# DEWAN CEMENT LIMITED

LIST OF DOCUMENTS
FOR THE YEAR ENDED 30 JUNE 2016

*MAIN INDEX*



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A member firm of

Leading Edge

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RAFAQAT MANSHA
MOHSIN DOSSANI
MASOOM & CO.
Chartered Accountants

## COST AUDITORS' REPORT

We, M/s. Rafaqat Mansha Mohsin Dossani Masoom & Co., Chartered Accountants having been appointed to conduct the audit of cost accounts of Messrs Dewan Cement Limited; have examined the books of accounts and the statements prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant records for the year ended on 30 June 2016 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, statement and schedules for the purposes of audit of cost accounts have been received from factories; which were also 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 the best of our information:

a) the annexed statements of capacity utilization and stock-in-trade are in agreement with the books of accounts of the Company and exhibit a 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 to the cost of production, processing, manufacturing and marketing of the under mentioned product of the Company, namely: Ordinary Portland Cement, Sulphate Resistant Cement and Slag Cement.

The matter contained in the Annexures forms an integral part of this report.

Rafaqat Mansha Mohsin Dossani Masoom &Co

Date: 04 November 2016
Karachi

**Rafaqat Mansha Mohsin Dossani Masoom &Co.**
**Chartered Accountants**
Engagement Partner
Afzal H Dossani

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1. INTRODUCTION

Dewan Cement Limited (the Company / DCL) was incorporated in Pakistan as a public limited company in March, 1980. Its shares are quoted on the Karachi and Lahore Stock Exchanges since June, 1989. The registered office of the Company is situated at 7th Floor, Block A, Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The principal activity of the Company is manufacture and sale of cement. The Company has two production facilities at Deh Dhando, Dhabeji, Karachi, Sindh and Kamilpur Hattar, Industrial Estate, District Hattar Khyber Pakhtoonkhuwa.

2. FACTORIES LOCATIONS

There are two factories of Dewan Cement Limited located as follows:

South Unit (Line-I & II)
Deh Dhando, Dhabeji
District Malir, Karachi.

North Unit (Line-I & II)
Kamilpur Near Hattar
District Haripur, Khyber Pakhtoonkhuwa.

3. PRODUCTS

The Company was engaged in manufacturing and sales of following types of cement products.

South Unit (Line-I & II)
Sulphate Resistant Cement - (SRC)
Ordinary Portland Cement - (OPC)
Slag Cement - (Slag)
Clinker

North Unit (Line-I &II)
Ordinary Portland Cement - (OPC)
Clinker

4. CAPACITY

The installed and utilized capacities of the factories for cement and clinker products were as tabled below.

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4.1 The installed and utilized capacities of the factories for clinker products were as follows:

| CLINKER | PRODUCTS | 2016 (IN TONS) | 2015 (IN TONS) |
|---|---|---|---|
| A. Installed Capacity | | | |
| South Unit (Line-I) | | 900,000 | 900,000 |
| South Unit (Line-II) | | 960,000 | 960,000 |
| **Sub Total** | | **1,860,000** | **1,860,000** |
| North Unit (Line-I) | | 540,000 | 540,000 |
| North Unit (Line-II) | | 540,000 | 540,000 |
| **Sub Total** | | **1,080,000** | **1,080,000** |
| Grand Total | | 2,940,000 | 2,940,000 |
| | | | |
| B. Utilized Capacity | | | |
| | | | |
| South Unit (Line-I) | | | |
| | SRC | 159,262 | 64,318 |
| | OPC | 231,380 | 258,431 |
| Sub Total | | **390,642** | **322,749** |
| South Unit (Line-II) | | | |
| | SRC | 16,386 | 20,143 |
| | OPC | 722,320 | 685,449 |
| Sub Total | | **738,706** | **705,592** |
| Total South Unit | | **1,129,348** | **1,028,341** |
| | | | |
| North Unit | | | |
| LINE-I | OPC | 357,144 | 143,636 |
| LINE-II | OPC | 367,100 | 437,278 |
| Total North Unit | | **724,244** | **580,914** |
| | | | |
| Grand Total | | 1,853,592 | 1,609,255 |

