

# **COST AUDIT HANDBOOK**

**Institute of Cost and Management Accountants of Pakistan**

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## **PREFACE**

It gives me great pleasure to inform the members that after prolonged efforts, the Institute has been able to get the orders for Cost Audit enforced in Cement, Vegetable Ghee/Cooking Oil and Sugar Industries through Companies (Audit of Cost Accounts) Rules 1998. Practising-members of the Institute have become entitled to accept Cost Audit business alongwith Chartered Accountants. During the last two years, our members have taken up Cost Audit of Cement and Vegetable Ghee/Cooking Oil companies and can now take up Cost Audit of Sugar companies also.

The National Council of the Institute considered it advisable to publish a Cost Audit Handbook for the guidance of its young members. A very senior practising member, Mr. Mahmood Ashraf, was requested to draft the Cost Audit Handbook, which he did in a professionally competent manner. As desired by the Council, this draft was reviewed under the supervision of Mr. Qaisar Mufti, Chairman, Research Committee. This Handbook is the result of endeavours of our members, in conducting Cost Audit of not only industries where such audit is enforced but also other industries, which may soon be covered under these Rules.

I take this opportunity to express my appreciation for the Research Committee of our Institute for bringing out this publication.

**M. ASHRAF BAWANY**

PRESIDENT

September 01, 2001

## LETTER OF TRANSMITTAL

The President,

Institute of Cost and Management Accountants of Pakistan

Karachi.

01 September, 2001

Dear Sir,

I take pleasure in forwarding “Cost Audit Handbook” for guidance of members of the Institute in conducting cost audit. As this type of audit is relatively a new phenomenon, it is considered desirable to issue guidance to members.

I must acknowledge the contribution of Mr. Mahmood Ashraf, who compiled the first draft of the Handbook. The Council desired that the same be updated. Result of efforts made is now before you. For the updating, I received significant assistance from Mr. Mahmood Lodhi.

Contribution of my colleagues at the Research Committee, in particular, contribution by Mr. Mohammad Sadiq Khan and Mian Mumtaz Abdullah is worth mentioning. I must also place on record assistance received from Mr. Mohammad Hayat Jasra, Mr. Tahir Mehmood, Mr. Nazir Ahmed Shaheen and Mian Nisar Ahmed in this exercise. Mr. S. Jalaluddin was a great help in bringing the Handbook to its present shape.

Yours faithfully

**QAISAR P. MUFTI**

Chairman,

Research, Cost Accounting Rules  
and Exposure Draft Committee



## EXECUTIVE SUMMARY

Obviously the main area of the Institute of Cost and Management Accountants of Pakistan is “Cost Accounting, Cost Audit and Management Accountancy”. Keeping this perspective in view, the Research Department of the Institute undertook the following steps:

- (i) Drafting “Audit of Cost Accounts” Rules and, on that basis, getting Companies (Audit of Cost Accounts) Rules approved by SECP in July 1998.
- (ii) Perfection of a “Cost Audit Handbook”.

The purpose of the Handbook is to provide guidance to the members of the Institute for conducting Cost Audit in accordance with the above quoted Companies (Audit of Cost Accounts) Rules 1998. The salient features of the Handbook are presented below:

The Cost Audit Handbook defines Cost Audit as an examination of cost accounting records and verification of facts to ascertain that cost of the product has been arrived at, in accordance with principles of cost accounting.

The companies engaged in production activities are legally required under various provisions of Companies Ordinance and Rules/Orders issued under the same to maintain records relating to utilisation, material, labour and other inputs.

The Cost Audit is to be carried out by a practising Cost & Management Accountant or a Chartered Accountant as per Cost Audit Rules. The appointment of Cost Auditor is to be made by the directors with the approval of SECP of such a person who is eligible for appointment. The Cost Auditor has the same powers and duties as Company Auditor laid down in Section 255 of Companies Ordinance. The Cost Auditor has to submit his report to the Board of Directors with a copy to SECP and to the Registrar of Companies.

The Cost Auditor should comply with the Code of Ethics for Professional Accountants, which includes independence of Cost Auditor, integrity and objectivity, professional competence, confidentiality and professional behaviour.

Cost Audit should be planned with professional care so that any mis-presentation in statements provided by management is detected and corrected. In planning cost audit, the personnel requirements of an assignment and documentation of procedures of obtaining audit evidence should be ensured. The Cost Auditor must have up-to-date knowledge of the industry and its business environments for better understanding of events/transactions and flow of costs.

The Cost Auditor has to verify basic elements of Cost viz; material consumption, wages of workers and overheads. Detailed checking is to be carried out to ensure that statements provided by the management are correct and realistic. Cost Accounting records should be reconciled with financial accounting records and difference, if any, should be properly explained. However, it would be preferable if the integrated financial and cost accounting system is followed.

Cost Audit Report is the final document of Cost Auditor, which is submitted to Directors of the Company and contains all the schedules required as per Companies (Audit of Cost Accounts) Rules 1998.

The Handbook also contains the above Rules and Cost Accounting Records Orders for Cement and Vegetable Ghee/Cooking Oil and Sugar Industries for ready reference and guidance of Cost Auditors.

**QAISAR P. MUFTI**

Chairman,  
Research, Cost Accounting Rules  
and Exposure Draft Committee

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# CHAPTER – I

## Cost Audit

### 1. Definition:

Cost audit is an examination of cost accounting records and verification of the facts to ascertain that the cost of the product under reference has been arrived at in accordance with principles of Cost Accounting and evaluation of adequacy of proper Cost Accounting Records and their maintenance. The cost audit is performed by an independent, professionally qualified Cost and Management Accountant or Chartered Accountant. Cost audit is carried out to evaluate cost performance of the entity for which Cost Accounting Records have been prescribed by the Securities and Exchange Commission of Pakistan (SECP). The Cost Auditor, therefore, carries out such tests and makes such inquiries which enable him to give a professional, independent, unprejudiced opinion on the cost performance of the entity, as reflected in the cost information provided in the schedules and annexures which are prepared by the entity in accordance with the cost accounting records maintained.

### 2. Legal Provisions:

The Companies Ordinance 1984 while providing for the books of accounts to be kept by a company under Section 230, makes an additional provision in sub-section (1) (e) of that Section which reads:

“in the case of company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or to other inputs or items of cost as may be prescribed, if such class of companies is required by the Authority by a general or special order to include such particulars in the books of accounts”.

The Companies Ordinance 1984 provides for Audit of Cost Accounts vide Section 258 which reads:-

*“258. Audit of Cost Accounts.- (1) Where any company or class of companies is required under clause (e) of subsection (1) of Section 230 to include in its books of accounts the particulars referred to therein, the Federal Government may direct that an audit of cost accounts of the company shall be conducted in such manner and with such stipulations as may be specified in the order by an auditor who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a cost and management accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966); and such auditor shall have the same powers, duties and liabilities as an auditor of a company and such other powers, duties and liabilities as may be prescribed.”*

### 3. Companies (Audit of Cost Accounts) Rules, 1998:

The basic structure of the Cost Audit has been laid down in the Companies (Audit of Cost Accounts) Rules, 1998. Cost Audit has to be carried out every year from 1997-98 in all industries to which Cost Account Records Orders issued by SECP apply. Cost audit ascertains compliance with “Cost Accounting” Record Orders. During cost audit, the cost accounting system is also studied, which should be proper and adequate for ascertaining cost of the product under reference and for providing all information required to complete the prescribed schedules and annexures given

in the relevant cost accounting record orders/rules. Companies (Audit of Cost Accounts) Rules 1998 have been published as Appendix I.

#### **4. Cost Accounting Records Orders:**

Under Sub-section (I)(e) of Section 230 of the Companies Ordinance 1984, the SECP (former Corporate Law Authority) framed the Vegetable Ghee and Cooking Oil Companies (Cost Accounting Records) Order, 1990 which came into force from 1st January 1991. Subsequently the “Cement Industry (Cost Accounting Records) Order 1994 and Sugar Industry (Cost Accounting Records) Order, 2001 were framed by SECP which came into force from 1st July 1994 and 13th February 2001 (Appendix III, IV and V). Under these three Orders, Vegetable Ghee and Cooking Oil Companies, units of Cement Industry and Sugar Industry are required to maintain cost accounting records to provide cost accounting information in a verifiable form, required to fill in the schedules and annexures prescribed in these orders. Other industries may be brought within the ambit of Cost Audit as and when relevant Cost Accounting Records Orders are issued.

## CHAPTER – II

# Cost Auditor

### 1. Development of Cost Audit Profession:

During World War I, a large number of contracts were awarded on cost plus basis, which made it necessary for the contractors to maintain cost accounting records. Cost Accounting techniques are needed not only to help the management exercise cost control, but the cost accounting records are also needed for such clients who place orders on cost plus basis. In such cases, the client has the right to examine cost accounting records or have performed cost audit. In USA, Defence suppliers and contractors have to maintain cost accounting records in accordance with Cost Accounting Standards laid down by the Cost Accounting Standards Board (CASB). This is subject to cost audit to ensure its authenticity. The Cost Accounting in its developed form helps the management of manufacturing concerns in improving the efficiency, in making the business decisions and in evaluating the performance of entities in the same industrial sector through standardizing the systems and procedures. However, it is only in India, Pakistan and Bangladesh that cost audit has been formalized under Companies Ordinance/Acts. India is the pioneer in introducing Cost Audit since late 60s and now over 40 industries are covered under Cost Audit Scheme. In India and Bangladesh, only Cost and Management Accountants are eligible to conduct cost audit. In Pakistan, Chartered Accountants are also eligible to conduct cost audit.

### 2. Professional Qualifications:

Statutory cost audit was introduced in Pakistan under the Companies (Audit of Cost Accounts) Rules 1998 [Appendix I]. Under sub-rule (I) of Rule 3 thereof, it has been laid down that every company shall be required to get its cost accounts audited by a cost auditor who is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance 1961 [X of 1961] or a Cost and Management Accountant within the meaning of the Cost and Management Accountants Act, 1966 [XIV of 1966].

### 3. Appointment:

Under sub-rule (2) and (3) of Rule 3 of the Companies (Audit of Cost Accounts) Rules 1998, the cost auditor shall be appointed by the directors with the prior approval of the SECP within 60 days of the close of the financial year of the company. "The company shall apply to the SECP in the form, set out in Appendix-I to the Companies (Audit of Cost Accounts) Rules 1998, for appointment of cost auditor, not later than 30 days before date on which cost auditor is to be appointed." The cost auditor is appointed by the directors subject to the prior approval of the SECP. An example of an audit acceptance letter is shown as Appendix II at the end of this Handbook. The example or any variation of it may be used after the directors of the client company have agreed to appoint the cost auditor and have applied to the SECP, in the prescribed form, for its prior approval.

### 4. Ineligibilities:

The persons ineligible for appointment as Cost Auditor have been specified in sub-rule 4 of Rule 3 of the Companies (Audit of Cost Accounts) Rules, 1998. Cost and Management accountants in practice, who are not eligible for appointment as cost auditor should not offer themselves for appointment. The ineligibilities are briefly explained as under: -

- (i) The same accountant or accounting firm, who has been appointed as an auditor of the Company, under Section 252 of the Companies Ordinance 1984 shall not be appointed as a cost auditor. A financial or corporate auditor of a company, therefore, shall not be appointed as a cost auditor of the same company at the same time. Accountants who are already acting as auditors of financial statements of a company shall not be appointed as cost auditors of the same company.

- (ii) A person who is, or has been at any time during the preceding three years, a director, officer or employee of the company shall not be appointed as cost auditor.
- (iii) A person who is a partner of a director, officer or employee of the company; or an employee of a director, officer or employee of the company shall not be appointed as a cost auditor. The cost auditor cannot be a partner or an employee of any director, officer or employee of the company.
- (iv) A spouse of a director of the company shall not be appointed as a cost auditor of that company.
- (v) A person who is indebted to the company for any amount at the relevant time.
- (vi) A corporate body shall not be appointed as a cost auditor. A cost auditor, therefore, has to be an individual or a firm, and not a corporate body.

### 5. Powers and Duties:

Statutory provisions regarding audit of cost accounts are contained in Section 258 of the Companies Ordinance 1984. These are reproduced below:

*Section 258. "Audit of Cost Accounts: (I) Where any company or class of companies is required under clause(e) of sub-section(1) of Section 230 to include in its books of accounts the particulars referred to therein, the Federal Government may direct that an audit of cost accounts of the company shall be conducted in such manner and with such stipulations as may be specified in the order, by an auditor who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a cost and management accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966); and such auditor shall have the same powers, duties and liabilities as an auditor of a company and such other powers, duties and liabilities as may be prescribed."*

The cost auditor has the same powers and duties as the financial auditor may have in terms of Section 255, including the following:-

- (1) Every auditor of a company shall have a right of access at all times to the books, papers, accounts and vouchers of the company, whether kept at the registered office of the company or elsewhere, and shall be entitled to require from the company and the directors and other officers of the company such information and explanation as he thinks necessary for the performance of the duties of the auditors.
- (2) In the case of a company having a branch office outside Pakistan, it shall be sufficient if the auditor is allowed access to such copies of, and extracts from, the books and papers of the branch as have been transmitted to the principal office of the company in Pakistan.
- (3) If any officer of a company refuses or fails, without lawful justification, the onus whereof shall lie on him, to allow any auditor access to any books and papers in his custody or power, or to give any such information possessed by him as and when required, or otherwise hinders, obstructs or delays an auditor in the performance of his duties or the exercise of his powers or fails to give notice of any general meeting to the auditor, he shall be liable to a fine which may extend to five thousand rupees and in the case of a continuing offence to a further fine which may extend to one hundred rupees for every day after the first during which the default, refusal or contravention continues.

#### **5(a) Records for Cost Audit and Financial Audit :-**

Section 255 and its sub-sections quoted in the foregoing paragraph defines the powers and duties of auditors, appointed under Section 252(1) of the Ordinance and auditors and duties of auditors appointed under Section 252(1) of the Ordinance and auditor appointed under Cost Audit Rules. References made in the sections to books of accounts and to balance sheet, profit and loss account or income and expenditure account for the financial

auditor would mean accounting records and capacity utilisation statement, statement of closing stock and cost accounting statements (schedules and annexures) would mean cost records for the cost auditor.

Although the role of the cost auditor has been defined while discussing the objectives of cost audit, the position of the financial auditor and that of the cost auditor, are slightly different. The position of an auditor of the Company is construed as a servant of the shareholders and it is his duty to examine the affairs of the company on their behalf and report to them his findings. The position of a cost auditor, however, is different because he is appointed by the management (Board of Directors), subject to prior approval of Securities & Exchange Commission of Pakistan, and his position is to be interpreted in view of the provisions of the Companies (Audit of Cost Accounts) Rules 1998.

#### **6. Liabilities:**

A cost auditor, while examining the cost accounting records, is required to exercise reasonable care and skill. What is reasonable care and skill, depends on the circumstances of each case. If an auditor does not take reasonable care and does not exercise skill, his failing even in one instance could be construed as negligence if not worse.

An auditor is not bound to be a detective. His role becomes amply clear with the discussion of professional competence and professional ethics in Chapter III of this Handbook. However, failure on the part of an auditor makes him jointly and severally liable with those who are responsible for the management of the company.

#### **7. Penalty for non-compliance:**

A cost auditor has to comply with the provisions of the Companies Ordinance to avoid any penalty. Sub-sections (1) and (2) of Section 260 of the Companies Ordinance, 1984 read:

*“(1) If any auditor’s report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of Section 157, Section 255 or Section 257 or is otherwise untrue or fails to bring out material facts about the affairs of the company or matter to which it purports to relate, the auditor concerned and the person, if any, other than the auditor, who signs the report or signs or authenticates the document, and in the case of a firm, all partners of the firms shall, if the default is willful, be punishable with fine which may extend to two thousand rupees.” “(2) If the auditor’s report to which sub-section (1) applies is made with the intent to profit such auditor or any other person or to put another person to a disadvantage or loss for a material consideration, the auditor shall, in addition to the penalty provided by that sub-section, be punishable with imprisonment for a term which may extend to six months and with fine which may extend to two thousand rupees.”*

## CHAPTER – III

# Principles of Cost Audit

### 1. Planning and Performing Cost Audit:

There are certain principles that the cost auditor has to observe in planning and performing the cost audit. There are also principles that the cost auditor has to see are being observed by the company he is auditing. On the one hand, the cost auditor has to safeguard his independence and professional status in planning and performing the cost audit, ensuring quality and standard of cost audit, as required by his professional body, the ICMAP, as well as by the Companies Ordinance 1984, and the Companies (Audit of Cost Accounts) Rules 1998, and other rules regulating his audit engagement and reporting. On the other hand, he has also to see that the client unit operates within the legal framework provided for the industry, maintaining cost accounting records, in accordance with the cost accounting records order rules applicable to the industry.

### 2. Code of Ethics:

Cost Auditor should comply with the “code of ethics for professional accountants.” The fundamental principles governing the professional responsibility of the Cost Auditors are enumerated as follows:

- a. independence;
- b. integrity;
- c. objectivity;
- d. professional competence and due care;
- e. confidentiality;
- f. professional behaviour; and
- g. technical standards.

### 3. Independence of Cost Auditor:

The independence of the cost auditor is largely covered by the Companies (Audit of Cost Accounts) Rules 1998, under which a person who has or had specified relationships, which go to mar his independence, cannot be appointed as a cost auditor.

### 4. Integrity and Objectivity:

Integrity implies not only honesty but fair dealings and truthfulness. The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflict of interest. Financial involvement with the client effects independence and may lead a reasonable observer to conclude that it has been impaired.

A professional cost and management accountant should be straightforward and honest in rendering professional services as a cost auditor. He has neither any ulterior motives nor any personal ends to serve. He should be fair and should not allow any prejudice or bias, conflict of interest or any other influence to override objectivity. Cost audit is to meet the management’s and the Government’s need for credibility in cost information and cost accounting systems.

**5. Professional Competence and Due Care:**

A professional accountant should not project himself as having expertise or experience which he does not possess. Attainment of professional competence requires a high standard of general education followed by specific education, training and examination in professionally relevant subjects and a period of work experience, with which all ICMAP members are equipped. Professional competence requires to be maintained by a continuing awareness of developments in the accountancy profession, including relevant national and international pronouncements on accounting, auditing and other relevant regulations and statutory requirements. The cost and management accountant has to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service, based on up-to-date developments in practice, legislation and techniques.

**6. Confidentiality:**

A cost and management accountant should respect the confidentiality of information acquired during the course of performing professional services and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose. The duty of confidentiality continues even after the end of the relationship between the cost auditor and the client or the cost and management accountant and the employer.

**7. Professional Behaviour:**

A professional Cost and Management Accountant, being a member of the Institute of Cost and Management Accountants of Pakistan, should act in a manner consistent with the good reputation of the profession. He should meticulously avoid any such conduct or behaviour as may cast an unfavourable aspersion on the profession. He has to ensure professional behaviour while meeting his responsibilities to clients, third parties, other members of the cost and management accounting profession, staff, employers and the general public.

**8. Technical Standards:**

A professional Cost and Management Accountant should carry out professional services in accordance with the relevant technical and professional standards. A Cost and Management Accountant has a duty to render professional services with care and skill, in accordance with the instructions of the clients or employers, insofar as they are compatible with the requirements of integrity, objectivity, and in the case of Cost and Management Accountants in public practice, independence. Moreover, they have to conform to the technical and professional standards laid down by the Institute of Cost and Management Accountants of Pakistan, IFAC, IASC and the relevant laws, orders, rules and regulations.

**9. Professional Code of Ethics:**

A distinguishing mark of a profession is its acceptance of responsibilities to the society. The Cost Auditor's independence is to be judged by his clients, Government, employers, employees, investors in the business, the financial community and the consumers at large, who all rely on the objectivity and integrity of the Cost and Management Accountant. This reliance imposes a public interest responsibility on the professional cost and management accountant.

**10. Engagement on other occupation:**

A professional accountant in public practice should not concurrently be engaged in any business occupation and activity which might impair his integrity, objectivity or independence or the good reputation of the profession. The code of professional ethics of the Institute of Cost and Management Accountants of Pakistan must be carefully observed.



## CHAPTER – IV

### Planning Cost Audit

#### 1. General:

- (i) Cost Audit should be planned with professional care, recognising that circumstances may exist to cause the cost statements to be materially misstated. For example, management will be providing cost accounting information in the Schedules and Annexures prescribed in the cost accounting record orders/rules, and also statements regarding capacity and inventories. The cost auditor will be finding evidence to support the information provided; but he is not to assume it is necessarily correct.
- (ii) The cost audit should be so programmed and conducted as to provide reasonable assurance that the cost information provided in the Schedules and Annexures, taken as a whole, are free of material misstatement. Reasonable assurance is a concept relating to the accumulation of audit evidence, necessary for the cost auditor to conclude that there are no material misstatements in the cost accounting information and statements, taken as a whole. The concept relates to the whole audit process.
- (iii) Acquiring an undertaking of the industry, studying the client's organisational set-up and the cost accounting control exercised over the various elements of cost are all a part of conducting the cost audit procedures. In planning cost audit, the personnel requirements of an assignment; documentation of the cost audit procedures and of audit evidence and quality control exercised over performing cost audit being important factors, are briefly discussed here.

