

## COST AUDITORS' REPORT TO THE DIRECTORS

We, Rahman, Sarfraz Rahim Iqbal Rafiq, having been appointed to conduct an audit of cost accounts of **Messrs. Fecto Cement Limited** have examined the books of account and statement prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant record for the year ended on **June 30, 2014** and report that:

- (1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of this audit.
- (2) in our opinion:
  - (a) proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by these rules, have been kept by the company;
  - (b) proper return, statements and schedules for the purpose of audit of cost accounts have been received from branches not visited by us;
  - (c) the said books and records give the information required by the rules in the manner so required; and
- (3) in our opinion and, subject to best of our information:
  - (a) the annexed statement of capacity utilisation and stock-in trade are in agreement with the books of account of the company and exhibit true and fair view of the Company's affairs; and
  - (b) cost accounting records have been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of the product of the company, namely Ordinary Portland Cement.

The matter contained in the ANNEX forms part of this report.

Date: 23 OCT 2014  
Karachi.



**RAHMAN SARFRAZ RAHIM IQBAL RAFIQ**

Chartered Accountants

Engagement Partner: **Abdul Rahim Salim Bhai**

## 1. Capacity

Licensed and installed capacity of Clinker & Ordinary Portland Cement produced by the company was 780,000 & 819,000 tonnes per annum respectively based on 300 working days. The company produced 640,825 tonnes of Clinker and 680,919 tonnes of Ordinary Portland Cement during the year ended June 30, 2014.

## 2. Cost Accounting System

Cost accounting system instituted by the management is adequate to determine correctly the cost of Ordinary Portland Cement.

## 3. Production

- (a) Production of Ordinary Portland Cement was 680,919 tonnes.
- (b) Percentage of Clinker and Ordinary Portland Cement production in relation to installed capacity was 82.16 and 83.14 respectively.
- (c) The company has not made any addition to production capacity either during the year or during the immediate preceding two years

## 4. Raw Materials

- (a) Cost of raw material consumed in terms of quantity and value and the related transportation cost was:

### Lime Stone

Quantity (Tonnes)	855,999
Value including Transport Cost (Rupees)	232,673,766
Transport Cost (Rupees)	153,523,083

### Shale

Quantity (Tonnes)	116,800
Value including Transport Cost (Rupees)	28,128,351
Transport Cost (Rupees)	21,898,221

### Laterite

Quantity (Tonnes)	57,714
Value (Rupees)	57,094,798

### Gypsum

Quantity (Tonnes)	37,872
Value (Rupees)	35,298,609

(b) Consumption of raw material per unit of production:

Raw Material	30-Jun-14	30-Jun-13	30-Jun-12
Lime Stone	1.257	1.340	1.437
Shale	0.172	0.160	0.093
Laterite	0.085	0.072	0.067
Raw Meal	1.472	1.523	1.551
Gypsum	0.056	0.044	0.049

(c) Consumption of raw material per tonne of cement depends on properties of rock. It can be concluded that there is no major variation in raw material consumption.

(d) The method of accounting adopted for recording the quantities and value of receipts, issues and balances of all material directly used in production is adequate to determine the value of raw material.

## 5. Wages and Salaries

(a) Total wages and salaries paid for all categories of employees were:

	Rupees
(i) Direct labour cost on production	58,448,057
(ii) Indirect employees' cost on production	166,766,903
(iii) Employees' cost on administration	52,947,683
(iv) Employees cost on selling & distribution	22,401,066
(v) Bonus / Ex-gratia to workers and employees	44,191,260
(vi) Other employees' cost (including taxes and levies)	47,830,073
(vii) Total employees' cost [total of items (i) to (vi) ]	<u>392,585,042</u>

(b) Salaries and perquisites of director(s) and chief executive were Rs. 22,421,438

(c) Total man-days of direct labour available during the year were 36,969.85

(d) Average number of workers employed during the year was 883.