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4.2 The installed and utilized capacities of the factories for cement products were as follow:

| | | 2016 | 2015 |
|---|---|---|---|
| CEMENT | PRODUCTS | (IN TONS) | (IN TONS) |
| A. Installed Capacity | | | |
| South Unit (Line-I) | | 945,000 | 945,000 |
| South Unit (Line-II) | | 1,008,000 | 1,008,000 |
| Sub Total | | 1,953,000 | 1,953,000 |
| North Unit (Line-I) | | 567,000 | 567,000 |
| North Unit (Line-II) | | 567,000 | 567,000 |
| Sub Total | | 1,134,000 | 1,134,000 |
| Grand Total | | 3,087,000 | 3,087,000 |
| | | | |
| B. Utilized Capacity | | | |
| South Unit (Line-I & Line II) | | | |
| | SRC | 183,917 | 96,178 |
| | OPC | 1,042,720 | 964,559 |
| | GBFS | 2,880 | - |
| Total South Unit | | 1,229,517 | 1,060,737 |
| | | | |
| North Unit | | | |
| Line-I | OPC | 452,567 | 420,038 |
| Line-II | OPC | 321,576 | 232,252 |
| Total North Unit | | 774,143 | 652,290 |
| | | 2,003,660 | 1,713,027 |

## 5. COST ACCOUNTING SYSTEM

The Company follows process cost system that comprises production and service departments. An analysis number was allocated to each of the cost centre and the related costs were charged to the respective cost centres on the basis of that number.

The costs are thus accumulated and transferred from one process to the next, and finally charged / absorbed into the cost of the final product.

Other accounting policies have been considered as reflected in the financial statements of the Company.

## 6. PRODUCTION

Production of cement and clinker in quantities during the year was as follows:

| PRODUCT | 2016 (IN TONS) | 2015 (IN TONS) | INCREASE/ (DECREASE) | UTILIZATION OF CAPACITY |
|---|---|---|---|---|
| **Clinker** | | | | |
| South Unit (Line-I) | 390,642 | 322,749 | 21.04% | 43.40% |
| South Unit (Line-II) | 738,706 | 705,592 | 4.69% | 76.95% |
| | **1,129,348** | **1,028,341** | **9.82%** | **60.72%** |
| North Unit (Line-I) | 357,144 | 143,636 | 148.65% | 66.14% |
| North Unit (Line-II) | 367,100 | 437,278 | -16.05% | 67.98% |
| | **724,244** | **580,914** | **24.67%** | **67.06%** |
| | **1,853,592** | **1,609,255** | | |
| **Cement & GBFS** | | | | |
| South Unit (Line-I & Line-II) | 1,229,517 | 1,060,737 | 15.91% | 62.96% |
| North Unit (Line-I & Line-II) | 774,143 | 652,290 | 18.68% | 68.27% |
| | **2,003,660** | **1,713,027** | | |

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a) Percentage of production of both the products in relation to the installed capacity were:

$$\frac{\text{Production}}{\text{Installed Capacity}} \times 100 = \%\text{age}$$

| 2016 | | |
|---|---|---|
| DESCRIPTION | CALCULATION | PERCENTAGE |
| **Clinker** | | |
| South Unit (Line-I) | $\frac{390,642}{900,000} \times 100$ | 43.40% |
| South Unit (Line-II) | $\frac{738,706}{960,000} \times 100$ | 76.95% |
| North Unit (Line-I) | $\frac{357,144}{540,000} \times 100$ | 66.14% |
| North Unit (Line-II) | $\frac{367,100}{540,000} \times 100$ | 67.98% |
| **Cement & GBFS** | | |
| South Unit (Line-I & Line-II) | $\frac{1,229,517}{1,953,000} \times 100$ | 62.96% |
| North Unit (Line-I & Line-II) | $\frac{774,143}{1,134,000} \times 100$ | 68.27% |

| 2015 | | |
|---|---|---|
| DESCRIPTION | CALCULATION | PERCENTAGE |
| **Clinker** | | |
| South Unit (Line-I) | $\frac{322,749}{900,000} \times 100$ | 35.86% |
| South Unit (Line-II) | $\frac{705,592}{960,000} \times 100$ | 73.50% |
| North Unit (Line-I) | $\frac{143,636}{540,000} \times 100$ | 26.60% |
| North Unit (Line-II) | $\frac{437,278}{540,000} \times 100$ | 80.98% |
| **Cement** | | |
| South Unit (Line-I & Line-II) | $\frac{1,060,737}{1,953,000} \times 100$ | 54.31% |
| North Unit (Line-I & Line-II) | $\frac{652,290}{1,134,000} \times 100$ | 57.52% |

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REASONS FOR INCREASE / (DECREASE)

a) The reasons for increase in production was mainly due to the plant performance and market behaviour during the year.