This chapter relates to the planning done in the cost auditor's office and the documentation, which has to be looked after by the cost audit staff.

#### 2. Personnel:

Cost audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances. The personnel needs should be planned, keeping in view the staffing and timing requirements of specific cost audit. Qualifications of personnel as to experience, position, background and special expertise should be evaluated. Care should be exercised not to assign any staff who may have any disqualifying relationship. The following aspects of personnel are also to be considered:

##### (i) Experience:

Experience and training of cost audit personnel should be considered, particularly keeping the relevant industry in view, as the cost and management accounting procedures and techniques considerably differ on the basis of the nature and type of industry. Earlier cost audit or other practical experience of the industry helps in carrying out cost audit of a unit of that industry.

##### (ii) Directions:

Assistants to whom work is to be delegated need appropriate direction and supervision. Direction involves informing assistants of their responsibilities and the objective of the procedures they are to perform. It includes informing them about the nature of the industry, possible cost accounting and auditing problems that may affect the cost audit routine and the procedures that they are to perform. The cost audit programme, in providing the time budget and the overall audit plan, should also prove helpful in providing necessary audit directions.

**(iii) Supervision:**

Supervision involves both direction and review of audit work. Personnel carrying out supervisory responsibilities generally perform the following functions during cost audit:

**a) monitor the progress of the cost audit and also assess that:**

- i the assistants have the necessary skills and competence to carry out their assigned tasks;
- ii assistants understand the cost audit directions; and
- iii the cost audit is being carried out according to the overall cost audit plan and the cost audit programme.

b) stay aware of the cost accounting and cost auditing questions, raised during the cost audit, assess their significance and modify the cost audit plan and the cost audit programme, as considered necessary; and

c) remove any differences of professional judgement between the personnel and decide the level to which making reference is appropriate.

**3.1 Documentation:**

The cost auditor should document all matters which are important in providing evidence to support the opinion given in the cost audit report. Documentation here means the working papers prepared by and for, or obtained and retained by the cost auditor in connection with the performance of cost audit. Working papers may be in the form of data stored on paper, film, electronic media or other media. Working papers record the audit evidence, resulting from the cost audit work performed, to support the cost auditors opinion. The extent of working papers is a matter of professional judgement. They may cover the detailed aspects of the cost audit or may include the daily work sheets or daily diary maintained by each member of the cost audit staff engaged on the assignment.

The daily work sheets should include all queries raised; with whom each was discussed and how; and if they were satisfied. The form and content of the working papers will be determined by the nature and complexity of the business, nature and condition of the entity's cost accounting and internal control systems.

Use of standardised working papers (such as checklists, confirmation forms, standard letters etc.) may improve the efficiency with which such working papers are prepared and reviewed. Standardised working papers facilitate delegation of work and provide a means to control quality of work. Schedules, statements, analyses and other documents prepared by the entity may be utilised and made a part of the cost audit working papers, only after being satisfied that the materials have been properly prepared with due care.

**3.2 Confidentiality of Working Paper:**

The cost auditor should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.

Working papers are the property of the cost auditor. Although portions or extracts from the working papers may be made available to the entity at the discretion of the cost auditor, they are no substitute for the cost accounting records that the entity has to maintain under the cost accounting records orders rules, applicable to the industry.

**3.3 Working Paper Management**

Working paper management improves the cost audit productivity. The essential aspect of such management is quick retrieval of information from the files of working papers. The filing system should be sound. Normally working papers are organised into: Permanent file, Working file and Correspondence and Administrative file. Papers which normally do not change from year to year are kept in the Permanent file. Permanent file will have write-up on the organisation, manufacturing process etc. The Permanent file is updated at the beginning of every audit, making changes, if any, since the previous audit. Working paper file contains details relating to the year of audit. There will be a separate working paper file for every year. This file should be properly indexed and divided into convenient sections. File management is a matter of personal preference of the cost auditor.

#### **4. Quality Control:**

Quality Control policies and procedures should be implemented both at the level of the cost audit firm and individual cost audits. The cost auditor should implement quality control policies and procedures designed to ensure that all cost audits are conducted in accordance with international audit standards or relevant national standards or practices. Quality control procedures, to a large extent, depend on strict adherence to the laws, orders and rules applicable to cost audits. The objectives of the quality control policies and procedures include professional requirements, skills and competence, assigning work to personal having technical training and proficiency, providing sufficient direction, adequate supervision and review of work. Every cost auditor has to continuously, monitor that the quality control policies and procedures are being followed and the quality of work is being effectively achieved. Quality control policies and procedures should not only be communicated to personnel but also explained and some training provided to them to ensure that the policies and procedures are understood and implemented. The cost auditor and his staff members with supervisory responsibilities will consider the professional competence of assistants performing work delegated to them, when deciding the extent of direction, supervision and review appropriate for each assistant. Any delegation of work to assistants should be on the basis of reasonable assurance that such work will be done with due care by persons having the degree of professional competence required in the circumstances.

## CHAPTER – V

# Performing Cost Audit

## Background Knowledge and Audit Procedures

### 1.1. Knowledge of the industry and the entity:

Before performing cost audit, the cost auditor must have or obtain knowledge of the industry and its business environments, sufficient to enable him, to identify and understand the events, transactions and practices that in the Cost Auditor's judgement may have a significant effect on the cost accounting statements of the entity to be audited, or on the cost audit report. The cost auditor should also have a general knowledge of the country's economy and the industry within which the entity operates. He should also have a clear understanding of the conditions that affect or may be affecting the cost and profit performance of the entity.

### 1.2 Updating of knowledge of industry

The knowledge that the cost auditor obtains about the industry and the entity at the planning stage of the cost audit keeps increasing and updating, while taking up the assignment and at every stage throughout the performance of cost audit. The cost auditor keeps re-evaluating the knowledge and information gathered earlier.

Knowledge of the industry, which the cost auditor may already have, may be updated through discussions with the entity's senior operating personnel, publications relating to the industry, government surveys, statistics, trade journals, visit to the entity's premises and plant facilities. Knowledge of the industry and the entity is extremely important in cost performance evaluation.

The cost auditor should ensure that the assistants assigned to a cost audit engagement also obtain sufficient knowledge of the business to enable them to carry out the cost audit work delegated to them. It should be ensured that they understand the need to be alert for additional information and the need to share that information with the principal and other assistants.

### 1.3 Legal and Regulatory Framework:

When planning and performing cost audit procedures, the cost auditor should keep in view the legal and regulatory framework within which the entity has to operate. Although it is the responsibility of the management to ensure that the entity's operations are conducted in accordance with the laws and regulations and the cost auditor cannot be held responsible for non-compliance by the entity; he should see that the provisions of the Companies Ordinance 1984, the relevant cost accounting record order and of the Companies (Audit of Cost Accountings) Rules 1998 as far as they relate to the maintenance of cost accounting records and providing of cost accounting information, are duly observed and followed by the entity. Non-compliance of such provisions by the entity would have a material effect on the cost accounting statements, in which case the cost auditor is specifically required to report whether or not the entity complies with the provisions of laws or regulations which are directly related to cost audit.

## 2. Organisational Set-up:

While taking up any new cost audit assignment, the cost auditor should, first of all, study the organisational set-up of the entity. He should get familiar with the administrative, financial, buying and selling, production and planning functions at the entity. He should be introduced to the functional heads, as he will be dealing with them during the course of cost audit. Each function and sub-function should be organised in a logical manner, according to its nature and size. The size of and the manner in which the various functions are organised have a direct bearing on the cost of each function performed at the entity. The cost auditor will do well in discussing the functional set-up with the top management, pass on the concept of activity-based costing and also offer comments on the set-up, if considered

necessary, under the circumstances. Knowledge of the organisational set-ups of each function helps in obtaining knowledge of the industry and the entity, referred to in the foregoing paragraphs.

The cost auditor has also to verify and express opinion on the company representations made under the Companies (Audit of Cost Accounts) Rules 1998, and on the cost accounting information provided by the company, in the Schedules and Annexures prescribed in the cost accounting records rules applicable. He has also to evaluate and offer comments on the entity's cost accounting system. He thus has to work, maintaining close liaison with the functional heads and with various levels of management.

### **3. Company Representations:**

Under clauses (a) and (b) of sub-rule (1) of Rule 4 of the Companies (Audit of Cost Accounts) Rules 1998 every company shall, in addition to the records and statements specified in the order of the Securities and Exchange Commission of Pakistan, issued under clause (e) of sub-section (1) of Section 230 of the Companies Ordinance 1984, prepare:

- “(a) a statement of productions capacity of the plant, in terms of machine hours and production units, the actual utilisation of the capacity and the reasons of difference between the two; and
- (b) a stock-in-trade of the company as at the end of financial year in terms of quantity and cost thereof, distinguishing between:
  - i stock of raw material and components;
  - ii stock of work-in-process;
  - iii stock of finished goods; and
  - iv other stocks.”

Under sub-rule 2 of Rule 4 of the Cost Audit Rules, “(2) the statements specified in clauses (a) and (b) of sub-rule (1) shall be signed by the chief executive and chief accountant of the company.” Both the statements specified in clauses (a) and (b) shall be submitted along with the Cost Auditor's report. Capacity as explained in para (1) of Appendix III of the Rules: “1. Capacity: (a) Licensed, installed and utilised capacities of the factory or factories for the product under reference.

- (b) If the company is engaged in other activities besides the manufacture of the product under reference, give a brief note on the nature of such other activities.”

### **4. Production:**

After checking the stock-in-process at the end of the financial year with the production records and after adjusting the opening stock-in-process or last year's closing stock-in-process, “production in quantities of each type of product under reference” should be worked out, as required in para 3(a) of Appendix III (sub-rule (3) of Rule 4) of the Companies (Audit of Cost Accounts) Rules 1998”.

The “percentage of production of the product under reference” should be seen “in relation to the installed capacity. If there is any shortfall in production as compared to the installed capacity, brief comments as to the reasons for the shortfall,” shall be offered in the cost auditor's report. While laying down particulars to be included in cost auditor's report to the Directors of the Company, para 3(c) of Appendix III to the Companies (Audit of Cost Accounts), Rules 1998, further provides that “if there is any addition to the production capacity during the year under review or in the immediately preceding two years, this may also be mentioned.”

#### **5.1. Gathering Cost Audit Evidence:**

The cost auditor has to follow the International Audit Standards (IASs) and related technical pronouncements issued by International Federation of Accountants. Cost audit, like any other audit, involves: (a) planning (b) carrying out audit procedures or gathering cost audit evidence and (c) drawing reasonable conclusions on which to base the audit opinion. The principles and planning have generally been explained in Chapter III and IV of this Handbook, respectively. During the course of audit, the cost auditor should obtain sufficient appropriate audit evidence for arriving at reasonable conclusions. Audit evidence is the documented information obtained by the cost auditor in arriving at the conclusions, on which the audit opinion is based. Audit evidence will consist of source documents, cost accounting records, cost accounting statements, company representations and corroborating information from other sources. Cost audit procedures mean tests to obtain cost audit evidence to detect material misstatements in the statements and in the information provided by the entity. The tests may be performed on the details of transactions and balances, following analytical procedures. When obtaining cost audit evidence from substantive procedures, the cost auditor should consider the sufficiency and appropriateness of audit evidence from such procedures, together with any evidence from tests of control to support the cost and other information asserted by the management of the entity. If unable to obtain sufficient appropriate cost audit evidence, however, the cost auditor should express a qualified opinion or a disclaimer of opinion.

## 5.2 How Cost Audit Evidence is obtained?

Cost audit evidence is obtained by following procedures such as: inspection, observation, inquiry and confirmation, computation and analytical procedures noted below:

- (i) Inspection consists of examining records, documents, or tangible assets. Inspection of records and documents provide cost audit evidence of varying degrees of reliability, depending on their nature and source and the effectiveness of internal control over their processing. Documentary cost audit evidences may be created by third parties and held by third parties or held by the entity or created by the entity and held by the entity.
- (ii) The cost auditor may observe the procedures being performed, say the counting of inventories by the entity's personnel. Inquiry consists of seeking information from knowledgeable persons inside or outside the entity. Inquiries may be written or oral, providing new or corroborative information. Confirmation is the response to an inquiry.
- (iii) Computations consist of checking the arithmetical accuracy of source documents and cost accounting records or of performing independent calculations. Analytical procedures consist of significant ratios and trends, including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or deviate from predicted amounts. Analytical procedures include the consideration of comparison of the entity's cost information for prior periods, anticipated results of the entity, such as budgets or forecasts or expectations of the cost auditor, such as an estimation of depreciation. The entity's cost performance may also be compared with similar industry cost information.
- (iv) Analytical procedures also include consideration of relationships among elements of cost information that would be expected to conform to a predictable pattern based on the entity's experience, such as contribution analysis. Relationships also exist between such direct and indirect costs as payroll and employee related costs. Various methods may be used in performing analytical procedures, ranging from simple comparisons to advanced statistical techniques. Choice of procedures, methods and level of application is a matter of professional judgement. The cost auditor should apply analytical procedures, when forming an overall conclusion as to whether the cost statements as a whole are consistent with the auditor's knowledge of the business. The conclusions drawn from the results of such procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the cost accounting statements and assist in arriving at the overall conclusion as to the reasonableness of the cost statements. They may also identify areas requiring further procedures. The extent to which analytical procedures may be relied upon would depend on the materiality of the items involved.
- (v) Cost audit evidence is obtained from an appropriate mix of tests of control and substantive procedures. The type of tests to be performed is important to an understanding of the application of audit procedures in gathering cost evidence. The cost accounting system is tested to identify the characteristics or attributes that indicate performance of a control, as well as possible deviations and conditions which indicate departures

from adequate performance. The cost auditor should perform audit procedures appropriate to the particular test objective on each item selected.

- (vi) The cost auditor should obtain sufficient appropriate audit evidence as to whether the standard cost, planned cost, budget cost or cost estimate, being used for cost accounting and control purposes, is reasonable in the circumstances. An understanding of the procedures and methods, including the cost accounting and cost control, used by the management in making the control yardstick is important for the cost auditor to plan the nature, timing and extent of the cost audit procedures. The cost auditor should either review and test the process used by the management to develop the standard; use an independent standard for comparison with that prepared by the management or review subsequent events which confirm the standard made.
- (vii) The cost auditor should make a final assessment of the reasonableness of the standard estimate, based on the auditor's knowledge of the business and whether the yardstick is consistent with other audit evidence obtained during the audit. After an evaluation of results of cost audit procedures, the auditor should feel convinced of their being reasonable. Vouching, testing, examining, analysing, comparing, confirming, inspecting, reconciling, tracing, verifying the details, the cost auditor collects audit evidence to form his opinion not only about the production and capacity utilisation, but also on the cost accounting system (Section VII), inventories and the cost accounting statements prepared by the management in accordance with cost accounting records order/rules, applicable to the industry. Cost statements differ from industry to industry and reflect how production and auxiliary services are generally organised.
- (viii) The cost audit procedures outlined in the foregoing paragraphs are not only performed on the statements submitted by the company under the Companies (Audit of Cost Accounts) Rules 1998, but are also performed on the cost accounting records which the industry has to maintain under the cost accounting records order/rules. The cost accounting records order rules specifically mention the principal elements of cost involved in the production of the relevant product and specify adequate and proper accounting records for the same. The principal elements of cost, generally relevant to various industries, are discussed in the next Chapter.

## CHAPTER – VI

### Performing Cost Audit Part Two: Important Elements of Cost

#### 1.1 Raw Materials:

Raw materials and other materials which can be directly identified with production would normally constitute major part of the cost. The cost of raw materials, both in quantities and value, as given in the statements, should be verified. In case the transport cost of raw materials is a significant element of cost, as in the case of cement and sugar industry, the transport cost is determined separately. In case of imported raw materials, the various elements are: FOB value, ocean freight, insurance, custom duty, clearing/forwarding and inland freight. Withholding income tax and sales tax would be separately accounted for. Raw materials are the materials which directly go into the process of manufacture and physically constitute a part of the product; whereas there may be some direct materials, which are directly identifiable with the production process but only help production. Materials which are relatively of insignificant value viz. material although may be directly conducive to production also classified as indirect material. Data for raw materials consumption have to be provided for the year under audit, as well as for the previous two years, for comparison.

#### 1.2 Material Consumption:

Components and parts in the case of engineering industries are referred to as direct materials. Material consumption would normally refer to material consumed in production. Every cost auditor knows how the figure of material consumption is worked out by deducting closing inventories, from the receipts and adding opening balance. Consumption of materials should be carefully checked with the issues to production processes. The use of the term “major raw materials”, in para 4 of Appendix III to the Companies (Audit of Cost Accounts) Rules 1998, indicates all direct materials; some of which may be small in quantity and value but large in number, which may not be reported as required in this same para. Provisions of the cost accounting record rules should be kept in mind, as the rules also specify accounting requirements for raw materials and other direct and indirect materials.

#### 1.3 Comparison with Standards or Estimates:

Various clauses of para 4 of Appendix III provide for comparison of the consumption of major raw material with the standard requirement, if any. If standards have not been worked out, there should be estimates on the basis of which management of the entity exercises control. In the absence of an estimate, the cost auditor should arrive at a standard or estimate, on the basis of his knowledge of the industry, as mentioned in this Handbook, earlier. Variances from the standard or estimate and from the figures of the “preceding two years”, should be looked into and commented upon by the cost auditor in his report.

#### 1.4 Maintenance of raw material quantity and cost:

The relevant cost accounting record rules generally provide the manner in which the record of cost and quantity of raw materials shall be maintained and how the cost is arrived at. The cost of raw materials includes all direct charges upto works, such as freight, inward transport handling, insurance etc. The basis of “costing of raw material should be consistently followed”, and should be commented upon by the cost auditor.

#### 1.5 Components of Cost of materials:

Cost accounting record orders/rules may provide the manner in which cost of purchases, cost of inspection and receipt should be included in the cost of the raw materials. The cost auditor should examine the procedures being

followed in procuring, planning, purchasing, transporting, receiving, inspecting, that is all procedures and costs involved in making the materials available at the point of the production process. Moreover, realisable value of any waste material or by-product, which may have adjusted the cost of raw materials, be carefully considered and treated in accordance with the normal or standard cost control practice followed by the industry, according to the knowledge the cost auditor may have.

**2.1 Wages and Salaries:**

Para 5 of Appendix III of the Companies (Audit of Cost Accounts) Rules 1998, provides that the following particulars relating to wages and salaries be included in Cost Auditor’s Report to the Director of the company:

- ”(a) total wages and salaries paid for all categories of employees, separately in respect of each of the following namely:-
  - i- direct labour cost on production;
  - ii- indirect employees cost on production;
  - iii- employees cost on administration;
  - iv- employees cost on selling and distribution;
  - v- bonus to workers and employees;
  - vi other employees cost, if any (including taxes and levies); and
  - vii- total employees cost (total of items (i) to (iv) above)
- (b) Salaries and perquisites of directors and chief executive.
- (c) Total man-days of direct labour available and actually worked for the year.
- (d) Average number of workers employed for the year.
- (e) Direct labour cost per unit of output of the product (give information in respect of each).
- (f) Brief explanation for variances in item. (e) above, if any, as compared to the previous two years.
- (g) Comments on the incentive schemes, if any, with particular reference to its contribution towards increasing productivity and its effect on cost of production.”

**2.2 Incentive Schemes:**

Provisions of the cost audit rules in regard to the Cost Auditor’s report quoted in the foregoing para, requires the cost auditor not only to carry out a fairly comprehensive analysis of all wages and salaries paid to all categories of employees, from the Directors and Chief Executive to workers employed for production, administration, selling and distribution, but also to examine any incentive schemes and the contribution such schemes make to achieving more production, higher productivity and their effect on the cost of production. Added marginal cost may be justified to achieve higher production to meet the public demand.

**2.3 Comparison with previous years:**

Total man-days of direct labour available and actually worked, during the year, direct labour cost per unit of production; and average number of workers employed for the year, with explanation for the variances in the direct labour cost per unit of production, should be compared with the previous two years, and necessary comments on the comparison included in the Cost Auditor's report. Detailed study of employees and employee related costs considerably enlarges the scope of the Cost Auditor's report.

