


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, 2015** 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 (I to XII) forms part of this report.

Date: 28 OCT 2015


RAHMAN SARFRAZ RAHIM IQBAL RAFIQ
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 703,677 tonnes of Clinker and 694,458 tonnes of Ordinary Portland Cement during the year ended June 30, 2015.

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 694,458 tonnes.
- (b) Percentage of Clinker and Ordinary Portland Cement production in relation to installed capacity was 90.21 and 84.79 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)	934,413
Value including Transport Cost (Rupees)	188,344,943
Transport Cost (Rupees)	93,737,819

Shale

Quantity (Tonnes)	137,842
Value including Transport Cost (Rupees)	44,347,495
Transport Cost (Rupees)	34,976,774

Laterite

Quantity (Tonnes)	61,147
Value (Rupees)	63,888,415

Gypsum

Quantity (Tonnes)	36,738
Value (Rupees)	31,616,576

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- (b) Consumption of raw material per unit of production.

Raw Material	30-Jun-15	30-Jun-14	30-Jun-13
Lime Stone	1.346	1.257	1.340
Shale	0.198	0.172	0.160
Laterite	0.088	0.085	0.072
Raw Meal	1.585	1.472	1.523
Gypsum	0.053	0.056	0.044

- (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	67,358,289
(ii) Indirect employees' cost on production	190,578,998
(iii) Employees' cost on administration	61,845,355
(iv) Employees' cost on selling & distribution	25,154,038
(v) Bonus / Ex-gratia to workers and employees	50,476,166
(vi) Other employees' cost (including taxes and levies)	62,467,226
(vii) Total employees' cost [total of items (i) to (vi)]	<u>457,880,053</u>

- (b) Salaries and perquisites of director(s) and chief executive were Rs. 28,845,678
- (c) Total man-days of direct labour available during the year were 40,326,115
- (d) Average number of workers employed during the year was 831
- (e) Direct labour cost per unit of Ordinary Portland Cement was Rs. 96.99, Rs. 85.84 and Rs. 74.64 respectively for the years ended on June 30, 2015, June 30, 2014 and June 30, 2013.
- (f) The main reason for variance in item (e) are increments and ex-gratia given to staff during the year June 30, 2015.
- (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. 200.11
- (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.

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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 2015	June 30 2014	June 30 2013
(i) Factory overheads			
Traveling & conveyance	3,537,714	2,276,374	2,311,199
Communication	1,349,760	1,572,003	1,951,040
Printing & stationary	2,486,203	1,972,598	2,071,034
Vehicles running & maintenance	30,297,632	26,319,166	23,161,515
Entertainment	5,842,975	4,463,276	4,223,118
Fees & subscription	1,407,617	1,519,778	274,428
Lubricants	212,622	216,006	-
Electricity	5,038,109	4,930,767	5,017,665
Water	-	-	-
Gas	2,566,343	2,654,922	2,697,599
Freight & transportation	2,505,064	1,070,520	228,630
Advertising & Publicity	-	-	-
Miscellaneous	6,891,251	7,029,215	6,879,702
Rupees	62,135,290	54,024,625	48,815,930

Expenses	June 30 2015	June 30 2014	June 30 2013
(ii) Administration Overheads			
Salaries, Wages and Benefits	121,026,000	100,320,642	83,559,074
Traveling and Conveyance	5,463,000	6,000,873	4,094,475
Vehicles Running Expenses	9,995,000	8,705,486	8,261,660
Communications	3,577,000	2,859,665	3,741,837
Printing and Stationery	1,472,000	1,397,172	1,058,186
Rent, Rates and Taxes	9,598,000	8,812,782	9,410,490
Utilities	8,821,000	8,444,240	9,748,610
Repairs and Maintenance	2,144,000	1,831,896	1,847,196
Legal and Professional Charges	70,135,000	7,160,386	3,635,339
Auditors' Remuneration	875,000	683,000	552,236
Donations	4,031,000	3,648,475	2,760,150
Depreciation	6,404,000	5,425,172	5,912,008
Miscellaneous	14,954,000	14,309,743	8,450,921
Rupees	258,495,000	169,599,532	143,032,182

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	Expenses	June 30 2015	June 30 2014	June 30 2013
(iii)	Selling and Distribution			
	Salaries, Wages and Benefits	35,592,000	29,333,088	25,180,343
	Traveling and Conveyance	537,000	475,744	62,008
	Vehicles Running Expenses	2,618,000	2,641,332	2,665,183
	Commission	113,934,000	146,383,496	168,435,199
	Export Expenses	5,665,000	6,691,845	15,977,488
	Communications	787,000	840,952	807,541
	Rent, Rates and Taxes	2,086,000	2,147,609	1,695,240
	Repairs and Maintenance	579,000	509,808	1,456,683
	Advertisement	107,000	89,900	2,720,710
	Marking Fee	4,843,000	4,763,209	4,618,711
	Depreciation	2,306,000	1,855,775	2,058,094
	Miscellaneous	5,382,690	2,094,800	4,899,916
	Rupees	<u>174,436,690</u>	<u>197,827,558</u>	<u>230,577,116</u>
	Expenses	June 30 2015	June 30 2014	June 30 2013
(iv)	Financial charges -Rupees	<u>81,126,731</u>	<u>104,185,530</u>	<u>143,327,921</u>

- (b) The factory overheads and Administrative overheads increased by 15.01% and 52.41% respectively whereas selling and distribution overheads reduced by 11.82% during the year in relation with 2014. Factory overheads are increased due to increase in Vehicle fuel cost whereas Administrative overheads are increased due to Legal & Professional and 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. 283,670,672 and, whereas the cost per tonne of Ordinary Portland Cement was: Rs. 427.06

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. 4,768.94 and Rs. 5,053.30 for the year and previous year respectively. The decrease in cost is due to reduction in coal cost and adjustment of fuel adjustment charges in electricity cost during the year.

12. Sales

- (a) The sales quantities, value and per tonne realisation respectively were 694,131.75 tonnes, Rs. 4,779,145,217 and Rs. 6,885.07 per tonne for 2015.
- (b) Company has exported 176,139 tonnes of cement during the year to Afghanistan. The average net realization per tonne was Rs. 5,844.65.

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13. Profitability (before taxation)

Profit earned per tonne of Ordinary Portland Cement, which is the only product of the Company, was Rs. 1,296.06

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) Nothing has come to our attention that appears to be wrong in principle or apparently unjustifiable.
- (b) Nothing has come to our attention that would cause us to believe that the funds of the company have been used negligently or inefficiently.
- (c) Production cost is Rs. 4,768.94 per tonne. Overall Production cost decrease due to reduction in coal cost and adjustment of fuel adjustment charges in electricity cost during the year. 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.

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