7. RAW MATERIALS

a) Major raw material consumed in production of cement inclusive of other cost were as follows:

Quantity in (MT)

| DESCRIPTION | SOUTH UNIT | | | NORTH UNIT (LINE-I &II) | 2016 | 2015 |
|---|---|---|---|---|---|---|
| RAW MATERIAL | SRC | OPC | GBFS | OPC | | |
| Lime Stone | 301,742 | 1,475,925 | - | 490,792 | 2,268,459 | 1,995,239 |
| Laterite | 12,792 | 8,435 | - | 25,487 | 46,714 | 37,861 |
| Clay | - | 181,622 | - | - | 181,622 | 174,052 |
| Sand | - | - | - | 25,297 | 25,297 | - |
| Shale Stone | | - | - | 881 | 881 | 539 |
| Slate Stone | - | - | - | 166,472 | 166,472 | 123,757 |
| Manganese | - | - | - | - | - | 177 |
| Bauxite | - | 3,833 | - | - | 3,833 | 11,523 |
| C-Slag | 402 | 590 | - | - | 992 | 3,486 |
| Pozzolan | - | 7,508 | - | - | 7,508 | 100 |
| Gypsum | 7,929 | 46,734 | - | 47,997 | 102,660 | 112,526 |
| Graphite | - | - | - | - | - | 499 |
| GBFS | | | 2,967 | | 2,967 | - |

Amount in Rupees

| DESCRIPTION | SOUTH UNIT | | | NORTH UNIT (LINE-I &II) | 2016 | 2015 |
|---|---|---|---|---|---|---|
| RAW MATERIAL | SRC | OPC | GBFS | OPC | | |
| Lime Stone | 49,673,041 | 241,223,446 | - | 120,600,196 | 411,496,683 | 405,313,913 |
| Laterite | 9,189,579 | 6,059,576 | - | 38,117,307 | 53,366,462 | 54,240,984 |
| Clay | - | 13,596,094 | - | - | 13,596,094 | 17,267,273 |
| Sand | - | - | - | 5,194,805 | 5,194,805 | 372,189 |
| Shale Stone | | - | - | 210,280 | 210,280 | 210,280 |
| Slate Stone | - | - | - | 37,653,559 | 37,653,559 | 37,775,197 |
| Manganese | - | - | - | - | - | 598,074 |
| Bauxite | - | 4,076,120 | - | - | 4,076,120 | 16,567,518 |
| C-Slag | 347,136 | 628,643 | - | - | 975,779 | 2,187,427 |
| Pozzolan | - | 14,401,672 | - | - | 14,401,672 | 235,000 |
| Slag | - | - | - | - | - | - |
| Gypsum | 11,180,860 | 65,900,660 | - | 41,384,887 | 118,466,408 | 131,449,243 |
| Graphite | - | - | - | - | - | 2,149,109 |
| GBFS | | | 6,788,428 | | 6,788,428 | - |

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b) The ratios of major raw material consumed per unit of production were as follows:

| 2016 | | | | |
|---|---|---|---|---|
| Description | SOUTH UNIT | | | NORTH UNIT (LINE-I &II) |
| | SRC | OPC | GBFS | OPC |
| Lime Stone | 95.81% | 88.36% | - | 69.23% |
| Laterite | 4.06% | 0.50% | - | 3.60% |
| Clay | 0.00% | 10.87% | - | 0.00% |
| Sand | 0.00% | 0.00% | - | 3.57% |
| Shale Stone | 0.00% | 0.00% | - | 0.12% |
| Slate Stone | 0.000% | 0.00% | - | 23.48% |
| Manganese | 0.000% | 0.00% | - | 0.00% |
| Bauxite | 0.000% | 0.23% | - | 0.00% |
| C-Slag | 0.128% | 0.04% | - | 0.00% |
| GBFS | 0.000% | 0.000% | 100.000% | 0.000% |
| | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

| CEMENT | SOUTH UNIT | | | NORTH UNIT (LINE-I &II) |
|---|---|---|---|---|
| | SRC | OPC | Total | OPC |
| Clinker | 95.69% | 94.80% | | 95.10% |
| Pozzolan | 0.00% | 0.72% | - | 0.00% |
| Gypsum | 4.31% | 4.48% | | 4.90% |
| | **100.00%** | **100.00%** | - | **100.00%** |

| 2015 | | | | |
|---|---|---|---|---|
| CLINKER | SOUTH UNIT | | | NORTH UNIT (LINE-I &II) |
| | SRC | OPC | GFBS | OPC |
| Lime Stone | 95.26% | 87.65% | 0.00% | 75.32% |
| Laterite | 4.14% | 0.60% | 0.00% | 3.71% |
| Clay | 0.00% | 10.85% | 0.00% | 0.00% |
| Sand | 0.00% | 0.00% | 0.00% | 0.09% |
| Shale Stone | 0.00% | 0.00% | 0.00% | 0.09% |
| Slate Stone | 0.00% | 0.00% | 0.00% | 20.79% |
| Manganese | 0.000% | 0.01% | 0.00% | 0.00% |
| Bauxite | 0.45% | 0.68% | 0.00% | 0.00% |
| C-Slag | 0.15% | 0.20% | 0.00% | 0.00% |
| | **100.00%** | **100.00%** | **0.00%** | **100.00%** |