### **3.1 Stores and Spare Parts:**

Although para 6 of Appendix III of the Companies (Audit of Cost Accounts) Rules 1998, refers to stores and spare parts kept in stock by the entity, "the expenditure per unit of output on stores etc.", referred to in para 6(a), is related to repairs and maintenance. Provisions of the applicable cost accounting recorder orders/rules also refer to consumable stores, the consumption of some or all of which may be identifiable with or chargeable direct to production. The cost auditor should examine and comment upon the system of stores accounting, i.e recording of receipts, issues and balances, both in quantities and values.

### **3.2 Ageing of Inventory:**

Partly to safeguard against any unfavourable change in the import policy, industrial units in Pakistan generally overstock imported stores and spares. The cost auditor, while examining the list of stores and spares, should pay particular attention to the ageing of inventories. He should point out such slow moving items in which there has been no movement over the last twenty four months.

### **3.3 Inventory valuation formulas:**

The various inventory cost formulas (LIFO, FIFO, NIFO), weighted average cost, base stock, specific identification, latest purchase price have different effect on costing and asset valuation. If an entity follows a formula which is different from the one generally followed by the industry, it should be specially commented upon by the cost auditor in his report. The record keeping should also be examined, which should be on a perpetual inventory system, indicating quantities and values. Inventories are generally an important item of assets and the corporate auditors of financial statements attend to the physical count of inventories. The cost auditor, who takes up the assignment after the financial audit, should take into account the audited inventory records and balances.

### **4.1 Power and Energy:**

Complete record of costs and quantities of all types of power, fuel and energy such as electricity, compressed air, gas, steam, fuel oil, compressed air and electricity which may be generated/produced by the company itself, by its wholly owned subsidiary or sister concern, or purchased from outside, consumed by the industry, should be available.

The cost and quantity consumed for production shall be shown in the relevant annexures, as required under the applicable cost accounting record order/rules. The records shall be so maintained as to enable assessment of consumption of power by different departments or manufacturing units or cost centres on a consistent basis. Allocation of cost shall be on the basis of actual consumption, if separate meters, measurement devices are installed; or on the basis of technical estimates, if separate measurement devices are not installed.

### **4.2 Cost of Fuel purchased:**

Adequate record should be available to ascertain the cost of furnace oil/gas and/or other energy material purchased and charged to various departments/cost centres. If the cost of furnace oil or gas etc is allocated to different departments on basis other than actual cost, reconciliation with the actual cost and the treatment of variances should be indicated in the records.

Records of receipts and issues should be so maintained as to clearly show any excess or shortage at the time of stock taking.

### **4.3 Power and Fuel cost as a percentage of cost:**

The cost auditor should examine the power and fuel cost as a percentage of the total cost. Energy costs have become important, not only because of the rising trend in prices, but because of scarcity of the material. Energy has to be conserved.

In case any residuary inputs, such as bagasse in the sugar industry, are used as a source of energy, quantification and evaluation of such inputs should be examined. Both energy consumption and possible conservation should be discussed with the technical staff of the company. Moreover, progress made in implementing any energy conservation plan, indicated by the management in the Directors' reports presented in AGMs, should be examined and commented upon in the Cost Auditor's report.

### **5.1 Repairs and Maintenance:**

Record of costs incurred on in-house repair and maintenance facility shall be examined and the basis on which the cost is allocated to various departments shall be examined. Some repairs and maintenance may have been carried out by outside contractors. Maintenance policy should be examined from cost benefit point of view. As regards the in-house maintenance facilities, classification of activities for activity based costing ABC may be a part of the maintenance policy. Indirect Material consisting of operating supplies/ consumable stores, as already observed, may be charged direct to production, but such indirect materials as are required for break-down maintenance (stores and spares) and for regular periodical/planned maintenance, shall be allocated on the basis of usage or maintenance service actually provided to various departments.

### **5.2 Heavy repairs or overhaul cost:**

Cost incurred in carrying out major repairs and maintenance may be partly or wholly of capital nature, such as heavy repairs or overhaul costs, the benefit of which is likely to be spread over a period longer than one financial year. This should be separately shown and pointed out. Such expenditure should be treated as deferred revenue or capital expenditure. Repair and maintenance relevant to the current year, and capital or deferred revenue expenditure, the incidence of which is to be spread over a period longer than one financial year, should be properly differentiated.

### **6.1 Depreciation:**

Cost accounting record order/rules require that record of all fixed assets, in respect of which depreciation is to be provided, shall be maintained. Depreciation is charged according to the depreciation policy of management, which may be on a straight line or reducing balance method, based on the useful life of the asset. Any basis adopted should be consistently followed. If any basis, other than the useful life of the asset, is followed, the impact of providing excess or less depreciation should be pointed out.

### **6.2 Provisions of Companies Ordinance:**

Provisions of the Companies Ordinance 1984 in regard to depreciation should be kept in view. Clause F of part III of the Fourth Schedule of the Ordinance: "F(i) The amount provided for depreciation, renewals or diminution in the value of fixed assets:

- (ii) if such provision is not made by means of a charge for depreciation, the method adopted for making such provision shall be disclosed;
- (iii) where such provision is made by means of a charge for depreciation, the value of the assets and the additions or depletions thereto, the depreciation methods and the depreciation rates used for fixed assets under each sub-head of paragraph 1(A) of Part-II of this Schedule shall be disclosed.
- (iv) Where no such provision has been made, the reasons for not making it and the amount of depreciation which should have been provided and the quantum of arrears of depreciation, if any, shall be disclosed."

**7.1 Overheads:**

Overheads is a well defined and well understood term. According to para 8 of Appendix III of the Companies (Audit of Cost Accounts) Rules 1998, the total amount of overheads should be identified and divided into four categories: factory overheads, administration overheads, selling and distribution overheads and financial charges.

Reasons for significant variations in the overheads, compared with the previous two years, have to be given in the cost auditors report. Providing item-wise break-up into factory overheads, administration overheads, selling and distribution overheads and of financial charges would go to make the audit report more meaningful. If not all, significant items may be so analysed.

**7.2 Allocation of Overheads:**

The basis of allocation/apportionment of overhead cost to cost centres should be in accordance with the accepted principles of cost accounting, quantification of services rendered by service departments to cost centres; or on the basis of activities which are cost drivers.

## CHAPTER – VII

# Cost Accounting System and Reconciliation

### 1.1 Determining Unit Cost:

Cost Accounting systems differ from industry to industry. The system under which the data may be processed manually or on a computer would also differ to some extent from company to company, according to the interpretation of the management and cost control requirements of the management of the company. Basically different cost accounting systems are followed for job processing, batch processing and continuous processing industries. Job costing is generally adopted where specific jobs have to be individually costed and completed, like aircraft manufacturing. Batches are processed in industries like pharmaceutical. Textile and cement are examples of continuous process industries.

Both in batch costing and continuous process industries, cost per unit in the batch or in the production process run is determined by averaging the total cost of the batch or the production process run over the units produced.

### 1.2 Cost Control:

Cost accounting is needed both for ascertaining cost of a product or operation, as well as for exercising cost control. However, there should be some benchmark or yardstick against which actual cost can be measured. Such a yardstick may be estimated cost, standard cost, budget cost or activity based cost. Cost auditors are familiar with all such cost measurement and cost control techniques. Standard costing and activity based costing are complete systems. Under the standard costing, standard costs are used instead of actual costs and then variances are analysed and adjusted. Under activity-based costing, costs are ascertained on the basis of activities, which are cost drivers.

Financial accounting has been a mandatory requirement ever since corporate laws were framed to regulate corporate business. Cost accounting records, in earlier times and in some cases even now, are maintained in an informal manner in memorandum form, which in small industries meet the basic managerial control requirements. Even when cost data is compiled in memorandum form for providing managerial control information, the cost data is reconciled with financial accounting data. Financial accounting data being subject to mandatory audit, is usually considered more reliable and comprehensive. Units of such industry as are covered by the cost accounting record order/rules, have to maintain proper and adequate cost accounting records, in order to provide cost accounting information in the prescribed schedules and annexures.

The cost auditor has to judge and give his opinion on whether or not the cost accounting records maintained are adequate for the cost accounting of important elements of cost, specifically mentioned and explained in the cost accounting record order/rules.

### 2.1 Cost Accounting System:

Under para 2 of Appendix III to the Companies (Audit of Cost Accounting) Rules 1998, the cost auditor has to offer brief comments “on the cost accounting system and its adequacy or otherwise to determine correctly the cost of the product under reference”. It is always appropriate to give a brief description of the cost accounting system being followed by the unit under audit, before offering any comments on it. The cost auditor, in his comments, should highlight changes, which may have been made in the cost accounting system, since last year.

## 2.2 Adequacy of Cost Accounting System:

Although the rules refer only to the adequacy of the cost accounting system in arriving at the cost of production, it is necessary to examine the adequacy of the system from the angle of arriving at the marketing costs as well. This is necessary in view of the provisions that are generally included in the cost accounting record orders that (1) the cost accounting shall be kept in such a way as to make it possible to calculate from the particulars entered therein, the cost of production and cost of sales of each of the products under reference, during the financial year (see sub-clause 3 of clause 3 of Vegetable Ghee and Cooking Oil Companies (Cost Accounting Records Order 1990).

The term cost of production must be taken to include cost of processing activities. For example, when cost accounting record rules are issued to cover an industry like Textile, the textile processing company which processes textile produced by another manufacturer, will also be covered by those record rules. Similarly, some cement manufacturing units may buy Clinker produced by a different cement plant. Both making clinker as well as processing clinker to produce cement are covered by the cost accounting record rules, applicable to the cement industry. In such cases, all processing companies have to get their cost accounts audited by Cost Auditors for the processes involved.

## 2.3 Requirement of Cost Accounting Record Rules:

It is advisable for the cost auditor to keep the requirements of Schedule 1 of the relevant cost accounting record rules in his files and review the existing cost accounting system being followed by the unit under audit, in the light of that analysis. Important elements of cost, like raw materials, labour, employee related cost, power, fuel, stores and spares, repairs and maintenance, other overheads and depreciation, which are generally specifically mentioned and explained in the cost accounting record order/rules and for which adequate cost accounting records have to be maintained, have been discussed in the preceding two chapters of this Handbook.

## 2.4 Comment on Cost Accounting System:

While offering comments on the cost accounting system, the cost auditor should keep the following points in mind:-

- a the manufacturing process of the unit;
- b control aspects distinct from cost ascertainment;
- c other activities of the organisation in addition to operation relating to product under review with particular reference to the reasonableness of allocation and apportionment of common expenses;
- d joint cost ascertainment and process of assessment;
- e evaluation of component/inputs made by the company using own facilities;
- f standard cost and adjustment of variances; and
- g management information system and how the same is linked to functions, and to financial and cost data collection.

## 2.5 Scheme of Cost Centres:

The logical scheme of cost centres should also be examined to see whether or not the scheme provides an appropriately effective cost control. There should be a balance between the cost of controlling procedures and the benefits derived therefrom. Evaluation of this and such other aspects of the cost accounting and control system shall largely depend on the judgement of the cost auditor.

### **3. Integrated Cost Accounting System:**

With the introduction of electronic data processing, the days of maintaining cost accounting records separately, in memorandum form, are over. Cost accounting records are now also based on the same data from which financial accounts are prepared, even though the data may not be processed by the computer. Such integration is possible by adding a secondary classification in the accounting code, with which all cost and management accountants are familiar.

With integrated cost and financial accounting, the cost and financial statements can be more conveniently prepared and reconciled. Expenses which are recorded according to their nature in financial accounts, are sub-divided through a secondary classification according to various cost centres. Expenditure which has been recorded in financial accounts according to its nature and then classified according to purpose or cost centres, can be identified and reconciled. However, if say salaries and wages appearing in the accounts of various cost centres do not add up to the total amount shown in the financial accounts, entries in the financial account which have not so been sub-divided will have to be separately marked and suitably commented upon.

### **4. Reconciliation with Financial Accounts:**

After the financial or corporate auditor submits his report for the year, the cost auditor “shall submit a supplementary report on reconciliation with financial accounts to the directors, before the date fixed for holding the Annual General Meeting of the company” (para 15, Appendix III of the Companies (Audit of Cost Accounts) Rules, 1998. The requirement of re-conciling with financial account considerably enlarges the scope of the cost auditor’s report. The cost auditor has to go beyond the cost of production and cost of sales and examine such items as appear in the financial accounts, but not in the cost accounting records, for the conciliation purpose. This aspect of the cost auditor’s report has been further explained hereinafter.

## CHAPTER – VIII

# Cost Auditor's Report

### 1.1 Submission of Cost Audit Report:

According to sub rule 3 of Rule 4 of the Companies (Audit of Cost Accounts) Rules 1998: "The cost auditor shall make out a report within 60 days of his appointment to the Directors in the form set out in Appendix II, along with statement of capacity utilisation and stock in trade as specified in clauses (a) and (b) of sub rule (1), in the form set out in Appendix III and simultaneously shall submit two copies thereof to the Securities and Exchange Commission of Pakistan and the registrar concerned". The prescribed form of the cost auditor's report requires a cost auditor to confirm that the cost accounting records have been or have not been maintained in accordance with the cost accounting record order/rules, issued under clause (e) of sub-section (1) of Section 230 of the Companies Ordinance 1984.

In view of the varying practices followed in record keeping and maintaining cost accounting records, by companies to which the cost accounting record order/rules apply, the cost auditor should carefully express an opinion, after satisfying himself that all the information required in the prescribed Schedules and Annexures is readily available in a verifiable form in the cost accounting records maintained.

### 1.2 The Report Format:

The cost auditor in his report has to confirm the conclusions drawn from the cost audit evidence gathered during performance of cost audit. Any deviation or error of omission or commission in the records or in the maintenance of cost accounting records observed during cost audit may be rectified by the company during the course of the cost audit, in order to avoid an unfavourable opinion in the cost auditor's report. The cost auditor has also to confirm in his report that all information and explanations required by him were readily provided, which to the best of his knowledge and belief were necessary for the purpose of cost audit. The cost auditor has to confirm in his report that proper returns, statements, schedules for the purpose of audit of cost accounts were duly received from branches and offices not visited by him, and that the books and records give or do not give the information required by the rules in the manner required. He has also to give his opinion on the statements of capacity utilisation and stock in trade, and confirm that the same are in agreement with the books of the accounts of the company and exhibit true and fair view of the company's affairs. The cost auditor has also to confirm whether or not the cost accounting records maintained by the company give a true and fair view of the cost of production, processing, manufacturing and marketing of each product of the company under reference. In giving this opinion, the cost auditor uses his judgement, keeping in view all his findings during the course of cost audit and the audit evidence collected by him.

## 2. Appendix III of Companies (Audit of Cost Accounts) Rules 1998:

In Appendix III referred to in sub rule 3 of Rule 4 of the Companies (Audit of Cost Accounts) Rules 1998, particulars which have to be included in the cost auditor's report to the directors of the company have been enumerated. Most of the particulars which should be included in the cost auditor's report have been discussed in the foregoing chapters of this Handbook while describing performance of cost audit procedures. Evaluating the cost accounting system has been described in chapter VII. Audit of capacity utilisation, production, raw materials, wages and salaries, stores and spare parts have been explained in chapter VI. Depreciation and overheads along with other important elements of cost have been elucidated in the same chapter i.e. chapter VI. The remaining items given in Appendix III, which have to be commented upon in the cost auditor's report, are given in the paragraphs which follow.

### **3. Royalty/Technical Aids Payments:**

Industrial units which have acquired technology under some agreement have to pay royalty or make some technical assistance payment, which amount should appear as part of the cost of the product. The cost auditor evaluates the total amount of such royalty/technical aid fee payable for the year and sees that the amount is in accordance with the agreement. Such amount forms a part of the cost of production and its incidence on per unit cost should be computed. Cost auditor should also look into whether: (i) the agreement is legally in force and (ii) the agreement is in line with the laws and regulations.

### **4. Abnormal Non-recurring Features:**

If there have been any abnormal and/or non-recurring features affecting production during the year, such as strikes, lock-outs, major break-downs in the plant, substantial power cuts, serious accidents etc., they should all, as far as practicable, be mentioned in the cost auditor's report and their impact on the cost of production should be indicated. Similarly, if some abnormal and/or non-recurring costs were incurred during the year and were directly allocated to the cost of the products under reference, the total amount so allocated and the incidence on the per unit cost, should be indicated in the cost auditor's report.

Abnormal and non-recurring costs should be tested both for principle and materiality. As a result of any unusual event, like major break-down, sabotage etc., considerable wastage of material inputs may have occurred. The cost auditor should consider all aspects and not just take the impact of total fixed expenses on the cost of production.

### **5. Cost of Production:**

The cost per unit of each category, variety, or quality of the product under reference, with comparative figures in the previous year, and comments on the reasons for differences should be included in the cost auditor's report. Such an analysis and comparison will also help in reconciling the total cost of the product under reference with the total cost of production, which can also be worked out from the figures given in financial accounts. Figures of financial accounts include provisions, allocation and appropriation of expenditure, which may have been paid in the previous year or may be paid in the next year, but relates to the current years production. If there are any such adjustment made in the financial accounts, these should become obvious as a result of reconciling the cost accounting information with financial accounts. Moreover, it is necessary to determine cost of different varieties, categories, qualities of each product in order to make an analytical study of the contribution made by each type of product.

#### **6.1 Sales and Profitability:**

Although cost of selling has been dealt with in an earlier chapter of this Handbook, according to para 12 of Appendix III of the Companies (Audit of Cost Accounts) Rules 1998, sales in quantity and net sales realisation of different categories, varieties or qualities of product under reference, showing the average sales realisation per unit, should be shown in the cost auditor's report. If the "Product under reference is exported, net realisation per unit, countries to which exported, indicating the profit or loss in export", should be specifically explained in the cost auditor's report. Sales of different quantities and qualities of the product under reference can help to make an interesting and useful study of contribution analysis. If it is possible to increase the volume of sales of such qualities or quantities as are yielding a higher contribution, it should be possible for the company to increase its profits. In the case of export, it may be observed that export to every country, to which the product under reference was exported, may not be yielding the same amount of profit per unit. The reasons can be many such as a better price in one country or higher cost of packing and higher amount of freight incurred on exporting to another country.

#### **6.2 Profit/(Loss) Per Unit:**

According to para 13 of Appendix III, "the profit per unit on each category, variety or quantity of the products, comments on the comparative profits of different categories of the products per unit as well as in terms of per machine hour etc., and comments on the adequacy or otherwise of product for maximisation of profit" should also be identified in the cost auditor's report. This exercise would help in studying the contribution made by sales of different quantities and different varieties of the products, also profitability of different market segments. Larger

quantities result in longer, continuous production runs and should normally yield a higher amount of profit compared to smaller quantity produced during intermittent production runs, bearing a higher incidence of setting up, test runs, wastages and other overhead costs.

### 6.3 Financial Ratio Analysis:

In order to evaluate the company's financial position and profit performance, the cost auditor performs checkups on various aspects of the company's financial health. A tool frequently used during these checkups is working out "financial ratios". Ratios provide a basis of carrying out both internal and external comparisons. A financial ratio, which relates to two accounting numbers, is obtained by dividing one number by the other. Ratios can be used for comparing changes within the company from period to period, or may be used for comparing the position with another company.

Financial ratios may compare the financial position or profit performance of the company. For comparing the financial position, balance sheet figures are used and for comparing the profit performance, figures of the profit and loss account are used. From the balance sheet figures, financial leverage, or the gear ratio, which are from the debt ratios may be calculated. These ratios show the extent to which the company is financed by loans. Cost and Management Accountants are quite familiar with such gear ratios. Liquidity ratio measures the company's ability to meet short-term obligations. From the profit and loss account figures, leverage ratio may be calculated which relates the financial charges of the company to its ability to service or cover them. Activity ratio measures how effectively the company is using its assets. Various profitability ratios are also worked out, which relate profit to sales and to investment.

### 7. Cost Auditor's Observations and Conclusions:

Para 14 of Appendix III of the Companies (Audit of Cost Accounts) Rules 1998, is important, particularly insofar as it requires the cost auditor to make such observations and conclusions with which the management of the company may not agree. These observations and conclusions should be made on the basis of reliable cost audit evidence. The provisions of the para quoted here should be carefully noted:

- “(a) Matters which appear to him to be clearly wrong in principle or apparently unjustifiable.
- (b) Cases where the company's funds have been used in a negligent or inefficient manner.
- (c) Factors which could have been controlled, but were not controlled resulting in increase in the cost of production.
- (d)
  - (i) The adequacy or otherwise of budgetary control system, if any, in vogue in the company; and
  - (ii) the scope and performance of internal audit, if any.
- (e) Suggestions for improvements in performance e.g., by-
  - (i) rectification of general imbalance in production facilities;
  - (ii) fuller utilisation of installed capacity;
  - (iii) comments on areas offering scope for-
    - (a) cost reduction;
    - (b) increased productivity;

- (c) key limiting factors causing production bottle-necks;
- (d) improved inventory policies; or
- (e) energy conservancy;
- (iv) state of technology, whether modern or obsolete; and
- (v) plant, whether new or second-hand when installed.”

