

COST AUDIT REPORT

**DANDOT CEMENT COMPANY
LIMITED**

FOR THE YEAR ENDED

30 JUNE 2013

**RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
CHARTERED ACCOUNTANTS**

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COST AUDITORS' REPORT TO THE DIRECTORS OF THE COMPANY

We, Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, having been appointed to conduct an audit of Cost Accounts of M/s. DANDOT CEMENT COMPANY LIMITED, have examined the books of account and the statements prescribed under clause (e) of subsection (1) of section 230 of the Companies Ordinance, 1984 and the other relevant records for the year ended on 30 June 2013 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 statements of capacity utilization and stock-in-trade, subject to remarks in para 15 of the Annex regarding difference in valuation of closing stocks, 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 Ordinary Portland Cement.

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


Rahman Sarfaraz Rahim Iqbal Rafiq
CHARTERED ACCOUNTANTS
DATED: 18 DEC 2013



DANDOT CEMENT COMPANY LIMITED

ANNEX TO COST AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2013

1. a) CAPACITY

PARTICULARS	LICENCED CAPACITY	INSTALLED CAPACITY (TONS)	UTILIZED CAPACITY (TONS)	% OF INSTALLED CAPACITY
CLINKER	Not available	480,000	42,890	8.94
CEMENT	Not available	504,000	24,518	4.86

Capacity utilization remained low with reference to installed capacity.

Shortfall in current year's production is mainly due to plant stoppages for repair and financial crunch.

b) The Company is engaged in manufacturing of Ordinary Portland Cement only.

2. COST ACCOUNTING SYSTEM

The Company maintains adequate cost accounting system to determine the cost of production of cement. An integrated computerized accounting system has been maintained to accumulate costs under the production and service cost centers independently. The direct cost is charged to the concerned production/service cost centres. The costs of service departments are distributed to the respective production departments according to the actual utilization of services and/or predetermined ratio in order to arrive at the total cost of production of ordinary Portland cement.

3. a) PRODUCTION

PARTICULARS	2013 (TONS)	2012 (TONS)
CLINKER	42,890	197,036
CEMENT	24,518	206,825

The cement production has decreased by 182,307 tons as compared to previous year. This is due to the work stoppage for eight (08) months beginning from November 2012 till June 2013.



DANDOT CEMENT COMPANY LIMITED

b) PERCENTAGE OF PRODUCTION TO INSTALLED CAPACITY

PARTICULAR	2013			2012		
	INSTALLED CAPACITY (TONS)	UTILIZED CAPACITY (TONS)	% AGE OF INSTALLED CAPACITY	INSTALLED CAPACITY (TONS)	UTILIZED CAPACITY (TONS)	% AGE OF INSTALLED CAPACITY
CLINKER	480,000	42,890	8.94	480,000	197,036	41.06
CEMENT	504,000	24,518	4.86	504,000	206,825	41.04

Capacity utilization is very low with reference to installed capacity.

There is no addition to the installed production capacity during the year under review or in the immediately preceding two years.

4. RAW MATERIALS

a) MAJOR RAW MATERIALS CONSUMED

PARTICULARS	2013			2012		
	QTY (TONS)	COST Rs. (000)	COST PER TON (Rs.)	QTY (TONS)	COST Rs. (000)	COST PER TON (Rs.)
LIME STONE	67,806	56,913	839.35	308,708	105,514	341.79
SHALE/CLAY	2,104	721	342.68	12,479	2,045	163.95
GYPSUM	1,169	300	256.63	9,569	1,343	140.45

Cost per ton of lime stone, shale/clay and gypsum are based on their quantity consumed.

During the year following amounts have been incurred on the transportation of the major raw materials.

PARTICULARS	MATERIAL FROM QUARRY TONS	COST OF TRANSPORTATION Rs. (000)	COST PER TON Rs.
LIME STONE	64,757	23,845	368.22
SHALE/CLAY	4,046	1,298	320.81
GYPSUM *	2,160	-	-
TOTAL	70,963	25,143	354.31

* Separate charge for transportation is not being incurred.



