

### **COST AUDITORS' REPORT**

We **Yaqub & Co., Chartered Accountants**, having been appointed to conduct an audit of cost accounts of **Crescent Sugar Mills & Distillery 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, except for the effects of matters discussed in paragraph 14(a) of annexure to this report, report that:

1. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of this audit.
2. in our opinion:
  - 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;
  - the said books and records give the information, as required by the rules in the manner so required; and
3. in our opinion and, subject to best of our information:
  - the annexed statement of capacity utilisation and stock-in-trade are in agreement with the books of account of the company and exhibit true and fair view of the company's affairs; and
  - the 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 white sugar and its by-products; namely molasses and bagasse.

The matters contained in the ANNEXURES form an integral part of this report.

Dated: March 05, 2010

Place: Faisalabad



**CRESCENT SUGAR MILLS & DISTILLERY LIMITED**  
**ANNEXURE TO THE COST AUDITORS' REPORT TO THE DIRECTORS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**1. CAPACITY (CANE CRUSHING)**

**a. Licensed, installed and utilized capacities are**

	2009	2008
Installed capacity per day (M. Tons)	3,000.000	3,000.000
No. of days worked	106	146
Total available capacity (M. Tons)	318,000.000	438,000.000
Utilized capacity	182,316.905	348,333.210
%age utilization of available capacity	57%	80%

**b. Other production activities of the company**

The company is also engaged in manufacturing and sale of distillate and yarn. The Company has also setup an embroidery unit.

**2. COST ACCOUNTING SYSTEM**

Subject to our observations, the cost accounting system operated by the company provides the information that could be used to determine the cost of products but certain information is scattered and not readily available.

The company maintains records on the basis of actual cost incurred.

**3. PRODUCTION**

**a. Production in quantities of each type of product under reference is as under:**

Particulars	2009	2008
Main product:		
White sugar (M. Tons)	<u>14,403.500</u>	<u>25,376.500</u>
By products:		
Molasses (M. Tons)	<u>8,329.000</u>	<u>16,850.000</u>
Bagasse (M. Tons)	<u>57,211.045</u>	<u>103,942.630</u>
Press cake (M. Tons)	<u>5,070.233</u>	<u>8,708.330</u>



**b. Percentage of production compared with installed capacity**

	2009	2008
Installed capacity (M. Tons)	<b>25,122.000</b>	31,886.400
Actual production (M. Tons)	<b>14,403.500</b>	25,376.500
Actual production in % of installed capacity	<b>57%</b>	80%

**c. Addition to production capacity**

There is no addition to the production capacity during the year under review or in the immediately preceding two years, though there has been addition to plant and machinery.

**4. RAW MATERIAL**

**a. Raw material (sugarcane) consumption**

	2009	2008
Quantity (M. Tons)	<b>182,316.905</b>	348,333.210
Value (Rs.)	<b>509,186,170</b>	544,074,197
Rate per M. Ton (Rs.)	<b>2,794</b>	1,562

The quantity of sugarcane crushed has reduced significantly resulting in increase in raw material rate per metric ton. The Government of Punjab has also increased the minimum purchase price of sugarcane from Rs. 60/- per 40 kg to Rs. 80/- per 40 kg for the crushing season 2008-09. The Company had to pay increased grower's subsidy as compared to previous year due to acute shortage of the sugarcane.

**b. Consumption of raw material per unit of production**

	2009	2008	2007
Raw material consumed (Rs.)	<b>509,186,170</b>	544,074,197	604,174,742
White sugar produced (M. Tons)	<b>14,403.500</b>	25,376.500	25,035.000
Consumption per M. Tons (Rs.)	<b>35,352</b>	21,440	24,133

**c. Explanation for variances in the consumption of raw material as compared to preceding two years and standards**

Consumption of raw material per M. Ton of production depends mainly on cost of raw material and recovery percentage. The increase in the consumption per metric ton is due to increase in the sugarcane prices and the increase in the grower's subsidy for the year.



The cost per M. Ton of raw material purchased in current and previous two years is as under:

YEAR	RATE PER M. TONS (RS.)
2009	2,794
2008	1,562
2007	1,744

The recovery percentage for the current and previous two years is as under:

YEAR	RECOVERY (%Age)
2009	7.900
2008	7.280
2007	7.230

- Recovery percentage depends on many factors including quality of sugarcane, timing of crushing and continuous supply of sugarcane.
- The mill is situated in such an area where sugarcane of good quality is not available, as well as supply of sugarcane is also not regular.