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------------------------------------------------------------ 2015 ------------------------------------------------------------

| CEMENT | SOUTH UNIT | | NORTH UNIT (LINE-I &II) |
|---|---|---|---|
| | SRC | OPC | OPC |
| Clinker | 96.46% | 96.02% | 95.02% |
| Gypsum | 3.54% | 3.97% | 4.98% |
| | 100.00% | 100.00% | 100.00% |

------------------------------------------------------------ 2016 ------------------------------------------------------------

c) Standard variances in raw material consumed per unit of production were as follows:

Input quantity per unit of quantity produced- Cement & GBFS (In Tons)

| DESCRIPTION | SOUTH UNIT | | | | NORTH UNIT (LINE-I &II) | STANDARD | VARIANCE |
|---|---|---|---|---|---|---|---|
| | SRC | OPC | GBFS | AVERAGE | | | |
| Lime Stone | 1.6406 | 1.4155 | - | 1.4492 | 0.6340 | Nil | Nil |
| Laterite | 0.0696 | 0.0081 | - | 0.0173 | 0.0329 | Nil | Nil |
| Clay | - | 0.1742 | - | 0.1481 | - | Nil | Nil |
| Sand | - | - | - | - | 0.0011 | Nil | Nil |
| Shale Stone | - | - | - | - | 0.0011 | Nil | Nil |
| Slate Stone | - | - | - | - | 0.2150 | Nil | Nil |
| Bauxite | - | 0.0037 | - | 0.0031 | - | Nil | Nil |
| C-Slag | 0.0022 | 0.0006 | - | 0.0008 | - | Nil | Nil |
| Pozzolan | - | 0.0072 | - | 0.0061 | - | Nil | Nil |
| Gypsum | 0.0431 | 0.0448 | - | 0.0446 | 0.0620 | Nil | Nil |
| GBFS | - | - | 1.0302 | 1.0302 | - | Nil | Nil |

It has been observed that there was no standard costing system in practice in the Company therefore; no variance could be worked out in this regard.

As per explanation provided to us by the Company, input mix of raw material depends on many factors; the mix required varies from quarry to quarry and unit to unit due to following reasons:

- Composition of Raw Material
- Capacity and Efficiency of the Plant

d) Quantity variances of raw material consumed per unit of production (year-wise)

| DESCRIPTION | SOUTH UNIT | | |
|---|---|---|---|
| | AVG. 2016 | AVG. 2015 | VARIANCE |
| Lime Stone | 1.4492 | 1.4603 | (0.0111) |
| Laterite | 0.0173 | 0.0150 | 0.0023 |
| Clay | 0.1481 | 0.1641 | (0.0160) |
| Slate Stone | - | 0.0000 | (0.0000) |
| Manganese | - | 0.0002 | (0.0002) |
| Bauxite | 0.0031 | 0.0109 | (0.0077) |
| C-Slag | 0.0008 | 0.0033 | (0.0025) |
| Clinker | 0.0061 | 0.0001 | 0.0060 |
| Gypsum | 0.0446 | 0.0600 | (0.0154) |
| GBFS | 1.0302 | - | 1.0302 |

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| DESCRIPTION | NORTH UNIT ( LINE-I & II) | | |
|---|---|---|---|
| | AVG. 2016 | AVG. 2015 | VARIANCE |
| Lime Stone | 0.63398 | 0.68416 | (0.05017) |
| Laterite | 0.03292 | 0.03366 | (0.00074) |
| Shale Stone | 0.00114 | 0.00083 | 0.00031 |
| Slate Stone | 0.21504 | 0.18968 | 0.02536 |
| Gypsum | 0.06200 | 0.07495 | (0.01295) |

e) REASONS FOR VARIANCES

Actual results during the current year in the consumption of individual items, within the mix were different as compared with previous year, due to the varying composition of the raw material. In order to maintain standard quality, the Company adjusted by varying the quantity of inputs.

f) The method of accounting for recording the quantities and value of receipts, issues and balances of all raw materials directly used in production was at weighted average.