## **APPENDIX I**

### **Companies (Audit of Cost Accounts) Rules, 1998**

## PART II

### Statutory Notifications (S.R.O.)

#### Government of Pakistan

#### Corporate Law Authority

#### Notifications

**Islamabad, the 24th July, 1998**

**S.R.O. 846 (1)/98.** - In exercise of the powers conferred by Sections 258 and 506 of the Companies Ordinance, 1984 (XLVII of 1984), read with the Finance Divisions Notification No. S.R.O. 698 (1) 86, dated 2nd July, 1986, the Corporate Law Authority hereby makes the following rules, the same having been published previously as required by sub-section (1) of the said Section 506, namely:-

#### **COMPANIES (AUDIT OF COST ACCOUNTS) RULES, 1998**

- 1. Short title, application and commencement.** - (1) These rules may be called the Companies (Audit of Cost Accounts) Rules, 1998.
  - (2) These rules shall apply to companies or class of companies, which are required by the Corporate Law Authority through a general or special order issued under clause (e) of sub-section (1) of Section 230 of the Companies Ordinance, 1984, to include in their books of accounts, such particulars relating to utilisation of material or labour or to other inputs or items of cost, as specified in that order.
  - (3) They shall come into force at once.
- 2. Definitions.** - In this rules, unless there is anything repugnant in the subject or context,-
  - (a) "Appendix" means an Appendix to these rules;
  - (b) "company" means a company formed and registered under the Companies Ordinance, 1984 (XLVII of 1984), and to which these rules apply;
  - (c) "director" means a director of a company; and
  - (d) "cost auditor" means a cost auditor appointed under rule 3.

- 3. Appointment of cost auditors.** - (1) Every company shall be required to get its cost accounts audited by a cost auditor who is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a Cost and Management Accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966).
- (2) The cost auditor shall be appointed by the directors with the prior approval of the Corporate Law Authority within sixty days of the close of financial year of the company.
- (3) The company shall apply to the Corporate Law Authority in the form set out in Appendix 1 for appointment of cost auditor not later than thirty days before the date on which cost auditor is to be appointed.
- (4) None of the following persons shall be appointed as cost auditor of a company, namely:-
- (a) a person who has been appointed as auditor of the company for the respective period under section 252 of the Companies Ordinance, 1984;
  - (b) a person who is, or at any time during the preceding three years was, a director, officer or employee of the company;
  - (c) a person who is a partner of, or in the employment of, a director, officer or employee of the company;
  - (d) a spouse of a director of the company;
  - (e) a person who is indebted to the company; and
  - (f) a body corporate.

**Explanation.** - In this sub-rule reference to an “officer” or “employee” shall be construed as not including reference to a cost auditor.

- (5) The remuneration of the cost auditor shall be fixed by the directors.

- 4. Cost auditors’ report.** - (1) Every company shall, in addition to the records and statements specified in the order of the Corporate Law Authority issued under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, prepare-
- (a) a statement of production capacity of the plant, in terms of machine hours and production units, the actual utilisation of the capacity and the reasons of difference between the two; and
  - (b) a statement of stock-in-trade of the company as at the end of financial year in terms of quantity and cost thereof distinguishing between-
    - (i) stock of raw material and components;
    - (ii) stock of work in process;
    - (iii) stock of finished products; and
    - (iv) other stocks.
- (2) The statement specified in clauses (a) and (b) of sub-rule (1) shall be signed by the chief executive and chief accountant of the company.

- (3) The cost auditor shall make out a report within sixty days of his appointment to the directors in the form set out in Appendix II alongwith a statement of capacity utilisation and stock-in-trade as specified in clauses (a) and (b) of sub-rule (1) in the form set out in Appendix III and simultaneously shall submit two copies thereof to the Corporate Law Authority and the registrar concerned.
- (4) The company shall, within thirty days from the date of receipt of copy of the report, furnish the Corporate Law Authority with full information and explanation on every reservation or qualification contained in such report.

**5. Penalty.** - Whoever fails or refuses to comply with, or contravenes any provision of these rules, or knowingly and wilfully authorises or permits such failure, refusal or contravention shall, in addition to any other liability under the Companies Ordinance, 1984, be also punishable with fine not exceeding two thousand rupees and, in case of continuing failure, refusal or contravention, with a further fine not exceeding one hundred rupees for every day after the first during which such contravention continues.

**Appendix I**

**(See rule 3(3))**

**Form of Application to the Corporate Law Authority  
for Appointment of Cost Auditors**

1. Name of the company together with the address of its registered office and the date of its incorporation:
2. Status of company:
3. Capital structure of the company:
4. Principal line(s) of business of the company:
5. Proposal for which the Corporate Law Authority's approval is sought indicating the product for which cost audit is ordered:
6. (a) The name and address of the cost auditor who is recommended to be appointed:  
(b) Whether the proposed cost auditor is a Chartered Accountant within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961), or Cost and Management Accountant within the meaning of the Cost and Management Accountants Act, 1966 (XVI of 1966), and whether he has a certificate of practice:  
(c) The associateship/fellowship No. of the cost auditor:
7. Whether the cost auditor is subject to any disqualification under rule 3 (3).
8. Remuneration for the cost auditor:
9. The financial year or years to be covered by the cost audit:
10. Date of the meeting of the directors recommending the name of the cost auditor:
11. A certified copy of the resolution passed by the directors of the company sanctioning the proposal for which the Corporate Law Authority's approval has been sought:
12. Name and address of the previous cost auditor, if any, together with the financial year of the company which was subjected to cost audit:
13. If there is any change in the appointment of cost auditor, the reasons therefore may be stated:
14. Declaration  
I/We solemnly declare that facts stated in the application are true to the best of my/our knowledge, information and belief.

Signature : \_\_\_\_\_

Designation (Chief Executive)

Dated: This \_\_\_\_\_, day of \_\_\_\_\_, 200\_\_

NOTE: The application should be enclosed with challan of Rs. 200/= being application fee and resolution of BOD relating to appointment of Cost Auditor.

**Appendix II**

**(See rule 4(3))**

**Cost Auditor's Report**

I/We ....., having been appointed to conduct an audit of cost accounts of Messrs ....., have examined the books of account and the statements 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 ..... and report that –

- (1) I/We have/have not obtained all the information and explanations which to the best of my/our knowledge and belief were necessary for the purposes of this audit.
- (2) In my/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/have not been kept by the company;
  - (b) proper returns, statements and schedules for the purpose of audit of cost accounts have/have not been received from branches not visited by me/us:
  - (c) the said books and records give/do not give the information required by the rules in the manner so required; and
- (3) In my/our opinion and, subject to best of my/our information –
  - (a) the annexed statement of capacity utilisation and stock-in-trade are/are not 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/have not been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of the under mentioned products of the company, namely :-
    - (i)
    - (ii)
    - (iii)

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

Dated : This \_\_\_\_\_, day of \_\_\_\_\_,

**Signature:**

**(Name of the Cost Auditor  
or firm of Cost Auditors)**

**Appendix III**

(See rule 4(3))

**Particulars to be Included in  
Cost Auditors' Report to the Directors of the Company**

1. **Capacity.** - (a) Licensed, installed and utilised capacities of the factory or factories for the products under reference.  
  
(b) If the company is engaged in other activities besides the manufacture of the product under reference, give a brief note on the nature of such activities.
2. **Cost accounting system.** - Brief comments on the cost accounting system and its adequacy or otherwise to determine correctly the cost of the product under reference.
3. **Production.** - (a) Production in quantities of each type of product under reference.  
  
(b) Percentage of production of the product under reference in relation to installed capacity. If there is any shortfall in production as compared to the installed capacity, brief comments as to the reasons for the shortfall.  
  
(c) If there is any addition to the production capacity during the year under review or in the immediately preceding two years, this may also be mentioned.
4. **Raw materials.** - (a) The cost of major raw material consumed both in terms of quantity and value. Where the cost of transport, etc., of raw material is significant, specify the same separately.  
  
(b) Consumption of major raw material per unit of production compared with the standard requirements, if any.  
  
(c) Explanations for variances, if any, in the consumption of major raw material per unit of production as compared to the preceding two years, and with standard requirement, if any.  
  
(d) Comments on the method of accounting followed for recording the quantities and value of receipts, issues and balances of all material directly used in production.
5. **Wages and salaries.** - (a) Total wages and salaries paid for all categories of employees, separately in respect of each of the following namely:-
  - (i) direct labour costs on production;
  - (ii) indirect employees cost on production;
  - (iii) employees cost on administration;
  - (iv) employees cost on selling and distribution;
  - (v) bonus to workers and employees;
  - (vi) other employees cost, if any (including taxes and levies); and
  - (vii) total employees cost (total of items (i) to (iv) above).

- (b) Salaries and perquisites of directors and chief executive.
  - (c) Total man-days of direct labour available and actually worked for the year.
  - (d) Average number of workers employed for the year.
  - (e) Direct labour cost per unit of output of the product (give information in respect of each).
  - (f) Brief explanations for variances in item (e) above, if any, as compared to the previous two years.
  - (g) Comments on the incentive schemes, if any, with particular reference to its contributions towards increasing productivity and its effect on cost of production.
- 6. Stores and spare parts.** - (a) The expenditure per unit of output on stores, etc.
- (b) Comments on the system of stores accounting for recording receipts, issues and balances, both in quantities and values.
  - (c) If practicable, the proportion of closing inventory of stores representing items which have not moved for over twenty four months.
- 7. Depreciation.** - (a) The method of depreciation adopted by the company, e.g. straight line or diminishing balance, etc.
- (b) The basis of allocation of depreciation on common assets to the different departments.
  - (c) The basis of charging depreciation to the cost of products.
- 8. Overheads.** - (a) The total amounts of the following overheads and a break-up of items (i), (ii), and (iii) below:-
- (i) Factory overheads,
  - (ii) Administration overheads,
  - (iii) Selling and distribution overheads,
  - (iv) Financial charges.
- (b) Reasons for any significant variances in the expenditure incurred against the item, included in overheads as compared with previous two years.
  - (c) The basis of allocation of overheads to cost centres and of absorption to products with brief comments, if any, on the basis of allocation adopted by the company.
  - (d) Cost of packing, if any, of the products under, reference to be shown separately with details to the extent possible.
- 9. Royalty/technical aid payments.** - The total amount of royalty/technical aid fees payable for the year and the amount chargeable per unit of product.
- 10. Abnormal non-recurring features.** - (a) If there were any abnormal features affecting production during the year, e.g., strikes, lock-outs, major breakdowns in the plant, substantial power cuts, serious accidents, etc., they shall, wherever practicable, be briefly mentioned indicating their impact on the cost of production.

- (b) If there are any special expenses which have been directly allocated to products under reference, the total amount as also the incidence per unit of product shall be shown.
- 11. Cost of production.** - The cost per unit of different categories, varieties, or qualities of each of the products under reference with comparative figures for the previous year and comments on the reasons of difference.
- 12. Sales.** - (a) The sales in question and net sales realisation of the different categories, varieties of quantities of product under reference showing the average sales realisation per unit.
- (b) If product under reference is exported, quantity exported, net realisation per unit, countries to which exported indicating the profit or loss incurred in export.
- 13. Profitability.** - The profit per unit earned on each category, variety or quantity of the products, comments on the comparative profits of different categories of the products per unit as well as in term of per machine hour, etc, and comments on the adequacy or otherwise of product for maximisation of profit.
- 14. Cost auditors' observation and conclusion.**
- (a) Matters which appear to him to be clearly wrong in principle or apparently unjustifiable.
  - (b) Cases where the company's funds have been used in a negligent or inefficient manner.
  - (c) Factors which could have been controlled, but have not been controlled resulting in increase in the cost of production.
  - (d)
    - (i) The adequacy or otherwise of budgetary control system, if any, in vogue in the company; and
    - (ii) the scope and performance of internal audit, if any,
  - (e) Suggestions for improvements in performance, e.g. by –
    - (i) rectification of general imbalance in production facilities;
    - (ii) fuller utilisation of installed capacity;
    - (iii) comments on areas offering scope for –
      - (a) cost reduction;
      - (b) increased productivity;
      - (c) key limiting factors causing production bottle-necks;
      - (d) improved inventory policies; or
      - (e) energy conservancy;
    - (iv) state of technology, whether modern or obsolete; and
    - (v) plant, whether new or second-hand were installed.
- 15. Reconciliation with financial account.** - After the auditor appointed under section 252 of the Companies Ordinance, 1984, submits his report, the cost auditor shall submit a supplementary report on reconciliation

with financial accounts, to the directors before the date fixed for holding the annual general meeting of the company.

16. **Cost statement.** - Copies of all the cost statements on the formats prescribed by the Corporate Law Authority under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, duly authenticated by the chief executive and chief accountant of the company, and verified by the cost auditor, shall be appended to the report.
17. **Miscellaneous.** - As far as practicable, comparison of all figures of cost and production shall be made with the figures of previous year.

**Registrar of Companies**

## **APPENDIX II**

### **Example of a Cost Audit Acceptance Letter**

**Appendix**

**Example of a Cost Audit Acceptance Letter:**

The following letter is for use as a guide in conjunction with the considerations outlined in this Handbook and will need to be varied according to individual requirements and circumstances.

To the Board of Directors or the appropriate representative of senior management:

You have requested that we audit the cost accounting statements as of \_\_\_\_\_. We are pleased to confirm our acceptance of this engagement, subject to the approval by SECP. Our audit will be made with the objective of our expressing an opinion on the cost accounting statements.

We will conduct our audit in accordance with Companies (Audit of Cost Accounts) Rules 1998. It is required that we plan and perform the audit to obtain reasonable assurance about whether the cost statements are free of material misstatements. A cost audit includes assessing the cost accounting principles used and significant estimates made by management, as well as evaluating the overall cost accounting system.

Because of the nature and other inherent limitations of an audit, together with the inherent limitations of any cost accounting system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In addition to our report on the cost accounting statements, we expect to provide you with a separate letter concerning any material weakness in cost accounting system which come to our notice.

We remind you that the responsibility for the preparation of cost accounting statements, capacity utilisation statement and inventory statements is that of the management of the company. This includes the maintenance of adequate cost accounting records and internal controls and the selection and application of cost accounting principles. As part of our cost audit process, we will request from the management written confirmation concerning representations made to us in connection with the cost audit.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses.

Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

We trust you have applied to the Securities and Exchange Commission of Pakistan, in the form prescribed in sub-section 3 of Section 3 of the Companies (Audit of Cost Accounts) Rules 1998, for obtaining approval of our appointment as Cost Auditor., We are also sending a copy of this letter to SECP, to signify our acceptance, subject to their approval.

This letter will be effective for future years unless it is terminated, amended or superseded.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the cost accounting statement.

**XYZ & Co.**

Acknowledge on behalf of  
ABC Company by

\_\_\_\_\_  
(signed)

Name and Title : \_\_\_\_\_

Date : \_\_\_\_\_

**APPENDIX III**

**Vegetable Ghee and Cooking Oil Companies**  
**(Cost Accounting Records) Order, 1990**

**The Gazette of Pakistan**

**PART II**

**Statutory Notifications (S.R.O.)**

**Government of Pakistan**

**Corporate Law Authority  
(Corporate Regulation Wing)**

**Notification**

**Islamabad, the 1st November, 1990**

**Vegetable Ghee And Cooking Oil Companies  
(Cost Accounting Records) Order, 1990**

**S.R.O. 1131 (I)/90.** - In exercise of the powers conferred by sections 230 and 506 of the Companies Ordinance, 1984 (XLVII of 1984) read with the Finance Division Notification No.S.R.O 698 (I)/86, dated the 2nd July, 1986, the Corporate Law Authority is pleased to make the following Order, the same having been previously published as required by the said section 506, namely:-

**Vegetable Ghee and Cooking Oil Companies  
(Cost Accounting Records) Order, 1990**

- 1. Short title, extent and commencement,** (1) This Order may be called the Vegetable Ghee and Cooking Oil Companies (Cost Accounting Records) Order, 1990.  
  
(2) It extends to the whole of Pakistan.

- (3) It shall come into force on such date as the Corporate Law Authority may by notification in the official Gazette, appoint.
- 2. Application, -** This Order shall apply to every company engaged in production, processing or manufacturing of:-
- (a) vegetable ghee, cooking oil, margarine bakery shortening and allied products; and
- (b) In addition to vegetable ghee and cooking oil, any other product such as refined hard oil, margarine or any such product using the same plant or machinery, partly or fully.
- 3. Maintenance of records. -** (1) Every company to which this Order applies shall, in respect of each financial year commencing on or after the commencement of this Order, keep cost accounting records, containing inter alia the particulars in Schedules I and II to this Order.
- (2) Where a company is manufacturing any other product in addition to those referred to in paragraph 2, the particulars relating to the utilisation of materials, labour and other items of cost insofar as they are applicable to such other product shall not be included in the cost of the products referred to in that paragraph.
- (3) The cost accounting records referred to in sub-paragraph (1) shall be kept in such a way as to make it possible to calculate from the particulars entered therein the cost of production and cost of sales of each of the products referred to in paragraph 2 during a financial year.
- (4) It shall be the duty of every person referred to in sub-section (7) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), to comply with the provisions of sub-paragraphs (1) and (3) in the same manner as they are liable to maintain financial accounts required under section 233 of the said Ordinance.
- 4. Penalty. -** If a company contravenes the provisions of paragraph 3, the company and every officer thereof who is in default, including the person referred to in sub-paragraph (4) of paragraph 3, shall be punishable under sub-section (7) of section 230 of the Companies Ordinance, 1984.

**Joint Registrar (H.Q.)**

## SCHEDULE 1

### (See Paragraph 3 )

#### I. Production material

##### (Raw edible oils, chemicals and vitamins)

- (a) Record of each item of production material in stock, required or actually used for producing, processing or manufacturing any of the products referred to in paragraph 2 shall be maintained. It shall show the quantity and cost of every receipt and issue made from the stock. All issues of production materials shall be reconciled with the figure shown in proforma 'B' of Schedule II, or in any form as near thereto as possible. Any losses/surpluses arising as a result of physical verification of inventories and adjustment thereof shall be clearly indicated in the cost records.
- (b) Record of purchase/supply contracts entered into/with local and foreign suppliers will be maintained showing the rate at which the various quantities of materials are to be purchased. The record shall indicate principal features of each contract, particularly, conditions relating to the quality, price and period of delivery, discount for transit loss and terms of payment including cash discounts, if any, and compensation, the supplier shall pay for delay in delivery and non-delivery. The records shall also show the deliveries received against each contract of material supply. The supply contracts shall also indicate the conditions relating to rebate for quality variations in FFA (free fatty acids), colour and moisture in case of raw edible oils; and in case of other materials usual quality standards shall be specified in the supply contracts for the purpose of rebates.
- (c) Where arrangements exist for production of any of the production materials by the facilities owned by the company, separate records showing the cost of manufacture of such materials indicating the break-up of raw materials consumed and conversion cost shall be maintained. The records shall also indicate the basis on which such materials are priced for transfer to the manufacture or processing of vegetable ghee/cooking oil.
- (d) The cost, in addition to the basic price of the materials shown in the records shall also include all other direct charges incidental to the procurement of production materials up to the works.
- (e) Any abnormal wastage of material whether in transit, storage or for any other reason, shall be recorded separately indicating the stage at which such losses occur. Method of dealing with such losses in the calculation of cost shall be indicated in the records. Normal wastages will be absorbed by the remaining material itself.
- (f) Difference between the quantity of raw edible oils introduced into the process and the yield obtained, commonly referred to as the 'process loss' or 'refining loss' includes waste materials (by-product) called 'visible loss' which is part of TFM (total fatty matter) and a small quantity of 'invisible loss'. Realisable value of the by-products, extracted from the oil, shall be credited to the cost of oil.
- (g) Realisable value of the used chemicals recovered shall be credited to the cost of such materials to arrive at the net cost of chemicals consumption.
- (h) By products, such as oxygen or carbon dioxide and the nitrogen as the case may be, obtained from the generation of hydrogen, by different processes, shall also be credited to the respective process cost centres to determine the net cost of hydrogen available for use.
- (i) The records shall be maintained in such detail as may enable the company to compile the cost data in Annexures A-1, and A-2, of proforma 'A' of Schedule II or in any form as near thereto as practicable.

