ANNEXURE TO COST AUDITORS' REPORT

OF CHANAR SUGAR MILLS LIMITED ON COST ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

1. CAPACITY:

(a) Licensed — Not Applicable

	2015		
	Installed	Utilized	% of Installed
	M.Tons		Capacity
Crushing	768,000	564,833	73.55%

	2014		
	Installed	Utilized	% of Installed
	M.Tons		Capacity
Crushing	768,000	475,912	61.97%

(b) The company is not engaged in any other activity.

2. COST ACCOUNTING SYSTEM:

The company has a non integrated computerized accounting system for both cost and financial accounting functions. This system generates all major financial reports covering various functions i.e. general ledger, purchase day book, sales day book, cash book and bank book etc. The company is using a separate cost accounting computerized accounting system for sugarcane. This system generates following reports:

(a) Cane Payment Receipt.
(b) Cane Payment Summary.
(c) Daily Cane Crushing Report.
(d) Daily Executive summary of Cane Procured and Cost thereof.
(e) Grower' Ledger.

The company has adopted such policies and procedures for maintenance of its cost accounting, as well as, financial accounting records as required by the:

(a) Applicable International Financial Reporting Standards (IFRS);
(b) Income Tax Ordinance, 2001;
(c) Companies Ordinance, 1984;
(d) Sugar Industry (Cost Accounting Records) Order, 2001;
(e) Labour Laws as applicable to the company;
(f) Other relevant laws, and;
(g) Accounting policies adopted by the company;

Sugar manufacturing is carried out by a simple processing system starting from cane-crushing to extraction of juice and conversion into white sugar in one-go. The company operates are fully integrated cost accounting system under which cost accounting records are integrated in financial accounting ledger to extract cost of sugar.

It is practically difficult to determine standards in the sugar industry because sucrose recovery is dependent on the quality of sugarcane which cannot be classified due to changing weather conditions and differing yields per acre of sugar cane grown in different areas/regions. Cost accounting system adopted by the company is operating satisfactorily and is in accordance with the generally accepted cost accounting principles and practices.

3.	**PRODUCTION:**		**2015**	**2014**
(a)	Sugar Produced - white sugar	(M.Ton)	52,936.00	45,000.25

Main reason of increase in production as compared to last year is the better availability of sugarcane as compared to last year.

The Country produced over 5.151 million metric tons refined white sugar in season 2014-15 against estimated local consumption of 4.80 million metric tons. The company's share in the total production was 52,936 metric tons as against 45,000 metric tons produced during the preceding year.

(b)	Percentage of Production in relation to installed capacity	73.55%	61.96%
(c)	Any addition in production capacity during the current year	Nil	Nil
(d)	Any addition in production capacity during the immediately preceding	Nil	Nil

4 RAW MATERIALS:

(a)		**2015**	**2014**	**2013**
Quantity				
Sugar cane	(M.Ton)	564,833	475,912	456,025
Cost	(Rupees)			
Raw Material Consumed		2,582,710,320	2,003,426,301	1,921,180,078
Loading / Unloading Charges		4,486,071	4,905,896	6,133,973
Road Cess		21,181,808	11,898,851	11,401,626
Market Committee Fee		2,824,238	2,379,752	2,280,323
Delivery Expense		9,315,394	19,405,587	17,095,007
Repair & Maintenance		2,377,862	7,567,166	7,218,975
Commission		-	-	-
Other Expenses / Income		8,389,316	4,741,942	6,145,420
		2,631,285,009	2,054,325,495	1,971,455,402

(b) Consumption of Raw Material:

-per Unit production - actual	(M.Ton)	10.670	10.576	10.750
-per Unit production - standard		Not applicable	Not applicable	Not applicable

(c) Explanation of Variance of Consumption for last Two Years

No standard requirement have been specified for sugarcane consumption.
Consumption of raw material per unit production increased by 0.09 Per M.Tons as compared with year 2014 and decreased by Rs. 0.08 Per M.Tons as compared with year 2013 due to the following factors:-

(i) 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 crushing.

(ii) There is comparatively low yield in the current year as compared with the previous year causing current year's raw material per unit to rise.

