

# Financial Performance and Cost Efficiency in the Textile Industry: A CVP Analysis of Square Textile PLC and Paramount Textile PLC

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## ABSTRACT

This comparative analysis utilizes Cost-Volume-Profit (CVP) analysis to examine the cost structures and financial performance of Square Textile PLC and Paramount Textile PLC within the textile industry in Bangladesh. The study is based on secondary data from the company's FY 2022-23 annual report. Researchers found that Paramount Textile PLC demonstrates superior cost efficiency and profitability potential across multiple financial metrics compared to Square Textile PLC. Paramount Textile PLC exhibits a lower variable cost percentage, higher contribution margin ratio, and more efficient management of fixed costs relative to its contribution margin, leading to higher operating profit percentages and lower break-even sales levels. Both companies maintain a high margin of safety percentages. Still, Paramount Textile PLC's slightly higher margin of safety suggests a stronger financial position, potentially due to more efficient cost management or higher profit margins. These findings underscore the significance of cost efficiency and effective financial management in driving long-term profitability and economic resilience in the competitive textile industry. The study suggests that Square Textile PLC should focus on optimizing variable and fixed costs, improving operational efficiency, and reviewing its pricing strategy to enhance profitability and competitiveness in the market. Paramount Textile PLC should continue its focus on maintaining cost control, optimizing product mix, investing in innovation, and further exploring opportunities for market expansion to strengthen its position and profitability in the industry.

**Key Words:** Cost Structure, Cost-Volume-Profit, Contribution Margin, Break-Even-Point, Margin of Safety

## INTRODUCTION

Cost-volume-profit (CVP) analysis is a fundamental tool used in managerial accounting to understand the relationship between costs, volume, and profit. CVP analysis, as described by Kaplan & Atkinson (2007), is a powerful technique that examines how cost changes, volume, and prices impact profitability. Over time, it has gained popularity for providing valuable insights into various aspects of business operations in the textile industry. Bauer and Bauer (2018) note that CVP analysis yields essential information for controlling production output,

strategic planning, and decision-making, including product types, production volumes, product line expansion or contraction, break-even points, revenue projections, and time frames necessary to achieve target profits. Gean and Gean (2015) further emphasize the significance of CVP analysis, highlighting its ability to capture the interplay between activities, costs, volumes, and profits. This wealth of relevant information aids in short-term decision-making, offering textile companies a comprehensive understanding of their operational dynamics and guiding them toward profitability. In the context of the textile industry, CVP analysis plays a crucial role in helping textile companies make informed decisions regarding pricing strategies, production levels, and overall profitability. The textile industry relies on various cost factors such as raw materials, labor, overhead costs, and production capacity. CVP analysis allows textile companies to assess how changes in these cost factors and changes in sales volume and selling prices affect their profitability. Using CVP analysis, textile companies can determine their break-even point—the level of sales at which total revenues equal total costs—and evaluate the impact of different production levels on their profitability. This analysis helps management set appropriate sales targets, optimize pricing strategies, and make informed resource allocation and capacity utilization decisions.

Moreover, CVP analysis enables textile companies to conduct "what-if" scenarios to evaluate the potential outcomes of different business decisions. For example, they can assess the impact of investing in new machinery or expanding production capacity on their profitability. In summary, CVP analysis is an essential tool for textile companies to determine the relationship between costs, volume, and profit, enabling them to make strategic decisions that maximize their financial performance in a highly competitive industry.

## **RATIONALE FOR THE STUDY**

The rationale behind the study titled "Exploring Cost-Volume-Profit Analysis: A Comparative Study of Square Textile PLC versus Paramount Textile PLC" lies in understanding the cost dynamics and profitability drivers within the textile industry. This study aims to unveil insights into their cost structures, operational efficiencies, and financial performances by conducting a comparative analysis between Square Textile PLC and Paramount Textile PLC. Such insights are invaluable for stakeholders, including investors, managers, and industry analysts, as they provide a deeper understanding of the factors influencing these companies' financial health and competitive positioning. By examining key metrics such as variable costs, contribution margin, fixed costs, operating profit, break-even sales, and margin of safety, this study sheds light on the relative strengths and weaknesses of each company's cost-volume-profit relationships (Garrison and Noreen, 2004). Through this comparative lens, the study seeks to offer actionable insights that can guide strategic decision-making and operational improvements and ultimately enhance the profitability and sustainability of textile enterprises amidst a dynamic business landscape.

