



Cost Analysis on Business Performance

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ABSTRACT

This paper provides a review of empirical research on the role of cost analysis in managerial decision making in profit-oriented organizations. A well-developed costing system is becoming increasingly important to profit-oriented organizations. Cost analysis helps managers in making decisions in such areas like pricing, profit planning, setting standard cost, capital investment decisions, marketing decisions, cost management decisions and others. The review shows that, findings from different literatures stated that Cost analysis is crucial in various decisions and plays an important role in managerial decision making.

1. INTRODUCTION

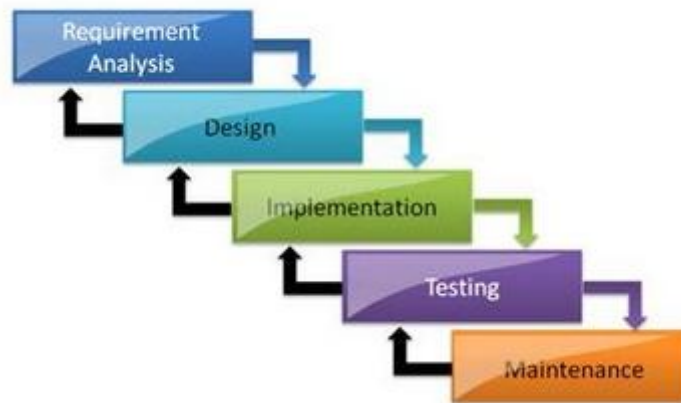
A cost analysis involves the process of reporting separate elements in a cost proposal, such as labour, equipment and materials that make up a product or service, as well as its proposed profit. It is used for cost-evaluation purposes when there is a lack of competition or comparable offers in the market place. Often referred to as cost-benefit analysis or cost-effectiveness analysis, a cost analysis requires specific skills to conduct, and it is a useful tool for various aspects of business planning. So every company will be interested in knowing its Business performance. The project entitled "**Cost analysis of Tata Consultancy Service Ltd** " throw light on overall business performance of the company over the line of business i.e., on the technical product and service offered by TCS to its customers worldwide where their service is extended. The study focuses on various regions of the country such as UK, Europe, Canada, United States of America,. A cost analysis provides an opportunity to judge the efficiency of initiatives. For example, a company can analyse the number of products produced from a given level of resources. It helps a company decide whether an initiative is delivering value and serves as a guide for performance improvements. A line of business will often examine its position within an industry using an industry-analysis method and other relevant industry information.

1.1 Line of Business:-Line of business (LOB) is a general term which refers to a product/services or a set of related products/ services that serve a particular customer transaction or business need.

1.2 Cost analysis: - The process of developing and analysing cost data from separate business elements and estimating incremental and total resources needed to support current

and future business strategies. A decision making tool used to evaluate and prioritize resource needs at based on cost estimates and their expected return on investment.

1.3 Stages of Completion of Project:-Dividing a project into phases makes it possible to lead it in the best possible direction. Through this organisation into phases, the total work load of a project is divided into smaller components, thus making it easier to monitor. The different phases of Project Development cycle is as follows,



1.4 Quarterly Basis: - A measure of the rate at which a company's income has increased during the previous fiscal quarter. While any increase in revenue might be viewed as positive for a company, on a quarterly basis investors are primarily concerned with whether the company reports revenue growth that matches what the company and analysts have forecast for the quarter.

2. Research Methodology

2.1 Background of the Study

The study is about finding out the costs of various project/product/services and its profitability of Tata Consultancy Service and to find whether the company is making proper business decision. This study is conducted to know the cost utilization pattern in the business units.

For the long time survival, growth and profitability of the company it is necessary to have a proper cost accounting system and quality control. An ideal costing system serves the purpose of the business, with this background an attempt is being made to study and understand the costing system prevailing in Tata Consultancy Service.

2.2 Statement of problem

The study "Cost Analysis" is important to know various cost of elements associated with the production of products and services and its effectiveness to the company which helps in making decisions regarding the price determination, profit, cost control and optimum utilization of resources.