DANDOT CEMENT COMPANY LIMITED

b) CONSUMPTION OF MAJOR RAW MATERIALS PER UNIT OF PRODUCTION WITH STANDARD REQUIREMENTS

PARTICULARS	ACTUAL CONSUMPTION (TONS)	STANDARD REQUIREMENT (TONS)	INCREASE/ (DECREASE)
LIME STONE	1.581	1.399	0.182
SHALE/CLAY	0.049	0.224	(0.175)
GYPSUM	0.027	0.059	(0.032)

c) CONSUMPTION OF MAJOR RAW MATERIALS PER UNIT OF PRODUCTION AS COMPARED TO THE PRECEDING TWO YEARS AND WITH STANDARD REQUIREMENTS

RAW MATERIALS	ACTUAL CONSUMPTION (TONS)			STANDARD REQUIREMENT (TONS)
	2013	2012	2011	
LIME STONE	1.581	1.567	1.459	1.399
SHALE/CLAY	0.049	0.063	0.137	0.224
GYPSUM	0.027	0.049	0.050	0.059

Variance between actual consumption and standard requirements is due to purity contents of the materials, which is determined through constant check up and chemical analysis in order to meet the international quality standards of the product.

d) COMMENTS ON METHOD OF ACCOUNTING

The Company follows Cement Industry (Cost Accounting Records) Order 1994, for recording the quantities and values. The weighted average cost method is adopted by the Company to value receipts, issues and resulting stock balances of all the materials directly used in the production by applying absorption costing.

DANDOT CEMENT COMPANY LIMITED

5. (a) WAGES AND SALARIES

PARTICULARS	SALARIES & WAGES		INCREASE / (DECREASE)	
	2013 Rs. (000)	2012 Rs. (000)	Rs. (000)	% AGE
Direct Labour Cost of Production	83,914	102,924	(19,010)	(18.47)
Indirect Labour Cost of Production	109,454	149,494	(40,040)	(26.78)
Employees cost in administration	10,321	10,942	(621)	(5.67)
Employees cost in selling and distribution	2,325	3,114	(789)	(25.34)
TOTAL	206,014	266,474	(60,460)	(22.69)

- i) The aggregate of direct and indirect labour cost of production has decreased during the year as compared to previous year. This is mainly due to the stoppage of work and no increments in salaries/wages.
- ii) Labour cost relating to quarries, transportation, crushing and stock hall are treated as part of cost of raw materials.

DIRECT LABOUR COST PART OF RAW MATERIALS

PARTICULARS	2013 Rs. (000)	2012 Rs. (000)	INCREASE / (DECREASE)	
			Rs. (000)	% AGE
Direct Labour Cost	27,121	34,345	(7,224)	(21.03)

b) SALARIES AND PERQUISITES OF DIRECTORS AND CHIEF EXECUTIVE

PARTICULARS	2013 Rs. (000)	2012 Rs. (000)	2011 Rs. (000)
CHIEF EXECUTIVE	-	-	-
EXECUTIVE	900	648	648
DIRECTOR	-	-	-
TOTAL	900	648	648

The Chief Executive, Director and Executive of the Company are entitled to free use of Company's vehicles according to company policy.



DANDOT CEMENT COMPANY LIMITED

c) **TOTAL MAN-DAYS OF DIRECT LABOUR FOR THE YEAR**

AVAILABLE	WORKED	%AGE WORKED
365	52	14

d) **AVERAGE NO. OF WORKERS**

2013	2012	INCREASE / (DECREASE)
668	655	13

e) **DIRECT LABOUR COST PER UNIT OF PRODUCTION (CEMENT)**

PARTICULARS	2013	2012	INCREASE/ (DECREASE) % AGE
Direct Labour cost on Production Rs. (000)	83,914	102,924	(18.47)
Production - Cement (Tons)	24,518	206,825	(88.15)
Direct Labour cost per unit of the Production (Rs.)	3,423	498	587.35

Direct labour cost per unit of the production has increased by 587.35 mainly due to decrease in production during the year.

f) **DIRECT LABOUR COST PER UNIT OF THE PRODUCT**

PARTICULARS	2013 Rs.	2012 Rs.	2011 Rs.
Direct Labour cost per unit	3,423	498	557

Direct labour cost per unit has increased by Rs.2,925/- per ton as compared to previous year due to decrease in production.

g) In the absence of any incentive scheme no comments are required.



