of goods manufactured	112796.87	
Variable Selling Expenses	47203.03	
Variable Administration Expenses	45019.34	205019.24
		139012.92
Contribution		
Less: Fixed Cost:		

Fixed Administration Expenses	45523.09	
Fixed Selling Expenses	15324.34	60847.43
		78165.49

Sources: Secondary data

Interpretation:

Net Income statement under marginal costing (78165.49) in the financial year 2019. The marginal costing for the financial year 2019 is good.

3. FINDINGS AND SUGGESTIONS

- The trend percentages for sales. The first year consider as base year 100% for the financial year 2014-2015, 109.15%for the financial year 2015-2016, it was 119.93% for the financial year 2016-2017, 160.72% for the financial year 2017-2018 and it was 219.72% for the year 2018-2019.
- The Comparative Balance Sheet For The Financial Year 2018 to 2019 shows that the current assets were decrease and the current liability were increased.
- Net Income statement under marginal costing (309.81) in the financial year 2015. The marginal costing for the financial year 2015 is good.
- The company should concentrate on local sales by sales expert.
- Labor participation in the management should be encouraged.
- The company has to focus on additional unit of the product

4. CONCLUSIONS

After going through the various findings cited above, researcher can conclude that R3 enterprises are practicing Cost and Management Accounting tools and techniques in their day to day business activities. They are also using this information for planning, organizing, control and decision-making process. However, there are some tools and techniques which are followed partially or not in totality. R3 enterprises need to understand thoroughly the concepts and importance of these tools of Cost and Management Accounting from the view point of decision making process. The real impact of the Cost and Management Accounting practice will be seen, felt and experienced when these banks will use Cash Flow Statement, Fund Flow Statement, Capital Budgeting, Cost Accounting, etc. Regularly and comprehensively. It will help the R3 enterprises to understand their existing status and will definitely help to improve their competitive strength, financial stability and achieve their desired business goals.

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