

COST AUDITORS' REPORT TO THE DIRECTORS

We, **Amin, Mudassar & Co.**, having been appointed to conduct an audit of cost accounts of **Messrs Husein Sugar Mills Limited**, 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 September 30, 2009 and report that:

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

White Refined Sugar

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

CHARTERED ACCOUNTANTS

Lahore:

APPENDIX - III
[See Rule 4(3)]

**HUSEIN SUGAR MILLS LIMITED
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

1. CAPACITY

		2009	2008
a.	Licensed	Not Applicable	
	Installed: Maximum cane crushing per day	Metric Tons	5,000.000
	Utilized: Cane crushing per day	Metric Tons	3,971.86
	Days operated	Numbers	108
b.	In addition to manufacturing and sale of white refined sugar, the company is also engaged in the sale of molasses. (A by-product)		

2. COST ACCOUNTING SYSTEM

The company is using a separate cost accounting system for sugarcane procurement and its costing. The system generates the following reports:-

- i. Cane payment receipt (CPR)
- ii. Daily sugarcane purchased and payments to growers
- iii. Daily summary of sugarcane purchases
- iv. Fortnightly sugarcane purchases and payments report
- v. Sugarcane procurement cost report – on daily, weekly, fortnightly and monthly basis
- vi. Growers' ledger and loan reports

All other cost accounting data and information are generated from financial accounting system.

3. PRODUCTION

Quantitative data for white refined sugar (main product) and molasses (by-product) is as under:

		2009	2008
Actual cane crushed	Metric Tons	428,960.00	688,248.00
Days operated	Numbers	108	141
Actual recovery	Percentage	8.60	8.47
Production capacity of white refined sugar	Metric Tons	46,451	59,714
Actual production of white refined sugar	Metric Tons	36,920	58,326
Capacity utilization	Percentage	79.48	97.67
Molasses produced	Metric Tons	20,215.50	33,384.56

4. RAW MATERIAL

- a.** The details of raw materials and its cost components, on actual basis, are given below:-

2009			2008			2007			
Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount	
M/Tons	Rupees Per M/ Ton	Rupees	M/Tons	Rupees Per M/ Ton	Rupees	M/Tons	Rupees Per M/ Ton	Rupees	
Sugarcane purchased	428,961	1,222.64	841,477,247	688,248	1,491.38	1,026,438,857	643,347	1,500.00	965,020,500
Incentive		569.53	391,980,171		12.21	8,404,780		96.04	61,784,996
Sugarcane development cess		11.70	8,049,515			8,604,942		12.51	8,045,187
Market committee fee		3.12	2,146,443			3,477,984		5.07	3,262,405
Cane unloading		0.30	208,586			262,559		0.39	249,155
			<u>1,243,861,962</u>			<u>1,047,189,122</u>			<u>1,038,362,243</u>

2009	2008	2007
Metric Tons		

Consumption of raw material for:	11.62	11.80	12.62
Per unit of production – Actual	11.62	11.80	12.62
Per unit of production – Standard		Not applicable	

- b. Consumption of raw material per unit of production is dependent on many factors, such as sucrose contents/sugar recovery percentage, quality of sugarcane, timing of sugarcane crushing, distance from sugarcane field and factory site and uninterrupted milling/ crushing etc.

Although no standard has been fixed for cane procured and consumed, company strives to consume fresh and clean cane. Since, the company did not operate a 'Standard Costing System'; comparison of actual raw material consumption with standard could not be made. Therefore, variances could not be worked out.

- c. Company's own bagasse, which is about **30.449%** of the sugarcane crushed, was used for steam generation. The mud being **3%** of the sugarcane was discarded as waste material.
- d. The company is buying sugarcane for the production of white refined sugar and the sugarcane acquired is directly put to crushing. Cost of purchase of raw material comprises the purchase price, other taxes and transport, handling and other costs directly attributable to the acquisition of materials. Computerized records are being maintained for purchase of sugarcane and its consumption.

5. SALARIES AND WAGES

2009	2008
Rupees	

a. Category wise break up of salaries and wages

Direct Labor costs on production	28,609,255	22,536,573
Indirect employees costs on production	30,949,194	25,419,489
Employees cost on administration	39,653,757	33,623,501
Employees costs on selling and distribution	1,645,857	1,103,303
Bonus to workers and employees	7,891,695	9,372,879
Other employees cost	16,448,207	16,010,650
	125,197,965	108,066,395

b. Chief Executive Officer's Remuneration

Chief Executive	Director
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Managerial Remuneration	3,428,604	1,462,172
House rent	1,104,000	522,576
Contribution to provident fund	249,600	-
Utilities/medical allowance	432,832	116,124
Reimbursable expenses	726,263	-

Rupees

5,941,299	2,100,872
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In addition to above the chief executive is provided with free use of the company's maintained car.