DANDOT CEMENT COMPANY LIMITED

6. STORES AND SPARES

a) EXPENDITURE PER UNIT OF OUTPUT ON STORES

PARTICULARS	2013 (Rupees)	2012 (Rupees)	INCREASE/ (DECREASE) %AGE
For Quarries	29.44	18.23	61.49
For Plant	1,867.98	221.74	742.42
TOTAL	1,897.42	239.97	690.69

- b) The store accounting system being followed by the Company is part of integrated computerized accounting system. Recording of store receipts, issues and balances in quantity and value is on a consistent basis i.e. at moving average cost, except items in transit which are valued at cost accumulated up to the balance sheet date.
- c) In the absence of information regarding slow moving items we are unable to comment.

7. DEPRECIATION

- a) Depreciation is charged on reducing balance method. Depreciation on additions to property, plant and equipment is charged for the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which an asset is disposed off.
- b) The depreciation on common assets is allocated to different departments on the basis of value of Plant and Machinery in these departments. A ratio on the basis of value of plant and machinery in different departments was developed in the year 2001 and is consistently observed since then. It is suggested that the matter should be revisited for confirmation/revision.
- c) All depreciation is charged to cement being the only product manufactured.



DANDOT CEMENT COMPANY LIMITED

8. OVERHEADS

(a) TOTAL AMOUNTS OF OVERHEADS

Sr. #	PARTICULARS	2013 Rs.(000)	2012 Rs.(000)	2011 Rs.(000)
i.	Factory	428,455	1,252,585	891,411
ii.	Administration	31,177	35,254	20,421
iii.	Selling & distribution	614	220	498
iv.	Financial charges	19,268	17,404	15,444
	TOTAL	479,514	1,305,463	927,774

i) Factory Overheads

PARTICULARS	2013	2012	2011	Increase/(Decrease) %	
	Rs. (000)	Rs. (000)	Rs. (000)	Compared to 2012	Compared to 2011
Fuel (Coal /Gas/ Furnace Oil)	165,912	688,842	461,063	(75.91)	(64.02)
Power	115,458	316,704	221,656	(63.54)	(47.91)
Depreciation	65,707	68,543	71,524	(4.14)	(08.13)
Indirect material	10,432	79,123	67,962	(86.82)	(86.82)
Repair and maintenance	54,583	63,372	42,054	(13.87)	29.79
Royalty, Duty & Local Tax	2,151	10,589	8,844	(79.69)	(75.68)
Others	14,212	25,412	18,308	(44.07)	(22.37)
TOTAL	428,455	1,252,585	891,411	(65.79)	(51.94)

Factory overheads are showing decrease of 65.79% from the last year due to decrease in production and decrease of 51.94 % from year 2011 due to decrease in production.



DANDOT CEMENT COMPANY LIMITED

ii) ADMINISTRATION OVERHEADS

PARTICULARS	2013	2012	2011	Increase/(Decrease) %	
	Rs. (000)	Rs. (000)	Rs. (000)	Compared to 2012	Compare to 2011
Rent, rates and taxes	6,085	6,083	2,226	0.03	173.36
Travelling & conveyance	2,243	4,459	2,036	(49.70)	10.17
Repair and maintenance	607	1,255	1,105	(51.63)	(45.07)
Vehicle running & maintenance	2,720	1,481	1,233	83.66	120.60
Legal and professional charges	1,934	9,045	4,541	(78.62)	(57.41)
Auditor's remuneration	868	770	527	12.73	64.71
Postage, telegram and telephone	1,295	1,491	855	(13.15)	51.46
Printing and stationery	272	334	509	(18.56)	(46.56)
Advertisement	52	85	71	(38.82)	(26.76)
Entertainment	1,818	1,277	731	42.36	148.70
Inadmissible sales tax	7,249	-	-	100	100
Fees and subscription	673	488	855	37.91	(21.29)
Security Services	105	226	-	(53.54)	100
Depreciation	3,194	3,504	3,829	(8.85)	(16.58)
Miscellaneous	2,062	4,756	1,903	(56.64)	8.36
TOTAL	31,177	35,254	20,421	(11.56)	52.67

Administration overheads have decreased by 11.56% as compared to last year and increased by 52.67% from year 2011. The main reason for variance is the decrease in production during the year.