**d. Comments on method of accounting for sugarcane**

In our opinion, the method of accounting followed by the company for recording the quantities and values for receipts of sugarcane, being sole raw material, directly used in production is suitably designed to provide information for the purpose of Annexure-1. Sugarcane purchased is directly put to crushing and thus treated as issued.

5. WAGES AND SALARIES	2009	2008
<b>a. Wages and salaries paid</b>	<b>Rupees</b>	<b>Rupees</b>
i & ii) Direct and indirect labour cost on production	33,608,492	34,974,397
iii) Employees cost on administration	20,723,414	19,695,767
iv) Employees cost on selling and distribution	287,724	267,350
v) Total employees cost (Total of i to iv)	54,619,630	54,937,514



**b. Salaries and perquisites of Director and Chief Executive Officer**

For the year under review these are Rs.12,305,500/= (2008: Rs.9,790,876/=). Further the aggregate amount charged in the accounts for the year for fee to 5 directors in respect of 9 meetings is Rs. 135,000.00 (2008: Rs. 125,000.00 to 5 directors for 9 meetings). In addition, they have been provided free maintained vehicles.

**c. Total man-days of direct labour available and actually work for the period.**

	2009	2008
Total man days of labour available	106	146
Stoppages	42	20
Total man days of labour actually worked	64	126

**d. Avg. number of workers employed for the year**

Officers	69	79	
Workers	263	308	
	332	387	

**e. Direct and indirect labour cost per unit of output**

On the basis of total production wages and salaries (both direct and indirect) cost per M. Ton is as follows:

(Rs.)	<u>2,333</u>	<u>1,378</u>	
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**f. Brief explanations for variances as compared to the previous two years**

Total direct and indirect cost of production and cost per unit increased in current year as compared to previous year due to increase in minimum wage rate. The cost per metric ton also increased during the year due to decrease in production of sugar.

**g. Comments on the incentive scheme**

There was no incentive scheme in operation during the year under review.



**6. STORES AND SPARE PARTS**

**a. Expenditure per M. Ton of white Sugar Produced**

	2009	2008
White sugar produced (M. Tons)	14,403.500	25,376.500
Stores, spares and loose tools (Rs.)	11,955,816	16,038,668
Expenditure per M. Ton (Rs.)	830	632

**b. Brief explanations for variances as compared to the previous two years**

The expense per M. Ton increased during the year significantly due to general inflation. Although, the expense of stores, spares and loose tools has decreased during the current year but the expenditure per M. Ton has increased due to decrease in sugar produced.

**c. Comments on method of accounting for stores and spare parts**

The company operates a computerized system of receipt, issuance and balance of store items, both in quantity and value. The stores are valued on moving average basis. The system generates stores consumption on cost center basis.

**7. DEPRECIATION**

- a) Depreciation on additions is charged from the date when the asset is available for use and on deletions up to the date when the asset is disposed off.
- b) Depreciation has been allocated between production and administration on the basis of identification of assets.
- c) Depreciation related to manufacturing assets has been charged to cost of production. Depreciation related to non-manufacturing assets has been treated as period cost and not included in cost of production.

**8. OVERHEADS**

**a. The total amount of overheads and break-up thereof**

Please refer to the relevant cost statements annexed to this report.

**b. Reasons for variances**

The reasons for major variances as compared to last two years are as under:



**Factory overheads**

There are no major variances as compared to last two years in factory overheads, however, the slight increase is due to hike in power tariffs.

**Administrative overheads**

Salaries, wages and other benefits: The amount in current year is increased due to increments, increased benefits as compared to previous year.

**Selling overheads**

Loading and unloading expenses: The amount in current year is decreased due to reduction in quantity sold during the year.

**Finance cost**

Mark up: The amount in current year is increased due to increase in mark up rates. The rates in the current year increased from (Year 2008: 14% - 15%) to (Year 2009: 15.27% - 18.02%).

**Other operating expenses**

Impairment loss on investments: Impairment loss on investments of Rs. 11,926,799/- is charged to profit and loss account as per requirements of International Accounting Standard.

**c. Basis of allocation of overheads**

Absorption cost method is adopted in which fixed overheads like depreciation, insurance etc. are included in cost of production. Administrative and selling overheads are not treated as part of cost of product. Rather they are treated as period cost.

**d. Cost of packing material**

	2009	2008
Total cost (Rs.)	3,964,251	6,486,132
No of bags produced	288,070	507,530
Cost per bag (Rs.)	13.76	12.78

Increase is due to rise in purchase price of packing material.