8. WAGES AND SALARIES

a) Total wages and salaries paid for all categories of employees were as follows:

| DESCRIPTION | UNIT | RUPEES IN THOUSAND | |
|---|---|---|---|
| | | 2016 | 2015 |
| South Unit & North Unit (Line-I & II) | | | |
| i) Direct labour cost on production | | 177,351 | 141,302 |
| ii) Indirect labour cost on production | | 404,980 | 328,054 |
| iii) Employees cost on administration | | 172,005 | 150,562 |
| iv) Employees' cost on selling and distribution | | 38,002 | 33,349 |
| v) Director's remuneration | | 35,895 | 33,622 |
| vi) Staff provident fund contribution | | 20,215 | 16,302 |
| vii) Total man-days of direct labour- Line-I | South Unit | 130 | 176 |
| viii) Total man-days of direct labour- Line-II | South Unit | 231 | 264 |
| ix) Total man-days of direct labour- Line-I | North Unit | 196 | 82 |
| x) Total man-days of direct labour- Line-II | North Unit | 194 | 243 |

b) Variance of Direct Labour Cost per Unit of Output (Clinker)

| | Amount in Rs. | | | |
|---|---|---|---|---|
| | 2016 | 2015 | Variance | Variance% |
| South Unit & North Unit (Line-I & II) | 95.6796 | 87.8058 | 7.8738 | 8.97 |

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## 9. STORES AND SPARE PARTS

a) Expenditure per unit of output of stores

| Stores and Spare Consumed / Output | 2016 | 2015 | Variance | Variance % |
|---|---|---|---|---|
| Store and spares consumed | 540,646,000 | 542,590,000 | | |
| Output of Clinker (South & North Unit) | 1,853,592 | 1,609,255 | | |
| Expenditure per unit of output (Rs/Ton) | 291.675 | 337.168 | (45.49) | -13.49 |

Note: During the year provision for obsolete stock is Nil

b) System of stores accounting

The system of Stores Accounting for recording of receipts, issues and balances both in quantities and amount were valued at weighted average cost.

## 10. DEPRECIATION

Method of Depreciation

Depreciation on additions to fixed assets was charged from the month in which the asset was put into use, whereas on disposal of fixed assets; depreciation was charged up to the month prior to disposal. Depreciation on all other tangible fixed assets except Plant and Machinery was charged to profit and loss account using the reducing balance method, while depreciation on plant and machinery was charged on unit of production method.

## 11. OVERHEADS

a) Details of overheads were as follows:

a)(i) Factory Overheads

| ACCOUNT HEAD | RUPEES IN '000 | |
|---|---|---|
| | 2016 | 2015 |
| **Total of factory overheads** | **8,814,250** | **8,600,771** |
| Stores and spares | 540,646 | 542,590 |
| Fuel & power | 6,052,303 | 6,409,092 |
| Salaries and wages | 582,332 | 469,357 |
| Repair and maintenance | 626,896 | 418,602 |
| Depreciation | 574,660 | 520,240 |
| Insurance | 29,527 | 12,665 |
| Laboratory | 3,417 | 2,236 |
| Travelling & conveyance | 4,792 | 1,730 |
| Transportation expense | 38,002 | 30,240 |
| Vehicle running expense | 11,112 | 11,865 |
| Consultancy fees | 5,508 | 2,586 |
| Printing & stationery | 4,871 | 2,861 |
| Communication | 2,435 | 1,282 |
| Local taxes | 1,528 | 944 |
| Handling charges | 304,969 | 108,823 |
| Others | 31,252 | 65,658 |

a)(ii) Distribution Cost

| ACCOUNT HEAD | RUPEES IN '000 | |
|---|---|---|
| | 2016 | 2015 |
| **Total of distribution cost** | **301,217** | **324,000** |
| Salaries, wages & benefits | 38,002 | 33,349 |
| Export expense | 206,367 | 232,131 |
| Rent, rates & taxes | 6,312 | 6,485 |
| Postage | - | - |
| Advertisement | 2,986 | 7,047 |
| Insurance | 458 | 120 |
| Repairs & maintenance | 23,477 | 21,704 |
| Depreciation | 453 | 516 |
| Travelling and conveyance | 7,756 | 5,672 |
| Communication | 1,298 | 1,128 |
| Others | 14,108 | 15,848 |