This comparative study addresses the critical need for a comprehensive understanding of the performance of the textile industry in Bangladesh through a comparative analysis of Square Textile PLC and Paramount Textile PLC. By employing a purposive sampling method and leveraging secondary data from the companies' financial reports for FY 2022-23, supplemented by information from relevant journals, the research aims to benchmark the financial performance of these key players against industry standards and peer performance. This comparative evaluation sheds light on the strengths and weaknesses within their operations and provides valuable insights for stakeholders, including management teams, investors, and industry analysts, for strategic decision-making. The study enhances

operational efficiency by assessing financial health, mitigating risks, and fostering investor confidence in the textile sector. Furthermore, the findings may inform policymakers and regulatory authorities about the industry's dynamics, facilitating policies that support sustainable growth and competitiveness. Overall, the study is a significant academic contribution, enriching the body of knowledge in finance, management, and textile industry analysis with empirical evidence and actionable insights from the analysis techniques.

### Research Question

How does the application of Cost-Volume-Profit (CVP) analysis reveal variations in cost structures and financial performance between Square Textile PLC and Paramount Textile PLC in the Bangladesh textile industry, and what strategic insights can be derived from these disparities to optimize profitability and competitiveness?

### Objective of the Study

The objectives of the study are as follows:

- Analyze the comparative performance of Square Textile PLC and Paramount Textile PLC using key elements of the Cost-Volume-Profit (CVP) approach, including variable cost percentage, contribution margin percentage, fixed cost percentage, operating profit percentage, break-even-sales, break-even-sales percentage, margin of safety, and margin of safety percentage.
- Conclude the comparative analysis and offer recommendations for improving both companies' financial performance and competitiveness in Bangladesh's textile industry.

## OVERVIEW OF THE SELECTED COMPANIES

Square Textiles PLC was established in 1997 and quickly emerged as a leading textile company in Dhaka, Bangladesh, boasting modern technology and a skilled workforce. With three units established between 1997 and 2000, the company has made substantial investments, including US \$20.00 million in Unit-1, US \$13.50 million in Unit-2, and US \$12 million in Unit-3. These units collectively house state-of-the-art machinery from renowned brands like Rieter, Toyoda, Schlafhorst, Uster Technologies AG, Luwa, and McQuay. Unit-1 has a production capacity of 36,288 spindles, Unit-2 has 23,184 spindles and 768 rotors, and Unit-3 has 3,192 open-end heads. Emphasizing quality and affordability, Square Textiles PLC targets the economic class and maintains social responsibilities, ensuring shareholder returns, competitive employee compensation, and ethical practices. The company upholds sound governance principles across its operations, including transparent reporting, fair treatment of stakeholders, and adherence to legal obligations and ethical standards. Paramount Textile PLC is a leading textile manufacturer in Bangladesh specializing in woven fabrics, including cotton yarn-dyed fabrics, cotton solid white fabrics, knit yarn dyeing, and sweater yarn dyeing, and printing fabrics. The company was founded in 2006 and is headquartered in Dhaka. Paramount Textile has been recognized for its performance and has received the "National Export Trophy" multiple times. The company has implemented economic and environmentally friendly measures throughout its organization and strongly focuses on environmental sustainability and safe working conditions for its employees. Paramount Textile manufactures a diversified range of high-quality yarn, solid dyed, and printed woven fabrics using the best raw materials and technical excellence. The company has emerged as one of the leading manufacturers in Bangladesh with the help of the latest machinery and equipment, an efficient workforce, and 30 years of extensive experience.