(d) Method of accounting followed for recording the quantities and value of receipts, issues and balances of all material directly used in production:

Sugarcane is received at the mills directly or at depots situated at a number of distant locations.

Sugarcane receipt at mills;

Computerized Cane Purchase Receipt (CPR) is issued on weighing the sugarcane at gate and the cane is forthwith sent for crushing. The data entered for CPR forms the basis of Cane Purchase Sheet. A purchase and consumption voucher is incorporated for updating of general ledger on the basis of all the cane purchase summaries for the week.

Sugarcane receipt at depots;

Manual CPRs are issued on weighing the sugarcane received at depots. Sugarcane is then sent to the mills where this is weighed again and forthwith sent for crushing. The details of CPRs are entered in Cane Purchase Sheet of the depots. The purchase and consumption voucher includes amounts of the cane purchase summaries of all the depots.

5	**SALARIES & WAGES:**	**2015**	**2014**	**2013**
			Rupees	
(a)	(i) Direct Labour Costs on Production:	63,860,258	56,241,819	57,056,730
	(ii) In Direct Employees Costs on Production:	5,892,020	4,508,253	3,408,634
	(iii) Employees Costs on administration:	28,183,207	23,644,952	21,594,059
	(iv) Employees Costs on Selling & Distributior	-	-	-
	(v) Bonus to Workers & Employees:	6,872,290	5,869,871	5,583,343
	(vi) Other Employee's Cost:	3,589,439	3,097,682	4,025,826
	(vii) Total Employee's Cost:	108,397,214	93,362,577	91,668,592
(b)	Salaries and Perquisites of Directors and Chief Execu	5,859,360	4,262,233	3,967,000
(c)	-Total man-days of direct labour available.	109	100	112
	-Total man-days of direct labour actually worked	100	85	95
(d)	Average no of Workers Employed during the yea	338	325	302
(e)	Direct labour cost per unit of output of the produ (Rs/M.Ton.)	1,206.37	1,249.81	1,345.04

(f) Direct labour cost per unit of output has decreased by Rs.43.44 as compared with year 2014 and decreased by Rs. 138.67 as compared with year 2013 due to more production than the preceeding years causing per metric ton of Labour cost to decline.

(g) The company operates an unfunded gratuity for all its workmen in accordance with section 12(6) of west Pakistan Industrial & Commercial Employment (Standing Order) Ordinance, 1968, In this regard Rs. 3.58 Million (2014: 3.09 Million) recognized during the year

(h) There has not been any incentive scheme during current or preceding two years.

6 STORES & SPARE PARTS:

	2015	2014	2013
	Rupees / M.Ton		
(a) Expenditure per unit of output on stores	559.612	547.911	780.652

(b) System of stores accounting for recording receipts, issues and balances, both in quantities and values:-

Receipt Recording

The Company follows perpetual method of accounting for stores and spares. Stores and spares are purchased on demand of respective department and after necessary approval. Store receipts are recorded on the basis of gate passes, goods receipt notes, purchase orders, demand notes and invoice etc., at historical cost.

Consumption Recording

Stores and Spares Parts consumption is recorded on the basis of stores requisition slips received from the relevant department and is valued at moving average rate.

Allocation

Cost of stores and spares consumed is allocated to various cost centers based on their usage.

The system of store accounting for recording receipts issues and balances both in quantity and value is computer based and each store item is assigned a specific identification code and found satisfactory.

(c) 1.92 (2014: 1.76) percent of the inventory in terms of value has not been moved for over twenty four months.

(d) Reason for variance

Expenditure per unit of output on stores has increased by Rupees. 11.701 as compared with year 2014 due to inflationery effects and decreased by Rs. 221 per M.Ton as compared with year 2013 due to proper upkeep of machinery.

7 DEPRECIATION:

a) Method of Depreciation.

Depreciation on all operating fixed assets, except land is charged on reducing balance method. Depreciation on additions to property , plant and equipment is charged from the month in which the asset is acquired or capitalized, whereas no depreciation is charged in the month of disposal.

b) Basis of Allocation of Depreciation to departments.

The depreciation of common assets is allocated to various departments on the basis of proportion of services rendered to the respective departments.

c) Basis of Charging Depreciation to the Cost of Products.

Depreciation of assets used in production departments is included in the cost of production.