DANDOT CEMENT COMPANY LIMITED

iii) SELLING AND DISTRIBUTION OVERHEADS

PARTICULARS	2013	2012	2011	Increase/(Decrease) %	
	Rs. (000)	Rs. (000)	Rs. (000)	Compared to 2012	Compared to 2011
Travelling & conveyance	502	-	333	100	50.75
Vehicle running & maintenance	-	65	36	(100)	(100)
Printing & stationery	-	39	-	(100)	-
Depreciation	112	116	124	(3.45)	(9.68)
Miscellaneous	-	-	5	-	(100)
TOTAL	614	220	498	179.09	23.29

Selling and distribution overheads have increased by 179.09% from last year and by 23.29% from year 2011.

iv) FINANCIAL CHARGES

PARTICULARS	2013	2012	2011	Increase/(Decrease) %	
	Rs. (000)	Rs. (000)	Rs. (000)	Compared to 2012	Compared to 2011
<u>Mark up on:</u>					
Long term loans	4,932	4,932	4,932	-	-
<u>Interest on:</u>					
Provident fund	13,670	11,184	8,836	22.23	54.71
Workers profit participation fund	455	559	601	(18.60)	(24.29)
Bank and other charges.	211	729	1,075	(71.06)	(80.37)
TOTAL	19,263	17,404	15,444	10.71	24.76



DANDOT CEMENT COMPANY LIMITED

Financial charges have increased by 10.71 % during the year and increased by 24.76% from year 2011.

The company has not accrued mark up aggregating Rs. 189.863 million due to litigation as referred in the notes 5.3, 12.1, 12.2 and 12.3 of the audited accounts for the year ended 30 June 2013.

b) BASIS OF ALLOCATION OF OVERHEADS

All overheads identifiable to each department are directly charged to the respective department at actual, however, the cost of service departments is allocated, as in the last preceding year, to the production departments as follows: -

DEPARTMENT	% AGE
Raw Mill	26
Kiln	32
Cement Mill	27
Packing Unit	15

The percentages for allocation are being used for preceding many years. It is suggested that the matter should be revisited for confirmation/revision.

The power cost is charged to respective departments according to actual consumptions of units.

(c) COST OF PACKING

	<u>2013</u>	<u>2012</u>
Cement packed (Tons)	25,814	208,733

PARTICULARS	2013		2012		INCREASE / (DECREASE)	
	Rs. (000)	Rs. (Per ton)	Rs. (000)	Rs. (Per ton)	Rs. (000)	% AGE
Packing material	10,432	404.12	79,123	379.06	(68,691)	(86.82)
Direct labour	11,490	445.11	12,950	62.04	(1,460)	(11.27)
Repairs and maintenance	1,663	64.42	871	4.17	792	90.93
Depreciation	1,202	46.56	1,254	6.01	(52)	(4.15)
Power	4,851	187.92	10,613	50.84	(5,762)	(54.29)
Insurance	31	1.20	54	0.26	(23)	(42.59)
Other general overheads	25,605	991.90	35,459	169.88	(9,854)	(27.79)
TOTAL	55,274	2,141.24	140,324	672.27	(85,050)	(60.61)



DANDOT CEMENT COMPANY LIMITED

- Total cost of packing has decreased by 60.61 % as compared to last year. The main cause of this decrease is the decrease in cement packed during the year due to the stoppage of work.
- Per ton cost of packing material has been calculated on the basis of cement packed into bags.
- Per ton packing cost shows increase because of decreased production & packing during the year.

9. ROYALTY

Royalty and excise duty is paid to Provincial Government on the quantity of limestone, shale/clay and gypsum extracted from leased mines as determined under the law.

PARTICULARS	2013 Rs. (000)	2012 Rs. (000)	INCREASE/ (DECREASE) %
Comparison of royalty charged	2,151	10,589	(79.69)

PARTICULARS	ROYALTY Rs. (000)	PRODUCTION (TON)	COST PER TON (Rs.)
Royalty per ton of cement produced	2,151	24,518	87.73

10. ABNORMAL NON RECURRING FEATURES

a) FEATURES AFFECTING PRODUCTION

Abnormal features affecting production during the year were market constraints, financial crunch and shutdown of operations of the company for eight months.

b) SPECIAL EXPENSES

There were no special expenses incurred for production during the year



DANDOT CEMENT COMPANY LIMITED

12. NET SALES REALIZATION

a) LOCAL SALES

	<u>2013</u>	<u>2012</u>
Sales (Quantity in tons)	25,814	208,733

PARTICULARS	2013		2012	
	Rs. (000)	Rs. (Per ton)	Rs. (000)	Rs. (Per ton)
Gross sales	180,965	7,010.34	1,409,258	6,751.49
Less:				
Sales Tax	24,961	966.96	194,381	931.24
Excise duty	10,326	400.02	104,367	500.00
Rebate to dealers	406	15.73	6,766	32.41
	(35,693)	(1,382.69)	(305,514)	(1,463.66)
NET SALES	145,272	5,627.64	1,103,744	5,287.83

b) EXPORT SALES

	<u>2013</u>	<u>2012</u>
Sales (Quantity in tons)	-	-

PARTICULARS	2013		2012	
	Rs. (000)	Rs. (Per ton)	Rs. (000)	Rs. (Per ton)
SALES	-	-	-	-

- Export sales are free of sales tax and excise duty.
- Cement was exported to Afghanistan.