The study is focusing on the Services that is been offered by TCS to know the various cost elements and its effectiveness and compare the costs for one financial year on Quarterly Basis which is associated to the projects. The study is conducted on the services of Tata Consultancy Services (TCS) is an IT services, consulting and business solutions organisation that delivers real results to global businesses, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT, BPO, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model, recognised as the benchmark of excellence in software development.

2.3 Need and Importance of the study

The study of “Cost Analysis” is important to know the various elements of cost and the effective utilization.

The need and importance of costing are it is important for the division to know whether it is making proper decisions regarding its cost such as to take measures to control the cost, effective utilization of resources, to fix the price of the project and to study whether the projects are feasible to undertake.

2.4 Objectives of the Study

- To find out costing profit or loss by identifying with revenues, the costs of those products or services by selling which the revenues have resulted.
- To present and interpret data for management planning, evaluation of performance and control.
- To ascertain the profitability of each of the products and advise management as to how these profits can be maximised.
- To ascertain the cost and income by product, service and responsibility.
- To find out a correct analysis of cost both by process or operations and by different elements of cost.
- Providing suggestions to management for taking decisions.

Methodology Adopted

Research methodology is the route used to systematically resolve the research problem. It is a scientific way of studying how research is done scientifically, approved by the researcher in reviewing the research problem alongside with the reason behind study. It is essential for the researcher to distinguish not only the research methods and procedures but also the methodology.

➤ **Sample size:**

The sample consists of three Line of Business (LOB) – from TCS Business Unit on the basis of the research objectives.

This study is mainly based on LOB 1(IT Service) of Customer A and Customer B LOB 2(Consulting) of Customer C and Customer D, LOB 3(BPO) Customer E and Customer F.

➤ **Data Collection**

The data collected for the study was primary data and secondary data.

Primary Data: - The primary data was collected from cost ledgers of the division
 Secondary Data: - The Secondary data was collected from costing manuals, cost accounting textbooks and company websites.

➤ **Study Period**

The cost sheet method was adopted to study and compare the cost of the Projects for the period of 2016-2017 on a Quarterly basis.

➤ **Source of Data**

The main source of data is collected through Individual Business Unit of TCS to obtain the cost information of 2016-17 on “Quarterly Basis” for three LOB of various customers.

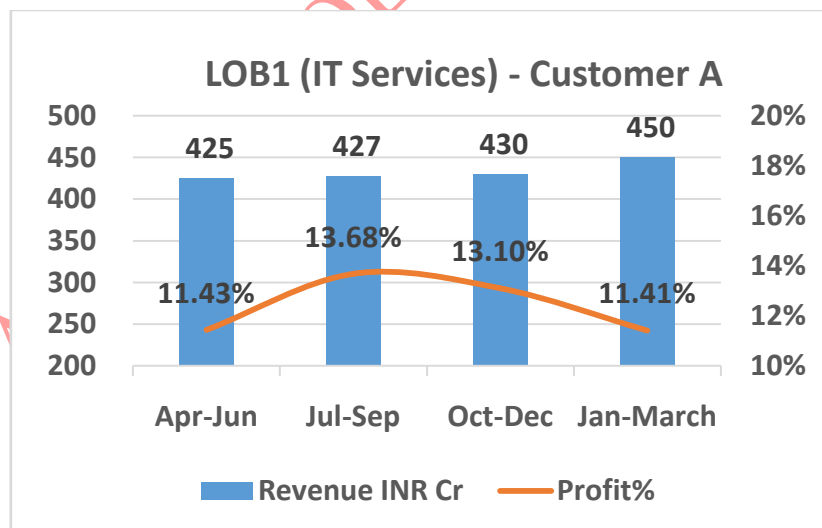
Also the other relevant data required for the purpose of the study was gathered from the various websites, publications, magazines and reports prepared by research scholars.

2.6 Limitations of the study

- Main limitations was duration of time to study and the data was analysed for the year 2016-2017 on a Quarterly basis.
- Study was limited to Individual Business Units of Tata Consultancy Services.
- The company was not willing to disclose some of the areas which were confidential in nature. So analysis was limited to the available data.
- Difficulty in studying the entire system because of the big size of the organization.

3. Data Analysis and Interpretations

3.1: Graph showing the Profit and Revenue of Customer a of LOB 1 (IT Service).