## LITERATURE REVIEW

Cost-volume-profit (CVP) analysis is a fundamental tool in managerial accounting that examines the interplay between costs, volume of production or sales, and resulting profits, playing a pivotal role in strategic decision-making for businesses across diverse industries. Some studies centered on cost-volume-profit (CVP) analysis are reviewed here, highlighting their key findings and recommendations to elucidate their significance in managerial decision-making processes. **Ali and Huq (2016)** examined 14 manufacturing companies in Bangladesh's textile sector, using Cost-Volume-Profit (CVP) analysis to assess performance. They observed a rise in the average contribution margin ratios from 15.57% in 2012 to 16.13% in 2013, indicating an improvement in operating profit. Similarly, the average margin of safety percentages increased from 51.46% in 2012 to 53.59% in 2013, suggesting enhanced stability. Other CVP technique indicators, like break-even sales, also showed positive changes, though metrics such as the degree of operating leverage (DOL) and earnings per share (EPS) declined in 2013. The researchers recommended better accessibility of information for CVP calculation, including product quantity in financial reports, and increased awareness of CVP analysis among managers for improved performance evaluation.

**Islam et al. (2013)** highlighted significant hurdles in Bangladesh's textile industry: global recession, trade policies, security concerns, high energy costs, and safety issues. These challenges, compounded by currency depreciation, inflation, and costly financing, hinder industry growth. They suggest government intervention, including subsidies and tax reforms, and resolving internal disputes among exporters. Additionally, upgrading machinery and embracing new technologies could boost research and development, crucial for industrial advancement. **Jannath (2021)** conducted a study on Cost Volume Profit (CVP) analysis of Baraka Power Limited over the 2016-2020 period, using secondary data from the company's Annual Reports and website. The study revealed consistent growth in sales and contribution levels. However, fluctuating profit-volume ratios and break-even sales suggested the need for the company to reduce fixed costs and boost sales in the future. The study recommended utilizing CVP analysis for informed decision-making to enhance profitability. **Lulaj and Iseni (2018)** conducted a study focusing on the significance of Cost-Volume-Profit (CVP) analysis as a crucial tool for planning and decision-making in business environments. They argued that CVP analysis was vital in guiding business planning and decision-making processes. The research encompassed both manufacturing and service sectors, employing a blend of econometric models to ensure the accuracy and effectiveness of the study.

The findings highlighted a positive correlation between production volume and sales for service companies and increased profits for manufacturing businesses. This underscored the significant relationship between production levels and sales outcomes. **Abdullahi et al. (2017)** examined the adoption of Cost-Volume-Profit (CVP) analysis among small business enterprises at Bayero University Kano. Data was gathered from these enterprises through structured questionnaires. Statistical methods such as the Mann-Whitney U test and Pearson correlation coefficient were employed to analyze the data. Despite a minimal relationship (0.02) between knowledge of management accounting tools and their application, the study concluded that small businesses often utilize CVP analysis inadvertently. It is recommended that CVP analysis and other management accounting tools be introduced to enhance productivity in these enterprises. **Georgiev (2014)** examined the use of Cost-Volume-Profit (CVP) analysis in the hotel industry by surveying high-ranking hotels in the northeast region of Bulgaria. The study revealed that analysts extensively employ CVP analysis across various

aspects of management accounting, highlighting its importance in generating data for hotel management. Considering the unique nature of the hotel product, the researcher found the results regarding the extent and frequency of CVP analysis application logical and unsurprising.

## METHODOLOGY OF THE STUDY

The present study focuses on conducting a comparative analysis of the cost structures and financial performance of Square Textile PLC and Paramount Textile PLC within the textile industry in Bangladesh, employing a comprehensive Cost-Volume-Profit (CVP) analysis approach. Companies are selected based on a purposive sampling method with convenience criteria in annual report availability. The research is based on secondary data from the selected companies' FY 2022-23 financial reports. Websites of the sample companies were searched to obtain copies of annual reports, and some other relevant local and foreign journal websites were searched for other details through the Google Chrome search engine. The total costs of the selected companies are segregated into variable and fixed depending on their behavior. The paper analyzed the comparative performance of the textiles chosen using the elements of the Cost-Volume-Profit (CVP) approach, calculated as follows:

$$\text{Variable cost percentage} = \frac{\text{Amount of variable costs}}{\text{Net sales revenue}} \times 100\%$$

$$\text{Contribution margin percentage} = \frac{\text{Net sales revenue} - \text{Amount of variable costs}}{\text{Net sales revenue}} \times 100\%$$

$$\text{Fixed cost percentage} = \frac{\text{Amount of fixed costs}}{\text{Net sales revenue}} \times 100\%$$