Chief Executive Officer's remuneration was included in administrative expenses.

2009	2008
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c. Total available man-days of direct labour	150	150
Total actually worked man-days of direct labour	108	141
d. Average number of workers employed during the year	680	676

2009	2008	2007
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Rupees per Metric Ton

e. Direct labour cost per unit of output/product	774.91	386.38	390.19
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- f. The direct labour cost per unit of output increased due to increase in wages and bonuses and decrease in production as compared to previous year.
- g. The Company did not operate any incentive scheme for its workers except bonuses for its all staff/workers.

6. STORES AND SPARE PARTS

	2009	2008
	Rupees per M.Ton	
Per unit expenditure of spares on output	181.11	120.11

Store was valued at moving average cost while items considered obsolete are carried at nil value. Stores/spares in transit are valued at cost comprising invoice value plus other charges paid thereon to reporting date.

The system of store accounting for recording receipts issues and balances both in quantity and value was computer based and found satisfactory. Store receipts are recorded on the basis of goods receipt notes, purchase orders, demand notes etc. Issue of stores is made on the basis of issue requisitions received from the relevant departments. Store consumption is charged to relevant heads properly. Store consumed for capital expenditure are shown under the relevant heads separately in financial statements.

The proportion of closing inventory of stores representing items which have not moved for over twenty-four months was Rs. NIL.

7. DEPRECIATION

- a) Depreciation on all operating fixed assets is charged to profit on the straight-line method.
- b) The basis of allocation of depreciation on common assets is services utilized by the production department
- c) The depreciation to the cost of products is charged on the basis of assets directly used in the production of products.

8. OVERHEADS

The total amount of overheads and a break-up of items are given below:

PARTICULARS	2009	2008	2007
	R u p e e s		
Other factory overheads (Note 8.1)	6,296,145	5,414,458	5,334,217
Administrative overheads (Note 8.2)	75,287,490	65,508,679	55,935,503
Selling overheads (Note 8.3)	5,024,957	6,049,469	4,943,860
Financial charges	62,569,783	43,801,826	42,573,260
	<u>149,178,375</u>	<u>120,774,432</u>	<u>108,786,840</u>

8.1 Other Factory Overheads

Apprenticeship training expenses	15,490	15,090	7,710
Tractor trolley expenses	972,277	1,347,267	1,406,581
Press mud removal charges	131,034	143,507	151,417
Electricity -Colony	5,177,344	3,900,580	3,720,100
Others	-	8,014	48,409
	<u>6,296,145</u>	<u>5,414,458</u>	<u>5,334,217</u>

8.2 Administrative Expenses

Salaries, wages and benefits	52,931,482	46,510,536	36,648,975
Traveling and conveyance	896,552	268,630	251,827
Printing and stationery	830,940	835,588	898,466
Communication	841,009	948,151	780,287
Subscriptions, books and periodicals	656,043	514,582	586,510
Legal and professional	1,221,767	426,090	597,702
Auditors remuneration	546,000	319,500	296,000
Rent, rate and taxes	2,321,856	1,955,631	1,933,998
Insurance	790,601	691,991	490,987
Water, gas and electricity	423,027	431,148	373,115
Entertainment	566,031	455,979	462,472
Advertisement	61,100	213,475	91,220
Vehicles running and maintenance	4,048,234	3,437,910	3,356,270
Repair and maintenance	1,450,510	1,584,935	2,564,762
Depreciation and amortization	6,623,243	5,826,312	5,748,741
Miscellaneous expenses	1,079,190	1,088,221	853,989
	<u>75,287,490</u>	<u>65,508,679</u>	<u>55,935,503</u>

2009	2008	2007
R u p e e s		

8.3 Distribution and Selling Expenses

Salaries, wages and other benefits (Annex 6)	1,645,857	1,103,303	931,286
Commission	1,317,396	2,009,730	1,530,540
Handling and distribution	1,643,354	2,318,069	1,972,484
Communication	–	–	90,740
Repair and maintenance	221,957	428,807	220,147
Printing and stationery	46,163	43,978	47,288
Miscellaneous	30,230	25,582	31,375
Depreciation	120,000	120,000	120,000
	<u>5,024,957</u>	<u>6,049,469</u>	<u>4,943,860</u>

a. Reasons for Significant Variances

Factory Overheads:

Factory overheads increased by Rupees 881,687 the increase was mainly due to increase in cost of electricity at head office.