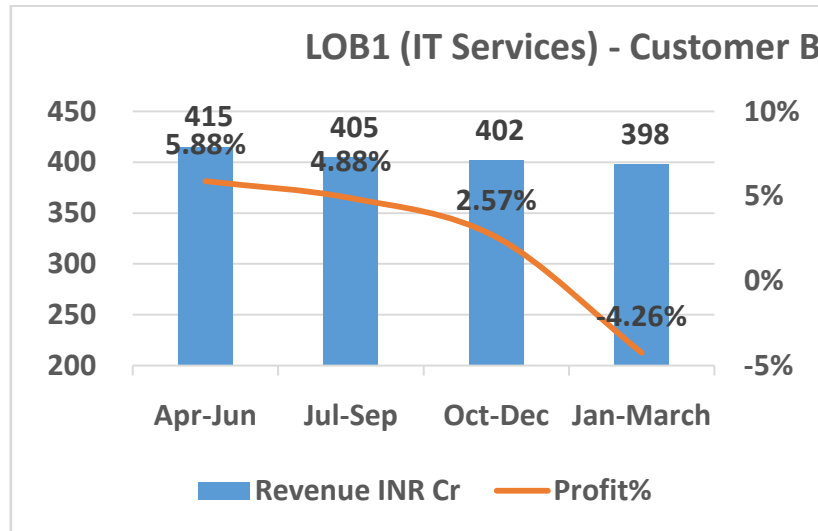


Interpretation

The **Total cost of service** is 1517.13 crores which includes the cost of both direct and indirect cost. **Revenue** is fluctuating and it is in increasing trend every month because of the customer’s satisfaction about the timely delivery of service. The total revenue for customer A projects for the F.Y 2016-17 is 1732 crores. The **profit margin** is fluctuating where for the first 2 quarters project had done nice job and earned a good profit which was in increasing

trend and later for other 2 quarters the performance of the staff has decreased and their started untimely delivery of the service.

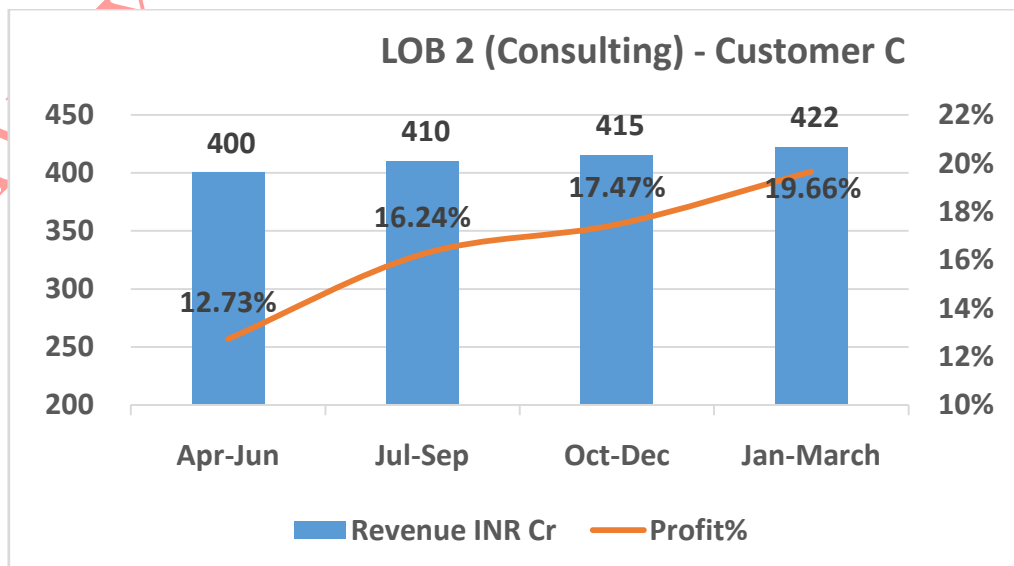
4.2 Graph showing the Profit and Revenue of Customer B for the project of LOB 1 (IT Service).