$$\text{Operating profit percentage} = \frac{\text{Operating profit}}{\text{Net sales revenue}} \times 100\%$$

$$\text{Break-even-sales (Tk.)} = \frac{\text{Fixed costs}}{\text{Contribution ratio}}$$

$$\text{Break-even-sales (Tk.) percentage} = \frac{\text{Break-even sales}}{\text{Net sales revenue}} \times 100\%$$

$$\text{The margin of safety (Tk.)} = \text{Actual sales} - \text{Break-even-sales}$$

$$\text{The margin of safety (Tk.) percentage} = \frac{\text{Margin of safety}}{\text{Net sales revenue}} \times 100\%$$

## FINDINGS AND ANALYSIS

Cost-volume-profit (CVP) analysis is a financial tool used by the company to understand how changes in sales volume, prices, costs, and profits affect their bottom line. By analyzing the relationships between these factors, CVP analysis helps companies determine their break-even point, assess profitability at different production or sales levels, and make informed decisions about pricing strategies, cost control measures, and overall business operations. It provides valuable insights into profitability dynamics and guides management in optimizing performance and maximizing profits.

Table 1: Financial Data for Cost-Volume-Profit Analysis (For the year ended June 30, 2023)

SL No.	Particulars	Square Textile PLC		Paramount Textile PLC	
		Amount	Percentage	Amount	Percentage
01	Net sales revenue	16508162222	100%	9463818403	100%
02	Variable costs	12262643814	74.28%	6800851466	71.86%
03	Contribution margin	4245518408	25.72%	2662966937	28.14%
04	Fixed cost	2558365239	15.50%	1097681176	11.60%
05	Operating profit	1687153169	10.22%	1565285761	16.54%
06	Break-even sales	99478802	0.60%	39010080	0.41%
07	Margin of safety	16408683420	99.40%	9424808323	99.59%