(e) Direct labour cost per unit of Ordinary Portland Cement was Rs. 85.84 Rs. 74.64 and Rs. 59.55 respectively for the years ended on June 30, 2014, June 30, 2013 and June 30, 2012.

(f) The main reason for variance in item (e) are increments and ex-gratia given to staff during the year June 30, 2014.

(g) Company does not have any incentive scheme for payment to laborers.

## 6 Stores and Spare Parts

(a) The expenditure per tonne of Ordinary Portland Cement on stores was Rs. 190.17

(b) System of stores accounting is computerized and method of recording of receipts, issues and balances both in quantities and values is adequate. These are valued at moving average cost other than stores and spares in transit which are valued at cost comprising invoice value plus other charges paid thereon.

(c) Slow moving items are stated to value Rs. 15 million as per financial accounts.

## 7. Depreciation

- (a) Company follows straight line method of depreciation.
- (b) Depreciation on common assets is allocated in proportion to value of assets of relevant department.
- (c) Depreciation to the products is charged in proportion to departmental cost.

## 8. Overheads

- (a) Total amount of overheads with breakup were:

Expenses	June 30 2014	June 30 2013	June 30 2012
(i) <b>Factory overheads</b>			
Traveling & conveyance	2,276,374	2,311,199	492,401
Communication	1,572,003	1,951,040	1,523,865
Printing & stationary	1,972,598	2,071,034	1,477,502
Vehicles running & maintenance	26,319,166	23,161,515	21,228,158
Entertainment	4,463,276	4,223,118	4,068,646
Fees & subscription	1,519,778	274,428	648,453
Lubricants	216,006	-	225,066
Electricity	4,930,767	5,017,665	4,751,133
Water	-	-	-
Gas	2,654,922	2,697,599	1,894,522
Freight & transportation	1,070,520	228,630	188,443
Advertising & Publicity	-	-	-
Miscellaneous	7,029,215	6,879,702	7,233,743
<b>Rupees</b>	<b>54,024,625</b>	<b>48,815,930</b>	<b>43,731,932</b>

Expenses	June 30 2014	June 30 2013	June 30 2012
(ii) <b>Administration Overheads</b>			
Salaries, Wages and Benefits	100,320,642	83,559,074	74,995,391
Traveling and Conveyance	6,000,873	4,094,475	3,415,977
Vehicles Running Expenses	8,705,486	8,261,660	7,687,439
Communications	2,859,665	3,741,837	3,189,788
Printing and Stationery	1,397,172	1,058,186	920,260
Rent, Rates and Taxes	8,812,782	9,410,490	8,840,909
Utilities	8,444,240	9,748,610	9,545,189
Repairs and Maintenance	1,831,896	1,847,196	1,602,201
Legal and Professional Charges	7,160,386	3,635,339	2,487,409
Auditors' Remuneration	683,000	552,236	552,236
Donations	3,648,475	2,760,150	2,534,000
Depreciation	5,425,172	5,912,008	5,813,889
Miscellaneous	14,309,743	8,450,921	5,763,924
<b>Rupees</b>	<b>169,599,532</b>	<b>143,032,182</b>	<b>127,348,612</b>

	Expenses	June 30 2014	June 30 2013	June 30 2012
(iii)	<b>Selling and Distribution overheads</b>			
	Salaries, Wages and Benefits	29,333,088	25,180,343	24,906,687
	Traveling and Conveyance	475,744	62,008	120,082
	Vehicles Running Expenses	2,641,332	2,665,183	3,303,711
	Commission	146,383,496	168,435,199	202,980,075
	Export Expenses	6,691,845	15,977,488	75,213,500
	Communications	840,952	807,541	928,097
	Rent, Rates and Taxes	2,147,609	1,695,240	1,566,015
	Repairs and Maintenance	509,808	1,456,683	1,263,541
	Advertisement	89,900	2,720,710	2,541,424
	Marking Fee	4,763,209	4,618,711	4,389,750
	Depreciation	1,855,775	2,058,094	2,053,814
	Miscellaneous	2,094,800	4,899,916	2,705,143
	<b>Rupees</b>	<u>197,827,558</u>	<u>230,577,116</u>	<u>321,971,839</u>
	<b>Expenses</b>	<b>June 30 2014</b>	<b>June 30 2013</b>	<b>June 30 2012</b>
(iv)	<b>Financial charges-Rupees</b>	<u>104,185,530</u>	<u>143,327,921</u>	<u>205,706,584</u>