Interpretations:

The **Total cost of service** is 1582.4 crores which includes the cost of both direct and indirect cost. **Revenue** is in decreasing trend for all the quarters because of the customer’s dissatisfaction about the untimely delivery of service. The total revenue for customer B projects for the F.Y 2016-17 is 1620 crores. The **profit margin** is in decreasing trend where for all quarters project had not performed well as per customer’s requirement and satisfaction, not earned a good profit and made a loss of 16.24 crores because the performance of the staff has decreased and their started untimely delivery of the service. The total profit for first 3 quarters is 54.54 crores.

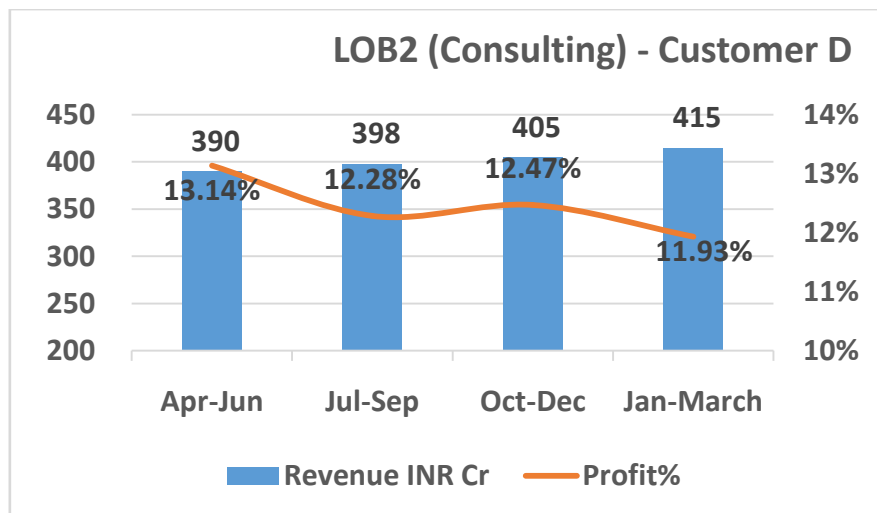
3.3: Graph showing the profit and Revenue of Customer C for the project of LOB 2 (Consulting).



Interpretations:

The **Total cost of service** is 1406.19 crores which includes the cost of both direct and indirect cost. **Revenue** is in increasing trend for all the quarters because of the customer's highly satisfaction about the timely delivery of service and skilled staff's performance. The total revenue for customer B projects for the F.Y 2016-17 is 1647 crores. The **profit margin** is in increasing trend where for all quarters project had performed well as per customer's requirement and satisfaction, had earned tremendously a good profit because of the performance of the staff was according to the customer's expectations and their was timely delivery of the service. The total profit for all the quarters is 272.96 crores.

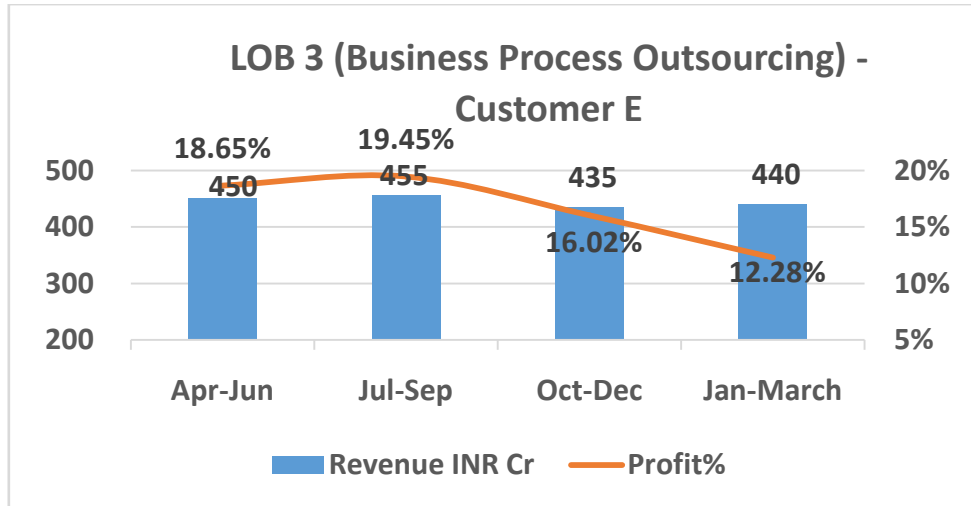
3.4: Graph showing the Profit and Revenue of Customer D for the project of LOB 2 (Consulting).