**Source:** Self-constructed table based on the annual reports of Sample Company

### Variable costs

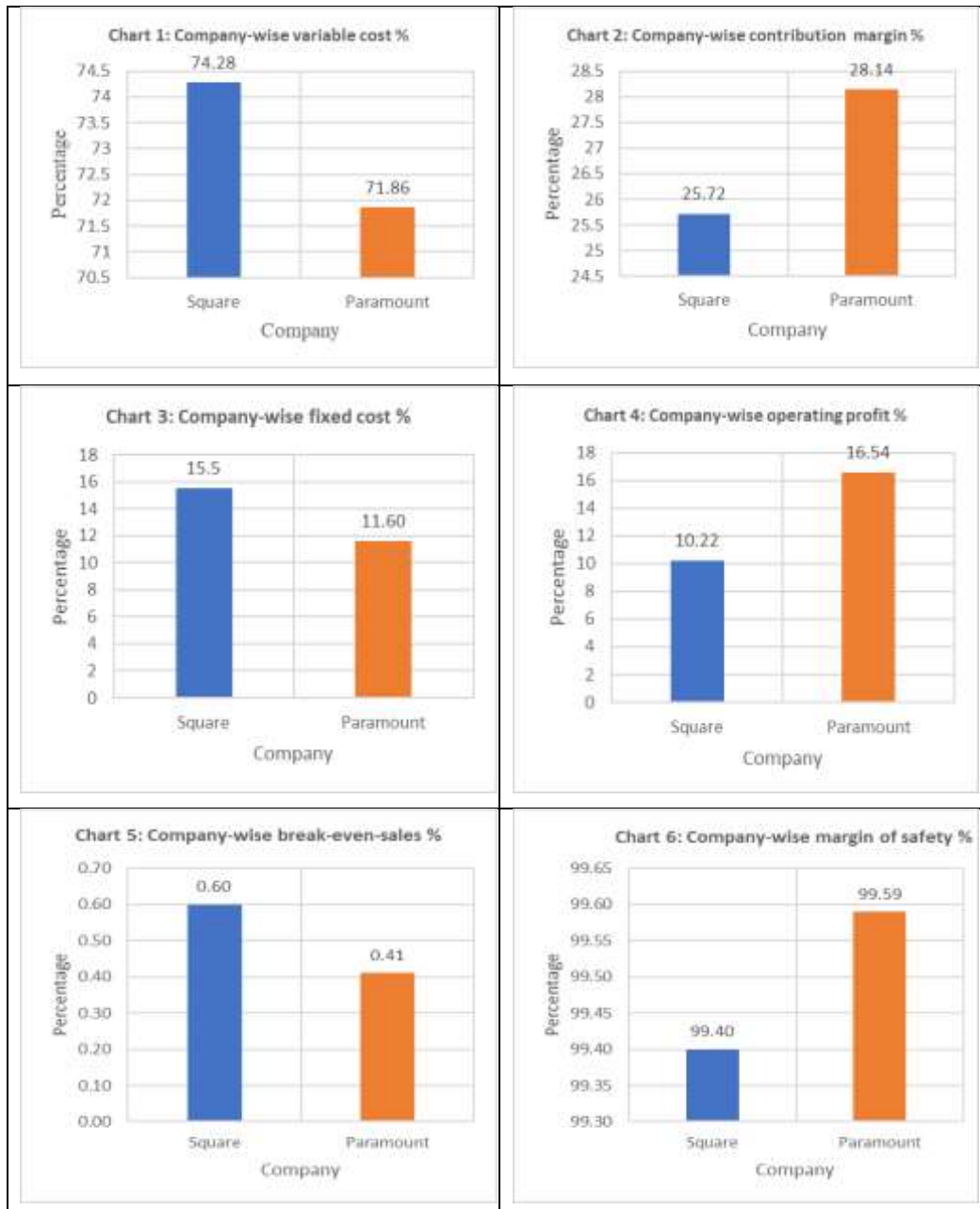
Table 01, SL No. 02 presents the variable costs percentage of Square Textile PLC (74.28%) and Paramount Textile PLC (71.86%), indicating the portion of total costs that varies with production or sales levels for each company. In the case of Square Textile PLC, this suggests that approximately 74.28% of their total costs are directly attached to the level of production or sales. These costs may include raw materials, direct labor, and variable overhead expenses. Similarly, for Paramount Textile PLC, approximately 71.86% of their total costs are variable, meaning they fluctuate with changes in production or sales. A higher variable costs percentage typically implies that a more significant portion of each additional sales amount covers these variable expenses. Therefore, a lower variable cost percentage, as seen in Paramount Textile PLC's case, can indicate greater cost efficiency and potential for higher profitability. Paramount Textile PLC may have better control over its variable costs or benefit from economies of scale in production, allowing it to produce goods at lower variable costs per unit. To gain a deeper understanding of these differences, further analysis is needed. Factors such as differences in production processes, sourcing strategies, labor efficiency, and product mix can all influence variable costs. Additionally, considering the impact of fixed costs and the overall revenue levels of each company is essential for a comprehensive assessment of their cost structures and profitability potentials.

### Contribution Margin

Table 01, SL No. 03 shows the contribution margin ratio reflects the percentage of each sales amount that contributes to covering fixed costs and generating profit after accounting for variable costs. In the case of Square Textile PLC, with a contribution margin ratio of 25.72%, approximately 25.72% of each sales amount remains after covering variable costs to contribute towards covering fixed costs and generating profit. Similarly, with a contribution margin ratio of 28.14% for Paramount Textile PLC, approximately 28.14% of each sales amount is available for the same purposes. A higher contribution margin ratio indicates that a more significant portion of each sales amount is available to cover fixed costs and contribute to profit. Paramount Textile PLC's higher contribution margin ratio suggests it is more efficient in converting sales revenue into contribution margin than Square Textile PLC. This could be attributed to lower variable costs, higher selling prices, or a more favorable product mix. To further analyze these differences, it's essential to consider the underlying factors driving the contribution margin ratios. This includes examining the specific components of variable costs, such as raw material costs and direct labor expenses, to identify areas for potential cost reductions or efficiency improvements.

Additionally, evaluating pricing strategies, sales volume trends, and product profitability can provide insights into each company's overall revenue and cost dynamics. Furthermore, comparing the contribution margin ratios with other financial metrics, such as the break-even point and profit margins, can help assess the overall economic health and profitability potential of Square Textile PLC and Paramount Textile PLC. By understanding these factors, companies can make informed decisions to optimize their cost structures, pricing strategies, and profitability.