DANDOT CEMENT COMPANY LIMITED

13. PROFITABILITY

	<u>2013</u>	<u>2012</u>
Sales of cement (Quantity in tons)	25,814	208,733

PARTICULARS	2013		2012	
	Rs. (000)	Rs. (Per ton)	Rs. (000)	Rs. (Per ton)
Sales – net	145,272	5,627.64	1,103,744	5,288
Cost of production	512,178	19,841.09	1,535,723	7,357
Opening finished goods	21,192	-	29,612	-
Closing finished goods	533,370 (13,351)	20,662.04 -	1,565,335 (21,192)	7,499 -
Cost of good sold	(520,019)	20,144.84	1,544,143	7,398
Gross Profit / (Loss)	(374,747)	(14,517.19)	(440,399)	(2,110)
Operational overheads				
Administrative overheads	41,496	1,607.50	46,196	221
Selling and distribution overheads	2,940	113.89	3,334	16
Financial overheads	19,269	746.46	17,405	83
Total operational overheads	(63,705)	(2,467.85)	(66,935)	(321)
Other Operating Income	13,117	508.14	560	3
Other operating expenses	(38,305)	(1,483.88)	-	-
Net Profit / (Loss) before taxation	(463,640)	(17,960.8)	(506,774)	(2,428)

Net sales revenue for the year under review is Rs. 145,272 million, which is 868.38 % less than the net sales revenue of Rs. 1,103,744 million in the preceding year. The decrease is mainly due to decrease in quantity sold and shut down of operational activities as compared to preceding year.



DANDOT CEMENT COMPANY LIMITED

14. COST AUDITORS' OBSERVATIONS AND COMMENTS

- a. The matters appearing to be clearly wrong or apparently unjustifiable: - Nil
- b. The company follows proper internal control for utilization of funds.
- c. Factors which could have been controlled to reduce the cost of production:
 - i. Stores and spares consumption needs more particular attention of the management to minimize the cost of production.
- d. Suggestions & Observations regarding improvement in performance
 - (i) The production facilities are balanced.
 - (ii) The Company operated at 4.86 % of installed capacity.
 - (iii) For reduction in cost of production, the Company should take following measures:
 - i. The management should introduce strict budgetary controls, which should be treated as yard stick for measuring efficiency of each and every operational activity.
 - ii. The employees of the Company should be given an awareness of their interest in the profitability of the concern through series of training workshops and every body should be made responsible for his area of activity as far as cost control is concerned and the activities should be appraised accordingly.
 - iii. The prices of furnace oil, gas and electricity are very high. The government should be given a presentation through some industrial forum that in order to compete with the international market, we should try to keep our cost of production to the bare minimum.
 - iv. Most of important of all the company should consider steps to fully utilise its production capacity.
- e. This is a plant based on "DRY PROCESS" and capable of producing competitive quality of cement.
- f. The plant was new when installed and started production on 01 March 1983.

15. RECONCILIATION WITH FINANCIAL ACCOUNTS

The aggregate cost figures are in agreement with the annual audited Financial Statements as provided to us, excepting that the value of closing stocks in financial statements is lower by Rs.785 thousands inclusive of the difference in last year, as compared to the value shown by Summary of Cost Report (2012: Rs. 788 thousands).



DANDOT CEMENT COMPANY LIMITED

16. COST STATEMENTS

All cost statements on the prescribed forms of Securities and Exchange Commission of Pakistan under clause (e) of the sub-section (1) of section 230 of the Companies Ordinance, 1984 duly authenticated by the Chief Financial Officer and the Chief Executive of the company forming Annex I to XII to this report alongwith certificate of installed and utilized capacity, summary cost report and stock valuation are verified by us.

17. MISCELLANEOUS

- Figures are rounded to the nearest thousand.
- Comparative figures of the previous year have been provided and rearranged wherever required to facilitate comparison.