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a)(iii) Administrative Expenses

| ACCOUNT HEAD | RUPEES IN '000 | |
|---|---|---|
| | 2016 | 2015 |
| **Total of administrative expenses** | **546,594** | **437,743** |
| Salaries, wages & benefits | 172,005 | 150,562 |
| Legal & professional fee | 37,906 | 41,003 |
| Repair & maintenance | 164,355 | 107,643 |
| Insurance | 11,345 | 1,561 |
| Depreciation | 9,227 | 9,663 |
| Rent, rates & taxes | 17,210 | 22,204 |
| Fees and subscription | 23,737 | 13,132 |
| Vehicle running expenses | 16,798 | 19,843 |
| Communication | 9,802 | 10,079 |
| Utilities | 16,459 | 11,039 |
| Newspapers & periodicals | 100 | 255 |
| Travelling, conveyance | 39,692 | 28,002 |
| Printing & stationery | 2,834 | 4,871 |
| Entertainment | 9,557 | 5,622 |
| Security service charges | 14,462 | 11,550 |
| Other expenses | 1,105 | 714 |

a)(iv) Finance Cost

| ACCOUNT HEAD | RUPEES IN '000 | |
|---|---|---|
| | 2016 | 2015 |
| Finance Cost | 21,677 | 43,864 |

b) Reasons for significant variances In overheads:

b)(i) Factory Overheads

Factory Overheads were increased as stated above due to the major increase in stores and spares, salaries and wages, printing and stationery, and others.

b)(ii) Distribution Cost

Selling expenses were increased due to major increase in salaries, wages and benefits, export expenses, advertisement, repair and maintenance, travelling and conveyance.

b)(iii) Direct Labour

The major reason for variance is due to the reclassification of direct labour. Last year's direct labour cost included only packing plant labour cost, in the current year the company has taken all the labour which is directly related to production of all the cost centres into direct labour cost.

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b)(iv) Administrative Expenses

As a whole major expense increased in salaries and wages, depreciation, rent, rate and taxes, newspapers and periodicals, printing and stationery, and security service charges.

b)(v) Finance Cost

Company has not made the provision of markup for the year amounting to RS. 556.787 million (Up to June 30, 2015: 5,903.710 million) keeping in view of the financial restructuring proposed to the lenders as disclosed in note 3. Management is hopeful that the restructuring proposal will be accepted by the lenders. Had the provision been made the profit for the year would have been lower by Rs. 556.787 millions and accrued markup would have been higher and shareholders' equity would have been lower lower by Rs. 6,460.497 million. The said non provisioning is a departure from the requirement of IAS-23 'Borrowing Costs'. These unprovided amounts have not been included in the costing. However, a partial amount of unwinding of discount has been recorded in 2015 accounts, due to which the finance cost is significantly increased.

c) Basis of allocation of overheads to cost centres and absorption to products.

Basis of Allocation to all cost centres

| Production Cost | Basis of allocation |
|---|---|
| 1. Indirect Material | Material issue notes raised by the concerned cost centre. |
| 2. Power & Electricity | KW/H used. |
| 3. Depreciation | Value of plant and machinery in the cost centre concerned. |
| 4. Insurance | Value of assets used in the cost centre concerned. |
| 5. Repairs and Maintenance | Actual repairing work done to the concerned cost centre. |
| 6. Fuel, Oil & Lubricants | Material issue notes. |
| 7. Royalties and Duties | On the basis of transported material. the major reason for of variance is due to the reclassification of direct labour. Last year's direct labour cost included only packing plant labour cost. In the current year the company has taken all the labour directly related to production of all the cost centres into direct labour cost. |
| 8. Loading Expenses | Directly to the packing plant. |

| Overheads | Basis of Allocation |
|---|---|
| 1. Factory General | Apportionment on the basis of plant and machinery. |
| 2. Laboratory Allocation | Number of samples taken during the year. |

PMDm

| Overheads | Basis of Allocation |
|---|---|
| 3. Grid station | Actual KW/H used in production centre during the period. |
| 4. Water supply. | Distribution of water consumed at plant. |
| 5. Mechanical workshop | Direct labour hours worked for each department. |
| 6. Electrical Instrument workshop | Direct labour hours worked for each department. |
| 7. Mechanical Control | Direct labour hours worked for each department. |

## 12. ROYALTY AND EXCISE DUTY PAYMENTS

| ACCOUNT HEAD | RUPEES IN '000 | |
|---|---|---|
| | 2016 | 2015 |
| Royalty fee and excise duty paid in (South and North Unit) | 51,154 | 53,880 |

## 13. ABNORMAL NON-RECURRING FEATURES

a) As per information and explanations provided to us; we are of the opinion that there was no abnormal feature like strikes, lockouts, major breakdowns in the plant, substantial power cuts, serious accidents, etc., that have any material bearing on production during the year. However frequent short stoppages were made for urgent repairs of the different parts of the plant.

b) We have noted no special expenses that have been directly allocated to the product.

