

## CPV-ANALYSIS AND ITS ROLE IN MANAGEMENT DECISION-MAKING

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### ABSTRACT

The article considers the role of operational analysis in management decision-making. In an ever-changing market environment, a manager needs to make quick and accurate management decisions, on which the ultimate financial result of an entity depends. The use of CPV-analysis helps to reduce risks and increase the efficiency of decisions made.

**Keywords:** operational analysis, management decisions, enterprise, organization, CPV-analysis

### INTRODUCTION

The activity of the head of any enterprise is inherently connected with making a lot of management decisions of various kinds, which directly relate to the price of products, costs of the enterprise and volume of production. All decisions are ultimately reflected in the final financial result of the enterprise, which indicates the effectiveness of the enterprise. In this regard, there is a problem of finding conditions under which the organization will not only be profitable, but also will function stably and have further growth.

The calculation of break-even point is one of the simplest and widespread ways of determination of interrelation and interdependence between cost value, volume of sold products and enterprise profit. For determination of a break-even point the method of operational analysis-analysis of communication "costs - volume - profit" (Cost - Volume - Profit; CVP-analysis) is most often used. While using this method it is possible to reveal how financial results of activity change at change of costs, prices, production volumes and product sales.

To begin with, let's define the concept of operational analysis.

Operational analysis is an analysis based on determining the relationship between costs, sales volume and profit. Known also as CVP-analysis (costs - volume - profit), it allows you to find the necessary ratio of fixed and variable costs, as well as between the price and output. This technique is used for short- and long-term planning and forecasting, but can also be used in pricing [1].

Operational analysis is one of the main components of management accounting, which allows you to reveal the reserves of the enterprise and the extent of their use. Thanks to the CPV-analysis it is possible to estimate, on how much profitability of manufacture is determined by structure of expenses and the received proceeds. Determination of optimum correlation between the price of a ready product, output volume offered to the market and expenses unavoidable at its production allows an enterprise to get maximum profit.

It is also necessary to note that the given analysis is made exclusively for internal users on the basis of all complex of economic information, has operational character and is completely subordinated to the will of management. The application of operational analysis allows making decisions concerning the indicators that influence the final efficiency of activity

Operational analysis being a tool of management control, helps to optimize work of an enterprise and gain high profits. It is more often used when planning in the short term and plays an important role in making management decisions about the assortment and range of products (works, services), the volume of goods produced, the choice of marketing and pricing strategy, etc.

The relevance of this topic in modern conditions is due to the fact that the formation of profit and its management becomes the main component of entrepreneurial activity. The efficiency of any enterprise is characterized by the amount of profit received. Production enterprises always need to find solutions to the questions of how much costs the enterprise can afford to maintain competitiveness; how much production should be made, in order to obtain the target profit; what price should be set in order to achieve the optimal level of product sales. Given the variety of applications of this analysis, it can be said that it is optimal in the process of making managerial decisions.

CVP-analysis is based on the impact on profit, which has the following five factors:

- Product Prices
- Sales Amount
- Variable Costs Per Unit
- Total Fixed Costs
- The Structure Of Products Sold

Thanks to the operational analysis it is possible to determine how profit will change under the influence of the above factors that makes it the main tool in making many managerial decisions about what to produce, at what price to sell, what market strategy to use, what cost structure to maintain.

Direct attribution of operational analysis to management functions is caused by a number of circumstances:

1. The analysis is carried out on all levels of management and in all divisions of economic entity;
2. The analysis is conducted on a unified methodological basis, which makes it possible to work out common approaches to organizing and conducting the analysis in various branches, regions and other structural communities of business units;
3. The analysis of financial and economic activity is a necessary element in the system of enterprise management functions, because many other functions, first of all those connected with making managerial decisions, cannot be performed without it.

Within the framework of operational analysis, the current situation on the market is studied, the financial situation of the enterprise is analyzed, production of certain products is planned and costs are analyzed. On the basis of the above it is possible to draw a conclusion that the operational analysis is the most complete of all existing types of the analysis. The enterprise that uses operational analysis in its daily work, has the ability to form the cost and manage it, avoiding errors and miscalculations.

The practical effect of the analysis is to identify untapped reserves in all areas of planning and operational management, identifying ways to mobilize them to maximize profits.

Thus, thanks to CVP-analysis there is an opportunity to reduce the risks associated with making the right managerial decision, as well as creates the possibility of using the creativity of the manager in his decision-making. The main sources of data for the analysis and making management decisions based on it are information from accounting, reporting, plans and forecasts. The need for management decisions generates a demand for this type of analysis. The analysis itself can provide the demand for accounting, of course, not for the sake of analysis, but for its effectiveness for management. Fundamental attention should be paid to the systematization of costs, divided into fixed and variable costs, taking into account the ability of the information system to keep detailed records of variable costs.

With the deepening of market transformations, the role and importance of analysis as one of the most important functions of management will steadily increase.

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