**II. Direct Labour**

- (a) Adequate record shall be maintained to show the attendance of workers employed by the company whether on regular, temporary, or piece-rate basis or on contractual basis. Proper record shall also be maintained in respect of payment made for overtime work and other production incentives given to the workers and payments to any contract or for the work performed.
- (b) Fair and reasonable allocation shall be made for wages paid to such direct labour as has been utilised in more than one department, between the various manufacturing departments or cost centres and the basis of such allocation shall be consistently followed. Idle time or lay-off payments shall be recorded separately indicating the reasons and the method of treatment in the calculation of the cost of the items referred to in paragraph 2. Any wages being expenditure on additions to plant, machinery or other fixed assets shall be allocated to the relevant capital heads in the accounts.
- (c) In case of wages and salaries being allocated on a basis other than actuals, reconciliation of wages and salaries to the actuals and the treatments of variances, if any, in determining the cost of the products shall also be indicated in the cost records.

**III. Steam**

- (a) Adequate records shall be maintained to ascertain the cost of steam produced and charged to different processes. The cost of steam may be determined on an estimated basis if it is not possible to determine the actual cost. In case the cost of steam is allocated to different processes on any basis other than actual cost, reconciliation of the actual cost of steam produced and the treatment of variances, if any, in determining the cost of items referred to in Paragraph 2, shall be indicated in the cost records.
- (b) The record shall be maintained in such details as may enable the company to compile the cost data in Annexure A-3 of proforma 'A' of Schedule II or in any form as near thereto as practicable.

**IV. Hydrogen**

Adequate records shall be maintained to ascertain the cost of hydrogen produced and charged to vegetable ghee and cooking oil production as well as that sold.

**V. Water**

Appropriate record shall be maintained to determine the cost of water used by the company. The expenditure on water shall be allocated to boiler house and oil processing on estimated basis which shall be used consistently from year to year and indicated in the cost records.

**VI. Electric Power**

- (a) Adequate records, showing quantity and cost of electric power purchased, with fixed charges and duties incurred thereon, shall be maintained. The cost of electric power shall be kept separately for each item. The consumption shall be calculated on a reasonable basis and applied consistently.
- (b) Where electric power is generated by the company itself or by its wholly owned subsidiary, separate records, shall be maintained in such details as may enable the company to compile; cost data in Annexure A-4 or proforma 'A' of 'Schedule II' or in any form as near thereto as practicable.
- (c) The records shall be so maintained as to enable the assessment of consumption of power by the different departments or manufacturing units or cost centres. Allocation of the cost of electric power shall be on the basis of actual consumption, if separate meters are installed or on the basis of technical estimates in the absence of meters. In the case of fixed charges or fuel adjustment surcharge claimed by KESC or WAPDA, irrespective of the actual power consumed and if the amount payable as per

actual consumption falls below the contractual minimum, the difference between the contractual minimum and the actual amount shall be treated as fixed/period cost and treated accordingly. Cost of power consumed in and chargeable to non-manufacturing departments, if significant, shall be shown separately.

#### **VII. Consumable Stores**

- (a) Record of each item of consumable stores shall be maintained to show the receipts, issues and balances, both in quantities and values, required or actually used for the manufacture of items referred to in paragraph 2.
- (b) Cost of consumable stores shall include all direct charges incidental to procurement of each item up to works. The cost of such stores consumed shall be charged to relevant cost centres on the basis of actual consumption. The items issued for capital expenditure, such as addition to plant and machinery, shall be shown under relevant heads.
- (c) Wastage of consumable stores, whether in transit, storage or at any point, shall be quantified and shown separately. Method of dealing with such losses in costing shall also be indicated in the cost records.

#### **VIII. Repairs and Maintenance**

Adequate records showing expenditure incurred on workshop facilities for repairs and maintenance of plant and machinery shall be maintained. Details of cost determination and their basis of allocation of repairs and maintenance expenditure to different departments or manufacturing units or cost centres shall be indicated. Cost of work of capital nature of heavy repairs and maintenance cost, benefit of which is likely to be spread over a period longer than one financial year, shall be shown separately.

#### **IX. Packing**

- (a) Adequate records shall be maintained showing the cost of packing materials and direct wages and other expenses incurred in respect of different items packed. Where such expenses are not capable of being charged directly against individual items, basis of apportioning the expenses shall be clearly indicated in the cost records and applied consistently.
- (b) Where the tin containers are fabricated by the company itself or wholly or partly fabricated by the outside in fabricators for the company or wholly or partly manufactured tin containers are purchased from the market, separate record shall be maintained for each lot of the containers under each category.
- (c) In case tin containers are wholly or partly manufactured/fabricated by the company itself, the records shall be maintained in such details as may enable the company to compile the cost data in the form of Annexure A-5 of proforma 'A' of Schedule II.

#### **X. Chilling**

Appropriate record of cost incurred in connection with refrigeration facilities provided for chilling of items referred to in paragraph 2 shall be maintained in sufficient details as may enable the company to compile the cost data in Annexure A-6 of proforma 'A' of Schedule II.

#### **XI. Depreciation**

- (a) Adequate records shall be maintained showing values and other particulars of the fixed assets in respect of which depreciation is to be provided. The records shall inter alia indicate the cost of each item of assets, the date of its acquisition and the rate of depreciation.

- (b) Basis on which depreciation is calculated and allocated to the various departments and products shall be clearly indicated in the records.
- (c) Amount of depreciation chargeable to the different departments, manufacturing units or cost centres, for the financial year shall be in accordance with the provisions of clause 'F' of part II of the Fourth Schedule to the Companies Ordinance, 1984, and shall relate to the plant and machinery and other fixed assets utilised in such departments or units or cost centres. The method once adopted shall be applied consistently.

## **XII. Insurance**

- (a) Record shall be maintained showing the insurance premia paid for the various risks covered on the assets and other interests of the company.
- (b) Method of allocating insurance cost to the various cost centres shall be indicated in the cost records and followed consistently.

## **XIII. Other fixed overheads**

Adequate records showing the amounts comprising the manufacturing overhead expenses and details of apportionment thereof to the various departments or manufacturing units or cost centres, shall be maintained. The factory overheads shall include among other items, indirect labour cost alongwith its share of labour related costs such as fringe benefits, other labour and staff welfare expenses, and establishment expenses of manufacturing of items referred to in paragraph 2.

## **XIV. Administration, selling and distribution**

Adequate records shall be maintained showing the items comprising administration, selling and distribution expenses and apportionment thereof to the different products and the basis of allocation of overhead cost shall be indicated in the records.

## **XV. By-product**

Adequate records shall be maintained showing the quantity of by-products obtained and the basis of pricing adopted for giving credit thereof to the main product. Any subsequent use of the by-products, such as soap stock being converted into laundry soap, and other products like glycerene etc., shall also be recorded and reconciled.

## **XVI. Work-in-process and finished goods inventories**

Record of work-in-process inventories at each material stage of process and finished goods inventories, physically checked and verified at the close of the financial period, duly reconciled with the books of accounts, shall be maintained. Method of valuation of work-in-process and the finished goods inventories shall be indicated in the cost records so as to reveal the cost elements which have been taken into account in such computation. The cost elements shall be related to the items referred to in the proforma 'A' of Schedule II. The method adopted shall be consistently followed. Treatment of differences, if any, on physical verification of stocks with book balances, shall also be indicated in the records.

## **XVII. Statistical statements and other records**

- (a) Statistical statements and other records such as yield statement, TFM (total fatty matter), recovery and other by-products statement details relating to chemical and energy consumption, tinplate yield and scrap records and relevant data shall be maintained in such details as may enable the company to comply with the requirements of this Schedule and Schedule II and to enable the cost auditor to report and perform his duties under section 258 of the Companies Ordinance, 1984.

- (b) Companies may develop appropriate standards for use as a basis to evaluate performance properly.

**XVIII. Reconciliation of cost and financial accounts**

- (a) The cost records shall be periodically reconciled with the financial accounts to ensure accuracy. Variations, if any, shall be clearly indicated and explained.
- (b) The reconciliation shall be done in such a manner that the profitability of the product, as per cost statements, is correctly judged and reconciled with the overall profits of the company from all its activities.
- (c) Adequate cost records shall be maintained in a manner so that the cost statements as required in Schedule II (proforma 'A' and annexures) can be compiled and the cost auditor is able to verify the statements with the records.

**SCHEDULE II**  
**(See Paragraph 3)**

**PROFORMA "A"**

Name and address of the company : \_\_\_\_\_

**Statement Showing Cost of Vegetable Ghee /  
Cooking Oil Manufactured and Sold During the  
Period From \_\_\_\_\_ To \_\_\_\_\_.**

**1- Capacity**

	<b>Current period</b>	<b>Previous period</b>
(a) Number of days worked:		
(b) Installed capacity (Tonnes):		
(c) Utilised capacity (Tonnes):		
(i) Vegetable ghee: 16 kg pack 5 kg pack 2.5 kg pack		
(ii) Cooking oil 17 litre pack 5 litre pack 2.5 litre pack		
(iii) Margrine		
(iv) Bakery shortening		
(v) Others if any (specify)		

**II- Costs:**

Particulars	Current period		Previous period	
	Total cost	Cost per tonns	Total cost	Cost per tonns
<b>1- Direct materials</b>				
(i) Raw edible oils (as per Annexure A-1)				
(ii) Chemicals: (as per Annexure A-2) Production materials				
<b>2- Direct Labour</b>				
<b>3- Variable factory Overheads</b>				
(i) Steam : (as per Annexure A-3)				
(a) Used in neutraliser and other process:				
(b) Used in deodoriser:				
(ii) Hyderogen:				
(a) By gas Cracking process				
(b) By electrolysis process				
(iii) Water:				
(iv) Electric power cost				
(a) Purchased from WAPDA/KESC				
(b) Own generation (as per Annexure A-4)				
(v) Consumable stores:				
(vi) repairs and maintenance;				
(vii) Other overheads (specify) Variable factory overheads				
<b>4- Total Variable cost</b>				
(Item 1+2+3)				
<b>5- Packing cost</b> (as per Annexure A-5)				
<b>6- Chilling cost</b> (as per Annexure A-6)				
<b>7- Total variable cost including packing     and chilling cost.</b>				

Particulars	Current period		Previous period	
	Total cost	Cost per tonns	Total cost	Cost per tonns
<p><b>8- Adjustment of work in process inventory</b></p> <p>(I) <i>Add:</i> Opening stock                      (a) At packing stage                      (b) At chilling stage</p> <p>(II) <i>Less:</i> Closing stock:                      (a) At packing stage                      (b) At chilling stage</p> <p><b>9- Total variable cost of packed and chilled vegetable ghee/choking oil</b>                      (Item 7+8)</p> <p><b>10- Fixed Overheads</b></p> <p><b>11- Total cost of goods manufactured</b>                      (Item 9+10)</p> <p><b>12- Adjustment of finished goods inventories.</b>                      (i) <i>Add:</i> Opening stock                      (ii) <i>Less:</i> Closing stock</p> <p><b>13- Net ex-works cost of sales.</b>                      (Item 11+12)</p> <p><b>III. Sales.</b></p> <p>(i) Gross sales                      (ii) Less commission and discount                      (iii) Sales [(item (i) and (ii))]                      (iv) Less: Excise duty                      (v) Net sales</p>				

- Notes:-*
1. Separate cost statements shall be prepared in respect of vegetable ghee/cooking oil, margarine and bakery shortening etc.
  2. Excise duty to be excluded but shown separately as a deduction from sales.
  3. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefore.
  4. The apportionment of common overheads to the vegetable ghee and cooking oil products, in the case of multiproduct units, shall be equitable.

Annexure A-1

Name and address of the Company

STATEMENT SHOWING THE RAW EDIBLE OILS CONSUMED  
DURING THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_

PARTICULARS	CURRENT PERIOD				PREVIOUS PERIOD			
	Oil blend %	Qty. tonne	Rate	Total cost	Oil blend %	Qty. tonne	Rate	Total cost
1- Oil in Put								
Imported								
(a) Palm oil								
(b) Soyabean oil								
(c) Others (specify)								
Local								
(a) Cottonseed oil								
(b) Rapeseed oil								
(c) Sunflower oil								
(d) Others (specify)								
Total:				100%				100%
2- Adjustment of oil in process inventories								
(i) Add: Opening stock								
(ii) Less: closing stock								
3- Total oil consumed (Item 1+2)								
4- Yield (Net production)								
5- Process Loss: (Item 3-4)								
(a) By-products:- Visible loss (actual quantity at realisable value credited to cost of oil).								
(b) Invisible loss (quantity only)Sub-total of process loss.								
6- Net cost of oil charged to production value at item 4 less 5(a).								

- Notes:-
1. Separate cost statements shall be prepared in respect of vegetable ghee/cooking oil, margarine and bakery shortening.
  2. The basis of arriving at the process loss for each type of oil-blend shall be clearly indicated and compared with standards in the cost records.
  3. The actual input/output ratio and variations from standards shall be indicated.
  4. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefore.

**Annexure A-2**

Name and address of the Company \_\_\_\_\_

**STATEMENT SHOWING THE COST OF CHEMICAL CONSUMED  
DURING THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_**

CHEMICAL	CURRENT PERIOD					PREVIOUS PERIOD				
	CONSUME Per M.T. Yield					CONSUME Per M.T. Yield				
	Qty.	Rate	Total cost	Cost per tonne	Qty. per tonne	Qty.	Rate	Total cost	Cost per tonne	Qty. per tonne
(a) Bleaching earth (b) Activated carbon (c) Nickle catalyst (d) Caustic soda (e) Citric acid (f) Phospheric acid (g) Anti oxidant (h) Common salt (i) Ghee flavour (j) Filter aids (k) Vitamins A and D (l) Other (specify) Total chemicals Less: Credit for used chemical waste. (Realisable value)  (a) Used fullers earth (b) Used nickle catalyst. (c) Others (specify) Net cost of chemical										

- Notes:-
1. Separate cost statements shall be kept in respect of vegetable ghee/cooking oil, margarine/bakery shortening.
  2. The actual consumption per tonne of yield and variation, if any, from standard shall be indicated.
  3. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefore.

Annexure A-3

Name and address of the Company \_\_\_\_\_

**STATEMENT SHOWING THE COST OF STEAM PRODUCED  
FOR THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_**

**I- Capacity:**

Type of steam boilers	Current period		Previous period	
(a) Number of days worked (b) Installed capacity (steam in cubit meters) (c) Capacity utilisation (Steam in cubic meters)				
<b>II- Cost:</b>				
Boiler houses expenses	Current period		Previous period	
	Total cost	Cost per M <sup>3</sup> of steam	Total cost	Cost per M <sup>3</sup> of steam
(i) Fuel (coal/gas/furnace oil) (i) Fuel(coal/gas/furnace oil) (ii) Water (iii) Electricity (iv) Chemicals (vi) Consumable stores (vii) Salaries and wages (viii) Repair and maintenance (ix) Depreciation (x) Insurance (xi) Other  Total cost of steam produced				
<b>III- Sales and Transfers:</b>				
(a) Vegetable ghee/cooking oil production (i) Neutilizers and other process (ii) Deodorizer (b) To gas cracking (c) To any other section (specify) Total				

- Notes:-
1. The standard input/output ratio and variation from standards should be indicated.
  2. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefore.

Annexure A-4

Name and address of the Company \_\_\_\_\_

**STATEMENT SHOWING THE COST OF ELECTRIC POWER GENERATION  
FOR THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_**

**I- Capacity:**

	Current period	Previous period
(i) Number of hours worked (ii) Installed capacity (KWH). (iii) Unutilised capacity (KWH).		

**II- Cost:**

Particulars	Current period		Previous period	
	Total cost	Cost per KWH	Total cost	Cost per KWH
1- Fuel and oil 2- Salaries and wages 3- Consumable Store 4- Repair and maintenance 5- Depreciation 6- Insurance 7- Other overheads  Total cost :				

**III- Sales and Transfers:**

Particulars	Current period		Previous period	
	Total cost	Cost per KWH	Total cost	Cost per KWH
(i) Sales to outsiders (ii) charged to production (iii) charged to general uses (iv) Any other department (specify)  Total sales/allocation				

- Notes:-
1. The standard input/output ratio and variation from standards should be indicated.
  2. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefore.

Annexure A-5

Name and address of the Company

STATEMENT SHOWING THE COST OF TIN MANUFACTURED  
DURING THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_

**I- Capacity:**

	Current period			Previous period		
(i) Number of days worked (ii) Installed capacity 16 Kg/17 litre 5 Kg/5 litre 2.5 Kg/2.5 litre						
	Tin plate consumed (Tonnes)	Total tins produced (Nos.)	Yield tins Tonne (Nos.)	Tin plate consumed (Tonnes)	Total tins produced (Nos.)	Yield per tonne (Nos.)
(iii) Capacity utilisation 16 Kg/17 litre 5 Kg/5 litre 2.5 Kg/2.5 litre						

**II- Cost:**

	Current period				Previous period			
Particular	Qty.	Rate	Total cost per tin		Qty.	Rate	Total cost per tin	
1	2	3	4	5	6	7	8	9
1- Materials								
Tinplate (M. Tons)								
Less: (i) Tinplate scrap (ii) Ticklies								
Net credit for tinplate scrap								
Net cost of tinplate be forward consumed								
2- G.I. Wire hangers								
3- Chemicals:								
(i) Soldering materials								
(ii) Zinc								
(iii) Hydrochloric acid								

1	2	3	4	5	6	7	8	9
4- Labels/printing of tins 5- Electricity, Power and/fuel 6- Consumable stores 7- Salaries and wages 8- Repairs and maintenance 9- Depreciation 10- Insurance 11- Other overheads (specify)								
Total:								
12- Adjustment of work in process inventories (i) <i>Add:</i> (Opening stock) (ii) <i>Less:</i> (Closing stock)								
13- Total cost of tins manufactured								
14- Adjustment of finished tins inventories (i) <i>Add:</i> (Opening stock) (ii) <i>Less:</i> (Closing stock)								
15- Cost of tins consumed								

- Notes:-
1. Separate cost statement shall be maintained in respect of each size of container.
  2. Sales tax/excise duty on the containers, if any, may be indicated separately in the cost statement.

**Annexure A-6**

Name and address of the Company

**STATEMENT SHOWING THE COST OF CHILING FOR  
THE PERIOD FROM:\_\_\_\_\_ TO \_\_\_\_\_**

**I- Capacity:**

	Current period		Previous period	
1- Number of days worked 2- Chilling capacity (Tonne) 3- Capacity utilisation (Tonne)				
<b>II- Cost:</b>				
	Current period		Previous period	
	Total	Cost per tonne/output	Total	Cost per tonne/output
(a) Freon/amonia (b) Power (c) Wages and saleries (d) Consumable stores (e) Repairs and maintenance (f) Depreciation (g) Insurance (h) Other overheads				
Total chiling cost				

- Notes:-
1. The standard input/output ratio and variation from standards should be indicated.
  2. Abnormal losses, if any, both in quantity and cost shall be shown in a separate statements indicating the reasons therefor.

