

COST AUDITORS' REPORT ON COST STATEMENTS
OF
THE THAL INDUSTRIES CORPORATION LIMITED
FOR THE YEAR ENDED
SEPTEMBER 30, 2016

COST AUDITORS' REPORT TO THE DIRECTORS

We BDO EBRAHIM & CO., Chartered Accountants having been appointed to conduct an audit of cost accounts of THE THAL INDUSTRIES CORPORATION LIMITED ("the Company"), 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 other relevant record for the year ended on September 30, 2016 and report that:

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.

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

In our opinion and, subject to the best of our information:

- (a) the annexed statement of 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 products of the Company, namely White Refined Sugar.

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

The cost accounts of the Company for the year ended September 30, 2015 were audited by another firm of chartered accountants, who had expressed unqualified opinion vide their report dated January 15, 2016.

LAHORE

DATE: 03 MAR 2017


CHARTERED ACCOUNTANTS
Engagement Partner: Muhammad Imran


BDO Ebrahim & Co. Chartered Accountants

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**COST AUDITORS' REPORT
TO THE DIRECTORS OF THE THAL INDUSTRIES CORPORATION LIMITED
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

1. CAPACITY:

			<u>2016</u>	<u>2015</u>
(a) Licensed, installed and utilized capacity:				
Designed crushing capacity:				
Layyah Sugar Mills	Old plant	Metric Tons/day	4,000	3,300
Layyah Sugar Mills	New plant	Metric Tons/day	7,500	7,500
Safina Sugar Mills	Old plant	Metric Tons/day	8,000	7,000
			<u>19,500</u>	<u>17,800</u>
(b) Percentage utilization				
Capacity on the basis of operating days		Metric Tons	2,086,500	1,966,900
Actual crushing (utilized capacity)		Metric Tons	1,839,916	1,808,462
Percentage of capacity attained		%	88.18	91.94
Sugar production from cane		Metric Tons	178,912.15	175,909.50
Recovery of sugar cane		%	9.72	9.73

During the year, there is an increase in production capacity of the mill (19,500 TCD) as compared to preceding year (17,800 TCD) thus increasing the overall installed capacity (119,600 metric tons). The marginal increase in crushing is due to BMR completed last year, and the installation of high pressure boiler in Layyah helped in improving the steam percent cane and eventually mill was able to process more of the crop on a per day basis.

(c) The Company is not engaged in any other activity except manufacturing and sale of white sugar, molasses and allied by-products.

2. COST ACCOUNTING SYSTEM:

Manufacturing of sugar is a continuous process. The Company uses financial and cost integrated accounting system which shows overall cost of production.

The Company is using integrated accounting software, whereby the cost accounts are integrated with the financial accounting records. The cost accounting functions and financial accounting functions are combined in one system of ledger accounts. This enables the company to get information regarding cost records at any point of time. All transactions related to costs of production are incorporated in the books of accounts and their effect is reflected in the costing reports. According to the Company's practice, the actual costs incurred during the year are allocated to the sugar manufactured during the year on actual basis.

The existing system can generate various cost reports some of which are as follows:

- Direct department cost.
- Distribution of total production cost into raw material and other manufacturing cost.
- Detail of direct cost of sugar.
- Detail of total cost of sugar.
- Direct and indirect cost of salaries and wages.
- The cost of each service department.

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Stock valuation of stores, spares and loose tools.
 Direct cost of production departments.
 Total cost of production departments.

We have assessed the functionality of the cost accounting system and found it adequate to determine the cost of Company's products correctly. Our review of the system and procedures adopted by the Company reveal that the adequate information and analysis regarding cost of product is generated for the management.

3. PRODUCTION:

	<u>2016</u> <u>(Metric tons)</u>	<u>2015</u> <u>(Metric tons)</u>
(a) Production in metric tons		
White refined sugar	178,912.15	175,909.50
Sugar made from raw sugar	749.15	1,295.70
Total production	<u>179,661.30</u>	<u>177,205.20</u>

(b) Percentage utilization

White Refined Sugar	88.18%	91.94%
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Explanation of variances

There is an increase in production capacity of the mills (19,500 metric tons per day) in current year as compared to preceding year (17,800 metric tons per day) thus increasing the overall installed capacity (119,600 metric tons), however increase in cane milled and crushed is only 31,453 metric tons during the year. Non availability of sugar cane in sufficient quantity and quality was the limiting factor due to which the capacity utilization is 88.18% (2015: 91.94%) as compared to installed capacity. This is the reason of decrease in percentage of utilization in relation to installed capacity by 3.76%.

(c) Comparison of machine hours utilization (during crushing season)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Available hours	2,552	2,628	2,772
Utilized hours	2,373	2,388	2,637
% age	92.96%	90.87%	95.13%

Explanation of variances

Available hours is dependent upon no of working days i.e. 107 days (2015: 111 days). Comparative increase in utilization during current year is due to effective use of available hours. Sugar mills temporarily shutdowns for maintenance purposes during mid of manufacturing season. This year company stops for lesser period i.e. 7.491 days (2015: 9.994 days) thus increasing the percentage of utilization in relation to installed capacity by 2.12%.

(d) Addition to production capacity

During the year, there is an increase in production capacity of the mill (19,500 TCD) as compared to preceding year (17,800 TCD) thus increasing the overall installed capacity (119,600 metric tons). The marginal increase in crushing is due to BMR completed last year, and the installation of high pressure boiler in Layyah helped in improving the steam percent cane and eventually mill was able to process more of the crop on a per day basis.

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4. RAW MATERIALS:

(a) Consumption of major raw materials in terms of quantity and value:

Raw Materials	2016		2015	
	Quantity Consumed (metric tons)	Amount (Rupees)	Quantity Consumed (metric tons)	Amount (Rupees)
Sugarcane (See annexure – 3)	1,839,931	8,438,467,457	1,808,481	8,126,020,496
Process material (See annexure - 5)		75,761,821		84,340,077

(b) Consumption of major materials per unit of production:

Raw Materials	Actual Consumption Per Unit (per metric ton of Sugar)		
	2016	2015	2014
Sugarcane (See annexure – 3)	10.284	10.281	10.162

Consumption of raw material per unit of production is dependent on many factors, such as sucrose contents/sugar recovery percentage, quality of sugarcane, elapsed time between sugarcane harvesting and crushing, distance from sugarcane field and factory site and un-interrupted 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) Explanation of variances

Sugarcane yield depends upon the quality of sugarcane; and the quality varies with the maturity of the crop and quality of seed implanted in crop. Good quality of seed combined with higher maturity of crop means higher quality of sugar cane and higher yield of sugar. Raw material consumption of cane has increased by 31,453 metric tons from last year due to increased availability of sugarcane.

The variance in material consumption per M. Ton is immaterial and it is because of almost same recovery in the current year i.e., 9.724 % as compared to last year's recovery 9.727 %.

(d) Accounting system for raw materials

Sugarcane is procured mainly at the mills directly and partially at depots situated at a number of locations. Cost of purchase of raw material comprises of transport, government levies, handling and other costs directly attributable to the acquisition of materials. Purchases of sugarcane are accounted for when they are received at mill / purchase centers. Value of material consumed is taken on actual basis.

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