### Graphical presentations of findings





### Fixed Cost

Table 01, SL No. 04, displays the fixed cost percentage on the contribution margin of each company. In the case of Square Textile PLC, with a fixed cost percentage on the contribution margin of 15.50%, approximately 15.50% of its contribution margin is allocated to covering fixed costs. Similarly, for Paramount Textile PLC, with a fixed cost percentage on the contribution margin of 11.60%, approximately 11.60% of its contribution margin is allocated to the same purpose. A lower fixed cost percentage on the contribution margin suggests that a smaller portion of the contribution margin is required to cover fixed costs for Paramount Textile PLC compared to Square Textile PLC. This indicates that Paramount Textile PLC is more efficient in managing its fixed costs than its contribution margin. To analyze these differences further, it's essential to consider the nature of fixed costs and how each company manages them. Fixed costs typically include expenses such as rent, salaries of permanent staff, depreciation, and administrative costs, which remain constant regardless of the level of production or sales. Companies that can effectively control or reduce their fixed costs relative to their contribution margin can achieve higher profitability, as more of the contribution margin is available to cover other expenses and generate profit. Factors contributing to the lower fixed cost percentage on the contribution margin for Paramount Textile PLC could include more efficient utilization of resources, better cost control measures, or economies of scale that allow for spreading fixed costs over a more extensive revenue base. Analyzing the trends in fixed costs, contribution margin, and overall profitability over time can provide valuable insights into each company's financial performance and efficiency in managing costs. Additionally, comparing these metrics with industry benchmarks and peer companies can help assess competitiveness and identify areas for improvement.

### Operating Profit

Table-01, SL No. 05, exposes the operating profit percentages of Square Textile PLC and Paramount Textile PLC. With an operating profit percentage of 10.22%, Square Textile PLC generates approximately 10.22% of revenue as operating profit before interest and taxes. On the other hand, Paramount Textile PLC boasts a higher operating profit percentage of 16.54%, indicating more robust profitability from its core operations. This suggests that Paramount Textile PLC may have better cost control, higher margins, or more effective operational management than Square Textile PLC. This comparative figure suggests that Square Textile PLC may have higher operating costs than Paramount Textile PLC. It could indicate several factors for Square Textile PLC, such as higher production costs, lower pricing power, or less efficient operations. Square Textile PLC might need to optimize its operations, reduce costs, or improve pricing strategies to enhance profitability.

### Break-Even-Sales

Table 01, SL No. 06 exhibits the break-even sales percentages of Square Textile PLC and Paramount Textile PLC, standing at 0.60% and 0.41%, respectively, providing valuable insights into their cost structures and financial resilience. Square Textile PLC's break-even sales percentage indicates that it needs to generate approximately 0.60% in sales revenue to cover all its expenses and reach a point of profitability. This figure suggests that Square Textile PLC may have higher fixed costs or overhead expenses than Paramount Textile PLC. It could also imply that Square Textile PLC might be operating with narrower profit margins or facing challenges in cost management. On the other hand, Paramount Textile PLC's lower break-even sales percentage of 0.41% suggests that it has a more efficient cost structure or higher profit margins, enabling it to reach profitability with lower sales volumes. This indicates that



Paramount Textile PLC may have better control over its costs, allowing it to operate more efficiently and withstand market fluctuations more effectively. The disparity between the break-even sales percentages of the two companies underscores the importance of cost management and operational efficiency in determining financial stability and competitiveness within the textile industry. Square Textile PLC may benefit from analyzing its cost structure and implementing measures to improve efficiency and reduce break-even sales levels to enhance its profitability and competitive position relative to Paramount Textile PLC.