**Proforma "B"**

Name and address of the Company

**STATEMENT SHOWING INVENTORIES OF FINISHED GOODS, RAW & PACKING MATERIALS AND OTHER ITEMS FOR THE PERIOD FROM: \_\_\_\_\_ TO \_\_\_\_\_**

<b>Particular</b>	<b>Opening stock (Qty.)</b>	<b>Received during the period (Qty.)</b>	<b>Issued during the period (Qty.)</b>	<b>Physical stock adjustments if any (Qty.)</b>	<b>Closing stock (Qty.)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1- Finished goods (M. tons)					
(a) Vegetable ghee:					
16 Kg. Pack					
5 Kg. Pack					
2.5 Kg. Pack					
(b) Cooking Oil:					
17 litre pack					
5 litre pack					
2.5 litre pack					
(c) Margarine					
(d) Bakery shortening					
(e) Others (specify)					
Total:					
2- Empty finished tins (Numbers)					
16 Kg. 17 Litre					
5 Kg./5 Litre					
2.5 Kg./2.5 litre					
Total:					
3- By-products (specify)					

1	2	3	4	5	6
<p>4- Raw edible Oil (tonnes)</p> <p>Imported:</p> <ul style="list-style-type: none"> <li>i- Palm Oil</li> <li>ii- Soybean Oil</li> <li>iii- Others (sepcify)</li> </ul> <p>Local:</p> <ul style="list-style-type: none"> <li>i- Cottonseed Oil</li> <li>ii- Rapeseed Oil</li> <li>iii- Sunflower Oil</li> <li>iv- Others (specify)</li> </ul>					
<p>Total:</p>					
<p>5- Chemical (KG):</p> <ul style="list-style-type: none"> <li>i- Bleaching earch</li> <li>ii- Activated carbon</li> <li>iii- Caustic soda</li> <li>iv- Nickle catalyst</li> <li>v- Citric acid</li> <li>vi- Phospheric acid</li> <li>vii- Anti oxidant</li> <li>viii- Common salt</li> <li>ix- Filter acids</li> <li>x- Ghee flavour</li> <li>xi- Vitamins A and D</li> <li>xii- Others (specify)</li> </ul>					
<p>Total:</p>					
<p>6- Others materials:</p> <ul style="list-style-type: none"> <li>i- Ti plant (Tonne).</li> <li>ii- G.A. wire (Tonne).</li> <li>iii- Soldering materials (K.G.)</li> <li>iv- Others (specify)</li> </ul> <p>7- Small tools</p> <p>8- Any others stores (specify)</p>					
<p>Total:</p>					

**APPENDIX IV**  
**Cement Industry**  
**(Cost Accounting Records) Order, 1994**

## PART II

**Statutory Notifications (S.R.O.)****Government of Pakistan****Corporate Law Authority****(Corporate Regulation Wing)****NOTIFICATION**

Islamabad, the 14th May, 1994

**S.R.O. 386 (I)/94.-** In exercise of powers conferred by Sections 230 and 506 of the Companies Ordinance, 1984 (XLVII of 1984), read with the Finance Division Notification No. S.R.O. 698 (I)/86, dated the 2nd July, 1986, the Corporate Law Authority is pleased to make the following Order, the same having been previously published as required by sub-section (I) of section 506 of the said Ordinance, namely:-

**CEMENT INDUSTRY (COST ACCOUNTING RECORDS) ORDER, 1994**

- 1- Short title, application and commencement.** – (1) This Order may be called the Cement Industry (Cost Accounting Records), Order, 1994.
  - (2)- This Order shall apply to every company engaged in production, processing and manufacturing of clinker or cement or both.
  - (3)- It shall come into force on such date as the Corporate Law Authority may, by Notification in the official Gazette, appoint.
  
- 2- Maintenance of records.** – (1) Every company shall, in respect of each financial year commencing on or after the commencement of this Order, keep cost accounting records, containing inter alia the particulars specified in the Schedule to this Order.
  - (2)- The records referred to in sub-paragraph (1) shall be kept in such a way as to make it possible to calculate from the particulars entered therein the cost of production and cost of sales of each of the products referred to in sub-paragraph (2) of paragraph (1) separately, during a financial year.
  - (3)- Where a company is manufacturing any other product in addition to clinker or cement or both, the particulars relating to the utilization of materials, labour and other items of cost in so far as they are applicable to such other product shall not be included in the cost of clinker or cement or both.
  - (4)- It shall be the duty of every person referred to in sub-section (7) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), to comply with the provisions of sub-paragraphs (1), (2) and (3) in the same manner as they are liable to maintain financial accounts required under section 233 of the said Ordinance.

- 3- **Penalty.** If a company contravenes any of the provisions of this Order, such company and every officer thereof referred to in sub-paragraph (4) of paragraph 2 shall be punishable under sub-section (7) of section 230 of the Companies Ordinance (XLVII of 1984), 1984.

## SCHEDULE

### [(See paragraph 2 (1)]

Subject to the provisions of paragraph 1 (c) of this Schedule, cost records on quantitative and money value basis shall be maintained in respect of each of the following departments as applicable to each company:-

(1)	Quarry	Annexure I.
(2)	Transportation	Annexure II.
(3)	Crusher	Annexure III.
(4)	Stock hall (where applicable)	Annexure IV.
(5)	Raw mill	Annexure V.
(6)	Kiln	Annexure VI.
(7)	Grinding	Annexure VII.
(8)	Packing and storage	Annexure VIII.

**Note:**

- (i) The cost record regarding cement stored in silos shall be covered in record of the grinding department; and
- (ii) The cost record regarding packed cement shall be covered in record of the packing and storage department.

Cost of these departments are to be classified as “direct departmental cost” and “indirect departmental cost” so as to conform to or as near thereto as possible to such detailed headings as described in the various annexures. Indirect departmental cost represent cost of service departments such as those producing compressed air (Annexure IX), power (Annexure X) and other general expenses (Annexure XI). The indirect departmental cost shall be transferred to the above production departments.

Cost of each production department i.e. total of direct and indirect departmental cost, shall be transferred to the next production department on the basis of quantity of output transferred out to next department.

Annexure XII represents a Summary of all production costs for a cement factory as derived from Annexure I to XI.

Important items of costs have been described in the following paragraphs:

**I- Raw Materials:**

- (1) Adequate records shall be maintained showing receipts issues, and balances, both in quantities and values of each of raw material required for manufacture of clinker or cement. The basis on which the value of receipts and issues have been calculated shall be clearly indicated in the cost records maintained or, if so desired by the company, in a separate manual of procedure, if any, maintained by the company or in foot-notes or separate explanatory notes to the cost statements for the relevant period. Such basis shall be applied consistently throughout the relevant period. The values shall include all direct charges upto works such as royalty, excise duty, haulage, transport, freight, handling and insurance:

- (a) All issues of production materials shall be reconciled in Annexures I to VIII, or in any form as near thereto as possible. Any losses or surpluses arising as a result of physical verification of inventories and adjustment thereof shall be clearly indicated in the cost records. Statutory records liable to be

- maintained under Mining and Explosive Acts and rules may be considered adequate if they meet the requirements specified here.
- (b) Record of quarrying contracts, purchases and supply entered into with lessors and suppliers will be maintained showing the rate at which the various quantities of materials are to be supplied. The record shall indicate principal features of each contract, particularly conditions relating to the quality, price and period of delivery, discount for any transit losses and terms of payment including cash discounts, if any, and compensation the supplier shall pay for delay in delivery or non-delivery. The records shall also show the deliveries received against each contract of supply of materials till the contracted quantities are received in full. The lease and supply contracts shall also indicate the conditions relating to rebate for quality variations in chemical composition, colour and moisture content in case of limestone of particular quality, clay, shale and gypsum in case of white cement, iron slag in case of slag cement and in case of other materials usual quality standards shall be specified in the supply contracts for the purpose of rebates.
  - (c) Where some items of the raw materials are raised from mines owned or leased by the companies or are produced or manufactured by them, separate records showing the cost of raising, producing and manufacturing such raw materials shall be maintained in such detail as may enable the company to fill up the necessary particulars in the annexures or in proforma as near thereto as possible. Where such items of raw materials are obtained on the basis of supply contracts Annexures I, II or III and not required otherwise, need not be maintained.
  - (d) The cost, in addition to the basic price of the materials shown in the records, shall also include all other direct charges incidental to the procurement of production materials and transporting the same up to the factory. In case of own quarry of lime stone, records of overburden raised shall be kept in terms of cost incurred. The basis of distributing the cost of removal of overburden over the entire period of quarry working in the particular area shall be determined and consistently applied.
  - (e) Any wastage, whether in handling, transit, storage or in any other stage, shall be shown separately. The method of dealing with such losses in the calculation of cost shall also be indicated in the cost records. Realisable value of any waste material or by-product recovered or sale proceeds of any process material such as clinker shall be credited to the cost of such process to arrive at the net cost of cement.
  - (f) The records shall be maintained in such detail as may enable the company to compile the cost in the various annexures.

## **II- Labour:**

- (a) Adequate record shall be maintained to show the attendance of workers employed by the company whether on regular, temporary, or piece-rate basis or on contract basis, as the case may be. Proper record shall also be maintained in respect of payments made for overtime work and production incentives given to the workers. This will be done in a manner that labour cost is available for each cost centre.
- (b) Fair and reasonable allocation shall be made for wages paid to such labour as has been utilised in more than one department, between the various departments or cost centres and the basis of such allocation shall be consistently followed. Reasons for idle time or lay-off payments shall be recorded along with the method of treatment in the calculation of the cost of the items referred to in sub-paragraph (2) of paragraph 1. Any wages paid for additions to plant and machinery or other fixed assets, shall be excluded from the cost of production.
- (c) Benefits paid to the employees other than covered in (a) above shall be worked out separately and shown in the cost statement department-wise.

**III- Furnace Oil/Gas:**

- (a) Adequate records shall be maintained to ascertain the cost of furnace oil/gas purchased and furnace oil/gas charged to different departments. In case the cost of furnace oil/gas is allocated to different departments on any basis other than the actual cost, reconciliation with the actual cost and the treatment of variances, shall be indicated in the cost records.
- (b) Adequate record shall be maintained showing measurement of furnace oil before and after each filling in such a manner that quantity purchased is reconciled with the addition in stock on each filling.
- (c) The records shall be maintained in such details as may enable the company to compile the cost data in the annexures.

**IV- Electric Power:**

- (a) Adequate records, showing quantity and cost of electric power generated and purchased with fixed charges and duties incurred thereon, shall be maintained.
- (b) Where electric power is generated by the company itself or by its wholly owned subsidiary or a sister concern, separate records shall be maintained in such details as may enable the company to compile cost data in Annexure X.
- (c) The records shall be so maintained as to enable assessment of consumption of power by different departments or manufacturing units or cost centres. Allocation of cost of electric power shall be on the basis of actual consumption if separate meters are installed: or on the basis of technical estimates in the absence of separate meters. In the case of fixed charges or fuel adjustment surcharge claimed by KESC, WAPDA or any other supplier of electricity, irrespective of the actual power consumed and if the amount payable as per actual consumption falls below the contractual minimum, the difference between the contractual minimum and the actual amount shall be treated as fixed or period cost and transferred to Annexure XI. Cost of power consumed in and chargeable to non-manufacturing departments, if significant, shall be shown separately.

**V- Consumable Stores:**

- (a) Record of each item of consumable stores shall be maintained to show receipts, issue and balances, both in quantities and values, required or actually used.
- (b) Cost of consumable stores shall include all direct charges incidental to procurement of each item up to the factory. The cost of such stores consumed shall be charged to relevant departments on the basis of actual consumption. The items issued for capital expenditure, such as additions to plant and machinery, shall be shown under relevant capital expenditure heads and not in the cost statements.
- (c) The requirements of Mining Act 1923 with relevant rules made thereunder, shall be fully complied with. In the same manner, requirements of Explosives Act, 1884, and Explosive Rules, 1940, shall also be complied with as required in this behalf as far as acquisition, storage and consumption of explosives for quarrying purposes is concerned.
- (d) Wastage of consumable stores, whether in transit, storage or at any point, shall be quantified and shown separately. Method of dealing with such losses in costing shall be indicated in the cost records.

**VI- Repairs and maintenance:**

Adequate records showing expenditure incurred on in-house repair and maintenance, and repair and maintenance through outside agencies shall be maintained. Records of workshop for quarrying of lime stone and clay shall be kept separately and costs charged to quarrying operation. Details of cost determination and

their basis of allocation of repairs and maintenance expenditure to different departments or manufacturing units or cost centres shall be indicated. Cost of work of capital nature, of heavy repairs, maintenance and overhaul cost, benefit of which is likely to spread over a period longer than one financial year shall be shown separately.

**VII- Compressed air:**

Appropriate record of cost of compressed air incurred in connection with the generation of compressed air, if centralised and provided for the consuming departments, shall be maintained in sufficient details as may enable the company to compile the cost data to be charged as part of other manufacturing overheads in Annexure IX.

**VIII- Depreciation:**

- (a) Adequate records preferably in the form of an annexure shall be maintained showing values and other particulars of fixed assets in respect of which depreciation is to be provided. The records shall inter alia indicate the cost of each item of asset, the date of its acquisition, its economic life and the rate of depreciation.
- (b) Basis on which depreciation is calculated and allocated to the various departments and products shall be clearly indicated in the records.
- (c) Amount of depreciation chargeable to different departments, manufacturing units or cost centres for the financial year shall be in accordance with the provisions of clause (F) of Part II of the Fourth Schedule to the Companies Ordinance 1984, and shall relate to the plant and machinery and other fixed assets utilised in such departments or units or cost centres. The method once adopted shall be applied consistently.

**IX- Insurance:**

- (a) Record shall be maintained showing the insurance premia paid for the various risks covered on the assets and other interests of the company.
- (b) Method of allocating insurance cost to the various departments shall be indicated in the cost records and followed consistently.

**X- Other Overheads:**

Overheads items which cannot conveniently be identified or apportioned over individual departments may be accumulated in Annexure XI and prorated over various departments on such basis or such one or more bases as may be deemed necessary. The basis or bases of apportionment shall be stated in the said Annexure.

**XI- Administration, selling and distribution expenses:**

Adequate records shall be maintained showing the items comprising administration, selling and distribution expenses and apportionment thereof to the different grades of cement if produced in the same factory. If clinker is being sold in addition to cement, the basis of allocation of these expenses shall be indicated in records. If only one grade of cement is being sold, the entire amount of administration, selling and distribution expenses may be allocated to that grade.

**XII- Work-in-process and finished goods inventories:**

Record of work-in-process inventories at each stage of process, quarrying, transportation, raw material crushing, stock hall, raw material mixing and grinding, clinkering, clinker grinding cement in soils and packing and storage shall be maintained and inventories will be physically checked and verified at the close of the financial period and duly reconciled with the books of accounts. Automatic data recording devices built into the crushing, mixing, clinkering and other plants, if available, may be utilised for reconciling in-put and out-put. Measurement of furnace oil will be done before and after each filling. Method of valuation of work-in-process and the finished goods inventories shall be indicated in the cost records so as to reveal the cost elements which have been taken into account in such computation. The cost elements shall be related to the items referred to the Annexures. The costing method adopted shall be consistently followed. Treatment of differences, if any, on physical verification of stocks with book balances, shall also be indicated in the records. Special care shall be taken of moisture absorption and drying of limestone and clay because of weather conditions.

### **XIII- Packing:**

- (a) Adequate records as required for the purposes of Annexure VIII shall be maintained showing the cost of packing materials used and direct wages and other expenses incurred in respect of different types and weights of packages. In case of bulk supplies, necessary cost adjustments will be made.
- (b) Adequate record shall be maintained showing quantity, rate and value of packing material charged to the cost of sale.
- (c) Where packing material is produced in-house by the company, the record shall reflect the method of its valuation. In case packing material is purchased from a subsidiary or an associated company, the record shall disclose the name of such company and the purchase agreement with such company. The record shall show the purchase agreement with the supplier even if it is an outside company/party.

### **XIV- Statistical Statements and other records:**

Companies shall develop appropriate standards for use as a basis to evaluate performance. Quality reports based on standards of strength as per B.S.S. or other standards adopted by the industry may be maintained. Consumption ratios such as yield of explosives, furnace oil per ton of clinker, usage of clinker per ton of cement, percentage of gypsum, slag in cement, power consumption in terms of kwh for per ton of cement produced, etc., are also recommended to be worked out and compared with last year.

### **XV- Reconciliation of cost and financial accounts:**

- (a) If integrated accounts are not maintained, the cost records shall be periodically reconciled with the financial accounts to ensure accuracy. Variations, if any, shall be clearly indicated and explained.
- (b) The reconciliation shall be done in such a manner that the profitability of each product produced and sold is correctly judged and reconciled with the overall profits of the company from all of its activities.
- (c) Adequate cost records shall be maintained in a manner so that the cost statements may be compiled.

Annexure - I

**DEPARTMENTAL COST STATEMENT**

(One sheet for each quarry item)

Name of Department: **LIMESTONE, CLAY GYPSUM, QUARRY FOR THE YEAR ENDED: \_\_\_\_\_**

**A. Quantitative data**

Opening stock at quarry, Quantity quarried Total: Quantity transported to crusher Stock adjustment (if any) Closing stock at quarry	<b>For the Year: _____ tonnes</b>	<b>Last year tones</b>	<b>Increase/decrease Over last year tonnes</b>
Reason for adjustment			

**B. Cost Statement**

<b>Cost</b>	<b>For the year</b>		<b>Last year</b>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
<b>Direct Departmental Cost:</b> Explosives (if any) Royalty and duties Labour cost. Salaries Employee's other benefits Indirect materials Insurance Repair & maintenance Fuel oil Gas Depreciation (Annex.....) Other overheads				
Sub-total:				
<b>Indirect Departmental Cost:</b> Compressed Air (Annexure IX) Power (Annexure X). Other factory expenses (Annexure XI).				
Sub-total:				
Total cost of the period <i>Add:</i> cost of opening stock				
Total cost of available stock:				

**C. Cost Distribution**

Cost transferred to crusher Cost of closing stock Total cost accounted for	
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**Annexure - II**

**DEPARTMENTAL COST STATEMENT**

Name of Department: **TRANSPORTATION FOR THE YEAR ENDED:** \_\_\_\_\_

**A. Quantitative data**

Quantity transported from quarry i- Clay/shale ii- Lime Stone iii- Gypsum.	<b>For the Year: _____ tonnes</b>	<b>Last year tonnes</b>	<b>Increase/decrease tonnes</b>
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**B. Cost Statement**

Cost	For the year		Last year		Increase/decrease	
	Rs. in 000	Rs. Per tonne	Rs. In 000	Rs. Per tonne	Rs. In 000	Rs. Per tonne
<b>Direct Departmental Cost:</b> (a) Outside contract cost of transpiration:  i- Clay/Shale ii- Lime Stone iii- Gypsum						
Sub-total:						
(b) Own Transportation Cost:  Duties (if any) Labour costs Salaries Employee's other benefits Indirect material Insurance Repair and maintenance Fuel oil Greases Gas Tyres and tubes Depreciation (Annex.....) Other Overheads						
Sub-total:						
<b>Indirect Departmental Cost:</b> Compressed Air (Annexure IX) Power (Annexure IX) Other Factory Expenses						
Sub-Total:						
Total own transportation cost. (c) Total transportation cost.						

**C. Cost Distribution**

Appointed to: i- Clay/Shale ii- Lime Stone iii- Gypsum	
Total:	

Annexure - III

DEPARTMENTAL COST STATEMENT

Name of Department: **RUSHING FOR THE YEAR ENDED:** \_\_\_\_\_

**A. Quantitative data**

	Clay/Shale tonnes		Lime Stone tonnes		Gypsum tonnes	
	For the year	Last year	For the year	Last year	For the year	Last year
Opening Stock (uncrushed material). <i>Add:</i> Received from quarry/purchase.						
Total available for crushing:						
Less: closing stock (uncrushed material). Crushed during the period. <i>Add:</i> Opening stock (Crushed material)						
Total crushed material:						
Less: Closing stock (crushed material)						
Stock reconciliation: Transferred to raw mill Stock adjustment						
<b>Total :</b>						
	<b>For the year</b>			<b>Last year</b>		
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>		
<b>Direct Departmental Cost:</b> Direct material (if any) Labour Cost Salaries Employee's other benefits Indirect material Repair and maintenance Insurance Fuel oil Greases Gas Depreciation (Annex.....) Other Overheads						
Sub-total (a):						
<b>Indirect Departmental Cost:</b> Compressed Air (Annexure IX) Power (Annexure IX) Other Factory Expenses						
Sub-total (b):						
Total Cost (a+b):						

<b>C- Cost Distribution</b> (On time or other appropriate basis)				
	<u>For the year</u>		<u>Last year</u>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
Clay/Shale Lime Stone Gypsum.				
<b>D- Cost Transferred and Cost of Closing</b>				
Stock cost summary				
	<b>Clay/Shale Lime Stone Gypsum</b>			
a- Opening Stock (Uncrushed).				
b- Cost received (during the year)				
c- Total cost for uncrushed material (a+b)				
d- Cost applicable to closing stock (uncrushed)				
e- Cost applicable to crushed material (c-d).				
f- Cost of crushing process (from above).				
g- Opening stock (crushed material).				
h- Total cost applicable to crushed material (e+f+g)				
i- Closing stock (crushed material)				
j- Cost transferred to stock hall (Raw material storage) (h-I)				

**Annexure - IV**

**DEPARTMENTAL COST STATEMENT**

Name of Department: **STOCK HALL STORAGE/ISSUAGE OF RAW MATERIAL FOR THE YEAR ENDED: \_\_\_\_\_**

**A. Quantitative data**

	Clay/Shale tonnes		Lime Stone tones		Gypsum tonnes	
	For the year	Last year	For the year	Last year	For the year	Last year
Opening Stock						
Received from crusher						
Purchased.						
Total						
Issued to mix/slurry						
Stock adjustment						
Closing stock.						