Interpretations:

The **Total cost of service** is 1407.86 crores which includes the cost of both direct and indirect cost. **Revenue** is in increasing trend for all the quarters because of the customer's highly satisfaction about the timely delivery of service and skilled staffs performance. The total revenue for customer B projects for the F.Y 2016-17 is 1608 crores. The **profit margin** is in slight variations in the profits earned and where for all quarters project had performed well as per customer's requirement and satisfaction, had earned tremendously a good profit because of the performance of the staff was according to the customer's expectations and there was timely delivery of the service. The total profit for all the quarters is 200.14 crores. Their slight variations in margin due to increase in indirect cost.

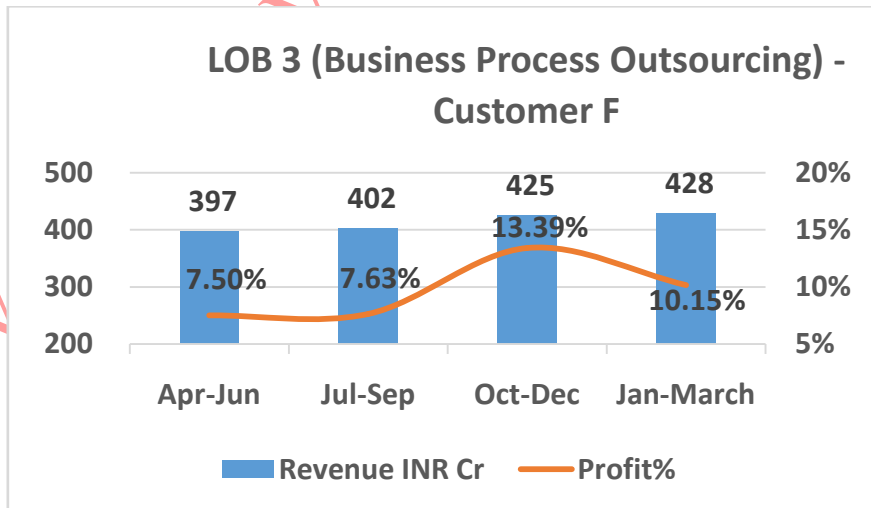
3.5: Graph showing the Profit and Revenue of Customer E for the project of LOB 3 (Business Process Outsourcing).



Interpretations:

The **Total cost of service** is 1483.81 crores which includes the cost of both direct and indirect cost. **Revenue** is fluctuating and it is in increasing trend every month because of the customer's satisfaction about the timely delivery of service. The total revenue for customer E projects for the F.Y 2016-17 is 1780 Crores. The **profit margin** is in slight variations in the profits earned and where for all quarters project had performed well as per customer's requirement and satisfaction, had earned tremendously a good profit because of the performance of the staff was according to the customer's expectations and there was timely delivery of the service. The total profit for all the quarters is 296.19 crores. Their slight variations in margin due to increase in indirect cost.

3.6: Graph showing Profit and Revenue of Customer F for the project of LOB 3 (Business Process Outsourcing).



Interpretations:

The **Total cost of service** is 1491.2 crores which includes the cost of both direct and indirect cost. **Revenue** is fluctuating and it is in increasing trend every month because of the customer's satisfaction about the timely delivery of service. The total revenue for customer E projects for the F.Y 2016-17 is 1652 Crores. The **profit margin** is in slight variations in the profits earned and where for all quarters project had performed well as per customer's

requirement and satisfaction, had earned tremendously a good profit because of the performance of the staff was according to the customer's expectations and there was timely delivery of the service. The total profit for all the quarters is 160.18 crores. Their slight variations in margin in last quarter due to untimely delivery of services.