8 OVERHEADS:

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

	2015	2014	2013
		Rupees	
(i) Factory Overheads:	5,758,166	6,544,681	11,225,463
(ii) Administrative Overheads:	77,248,366	67,067,839	61,258,594
(iii) Selling and Distribution Overheads:	8,500,516	7,786,220	12,805,201
(iv) Financial Charges:	76,417,871	105,854,405	66,533,543
	167,924,919	**187,253,145**	**151,822,802**
(I) Factory Overheads:			
Bagasse Charges / Press Mud Expenses	2,174,499	2,418,375	2,860,032
Ash Removing Charges	896,758	981,494	1,082,161
Lime Preparation Charges	-	-	-
Carriage, Freight & Octroi	559,020	619,434	5,222,017
Filter Press	-	-	-
Consultancy Charges	-	-	90,000
Other Expenses	2,127,889	2,525,378	1,971,253
	5,758,166	6,544,681	11,225,463
(ii) Administrative Overheads:			
Salaries, Wages and Benefits.	40,914,658	34,010,209	30,348,062
Rent, Rate and Taxes.	5,182,723	3,643,366	2,496,493
Insurance.	150,181	195,964	986,655
Water, Gas and Electricity.	722,448	695,496	486,403
Printing and Stationery.	1,818,829	2,319,582	1,567,624
Telephone, Fax, Telex & Postage	1,344,189	1,616,898	1,828,965
Repair and Maintenance.	1,402,550	1,754,530	838,653
Traveling and Conveyance.	1,218,460	1,345,313	1,095,078
Subscriptions, Books and Periodicals.	22,423	33,743	57,860
Entertainment.	3,011,465	2,220,009	1,721,939
Advertising.	67,500	7,000	221,625
Legal and Professional Expenditure.	1,995,930	3,487,852	2,726,469
Auditor's remuneration.	490,000	480,000	470,000
Vehicle Running Expenses.	2,550,260	1,983,021	2,565,945
Bad Debts	-	-	56,026
Theft of cash written off	-	-	-
Depreciation	6,695,958	6,470,046	6,455,685
Others.	9,660,793	6,804,810	7,335,113
	77,248,366	67,067,839	61,258,594
(iii) Selling & Distribution Expenses:			
Discount Allowed	-	-	-
Salaries, Wages and Benefits.	420,000	-	-
Commission	900,000	1,665,600	2,159,880
Stacking/Restacking.	986,752	911,940	805,983
Filling /Weighing	1,404,938	1,295,463	424,202
Shifting Charges	686,080	495,004	424,202
Loading/Unloading Charges	446,395	49,132	7,193
Sales Tax / FED Paid Arrears	-	-	-
Claims and Settlements	-	218,205	994,739
Marking Fee	-	-	-
Export Expenses	375,468	1,260,507	3,671,651
Loss on Foreign Proceeds Realization	-	-	311,929
Freight Charges	2,919,314	1,383,320	3,939,600
Other Expenses.	361,569	507,049	65,822
	8,500,516	7,786,220	12,805,201

	2015	2014	2013
		Rupees	
(iv) Financial Charges:			
Markup On Long Term Loans	5,525,464	8,821,169	2,694,732
Markup On Short Term Borrowings	69,429,530	95,187,755	60,331,740
Markup on Directors Loan	-	-	-
Financial Charges on Leased Vehicles	-	-	-
Bank Charges & Commission	1,372,894	1,755,889	3,434,164
Markup on WPPF	89,983	89,592	72,907
	76,417,871	105,854,405	66,533,543

(b) Reasons for Significant Variances:

(i) Factory overheads

Bagasse charges have decreased due to timely disposal of bagasse during the crushing season.

(ii) Administrative overheads

Inflationary factors.

(iii) Selling & Distribution expenses

Marking fees was levied on marking of sugar w.e.f. 01-01-2009, however no provision has been made in view of stay order, as stated in Note 15.1.2 to the financial statements.

Export charges have been decreased due to lower exports i.e. 1,999.75 M.Ton in current year as compared to 2014 (last year) 6,015 M.Ton for sugar.

(iv) Financial Charges

Financial charges have decreased due to lower utilization of credit lines as advance payments had been received from major customer during the year.