(b) The factory overheads and Administrative overheads increased by 10.67% and 18.57% respectively whereas selling and distribution overheads reduced by 14.2% during the year in relation with 2013. Factory overheads are increased due to increase in Vehicle fuel cost whereas Administrative overheads are increased due to normal increment in salary and travelling expenses. Selling and distribution expenses are decreased due to less Export Commission and Export Expenses directly linked to reduced export quantity.

(c) The factory overheads have been allocated to cost centres in proportion to departmental cost which, in our opinion, is a rational basis.

(d) Cost of packing material consumed during the year under report was Rs. 272,153,274 and, whereas the cost per tonne of Ordinary Portland Cement was Rs. 402.36

## 9. Royalty / Technical Aid Payments

The company does not pay Royalty or make Technical Aid Payment on its product i.e., Ordinary Portland Cement.

## 10. Abnormal non - recurring features

(a) We have not observed any abnormal non-recurring features affecting the production of the Company during the year.

(b) No special expenses have been directly allocated to the product under reference.

## 11. Cost of production

The production cost per tonne of Ordinary Portland Cement was Rs. 5,470.82 and Rs. 4,644.47 for the year and previous year respectively. The increase is mainly due to increase in Salaries and Wages, Excavation Cost, Electricity rate and Fuel & Power cost during the year.

## 12. Sales

- (a) The sales quantities, value and per tonne realisation respectively were 682,047.90 tonnes, Rs. 4,723,814,870 and Rs. 6,925.93 per tonne.
- (b) Company has exported 193,343 tonnes of cement during the year to Afghanistan and India. The average net realization per tonne was Rs. 6,245.59.

## 13. Profitability (before taxation)

Profit earned per tonne of Ordinary Portland Cement, which is the only product of the Company, was Rs. 1,128.80.

## 14. Observations & Conclusions

We have not noted any significant matters during the course of our cost audit. However, some of our observations are given below:

- (a) None
- (b) None
- (c) Production cost is Rs. 5,470.82 per tonne. Overall Production cost did not increased substantially as compared to various inflationary factors due to Waste Heat Recovery Power Plant and International Coal Prices. Company will continue to enjoy the benefit of Waste Heat Recovery Power Plant in future as well.
- (d) (i) Budgetary control exists and is adequate for the cost audit purposes.
- (ii) The Board of Directors has an Audit Committee which monitors the internal audit. The internal audit is considered satisfactory.
- (e) (i) Rectification of general imbalance, if any, in production has been done through up gradation/modification undertaken during previous years.
- (ii) Full capacity was not achieved mainly due to marketing constraints.
- (iii) (a) Exercise should be continued to undertake possible modification and up gradation which may result in additional production or cost reduction.
- (b) Export market should be further explored to enhance the production capacity and overall sale volume.
- (c) No such bottleneck registered.
- (d) The company has drawn various energy conservation plans including Waste Heat Recovery Power Plant which will reduce cost of electricity.
- (iv) Studies are continued to be made by the company in the realm of technology. Relatively new technology may help increase production. Investment in a new plant would require incurring consequential financing and depreciation costs, in a scenario of fast expanding production facilities by other plants which may not be most appropriate. More appropriate considered are techniques which go to save cost, particularly energy and transportation cost of the company.
- (v) New at the time of installation.