Administrative Expenses

- i. Adverse variance of Rs. 9,778,811 in 'salaries, wages and other benefits' is due to annual increments and bonus payments to the employees of the company.

Distribution and Selling Expenses

- ii. Commission is paid on the basis of quantity of sugar sold. Quantity of sugar sold was decreased during the current year, from 67,180.30 Metric Tons to 36,047.00 Metric Tons as compared to last year. Consequently amount of commission paid decreased by Rs.692,334.
- iii. Handling and distribution cost is directly attributable to volume of sugar sold, which is lesser during the current reporting year as compared to corresponding year. This has resulted in decrease in handling and distribution cost by Rs.674,715.

Financial Charges

- iv. Financial charges increased mainly due to upward trend in mark-up rates and short term financing availed during the year for working capital.

b. Basis of Overhead Allocation

Overhead cost of various service cost centers is allocated to the production cost centers on actual basis.

c. Packing Material

Cost of packing material decreased by an amount of Rs. 6,330,080 from Rs.16,259,831 (2008) to Rs. 9,929,751 (2009). The decrease in cost was due to decrease in production.

9. ROYALTY/TECHNICAL AID PAYMENTS

No royalty or technical aid payments were made during the current year.

10. ABNORMAL NON-RECURRING FEATURES

There are no abnormal non-recurring features affecting the production and its disposal in ordinary course of business of the Company:

- a. The impact of any abnormal features affecting production/cost of production during the year, e.g. strikes, lockouts, major break downs in the plant, substantial, power cuts, serious accidents, etc. None
- 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. None

11. COST OF PRODUCTION

The Company is a single product (refined white sugar) enterprise and its cost of production per metric ton of sugar production is as under:

Rupees

Year ended September 30, 2009	36,536.72
Year ended September 30, 2008	19,408.53

Cost of production per metric ton of sugar production increased as compared to last year mainly due to decrease in production and increase in incentive.

Sugar	2009		2008	
	Rs. Per Metric Ton	Rupees	Rs. Per Metric Ton	Rupees
Quantity produced	36,919.500 M.Tons		58,326.300 M.Tons	
Quantity sold	36,047.000 M.Tons		67,160.300 M.Tons	
Cost of sales	35,802.03	1,290,555,638	19,920.25	1,337,844,187
Admin expenses	2,088.59	75,287,490	975.41	65,508,679
Selling expenses	139.40	5,024,957	90.08	6,049,469
Financial charges	1,735.78	62,569,783	652.20	43,801,826
Other charges	(148.35)	(5,347,449)	17.52	1,183,331
Sales tax and SED	4,373.84	157,663,901	3,561.94	239,220,668
	<u>43,991.30</u>	<u>1,585,754,320</u>	<u>25,217.40</u>	<u>1,693,608,160</u>

Increase in cost to make and sell per Metric Ton is mainly due to decrease in production and increase in factory overheads.

12. SALES

The Company is a single product (refined white sugar) enterprise and data relating to sale of its single product is as under:

Sales	2009			2008		
	Quantity	Amount	Average Sales Realization	Quantity	Amount	Average Sales Realization
	Metric Tons	Rupees	Rupees per Metric Ton	Metric Tons	Rupees	Rupees per Metric Ton
Local	36,047.00	1,493,747,354	41,438.88	67,160.30	1,752,404,905	26,092.87
Export	-	-	-	-	-	-
	36,047.00	1,493,747,354	41,438.88	67,160.30	1,752,404,905	26,092.87

Sale realization includes general sales tax and special excise duty.

13. PROFITABILITY

	2009	2008
Quantity sold (M.Tons)	36,047.000	67,160.300
Machine Hours (Hours)	1,886.35	2,922.55
(Loss)/Profit before tax per unit on sugar - Rupees per Metric Ton	(2,552.42)	875.47
(Loss)/Profit before tax per machine hour - Rupees per machine hour crushed	(48,775.13)	20,118.3

14. COST AUDITORS' OBSERVATIONS AND CONCLUSIONS

a. Matters, which appear to be clearly wrong in principle or apparently unjustifiable:

No such observation made during the year.

b. Cases where the company's funds have been used in a negligent or inefficient manner:

No such matter noticed during cost audit.

c. Factors, which could have been controlled, but have not been done resulting in increase in the cost of production:

No such matter noticed during cost audit.

d. The adequacy or otherwise of Budgetary Control System, if any, vogue in the company:

The Company's budgetary control system is adequate in relation to its business activities.

e. The Scope and Performance of Internal Audit, if any:

The company has established its own internal audit function at factory whose scope is determined by the higher management. The internal audit reports are submitted directly to 'Audit Committee', formed under 'Code of Corporate Governance'.

f. Suggestion for Improvements in Performance:

Standard costing system should be introduced by the company in order to arrive at likely comparisons as far as performance is concerned.

i. Rectification of general imbalance in production facilities:

No such imbalance observed.

ii. Fuller utilization of installed capacity:

Plant may be made to operate at its full capacity subject to availability of sufficient quantity of sugarcane of required quality.

iii. Comments on areas offering scope for-

Areas	Comments
a. Cost reduction	Economies in cost could be achieved through synchronization in production flow and attempt to eliminate non value added activities through regular review of such activities.
b. Increased productivity	Production can be increased by optimal utilization of installed capacity subject to availability of market demand and availability of adequate quantity of sugar cane. Availability of adequate quantity of sugarcane of required quality is prime factors for increase in productivity.

- | | |
|---|--|
| c. Key limiting factors causing production bottle-necks | Key limiting factors include availability of adequate quantity of sugar cane. |
| d. Improved inventory policies | Inventories can be managed more sophisticatedly by introducing proper planning through material requirement planning system. |
| e. Energy conservancy | None |
| iv. The state of technology, whether modern or obsolete. | The state of technology is moderate. |
| v. Plant, whether new or second hand when installed. | The plant when installed was new. |

f. Other Matters

i. Process Material

Adequate quantitative and value-wise record has been maintained for receipt, issue and balance, for each item of the process material.

ii. Work in Process and Finished Goods Stock

These are valued at lower of cost and net realizable value except molasses (a by-product) and press mud, which are valued at net realizable value. Cost in relation to work-in-process and finished goods consist of average material cost, direct labour and factory overheads. Net realizable value is determined on the basis of general market prices less expenses incidental to sales.

iii. Repair and Maintenance

Maintenance, normal repair, renewals and replacements are charged to the relevant heads of account/cost centers, as and when incurred.

Proper record of repair and maintenance is maintained in respect of all fixed assets of the Company. No capital nature transaction is included in repair and maintenance.

iv. Borrowing Cost

Interest, mark-up and other charges on long-term borrowings are capitalized up to the date of commissioning of the respective qualifying assets acquired out of the proceeds of such borrowings. All other interest, mark-up and other charges are charged to income.

v. Adjustment of Cost Variances

The company did not operate standard costing system. Consequently the comparison of standard cost with the actual cost is not possible. Accordingly no variances could be worked out.

vi. Waste and Spoilage

The company did not have system to record normal or abnormal process losses. The normal loss if any is charged to cost of production. However income derived from the disposal of scrap is credited to other income account.

vii. Sales Tax

Proper record is maintained for input and output sales tax. The company did not claim any rebate during the current year.

viii. Statistical Records

The Company maintained all necessary statistical data and information.

ix. Service Department

Adequate record has been maintained for various service departments. However, the company is single product company.

x. Inter-Company Transactions

There were no inter-company transactions, involving sale or purchase of any commodity between associated companies/undertakings.

xi. Insurance

Adequate record has been maintained to reflect payment of insurance premium to cover various risks associated with assets, including stores and stocks, of the Company. Insurance expense has been charged as follows:-

	2009	2008
	Rupees	Rupees
Cost of sales	836,426	1,574,877
Administrative, selling and general expenses	790,601	691,991
	1,627,027	2,266,868

15. RECONCILIATION WITH FINANCIAL STATEMENTS

Cost accounting record is reconciled with financial accounts. ANNEXURE – 12.

16. GENERAL

The installed capacity cane crushing per day restated of previous year as the management of the company re-measured the installed capacity and reported in the financial statements of the last year.

17. COST STATEMENT

Following cost statements are attached herewith:

Description of Cost Statement	Annexure Reference
Cost of Production and Sale of White Bagged Sugar	1
Cost of Sugarcane Produced	2
Cost of Sugarcane Crushed	3
Cost of Beet Consumed	4
Cost of Process Material Consumed	5
Cost of Salaries, Wages and Benefits	6
Cost of Steam Generated	7/1
Cost of Steam Consumed	7/2
Cost of Electric Power Purchased and Generated	8/1
Cost of Electric Power Consumed	8/2
Other Factory Overheads	9
Administrative Expenses	10
Selling Expenses	11
Reconciliation with Financial Statements	12