**B- Cost Statement:**

	<u>For the year</u> Rs. 000 per tonnes	<u>Last year</u> Rs. 000 per tonnes
<i>Labour cost:</i>		
Salaries		
Employee's other benefits		
Indirect material		
Repair and maintenance		
Insurance		
Fuel-oil		
Gas		
Depreciation (Annex.....)		
Other Overheads (Annex.....)		
Sub-Total (a):		
<b>Indirect Departmental Cost:</b>		
Compressed Air (Annexure IX)		
Power (Annexure IX)		
Other Factory Expenses		
Sub-total (b):		
Total Cost (a+b):		

<b>C- Cost Distribution</b>						
	Quality issued to Raw Mill (Tonnes)	Cost of Stock Hall Applicable to issues		Cost Applicable to closing stock		
		Rs. in 000	Rs. Per tonne	Rs. In 000	Rs. Per tonne	
Clay/Shale.						
Lime Stone						
Gypsum						
Total						
<b>D- Cost Summary (Upto Stock Hall Stage)</b>						
<b>Cost transferred and cost of closing stock:</b>						
	Clay Shale		Lime Stone		Gypsum Total	
	Rs. 000	Per tonne	Rs. 000	Per tonne	Rs. 000	Per tonne
Quantity Received (Tonnes)						
Quantity Issued (Tonnes)						
Opening Stock <i>Add:</i> Received from Crusher/purchases. Stock Hall Cost						
<b>Total:</b>						
Less: Cost of Closing stock Cost Applicable to Quantities Issued to Raw Mill.						

**Annexure - V**

**DEPARTMENTAL COST STATEMENT**

(Separate sheet for wet/dry process)

Name of Department: **RAW MILL (FOR MIX/SLURRY) FOR THE YEAR ENDED:**\_\_\_\_\_

**A. Quantitative data**

	Clay/Shale tonnes		Lime Stone tones		Mix/Slurry tonnes	
	For the year	Last year	For the year	Last year	For the year	Last year
Opening Stock						
Received from stock.						
Total:						
Issued for Mix/Slurry						
Total Mix/Slurry made						
Mix/Slurry transferred to clinkering						
Stock adjustment						
Closing stock						

**B- Cost Statement:**

	<u>For the year</u> Rs. 000 per tonnes	<u>Last year</u> Rs. 000 per tonnes
<i>Direct Material:</i>		
1- Opening stock		
2- Received from stock hall		
3- Total		
4- Closing stock		
Cost of raw materials processed (3)-(4)		
Cost of opening stock		
Direct Departmental Costs		
Materials added eg. Laterite		
Labour		
Salaries		
Employee's other benefits		
Grinding material		
Lining plates		
Indirect material		
Repair and maintenance		
Water		

Fuel-oil				
Gas				
Depreciation (Annex.....)				
Other Overheads				
Sub-Total (a):				
<b>Indirect Departmental Cost:</b>				
Compressed Air (Annexure IX)				
Power (Annexure IX)				
Other Factory Expenses (Annexure IX)				
Sub-total (b):				
Total Cost (a+b):				
<b>C- Cost Distribution</b>				
	<u>For the year</u>		<u>Last year</u>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
Transferred to Kiln				
Closing stock of mix/slurry				
Total:				

**Annexure - VI**

**DEPARTMENTAL COST STATEMENT**

(Separate sheet for wet/dry process Clinker)

Name of Department: **KILN FOR THE YEAR ENDED:**\_\_\_\_\_

**A. Quantitative data**

	<u>For the year</u> tonnes				<u>Last year</u> tonnes	
Opening Stock						
Quantity received from Raw Mill.						
<b>Total:</b>						
Quantity fed into (the) Kiln.						
Stock adjustment						
Closing stock						
Clinker produced						
Opening stock clinker						
<b>Total:</b>						
Clinker transferred to Grinding						
Clinker sold						
Stock adjustment						
Closing stock of clinker.						
<b>Total:</b>						

**B- Cost Statement:**

	<u>For the year</u>		<u>Last year</u>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
<i>Cost received from Raw Mill:</i>				
1- Opening stock				
2- Received during the year				
3- Total				
4- Closing stock				
Cost to be charged to the process (3)-(4).				
Direct Departmental cost:				
Material added (if any).				
Labour				
Salaries				
Employee's other benefits				
Indirect materials.				
Fuel-oil				
Gas				
Repair and maintenance				
Depreciation (Annex.....X)				
Other Overheads				
<b>Sub-Total (a):</b>				

<b>Indirect Departmental Cost:</b> Compressed Air (Annexure IX) Power (Annexure IX) Other Factory Expenses (Annexure IX)				
Sub-total (b):				
Total Cost (a+b):				
Less: value of clinker sold (if any)				
<b>C- Cost Distribution</b>				
	<u>For the year</u>	<u>Last year</u>		
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
Cost transferred to Grinding Cost of Closing stock of Clinker				

Total:

**Annexure - VII**

**DEPARTMENTAL COST STATEMENT**

Name of Department: **GRINDING (CEMENT) FOR THE YEAR ENDED:**\_\_\_\_\_

**A. Quantitative data**

	<b><u>For the year tonnes</u></b>		<b><u>Last year tonnes</u></b>	
Opening Stock (Clinker) Clinker received from kiln. Total: Clinker fed into grinding Stock adjustment. Closing stock of clinker.				
	<b>Tonnes</b>		<b>Tonnes</b>	
Opening stock of cement Cement produced. Cement produced as % of input Cement transferred to silos. Stock adjustment Closing stock of cement.				
<b>B- Cost Statement:</b>				
	<b>For the year</b>		<b>Last year</b>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
<i>Cost received from Kiln:</i> 1- Opening stock 2- Received during the year for clinker 3- Total cost of clinker. 4- Cost of Closing stock of (Clinker)				
Cost of clinker fed to Grinding process (3)-(4).  Direct Departmental cost: Material added				

Gypsum	
Slag	
Others	
Royalty/duties	
Labour	
Salaries	
Employee's other benefits	
Indirect materials.	
Repair and maintenance	
Grinding materials	
Lining plates	
Fuel-oil	
Gas	
Depreciation (Annex.....X)	
Other Overheads	
Sub-Total (a):	
Indirect Departmental costs:	
Compressed air (Annex IX)	
Power (Annex X)	
Other factory expenses (Annex XI)	
Sub-Total (b)	
Total cost (a+b)	
<b>C- Cost Distribution</b>	
Cost transferred to silos	
Cost of closing stock of cement.	
Total	

**Annexure - VIII**

**DEPARTMENTAL COST STATEMENT**

Name of Department: **PACKING & STORAGE FOR THE YEAR ENDED:** \_\_\_\_\_

**A. Quantitative data**

	<b>For the year tonnes</b>	<b>Last year tones</b>
Opening Stock of cement (un-packed) <i>Add:</i> Cement received from Grinding Deptt. Total: <i>Less:</i> Closing stock of cement (unpacked) Cement packed during the period (No. of bags) <i>Less:</i> Quantity sold (No. bags). Closing stock of cement (packed) No. of bags Stock adjustment (if any) (No. of bags)		

**B- Cost Statement:**

	<b>For the year</b>		<b>Last year</b>	
	<b>Rs. in 000</b>	<b>Rs. Per tonne</b>	<b>Rs. In 000</b>	<b>Rs. Per tonne</b>
<i>Cost opening stock un-packed:</i> Cost transferred in from cement grinding department. Direct Departmental cost Packing material Other materials Labour Salaries Employee's other benefits Indirect materials. Repair and maintenance Fuel-oil Gas Depreciation (Annex.....X) Other Overheads				
Sub-Total (a):				
Indirect Departmental costs: Compressed air (Annex IX) Power (Annex X) Other factory expenses (Annex XI)				
Sub-Total (b)				
Total cost (a+b) <i>Less:</i> Cost applicable to un-packed closing stock Cost applicable to packed closing stock Balance: Cost of packed cement sold: _____ Cost of loose cement sold Sold. (if any): _____				
Cost transferred to silos Cost of total cement sold.				

**Annexure - IX**

**DEPARTMENTAL COST STATEMENT**

Name of Department: **AIR COMPRESSING FOR THE YEAR ENDED:**\_\_\_\_\_

**A. Quantitative data**

	<b>For the year tonnes</b>	<b>Last year tonnes</b>
Compressed Air Produced		

**B- Cost Statement:**

	<b>For the year</b>	<b>Last year</b>
<i>Direct Departmental Cost:</i>		
Labour		
Salaries		
Employee's other benefits		
Insurance		
Indirect materials.		
Repair and maintenance		
Fuel-oil		
Gas		
Depreciation (Annex.....X)		
Purchased Power		
Other Overheads		
Sub-Total (a):		
<i>Indirect Departmental costs:</i>		
Power (Annex X)		
Other factory expenses (Annex XI)		
Sub-Total (b)		
Total cost (a+b)		

**C- Cost Distribution**

	<b>Quantity</b>	<b>Cost</b>
Departments using compressed air:		

**Annexure - X**

**DEPARTMENTAL COST STATEMENT**

**STATEMENT SHOWING THE COST OF POWER GENERATED/PURCHASED AND CONSUMED DURING THE YEAR ENDED: \_\_\_\_\_**

**A. Quantitative data**

	For the year		Last year	
Installed capacity KWH.				
No. of Units generated				
No. of units purchased				
Total:				
Self-consumption in power house				
Losses:				
Net units consumed by various other department:				
1- Percentage of loss to total power generated and purchased.				
2- % of power generated to installed capacity.				

**B- Cost Statement:**

S.No. Particular	Qty. Units	Rate Rs.	Amount Rs.	Cost per unit of power generated and purchased	
				Current year	Previous year
1- Fuel oil/steam consumed					
2- Other material (specify)					
3- Consumable stores					
4- Other direct charges					
5- Salaries and wages					
6- Repairs and maintenance					
7- Other overheads					
8- Depreciation.					
Total					
Less: (1) Supplies to other units of the company (Not engaged in the manufacture of cement)					
Net cost of Power generated.					
Purchased power (on actual consumption basis)					
Total cost of power:					
Cost per unit (average).					

<b>C- Cost Distribution</b>	
<p>Consumed in:-</p> <ul style="list-style-type: none"> <li>- Lime stone, clay, gypsum Quarry</li> <li>- Transportation</li> <li>- Crushing</li> <li>- Stock hall</li> <li>- Raw mills</li> <li>- Kilns</li> <li>- Cement grinding</li> <li>- Storage and packing</li> <li>- Air compressing</li> <li>- Others.</li> </ul>	
<p>Total cost distribution:</p>	

- Notes:-
- (a) Cost per unit generated should be worked out with reference to net quantity of power available after deducting consumption in the power house and other losses.
  - (b) When meters are not installed consumption by different departments shall be assessed on a reasonable basis and applied consistently.

**Annexure - XI**

**OTHER FACTORY EXPENSES-FACTORY  
GENERAL FOR THE YEAR ENDED:\_\_\_\_\_**

**A. Cost Statement**

	For the year		Last year	
Direct Departmental Cost : Labour cost Salaries Employee's other benefit Contractor's labour Depreciation Stores and spares Repair and maintenance Electricity Compressed Air (Annexure IX) Power (Annexure X). Miscellaneous Expenses. (Tele printing stationery, T.A./D.A., rates and taxes, insurance and fixed charges paid to WAPDA Flowers, seeds, plants, cleanliness materials, uniform of security staff etc.)				

**B- Cost Distribution:**

S.No. Particular	For the year		Last year	
	Basis	Rs. In 000	Basis	Rs. In 000
Lime stone, Clay, Gypsum, Quarry Transpiration Crushing Stock hall Raw Mill Cement Grinding Packing and Storage Air Compressing (if any) Power generation (if any)				
Total				



**APPENDIX V**  
**Sugar Industry**  
**(Cost Accounting Records) Order, 2001**

The Gazette of Pakistan

**Extraordinary**

**Published by Authority**

Islamabad, Wednesday, February 14, 2001

**PART II**

**Statutory Notifications (S. R. O.)**

**Securities and Exchange Commission of Pakistan**

**NOTIFICATION**

Islamabad, the 13th February, 2001

**S.R.O. 97(I)/2001.-** In exercise of powers conferred by clause (c) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and clause (o) of sub-section (4) of section 20 of the Securities and Exchange Commission Act, 1997 (XLII of 1997), the Securities and Exchange Commission of Pakistan is pleased to make the following Order, namely:-

**Sugar Industry (Cost Accounting Records) Order, 2001**

1. **Short title, application and commencement:-** (1) This order may be called the Sugar Industry (Cost Accounting Records) Order, 2001.
  - (2) This Order shall apply to every company engaged in production of sugar in any form except liquid sugar.
  - (3) It shall come into force at once.
2. **Maintenance of Records.-** (1) Every company to which this order applies shall, in respect of each financial year commencing on or after the commencement of this order, keep cost accounting records, containing, inter-alia, the particulars specified in Schedules I, II and III to this Order.
  - (2) The cost accounting records referred to sub-para (1) shall be kept in such a way as to make it possible to calculate from the particulars entered therein, the cost of production and cost of sales of white sugar separately, during a financial year.
  - (3) Where a company is manufacturing any other product in addition to sugar, the particulars relating to the utilization of materials, labour and other items of cost in so far as they are applicable to such other product, shall not be included in the cost of sugar.
  - (4) It shall be the duty of every person referred to in sub-section (7) of Section 230 of the Companies Ordinance, 1984 (XLVII of 1984), to comply with the provisions of sub-paragraphs (1) to (3), in the same manner as they are liable to maintain books of financial accounts required under Section 230 of the said Ordinance.

3. **Penalty.** — If a Company contravenes the provisions of this order, such company and every officer thereof referred to in sub-paragraph (4) of paragraph 2, shall be punishable under sub-section (7) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984).

## SCHEDULE I

[See paragraph 2(1)]

### I. Materials

(i) **Direct Materials:**

- (a) Adequate records shall be maintained showing separately the quantity and cost of sugar-cane procured at the factory gate or other collection centers. Where sugar-cane is grown in farms owned or taken on lease by a company, detailed records shall be maintained in a suitable proforma so as to enable computation of the cost of such sugar-cane. The rate fixed by the Government from year to year adopted for pricing the sugar cane supplied by the sugar cane grower (growers) to the sugar mill shall be indicated in the cost records.
- (b) Where beet is used as raw material for the production of sugar, separate records shall be maintained on the lines similar to sugar-cane.
- (c) A separate proforma shall be maintained to record sugar-cane and beet procurement expenses along with other related expenses. These expenses shall be separately determined.
- (d) All issues of materials shall be reconciled with figures shown in Annexures to Schedule III to this Order, or in any other form as near thereto as possible. Any losses or surpluses arising as a result of physical verification of inventories and adjustments thereof shall be clearly indicated in the cost records.
- (e) Record of purchase and supply through indent by suppliers shall be maintained showing the rates at which the various quantities of material are to be acquired. The records shall indicate principal features of each indent particularly conditions relating to quantity, quality, price, period of delivery and discounts.
- (f) If the quantity and value of material consumed in a company are determined on any basis other than actuals for example at standards, the method adopted shall be mentioned in cost records and followed consistently. The overall reconciliation of such quantities and values of material with the actuals shall be made at the end of the financial year explaining the reasons for variances. The treatment of such variances in determining the cost of items referred to in para 2 shall be indicated in the cost records.
- (g) The records shall be maintained in such detail as may enable the company to readily provide data required in the various Annexures to Schedule III, to this Order in a verifiable state.

(ii) **Process material:**

Adequate records shall be maintained to show the receipts, issues and balances, both in quantities and costs of each item of the process material such as lime, sulphur, super phosphate, caustic soda, filter cloth and other chemicals. The cost shall include all direct charges up to works, wherever specifically incurred. The issues of material shall properly be identified with the departments or cost centers.

**(iii) Consumable stores, small tools, machinery spares etc.**

- (a) Adequate records shall be maintained to show the receipts, issues and balances, both in quantities and cost of each item of consumable stores, small tools and machinery spares. The costs shown shall include the direct charges up to works, wherever specifically incurred.
- (b) In case of small tools, the costs of which are insignificant, the company may maintain such records for the main groups of such items.
- (c) The cost of issues of consumable stores, small tools and machinery spares, shall be charged to the relevant heads of accounts such as repairs to plant and machinery, or repairs to building. Material consumed on capital works such as addition to buildings, plant and machinery and other assets shall be shown under the relevant capital heads.

**(iv) Wastages, spoilages, rejections or losses etc.:**

Adequate records shall be maintained showing the quantity and cost of wastages, spoilages, rejections and losses of sugar-cane and other raw material, process material, consumable stores, small tools and machinery spares, whether in transit, storage, or for any other reasons. The method followed for adjusting the above losses as well as the income derived from the disposal of scrap, if any, in determining the cost of the product shall be disclosed in such details as may enable the company to arrive at the net cost of white sugar produced.

**II. Excise Duty and Sales Tax**

Adequate record of excise duty and sales tax paid and the rebate claimed or earned in case of allowance for excess production or export of sugar shall be maintained along with the record of white sugar manufactured. Calculation for rebate shall be worked out through formula prescribed by the Government. The working of the adjustment or claim, if any, shall also be shown.

**III. Salaries and Wages**

- (a) Adequate record shall be maintained to show the attendance of workers employed by the company whether on regular, seasonal, temporary, or on contract basis, as the case may be. Proper record shall also be maintained in respect of payment made for overtime work and production incentives whether in the shape of production bonus or incentives based on output given to the workers. Payment of any retirement benefits including pension, provident fund, gratuity, old age benefits, contribution and any welfare expenses shall also be included in the labour or factory overhead cost of beneficiary cost center/ department. This will be done in a manner that labour cost is available for each cost center or department and for each product whether by-product or main product so that different Annexures of Schedule III to this order, are filled properly and easily.
- (b) Fair and reasonable allocation shall be made for wages paid to such direct labour as has been utilized in more than one department, between the various departments or cost centers and the basis of such allocation shall be consistently followed. Idle time or lay-off payments shall be recorded separately indicating the reasons and the method of treatment in the calculation of the cost of the items referred to in Para 2. Any wages paid for additions to plant and machinery or other capitalised assets, shall be capitalized and excluded from the cost statements of white sugar produced.
- (c) Benefits paid to the employees other than covered in clause (a) above shall be worked out separately and shown in the cost statement department wise.

**IV. Service / Departments**

Adequate records shall be maintained to indicate the expenses incurred for each services department or cost center. In the case of multi-product companies, these expenses shall be apportioned to other service and production departments on an equitable basis. Where these service departments serve products other than white bagged sugar, suitable basis shall be worked out so that the share apportioned to white bagged sugar is worked out and applied consistently.

## V. Utilities

- (i) Steam.- Adequate records showing the quantity and cost of steam raised and consumed shall be maintained in such detail as may enable the company to fill up the necessary particulars in Annexure 7 to schedule II to this Order. The cost of steam consumed by the sugar mill and other units of the company shall be calculated on a reasonable basis and applied consistently. The cost of steam should be allocated to electric power house, white bagged sugar and other users including staff colony and office building etc. Basis adopted for valuation of steam at different pressures shall also be indicated in the records.
- (ii) Electric Power.- Adequate record of cost of electric power generated by the company and purchased shall be kept in such details as may enable the company to furnish the necessary cost data as in Annexure 8 to Schedule III to this Order. The records shall be so maintained as to enable assessment of consumption of power by different departments or production units or cost centers. Allocation of cost of electric power shall be on the basis of actual consumption, if separate meters are installed; or on the basis of technical estimates in the absence of separate meters. In the case of fixed charges or fuel adjustment surcharge claimed by the utility company, irrespective of the actual power consumed and if the amount payable as per actual consumptions fall below the contractual minimum, the difference between the contractual minimum and the actual amount shall be treated as fixed or period cost and transferred to other factory expenses statement [Annexure 9 of Schedule III]. Cost of power consumed in and chargeable to non-production departments, if significant, shall be shown separately. Record shall also be kept for any electric power sold to out-side agencies.

**Note:** In case of self-generation quantity and reasons for under utilization shall be specified and the relevant cost shall be treated as fixed or period cost.

## VI. Repairs and Maintenance

Adequate records showing the expenditure incurred on workshop facilities for repairs and maintenance of buildings, civil works, offices and plant and machinery in different departments and cost centers shall be maintained on regular basis. Details of costs incurred and the basis of allocation of repairs and maintenance expenditure to different departments or production units shall be indicated. Cost of work of capital nature, heavy repairs, and overhaul cost, benefit of which is likely to be spread over a period longer than the financial year, shall be shown separately. If a separate maintenance team is working for a particular department, the salaries, wages, cost of consumables, spares and tools shall be charged as direct expense of that department.

If the maintenance services are utilized for other products, the portion utilized for them shall be segregated and charged thereto.

## VII. Depreciation

- (a) Adequate records shall be maintained showing values and other particulars of fixed assets in respect of which depreciation is to be provided. The records shall, inter alia, indicate the cost of each item of asset, the date of its acquisition, accumulated depreciation, the rate of depreciation and the depreciation charged, for the relevant period.
- (b) Basis on which depreciation is calculated and allocated to the various departments and products shall be clearly indicated in the records.