### Margin of Safety

Table 01, SL No. 07 presents the margin of safety percentage, which indicates how much a company's sales can decline before it reaches its break-even point, providing insights into its financial resilience and risk management. In this context, Square Textile PLC's margin of safety percentage of 99.40% suggests that its current level of sales exceeds its break-even point by a substantial margin. This indicates a robust financial position, where Square Textile PLC has a significant buffer against potential sales declines or adverse market conditions. However, despite this seemingly strong position, Square Textile PLC may need to remain vigilant and continue to monitor its operating environment to sustain its profitability and competitiveness. Conversely, Paramount Textile PLC's margin of safety percentage of 99.59% indicates an even higher financial resilience level than Square Textile PLC. Paramount Textile PLC's sales can decline by a more significant margin before it reaches its break-even point, highlighting its robust risk management practices and potentially more efficient cost structure. This suggests that Paramount Textile PLC may have better control over its expenses or enjoy higher profit margins, contributing to its superior financial position. Overall, Square Textile PLC and Paramount Textile PLC demonstrate significant financial strength, as indicated by their high margin of safety percentages. However, Paramount Textile PLC's slightly higher margin of safety suggests a stronger financial position, potentially attributed to more efficient cost management or higher profit margins. Nonetheless, both companies should maintain and enhance their financial resilience to navigate uncertainties and sustain long-term profitability in the textile industry.

### RECOMMENDATIONS

Based on the analysis of the financial metrics provided for Square Textile PLC and Paramount Textile PLC, several suggestions can be made for both companies to improve their financial performance and competitiveness:

#### For Square Textile PLC

- **Cost Efficiency Improvement:** Square Textile PLC should focus on identifying areas where it can reduce variable costs, potentially through renegotiating supplier contracts, optimizing production processes, or improving inventory management to lower raw material expenses.
- **Fixed Cost Management:** Implementing measures to control fixed costs more effectively, such as streamlining administrative processes, optimizing resource allocation, or renegotiating lease agreements, can help improve profitability by reducing the contribution margin allocated to fixed costs.
- **Operational Optimization:** Analyzing operational inefficiencies and identifying opportunities for improvement, such as enhancing labor productivity, reducing

production waste, or investing in technology to automate processes, can help lower operating costs and increase profitability.

- **Pricing Strategy Review:** Square Textile PLC should evaluate its pricing strategy to ensure it reflects the value proposition of its products while remaining competitive in the market. This could allow for higher profit margins and improved financial performance.

#### **For Paramount Textile PLC**

- **Continuous Cost Control:** Paramount Textile PLC should continue its efforts to maintain control over variable costs, ensuring that efficiencies gained from economies of scale are sustained and further optimized to enhance profitability.
- **Focus on Product Mix:** Analyzing the profitability of different product lines and focusing on those with higher margins can help maximize contribution margin and overall profitability.
- **Investment in Innovation:** Paramount Textile PLC could explore opportunities for innovation in production processes or product development to reduce costs further and differentiate its offerings in the market, potentially leading to higher margins and increased market share.
- **Market Expansion:** Exploring opportunities for market expansion or diversification into new segments can help mitigate risks associated with fluctuations in demand and further enhance revenue streams and profitability.

Both companies should also prioritize ongoing monitoring of financial performance metrics, benchmarking against industry peers, and agility in adapting to changing market conditions to ensure sustained long-term profitability and competitiveness in the textile industry.

### **CONCLUSION**

Paramount Textile PLC demonstrates superior cost efficiency and profitability potential compared to Square Textile PLC across various financial metrics. With a lower variable cost percentage and a higher contribution margin ratio, Paramount Textile PLC efficiently manages costs and converts sales revenue into profit, indicating better control over expenses and more robust profitability from core operations. Additionally, Paramount Textile PLC exhibits more efficient management of fixed costs relative to its contribution margin, leading to higher operating profit percentages and lower break-even sales. Both companies maintain a high margin of safety percentages. Still, Paramount Textile PLC's slightly higher margin of safety suggests a stronger financial position, potentially attributed to more efficient cost management or higher profit margins. Overall, Paramount Textile PLC's performance highlights its competitive advantage in the textile industry, emphasizing the importance of cost efficiency and effective financial management in sustaining long-term profitability and financial resilience. Based on the analysis, further investigation into the specific drivers of variable costs, such as raw material prices and labor efficiency, would provide valuable insights for optimizing cost structures in both Square Textile PLC and Paramount Textile PLC. Additionally, conducting a detailed examination of pricing strategies and product mix could help identify opportunities to improve contribution margin ratios and enhance overall profitability. Furthermore, comparative studies with industry benchmarks and peer companies would offer valuable perspectives for identifying areas of improvement and

implementing best practices to maintain financial resilience and long-term profitability in the textile industry.

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