## 14. COST OF PRODUCTION

| DESCRIPTION | STATUS | 2016 | 2015 |
|---|---|---|---|
| South Unit | | | |
| Clinker for the year | Avg. per Bag | 221.91 | 243.87 |
| | SRC | 223.54 | 246.64 |
| | OPC | 221.62 | 243.59 |

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| DESCRIPTION | STATUS | 2016 | 2015 |
|---|---|---|---|
| Cement (unpacked) | Avg.per bag | 259.09 | 282.83 |
| | SRC | 261.51 | 285.92 |
| | OPC | 258.67 | 282.52 |
| | SLAG | - | - |
| Cement (packed) | Avg.Per Bag | 258.85 | 282.75 |
| | SRC | 284.13 | 311.72 |
| | OPC | 281.29 | 308.32 |
| GBFS | Avg.Per Bag | 144.00 | - |
| | | | |
| North Unit (Line-I & II) | | | |
| Clinker for the year | OPC | 173.74 | 194.66 |
| Cement (unpacked) / 50 KG | OPC | 192.58 | 215.18 |
| Cement (packed) | OPC | 213.84 | 239.46 |

15. SALES

| QUANTITY SOLD | | 2016 | 2015 |
|---|---|---|---|
| | | Qty. in Tons | |
| **Cement** | | | |
| South Unit & North Unit (Line-I & II) | | 1,226,901 | 1,709,955 |
| GBFS | | 1,168 | - |
| **Clinker** | | | |
| South / North Unit | | 4,984 | - |
| | | 1,233,053 | 1,709,955 |

| SALES AMOUNT (NET) | | 2016 | 2015 |
|---|---|---|---|
| | | Rupees in '000 | |
| Cement | | | |
| South Unit & North Unit (Line-I & II) | | 12,879,095 | 11,245,246 |
| | | | |
| Clinker | | | |
| South Unit & North Unit (Line-I & II) | | - | - |
| Less: Inter Unit Transfers | | - | - |
| | | | |
| Total Cement and Clinker | | 12,879,095 | 11,245,246 |
| | | | |
| Total Sales Per Unit | | | |
| Sales per ton | Rs. | 10,445 | 6,576 |
| Sales per bag | Rs. | 522 | 329 |

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16. PROFITABILITY
A summary of cost is as follows:

| TOTAL COST | | 2016 | 2015 |
|---|---|---|---|
| | | Rupees in '000 | |
| **Cost of Cement Sold** | | | |
| South Unit (Line-I & II) | | 6,934,777 | 6,527,435 |
| North Unit (Line-I & II) | | 3,293,071 | 3,129,162 |
| GBFS | | 4,556 | |
| **Cost of Clinker Sold** | | | |
| South Unit (Line-I & II) | | - | - |
| | | | |
| **Total Cost of Goods Sold** | | **10,232,404** | **9,656,597** |
| | | | |
| Distribution Cost | | 301,217 | 324,000 |
| Administrative Expenses | | 546,594 | 437,743 |
| Other Operating Charges | | 162,800 | 70,636 |
| Less: Other Operating Income | | (297,432) | (19,458) |
| Finance Cost | | 21,677 | 43,864 |
| | | | |
| **Total Cost** | | **10,967,260** | **10,513,382** |
| | | | |
| Total Cost Per Unit | | | |
| Cost per ton- Rupees | | 8,894.39 | 6,148.34 |
| Cost per Bag- Rupees | | 444.72 | 307.42 |
| LOSS/PROFIT | | | |
| Total Profit per Ton of Goods Sold | Rs. / Ton | 1,550.49 | 428.00 |
| Total Profit per Bag of Goods Sold | Rs. / Bag | 77.52 | 21.40 |
| | | | |
| Total Profit per Ton | Rs. / Ton | 1,550.49 | 428.00 |
| Cement, GBFS & Clinker Sold | Tons | 1,233,053 | 1,709,955 |
| Total Profit | Rs. '000 | 1,911,835 | 731,865 |

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Comments

During the year, Company had mostly used coal instead of fuel and gases to reduce the cost of production with all these efforts the company was able to contain the overall cost increases, as other factors of cost increased considerably, and the company was able to generate increased profit.

Analysis

All the major factors of cost have increased substantially, especially fuel and power and salaries & wages.

17. OBSERVATIONS AND CONCLUSIONS

To the best of our knowledge and belief, there were no:

a) Matters that appear to be clearly wrong in principle or apparently unjustifiable.