- (c) Amount of depreciation chargeable to different departments, production units or cost centers, for the financial year shall be in accordance with the provisions of clause (F) of Part II of the Fourth Schedule to the Companies Ordinance, 1984, and shall relate to the plant and machinery and other fixed assets utilized in such departments or units or cost centers. The method once adopted shall be applied consistently.

### **VIII. Insurance**

- (a) The record shall be maintained showing the insurance premia paid for the various risks covered on the assets and other interests of the company.
- (b) Method of allocating insurance cost to the various departments shall be indicated in the cost records and followed consistently.

### **IX. Other Overheads**

Adequate records showing the amounts comprising the manufacturing overhead expenses other than those already mentioned and details of apportionment thereof to the various departments or processes shall be maintained.

If products other than white bagged sugar are also being produced in the factory, adequate basis should be developed to apportion the overhead cost equitably.

### **X. By-Products**

Detailed records shall be maintained for each item of by-product showing the production, disposal and balance both in quantity and value. The basis adopted for valuation of the by-products shall be equitable and consistent. Records indicating the actual sales realisation of by-products shall also be maintained.

### **XI. White Sugar Transferred for Self Use**

Adequate records shall be maintained showing the quantity and cost of white sugar transferred to other units of the company for self consumption. The rate at which such transfers are affected shall be disclosed in the cost records.

### **XII. Work-In-Process and Finished Goods Stock**

The method of valuation of work-in-process and finished goods stock shall be indicated in the cost records so as to reveal the cost elements that have been taken into account in such computation. The cost element shall be related to the items referred to in the relevant Annexures to Schedule III to this Order. The costing method adopted shall be consistently followed. Treatment of differences, if any, on physical verification of stocks with book balances, shall also be indicated in the cost records.

### **XIII. Adjustment of Cost Variance**

Where the company maintains cost records on any basis other than actuals, such as standard costing, the records shall indicate the procedures followed by the company in working out the actual cost of the product under such systems. The method followed for adjusting the cost variances in determining the actual cost of the product shall be indicated clearly in the cost records. The reasons for the variances shall be indicated in detail in the cost records.

### **XIV. Inter-Company Transactions**

In respect of supplies made or services rendered by the company to its holding company or a subsidiary of a company in the same group or company in which a director of the company is also a director in such companies and vice versa, records shall be maintained showing contracts entered into, agreements or understandings reached, in respect of:-

- (a) Purchase and sale of raw materials and process material;
- (b) Utilisation of plant facilities;
- (c) Supply of utilities; and
- (d) Administrative, technical, managerial and other consultancy services.

These records shall indicate the basis followed to arrive at the rates charged between them so as to enable determination of the reasonableness of the rate charged or paid for such services.

**XV. Reconciliation of Cost and Financial Accounts**

- (a) If integrated accounts are not maintained, the cost records shall be periodically reconciled with the financial accounts to ensure accuracy. Variations, if any, shall be clearly indicated and explained.
- (b) The reconciliation shall be done in such a manner that the profitability of each product produced and sold is correctly judged and reconciled with the overall profits of the company from all of its activities.
- (c) Adequate cost records shall be maintained in a manner so that the cost statements may be properly compiled.

**XVI. Statistical Records**

- (a) Data such as the duration of crushing period, the quantity of each grade of white sugar produced, mill stoppages during the season indicating the reasons, quantity of by-products obtained, percentage of sugar balance, bagasse, press-mud, molasses and sugars shall be kept in detail.
- (b) The data maintained in the cost records shall be reconciled with the periodical returns submitted by the company to excise and other authorities.
- (c) Companies may develop an appropriate standard for use as a basis to evaluate performance properly.

**A. COMPANY INFORMATION**

- 1. Name of the Company.
- 2. Date of Incorporation.
- 3. Location of Registered Office.
- 4. Location of Factory/Factories.
- 5. Products other than sugar being manufactured.
- 6. Installed Cane Crushing Capacity in tonnes.

**B. PRODUCTION DATA**

S.No (1)	Particulars (2)	Current Year (3)	Previous Year (4)
<b>1 (a)</b>	<b>CANE CRUSHED</b> Date of start Date of Finish Duration of run days Total number of hours in duration Total number of hours of actual crushing Total numbers of hour lost Total cane milled (tonnes) Converted maunds Total mixed juice obtained (tonnes)		
<b>(b) 2</b>	<b>GUR MELTED JUICE &amp; ADDED WATER</b> Average mixed juice % cane Average added water % cane		
<b>3</b>	<b>SAGAR MADE</b>		

	<p>Total sugar bagged of all grade (100 kg) ( 50 kg)</p> <p>Sugar bagged (tonnes) Sugar in process (tonnes)</p> <p><b>4 MOLASSES EXTRACTED</b> Total molasses sent out (tonnes) Molasses in process (tonnes)</p> <p><b>5 RECOVERY %</b> Laboratory test percentage recovery of sugar cane Average recovery of marketable white sugar % cane</p> <p><b>6</b> Average production of final molasses % cane</p> <p><b>BY- PRODUCTS</b> Bagasses % cane (calculated) (tonnes) <b>7</b> V.F. Cake % cane (tonnes)</p> <p><b>CLARIFICATION PROCESS</b> Specify the process used by the mill</p>		
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**SCHEDULE III**

**Annexure 1.**

[see para 2(1)]

**STATEMENT SHOWING COST OF PRODUCTION & SALE OF  
WHITE BAGGED SUGAR FOR THE YEAR ENDED \_\_\_\_\_**

**Quantitative Data – Bagged Sugar**

Opening Stock (M.Ton)  
Production (M.Ton)  
Closing Stock (M.Ton)  
Sales (M.Ton)

S.No (1)	Particulars (2)	Current Year		Previous Year	
		Amount Rs	Cost per Ton of Sugar	Amount Rs.	Cost per Ton of Sugar
1	Raw Materials a) Sugar Cane (Annex 3) b) Beet (Annex 4) c) Gur d) Raw Sugar e) Process Material (Annex 5)				
2	Salaries/Wages and benefits (Annex 6)				
3	Consumable Stores				
4	Repairs and maintenance				
5	Utilities				
	Steam (Annex 7)				
6	Electric Power (Annex 8)				
7	Water & Gas				
8	Insurance				
9	Depreciation				
10	Other Factory Overheads (Annex 9)				
11	Total Cost				
12	ADD : Opening Stock of W.I.P.				
13	LESS : Closing Stock of W.I.P.				
14	Total Cost of goodsManufacturing				
15	Less: Realisable value of By-Products Molasses Bagasse Others				
16	Net Cost of goods Manufacturing:				
17	Add: Packing Material & Handling				
18	Net Cost of Bagged Sugar				
19	Add: Excise Duty / sales tax				
20	Total Cost of Bagged Sugar:				
21	Add: Opening Stock of Sugar				
22	Less: Closing Stock of Sugar				
23	Cost of Sales				
24	Administrative Expenses (Annex 10)				
25	Selling & Distrib. Expenses (Annex 11)				
26	Financial Expenses Other Charges				
	Total Cost to Make and Sell				

**Annexure 2**

**STATEMENT SHOWING COST OF SUGARCANE PRODUCED**  
**FOR THE YEAR ENDED \_\_\_\_\_**

S.No (1)	Particulars (2)	Current Year		Previous Year	
		Quantity Rs (3)	Amount Rs (4)	Quantity Rs. (5)	Amount Rs (6)
1	<b>Seeds and Other inputs</b> Seed Fertilizers, herbicides etc. Insecticides Abiana/Water Charges Total Cost of Inputs				
2	<b>Labour Cost</b> Land preparation Plantation Maintenance of cane crop/ratoons Operation of Tractors Harvesting Total Labour Cost  <b>Other Cost</b> Fuel for Tractors operation Maintenance and over haul of Tractors Insurance Interest expenses Depreciation of equipments Rent of agriculture equipments (if any) Total Other Costs  Total Cost of own production (1+2+3) Sales value at controlled price Profit/Loss on own production				

- Note: 1. This Annexure will be prepared by those enterprises which cultivate sugarcane on their own farms.
2. Similar Annexure will be prepared by those enterprises which cultivate beet on their own farms.

Annexure 3

STATEMENT SHOWING COST OF SUGARCANE  
CRUSHED FOR THE YEAR ENDED \_\_\_\_\_

S. No. (1)	Particulars (2)	Current Year			Previous Year		
		Quantity M. Ton (3)	Rate Rs./M. Ton (4)	Amount Rs. (5)	Quantity M. Ton (6)	Rate Rs./M. Ton (7)	Amount Rs. (8)
1.	Total sugarcane purchased at Government fixed rate Sugarcane produced from own farm (Annex 2) Less: Loss in transit						
2.	Sugarcane received at factory gate						
3.	Commission						
4.	Quality premium						
5.	Loading/unloading charges						
	Cane development expenses:						
	a) Salaries and Wages of Supply and Development Staff						
	b) Sugarcane Development Research						
	c) Supply staff and transportation expenses						
6.	d) Other expenditure						
	Taxes and Levies:						
	a) Cane cess/ purchase tax						
	b) Market committee fee						
	c) Road cess						
	d) Octroi						
7.	e) Other levies						
	Transportation Charges						
	a) Delivery expenses						
	b) Transport subsidy						
8.	c) Others						
	Other Expenditures at Cane Collection Centers						
	a) Salaries and Wages						
	b) Stores						
	c) Repairs and Maintenance						
	d) Others						
9	Total cost of "SUGARCANE" Transferred to production processes (Annex 1)						

- Notes:
1. Cane supplied from own farm shall be charged at controlled rate & the profit/loss on farm shall be taken to profit & loss account directly.
  2. All expenses relating to own farm shall be excluded from this Annexure.
  3. Where beet is used in addition to sugarcane, separate Annexures shall be maintained on similar lines for beet also.

**Annexure 4**

**STATEMENT SHOWING COST OF BEET CONSUMED FOR THE YEAR ENDED \_\_\_\_\_**

S. No.	Particulars	Current Year			Previous Year		
		Quantity M. Ton	Rate Rs./M. Ton	Amount Rs.	Quantity M. Ton	Rate Rs./M. Ton	Amount Rs.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Total beet purchased at Government fixed rate Less: Loss in transit Beet received at factory gate						
2.	Commission paid						
3.	Loading unloading						
4.	Beet development expenses: a) Salaries and Wages of Supply and Development Staff b) Sugar Development Research c) Supply staff and transportation expenses d) Other expenditure						
5.	Taxes and Levies (if any) a) Purchase tax b) Market committee fee c) Road cess d) Octroi e) Other levies						
6.	Transportation Charges a) Delivery expenses/travelling from purchases centre to mill gate b) Transport subsidy c) Others						
7.	Other Expenditures at Beet Collection Centers a) Salaries and Wages b) Stores c) Repairs and Maintenance d) Others						
8	Total cost of "BEET" Transferred to production processes (Annex 1)						

- Notes:
- 1 Beet supplied from own farm shall be charged at controlled rate & the profit/loss on farm shall be taken to profit & loss account directly.
  2. All expenses relating to own farm shall be excluded from this Annexure.
  3. Where sugarcane is used in addition to beet, separate Annexures shall be maintained on similar lines for sugarcane also.

**Annexure 5**

**STATEMENT SHOWING COST OF PROCESS MATERIAL CONSUMED**  
**FOR THE YEAR ENDED \_\_\_\_\_**

S.No (1)	Particulars (2)	Current Season		Previous Season	
		Amount Rs	Cost per Ton of Sugar	Amount Rs.	Cost per Ton of Sugar
	Total Sugar Produced (M-Tons)				
1.	Unslaked Lime				
2.	Phosphoric Acid				
3.	Filter Acid				
4.	Sulphur				
5.	Caustic Soda				
6.	Soda Ash				
7.	Tri sodium Phosphate				
8.	Bleaching Powder				
9.	Anti Foam				
10.	Formaline				
11.	Laboratory Chemicals				
12.	Filter Cloth				
13.	Sewing Thread				
14.	Cleaning Brushes				
15.	Lubricant and Grease				
16.	Other (Specify)				
	Total				
	Less allocated to				
	(a) Electricity generation				
	(b) Steam Generation				
	(c) Raw Material				
	(d) Admin Expenses				
	(e) Selling and Distribution Expenditure				
	(f) Any Other Specify				
	Balance transferred to production process Annexure 1.				

**Annexure 6**

**STATEMENT SHOWING COST OF SALARIES, WAGES AND BENEFITS  
FOR THE YEAR ENDED \_\_\_\_\_**

S.No	Particulars	Current Year		Previous Year	
		Amount Rs	Cost per Ton of Sugar (4)	Amount Rs.	Cost per Ton of Sugar (6)
(1)	(2)	(3)		(5)	(6)
	<b>Total Sugar Produced (M-Tons)</b>				
	<b>Cost</b>				
<b>1.</b>	<b>Salaries/Wages:</b>				
(i)	Officers and Permanent Staff				
(ii)	Seasonal Staff				
(iii)	Daily rated and Contract Labour				
(iv)	Bonuses				
<b>2.</b>	<b>Benefits:</b>				
(i)	Medical Expenses				
(ii)	Canteen Expenses				
(iii)	Welfare, Recreation				
(iv)	Transport and Travelling				
(v)	Education Cess/Expenses				
(vi)	Group Insurance/Workmen				
(vii)	Comp. Insurance				
	Prov. Fund (Employer's Contribution)				
(viii)	Gratuity/Pension				
(ix)	Other Benefits (if any)				
(x)	Total				
(xi)	<b>Less allocated to-</b>				
	(a). Electricity Generation				
	(b). Steam Generation				
	(c). Raw Material				
	(d). Admin Expenses				
	(e). Selling & Distribution Expenses				
	(f). Any Other Specify				
	Balance transferred to production process (Annexure)				

**Annexure 7**

**STATEMENT SHOWING COST OF STEAM/GENERATED CONSUMED  
FOR THE YEAR ENDED \_\_\_\_\_**

S.No (1)	Particulars (2)	Unit (3)	Current year (4)	Previous Year (5)	Variance (6)
1.	Types of steam boilers used				
2.	No. of days worked				
3.	Installed Capacity (steam in tonnes)				
4.	Utilised capacity (steam in tonnes)				
5.	Production:				
	a) High pressure steam				
	b) Medium pressure steam				
	c) Low pressure steam				
	d) Less: transit losses				
	e) Total				
6.	Percentage of capacity utilization $(3/2 * 100)$				

S. No. (1)	Particulars (2)	Current Year			Previous Year		
		Quantity (3)	Rate per Unit Rs. (4)	Amount Rs. (5)	Quantity (6)	Rate per Unit Rs. (7)	Amount Rs. (8)
1.	Water						
2.	Fuels:						
	a) Bagasse						
	(i) Own						
	(ii) Purchased						
	b) Pith						
	c) Coal purchased						
	d) Furnace Oil						
	e) Fire Wood						
	f) Gas						
	g) Other fuels, if any (to be specified)						
3.	Quantity of waste heat from the plant, if any						
4.	Consumable stores						
5.	Direct salaries, Wages and benefits						
6.	Repairs and Maintenance						
7.	Other direct expenses (e.g. Boiler inspection fee etc.)						
8.	Insurance						
9.	Depreciation						
	Total Cost of Steam Raised						
10.	Less : Outside sale						
	Total Cost of Steam for Self Consumption						
11.	Add: Cost of steam purchased						
12.	Total Cost of Steam Consumed						
	<b>ALLOCATION</b>						
	Total of item 12 allocated to						
	i) White bagged sugar						
	ii) Electric power house						
	iii) Others:						
	a) Staff colony						
	b) Office building etc.						
	<b>Total</b>						

- Notes: 1. The rate at which waste heat is evaluated vide item 3 of this annex should be indicated giving details of cost centre from which transferred.
2. Basis adopted for valuation of steam at different pressures be also indicated in the records.
3. Realisations, if any, by sale of steam to outside parties and waste products such as boiler ash shall be shown separately against item 10.
4. Where meters are not installed, consumption of steam shall be assessed on a reasonable basis and applied consistently.

Annexure 8

**STATEMENT OF COST OF ELECTRIC POWER PURCHASED / GENERATED & CONSUMED FOR THE YEAR ENDED \_\_\_\_\_**

S. No.	Description	Current Year	Previous Year	Variance
	Installed Capacity (KWH)			
1.	No. of units generated (KWH)			
2.	No. of units purchased (KWH)			
3.	Total (2+3)			
4.	Consumption in Power House including other losses			
5.	Net units consumed (4-5)			
6.	Percentage of Consumption and losses to total units			
7.	Available =5/4* 100			
8.	Percentage of power generated to installed capacity 2/1 * 100			

S. No. (1)	Particulars (2)	Current Year			Previous Year		
		Quantity M. Ton (3)	Rate Rs./M. Ton (4)	Amount Rs. (5)	Quantity M. Ton (6)	Rate Rs./M. Ton (7)	Amount Rs. (8)
1.	Steam (Annex 7)						
2.	Consumable Stores						
3.	Salaries and Wages						
4.	Other direct expenses						
5.	Repairs and maintenance						
6.	Duty on electricity						
7.	Depreciation						
	Total						
8.	<ul style="list-style-type: none"> <li>• Less: a) Credit for exhaust steam used in process etc.</li> <li>      b) Other credits, if any</li> </ul>						
9.	Cost of power generated						
10.	Less: Cost of power sold						
11.	Add: Cost of power purchased						
12.	Total net cost of power consumed						
13.	Cost per unit average						
	<b>ALLOCATIONS</b>						
	Total at item 12 allocated to:						
	e) White bagged sugar						
	ii) Self consumption						
	iii) Others:						
	a) Staff colony						
	b) Office building						
	c) Other (specify)						
9	Total						

- Notes: .1, Credit for the cost of exhaust steam supplied to the sugar factory and for other units shall be determined on a reasonable basis and shown against item 8(a).  
 2. Realisation, if any, by sale of steam to outside parties, etc. shall be shown separately against item 8(b).  
 3. Cost per unit shall be worked out with reference to the net units of power available for use after deducting consumption in the power house and other losses.

**Annexure 9**

**STATEMENT SHOWING OTHER FACTORY OVERHEADS  
FOR THE YEAR ENDED \_\_\_\_\_**

S.No	Description	Amount in Rupees			
		Current Year		Previous Year	
		Amount Rs	Cost per Ton of Sugar	Amount Rs.	Cost per Ton of Sugar
	<b><u>Total Sugar Produced (M-Tons)</u></b>				
	<b>Cost</b>				
1.	Rent, Rate and Taxes				
2.	Printing & Stationery				
3.	Postage & Telegram				
4.	Telephone Fax & Telex				
5.	Travelling & Conveyance				
6.	Subscriptions, Books & Periodicals				
7.	Entertainment				
8.	Vehicle Running Expenses				
9.	Security				
10.	Fire Fighting				
11.	Other Expenses				
12.	Total				
	Allocated to				
	i) White bagged sugar				
	ii) Electric Power House				
	iii) Steam Generation				
	iv) Others:				
	a) Staff colony				
	b) Office building etc				
	Total as per item 12 above				

Note: 1. Bases of allocation should be disclosed.  
2. Expenses are illustrative only. Companies should provide in detail all items of general overheads.

**Annexure 10**

**STATEMENT SHOWING ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED \_\_\_\_\_**

S.No	Particulars	Current Year		Previous Year	
		Amount Rs	Cost per Ton of Sugar	Amount Rs.	Cost per Ton of Sugar
1.	<b>Total Sugar Sold (M-Tons)</b>				
2.	<b>Cost</b>				
-	Salaries, Wages & Benefits (Annex 6)				
-					
-	Rent, Rate and Taxes				
-	Insurance				
-	Water, Gas & Electricity				
-	Printing & Stationery				
-	Postage & Telegram				
-	Telephone Fax & Telex				
-	Repair & Maintenance				
-	Travelling & Conveyance				
-	Subscriptions, Books & Periodicals				
-	Entertainment				
-	Advertising				
-	Legal & Professional Exp				
-	Auditors remuneration				
-	Vehicle Running Expenses				
-	Charity & Donation				
-	Others				
-	<b>Total</b>				

**Annexure 11**

**STATEMENT SHOWING SELLING EXPENSES  
DURING THE YEAR ENDED \_\_\_\_\_**

S.No.	Particulars	Current Year		Previous Year	
		Amount Rs	Cost per Ton of Sugar	Amount Rs.	Cost per Ton of Sugar
1.	Total Sugar Sold (M-Tons)				
2.	Cost				
-	Salaries, Wages & Benefits (Annex 6)				
-	Travelling & Conveyance				
-	Commission				
-	Freight Outwards				
-	Stacking/Restacking				
-	Loading/Unloading				
-	Export Expenses				
-	Vehicle Running Expenses				
-	Advertising for Sales Promotion				
-	Other Expenses				
-	Total				