(c) Basis of Allocation and Absorption of Overheads:

(i) All the factory overheads are allocated to different departments on actual basis.

(ii) Factory overheads are allocated to the finished goods and work in process inventory based on actual overheads cost.

		2015	2014
(d) Cost of packing			
Cost of packing Material	Rupees	36,280,724	29,033,681

Reason for significant variance

Per unit packing cost has been increased due to addition of sugar liners inside sugar bags as per customers demands and inflationary effects.

9 ROYALTY / TECHNICAL AID PAYMENTS:

No royalty or technical aid payments have been made during the year.

10 (a) ABNORMAL NON-RECURRING FEATURES:

No abnormal or non-recurring features have been observed during the year.

(b) Special expenses directly allocated to products

No special expenses have been incurred during the year.

11 COST OF PRODUCTION:

		2015	2014
Cost of Production	Rs / M.Ton	50,415.88	45,345.73

Reasons for differences in cost of production

Cost of production per metric tons of sugar production increased as compared to last year due to increase in sugar cane prices and low recovery percentage.

12 SALES:

Sale of Sugar

	2015		
	Qty M.Ton	Amount Rupees	Average Sale Realization
i Local	51,982.20	3,010,949,237	57,922.70
ii Export	1,999.75	113,533,911	56,774.05
	53,981.95	3,124,483,148	57,880.15

Sale of Sugar

	2014		
	Qty M.Ton	Amount Rupees	Average Sale Realization
i Local	31,338.76	1,627,886,713	51,944.83
ii Export	6,015.00	312,956,838	52,029.40
	37,353.76	1,940,843,551	51,958.45

13 PROFITABILITY:

		2015	2014
Profit / (Loss) per unit earned on sugar	Per M.Ton	342.03	144.18
Profit / (Loss) per machine hours	Per Machine Hour	7,683.22	2,648.92

The profitability of the company increased due to the following reasons:-

i) Sugar sales rate during current year are better as compared to the year 2014 which has resulted in increase in profit per unit.

14 COST AUDITOR'S OBSERVATIONS

(a) No matter was observed which appears to be clearly wrong in principal or apparently unjustified.

(b) No case was observed where the company's funds have been used in a negligent or inefficient manner.

(c) No significant factors were observed which could inflate the cost of production.

(d) **(i)** Budgetary control system on a long term basis is not operative in sugar industry because of a short span of its production activity. However, cash budgets for short periods i.e. fortnightly, monthly, quarterly etc are prepared for working capital requirements (i.e procurement of sugarcane etc.)

(ii) Management has not established an internal audit department.

(e) **(i)** No general imbalance is found in production facilities.

(ii) The installed capacity is not being fully utilized due to limited supply of sugarcane during the crushing season.

(iii) Operational research is required to discover the ways of increasing production.

(iv) Comment on areas offering scope for:

a) Cost reduction / increase in productivity

Company can make efforts towards cost reduction and increase productivity by promoting high sucrose varieties of sugarcane in the vicinity of the mills. There should be a system of payment to the sugarcane farmers based on the value of crop i.e. the sugar content (recovery). Today farmers have no incentive to improve the quality of the crop as sugarcane with 6% recovery is paid the same amount as sugarcane with 10% recovery, thus leading to an uncertain crop economy. There is required to establish more Sugar Technology Institutes in Pakistan like many other leading sugar producing countries of the world. This institute would be able to eliminate the confusion that exists between sugarcane technology and sugar technology.

b) Key limiting factors causing production bottle-necks

Limited supply of sugarcane during the crushing season

c) Improved inventory policies

Company has appropriate inventory policy to cater its needs.

d) Energy conservancy

Bagasse is burnt in the boiler house for production of steam which is used to run steam turbines to generate electricity to run the entire sugar mill.

(v) Company's production technology is modern and the plant is 21 years old. Annual overheads / maintenance programs are carried out regularly for up keeping of the plant and machinery.

(vi) The plant when installed was new and has been subject to BMR from time to time.

15 COST STATEMENT:

All the amounts and quantities mentioned in the Cost Audit Report and annexure have been compared with the financial statements audited by the auditor appointed under section 252 of the Companies Ordinance 1984 and the results shown by the financial and cost accounts are in agreement with each other.