**9. ROYALTY / TECHNICAL AID PAYMENTS**



Royalty / Technical aid payments are not applicable to the company.

**10. ABNORMAL AND NON- RECURRING FEATURE**

- a) The management is of the view that no abnormal events like strikes lock outs, major break downs in the plant, substantial power cuts, and serious accidents etc, occurred during the year under review. Also no information about such events came to our knowledge during the process of audit.
- b) No special expenditures were allocated to the product under reference during the year under review.

**11. COST OF PRODUCTION**

	2009	2008
Total cost of bagged sugar (Rs.) (as per No.20 of annexure-1)	540,487,729	564,361,581
Production – M. Tons	14,403.500	25,376.500
Cost of production per M. Ton (Rs.)	37,525	22,240

The main reason of increase in the cost of production is increase in cost of raw material and fuel consumption in the current year.

**12. SALES**

	2009	2008
<b>a. Sales</b>		
Quantity - (M. Tons)	16,259.950	24,956.800
Net Sales realization (Rs.)	565,701,483	544,153,067
Net Sales realization Per M. Ton (Rs.)	34,791	21,804
<b>b. Exports</b>		
	NIL	NIL

The main reason of increase in the net sales realization per metric ton is the increase in the price of white sugar in the current year.

**13. (LOSS) / PROFITABILITY (Gross) Rs.**

	2009	2008
Net sales realization per M. Ton (as per para-12 above)	34,791	21,804
Avg. cost of sales (As per no. 23 of annex-1)	35,127	22,391
Loss per M. Ton	(336)	(587)

Sale price of sugar in current year has not increased in proportion to cost of production; resultantly the company is facing gross loss.

**14. COST AUDITORS OBSERVATIONS AND CONCLUSIONS**





**a. Non maintenance of records on departmental basis**

Direct labor cost per unit of output and indirect employees cost per unit of output cannot be segregated as required by paragraph no. 5 (a) i & ii of this report due to non maintenance of records on departmental basis.

**b. Others**

**14.1 Matters, which appear to be incorrect in principle or are apparently unjustifiable**

No such instance was noticed during the course of the test procedures applied to conduct the audit.

**14.2 Cases where the Company's funds have been used in a negligent or inefficient manner**

No such instance was noticed during the course of the test procedures applied to conduct the audit.

**14.3 Factors, which could have been controlled, but have not been done resulting in increase in the cost of production**

No such cases were noticed during the conduct of audit.

**14.4 (i) The adequacy or otherwise of budgetary control system, if any, in vogue in the Company**

The Company has an adequate budgetary control system in operation.

**(ii) The scope and performance of internal audit, if any**

Management of the Company has outsourced its internal audit function to a professional firm. They are assigned to appraise the management about the control weaknesses along with their remedies and also the deviations from the approved procedures. The internal auditors provide the Company with quarterly reports on their findings which are discussed in the Audit Committee meetings.

**14.5 Suggestions for improvements in performance**

**(i) Rectification of general imbalance in production facilities**

We have not identified any general imbalance in production facilities.



**(ii) Fuller utilization of installed capacity**

The utilization of installed capacity is dependent upon availability of sugarcane of desired quantity and quality.

**(iii) Comments on areas offering scope for improvement**

Key limiting factor causing production bottlenecks is non availability of sugarcane. The mill has been surrounded by urban areas and there are problems in getting constant sugarcane. However, stoppages due to no cane have increased from 233 hours in 2008 to 881 hours in 2009. The company should take measures to improve availability of sugarcane.

**(iv) State of technology**

Defection Melt Phosphatation process is in use.

**(v) Plant condition at the time of installation**

The plant, when installed, was all new.

**15. RECONCILIATION WITH FINANCIAL ACCOUNTS**

The reconciliation statements for cost of sales, administrative expenses and selling and distribution expenses with financial accounts are annexed to the report.

**16. COST STATEMENTS**

The cost statements prescribed by the Securities and Exchange Commission of Pakistan under clause (c) of subsection (1) of section 230 of the Companies Ordinance, 1984, duly authenticated by the Chief Executive Officer and Chief Financial Officer, as mentioned in SRO 97 (1) 2001 dated February 13, 2001 are being annexed herewith.

**17. MISCELLANEOUS**

- Comparative figures have been rearranged / reclassified wherever necessary for the purpose of better comparison. However, no material rearrangement / reclassification have been made.
- Figures have been rounded off to the nearest rupee unless otherwise stated.