4. Summary of Findings

- LOB 3(BPO) of Customer E's project has made the business unit to earn a tremendous profit of 296.91 cores and LOB 2(Consulting) of customer C's project has made a very good profit of 272.96 crores. This was possible due to timely delivery of service, the projects was handled by highly efficient and skilled technical staff due to which the project was prepared as per customer's requirement and expectations. This made the customer's satisfaction very high and made the business unit to earn a good profit.
- LOB 1(IT Service) of Customer A's project made a profit of 214.65 cores and LOB 2(Consulting) of Customer D's project made a profit of 200.17 cores, where these projects made a responsible profits to Business Unit but their performance had a minor fluctuations due to lack of skilled technical staffs which directly influenced the untimely delivery of services. Business unit was not able to meet the customer's requirements accurately. It resulted in slight dissatisfaction from the customer's side.
- LOB 3(BPO) of customer F's project made a profit of 160.8 cores and LOB 1 (IT Service) of customer B's project made a profit of 37.6 where this projects didn't meet the company target and created a very bad impression about the company in the minds of customer's. This affected the company's goodwill directly and many of peer customer's started giving their projects to the competitors of TCS business unit who are into same Line of Business.

5. Suggestions

- The cost of salary to technical staff for the projects of LOB 1(IT Services) are more due to customers dissatisfaction. In case of Customer B projects the delivery is not as per customer requirements, hence the business unit had to put more people i.e., senior managers, senior team leaders to manage the delivery of service on time and ensure that it meets the customer's requirements at their satisfaction. To improve the performance of the team members they have to be given training based on the projects.
- The Project Execution was not on time because of Non- Availability of skilled and knowledgeable staff. Company has to recruit the employee who is having adequate knowledge about the subject matter related of the projects. So that well-knowledge employee can be appointed for the project, with which the business units can earn higher margin of profits by completing the projects on time as per customer's requirement and satisfaction.
- The projects are carried on cost plus profit basis there is no point in reducing the cost booked for the project as it will reduce the profit for the business units. However it doesn't mean that the company should book any abnormal expenditure without putting an effort to adopt cost reduction measure which will be ultimately passed on to the customers.

- The business units have to make a proper allocation of funds for the various elements of cost which will result in proper utilization.
- The business unit can make use of various techniques like Project Evaluation Techniques (PERT) is a project management tool used to schedule, organize, and coordinate tasks within a project.
- Critical Path Method (CPM) is a step-by-step project management technique for process planning that defines critical and non-critical tasks with the goal of preventing time-frame problems and process bottlenecks. To know the duration for the completion of the projects.

6. Conclusion

Cost analysis is important for any organisation to know its various elements of cost and its effectiveness. It is used for cost-evaluation purposes when there is a lack of competition or comparable offers in the market place. Often referred to as cost-benefit analysis or cost-effectiveness analysis, a cost analysis requires specific skills to conduct, and it is a useful tool for various aspects of business planning. So every company will be interested in knowing its Business performance. Analysis of cost helps in adopting new measures to control cost and increase the profit and it also helps the management to take decision on determining the price for the products and services. For the long time survival of any company, its profitability and future expansion and also to find out whether a project is feasible to undertake or not, costing is very important.

From this study we can conclude that the Individual Business Unit (IBU) of Tata Consultancy Services is having a costing system in place which records the various costs associated with the projects of Line of Business on Quarterly Basis. The study also suggested various measures to reduce the cost of service, i.e., direct cost on salary to technical staff by recruiting the skilled employees and also to overcome the problem of customer dissatisfaction due to untimely delivery of service which is affecting the profit margin of the business unit. To increase the profit margin, business unit is suggested to adopt the PERT and CPM techniques to know the duration taken for completing the project.

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AUTHOR'S BIOGRAPHY

Janani.K.P is pursuing her Master of Commerce (Financial Analysis) in Jyoti Nivas College Autonomous and completed her Bachelor of Commerce (Industry Integrated) from the same college. She has done a research on the topic "Cost Analysis on Business Performance". Her interested areas in research are the act of breaking down a cost summary into its constituents

and studying, reporting on each factor and comparison of costs (as of standard with actual or for a given period with another) for the purpose of disclosing and reporting on conditions subject to improvement. Its purpose is to determine if it is sound investment/decision (justification/ feasibility) and to provide a basis for comparing projects.

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