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

c) Factors that would have been controlled, but have not been controlled that have resulted in increase in the cost of production.

d) Comments on areas offering scope for improvement:

I. The Company must focus on cost reduction, especially in the case of fuel and power and other manufacturing expenses.

II. Increase in productivity, which could have been possibly achieved by maximum utilization of the total capacity as a result of which overall cost of production could have been reduced.

III. There have been no key limiting factors causing production bottlenecks except higher cost of production.

IV. We strongly recommend to have certain arrangements for modernization of plant, for better and cost effective production that would generate considerable revenue for the Company.

RM/DM

18. GENERAL

- In order to compete in the market, the Company has to utilize its resources more effectively and efficiently.

- In order to check the efficiency level, the Company has to introduce budgetary system through which it can check that how much of the resources are utilized efficiently and effectively.

- The demand for cement in the local market is expected to increase in the coming financial year, as the government has allocated substantial funds for Public Sector Development (PSD) Projects. This will be a key trigger for increase of cement demand in domestic market for the next year. China-Pakistan Economic Corridor connecting Gawadar to Kashgar and spanning 3,000km will cost $46 billion. Besides transport infrastructure, it will provide Pakistan with telecommunications and energy infrastructure boosting the requirement of cement exponentially.

- The export of cement is expected to increase for Afghanistan and India, which will trigger in increase in additional production of cements in the coming year.

- The demand for cement is also increasing in Asian, African and Gulf countries like Srilanka, Tanzania and Qatar etc. This will give an opportunity for cement industries to improve export sales.

- Management is striving it's best to control the cost, and increase the sales at a considerable level.

RMDM

Rafaqat Mansha Mohsin Dossani Masoom & Co.

Rafaqat Mansha Mohsin Dossani Masoom & Co.
Chartered Accountants
Karachi.

**Dewan Cement Limited**
**Reconciliation Statement Between Financial Accounts & Cost Sheets**
**For the year ended June 30 2016**

| | As Per Accounts | | | Summary As Per Cost Sheet | | | Difference | | |
|---|---|---|---|---|---|---|---|---|---|
| | South Unit | North Unit | Total | South Unit | North Unit | Total | South Unit | North Unit | Total |
| | Rupees in "000" | | | | | | | | |
| **COST OF SALES** | | | | | | | | | |
| **Cost of raw and packing materials consumed** | | | | | | | | | |
| Opening stock | 101,919 | 18,185 | 120,104 | 101,919 | 18,185 | 120,104 | - | - | - |
| Purchases / expenses | 796,328 | 450,611 | 1,246,938 | 796,328 | 450,611 | 1,246,938 | - | - | - |
| | 898,247 | 468,796 | 1,367,042 | 898,247 | 468,796 | 1,367,042 | - | - | - |
| Closing stock | (160,730) | (32,879) | (193,609) | (160,730) | (32,879) | (193,610) | - | - | - |
| | 737,517 | 435,917 | 1,173,433 | 737,516 | 435,916 | 1,173,433 | - | - | - |
| **Manufacturing overheads** | 5,987,612 | 2,826,636 | 8,814,250 | 5,987,612 | 2,826,636 | 8,814,248 | - | - | - |
| **Total Manufacturing Cost** | 6,725,129 | 3,262,553 | 9,987,683 | 6,725,128 | 3,262,552 | 9,987,681 | - | - | - |
| Work-in-process - opening | 350,390 | 186,548 | 536,938 | 350,390 | 186,548 | 536,938 | - | - | - |
| Work-in-process - closing | (136,931) | (160,893) | (297,824) | (136,931) | (160,893) | (297,824) | - | - | - |
| | 213,459 | 25,655 | 239,114 | 213,459 | 25,655 | 239,114 | - | - | - |
| **Cost of goods manufactured** | 6,938,588 | 3,288,208 | 10,226,797 | 6,938,587 | 3,288,207 | 10,226,794 | - | - | - |
| Finished goods - opening | 72,580 | 35,520 | 108,100 | 72,580 | 35,520 | 108,100 | - | - | - |
| Finished goods - closing | (71,835) | (30,657) | (102,492) | (71,835) | (30,657) | (102,492) | - | - | - |
| | 745 | 4,863 | 5,608 | 745 | 4,863 | 5,608 | - | - | - |
| **Total Cost of Sales** | **6,939,333** | **3,293,071** | **10,232,405** | **6,939,332** | **3,293,070** | **10,232,402** | **-** | **-** | **-** |

Chief Accountant

Chief Executive